

City of Brundidge

Financial Statements

For The Year Ended September 30, 2013

City of Brundidge
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September 30, 2013

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the City Council
Brundidge, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, general fund, and the aggregate remaining fund information of the City of Brundidge, Alabama (the City), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Brundidge'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 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 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 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 principles used and the reasonableness of significant accounting estimates made by management, as well as 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 opinions.

Basis for Qualified Opinion

The financial statements of the Brundidge Solid Waste Disposal Authority have not been audited, and we were not engaged to audit the Brundidge Solid Waste Disposal Authority's financial statements as part of our audit of the City's basic financial statements. The Brundidge Solid Waste Disposal Authority financial activities are included in the City's basic financial statements as a discretely presented component unit.

Qualified Opinion

In our opinion, except for the unaudited discretely presented component unit noted above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, general fund, and the aggregate remaining fund information of the City of Brundidge, Alabama, as of September 30, 2013, 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

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

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

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2014 on our consideration of the City's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Brundidge, Alabama's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

February 17, 2014

BASIC FINANCIAL STATEMENTS

City of Brundidge
Statement of Net Position
September 30, 2013

Primary Government

	Governmental Activities	Business-type Activities
Assets		
Cash and cash equivalents	\$ 618,544	\$ 130,767
Receivables, net	294,265	1,785,558
Investments	172,929	-
Internal balances	14,132	(14,132)
Restricted assets:		
Investments	-	989,472
Inventory	-	315,428
Prepaid expenses	48,392	15,193
Other assets	22,545	104,060
Capital assets, net of depreciation	1,415,103	8,719,359
Capital assets, not being depreciated	1,307,426	526,854
Total assets	3,893,336	12,572,559
Deferred Outflows of Resources		
Deferred charge on refunding	-	169,632
Liabilities		
Accounts payable	159,848	522,177
Accrued expenses	38,578	178,243
Customer deposits	-	123,882
Unearned principal forgiveness	-	51,512
Noncurrent liabilities		
Compensated absences	73,810	45,636
Revenue warrants		
Due within one year	-	240,000
Due in more than one year	-	8,055,000
Less: Unamortized bond discount	-	(64,526)
Total liabilities	272,236	9,151,924
Deferred Inflows of Resources		
Property taxes levied for subsequent periods	115,849	-
Total deferred outflows of resources	115,849	-
Net Position		
Net investment in capital assets	2,722,533	1,901,203
Restricted for:		
Fire department	26,508	-
Highways and streets	271,801	-
Library	18,043	-
Debt service	-	989,472
Unrestricted	466,366	699,592
Total net position	\$ 3,505,251	\$ 3,590,267

See accompanying notes to financial statements.

		Component Unit	
		Brundidge Solid Waste Disposal Authority (Unaudited)	
Total			
\$ 749,311	\$	49	
2,079,823		-	
172,929		-	
-		-	
989,472		-	
315,428		-	
63,585		-	
126,605		-	
10,134,462		-	
1,834,280		-	
<u>16,465,895</u>		<u>49</u>	
169,632		-	
682,025		-	
216,821		-	
123,882		-	
51,512		-	
119,446		-	
240,000		-	
8,055,000		-	
(64,526)		-	
<u>9,424,160</u>		<u>-</u>	
115,849		-	
<u>115,849</u>		<u>-</u>	
4,623,736		-	
26,508		-	
271,801		-	
18,043		-	
989,472		-	
1,165,958		49	
<u>\$ 7,095,518</u>	<u>\$</u>	<u>49</u>	

City of Brundidge
Statement of Activities
For the Year Ended September 30, 2013

Functions/Programs	Expenses	Charges for Services	Program Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	\$ 661,748	\$ 208,358	\$ -
Public safety	926,053	17,335	1,157
Sanitation and recycling	613,372	130,050	-
Health and welfare	67,062	-	19,000
Community Development	424,565	-	-
Culture and recreation	300,394	3,033	10,735
Highways and streets	679,304	-	164,827
Interest	214	-	-
Total governmental activities	3,672,712	358,776	195,719
Business-type Activities:			
Electric	4,668,076	6,336,769	-
Sewer	642,472	996,086	-
Water	405,186	603,918	-
Miscellaneous	-	24,110	-
Amortization	8,829	-	-
Interest	351,103	298	-
Total business-type activities	6,075,666	7,961,181	-
Total primary government	\$ 9,748,378	\$ 8,319,957	\$ 195,719
Component Unit			
Brundidge Solid Waste Authority	\$ -	\$ -	\$ -

General Revenues

Taxes:

Property taxes

Sales taxes

Other taxes

Rental income

Interest income

Other revenues

Gain on investments

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning, as originally reported

Prior period adjustment

Net position - beginning, as restated

Net position - ending

See accompanying notes to financial statements.

Net (Expense) Revenue and Changes in Net Position				
Revenues	Primary Government			Component Unit
Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Brundidge Solid Waste Disposal Authority (Unaudited)
\$ -	\$ (453,390)	\$ -	\$ (453,390)	\$ -
-	(907,561)	-	(907,561)	-
-	(483,322)	-	(483,322)	-
-	(48,062)	-	(48,062)	-
424,565	-	-	-	-
-	(286,626)	-	(286,626)	-
-	(514,477)	-	(514,477)	-
-	(214)	-	(214)	-
424,565	(2,693,652)	-	(2,693,652)	-
-	-	1,668,693	1,668,693	-
-	-	353,614	353,614	-
254,040	-	452,772	452,772	-
-	-	24,110	24,110	-
-	-	(8,829)	(8,829)	-
-	-	(350,805)	(350,805)	-
254,040	-	2,139,555	2,139,555	-
\$ 678,605	(2,693,652)	2,139,555	(554,097)	-
\$ -	-	-	-	-
-	161,326	-	161,326	-
-	437,409	-	437,409	-
-	233,067	-	233,067	-
-	37,039	-	37,039	-
-	1,519	-	1,519	-
-	22,718	3,388	26,106	-
-	-	2,348	2,348	-
-	1,933,387	(1,933,387)	-	-
-	2,826,465	(1,927,651)	898,814	-
-	132,813	211,904	344,717	-
-	3,372,438	3,526,067	6,898,505	49
-	-	(147,704)	(147,704)	-
-	3,372,438	3,378,363	6,750,801	49
-	\$ 3,505,251	\$ 3,590,267	\$ 7,095,518	\$ 49

**City of Brundidge
Balance Sheet
Governmental Funds
September 30, 2013**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 380,681	\$ 237,863	\$ 618,544
Receivables, net	283,423	10,842	294,265
Investments	105,282	67,647	172,929
Due from other funds	14,132	-	14,132
Other assets	22,545	-	22,545
Total assets	\$ 806,063	\$ 316,352	\$ 1,122,415
Liabilities			
Accounts payable	\$ 159,848	\$ -	\$ 159,848
Accrued expenses	38,578	-	38,578
Total liabilities	198,426	-	198,426
Deferred Inflows of Resources			
Property taxes levied for subsequent periods	115,849	-	115,849
Total deferred inflows of resources	115,849	-	115,849
Fund balances			
Restricted	-	316,352	316,352
Unassigned	491,788	-	491,788
Total fund balances	491,788	316,352	808,140
Total liabilities, deferred inflows of resources and fund balances	\$ 806,063	\$ 316,352	\$ 1,122,415

See accompanying notes to financial statements.

City of Brundidge
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
September 30, 2013

Differences in amounts reported for governmental activities in the Statement of Net Position:

Total fund balance - governmental funds	\$	808,140
Prepaid expenses are recorded as expenditures in governmental funds when paid rather than assets.		48,392
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		2,722,529
Compensated absences are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		(73,810)
<hr/>		
Net position of governmental activities in the Statement of Net Position	\$	<u>3,505,251</u>

See accompanying notes to financial statements.

City of Brundidge
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended September 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 718,497	\$ -	\$ 718,497
Fees and fines	17,335	-	17,335
Licenses and permits	358,702	-	358,702
Intergovernmental	308,031	115,683	423,714
Charges for services	133,083	-	133,083
Investment earnings	1,067	452	1,519
Miscellaneous	226,670	-	226,670
Total revenues	1,763,385	116,135	1,879,520
Expenditures			
Current			
General government	636,248	-	636,248
Public safety	861,526	-	861,526
Highways and streets	640,554	-	640,554
Sanitation and recycling	604,046	-	604,046
Health and welfare	51,415	-	51,415
Culture and recreation	257,431	-	257,431
Community Development	424,565	-	424,565
Debt service			
Principal	17,127	-	17,127
Interest	514	-	514
Capital outlay	81,654	-	81,654
Total expenditures	3,575,080	-	3,575,080
Excess (deficiency) of revenues over expenditures	(1,811,695)	116,135	(1,695,560)
Other Financing Sources (Uses)			
Transfers in	2,005,007	-	2,005,007
Transfers out	-	(71,620)	(71,620)
Total other financing sources (uses)	2,005,007	(71,620)	1,933,387
Net change in fund balances	193,312	44,515	237,827
Fund Balances - beginning	298,476	271,837	570,313
Fund Balances - ending	\$ 491,788	\$ 316,352	\$ 808,140

See accompanying notes to financial statements.

City of Brundidge
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement
of Activities
For the Year Ended September 30, 2013

Differences in amounts reported for governmental activities in the Statement of Activities:

Net change in fund balances - total governmental funds: \$ 237,827

Prepaid expenses reported as expenditures in governmental funds are allocable to future accounting periods and therefore are not reported as expenses in the Statement of Activities. (427)

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. 81,654

Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Activities. (192,584)

The cost of capital assets disposed of during the year is expensed in the Statement of Activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (7,382)

Governmental funds report debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.

Repayment of debt	17,127
Accrued interest expense	300

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Compensated absences	(3,702)
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Change in net position of governmental activities	\$	132,813
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See accompanying notes to financial statements.

City of Brundidge

**Statement of Revenues, Expenditures, and Changes in Fund Balance-
Budget and Actual - General Fund
For the Year Ended September 30, 2013**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget -
	Original Budget	Final Budget		Positive (Negative)
Revenues				
Taxes	\$ 605,000	\$ 605,000	\$ 718,497	\$ 113,497
Fees and fines	35,000	35,000	17,335	(17,665)
Licenses and permits	282,820	282,820	358,702	75,882
Intergovernmental	268,429	268,429	308,031	39,602
Charges for services	138,000	138,000	133,083	(4,917)
Interest	700	700	1,067	367
Miscellaneous	401,240	401,240	226,670	(174,570)
Total revenues	1,731,189	1,731,189	1,763,385	32,196
Expenditures				
Current				
General government	624,134	624,134	636,248	(12,114)
Public safety	937,749	937,749	861,526	76,223
Highways and streets	628,247	628,247	640,554	(12,307)
Sanitation and recycling	192,500	192,500	604,046	(411,546)
Health and welfare	63,750	63,750	51,415	12,335
Culture and recreation	298,308	300,482	257,431	43,051
Community Development	614,269	614,269	424,565	189,704
Debt service				
Principal	17,127	17,127	17,127	-
Interest	-	-	514	(514)
Capital outlay	25,000	25,000	81,654	(56,654)
Total expenditures	3,401,084	3,403,258	3,575,080	(171,822)
Excess (deficiency) of revenues over expenditures	(1,669,895)	(1,672,069)	(1,811,695)	(139,626)
Other Financing Sources				
Transfers in	1,670,661	1,670,661	2,005,007	334,346
Net change in fund balances	766	(1,408)	193,312	(194,720)
Fund Balances - beginning	298,476	298,476	298,476	-
Fund Balances - ending	\$ 299,242	\$ 297,068	\$ 491,788	\$ (194,720)

See accompanying notes to financial statements.

**City of Brundidge
Statements of Net Position
Proprietary Funds
September 30, 2013**

**Business-Type
Activities**

Utilities Department

Assets

Current assets		
Cash and cash equivalents	\$	130,767
Receivables, net		1,785,558
Inventory		315,428
Prepaid expenses		15,193
Total current assets		2,246,946

Noncurrent assets		
Restricted assets:		
Investments		989,472
Other assets		104,060
Capital assets, net of depreciation		9,246,213
Total noncurrent assets		10,339,745
Total assets		12,586,691

Deferred Outflows of Resources

Deferred charge on refunding		169,632
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Liabilities

Current liabilities		
Accounts payable		522,177
Due to other funds		14,132
Accrued expenses		178,243
Customer deposits		123,882
Compensated absences		45,636
Unearned principal forgiveness		51,512
Utility revenue warrants - current		240,000
Total current liabilities		1,175,582

Noncurrent liabilities		
Utility revenue warrants, less current portion		8,055,000
Less: Unamortized bond discount		(64,526)

Total noncurrent liabilities		7,990,474
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Total liabilities		9,166,056
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Net Position

Net investment in capital assets		1,901,203
Restricted for debt service		989,472
Unrestricted		699,592

Total net position	\$	3,590,267
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See accompanying notes to financial statements.

City of Brundidge
Statements of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the year ended September 30, 2013

	Business-Type Activities Utilities Department
Operating Revenues	
Electric	\$ 6,336,769
Sewer	996,086
Water	603,918
<hr/>	
Total operating revenues	7,936,773
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Operating Expenses	
Cost of sales and service	3,979,473
Administration	1,157,262
Repairs and maintenance	204,426
Depreciation	374,573
<hr/>	
Total operating expenses	5,715,734
<hr/>	
Operating Income	2,221,039
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Non-Operating Revenues (Expenses)	
Interest revenue	298
Miscellaneous	24,110
Capital grants	254,040
Gain on investments	2,348
Other Income	3,388
Interest expense	(351,103)
Amortization	(8,829)
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Total non-operating revenue (expense)	(75,748)
<hr/>	
Income Before Transfers	2,145,291
Transfers out	(1,933,387)
<hr/>	
Change in net position	211,904
<hr/>	
Net Position - Beginning, as originally stated	3,526,067
Prior Period Adjustments	(147,704)
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Net Position - Beginning, as restated	3,378,363
<hr/>	
Net Position - ending	\$ 3,590,267
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See accompanying notes to financial statements.

City of Brundidge
Statements of Cash Flows
Proprietary Funds
For the year ended September 30, 2013

	Business-Type Activities
	Utilities Department
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 6,954,314
Payments to suppliers	(4,543,736)
Payments to employees	(577,161)
<hr/>	
Net cash provided by operating activities	1,833,417
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Cash Flows From Noncapital Financing Activities	
Other receipts	27,498
Transfers to other funds	(1,940,115)
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Net cash used in noncapital financing activities	(1,912,617)
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Cash Flows From Capital and Related Financing Activities	
Intergovernmental grants	254,040
Proceeds from long-term debt	940,000
Principal payments on long-term debt	(135,000)
Interest and financing payments on capital debt	(338,988)
Purchase of capital assets	(587,836)
Purchases of investments	(519,182)
Sales of investments	419,175
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Net cash provided by capital and related financing activities	32,209
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Cash Flows From Investing Activities	
Interest received	298
<hr/>	
Net decrease in cash and cash equivalents	(46,693)
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Cash and Cash Equivalents - Beginning	177,460
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Cash and Cash Equivalents - Ending	\$ 130,767
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City of Brundidge
Statements of Cash Flows
Proprietary Funds (Continued)
For the year ended September 30, 2013

	Business-Type Activities
	Utilities Department
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 2,221,039
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	374,573
Changes in operating assets and liabilities:	
Decrease in accounts receivable	(979,734)
Decrease in inventory	(7,879)
Decrease in prepaid expenses	(1,157)
Increase in accounts payable	178,079
Decrease in accrued expenses	49,085
Decrease in customer deposits	(2,725)
Increase in compensated absences	2,136
Net cash provided by operating activities	\$ 1,833,417

See accompanying notes to financial statements.

NOTE

1. Summary of Significant Accounting Policies
2. Stewardship, Compliance, and Accountability
3. Cash, Cash Equivalents and Investments
4. Receivables
5. Interfund Activity
6. Restricted Assets
7. Other Assets
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9. Property Taxes Levied for Subsequent Periods
10. Long-Term Debt
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21. Prior Period Adjustments
22. Subsequent Events

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Brundidge (the “City”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the City’s basic financial statements.

Reporting Entity

The City is a municipal corporation governed by an elected mayor and council. 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, component unit, if its officials appoint a voting majority of that agency’s governing body and 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 City has one component unit that is required to be reported in these financial statements. The discretely presented component unit is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government.

Discretely Presented Component Unit – The component unit column in the combined financial statements include the unaudited financial data of Brundidge Solid Waste Disposal Authority. This unit is reported in a separate column to emphasize that it is legally separate from the City.

Brundidge Solid Waste Disposal Authority– Provides for the collection and disposal of solid waste and to encourage the planning of solid waste collection, disposal and resource recovery activities. The citizens who serve on the Board of the Authority are appointed by the City council. In September of 2007, each of the City council members and the City manager were appointed as members of the Board with staggering terms of office. On September 28, 2007, the City assigned the landfill host government agreement with Transload America, Inc. to the City of Brundidge Solid Waste Disposal Authority. This agreement contracted with Transload America, Inc. to pay government administrative fees to compensate for expenses associated with the presence of a sanitary landfill within the jurisdiction of the City for the life of the landfill. There was no financial activity during the year ended September 30, 2007. In November 2007, the Authority by resolution approved the transfer of host government fees from the Authority to the City’s General Fund. A portion of the proceeds was required to be deposited into separate bank accounts for local industrial development and entrance road maintenance and repair; the remainder goes into the General Fund. Transload America, Inc. filed for bankruptcy on June 20, 2012 and closed the Brundidge Landfill LLC. Transload America, Inc. did not pay the minimum monthly host government administrative fee of \$4,500 during the year ended September 30, 2013. The City and the Brundidge Solid Waste Disposal Authority has not set up a receivable for this amount. During the year ended September 30, 2013, the United States Bankruptcy Court rejected the host government agreement between Transload America and the City and allowed the closing of the sale of the landfill. In July 2013, the City and the Brundidge Solid Waste Authority filed a claim in the United States Bankruptcy Court for damages arising from rejection of the host government agreement. The City has also filed a complaint in the Pike County Circuit Court for unauthorized activities within the City of Brundidge against the new owners of the landfill for their lack of obtaining permission to

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

operate a landfill or to obtain a host government agreement. The City has an appeal against the Alabama Department of Environmental Management (ADEM) for the transfer of permit to operate the landfill to the new owners of the landfill against the City's protestations.

The City of Brundidge Solid Waste Disposal Authority has not been audited.

Government-wide and Fund Financial Statements

The basic financial statements consist of the government-wide financial statements and fund financial statements. Government-wide financial statements are comprised of the statement of net position and the statement of changes in net position and reports information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Fiduciary funds of the government are eliminated from this presentation since these resources are not available for general government funding purposes. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues are classified into three categories: charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to direct recovery from customers for services rendered. Grants and contributions refer to revenues restricted for specific programs whose use may be restricted further to operational or capital items. The general revenues section displays revenue collected that helps support all functions of government and contribute to the change in the net position for the fiscal year. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The fund financial statements follow and report additional and detailed information about operations for major funds individually and nonmajor funds in the aggregate for governmental and fiduciary funds. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentations.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

they are collectible within the current period, considered to be sixty days for property taxes and ninety days for all other revenue. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

In applying the susceptibility-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e., revocable only for failure to comply with prescribed compliance requirements, such as with equal employment opportunity. These recourses are reflected as revenues at the time of receipt or earlier if they meet the availability criterion.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Department are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The following is reported as a major governmental fund:

General Fund – This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The following is reported as a major proprietary fund:

Utilities Department – It accounts for the operations of the Utilities Department (electric, sewer, water and wastewater).

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category, the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category, the property taxes levied for subsequent periods reported in the statement of net position and the balance sheet. This amount results from property taxes that are levied by the County Commission in February of each year based on property on record as of the preceding October 1. The enforceable legal claim exists as of October 1 preceding the February meeting of the County Commission.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

The City's investments are limited to U.S. Government Obligations and certificates of deposits at federally insured banks. These investments are reported at fair value.

Receivables and Unbilled Revenue

Property Taxes Receivable/Deferred-In Alabama, city property taxes are levied by the County Commission at its first regular meeting in February of each year based on the property on record as of the preceding October 1. The taxes are due the following October 1 and delinquent after December 31. In accordance with the non-exchange transactions provision of GASB Statement No. 33, taxes levied in fiscal year 2013 for the 2013 budget year have been recorded as receivables and property taxes levied for subsequent periods. These balances are deemed collectible and no allowance for uncollectibles is reported.

Accounts Receivable - Proprietary Fund Accounts Receivables are shown net of an allowance for uncollectible accounts. Accounts receivable in excess of 90 days comprise the accounts receivable allowance for uncollectible accounts. The City grants credit to customers who use its various services, substantially all of who are local residents or businesses. The Proprietary receivable represents uncollected billing for services billed prior to year end and an amount due for services rendered prior to September 30 that were not billed until October. Federal and other financial assistance due to the City as reimbursement for expenditures made as of September 30 are

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

accrued and reported as revenues in the year the expenditures are made. Accounts Receivables for court costs and fines are shown net of an allowance for uncollectible accounts. Receivables in excess of one year comprise the accounts receivable allowance for uncollectible accounts. For all other receivables, provisions for credit losses are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover current losses. Accounts receivable are written off on an individual basis in the year the City deems them uncollectible.

Inventories and Prepaid Items

Inventories are stated at cost, which approximates market using the average cost method. Purchases of inventories for governmental funds are reported as expenditures in the period purchased. Inventories of proprietary fund types are reported as an expense when consumed in the operations of the fund.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements. At the fund level, expenditures are recognized when the available finance resource is expended.

Interfund Loans and Transfers

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Restricted Assets

The Business-type activities restricted assets (other than customer deposits) as reported in the Statement of Net Position are restricted by bond agreements and are to be used strictly to retire the long-term debt shown in the proprietary fund. The assets were accumulated according to the bond indenture of the various issues.

It is the City's policy to use restricted assets before unrestricted assets when both are available to fund specific expenditures.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The City did not report infrastructure acquired prior to October 1, 2003.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Electrical	10 – 50 years
Buildings	25 – 50 years
Sewer system	10 – 50 years
Equipment	3 – 10 years
Water system	10 – 50 years
Vehicles	5 - 10 years

Compensated Absences

The City allows employees to accumulate vacation and sick leave up to certain limits for use in subsequent periods. Upon termination of employment, an employee is compensated for accumulated vacation hours at current wage rates. Upon retirement, employees are compensated for accumulated vacation hours at current wage rates. The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt.

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

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

The City's net position is divided into three components:

- *Net investment in capital assets* – This component of net position consists of the historical cost of capital assets, net of accumulated depreciation, and is reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should also be included in this component of net position.
- *Restricted* – This component of net position consists of assets that are restricted by contributors, contractual provisions, or enabling legislation, reduced by liabilities and deferred inflows of resources related to those assets. The City's restricted net position as reported in the statement of net position consist of cash and investments which are restricted for debt service, fire department, highways and streets and library.
- *Unrestricted* - This component of net position is the net amount of the assets, deferred outflows or resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Fund Balances

Fund balances are reported in the fund financial statements in accordance with GASB 54. The intent of GASB 54 is to provide a more structured classification of fund balances and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard established a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. Governmental fund equity is classified as fund balance. The City classifies fund balance as follows:

Nonspendable – Amounts that cannot be spent because they are either not spendable in form or they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for purposes stipulated by external parties, constitutional provision, or enabling legislation.

Committed – Amounts constrained for a specific purpose by the City Council.

Assigned – For the general fund, amounts constrained for the intent to be used for a specific purpose by the City Council. For all governmental funds other than the general fund, any positive remaining amounts not classified as nonspendable, restricted or committed.

Unassigned – All accounts not included in other spendable classifications.

The authority to establish, modify, or rescind a committed or assigned fund balance rests with the City Council and these actions are accomplished through an adopted resolution.

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Proprietary fund equity is classified the same as in the government-wide statements

Restricted Net Position

All debt proceeds obtained for capital assets were expensed and netted against net capital assets to arrive at net position net investment in capital assets.

The government-wide statement of net position reports \$316,352 of restricted net position, of which all is restricted by enabling legislation.

For the government-wide financial statements, net position are reported as restricted when constraints placed on net position are either: (1) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

The City has classified its nonspendable and restricted fund balances to reflect the limitations and restrictions placed on the respective funds as follows:

Fire Department – The fund balance is restricted for capital expenditures related to the fire department.	\$ 26,508
Highways and Streets – The fund balance is restricted for expenditures related to the construction, improvement, and maintenance of highways, bridges and streets.	271,801
Library – The fund balance is restricted from the Joseph Carroll Memorial Fund. Interest on these funds is restricted for the purchase of new library books.	18,043

Management Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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 vary from estimates used.

Recently Issued Accounting Pronouncements

The GASB has issued the following statements:

- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement improves financial reporting by codifying all sources of GAAP for state and local governments so that they derive from a single source. The City has elected to include all pre-November 30, 1989

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FASB pronouncements which are now codified in GASB Statement No. 62, as mentioned in the *Basis of Accounting* section above. As such, disclosures of FASB or AICPA pronouncements applied to these and future financial statements are no longer required.

- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides guidance for certain items formerly classified as assets and liabilities. GASB Concepts Statement 4 redefines these as “deferred outflows of resources” (formerly assets) and “deferred inflows of resources” (formerly liabilities). Each new category must have its own section on the Statement of Net Position. This statement also requires that the last line of the statements formerly titled “Net assets” now be titled “Net position” to reflect the new classifications. In addition, “Capital assets, net of related debt” should now be titled “Net investment in capital assets” in order to properly present the total of the items. Other than the new titles and presentation, this statement only addresses upfront payments of service concession arrangements and the deferral of annual changes in the fair value of derivatives as items to be reclassified as either a deferred outflow or deferred inflow.
- Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement provides more guidance for the items in GASB Statement No. 63. It requires the avoidance of the word “deferred” throughout financial statements, except as it relates to items that are designated as deferred outflows or deferred inflows. It addresses the calculation of a deferred outflow or inflow for refunding of debt. For nonexchange transactions such as grants, amounts received before the time period of eligibility are treated as deferred inflows. This statement also addresses taxes received prior to the period to which they relate. It requires issuance costs related to debt to be expensed in the period that the debt was issued versus amortizing over the life of the debt, as previously allowed. The effects of implementation of this statement are to be disclosed on the financial statements in the period of adoption. Losses on debt refundings are not expensed, but rather, are treated as deferred outflows. For operating leases, any initial direct costs are recognized in the period incurred instead of being amortized over the life of the lease which was effective for periods beginning after December 15, 2012. The City chose to early implement GASB Statement No. 65 for the year ended September 30, 2013. To retroactively apply the provisions, it required a restatement of beginning net position to expense bond issuance costs previously capitalized by the City.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Each year formal budgets are legally adopted and amended as required by the City Council for the General Fund, Special Revenue Funds and Utilities Department. Management can approve transfers within government function categories only. Transfers of appropriations or revisions between government function categories require the approval of the council. The level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is at the government function category level. Budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Notes to Financial Statements

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Excess of Expenditures Over Appropriations

For the year ended September 30, 2013, expenditures exceeded appropriations in the General Fund by \$171,822, which was funded by greater than anticipated revenues and transfers from utilities department.

Bond Indenture

In conjunction with the General Obligation Warrants and the Revenue Warrants, there were no violations of the provisions of the indenture or failure to comply with the terms, provisions and covenants.

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the City will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The City has elected to place its cash and cash equivalents in demand deposit, savings, and money market accounts. Demand and time deposits are fully insured and collateralized by the Federal Deposit Insurance Corporation (FDIC) and the Security for Alabama Funds Enhancement (SAFE) Program operated by the office of the Treasurer of the State of Alabama as authorized by Section 41-14A of the Code of Alabama 1975, as amended.

The City maintains deposits only with “Qualified Public Depositories” as defined by Section 41-14A-2 Code of Alabama 1975. In the event of default by a “Qualified Public Depository”, public deposits in excess of FDIC insurance limits will be repaid by liquidating collateral pledged to the SAFE Program by the bank in default. The liability for any remaining public deposits will be shared by all other “Qualified Public Depositories” participating in the SAFE Program.

Investments

The City’s investment policy, addressing credit and interest rate risk, limits its exposure to both as noted below. Concentration of credit risk is the risk of loss attributable to the quantity of the government’s investments in a single issuer. The City has limited its credit risk by investing only in U.S. Government backed securities and certificates of deposit at federally insured banks. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The City has limited its interest rate risk by investing in securities with a maturity of three years or less.

For an investment, custodial credit risk is the risk that an entity will not be able to recover the value of its investments that are in the possession of an outside party if the counterparty fails. The U.S. Treasury backed securities noted below are held by the City’s counterparties in the trust department of Regions Bank not in the City’s name. At September 30, 2013, the City held the following investments:

Notes To Financial Statements

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investment Type	Maturities	Fair Value
Investments		
Certificates of deposit	One year or less	\$ 172,929
Restricted investments		
U.S. Treasury backed securities	One year or less	\$ 989,472

NOTE 4 – RECEIVABLES

Receivables at September 30, 2013 consist of the following:

	General Fund	Nonmajor and Other Funds	Proprietary
Taxes	\$ 260,017	\$ 10,842	\$ -
Accounts	11,341	-	745,998
Unbilled revenues	3,562	-	110,105
Other receivables	4,998	-	15,328
Court costs and fines	57,552	-	-
Loan receivable from ADEM	-	-	915,866
Grant receivable	-	-	33,362
Total receivable	337,470	10,842	1,820,659
Less allowance for uncollectible accounts	(32,062)	-	(35,101)
Less amount due to others	(21,985)	-	-
Receivables, net	\$ 283,423	\$ 10,842	\$ 1,785,558

NOTE 5 – INTERFUND ACTIVITY

Interfund balances and transfers are generally used to meet cash demands necessary to pay operating expenses. Amounts are generally repaid during the next fiscal year. Balances due to/from other funds at September 30, 2013 are as follows:

Fund	Due to	Due From
General	\$ -	\$ 14,132
Proprietary	14,132	-
	\$ 14,132	\$ 14,132

Transfers during fiscal year 2013 are as follows:

Transfers to General Fund from:	
Nonmajor governmental	\$ 71,620
Utilities Department	1,933,387
	\$ 2,005,007

Notes To Financial Statements

NOTE 6 - RESTRICTED ASSETS

Restricted investments was comprised of the following:

<i>September 30, 2013</i>	Proprietary
Investments	
Restricted to debt service	\$ 989,472

NOTE 7 - OTHER ASSETS

Other assets at September 30, 2013 consist of the following:

	General Fund	Utilities Department
Deposits	\$ 22,545	\$ 2,500
Unamortized bond insurance	-	101,560
	\$ 22,545	\$ 104,060

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,254,298	\$ -	\$ -	\$ 1,254,298
Construction in progress	-	53,128	-	53,128
Capital assets, not being depreciated	\$ 1,254,298	\$ 53,128	\$ -	\$ 1,307,426
Capital assets, being depreciated:				
Public improvements	\$ 565,648	\$ 4,048	\$ -	\$ 569,696
Buildings	2,094,990	-	3,109	2,091,881
Equipment	1,800,128	24,478	64,208	1,760,398
Total capital assets, being depreciated	4,460,766	28,526	67,317	4,421,975
Less accumulated depreciation for:				
Infrastructure	392,117	17,012	-	409,129
Buildings	1,098,964	68,335	2,332	1,164,967
Equipment	1,383,142	107,237	57,603	1,432,776
	2,874,223	192,584	59,935	3,006,872
Total capital assets, being depreciated, net	\$ 1,586,543	\$ (164,058)	\$ 7,382	\$ 1,415,103

Notes To Financial Statements

NOTE 8 – CAPITAL ASSETS (Continued)

Business-type Activities:

Utilities Department

Capital assets, not being depreciated:

Land	\$ 60,801	\$ -	\$ -	\$ 60,801
Construction in progress	-	466,053	-	466,053
Capital assets, not being depreciated	\$ 60,801	\$ 466,053	\$ -	\$ 526,854

Capital assets, being depreciated:

Improvements other than buildings	\$14,479,689	\$ -	\$ 249	\$ 14,479,440
Buildings	76,776	-	-	76,776
Equipment	805,409	121,783	40,365	886,827
Total capital assets, being depreciated	15,361,874	121,783	40,614	15,443,043

Less accumulated depreciation for:

Improvements other than buildings	5,707,541	317,451	249	6,024,743
Buildings	69,376	2,767	-	72,143
Equipment	612,808	54,355	40,365	626,798
	6,389,725	374,573	40,614	6,723,684
Total capital assets, being depreciated, net	\$ 8,972,149	\$ (252,790)	\$ -	\$ 8,719,359

Depreciation expense was charged to functions as follows:

Governmental Activities:

General government	\$ 23,953
Public safety	63,449
Highways and streets	35,008
Sanitation and recycling	9,326
Culture and recreation	44,853
Health and welfare	15,995
Total depreciation expense – governmental activities	\$ 192,584

Business-type Activities:

Electric	\$ 158,596
Sewer	129,197
Water	86,780
Utilities department	\$ 374,573

Notes To Financial Statements

NOTE 9 – PROPERTY TAXES LEVIED FOR SUBSEQUENT PERIODS

Property taxes are levied by the County Commission in February of each year based on property on record as of the preceding October 1. The enforceable legal claim exists as of October 1 preceding the February meeting of the County Commission. The actual billing and collection of these taxes will occur subsequent to year-end.

Property taxes \$ 115,849

NOTE 10 - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 70,108	\$ 57,858	\$ 54,156	\$ 73,810	\$ 73,810
Notes payable	17,127	-	17,127	-	-
	87,235	57,858	71,283	73,810	73,810
Business-Type Activities:					
Utility revenue warrants	7,490,000	940,000	135,000	8,295,000	240,000
Compensated absences	43,500	35,969	33,833	45,636	45,636
	7,533,500	975,969	168,833	8,340,636	285,636
Total	\$ 7,620,735	\$ 1,033,827	\$ 240,116	\$ 8,414,446	\$ 359,446

Business-Type Activities

Utility Revenue Warrants

2012 Utility Revenue Warrants – Debt service requirements on these bonds at September 30, 2013 are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2014	\$ -	\$ 8,617
2015	35,000	25,369
2016	35,000	24,407
2017	40,000	23,375
2018	40,000	22,275
2019-2023	210,000	94,602
2024-2028	240,000	63,661
2029-2033	280,000	27,773
2034	60,000	825
	\$ 940,000	\$ 290,904

Notes To Financial Statements

NOTE 10 - LONG-TERM DEBT (Continued)

On December 1, 2012, the City issued Utility Revenue Warrants Series 2012-DWSRF-DL in the amount of \$940,000 through the State Revolving Fund administered by Alabama Drinking Water Finance Authority and Alabama Department of Environmental Management. Proceeds of the warrants were used to make capital improvements to the City’s utility system. Principal is payable annually and interest is payable semi-annually. The interest rate on the bonds is 2.75%. The City has pledged future electric, water and sewer customer revenues, net of specified operating expenses, to repay \$940,000 in utility revenue bonds issued in 2012. The bonds are payable solely from customer net revenues and are payable through 2034. The total principal and interest remaining to be paid on the warrants is \$1,230,904. Principal and interest paid for the current year and total operating net income were \$-0- and \$2,221,039, respectively. As of September 30, 2013, the City has drawn down \$60,234 of the loan and the remaining balance of \$915,866 is included in receivables, which includes \$54,900 of an additional principal forgiveness portion. The principal forgiveness portion is in addition to the \$940,000. The principal forgiveness is earned as requirements of the agreement are met. For the fiscal year ended September 30, 2013, the Board earned \$3,388 in principal forgiveness and the balance of the unearned principal forgiveness was \$51,512.

2005 Utility Revenue Warrants – Debt service requirements on these bonds at September 30, 2013 are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2014	\$ 240,000	\$ 332,474
2015	250,000	322,612
2016	260,000	312,220
2017	270,000	301,287
2018	280,000	289,804
2019-2023	1,585,000	1,254,631
2024-2028	1,975,000	856,578
2029-2033	2,495,000	317,385
	\$ 7,355,000	\$ 3,986,991

On December 29, 2005, the City issued Utility Revenue Warrants in the amount of \$7,785,000. Proceeds of the warrants were used to redeem all of the Series 2002A Utility Revenue Warrants outstanding, retire a bank loan for previous wastewater improvements and to provide funds for the construction of certain capital improvements to the electric system. The City has pledged future electric, water and sewer customer revenues, net of specified operating expenses, to repay \$7,355,000 in utility revenue bonds issued in 2005. The bonds are payable solely from customer net revenues and are payable through 2032. The total principal and interest remaining to be paid on the warrants is \$11,341,991. Principal and interest paid for the current year and total operating net income were \$474,975 and \$2,221,039, respectively.

As required by Governmental Accounting Standards Board Statement Number 23, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt is carried as deferred refunding cost and will be amortized over the remaining life of

Notes To Financial Statements

NOTE 10 - LONG-TERM DEBT (Continued)

the old bond on the straight line basis. The amount deferred on the reacquisition was \$263,521, which includes \$161,796 of previous total unamortized refunding costs; the total amount amortized for the year ended September 30, 2013 was \$12,115 and was reported as a part of interest expense. The balance of deferred refunding cost for this warrant at September 30, 2013, was \$169,632.

The City refunded the Series 2002A Utility Revenue Warrants to obtain a lower interest rate reducing the annual debt service requirements and obtain funds for capital improvements. The refunding increased the total debt service payments of the City over the next twenty-five years by approximately \$1,848,510 and resulted in an economic loss (difference between the present values of the debt service payments on the old and new debt) for the City of approximately \$611,272. This was calculated using a twelve year average rate of 3.66% on the old debt; however, the variable rate on the old debt was a fluctuating rate per annum determined by the Remarketing Agent on the first day of each seven-day variable rate period.

\$7,785,000 Series 2005 Utility Revenue Warrants Cusip # 116862AV5

The warrant is due in annual installments of \$75,000 to \$550,000 on October 1, 2008 to October 1, 2032; with a maximum principal of \$550,000 due in fiscal year 2033; interest at varying rates.

\$ 7,355,000

Other Long-Term Debt

Compensated absences are generally liquidated by the City's general fund and utilities department, respectively.

NOTE 11 – OPERATING LEASE

The City entered into a lease with Wal-Mart Stores East, L.P. (Lessee) on April 17, 2002 wherein the City agreed to lease certain property acquired with capital grants. The lease calls for annual lease payments of \$1 and will expire on April 16, 2101. The lessee has the unrestricted option to terminate the lease at any time upon written notice to the City and purchase the property for a price of \$939,856. The lessee shall also have the right of first refusal to purchase the property in the event the City obtains an offer, at a price equal to the offer, not to exceed \$939,856.

The City entered into a lease with Pike County Board of Education (Lessee) on February 13, 2013 wherein the City agreed to lease the City's recreation park. The Pike County Board of Education will provide recreation services for the children residing in the City of Brundidge and surrounding areas. The lessee shall provide recreation services for a 2 year trial period. After the expiration of the 2 year trial period, the City has the option to retain and perform recreation service responsibilities or continue the lease for the remainder of the 15 year lease period ending December 31, 2028. The lease calls for annual lease payments of \$1. The City agrees to pay the Pike County Board of Education \$75,000 per year for the first 5 years and \$56,250 per year for the remaining 10 years to provide recreation services. For the year ending September 30, 2013, the City paid \$46,875 to the lessee to operate the recreation park.

Notes To Financial Statements

NOTE 12 – EMPLOYEE RETIREMENT PLAN

Plan Description:

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

Substantially all employees are members of the Employees' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the City of Brundidge. 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 that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, or (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 of Alabama was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System of Alabama 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 Employees' 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 The Retirement Systems of Alabama, 201 South Union Street, Montgomery, Alabama 36104-0001.

Funding Policy

Employees are required under the system to contribute five percent of their annual gross salary to the plan except for certified full-time firefighters and certified full-time law officers, who contribute 6% of annual gross salary. The City is required to contribute at an actuarially determined rate; the current rate is 8.25% of annual covered payroll for the City.

Annual Pension Cost

For the year ended September 30, 2013, the City of Brundidge's annual pension cost of \$119,538 for The Employees' Retirement System of Alabama was equal to the City of Brundidge's required and actual contributions. The required contribution was determined as part of the September 30, 2012 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 3.75% to

Notes To Financial Statements

NOTE 12 – EMPLOYEE RETIREMENT PLAN (Continued)

7.25% per year, and (c) no cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of The Employees' Retirement System of Alabama assets was determined using the five year smoothed market method. The Employees' Retirement System of Alabama's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at September 30, 2012 was 18 years for the City of Brundidge. The amount of member contributions made for the year ended September 30, 2013 was \$81,545.

Trend Information For Retirement System of Alabama

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/10	\$ 130,322	100%	\$ -0-
9/30/11	133,370	100%	-0-
9/30/12	118,302	100%	-0-

Required Supplementary Information

Schedule of Funding Progress For Retirement System of Alabama

Actuarial Valuation Date	Actuarial Value of Assets * (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/10 ²	\$2,919,668	\$3,884,387	\$ 964,719	75.2%	\$1,533,223	62.9%
9/30/11 ⁴	\$3,049,415	\$4,051,207	\$1,001,792	75.3%	\$1,541,669	65.0%
9/30/12 ⁵	\$3,229,756	\$4,000,757	\$ 771,001	80.7%	\$1,521,866	50.7%
9/30/12 ^{3,5}	\$3,229,756	\$4,011,421	\$ 781,665	80.5%	\$1,521,866	51.4%

* Market value of assets as of September 30, 2011: \$2,658,558

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

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

⁴ Reflects changes in actuarial assumptions.

⁵ Reflects changes in interest smoothing methodology.

Deferred Compensation Plan

In addition to the State retirement plan discussed above, the City offers its employees a Section 457 retirement plan. The plan, available to all City employees, permits them to defer a portion of their salary until future years.

Notes To Financial Statements

NOTE 12 – EMPLOYEE RETIREMENT PLAN (Continued)

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the individuals who participate in the deferred compensation plan and are not subject to the claims of the City's general creditors.

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS

The City has one retiree receiving life insurance benefits. Presently the group is closed and no future employees are eligible for the coverage. The retiree pays 100% of the premium at the same rate as the active premium rate. This would produce an implied subsidy of \$1.50/\$1,000 of additional cost to the City. The estimated actuarial accrued liability would be \$13,500 with an estimated net annual required contribution of \$-0-

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Solid Waste Landfill

The City landfill operated by the Pike County Commission on land leased by the City of Brundidge was closed in 1994. Under EPA regulations, the landfill will be monitored for up to 30 years. The City may have to share the monitoring cost, but the permit from the State of Alabama Department of Environmental Management was issued to the Pike County Commission. No liability is reported for potential monitoring cost.

Federal Grants

Amounts received or receivable from Grantor Agencies are subject to audit and adjustment by Grantor Agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

Contracts

The City is committed under various contracts for the completion of the Community Development Block Grant SM CM ED PF 12 006 water project and 2012 Drinking Water State Revolving Funds Project. The City estimates the cost to complete these contracts to be approximately \$10,521 and \$798,934, respectively, at September 30, 2013.

Guaranty Agreement

The Industrial Development Board of the City of Brundidge received a loan from South Alabama Electric Cooperative in the amount of \$325,000 with a term of ten years and an interest rate of zero percent, for the purpose of financing a portion of the costs of constructing and equipping a rail spur and related improvements at a facility owned by the Industrial Development Board of the City of

Notes To Financial Statements

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

Brundidge and leased to Southern Classic Food Group, LLC. On February 28, 2013, the City signed a guaranty agreement with South Alabama Electric Cooperative to guarantee the loan. As of September 30, 2013, debt outstanding was \$325,000.

NOTE 15 - RISK MANAGEMENT AND LITIGATION

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has obtained coverage from insurance companies, effectively transferring any risk of loss.

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.

The City and Brundidge Solid Waste Disposal Authority are involved in pending litigation regarding the acquisition by a company which is funded by a governmental entity without seeking permission of City and ADEM's transfer of permit to operate the landfill to the new owner against the City's protestations. Management's estimate of the potential annual reduction in revenue is approximately \$50,000 to \$120,000.

NOTE 16 - INTEREST COSTS

The amount of interest cost, including deferred refunding cost of \$12,115, incurred for the Utilities Department was \$351,103 for the year ended September 30, 2013, all of which was charged to operations.

NOTE 17 - CASH FLOW INFORMATION

The Utilities Department considers all short-term investments with an original maturity of three months or less to be cash equivalents. Cash paid for interest for the year ended September 30, 2013, was \$ 339,975.

NOTE 18 – ACCUMULATED PATRONAGE CAPITAL CREDITS

The City has accumulated patronage capital credits on the books of the PowerSouth Energy Cooperative of Andalusia, Alabama.

Total credits as of September 30, 2013 are as follows: \$ 1,911,711

This amount has not been included in the financial statements of the City of Brundidge, as the City does not anticipate receiving these credits. The City has accumulated these patronage capital credits by purchasing electricity.

Notes To Financial Statements

NOTE 19 – ECONOMIC DEPENDENCY

During the year ending September 30, 2013, approximately 40% of total electric revenues were received from Walmart Distribution Center. The Utilities Department purchases all of the electricity sold to its customers from PowerSouth Energy Cooperative.

NOTE 20 – RELATED ORGANIZATIONS

Industrial Development Board – The Board strives to bring economic development to the City. The citizens who serve on the Governing Board are appointed by the City Council. The City has no significant influence over the Board's operations.

Brundidge Housing Authority – The Authority administers federal funding and/or other financing for improvement of housing conditions in the City. The citizens who serve on the Governing Board are appointed by the Mayor. The City has no significant influence over the management, budget, or policies of Brundidge Housing Authority. The Authority reports independently. Audited financial statements are available from the Brundidge Housing Authority.

The Industrial Development Board and Housing Authority are excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments.

First National Bank of Brundidge – James T. Ramage, III, Mayor of the City of Brundidge, is also the President and CEO of the First National Bank of Brundidge. At September 30, 2013, the City has cash on deposit in the amount of \$1,009,730. It is the City's policy to solicit bids for all proposed debt issued and for the Mayor to abstain from voting on proposed transactions involving the First National Bank of Brundidge.

NOTE 21 - PRIOR PERIOD ADJUSTMENTS

As discussed in Note 1, the implementation of GASB 65 required that debt issuance costs, with the exception of prepaid insurance costs, be recognized as an expense in the period incurred. The cumulative effect of applying this statement was a decrease in net position in the amount of \$147,704.

NOTE 22 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of issuance of these financial statements and no event was deemed to warrant disclosure.

COMBINING AND INDIVIDUAL FUND STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds - Special revenue funds include operating funds which are restricted as to use by the Federal or State governments and special purpose funds established by authority of the City Council.

Four and Five Cent State Gasoline Tax Fund and Seven Cent State Gasoline Tax Fund accounts for a state gasoline tax. The use of this funding is restricted to expenditures related to construction, improvement and maintenance of highways, bridges, and streets.

Two Cent Gas Tax accounts for proceeds from a local gasoline tax. The use of this funding is for highway and street expenditures.

Tobacco Tax accounts for proceeds for the Pike County Firefighter Association. The use of this funding is restricted to capital expenditures for the fire department.

Joseph Carroll Library Fund accounts for money that was donated to the City from Joseph Carroll Memorial Fund. Interest on these funds is restricted for the purchase of new library books.

City of Brundidge
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2013

	\$.04 and \$.05 Gas Tax	\$.07 Gas Tax
<hr/>		
Assets		
Cash and cash equivalents	\$ 13,400	\$ 23,021
Receivables, net	817	1,040
Investments	-	3,400
<hr/>		
Total assets	\$ 14,217	\$ 27,461
<hr/> <hr/>		
Fund Balances		
Restricted	\$ 14,217	\$ 27,461
<hr/> <hr/>		

		Joseph Carroll			
\$.02 Gas Tax	Tobacco Tax	Library Fund	Total		
\$ 177,754	\$ 23,688	\$ -	\$	237,863	
6,165	2,820	-		10,842	
46,204	-	18,043		67,647	
<hr/>					
\$ 230,123	\$ 26,508	\$ 18,043	\$	316,352	
<hr/>					
\$ 230,123	\$ 26,508	\$ 18,043	\$	316,352	
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City of Brundidge
Combining Statement of Revenues, Expenditures and Changes in
Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2013

	\$.04 and \$.05 Gas Tax	\$.07 Gas Tax
Revenues		
Intergovernmental	\$ 8,933	\$ 11,409
Investment earnings	-	17
Total revenues	8,933	11,426
Other Financing Sources (Uses)		
Transfers out	(21,765)	(21,765)
Net change in fund balances	(12,832)	(10,339)
Fund balances (deficit) - beginning	27,049	37,800
Fund balances - ending	\$ 14,217	\$ 27,461

	\$.02 Gas Tax	Tobacco Tax	Joseph Carroll Library Fund	Total
	\$ 78,894	\$ 16,447	\$ -	\$ 115,683
	282	63	90	452
	79,176	16,510	90	116,135
	(28,000)	-	(90)	(71,620)
	51,176	16,510	-	44,515
	178,947	9,998	18,043	271,837
	\$ 230,123	\$ 26,508	\$ 18,043	\$ 316,352

SUPPLEMENTAL INFORMATION

City of Brundidge
Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2013

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA #	Pass-through Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development			
Pass-through Alabama Department of Economic and Community Affairs:			
Community Development Block Grants	14.228	SM-ED-PF-10-019	\$ 227,995
Community Development Block Grants	14.228	SM-CM-PF-12-006	254,040
Total U.S. Department of Housing and Urban Development			482,035
U.S. Environmental Protection Agency			
Pass-through Alabama Department of Environmental Management:			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS010139-02	140,841
U.S. Department of Health and Human Services			
Pass-through South Central Alabama Special Program for Aging Title III C- Nutrition Services			
	93.045	05-031013-000	13,000
Total Expenditures of Federal Awards			\$ 635,876

City of Brundidge
Notes to Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2013

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes the federal expenditures of the City of Brundidge, Alabama (the "City") under programs of the federal government for the year ended September 30, 2013. The amounts reported as federal expenditures were obtained from the City's general ledger. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets and cash flows of the City.

For purposes of the Schedule, federal awards include all grants, contracts, and similar agreements entered into directly with the federal government and other pass through entities. The City has obtained Catalog of Federal Domestic Assistance (CFDA) numbers to ensure that all programs have been identified in the Schedule. CFDA numbers have been appropriately listed by applicable programs. The revenues and expenditures for the grants are accounted for in several different funds on the modified accrual basis.

NOTE 2 – FEDERAL PASS-THROUGH FUNDS

The City is the sub-recipient of federal funds from various state and local agencies. These amounts are reported as federal pass-through expenditures on the Schedule of Expenditures of Federal Awards.

NOTE 3 – BASIS OF ACCOUNTING

This schedule was prepared on the modified accrual basis of accounting. The modified accrual basis differs from the full accrual basis of accounting in that expenditures for property, and equipment are expensed when incurred, rather than being capitalized and depreciated over their useful lives, and expenditures for the principal portion of debt service are expensed when incurred rather than being applied to reduce the outstanding principal portion of debt which conforms to the basis of reporting to grantors for reimbursement under the terms of the City's federal grants.

NOTE 4 – CONTINGENCIES

Grant monies received and disbursed by the City are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the City does not believe that such disallowance, if any, would have a material effect on the financial position of the City. As of September 30, 2013, there were no material questioned or disallowed costs as a result of grant audits in process or completed.

NOTE 5 – LOANS

On December 1, 2012, the City issued Utility Revenue Warrants Series 2012-DWSRF-DL in the amount of \$940,000 through the State Revolving Fund administered by Alabama Drinking Water Finance Authority and Alabama Department of Environmental Management. The total loan is \$994,900 and includes a principal forgiveness portion of \$54,900 for a net of \$940,000. Proceeds of the warrants were used to make capital improvements to the City's utility system. As of September 30, 2013, \$140,841 has been expended on the project.

COMPLIANCE SECTION

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

Honorable Mayor and Members of
the City Council
Brundidge, Alabama

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, general and the aggregate remaining fund information of the City of Brundidge, Alabama (the City) as of and for the year ended September 30, 2013, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Brundidge's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 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. 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs or Items 13-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

City of Brundidge, Alabama's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

This 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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

February 17, 2014

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

Honorable Mayor and Members of
the City Council
City of Brundidge
Brundidge, Alabama

Report on Compliance for Each Major Federal Program

We have audited City of Brundidge's (the City) compliance with the types of compliance requirements described in the (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2013. The City's major federal programs are identified in the summary of auditors' 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'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'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 on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the type 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, 2013.

Report on Internal Control Over Compliance

Management of the City 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, we considered the City's internal control over compliance with the type of requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our 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 Authority'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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

February 17, 2014

City of Brundidge
Schedule of Findings and Questioned Costs
For The Year Ended September 30, 2013

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified X yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes X none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.228

Community Development Block Grants

Dollar threshold used to distinguish between type A and type B programs? \$ 300,000

Auditee qualified as low-risk auditee? yes X no

Section II – Financial Statements Findings

13-01 Separation of Duties (Repeat)

Condition – There are instances when one individual may bill, collect, receipt, deposit and record revenues. This usually occurs when other employees tasked with those responsibilities are out of the office during lunch, vacation or sick leave. In addition, in the municipal court, the same individual may bill, collect, receipt, deposit and record revenues. These instances result in an obvious weakness relating to the control and recording of receipts.

Criteria – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Cause – The City lacks sufficient personnel to appropriately separate all accounting functions.

City of Brundidge
Schedule of Findings and Questioned Costs
For The Year Ended September 30, 2013

Effect – The finding could result in material misstatements to the financial statements and the misappropriation of assets.

Recommendation – We recommend the City continue to improve on their policies to obtain greater segregation of duties.

Management Response – Due to our lack of resources, we are unable to properly separate duties. However, the City maintains records that agree receipts and deposit slips. The City Council will continue to monitor transactions to provide financial oversight.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

**City of Brundidge
Summary Schedule of Prior Audit Findings
For The Year Ended September 30, 2013**

No federal single audit required in prior year.