

**CITY OF DEMOPOLIS
DEMOPOLIS, ALABAMA
SEPTEMBER 30, 2010**

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

CITY OF DEMOPOLIS, ALABAMA
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LeCroy, Hunter & Company, P.C.

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May 16, 2011

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type, activities, each major fund and the aggregate remaining fund information of the City of Demopolis, Alabama as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Demopolis, Alabama's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

Due to the inadequate accounting records for the years prior to 2003, we were unable to form an opinion regarding the amounts at which capital assets and accumulated depreciation are recorded in the accompanying statement of net assets at September 30, 2010 in the amounts of \$22,392,960 and \$8,055,213, respectively, or the amount of the depreciation expense included in the Statement of Activities for the year then ended in the amount of \$711,992.

In our opinion, 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, 2009, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the inadequate capital assets records prior to 2003, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of

Demopolis, Alabama as of September 30, 2010, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2011, on our consideration of the City of Demopolis, Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the City of Demopolis, Alabama taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

LeCroy, Hunter & Company, P.C.

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

CITY OF DEMOPOLIS
DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

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, 2010. 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, 2010 by \$12,162,997. Of this amount \$5,360,788 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2010 the City's total net assets increased \$709,490.
- Total fund balance of governmental funds at September 30, 2010 was \$5,832,746 compared to a total governmental fund balance at September 30, 2009 of \$6,337,476.
- The City has \$8,324,195 in long term debt, down from \$8,962,067 the previous year. The debt consists of the Series 2003 and Series 2007 General Obligation Warrants, and accrued compensated absences.
- The City completed several capital projects during the fiscal year 2010. Among those projects was a Municipal Safety Complex that houses the Police Department and Municipal Court (completed cost of \$1,904,911).

Overview of the Financial Statements

This annual report consists of five parts – management discussion and analysis, the government-wide financial statements, fund financial statements, notes to the financial statements, and required supplementary information.

Government- Wide Financial Statements

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

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

The *Statement of Net Assets* presents all of the City's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

CITY OF DEMOPOLIS
DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

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 Capital Building Fund, both of which are considered to be major funds. Data from the other funds is provided in the column labeled Other Governmental Funds.

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

Fiduciary funds: *The Fiduciary fund* is used to account for resources held for the benefit of parties outside the government. The Fiduciary fund is not reflected in the government-wide financial statements because the resources of the fund are not available to support the City of Demopolis' own programs. The fund accounts for bond deposits for the City's municipal court.

Notes to the Financial Statements

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

Required Supplementary Information

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

CITY OF DEMOPOLIS
DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

FINANCIAL ANALYSIS OF THE CITY OF DEMOPOLIS AS A WHOLE

A comparison of the City of Demopolis's Assets, Liabilities and Net Assets, Fiscal Year 2010 as Compared to 2009 (in thousands):

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Assets						
Current and Other Assets	\$ 6,445	\$ 6,025	\$ 23	\$ 22	\$ 6,468	\$ 6,047
Restricted Assets	193	1,094			193	1,094
Capital Assets	14,337	13,728	44	66	14,381	13,794
Total Assets	<u>20,975</u>	<u>20,847</u>	<u>67</u>	<u>88</u>	<u>21,042</u>	<u>20,935</u>
Liabilities						
Current and Other Liabilities	\$ 1,191	\$ 1,132	\$ 9	\$ 7	\$ 1,200	\$ 1,139
Long-term Liabilities	7,679	8,342			7,679	8,342
Total Liabilities	<u>8,870</u>	<u>9,474</u>	<u>9</u>	<u>7</u>	<u>8,879</u>	<u>9,481</u>
Net Assets						
Invested in Capital Assets, Net of Debt	\$ 6,207	\$ 6,071	\$ 44	\$ 66	\$ 6,251	\$ 6,137
Restricted	551	531			551	531
Unrestricted	5,347	4,771	14	15	5,361	4,786
Total Net Assets	<u>12,105</u>	<u>11,373</u>	<u>58</u>	<u>81</u>	<u>12,163</u>	<u>11,454</u>

Net Assets

Net assets measure the difference between what the City owns (assets) versus what the City owes (liabilities). The total assets of the City of Demopolis exceeded its liabilities at September 30, 2010 by \$12,162,997, an increase of \$709,490 over the previous year's net asset balance of \$11,453,507. Of this amount \$5,360,788 is unrestricted and available to meet the City's on-going obligations to citizens and creditors. A portion of the City's net assets is invested in capital assets net of related debt. Capital assets include land, building, equipment and machinery, and infrastructure, and are used to provide services to the citizens and are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The city's net fixed assets increased in value by \$543,208, largely resulting from the completion of the Municipal Safety Complex and other projects in the city.

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

Unrestricted net assets equal 44% of net assets.

CITY OF DEMOPOLIS
DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

A comparison of the City of Demopolis's Changes in Net Assets, Fiscal Year 2010 as Compared to 2009
(in thousands):

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Program Revenues						
Charges and Services	\$ 1,001	\$ 998	\$ 152	\$ 176	\$ 1,153	\$ 1,174
Operating Grants and Contributions	88	67			88	67
Capital Grants and Contributions	324	301			324	301
General Revenues						
Property Taxes for General Purposes	2,057	2,115			2,057	2,115
Business Licenses	1,245	1,253			1,245	1,256
Local Sales Taxes	4,688	4,615			4,688	4,615
Other Taxes	723	775			723	775
State Shared Revenues	92	120			92	120
Investment Earnings	87	251			87	251
Miscellaneous	456	33			456	33
Total Revenues	10,761	10,531	152	176	10,913	10,707
Program Expenses						
General Government and Unallocated	\$ 2,384	\$ 2,412	\$	\$	\$ 2,384	\$ 2,412
Beautification	237	207			237	207
Streets	1,164	1,207			1,164	1,207
Fire Protection	1,756	1,740			1,756	1,740
Police Protection	1,809	1,658			1,809	1,658
Municipal Court	396	384			396	384
Airport	149	184			149	184
Library	301	282			301	282
Code Enforcement	76	76			76	76
Parks and Recreation	980	924	227	202	1,207	1,126
Cultural	60	62			60	62
Economic Development	185	81			185	81
Capital Outlay	119	238			119	238
Interest and Fees	361	376			361	376
Intergovernmental		2,000				2,000
Total Expenses	9,977	11,831	227	202	10,204	12,033
Excess Before Transfers	784	(1,300)	(75)	(26)	709	(1,326)
Transfers	(52)	(1)	52	1		
Net Assets, Beginning of Year	11,373	12,674	81	106	11,454	12,780
Net Assets, End of Year	\$ 12,105	\$ 11,373	\$ 58	\$ 81	\$ 12,163	\$ 11,454

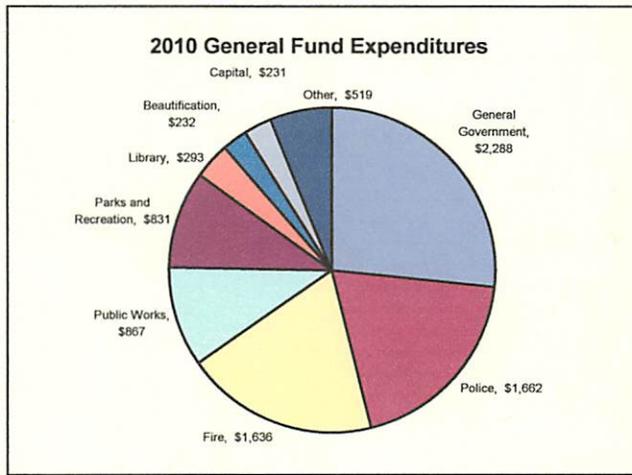
CITY OF DEMOPOLIS
DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

Changes in Net Assets

During the year the City's financial position increased by \$709,409, compared to the previous year's decrease of \$1,325,843. During the previous year, the City contributed \$2,000,000 to Demopolis High School toward its construction of a new athletic complex. Were it not for this contribution, the City's net assets during the previous year would have increased by \$674,157.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

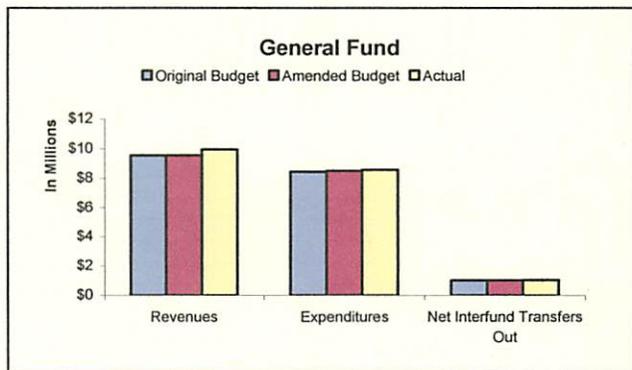
General Fund - The General Fund is the principal fund used for the City's governmental operations. The fund balance at September 30, 2010 was \$5,278,770, a \$349,546 increase over the prior year's fund balance of \$4,929,224. The fund balance was impacted by a one-time lease termination fee in the amount of \$363,425 paid to the City by New Era Cap Company.



Capital Building Fund - The Capital Building Fund accounts for the financial sources and expenditures necessary to complete certain building projects including the Municipal Safety Complex. Funding for these projects is provided primarily by the Series 2007 General Obligation Warrants, which were issued during Fiscal Year 2007. As of September 30, 2010, unpaid project costs equaled the amount of restricted funds remaining from the Warrants.

General Fund Budgetary Highlights

During fiscal year 2010, the City made minor adjustments to the General Fund budget. Most of the difference between budgeted and actual revenues is the recognition of the fee from the lease termination paid by New Era Cap Company. The fee amount of \$363,425 was unforeseen by the City and was not included in the City's budgeted revenues.



CITY OF DEMOPOLIS
DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2010 the City had \$14,381,347 invested in capital assets (net of accumulated depreciation) compared to last year's \$13,728,759, an increase of \$652,588. The City investment in capital assets includes buildings, automobiles and equipment, street lights, railroad spurs and roads. The City booked \$734,172 in depreciation, compared to the previous year's \$716,490.

Capital Assets

	Year ended September 30,	
	2010	2009
Land	\$ 383,140	\$ 384,640
Construction in progress	296,487	1,086,167
Buildings	7,542,990	5,817,409
Improvements	3,090,253	3,233,592
Infrastructure	1,283,217	1,283,215
Equipment and vehicles	1,785,260	1,923,736
	<hr/>	<hr/>
Total Capital Assets	<u>\$ 14,381,347</u>	<u>\$ 13,728,759</u>

Long-Term Debt

The City has two general obligations warrants: Series 2003, a long-term debt obligation through 2016; and Series 2007, a long-term debt obligation through 2037. The current amount on the debt is \$8,490,000. The City has an agreement with the Demopolis Water Works and Sewer Board, whereby the Board is obligated to fund a portion of the Series 2003 warrants (the current portion due from the Board is \$360,000). The City also has an obligation to pay a portion of the unused sick and vacation time accrued by employees, currently \$194,195 (down from \$212,067 in the prior year).

Long-Term Debt

	Year ended September 30,	
	2010	2009
2003 General Obligation Warrants	\$ 3,490,000	\$ 4,160,000
2007 General Obligation Warrants	5,000,000	5,000,000
Amounts to be repaid by Demopolis Water Works and Sewer Board	(360,000)	(410,000)
	<hr/>	<hr/>
Total Long-Term Debt	<u>\$ 8,130,000</u>	<u>\$ 8,750,000</u>

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 2010-2011 fiscal year.

State Factors

- The State of Alabama has had a recessionary economy for fiscal year 2010. Although the growth in the economy had been significant in years prior, this fiscal year reflected maintenance of the status quo. Economic projections for the 2011 fiscal year reflect a modest decline due to lower housing starts, automobile sales and other economic indicators.

CITY OF DEMOPOLIS
DEMOPOLIS, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

Local Factors

- **Economic Conditions:** Although unemployment statistics specific to the City were unavailable, Marengo County (of which Demopolis is the largest population base) experienced a 12.4% unemployment rate as of September 2010. This rate is higher than the state-wide average of 9.1%. According to statistics from the State Department of Industrial Relations, Marengo County had a civilian labor force of 8,088 people. Of this number, 1,000 were unemployed. This affects the amount of money available to be spent in Demopolis City and thereby directly affects growth and funding for any expansion projects. Rock-Tenn Mill Company continues to be the largest employer of the citizens of Demopolis. Other major employers include Bryan Whitfield Memorial Hospital, Foster Farms and Wal-Mart.
- **Population Trends:** Demopolis City has maintained its population in recent census counts. The following table sets forth certain historical population statistics from the U.S. Census Bureau relating to Marengo County:

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

- **New Era Cap Company:** On January 27, 2010, New Era Cap Company announced plans to permanently close its Demopolis plant. By July, 2010, the plant had ceased all operations in Demopolis. The plant closing resulted in the loss of 351 jobs. An estimated 65 – 75% of those employees reside in Marengo County, and the majority of those in Demopolis. As the City's fourth-largest employer, the plant closing will certainly continue to have a negative effect on the local economy, and could impact the City with lower sales and property taxes by the end of Fiscal Year 2011.
- **Municipal Safety Complex:** During fiscal year 2010, the City completed construction of its Municipal Safety Complex. The Complex serves as headquarters for the Demopolis Police Department as well as the Municipal Court. Funds for this project were provided by proceeds from the Series 2007 General Obligation Warrants and the General Fund.

Requests for Information

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

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

CITY OF DEMOPOLIS, ALABAMA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	Governmental Activities	Business Type Activies - Enterprise Fund	Total
Assets			
Cash	\$ 634,471	\$ 9,098	\$ 643,569
Certificates of deposit	4,587,023		4,587,023
Receivables	927,195		927,195
Due from Water Department	37,358		37,358
Restricted assets:			
Cash with fiscal agent	192,876		192,876
Inventory		13,845	13,845
Capital assets:			
Land	383,140		383,140
Buildings	7,542,990		7,542,990
Improvements	3,090,253		3,090,253
Infrastructure	1,283,217		1,283,217
Equipment	1,741,660	43,600	1,785,260
Construction in progress	296,487		296,487
Unamortized bond issue costs	259,253		259,253
Total Assets	20,975,923	66,543	21,042,466
Liabilities			
Accounts payable	293,968	3,252	297,220
Accrued expenses	252,166	5,845	258,011
Due to cash bond fund	43		43
Long-term liabilities:			
Current portion of long-term debt	645,000		645,000
Accrued compensated absences	194,195		194,195
Noncurrent portion of long-term debt	7,485,000		7,485,000
Total Liabilities	8,870,372	9,097	8,879,469
Net Assets			
Investment in capital assets, net of related debt	6,207,747	43,600	6,251,347
Restricted for:			
Capital projects	153,225		153,225
Other purposes	397,637		397,637
Unrestricted	5,346,942	13,846	5,360,788
Total Net Assets	\$ 12,105,551	\$ 57,446	\$ 12,162,997

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

CITY OF DEMOPOLIS, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Functions	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General governmental and unallocated	\$ 2,384,111	\$ 504,368	\$	\$ 14,304	\$ (1,865,439)		\$ (1,865,439)
Beautification	236,885				(236,885)		(236,885)
Streets	1,163,945	358	70,234	55,403	(1,037,950)		(1,037,950)
Fire protection	1,756,295				(1,756,295)		(1,756,295)
Police protection	1,809,362	341,818	17,438	66,362	(1,383,744)		(1,383,744)
Municipal court	395,421	51,484			(343,937)		(343,937)
Airport	149,156				(149,156)		(149,156)
Library	300,442	6,885			(293,557)		(293,557)
Code enforcement	75,461				(75,461)		(75,461)
Parks and recreation	980,163	72,943		18,163	(889,057)		(889,057)
Cultural	60,434	22,875	110		(37,449)		(37,449)
Economic Development	185,179			169,987	(15,192)		(15,192)
Capital outlay	118,650				(118,650)		(118,650)
Interest and fees	361,066				(361,066)		(361,066)
Total governmental activities	9,976,570	1,000,731	87,782	324,219	(8,563,838)		(8,563,838)
Business-type activities:							
Ravine golf course	226,871	151,883				(74,988)	(74,988)
Total business-type activities	226,871	151,883				(74,988)	(74,988)
General revenue:							
Taxes							
Property taxes for general purposes					2,057,642		2,057,642
Business licenses					1,244,779		1,244,779
Local sales taxes					4,687,731		4,687,731
Other taxes					723,125		723,125
State shared revenues					91,913		91,913
Investment earnings					86,766		86,766
Miscellaneous					456,360		456,360
Transfers - Internal activity					(51,950)	51,950	
Total General Revenues					9,296,366	51,950	9,348,316
Change in Net Assets					732,528	(23,038)	709,490
Net Assets, beginning of year					11,373,023	80,484	11,453,507
Net Assets, end of year					\$ 12,105,551	\$ 57,446	\$ 12,162,997

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

CITY OF DEMOPOLIS, ALABAMA
PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business- Type Activities - Enterprise
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 151,883
Cash payments to suppliers for goods and services	(79,446)
Cash payments to employees	(122,051)
Net Cash Provided (Used) by Operating Activities	(49,614)
Cash Flows from Capital and Related Financing Activities:	
Transfers In	51,950
Net Cash Flows Provided by Capital and Related Financing Activities	51,950
Net Increase (Decrease) in Cash	2,336
Cash, beginning of year	6,762
Cash, end of year	\$ 9,098
Reconciliation of Operating Income to Net Cash Provided	
By Operating Activities:	
Operating (Loss)	\$ (74,988)
Adjustments to reconcile operating income to net cash provided by	
Operating activities:	
Depreciation	22,180
Decrease (increase) in inventory	859
Increase (decrease) in accounts payable	731
Increase (decrease) in accrued expenses	1,604
Net Cash Provided (Used) by Operating Activities	\$ (49,614)

CITY OF DEMOPOLIS, ALABAMA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	<u>General Fund</u>	<u>Capital Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash	\$ 351,127	\$	\$ 283,344	\$ 634,471
Cash with fiscal agent		192,306	570	192,876
Certificates of deposit	4,395,899		191,124	4,587,023
Receivables	799,507		127,688	927,195
Due from other funds	76,350		99,100	175,450
Total Assets	\$ 5,622,883	\$ 192,306	\$ 701,826	\$ 6,517,015
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ 54,596	\$ 192,306	\$ 47,066	\$ 293,968
Accrued expenses	250,013		2,153	252,166
Due to other funds	39,504		98,631	138,135
Total Liabilities	344,113	192,306	147,850	684,269
Fund Equity:				
Fund Balance:				
Reserved for:				
Capital project fund				
Debt service fund			570	570
Unreserved, reported in:				
General fund	5,278,770			5,278,770
Special revenue funds			400,181	400,181
Capital project funds			153,225	153,225
Total Fund Equity	5,278,770		553,976	5,832,746
Total Liabilities and Fund Equity	\$ 5,622,883	\$ 192,306	\$ 701,826	\$ 6,517,015

CITY OF DEMOPOLIS, ALABAMA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

Total Fund Balance - Governmental Funds \$ 5,832,746

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. 14,337,747

Unamortized bond issue costs are recorded as expenditures at the time they are incurred and therefore are not reported as an asset in governmental funds. 259,253

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Interest on long-term debt is not accrued in the governmental funds but is recognized as an expenditure when due.

Long-term liabilities (8,324,195)

Total Net Assets - Governmental Activities **\$ 12,105,551**

CITY OF DEMOPOLIS, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Capital Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 7,465,421	\$	\$	\$ 7,465,421
Licenses and permits	1,300,408			1,300,408
Rents and services	503,282			503,282
Fines and costs			383,147	383,147
Intergovernmental revenue	68,819		379,424	448,243
Other revenues	611,411	6,591	42,545	660,547
Total Revenues	<u>9,949,341</u>	<u>6,591</u>	<u>805,116</u>	<u>10,761,048</u>
Expenditures:				
General government and unallocated	2,287,648			2,287,648
Beautification	231,992			231,992
Public works	867,428		172,448	1,039,876
Fire protection	1,635,775			1,635,775
Police protection	1,662,284		42,563	1,704,847
Municipal Court	131,371		257,110	388,481
Airport	66,940			66,940
Library	293,113			293,113
Code enforcement	75,461			75,461
Parks and recreation	831,488			831,488
Cultural	60,434			60,434
Industrial Development Board	185,179			185,179
Capital projects		945,610	170,185	1,115,795
Capital outlay	231,029		94,306	325,335
Debt service:				
Principal			620,000	620,000
Interest and fees			351,464	351,464
Total Expenditures	<u>8,560,142</u>	<u>945,610</u>	<u>1,708,076</u>	<u>11,213,828</u>
Total Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,389,199</u>	<u>(939,019)</u>	<u>(902,960)</u>	<u>(452,780)</u>
Other Financing Sources (Uses):				
Contribution from (to) related entity				
Operating transfers in	152,643	61,823	1,120,723	1,335,189
Operating transfers (out)	(1,192,296)		(194,843)	(1,387,139)
Total Other Financing Sources (Uses)	<u>(1,039,653)</u>	<u>61,823</u>	<u>925,880</u>	<u>(51,950)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Fund Uses	349,546	(877,196)	22,920	(504,730)
Fund Balances, Beginning of Year	4,929,224	877,196	531,056	6,337,476
Fund Balances, End of Year	<u><u>\$ 5,278,770</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 553,976</u></u>	<u><u>\$ 5,832,746</u></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, 2010

Total Net Change in Fund Balance - Governmental Funds \$ (504,730)

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	1,320,980
Depreciation expense	(711,992)

A decrease in the accrual of long-term compensated absences is not reflected in the governmental funds, but it decreases long-term liabilities in the statement of net assets and is a decrease of expense in the statement of activities.	17,872
--	--------

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

Bond repayment	620,000
Bond issuance costs	(9,602)
	610,398

Change in Net Assets of Governmental Activities **\$ 732,528**

CITY OF DEMOPOLIS, ALABAMA
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
SEPTEMBER 30, 2010

	Agency Funds
<u>Assets</u>	
Cash	\$ 9,314
Due from other funds	43
Total Assets	\$ 9,357
 <u>Liabilities</u>	
Liabilities:	
Current payables	\$ -
Other liabilities	9,357
Total Liabilities	\$ 9,357
 <u>Net Assets</u>	
Unrestricted	\$ -
Total Net Assets	\$ -

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

CITY OF DEMPOLIS, ALABAMA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
RAVINE GOLF COURSE FUND
SEPTEMBER 30, 2010

	<u>Business- Type Activities - Enterprise</u>
<u>Assets</u>	
Current:	
Cash	\$ 9,098
Inventory	13,845
Noncurrent:	
Capital assets, net of accumulated depreciation	43,600
Total Assets	<u>\$ 66,543</u>
<u>Liabilities</u>	
Current:	
Accounts payable	\$ 3,252
Accrued expenses	5,845
Total Liabilities	<u>\$ 9,097</u>
<u>Net Assets</u>	
Investment in capital assets, net of related debt	\$ 43,600
Unrestricted	13,846
Total Net Assets	<u>\$ 57,446</u>

CITY OF DEMOPOLIS, ALABAMA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CANGES IN NET ASSETS
RAVINE GOLF COURSE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Business-Type Activities - Enterprise Funds</u>
Operating Revenues:	
Memberships and green fees	\$ 131,382
Merchandise sales	12,768
Concession sales	7,733
Total Operating Revenues	<u>151,883</u>
Operating Expenses:	
Salaries	90,200
Employee benefits	26,744
Depreciation	22,180
Golf course repairs and maintenance	17,357
Equipment lease	17,168
Utilities	15,408
Cost of merchandise	12,295
Equipment repair and maintenance	9,149
Payroll taxes	6,711
Golf course supplies and materials	4,808
Office supplies and expense	2,082
Advertising	1,403
Telephone	1,366
Total Operating Expenses	<u>226,871</u>
Net Earnings (Loss) Before Operating Transfers	(74,988)
Operating Transfers In (Out):	
Operating transfers in (out)	<u>51,950</u>
Net Earnings (Loss)	(23,038)
Net Assets, beginning of year	<u>80,484</u>
Net Assets, end of year	<u><u>\$ 57,446</u></u>

CITY OF DEMOPOLIS, ALABAMA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
RAVINE GOLF COURSE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Business- Type Activities - Enterprise</u>
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 151,883
Cash payments to suppliers for goods and services	(79,446)
Cash payments to employees	<u>(122,051)</u>
Net Cash Provided (Used) by Operating Activities	<u>(49,614)</u>
Cash Flows from Capital and Related Financing Activities:	
Transfers In	<u>51,950</u>
Net Cash Flows Provided by Capital and Related Financing Activities	<u>51,950</u>
Net Increase (Decrease) in Cash	2,336
Cash, beginning of year	<u>6,762</u>
Cash, end of year	<u>\$ 9,098</u>
Reconciliation of Operating Income to Net Cash Provided	
By Operating Activities:	
Operating (Loss)	\$ (74,988)
Adjustments to reconcile operating income to net cash provided by	
Operating activities:	
Depreciation	22,180
Decrease (increase) in inventory	859
Increase (decrease) in accounts payable	731
Increase (decrease) in accrued expenses	<u>1,604</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (49,614)</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies

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

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

(1) Reporting Entity

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

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

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

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

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

Basis of Presentation

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

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies

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

Basis of Presentation (cont'd)

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

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

The City reports the following major governmental funds:

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

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

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

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

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

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies

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

Basis of Presentation (cont'd)

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

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

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

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

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

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

Basis of Accounting, Measurement Focus

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

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

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

B. Summary of Significant Accounting Policies

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

Basis of Accounting, Measurement Focus (cont'd)

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

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

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

(3) Assets, Liabilities and Net Assets

Deposits and Investments

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

Receivables

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

Property Taxes

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

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies

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

Inventories

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

Capital Assets

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

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

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

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

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

Long-term Obligations

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

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

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

B. Summary of Significant Accounting Policies

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

Compensated Absences

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

- a. The employees' right to receive compensation is attributable to services already rendered.
- b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

An accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals.

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

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

Net Assets/Fund Equity

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

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

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

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies

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

Use of estimates

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

B. Deposits and Certificates of Deposit

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

As of September 30, 2010, the carrying amount of the City's bank deposits was \$5,463,932 and the bank balance was \$5,623,800. Of the total bank balance, \$500,000 was insured through the Federal Depository Insurance Corporation (FDIC). The remaining \$5,123,800 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, 2010 are held in a certified qualified public depository.

C. Stewardship, Compliance and Accountability

Budgets

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

Excess of Expenditures Over Appropriations

The following special revenue funds' expenditures exceeded the appropriations for the funds: 7 Cent Special Gas Tax Fund - \$101,864; Corrections Fund - \$29,245. The shortages were funded by transfers from the General Fund and surplus of fund balances accumulated in prior years.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

C. Stewardship, Compliance and Accountability (cont'd)

The following capital projects funds' expenditures exceeded the appropriations for the fund: Park and Recreation Fund - \$16,645; Police Special Fund - \$1,886; Animal Control Fund - \$350; Industrial Road Project Fund - \$198; and Police Grant Special Fund 1 - \$249. These shortages were funded by transfers from the General Fund and Industrial Development Special Project Fund, and surplus of fund balances accumulated in prior years.

D. Certificates of deposit

Certificates of deposit at September 30, 2010 consisted of the following:

Certificates of deposit with BankTrust, Demopolis, Demopolis, Alabama, due within one year, with interest of 0.80% to 2.10%.	\$ 3,761,424
Certificates of deposit with Robertson Banking Company, Demopolis, Alabama, due within one year, with interest of 1.15% to 2.85%.	<u>825,599</u>
	<u>\$ 4,587,023</u>

E. Receivables

Receivables at September 30, 2010 for the individual major and nonmajor funds are as follows:

	General Fund	Capital Building Fund	Other Governmental Funds	Total
Taxes	\$ 406,142	\$	\$	\$ 406,142
Intergovernmental revenues	18,765		127,688	146,453
Other receivables	<u>374,600</u>			<u>374,600</u>
	<u>\$ 799,507</u>	<u>\$</u>	<u>\$ 127,688</u>	<u>\$ 927,195</u>

During Fiscal Year 2010, the New Era Cap Company terminated its lease of a building owned by the City of Demopolis. The lease termination fee due from the New Era Cap Company, totaling \$363,425, is included in other receivables of the General Fund. This transaction is further discussed in Note K.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

F. Interfund Receivables and Payables

Interfund receivables and payables at September 30, 2010 are as follows:

	<u>Interfund</u>	
	<u>Receivables</u>	<u>Payables</u>
Due from/Due to:		
General Fund	\$ 76,350	\$ 39,504
7 Cent Special Gas Tax Fund	109	
Special Paving Assessment	17,222	
COPS Grant		8,580
Corrections Fund	49,291	40,785
Judicial Administration Fund		
Court Fund	32,478	49,266
Cash Bond Fund	43	
Demopolis Water and Sewer Board		37,358
	<u>\$ 175,493</u>	<u>\$ 175,493</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

G. Capital Assets

Capital asset activity for the year ended September 30, 2010 is as follows:

	Balance October 1, 2009	Additions/ Adjustments	Deletions	Balance September 30, 2010
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 384,640	\$	\$ 1,500	\$ 383,140
Construction in progress	1,086,167	1,115,231	1,904,911	296,487
	<u>1,470,807</u>	<u>1,115,231</u>	<u>1,906,411</u>	<u>679,627</u>
Other capital assets:				
Buildings	9,886,691	1,904,911	100,000	11,691,602
Improvements	4,062,081			4,062,081
Infrastructure	1,283,215			1,283,215
Equipment and vehicles	4,469,186	207,249		4,676,435
	<u>19,701,173</u>	<u>2,112,160</u>	<u>100,000</u>	<u>21,713,333</u>
Less accumulated depreciation:				
Buildings	4,069,280	179,331	100,000	4,148,611
Improvements	828,491	143,337		971,828
Equipment and vehicles	2,545,450	389,324		2,934,774
	<u>7,443,221</u>	<u>711,992</u>	<u>100,000</u>	<u>8,055,213</u>
Total other capital assets, net	<u>12,257,952</u>	<u>1,400,168</u>		<u>13,658,120</u>
Total governmental activities, net	<u>\$ 13,728,759</u>	<u>\$ 2,515,399</u>	<u>\$ 1,906,411</u>	<u>\$ 14,337,747</u>
	Balance October 1, 2009	Additions/ Adjustments	Deletions	Balance September 30, 2010
Proprietary activities:				
Equipment	\$ 118,696	\$	\$	\$ 118,696
Less accumulated depreciation	52,916	22,180		75,096
Total proprietary activities, net	<u>\$ 65,780</u>	<u>\$ 22,180</u>	<u>\$</u>	<u>\$ 43,600</u>

Depreciation expense was charged to governmental functions as follows:

General government and unallocated	\$ 112,835
Beautification	4,893
Streets	124,069
Fire protection	120,520
Police protection	104,515
Municipal court	6,940
Airport	82,216
Library	7,329
Parks and recreation	148,675
	<u>\$ 711,992</u>

See Independent Auditors' Report.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

H. Advance to Water Works and Sewer Board and Advance Refunding (cont'd)

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

At September 30, 2010, the Water Works and Sewer Board is continuing to pay the annual payment agreed upon to retire its share of the \$900,000 1991 bond issue. The schedule of general obligation bonds payable reflects the advance of general obligation warrants which will be repaid by the Board as a reduction in the general obligation bonds payable total included in the financial statements.

I. Long-Term Liabilities

The following is a summary of long-term liabilities transactions of the City for the year ended September 30, 2010:

	Balance September 30, 2009	Additions	Retirements	Balance September 30, 2010	Current Portion
Bonds payable:					
Series 2003 GOW	\$ 4,160,000	\$	\$ 670,000	\$ 3,490,000	\$ 695,000
Series 2007 GOW	5,000,000			5,000,000	
Advance to Demopolis Water Works and Sewer Board	(410,000)		(50,000)	(360,000)	(50,000)
Total bonds payable	8,750,000		620,000	8,130,000	645,000
Accrued compensated absences	212,067	120,095	137,967	194,195	8,174
	<u>\$ 8,962,067</u>	<u>\$ 120,095</u>	<u>\$ 710,864</u>	<u>\$ 8,962,067</u>	<u>\$ 653,174</u>

Bonds payable are comprised of the following individual issues:

2003 General Obligation Warrants, due serially with interest at 1.25% to 3.90% per annum	\$ 3,490,000
2007 General Obligation Warrants, due serially with interest at 4.20% to 4.60% per annum	5,000,000
	<u>8,490,000</u>
Less: Amounts to be repaid by Demopolis Water Works and Sewer Board	(360,000)
	<u>\$ 8,130,000</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

I. Long-Term Liabilities (cont'd)

The annual requirements to amortize the City's portion of all debt outstanding as of September 30, 2010 are as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2011	\$ 645,000	\$ 330,538	\$ 975,538
2012	465,000	309,532	774,532
2013	480,000	293,700	773,700
2014	495,000	276,870	771,870
2015	515,000	259,208	774,208
2016	530,000	240,580	770,580
2017	150,000	220,855	370,855
2018	160,000	214,555	374,555
2019	165,000	207,835	372,835
2020	170,000	200,740	370,740
2021	180,000	193,430	373,430
2022	185,000	185,870	370,870
2023	195,000	178,100	373,100
2024	205,000	169,812	374,812
2025	210,000	161,100	371,100
2026	220,000	152,070	372,070
2027	230,000	142,610	372,610
2028	240,000	132,605	372,605
2029	250,000	122,165	372,165
2030	260,000	111,165	371,165
2031	270,000	99,725	369,725
2032	285,000	87,575	372,575
2033	295,000	74,750	369,750
2034	310,000	61,180	371,180
2035	325,000	46,920	371,920
2036	340,000	31,970	371,970
2037	355,000	16,330	371,330
	<u>\$ 8,130,000</u>	<u>\$ 4,521,790</u>	<u>\$ 12,651,790</u>

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

J. Defined Benefit Pension Plan

Plan Description

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

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

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

The Retirement System of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees Retirement System of Alabama. That report may be obtained by writing to Retirement Systems of Alabama, 201 South Union Street, Montgomery, Alabama 36104 or calling 1-877-517-0020.

Funding Policy

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

Annual Pension Cost

In 2010, the City's annual pension cost of \$388,368 for the Employees' Retirement System was equal to the City's required and actual contributions. The required contribution was determined as part of an actuarial valuation performed as of September 30, 2009. The actuarial assumptions used in the valuation include (a) rate of return on the investment of present and future assets of 8.00% a year compounded annually, (b) assumed annual rates of future salary increases ranging from 4.61% at age 20 to 7.75% at age 65, (c) inflation rate of 4.50%, and (d) no post-retirement benefit increases. The actuarial value of the Employees' Retirement System assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial liability of the Employees' Retirement System is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2009, was 15 years.

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

J. Defined Benefit Pension Plan (cont'd)

Three-Year Trend Information for the Employees' Retirement System

Year Ended September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2007	\$ 333,665	100%	\$
2008	349,852	100%	
2009	378,973	101.9%	(7,187)

Schedule of Funding Progress for the Employees' Retirement System

Actuarial Valuation Date	Actuarial Assets (a)	Actuarial Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
09-30-04	\$ 5,352,707	\$ 7,184,531	\$ 1,831,824	74.5%	\$ 2,345,723	78.1%
09-30-05	5,727,382	8,024,806	2,297,424	71.4	2,464,139	93.2
09-30-06	6,128,857	8,889,423	2,760,565	68.9	2,771,551	99.6
09-30-07	6,713,413	9,526,192	2,812,779	70.5	3,107,098	90.5
09-30-08	6,948,780	9,309,804	2,361,025	74.6	3,215,557	73.4
09-30-09	7,325,380	10,056,534	2,731,154	72.8	3,383,002	80.7

K. Lease Termination

During fiscal year 2010, the New Era Cap Company terminated its building lease with the City. Per the terms of the lease, New Era was subject to a one-time lease termination fee of \$363,425 payable upon the termination date. Revenue from this fee has been recorded in the General Fund, but was not included in the budget for 2010 because the underlying event could not be predicted by management. The City received the funds in October, 2010.

L. Risk Management

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

M. Contingent Liabilities

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

CITY OF DEMOPOLIS, ALABAMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

N. Change in Accounting Principles

The City has changed its manner of accounting for certain intangible assets that do not have indefinite useful lives. The City has adopted the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. As permitted by GASB Statement No. 51, the financial statements have not been restated for prior year costs associated with the rights-of-way because the City does not have sufficient information to determine such costs.

CITY OF DEMOPOLIS, ALABAMA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Budget To	Actual
	Original	Final	Amounts Budget Basis	GAAP Adjustments	Amounts GAAP Basis
Revenues:					
Taxes	\$ 7,449,636	\$ 7,449,636	\$ 7,465,421	\$	\$ 7,465,421
Licenses and permits	1,297,700	1,297,700	1,300,408		1,300,408
Rents and services	522,164	522,164	503,282		503,282
Intergovernmental revenue	55,000	55,000	68,819		68,819
Other revenues	225,500	236,200	611,411		611,411
Total Revenues	9,550,000	9,560,700	9,949,341		9,949,341
Expenditures:					
General government and unallocated	2,215,096	2,215,096	2,287,648		2,287,648
Beautification	215,864	215,864	231,992		231,992
Public works	1,031,452	1,031,452	867,428		867,428
Fire protection	1,600,855	1,600,855	1,635,775		1,635,775
Police protection	1,597,917	1,608,617	1,662,284		1,662,284
Municipal Court	120,749	120,749	131,371		131,371
Airport	84,900	84,900	66,940		66,940
Library	272,494	272,494	293,113		293,113
Code enforcement	80,331	80,331	75,461		75,461
Parks and recreation	839,359	839,359	831,488		831,488
Cultural	56,200	56,200	60,434		60,434
Industrial Development Board	125,000	180,000	185,179		185,179
Capital projects					
Capital outlay	207,400	207,400	231,029		231,029
Total Expenditures	8,447,617	8,513,317	8,560,142		8,560,142
Total Revenue over Expenditures before					
Other Financing Sources (Uses)	1,102,383	1,047,383	1,389,199		1,389,199
Other Financing Sources (Uses):					
Operating transfers in	120,000	120,000	152,643		152,643
Operating transfers (out)	(1,144,018)	(1,144,018)	(1,192,296)		(1,192,296)
Total Other Financing Sources (Uses)	(1,024,018)	(1,024,018)	(1,039,653)		(1,039,653)
Excess (Deficiency) of Revenues and Other					
Financing Sources over Expenditures					
and other Financing Uses	78,365	23,365	349,546		349,546
Fund Balances, Beginning of Year	4,929,224	4,929,224	4,929,224		4,929,224
Fund Balances, End of Year	\$ 5,007,589	\$ 4,952,589	\$ 5,278,770	\$	\$ 5,278,770

CITY OF DEMOPOLIS, ALABAMA
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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	\$ 9,949,341
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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>\$ 9,949,341</u>
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Uses/Outflows of Resources

Actual amounts (budgetary basis) available for expenditures shown as total expenditures on budgetary comparison schedule	\$ 8,560,142
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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>\$ 8,560,142</u>
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LeCroy, Hunter & Company, P.C.

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AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

ALABAMA SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

May 15, 2011

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

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

We have audited the financial statements of the City of Demopolis, Alabama as of and for the year ended September 30, 2010, and have issued our report thereon, dated May 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as 10-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

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

objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Demopolis, Alabama in a separate letter dated May 15, 2011.

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

LeCroy, Hunter & Company, P.C.

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

CITY OF DEMOPOLIS, ALABAMA
SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2010

10-1 Control Deficiency-Ineffective Controls

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