

City of Brundidge

FINANCIAL STATEMENTS

For the Year Ended September 30, 2014



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September 30, 2014**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the City Council
City of 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

Basis for Qualified Opinion

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 possible effects of the matter described in the "Basis for Qualified Opinion" paragraph, 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund 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 requires 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 schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied

in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The combining and individual nonmajor fund financial statements have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2015 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

January 22, 2015

City of Brundidge
Statement of Net Position
September 30, 2014

	Primary Government	
	Governmental Activities	Business-type Activities
Assets		
Cash and cash equivalents	\$ 686,343	\$ 139,842
Receivables, net	388,630	1,052,999
Investments	141,259	-
Internal balances	12,907	(12,907)
Restricted assets:		
Cash and cash equivalents	20,289	47,925
Investments	-	994,630
Inventory	-	312,104
Prepaid expenses	48,074	15,127
Other assets	22,545	98,662
Capital assets, net of depreciation	1,657,372	9,620,800
Capital assets, not being depreciated	1,299,873	60,801
Total assets	4,277,292	12,329,983
Deferred Outflows of Resources		
Deferred charge on refunding	-	157,517
Liabilities		
Accounts payable	139,445	497,756
Accrued expenses	40,614	188,646
Customer deposits	-	127,586
Unearned principal forgiveness	-	8,237
Noncurrent liabilities		
Compensated absences	86,197	57,342
Revenue warrants		
Due within one year	-	285,000
Due in more than one year	-	7,770,000
Less: Unamortized bond discount	-	(61,096)
Total liabilities	266,256	8,873,471
Deferred Inflows of Resources		
Property taxes levied for subsequent periods	186,191	-
Net Position		
Net investment in capital assets	2,957,245	1,838,963
Restricted for:		
Capital improvements	20,289	-
Fire department	21,838	-
Highways and streets	323,142	-
Library	18,043	-
Debt service	-	994,630
Unrestricted	484,288	780,436
Total net position	\$ 3,824,845	\$ 3,614,029

See accompanying notes to financial statements.

	Component Unit	
	Brundidge Solid Waste Disposal Authority (Unaudited)	
Total		
\$ 826,185	\$	49
1,441,629		333,299
141,259		-
-		-
68,214		-
994,630		-
312,104		-
63,201		-
121,207		-
11,278,172		-
1,360,674		-
16,607,275		333,348
157,517		-
637,201		-
229,260		-
127,586		-
8,237		-
143,539		-
285,000		-
7,770,000		-
(61,096)		-
9,139,727		-
186,191		-
4,796,208		-
20,289		-
21,838		-
323,142		-
18,043		-
994,630		-
1,264,724		333,348
\$ 7,438,874	\$	333,348

City of Brundidge
Statement of Activities
For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	\$ 674,304	\$ 95,408	\$ -
Public safety	950,292	62,160	229,165
Sanitation and recycling	278,243	127,402	-
Health and welfare	72,578	-	56,969
Culture and recreation	323,050	-	8,552
Highways and streets	639,117	-	139,361
Total governmental activities	2,937,584	284,970	434,047
Business-type Activities:			
Electric	5,228,775	6,802,994	-
Sewer	741,853	963,481	-
Water	518,858	644,505	-
Miscellaneous	-	7,818	-
Amortization	8,828	-	-
Interest	362,610	519	-
Total business-type activities	6,860,924	8,419,317	-
Total primary government	\$ 9,798,508	\$ 8,704,287	\$ 434,047
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

Special Item - Litigation Settlement

Total general revenues, transfers, and special items

Change in net position

Net position - beginning

Net position - ending

See accompanying notes to financial statements.

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Unit	
Governmental	Business-type		Brundidge Solid	
Activities	Activities	Total	Waste Disposal	
			Authority	
			(Unaudited)	
\$ (578,896)	\$ -	\$ (578,896)	\$ -	-
(658,967)	-	(658,967)	-	-
(150,841)	-	(150,841)	-	-
(15,609)	-	(15,609)	-	-
(314,498)	-	(314,498)	-	-
(499,756)	-	(499,756)	-	-
(2,218,567)	-	(2,218,567)	-	-
-	1,574,219	1,574,219	-	-
-	221,628	221,628	-	-
-	214,917	214,917	-	-
-	7,818	7,818	-	-
-	(8,828)	(8,828)	-	-
-	(362,091)	(362,091)	-	-
-	1,647,663	1,647,663	-	-
(2,218,567)	1,647,663	(570,904)	-	-
-	-	-	-	-
115,503	-	115,503	-	-
467,907	-	467,907	-	-
226,025	-	226,025	-	-
36,296	-	36,296	-	-
1,030	-	1,030	-	-
22,851	43,275	66,126	-	-
-	1,373	1,373	-	-
1,668,549	(1,668,549)	-	-	-
-	-	-	-	333,299
2,538,161	(1,623,901)	914,260	333,299	-
319,594	23,762	343,356	333,299	-
3,505,251	3,590,267	7,095,518	49	-
\$ 3,824,845	\$ 3,614,029	\$ 7,438,874	\$ 333,348	-

City of Brundidge
Balance Sheet – Governmental Funds
September 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 369,190	\$ 317,153	\$ 686,343
Receivables, net	378,477	10,153	388,630
Investments	105,542	35,717	141,259
Due from other funds	12,907	-	12,907
Restricted cash	20,289	-	20,289
Other assets	22,545	-	22,545
Total assets	\$ 908,950	\$ 363,023	\$ 1,271,973
Liabilities			
Accounts payable	\$ 139,445	\$ -	\$ 139,445
Accrued expenses	40,614	-	40,614
Total liabilities	180,059	-	180,059
Deferred Inflows of Resources			
Property taxes levied for subsequent periods	186,191	-	186,191
Fund Balances			
Nonspendable	-	18,043	18,043
Restricted	20,289	344,980	365,269
Unassigned	522,411	-	522,411
Total fund balances	542,700	363,023	905,723
Total liabilities, deferred inflows of resources and fund balances	\$ 908,950	\$ 363,023	\$ 1,271,973

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, 2014

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

Total fund balances - governmental funds	\$	905,723
Prepaid expenses are recorded as expenditures in governmental funds when paid rather than assets until consumed, as reported on the statement of net position.		48,074
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.		2,957,245
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.		(86,197)
Net position of governmental activities in the Statement of Net Position	\$	3,824,845

See accompanying notes to financial statements.

City of Brundidge
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 681,788	\$ -	\$ 681,788
Fees and fines	62,160	-	62,160
Licenses and permits	259,351	-	259,351
Intergovernmental	314,766	119,281	434,047
Charges for services	127,402	-	127,402
Investment earnings	841	189	1,030
Miscellaneous	28,579	-	28,579
Total revenues	1,474,887	119,470	1,594,357
Expenditures			
Current			
General government	648,205	-	648,205
Public safety	880,487	-	880,487
Highways and streets	609,157	-	609,157
Sanitation and recycling	271,575	-	271,575
Health and welfare	54,185	-	54,185
Culture and recreation	277,139	-	277,139
Capital outlay	424,575	-	424,575
Total expenditures	3,165,323	-	3,165,323
Excess (deficiency) of revenues over expenditures	(1,690,436)	119,470	(1,570,966)
Other Financing Sources (Uses)			
Transfers in	1,741,348	-	1,741,348
Transfers out	-	(72,799)	(72,799)
Total other financing sources (uses)	1,741,348	(72,799)	1,668,549
Net change in fund balances	50,912	46,671	97,583
Fund Balances - beginning	491,788	316,352	808,140
Fund Balances - ending	\$ 542,700	\$ 363,023	\$ 905,723

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, 2014**

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

Net change in fund balances - total governmental funds:	\$	97,583
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.		(318)
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.		424,575
Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Activities.		(184,131)
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.		(5,728)
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		(12,387)
Change in net position of governmental activities	\$	319,594

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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
Revenues				
Taxes	\$ 605,000	\$ 615,000	\$ 681,788	\$ 66,788
Fees and fines	35,000	15,000	62,160	47,160
Licenses and permits	282,820	263,820	259,351	(4,469)
Intergovernmental	268,429	612,678	314,766	(297,912)
Charges for services	138,000	134,000	127,402	(6,598)
Interest	700	700	841	141
Miscellaneous	401,240	15,400	28,579	13,179
Total revenues	1,731,189	1,656,598	1,474,887	(181,711)
Expenditures				
Current				
General government	624,135	633,935	648,205	(14,270)
Public safety	937,749	937,749	880,487	57,262
Highways and streets	628,247	1,016,925	609,157	407,768
Sanitation and recycling	192,500	248,500	271,575	(23,075)
Health and welfare	63,750	63,750	54,185	9,565
Culture and recreation	298,309	353,350	277,139	76,211
Community Development	614,269	-	-	-
Debt service				
Principal	17,127	-	-	-
Interest	-	-	-	-
Capital outlay	25,000	332,701	424,575	(91,874)
Total expenditures	3,401,086	3,586,910	3,165,323	421,587
Excess (deficiency) of revenues over expenditures	(1,669,897)	(1,930,312)	(1,690,436)	239,876
Other Financing Sources				
Transfers in	1,670,661	1,933,930	1,741,348	(192,582)
Net change in fund balances	764	3,618	50,912	(47,294)
Fund Balances - beginning	491,788	491,788	491,788	-
Fund Balances - ending	\$ 492,552	\$ 495,406	\$ 542,700	\$ (47,294)

See accompanying notes to financial statements.

City of Brundidge
Statement of Net Position – Proprietary Funds
September 30, 2014

	Business-Type Activities
	Utilities Department
Assets	
Current assets	
Cash and cash equivalents	\$ 139,842
Receivables, net	1,052,999
Inventory	312,104
Prepaid expenses	15,127
Total current assets	1,520,072
Noncurrent assets	
Restricted assets:	
Cash	47,925
Investments	994,630
Other assets	98,662
Capital assets, net of depreciation	9,681,601
Total noncurrent assets	10,822,818
Total assets	12,342,890
Deferred Outflows of Resources	
Deferred charge on refunding	157,517
Liabilities	
Current liabilities	
Accounts payable	497,756
Due to other funds	12,907
Accrued expenses	188,646
Customer deposits	127,586
Compensated absences	57,342
Unearned principal forgiveness	8,237
Utility revenue warrants - current	285,000
Total current liabilities	1,177,474
Noncurrent liabilities	
Utility revenue warrants, less current portion	7,770,000
Less: Unamortized bond discount	(61,096)
Total noncurrent liabilities	7,708,904
Total liabilities	8,886,378
Net Position	
Net investment in capital assets	1,838,963
Restricted for debt service	994,630
Unrestricted	780,436
Total net position	\$ 3,614,029

See accompanying notes to financial statements.

City of Brundidge
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2014

	Business-Type Activities
	Utilities Department
Operating Revenues	
Electric	\$ 6,802,994
Sewer	963,481
Water	644,505
Total operating revenues	8,410,980
Operating Expenses	
Cost of sales and service	4,382,186
Administration	1,296,834
Repairs and maintenance	421,553
Depreciation	388,913
Total operating expenses	6,489,486
Operating Income	1,921,494
Non-Operating Revenues (Expenses)	
Interest revenue	519
Miscellaneous	7,818
Capital grants	89,270
Gain on investments	1,373
Other Income	43,275
Interest expense	(362,610)
Amortization	(8,828)
Total non-operating revenue (expense)	(229,183)
Income Before Transfers	1,692,311
Transfers out	(1,668,549)
Change in net position	23,762
Net Position - Beginning	3,590,267
Net Position - ending	\$ 3,614,029

See accompanying notes to financial statements.

City of Brundidge
Statement of Cash Flows – Proprietary Funds
For the Year Ended September 30, 2014

	Business-Type Activities
	Utilities Department
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 9,147,243
Payments to suppliers	(5,490,809)
Payments to employees	(653,186)
<hr/>	
Net cash provided by operating activities	3,003,248
<hr/>	
Cash Flows From Noncapital Financing Activities	
Other receipts	51,093
Transfers to other funds	(1,668,549)
<hr/>	
Net cash used in noncapital financing activities	(1,617,456)
<hr/>	
Cash Flows From Capital and Related Financing Activities	
Intergovernmental grants	89,270
Proceeds from short-term debt	80,000
Principal payments on short-term debt	(80,000)
Principal payments on long-term debt	(240,000)
Interest and financing payments on capital debt	(350,495)
Purchase of capital assets	(824,301)
Purchases of investments	(422,960)
<hr/>	
Net cash used in capital and related financing activities	(1,748,486)
<hr/>	
Cash Flows From Investing Activities	
Sales of investments	419,175
Interest received	519
<hr/>	
Net cash provided by investing activities	419,694
<hr/>	
Net increase in cash and cash equivalents	57,000
<hr/>	
Cash and Cash Equivalents - Beginning	130,767
<hr/>	
Cash and Cash Equivalents - Ending	\$ 187,767
<hr/>	

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See accompanying notes to financial statements.

City of Brundidge
Statement of Cash Flows – Proprietary Funds (Continued)
For the Year Ended September 30, 2014

	Business-Type Activities
	Utilities Department
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 1,921,494
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	388,913
Changes in operating assets and liabilities:	
Decrease in accounts receivable	732,559
Decrease in inventory	3,324
Decrease in prepaid expenses	66
Decrease in accounts payable	(24,421)
Decrease in accrued expenses	(32,872)
Increase in customer deposits	3,704
Increase in compensated absences	11,706
Net cash provided by operating activities	\$ 3,004,473

See accompanying notes to financial statements.

NOTE

1. Summary of Significant Accounting Policies
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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 (GAAP) in the United States of America as applied to governmental units in accordance with the Governmental Accounting Standards Board (GASB). 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. Transload America, Inc. filed for bankruptcy on June 20, 2012 and closed the Brundidge Landfill LLC. 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 operate a landfill or to obtain a host government agreement. The City has

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. In July 2014, the City and the Brundidge Solid Waste Authority filed a complaint in Pike County Circuit Court against Bond Safeguard for breach of contract for face value of the performance bond \$500,000. The City and the Brundidge Solid Waste Authority also signed a contract with the attorney and legal expenses are expected to be approximately 34% of amount received. This was settled subsequent to year end and included in Note 22 Subsequent Events and Special Item.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 City reports the following nonmajor governmental fund types in the “Other Governmental Funds” column:

Special Revenue Funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action. Special revenue funds consist of the following:

1. Four and Five Cent Gas Tax Fund
2. Seven Cent Gas Tax Fund
3. Two Cent Gas Tax Fund
4. Tobacco Tax Fund

Permanent Funds account for resources from other parties, including individuals, private organizations and other governments, whereby use of the resources are restricted to the extent only earnings and not principal, may be used for a specified program(s), for the benefit of the government and its citizenry. The City reported only one permanent fund, the Joseph Carroll Library 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).

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

33, taxes levied in fiscal year 2014 for the 2014 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 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 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. Restricted asset reported as governmental activities is restricted for capital improvements, fire department, library and highways and streets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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
Infrastructure	10 – 50 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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Net Position and Fund Equity

Net position is reported on the government-wide financial statements in the following categories:

- *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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Restricted* – This component of net position consists of assets that are restricted by contributors, contractual provisions (such as debt covenants), 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 are reported in the fund financial statements in two major categories: nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. The City reported \$18,043 of nonspendable fund balances in the Library fund. Donor restrictions only allow earnings from assets held in that fund to be expended.

In addition to the nonspendable fund balance, spendable fund balances are reported based on a hierarchy of spending constraints:

Restricted – Fund balances that are constrained by external parties, constitutional provisions or enabling legislation. Of the City's \$365,269 of restricted fund balance, \$323,142 is restricted to road and bridge maintenance and repairs.

Committed – Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The City has no fund balances classified as committed.

Assigned – Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The City has not assigned fund balances.

Unassigned – Fund balances of the general fund that are not constrained for any particular purpose.

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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Impact of Recently Issued Accounting Pronouncements

Recently Issued and Adopted

Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. It requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement also requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities, and also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. This Statement was effective for reporting periods beginning after June 15, 2013, and the provisions of this Statement are required to be applied retroactively, with the exception of disclosures related to cumulative amounts paid or received in relation to a financial guarantee. The City implemented GASB Statement No. 70 for the year ended September 30, 2014. There was no impact on these financial statements as a result of the implementation of GASB Statement No. 70.

Recently Issued

Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement. The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and RSI requirements about pensions also are addressed. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The calculation of pension contributions is unaffected by the change. However, when adopted will result in the restatement of the City's Fiscal Year 2014 government-wide financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for each of its qualified pension plan and the recognition of pension expense in accordance with the provisions of the Statement. Management has not yet determined the financial statement impact of the pronouncement.

Statement No. 69, *Government Combinations and Disposals of Government Operations* improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term "government combinations" is used to refer to a variety of arrangements including mergers and acquisitions. Mergers include combinations of legally separate entities without the exchange of significant consideration. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. Government combinations also include transfers of operations that do not constitute entire legally separate entities in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services. Management has not yet determined the financial statement impact of the pronouncement.

Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Management has not yet determined the financial statement impact of the pronouncement.

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

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

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).

Bond Indenture

In conjunction with the Utility 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's deposits at year-end were entirely covered by federal deposit insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in Section 41-14A of the Code of Alabama 1975, as amended.

Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

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 funds that invest 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.

City of Brundidge
Notes to Financial Statements

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

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, 2014, the City held the following investments:

Investment Type	Maturities	Fair Value
Investments		
Certificates of deposit	One year or less	\$ 141,259
Restricted investments		
Fidelity money market funds	One year or less	\$ 994,630

NOTE 4 - RECEIVABLES

Receivables at September 30, 2014 consist of the following:

	General Fund	Nonmajor and Other Funds	Proprietary
Taxes	\$ 338,804	\$ 10,153	\$ -
Accounts	11,515	-	848,234
Unbilled revenues	3,029	-	97,225
Other receivables	16,893	-	15,572
Court costs and fines	69,871	-	-
Loan receivable from ADEM	-	-	146,453
Total receivable	440,112	10,153	1,107,484
Less allowance for uncollectible accounts	(33,430)	-	(54,485)
Less amount due to others	(28,205)	-	-
Receivables, net	\$ 378,477	\$ 10,153	\$ 1,052,999

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, 2014 are as follows:

Fund	Due to	Due From
General	\$ -	\$ 12,907
Proprietary	12,907	-
	\$ 12,907	\$ 12,907

City of Brundidge
Notes to Financial Statements

NOTE 5 - INTERFUND ACTIVITY (Continued)

Transfers during fiscal year 2014 are as follows:

Transfers to General Fund from:

Nonmajor governmental	\$ 72,799
Utilities Department	1,668,549
	\$ 1,741,348

NOTE 6 - RESTRICTED ASSETS

Restricted investments were comprised of the following:

<u>September 30, 2014</u>	<u>Proprietary</u>
Investments	
Restricted to debt service	\$ 994,630

NOTE 7 - OTHER ASSETS

Other assets at September 30, 2014 consist of the following:

	<u>General Fund</u>	<u>Utilities Department</u>
Deposits	\$ 22,545	\$ 2,500
Unamortized bond insurance	-	96,162
	\$ 22,545	\$ 98,662

NOTE 8 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,254,298	\$ 7,757	\$ -	\$ 1,262,055
Construction in progress	53,128	40,464	55,774	37,818
Capital assets, not being depreciated	\$ 1,307,426	\$ 48,221	\$ 55,774	\$ 1,299,873

City of Brundidge
Notes to Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

Capital assets, being depreciated:

Public improvements	\$ 569,696	\$ -	\$ -	\$ 569,696
Buildings	2,091,881	57,476	-	2,149,357
Equipment	1,760,398	374,652	65,658	2,069,392

Total capital assets, being depreciated

4,421,975	432,128	65,658	4,788,445
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Less accumulated depreciation for:

Infrastructure	409,129	16,409	-	425,538
Buildings	1,164,967	67,671	-	1,232,638
Equipment	1,432,776	100,051	59,930	1,472,897

3,006,872	184,131	59,930	3,131,073
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Total capital assets, being depreciated, net

\$ 1,415,103	\$ 247,997	\$ 5,728	\$ 1,657,372
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Business-type Activities:

Utilities Department

Capital assets, not being depreciated:

Land	\$ 60,801	\$ -	\$ -	\$ 60,801
Construction in progress	466,053	776,535	1,242,588	-

Total capital assets, not being depreciated

\$ 526,854	\$ 776,535	\$ 1,242,588	\$ 60,801
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Capital assets, being depreciated:

Public Improvements	\$ 14,479,440	\$ 1,226,977	\$ -	\$ 15,706,417
Buildings	76,776	44,469	-	121,245
Equipment	886,827	18,908	-	905,735

Total capital assets, being depreciated

15,443,043	1,290,354	-	16,733,397
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Less accumulated depreciation for:

Public Improvements	6,024,743	324,477	-	6,349,220
Buildings	72,143	2,767	-	74,910
Equipment	626,798	61,669	-	688,467

6,723,684	388,913	-	7,112,597
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Total capital assets, being depreciated, net

\$ 8,719,359	\$ 901,441	\$ -	\$ 9,620,800
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City of Brundidge
Notes to Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions as follows:

Governmental Activities:

General government	\$ 20,687
Public safety	70,324
Highways and streets	22,853
Sanitation and recycling	6,668
Culture and recreation	45,168
Health and welfare	18,431

Total depreciation expense – governmental activities	\$ 184,131
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Business-type Activities:

Electric	\$ 155,451
Sewer	135,643
Water	97,819

Utilities department	\$ 388,913
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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	\$ 186,191
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NOTE 10 - SHORT-TERM DEBT

Business-Type Activities

First National Bank of Brundidge – A line of credit for operating purposes with a maximum amount available of \$160,000. The amount available for draw at September 30, 2014 is \$160,000. The note is payable at maturity on April 23, 2015. The interest is due quarterly at 1.6%. \$ -0-

Changes in short-term debt for the year ended September 30, 2014 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Business-type activities	\$ -	\$ 80,000	\$ 80,000	\$ -

City of Brundidge
Notes to Financial Statements

NOTE 11 - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 73,810	\$ 79,460	\$ 67,073	\$ 86,197	\$ 86,197
Business-Type Activities:					
Utility revenue warrants	8,295,000	-	240,000	8,055,000	285,000
Compensated absences	45,636	48,736	37,030	57,342	57,342
	8,340,636	48,736	277,030	8,112,342	342,342
Total	\$ 8,414,446	\$ 128,196	\$ 344,103	\$ 8,198,539	\$ 428,539

Business-Type Activities

2012 Utility Revenue Warrants – Debt service requirements on these bonds at September 30, 2014 are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2015	\$ 35,000	\$ 25,369
2016	35,000	24,407
2017	40,000	23,375
2018	40,000	22,275
2019	40,000	21,176
2020-2024	215,000	88,757
2025-2029	250,000	56,924
2030-2034	285,000	20,004
	\$ 940,000	\$ 282,287

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 \$1,221,287. Principal and interest paid for the current year

City of Brundidge
Notes to Financial Statements

NOTE 11 - LONG-TERM DEBT

and total operating net income were \$8,617 and \$1,921,494, respectively. As of September 30, 2014, the City has drawn down \$829,647 of the loan and the remaining balance of \$146,453 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, 2014, the City earned \$43,275 in principal forgiveness and the balance of the unearned principal forgiveness was \$8,237.

2005 Utility Revenue Warrants – Debt service requirements on these bonds at September 30, 2014 are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2015	\$ 250,000	\$ 322,612
2016	260,000	312,220
2017	270,000	301,287
2018	280,000	289,804
2019	290,000	277,762
2020-2024	1,655,000	1,183,851
2025-2029	2,065,000	760,821
2030-2033	2,045,000	206,160
	\$ 7,115,000	\$ 3,654,517

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 \$7,115,000 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 \$10,769,517. Principal and interest paid for the current year and total operating net income were \$572,475 and \$1,921,494, 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 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, 2014 was \$12,115 and was reported as a part of interest expense. The balance of deferred refunding cost for this warrant at September 30, 2014, was \$157,517.

NOTE 11 - LONG-TERM DEBT (Continued)

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 - 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.	\$ 7,115,000
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Other Long-Term Debt

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

NOTE 12 - 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 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, 2014, the City paid \$75,000 to the lessee to operate the recreation park.

NOTE 13 - 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 7.99% of annual covered payroll for the City.

Annual Pension Cost

For the year ended September 30, 2014, the City of Brundidge's annual pension cost of \$131,898 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,

City of Brundidge
Notes to Financial Statements

NOTE 13 - EMPLOYEE RETIREMENT PLAN (Continued)

2013 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 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, 2013 was 18 years for the City of Brundidge. The amount of member contributions made for the year ended September 30, 2014 was \$84,441.

Trend Information For Retirement System of Alabama

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/11	\$ 133,370	100%	\$ -0-
9/30/12	118,302	100%	-0-
9/30/13	119,538	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%
9/30/13 ⁶	\$3,612,153	\$4,367,015	\$ 754,862	82.7%	\$1,573,678	48.0%
9/30/13 ^{3,6}	\$3,612,153	\$4,377,272	\$ 765,119	82.5%	\$1,573,678	48.6%

* Market value of assets as of September 30, 2012: \$3,782,128

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.

⁶ Reflects implementation of Board Funding Policy

NOTE 13 - EMPLOYEE RETIREMENT PLAN (Continued)

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.

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 14 - 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 15 - 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 ED PF 13 015 project and 2012 Drinking Water State Revolving Funds Project. The City estimates the cost to complete these contracts to be approximately \$21,000 and \$82,794, respectively, at September 30, 2014.

NOTE 15 - COMMITMENTS AND CONTINGENCIES (Continued)

On July 1, 2014, the City extended their contract with Mark Dunning Industries, Inc. for solid waste collection services through June 30, 2017. The City paid \$73,629 during the year ended September 30, 2014.

Guaranty Agreement

The Industrial Development Board (IDB) 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 IDB of the City of Brundidge and leased to Southern Classic Food Group, LLC. On February 28, 2013, the City signed a guaranty agreement in accordance with the provisions of Section 94.01 of the Constitution of Alabama (also known as Amendment 772 to the Alabama Constitution of 1901) with South Alabama Electric Cooperative to guarantee the loan. Should the IDB default, the agreement did not stipulate any recourse for the City against the IDB. As of September 30, 2014, debt outstanding was \$300,926.

NOTE 16 - 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. The City received -0- in transfers from Brundidge Solid Waste Disposal Authority in fiscal year ending September 30, 2014 and 2013. See Note 22 regarding resolution of this issue subsequent to year end.

NOTE 17 - INTEREST COSTS

The amount of interest cost, including deferred refunding cost of \$12,115, incurred for the Utilities Department was \$362,610 for the year ended September 30, 2014, all of which was charged to operations.

NOTE 18 - 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, 2014, was \$ 341,618.

NOTE 19 - 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, 2014 are as follows: \$ 2,090,283

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.

NOTE 20 - ECONOMIC DEPENDENCY

During the year ending September 30, 2014, approximately 42% 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 21 - 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, 2014, the City has cash on deposit in the amount of \$1,003,357. 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 22 - SUBSEQUENT EVENTS AND SPECIAL ITEM

Subsequent events have been evaluated through January 22, 2015, the date these financial statements were available to be issued.

On November 17, 2014, the City paid \$90,000 and signed an option to purchase land for \$1,200,000. This option will expire 180 days after the date the agreement was signed.

On November 26, 2014, the City of Brundidge Solid Waste Disposal Authority received a settlement in the amount of \$333,299, net of attorney fees of \$166,701, from Bond Safeguard Insurance Company for damages for breach of contract and fraudulent suppression related to their performance bond. The net settlement amount of \$333,299 was reported as a receivable and special item at September 30, 2014.

On December 14, 2014, the City signed an agreement for ambulance services with a contractor. The City is required to pay \$3,000 each year for the next three years.

On January 5, 2015, the City signed a contract in the amount of \$25,866 with an engineering firm for engineering services to be provided in connection with CDBG Project No. SM-CM-PF-13-015.

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.

Permanent Funds – Accounts for resources from other parties restricted to the extent only earnings and not principal may be expended for a specified purpose.

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, 2014

	Special Revenue	
	\$.04 and \$.05 Gas Tax	\$.07 Gas Tax
Assets		
Cash and cash equivalents	\$ 22,391	\$ 34,543
Receivables, net	809	997
Investments	-	3,400
Total assets	\$ 23,200	\$ 38,940
Fund Balances		
Restricted	\$ 23,200	\$ 38,940

Funds		Permanent Funds		
\$.02 Gas Tax	Tobacco Tax	Joseph Carroll Library Fund		Total
\$ 239,281	\$ 20,938	\$ -	\$ -	\$ 317,153
7,447	900	-	-	10,153
14,274	-	18,043	-	35,717
\$ 261,002	\$ 21,838	\$ 18,043	\$ -	\$ 363,023
\$ 261,002	\$ 21,838	\$ 18,043	\$ -	\$ 363,023

City of Brundidge
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2014

	<u>Special Revenue</u>	
	<u>\$.04 and \$.05 Gas</u>	<u>\$.07 Gas Tax</u>
	<u>Tax</u>	
Revenues		
Intergovernmental	\$ 8,983	\$ 11,471
Investment earnings	-	8
<hr/>		
Total revenues	8,983	11,479
Other Financing Sources (Uses)		
Transfers out	-	-
<hr/>		
Net change in fund balances	8,983	11,479
Fund balances - beginning	14,217	27,461
<hr/>		
Fund balances - ending	\$ 23,200	\$ 38,940
<hr/>		

Funds		Permanent Fund		
\$.02 Gas Tax	Tobacco Tax	Joseph Carroll Library Fund		Total
\$ 84,660	\$ 14,167	\$ -	\$	119,281
83	53	45		189
84,743	14,220	45		119,470
(53,864)	(18,890)	(45)		(72,799)
30,879	(4,670)	-		46,671
230,123	26,508	18,043		316,352
\$ 261,002	\$ 21,838	\$ 18,043	\$	363,023

City of Brundidge
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2014

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA #	Pass-through Grantor's Number	Expenditures
Department of Homeland Security			
Direct program			
Assistance to Firefighters Grant EMV-2012-FV-0113	97.044	N/A	\$ 228,000
U.S. Department of Housing and Urban Development			
Pass-through Alabama Department of Economic and Community Affairs:			
Community Development Block Grants	14.228	SM-CM-PF-12-006	89,270
Department of Transportation			
Pass-through Alabama Department of Transportation:			
Federal Transit - Capital Investment Grants	20.500	4010860	38,969
U.S. Environmental Protection Agency			
Pass-through Alabama Department of Environmental Management:			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS010139-02	716,139
U.S. Department of Health and Human Services			
Pass-through South Central Alabama Special Program for Aging Title III Part C			
Nutrition Services	93.045	05-031014-000	13,000
Total Expenditures of Federal Awards			\$ 1,085,378

See the accompanying notes to the schedule of expenditures of federal awards.

City of Brundidge
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2014

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, 2014. 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 – RELATIONSHIP OF THE SCHEDULE TO PROGRAM FINANCIAL REPORTS

The amounts reflected in the financial reports submitted to the awarding federal and/or pass-through agencies and the Schedule may differ. Some of the factors that may account for any difference include the following:

- The City's fiscal year end may differ from the program's year end.
- Accruals recognized in the Schedule, because of year end procedures, may not be reported in the program financial reports until the next program reporting period.
- Fixed asset purchases and the resultant depreciation charges are recognized as fixed assets in the City's financial statements and as expenditures in the program financial reports.

NOTE 3 – 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.

NOTE 4 – 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.



City of Brundidge
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2014

NOTE 5 – 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, 2014, there were no material questioned or disallowed costs as a result of grant audits in process or completed.

NOTE 6 – 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, 2014, \$856,980 has been expended on the project.

NOTE 7 – NONCASH ASSISTANCE

The City did not receive any federal noncash assistance for the fiscal year ending September 30, 2014.

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, 2014, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated January 22, 2015.

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 in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs or Item 2014-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free 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

January 22, 2015

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, 2014. 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 its major federal program for the year ended September 30, 2014.

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 City'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 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. However, material weaknesses may exist that have not been identified.

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

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

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

Certified Public Accountants

January 22, 2015

City of Brundidge
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2014

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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

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

2014-001 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.



City of Brundidge
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2014

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.

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 of Prior Year Audit Findings
For the Year Ended September 30, 2014**

No federal award findings and questioned cost in prior year.