

City of Brundidge

FINANCIAL STATEMENTS

For the Year Ended September 30, 2015



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City of Brundidge
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September 30, 2015

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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, 2015, 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 and Industrial Development Board have not been audited, and we were not engaged to audit the Brundidge Solid Waste Disposal Authority or the Industrial Development Board's financial statements as part of our audit of the City's basic financial statements. The Brundidge Solid Waste Disposal Authority and Industrial Development Board's financial activities are included in the City's basic financial statements as discretely presented component units.

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, 2015, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment to GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statements No. 68*, during the year ended September 30, 2015. Our opinion is not modified with respect to these matters.

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.

Accounting principles generally accepted in the United States of America also require that the schedule of changes in net pension liability on page 52 and schedule of employer contributions on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial

statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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 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 February 9, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Brundidge, Alabama's internal control over financial reporting and compliance.

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

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

Certified Public Accountants

February 9, 2016

City of Brundidge
Statement of Net Position
September 30, 2015

Primary Government

	Governmental Activities	Business-type Activities
Assets		
Cash and cash equivalents	\$ 563,815	\$ 293,734
Receivables, net	407,284	911,756
Investments	336,301	501,247
Internal balances	13,199	(13,199)
Restricted assets:		
Cash and cash equivalents	41,640	47,444
Investments	-	999,644
Inventory	-	328,047
Prepaid expenses	46,879	14,096
Other assets	22,545	93,264
Capital assets, net of depreciation	1,596,057	9,554,327
Capital assets, not being depreciated	2,555,829	60,801
Total assets	5,583,549	12,791,161
Deferred Outflows of Resources		
Deferred outflows related to pension	85,763	47,903
Deferred charge on refunding	-	145,402
Total deferred outflows of resources	85,763	193,305
Liabilities		
Accounts payable	71,807	383,403
Accrued expenses	27,908	173,277
Customer deposits	-	130,226
Unearned principal forgiveness	-	5,112
Noncurrent liabilities		
Compensated absences	87,235	58,929
Notes payable	-	-
Net pension liability	379,682	187,007
Revenue warrants		
Due within one year	65,202	295,000
Due in more than one year	1,013,695	7,475,000
Less: Unamortized bond discount	-	(57,666)
Total liabilities	1,645,529	8,650,288
Deferred Inflows of Resources		
Deferred inflows related to pension	82,503	40,636
Property taxes levied for subsequent periods	189,338	-
Total deferred outflows of resources	189,338	-
Total deferred inflows of resources	271,841	40,636

See accompanying notes to financial statements.

Component Unit		
Total	Brundidge Solid Waste Disposal Authority (Unaudited)	Industrial Development Board (Unaudited)
\$ 857,549	\$ 49	57,851
1,319,040	-	
837,548	-	
-	-	
89,084	-	
999,644	-	
328,047	-	
60,975	-	
115,809	-	
11,150,384	-	4,760,951
2,616,630	-	66,956
18,374,710	49	4,885,758
133,666	-	-
145,402	-	-
279,068	-	-
455,210	-	-
201,185	-	-
130,226	-	-
5,112	-	-
146,164	-	-
-	-	3,005,756
566,689	-	-
360,202	-	-
8,488,695	-	-
(57,666)	-	-
10,295,817	-	3,005,756
123,139	-	-
189,338	-	-
312,477	-	-
312,477	-	-

(Continued)

City of Brundidge
Statement of Net Position (Continued)
September 30, 2015

Primary Government

	Governmental Activities	Business-type Activities
Net Position		
Net investment in capital assets	3,072,989	1,990,531
Restricted for:		
Capital improvements	41,640	-
Fire department	22,678	-
Highways and streets	400,034	-
Library	18,043	-
Debt service	-	1,047,088
Unrestricted	196,558	1,255,923
Total net position	\$ 3,751,942	\$ 4,293,542

See accompanying notes to financial statements.

Component Unit		
Total	Brundidge Solid Waste Disposal Authority (Unaudited)	Industrial Development Board (Unaudited)
5,063,520	-	-
41,640	-	-
22,678	-	-
400,034	-	-
18,043	-	-
1,047,088	-	-
1,452,481	49	1,880,002
<u>\$ 8,045,484</u>	<u>\$ 49</u>	<u>\$ 1,880,002</u>

City of Brundidge
Statement of Activities
For the Year Ended September 30, 2015

Functions/Programs	Expenses	Charges for Services	Program Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	\$ 662,205	\$ 102,538	\$ -
Public safety	994,533	58,195	2,167
Sanitation and recycling	270,365	128,058	-
Health and welfare	94,785	-	18,000
Culture and recreation	309,027	-	7,266
Highways and streets	530,858	-	20,042
Interest	12,034	-	-
Total governmental activities	2,873,807	288,791	47,475
Business-type Activities:			
Electric	4,925,853	6,749,853	-
Sewer	687,341	894,494	-
Water	468,357	641,548	-
Miscellaneous	-	34,992	-
Amortization	8,828	-	-
Interest	354,554	1,846	-
Total business-type activities	6,444,933	8,322,733	-
Total primary government	\$ 9,318,740	\$ 8,611,524	\$ 47,475
Component Unit			
Industrial Development Board	\$ (128,918)	\$ -	\$ -

General Revenues

Taxes:

Property taxes

Sales taxes

Gas taxes

Other taxes

Rental income

Interest income

Other revenues

Gain on investments

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning, as originally stated

Prior period adjustments

Net position - beginning

Net position - ending

See accompanying notes to financial statements.

Net (Expense) Revenue and Changes in Net Position					
Revenues	Primary Government			Component Unit	
Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Brundidge Solid Waste Disposal Authority (Unaudited)	Industrial Development Board (Unaudited)
\$ -	\$ (559,667)	\$ -	\$ (559,667)	\$ -	\$ -
-	(934,171)	-	(934,171)	-	-
-	(142,307)	-	(142,307)	-	-
-	(76,785)	-	(76,785)	-	-
-	(301,761)	-	(301,761)	-	-
-	(510,816)	-	(510,816)	-	-
-	(12,034)	-	(12,034)	-	-
-	(2,537,541)	-	(2,537,541)	-	-
-	-	1,824,000	1,824,000	-	-
182,216	-	389,369	389,369	-	-
-	-	173,191	173,191	-	-
-	-	34,992	34,992	-	-
-	-	(8,828)	(8,828)	-	-
-	-	(352,708)	(352,708)	-	-
182,216	-	2,060,016	2,060,016	-	-
<u>\$ 182,216</u>	<u>(2,537,541)</u>	<u>2,060,016</u>	<u>(477,525)</u>	-	-
<u>\$ -</u>	-	-	-	-	(128,918)
	184,230	-	184,230	-	-
	538,553	-	538,553	-	-
	101,872	-	101,872	-	-
	258,505	-	258,505	-	-
	37,214	-	37,214	-	-
	2,039	-	2,039	-	-
	231,884	3,125	235,009	-	-
	-	18	18	-	-
	1,516,766	(1,183,467)	333,299	(333,299)	-
	2,871,063	(1,180,324)	1,690,739	(333,299)	-
	333,522	879,692	1,213,214	(333,299)	(128,918)
	3,824,845	3,614,029	7,438,874	333,348	2,008,920
	(406,425)	(200,179)	(606,604)	-	-
	3,418,420	3,413,850	6,832,270	333,348	2,008,920
	<u>\$ 3,751,942</u>	<u>\$ 4,293,542</u>	<u>\$ 8,045,484</u>	<u>\$ 49</u>	<u>\$ 1,880,002</u>

City of Brundidge
Balance Sheet – Governmental Funds
September 30, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 364,207	\$ 199,608	\$ 563,815
Receivables, net	396,633	10,651	407,284
Investments	105,805	230,496	336,301
Due from other funds	13,199	-	13,199
Restricted cash	41,640	-	41,640
Other assets	22,545	-	22,545
Total assets	\$ 944,029	\$ 440,755	\$ 1,384,784
Liabilities			
Accounts payable	\$ 71,807	\$ -	\$ 71,807
Accrued expenses	24,819	-	24,819
Total liabilities	96,626	-	96,626
Deferred Inflows of Resources			
Property taxes levied for subsequent periods	189,338	-	189,338
Fund Balances			
Nonspendable	-	18,043	18,043
Restricted	41,640	422,712	464,352
Unassigned	616,425	-	616,425
Total fund balances	658,065	440,755	1,098,820
Total liabilities, deferred inflows of resources and fund balances	\$ 944,029	\$ 440,755	\$ 1,384,784

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, 2015

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

Total fund balances - governmental funds	\$	1,098,820
Prepaid expenses are recorded as expenditures in governmental funds when paid rather than assets until consumed, as reported on the statement of net position.		46,879
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.		4,151,886
Deferred inflows, deferred outflows and net pension liability, resulting from the implementation of GASB 68, represent an acquisition or consumption of net position that applies to a future period and, therefore, are not reported as liabilities or assets in the governmental funds.		(376,422)
Some liabilities such as revenue warrants, accrued interest and 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.		(1,169,221)
Net position of governmental activities in the Statement of Net Position	\$	3,751,942

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, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 835,244	\$ 116,672	\$ 951,916
Fees and fines	58,195	-	58,195
Licenses and permits	233,782	-	233,782
Intergovernmental	47,475	-	47,475
Charges for services	128,058	-	128,058
Investment earnings	917	1,122	2,039
Rental income	37,214	-	37,214
Miscellaneous	231,884	-	231,884
Total revenues	1,572,769	117,794	1,690,563
Expenditures			
Current			
General government	647,246	-	647,246
Public safety	906,192	-	906,192
Highways and streets	517,024	-	517,024
Sanitation and recycling	261,595	-	261,595
Health and welfare	61,765	-	61,765
Culture and recreation	284,823	-	284,823
Debt service			
Principal	41,295	-	41,295
Interest	8,945	-	8,945
Debt issuance costs	4,500	-	4,500
Capital outlay	1,401,039	-	1,401,039
Total expenditures	4,134,424	-	4,134,424
Excess (deficiency) of revenues over expenditures	(2,561,655)	117,794	(2,443,861)
Other Financing Sources (Uses)			
Debt proceeds	1,120,192	-	1,120,192
Transfers in	1,556,828	-	1,556,828
Transfers out	-	(40,062)	(40,062)
Total other financing sources (uses)	2,677,020	(40,062)	2,636,958
Net change in fund balances	115,365	77,732	193,097
Fund Balances - beginning	542,700	363,023	905,723
Fund Balances - ending	\$ 658,065	\$ 440,755	\$ 1,098,820

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, 2015**

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

Net change in fund balances - total governmental funds:	\$	193,097
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.		(1,195)
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.		1,401,039
Governmental funds report debt proceeds as current financial resources. In contrast, the Statement of Activities reports such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term debt.		
Debt proceeds		(1,120,192)
Repayment of debt		41,295
Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Activities.		(206,398)
Change in deferred outflow and deferred inflows as it related to implementation of GASB 68.		30,003
Change in accrued interest are expense in the Statement of Activities; however, these are not included in the governmental funds.		(3,089)
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		(1,038)
Change in net position of governmental activities	\$	333,522

See accompanying notes to financial statements.

City of Brundidge

**Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual – General Fund
For the Year Ended September 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues				
Taxes	\$ 725,000	\$ 725,000	\$ 835,244	\$ 110,244
Fees and fines	15,000	15,000	58,195	43,195
Licenses and permits	203,100	203,100	233,782	30,682
Intergovernmental	390,838	390,838	47,475	(343,363)
Charges for services	130,000	130,000	128,058	(1,942)
Interest	700	700	917	217
Rental income	37,495	37,495	37,214	(281)
Miscellaneous	15,400	157,935	231,884	73,949
Total revenues	1,517,533	1,660,068	1,572,769	(87,299)
Expenditures				
Current				
General government	739,204	739,204	647,246	91,958
Public safety	965,950	965,950	906,192	59,758
Highways and streets	1,080,333	1,080,333	517,024	563,309
Sanitation and recycling	463,000	298,000	261,595	36,405
Health and welfare	67,562	67,562	61,765	5,797
Culture and recreation	304,144	304,144	284,823	19,321
Debt service				
Principal	-	-	41,295	(41,295)
Interest	-	-	8,945	(8,945)
Debt issuance costs	-	-	4,500	(4,500)
Capital outlay	82,000	1,409,951	1,401,039	8,912
Total expenditures	3,702,193	4,865,144	4,134,424	730,720
Excess (deficiency) of revenues over expenditures	(2,184,660)	(3,205,076)	(2,561,655)	643,421
Other Financing Sources				
Debt proceeds	-	1,120,192	1,120,192	-
Transfers in	2,444,909	2,278,208	1,556,828	(721,380)
Total other financing sources	2,444,909	3,398,400	2,677,020	(721,380)
Net change in fund balances	260,249	193,324	115,365	(77,959)
Fund Balances - beginning	542,700	542,700	542,700	-
Fund Balances - ending	\$ 802,949	\$ 736,024	\$ 658,065	\$ (77,959)

See accompanying notes to financial statements.

City of Brundidge
Statement of Net Position – Proprietary Funds
September 30, 2015

	Business-Type Activities
	Utilities Department
Assets	
Current assets	
Cash and cash equivalents	\$ 293,734
Investments	501,247
Receivables, net	911,756
Inventory	328,047
Prepaid expenses	14,096
Total current assets	2,048,880
Noncurrent assets	
Restricted assets:	
Cash	47,444
Investments	999,644
Other assets	93,264
Capital assets, net of depreciation	9,615,128
Total noncurrent assets	10,755,480
Total assets	12,804,360
Deferred Outflows of Resources	
Deferred outflow related to pension	47,903
Deferred charge on refunding	145,402
Total deferred outflows of resources	193,305
Liabilities	
Current liabilities	
Accounts payable	383,403
Due to other funds	13,199
Accrued expenses	173,277
Customer deposits	130,226
Compensated absences	58,929
Unearned principal forgiveness	5,112
Utility revenue warrants - current	295,000
Total current liabilities	1,059,146
Noncurrent liabilities	
Net pension liability	187,007
Utility revenue warrants, less current portion	7,475,000
Less: Unamortized bond discount	(57,666)
Total noncurrent liabilities	7,604,341
Total liabilities	8,663,487

(Continued)

See accompanying notes to financial statements.

City of Brundidge
Statement of Net Position – Proprietary Funds (Continued)
September 30, 2015

	Business-Type Activities
	Utilities Department
<hr/>	
Deferred Inflows of Resources	
Deferred inflows related to pension	40,636
<hr/>	
Net Position	
Net investment in capital assets	1,990,531
Restricted for debt service	1,047,088
Unrestricted	1,255,923
<hr/>	
Total net position	\$ 4,293,542
<hr/>	

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, 2015

	Business-Type Activities
	Utilities Department
Operating Revenues	
Electric	\$ 6,749,853
Sewer	894,494
Water	641,548
Total operating revenues	8,285,895
Operating Expenses	
Cost of sales and service	4,256,566
Administration	1,144,271
Repairs and maintenance	238,654
Depreciation	442,060
Total operating expenses	6,081,551
Operating Income	2,204,344
Non-Operating Revenues (Expenses)	
Interest revenue	1,846
Miscellaneous	38,117
Capital grants	182,216
Gain on investments	18
Interest expense	(354,554)
Amortization	(8,828)
Total non-operating revenue (expense)	(141,185)
Income Before Transfers	2,063,159
Transfers out	(1,183,467)
Change in net position	879,692
Net Position - Beginning, as originally stated	3,614,029
Prior Period Adjustments	(200,179)
Net Position - Beginning, as restated	3,413,850
Net Position - ending	\$ 4,293,542

See accompanying notes to financial statements.

City of Brundidge
Statement of Cash Flows – Proprietary Funds
For the Year Ended September 30, 2015

	Business-Type Activities
	Utilities Department
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 8,429,778
Payments to suppliers	(5,193,364)
Payments to employees	(612,738)
<hr/>	
Net cash provided by operating activities	2,623,676
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Cash Flows From Noncapital Financing Activities	
Other receipts	38,117
Transfers to other funds	(1,183,175)
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Net cash used in noncapital financing activities	(1,145,058)
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Cash Flows From Capital and Related Financing Activities	
Intergovernmental grants	182,216
Principal payments on long-term debt	(285,000)
Interest and financing payments on capital debt	(342,439)
Purchase of capital assets	(375,587)
Purchases of investments	(1,030,726)
<hr/>	
Net cash used in capital and related financing activities	(1,851,536)
<hr/>	
Cash Flows From Investing Activities	
Sales of investments	524,483
Interest received	1,846
<hr/>	
Net cash provided by investing activities	526,329
<hr/>	
Net increase in cash and cash equivalents	153,411
<hr/>	
Cash and Cash Equivalents - Beginning	187,767
<hr/>	
Cash and Cash Equivalents - Ending	\$ 341,178
<hr/>	

-Continued-

See accompanying notes to financial statements.

City of Brundidge
Statement of Cash Flows – Proprietary Funds (Continued)
For the Year Ended September 30, 2015

	Business-Type Activities
	Utilities Department
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 2,204,344
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	442,060
Changes in operating assets and liabilities:	
Decrease in accounts receivable	141,243
Increase in inventory	(15,943)
Decrease in prepaid expenses	1,031
Decrease in accounts payable	(114,353)
Decrease in accrued expenses	(18,494)
Decrease in net pension liability and related deferred inflows and outflows	(20,439)
Increase in customer deposits	2,640
Increase in compensated absences	1,587
Net cash provided by operating activities	\$ 2,623,676

See accompanying notes to financial statements.

NOTE

1. Summary of Significant Accounting Policies
2. Stewardship, Compliance, and Accountability
3. Cash, Cash Equivalents and Investments
4. Receivables
5. Interfund Activity
6. Restricted Assets
7. Other Assets
8. Capital Assets
9. Property Taxes Levied for Subsequent Periods
10. Long-Term Debt
11. Operating Lease
12. Employee Retirement Plan
13. Other Post-Employment Benefits
14. Commitments and Contingencies
15. Risk Management and Litigation
16. Interest Costs
17. Cash Flow Information
18. Accumulated Patronage Capital Credits
19. Economic Dependency
20. Related Organizations
21. British Petroleum (BP) Economic Loss Claim
22. Prior Period Adjustments
23. Subsequent Events

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 the Industrial Development Board of the City of Brundidge and Brundidge Solid Waste Disposal Authority. These units are reported in a separate column to emphasize that they are legally separate from the City.

Industrial Development Board of the City of Brundidge – The Board strives to bring economic development to the City. The citizens who serve on the Governing Board are appointed by the City Council.

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, Inc. 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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the United States Bankruptcy Court for damages arising from rejection of the host government agreement. In November 2015, a motion was filed by the bankruptcy trustee to allow a claim by Bond Safeguard in the amount of \$1,000,000. The City elected not to contest Bond Safeguard being added as a claimant. The City has a \$1,000,000 claim in the Transload America bankruptcy case.

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 an appeal against the Alabama Department of Environmental Management (ADEM) for the transfer of permit to operate the landfill to the new owners of the landfill against the City's protestations. The case against the new owners of the landfill and the appeal against ADEM for transfer permit were consolidated and in October of 2015, the Alabama Court of Civil Appeals held arguments on the cases and all parties are awaiting the ruling of the court. 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. On November 26, 2014, the City and the Brundidge Solid Waste Authority signed a contract with the attorney and legal expenses and received \$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 included in transfers to the City during the year ended September 30, 2015.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and contributions refer to revenues restricted for specific programs whose use may be restricted further to operational or capital items. The general revenues section displays revenue collected that helps support all functions of government and contribute to the change in the net position for the fiscal year. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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

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

The following is reported as a major governmental fund:

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

The 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).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Investments

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

Receivables and Unbilled Revenue

Property Taxes Receivable/Deferred - In Alabama, city property taxes are levied by the County Commission at its first regular meeting in February of each year based on the property on record as of the preceding October 1. The taxes are due the following October 1 and delinquent after December 31. In accordance with the non-exchange transactions provision of GASB Statement No. 33, taxes levied in fiscal year 2014 for the 2015 budget year have been recorded as receivables and deferred inflows - 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unamortized Bond Insurance

Unamortized debt expense related to bond insurance is amortized by using the outstanding principal method over the life of the related debt and is reported as other assets on the statement of net position. Other bond issuance costs are expensed as incurred.

Compensated Absences

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

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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 two items that qualify for reporting in this category, the deferred charge on refunding and the deferred outflows related to pension 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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow related to pension results from contributions related to normal and accrued liability components of employer rate (net of any refunds or error service payments) subsequent to the measurement date, in accordance with the implementation of GASB Statement No. 71. Refer to the “Impact of Recently Issued Accounting Pronouncements” section of Note 1 for additional information.

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 two items that qualify for reporting in this category, the property taxes levied for subsequent periods and the deferred inflows related to pension. The property taxes levied for subsequent periods result 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. A deferred inflow related to pension results from the net difference between projected and actual earnings on plan investments, in accordance with the implementation of GASB Statement No. 71, and is amortized over five years beginning with the year in which the difference occurred. Refer to the “Impact of Recently Issued Accounting Pronouncements” section of Note 1 for additional information.

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.
- *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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$464,352 of restricted fund balance, \$400,034 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of Recently Issued Accounting Pronouncements

Recently Issued and Adopted

GASB 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 GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB 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 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 Required Supplementary Information (“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. The City has adopted the Statement as of September 30, 2015, resulting in the restatement of its fiscal year 2014 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 plans and the recognition of pension expense in accordance with the provisions of the Statement. Refer to Note 22 for the financial statement impact of the retroactive application of the pronouncement.

Statement No. 69 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. There was no impact on the City’s financial statements as a result of the implementation of Statement No. 69.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68, amends GASB 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. The resulting deferred outflow of resources related to pension upon adoption is \$133,666.

Recently Issued but Not Yet Effective

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Management has not yet determined the financial statement impact of the pronouncement.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of this statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. The provisions of Statement No. 73 that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of Statement No. 73 for pension plans that are within the scope of Statement No. 67 or for pensions that are within the scope of Statement No. 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged. The City has not completed the process of evaluating the impact of Statement No. 73 on its financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The scope of this statement includes defined benefit and defined contribution OPEB plans administered through trusts that meet specified criteria. This statement establishes financial reporting standards for state and local governmental other postemployment benefit (“OPEB”) plans. The Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Statement No. 74 is

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged. The City has not completed the process of evaluating the impact of Statement No. 74 on its financial statements.

Issued in June 2015, the primary objective of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or “OPEB”). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to 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. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement is effective for fiscal years beginning after June 15, 2017. Management has not yet determined the financial statement impact of the pronouncement.

Also issued in June 2015 was GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Management has not yet determined the financial statement impact of the pronouncement.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. For financial reporting purposes, this statement defines a tax abatement and contains required disclosures about a reporting government’s own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government’s tax revenues. The requirements of GASB Statement No. 77 are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged. The City has not completed the process of evaluating the impact of Statement No. 77 on its financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

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.

City of Brundidge
Notes to Financial Statements

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

For an investment, custodial credit risk is the risk that an entity will not be able to recover the value of its investments that are in the possession of an outside party if the counterparty fails. The U.S. Treasury backed securities noted below are held by the City's counterparties in the trust department of Regions Bank not in the City's name. At September 30, 2015, the City held the following investments:

Investment Type	Maturities	Fair Value
Investments		
Certificates of deposit	One year or less	\$ 837,548
Restricted investments		
Fidelity money market funds	One year or less	\$ 999,644

NOTE 4 - RECEIVABLES

Receivables at September 30, 2015 consist of the following:

	General Fund	Other Governmental Funds	Proprietary
Taxes	\$ 363,117	\$ 10,651	\$ -
Accounts	11,826	-	765,425
Unbilled revenues	2,061	-	67,638
Other receivables	12,946	-	36,266
Court costs and fines	67,609	-	-
Loan receivable from ADEM	-	-	90,885
Total receivable	457,559	10,651	960,214
Less allowance for uncollectible accounts	(35,107)	-	(48,458)
Less amount due to others	(25,819)	-	-
Receivables, net	\$ 396,633	\$ 10,651	\$ 911,756

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, 2015 are as follows:

City of Brundidge
Notes to Financial Statements

NOTE 5 - INTERFUND ACTIVITY (Continued)

Fund	Due to	Due From
General	\$ -	\$ 13,199
Proprietary	13,199	-
	\$ 13,199	\$ 13,199

Transfers during fiscal year 2015 are as follows:

Transfers to General Fund from:

Nonmajor governmental		\$ 40,062
Proprietary fund		1,183,467
Component unit		333,299
		\$ 1,556,828

NOTE 6 - RESTRICTED ASSETS

Restricted assets were comprised of the following:

<i>September 30, 2015</i>	General	Proprietary
Cash restricted for:		
Capital improvements	\$ 40,701	\$ -
Court	939	-
Debt service	-	47,444
Investments restricted for:		
Debt service	-	999,644
	\$ 41,640	\$ 1,047,088

NOTE 7 - OTHER ASSETS

Other assets at September 30, 2015 consist of the following:

	General Fund	Proprietary Fund
Deposits	\$ 22,545	\$ 2,500
Unamortized bond insurance	-	90,764
	\$ 22,545	\$ 93,264

City of Brundidge
Notes to Financial Statements

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,262,055	\$ 1,244,466	\$ -	\$ 2,506,521
Construction in progress	37,818	11,490	-	49,308
Capital assets, not being depreciated	\$ 1,299,873	\$ 1,255,956	\$ -	\$ 2,555,829
Capital assets, being depreciated:				
Public improvements	\$ 569,696	\$ -	\$ -	\$ 569,696
Buildings	2,149,357	11,500	-	2,160,857
Equipment	2,069,392	133,583	38,355	2,164,620
Total capital assets, being depreciated	4,788,445	145,083	38,355	4,895,173
Less accumulated depreciation for:				
Infrastructure	425,538	16,376	-	441,914
Buildings	1,232,638	97,729	-	1,330,367
Equipment	1,472,897	92,293	38,355	1,526,835
	3,131,073	206,398	38,355	3,299,116
Total capital assets, being depreciated, net	\$ 1,657,372	\$ (61,315)	\$ -	\$ 1,596,057
Business-type Activities:				
Utilities Department				
Capital assets, not being depreciated:				
Land	\$ 60,801	\$ -	\$ -	\$ 60,801
Capital assets, being depreciated:				
Public Improvements	\$ 15,706,417	\$ 304,443	\$ -	\$ 16,010,860
Buildings	121,245	-	-	121,245
Equipment	905,735	71,144	-	976,879
Total capital assets, being depreciated	16,733,397	375,587	-	17,108,984

City of Brundidge
Notes to Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

Less accumulated depreciation for:				
Public Improvements	6,349,220	340,052	-	6,689,272
Buildings	74,910	6,498	-	81,408
Equipment	688,467	95,510	-	783,977
	<hr/> 7,112,597	<hr/> 442,060	<hr/> -	<hr/> 7,554,657
Total capital assets, being depreciated, net	<hr/> \$ 9,620,800	<hr/> \$ (66,473)	<hr/> \$ -	<hr/> \$ 9,554,327

Depreciation expense was charged to functions as follows:

Governmental Activities:

General government	\$ 20,901
Public safety	89,612
Highways and streets	27,201
Sanitation and recycling	8,770
Culture and recreation	26,640
Health and welfare	33,274
	<hr/>
Total depreciation expense – governmental activities	<hr/> \$ 206,398

Business-type Activities:

Electric	\$ 161,409
Sewer	139,749
Water	140,902
	<hr/>
Utilities department	<hr/> \$ 442,060

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	<hr/> \$ 189,338
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City of Brundidge
Notes to Financial Statements

NOTE 10 - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 86,197	\$ 60,470	\$ 59,432	\$ 87,235	\$ 87,235
General obligation warrants	-	1,120,192	41,295	1,078,897	65,202
	86,197	1,180,662	100,727	1,166,132	152,437
Business-Type Activities:					
Utility revenue warrants	8,055,000	-	285,000	7,770,000	295,000
Compensated absences	57,342	35,908	34,321	58,929	58,929
	8,112,342	35,908	319,321	7,828,929	353,929
Total	\$ 8,198,539	\$ 1,216,570	\$ 420,048	\$ 8,995,061	\$ 506,366

Governmental Activities

Series 2015A General Obligation Warrants – Debt service requirements on these bonds at September 30, 2015 are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2016	\$ 65,202	\$ 22,197
2017	100,742	27,952
2018	103,588	25,106
2019	106,437	22,257
2020	109,364	19,330
2021-2025	593,564	49,912
	\$ 1,078,897	\$ 166,754

On May 14, 2015, the City issued General Obligation Warrants Series 2015A in the amount of \$1,120,192. Proceeds of the warrants were used to purchase real property. Principal and interest is payable annually. The interest rate on the bonds is 2.75%. This warrant is a general obligation of the City on which the full faith and credit of the City has been irrevocably pledged.

City of Brundidge
Notes to Financial Statements

NOTE 10 - LONG-TERM DEBT (Continued)

Business-Type Activities

2012 Utility Revenue Warrants – Debt service requirements on these bonds at September 30, 2015 are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2016	\$ 35,000	\$ 24,407
2017	40,000	23,375
2018	40,000	22,275
2019	40,000	21,176
2020	40,000	20,076
2021-2025	220,000	82,774
2026-2030	260,000	49,912
2031-2034	230,000	12,924
	\$ 905,000	\$ 256,919

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% and the City pledged future electric, water and sewer customer revenues, net of specified operating expenses, to repay the bonds. 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 \$1,161,919. Principal and interest paid for the current year and total operating net income were \$60,369 and \$2,204,344, respectively. As of September 30, 2015, the City has drawn down \$885,215 of the loan and the remaining balance of \$90,885 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, 2015, the City earned \$3,125 in principal forgiveness and the balance of the unearned principal forgiveness was \$5,112.

2005 Utility Revenue Warrants – Debt service requirements on these bonds at September 30, 2015 are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2016	\$ 260,000	\$ 312,220
2017	270,000	301,287
2018	280,000	289,804

City of Brundidge
Notes to Financial Statements

NOTE 10 - LONG-TERM DEBT (Continued)

2019	290,000	277,762
2020	305,000	265,042
2021-2025	1,725,000	1,109,160
2026-2030	2,170,000	658,910
2031-2033	1,565,000	117,720
	\$ 6,865,000	\$ 3,331,905

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 \$6,865,000 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 \$10,196,905. Principal and interest paid for the current year and total operating net income were \$572,612 and \$2,204,344, respectively.

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 unamortized refunding costs; the total amount amortized for the year ended September 30, 2015 was \$12,115 and was reported as a part of interest expense. The balance of deferred refunding cost for this warrant at September 30, 2015, was \$145,402.

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.	\$ 6,865,000
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Other Long-Term Debt

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

NOTE 11 - OPERATING LEASE

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

The City entered into a lease with Pike County Board of Education (Lessee) on February 13, 2013 wherein the City agreed to lease the City's recreation park. The Pike County Board of Education will provide recreation services for the children residing in the City of Brundidge and surrounding areas. The lessee shall provide recreation services for a 2 year trial period. After the expiration of the 2 year trial period, the City has the option to retain and perform recreation service responsibilities or continue the lease for the remainder of the 15 year lease period ending December 31, 2028. The 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, 2015, the City paid \$75,000 to the lessee to operate the recreation park.

NOTE 12 - EMPLOYEE RETIREMENT PLAN

Summary of Significant Accounting Policies

Pensions. The Employees' Retirement System of Alabama (the "Plan") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the GASB. Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

General Information about the Pension Plan

Plan description. The Employees' Retirement System of Alabama ("ERS"), an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 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 the general administration and operating of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama ("RSA"). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board on Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

NOTE 12 - EMPLOYEE RETIREMENT PLAN (Continued)

The ERS Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county or a public agency each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to §36-27-6.

Benefits provided. State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of State Police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement.

NOTE 12 - EMPLOYEE RETIREMENT PLAN (Continued)

The ERS services approximately 846 local participating employers. These participating employers include 287 cities, 65 counties, and 494 other public entities. The ERS membership includes approximately 83,874 participants. As of September 30, 2014, membership consisted of:

Retirees and beneficiaries currently receiving benefits	21,691
Terminated employees entitled to but not yet receiving benefits	1,252
Terminated employees not entitled to a benefit	5,048
<u>Active members</u>	<u>55,883</u>
 <u>Total</u>	 <u>83,874</u>

Contributions. Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the ERS were required by a statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2015, the City's active employee contribution rate was 5% of covered employee payroll for normal Tier 1 employees and 6% of covered employee payroll for normal Tier 2 employees, and the City's average contribution rate to fund the normal and accrued liability costs was 7.62% of covered employee payroll for Tier 1 employees and 3.88% for Tier 2 employees.

The City's contractually required contribution rate for the year ended September 30, 2015 was 8.25% of pensionable pay for Tier 1 employees, and 5.95% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and actuarially determined as an amount that, when

NOTE 12 - EMPLOYEE RETIREMENT PLAN (Continued)

combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City were \$133,666 for the year ended September 30, 2015.

Net Pension Liability

The City's net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2013 rolled forward to September 30, 2014 using standard roll-forward techniques as shown in the following table:

Total Pension Liability	
As of September 30, 2013 (a)	\$ 4,526,527
Entry Age Normal Cost for	
October 1, 2013 – September 30, 2014 (b)	134,487
Actual Benefit Payments and Refunds for	
October 1, 2013 – September 30, 2014 (c)	(86,041)
Total Pension Liability	
As of September 30, 2014	
[(a) x (1.08)] + (b) – [(c) x (1.04)]	\$ 4,933,654

Actuarial assumptions. The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75% - 7.25%
Investment rate of return*	8.00%

* Net of pension plan investment expense

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012. The long-term

City of Brundidge
Notes to Financial Statements

NOTE 12 - EMPLOYEE RETIREMENT PLAN (Continued)

expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed income	25.00%	5.00%
U.S. large stocks	34.00%	9.00%
U.S. mid stocks	8.00%	12.00%
U.S. small stocks	3.00%	15.00%
International developed market stocks	15.00%	11.00%
International emerging market stocks	3.00%	16.00%
Real estate	10.00%	7.50%
Cash	2.00%	1.50%
Total	100.00%	

Discount rate. The discount rate used to measure the total pension liability was the long-term rate of return, 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The following table presents the City's net pension liability calculated using the discount rate of 8%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
City's net pension liability	\$ 1,065,805	\$ 566,689	\$ 142,807

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2014. The supporting actuarial information is included in the GASB

City of Brundidge
Notes to Financial Statements

NOTE 12 - EMPLOYEE RETIREMENT PLAN (Continued)

Statement No. 68 Report for the ERS prepared as of September 30, 2014. The auditor's report dated June 3, 2015 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015, the City recognized pension expense of \$83,224. At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	123,139
Employer contributions subsequent to the measurement date	133,666	-
Total	\$ 133,666	\$ 123,139

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year ended September 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
2016	\$ 133,666	\$ 30,785
2017	-	30,785
2018	-	30,785
2019	-	30,785
2020	-	-

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.

NOTE 12 - EMPLOYEE RETIREMENT PLAN (Continued)

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

NOTE 13 - OTHER POST-EMPLOYMENT BENEFITS

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Solid Waste Landfill

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

Federal Grants

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

Contracts

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 \$74,934 during the year ended September 30, 2015.

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.

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

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, 2015, debt outstanding was \$261,806.

NOTE 15 - RISK MANAGEMENT AND LITIGATION

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

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

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

NOTE 16 - INTEREST COSTS

The amount of interest cost, including deferred refunding cost of \$12,115, incurred for the Utilities Department was \$354,554 for the year ended September 30, 2015, all of which was charged to operations.

NOTE 17 - CASH FLOW INFORMATION

The Utilities Department considers all short-term investments with an original maturity of three months or less to be cash equivalents. Cash paid for interest for the year ended September 30, 2015, was \$ 347,982.

NOTE 18 - ACCUMULATED PATRONAGE CAPITAL CREDITS

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

Total credits as of September 30, 2015 are as follows: \$ 2,208,021

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 19 - ECONOMIC DEPENDENCY

During the year ending September 30, 2015, 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. See Note 23 regarding insurance obtained and agreement amended with PowerSouth Energy Cooperative.

NOTE 20 - RELATED ORGANIZATIONS

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 Housing Authority is 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, 2015, the City has cash on deposit in the amount of \$1,697,027. It is the City’s policy to solicit bids for all proposed debt issued and for the Mayor to abstain from voting on proposed transactions involving the First National Bank of Brundidge.

NOTE 21 – BRITISH PETROLEUM (BP) ECONOMIC LOSS CLAIM

On August 26, 2015, the City received a settlement in the amount of \$40,162, net of attorney fees and related expense of \$16,087, from British Petroleum (BP) for a business economic loss claim related to the Gulf of Mexico Deepwater Horizon Oil Spill. The gross settlement of \$56,249 was reported as miscellaneous revenue.

NOTE 22 – PRIOR PERIOD ADJUSTMENTS

As discussed in Note 1, the implementation of GASB Statement Nos. 68 and 71 required that the City record its beginning proportionate share of net pension liability, as well as related beginning deferred outflows of resources for fiscal year 2014 contributions. The cumulative effect of applying these statements retroactively was a decrease in net position in the amount of \$606,604.

NOTE 23 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 9, 2015, the date these financial statements were available to be issued.

On November 1, 2015, the City issued warrants totaling \$6,670,000 to refund Series 2005 warrants outstanding in the principal amount of \$6,605,000 and related costs in connection with issuance of warrants. On November 30, 2015, the City deposited \$500,000 into the general fund from the closing of the debt service reserve account, related to the Series 2005 warrants. On December 15, 2015, the council voted to make an advance payment of \$500,000 to the Series 2015A General Obligation Warrant.

On November 4, 2015, the City obtained business income insurance on dependent property (Walmart Distribution Center) in the amount of \$2,000,000. This policy will pay for the actual loss of business income (utilities revenue) due to suspension of operations at the dependent property during the period of restoration, which must begin within 72 hours after the time of direct physical loss or damage.

The City is committed under various contracts for engineering and administration services for the Community Development Block Grant SM-EF-PF 15-002 in the amount of \$84,587.

On February 1, 2016, the City issued Utility Revenue Warrants Series 2016-CWSRF-DL in the amount of \$2,285,000 through the State Revolving Fund administered by Alabama Water Pollution Control Authority and Alabama Department of Environmental Management. Proceeds of the warrants will be used to make capital improvements to the City's sewer and water system.

On March 1, 1975, the City signed a wholesale power contract for the purchase and sale of electric power and energy. This supply and purchase shall continue until termination of the agreement. The City agrees to pay rates according to terms of the agreement, which includes a billing demand which shall be the maximum kilovolt ampere (kva) load used the consumer for any period of 15 consecutive minutes during the month for which the bill is rendered as indicated or recorded by demand meter, but not less than either 75% of the highest demand established during the preceding 11 months nor less than the contract demand at any delivery point. The minimum monthly charge for service shall not be less than the charge for billing demand. As of September 30, 2015, the 11 month high was August 2015 with 10,302 kva. On December 31, 2015, the City and PowerSouth Energy Cooperative agreed to amend the contract and to provide for the automatic extensions of the agreement as follows:

NOTE 23 - SUBSEQUENT EVENTS (Continued)

1. Extend and continue in effect until December 31, 2055; and
2. Thereafter automatically extend and renew for additional five (5) year periods (each such five-year renewal is a “renewal period”) on the five (5) year anniversary date following the Effective Date of this Amendment and on such anniversary date each fifth (5th) year thereafter, unless PowerSouth Energy Cooperative or the City gives written notice of intent to the other party hereto not to extend and renew prior to any such fifth (5th) year anniversary date. In the event such a notice is given, which such notice may not be changed without the written consent of the other party, the Contract for Wholesale Power Service shall terminate on January 1st following the expiration of the last renewal period then in effect.

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, 2015

	<u>Special Revenue</u>	
	<u>\$.04 and \$.05 Gas Tax</u>	<u>\$.07 Gas Tax</u>
Assets		
Cash and cash equivalents	\$ 31,644	\$ 46,392
Receivables, net	865	1,104
Investments	-	3,400
Total assets	\$ 32,509	\$ 50,896
Fund Balances		
Nonspendable	\$ -	\$ -
Restricted	32,509	50,896
Total fund balances	\$ 32,509	\$ 50,896

Funds		Permanent Funds		
\$.02 Gas Tax	Tobacco Tax	Joseph Carroll Library Fund		Total
\$ 100,094	\$ 21,478	\$ -	\$ -	\$ 199,608
7,482	1,200	-	-	10,651
209,053	-	18,043	-	230,496
\$ 316,629	\$ 22,678	\$ 18,043	\$ -	\$ 440,755
\$ -	\$ -	\$ 18,043	\$ -	\$ 18,043
316,629	22,678	-	-	422,712
\$ 316,629	\$ 22,678	\$ 18,043	\$ -	\$ 440,755

City of Brundidge

**Combining Statement of Revenues, Expenditures and Changes in Fund
Balances – Nonmajor Governmental Funds
For the Year Ended September 30, 2015**

	<u>Special Revenue</u>	
	<u>\$.04 and \$.05 Gas Tax</u>	<u>\$.07 Gas Tax</u>
Revenues		
Taxes	\$ 9,309	\$ 11,948
Investment earnings	-	8
<hr/>		
Total revenues	9,309	11,956
Other Financing Sources (Uses)		
Transfers out	-	-
<hr/>		
Net change in fund balances	9,309	11,956
Fund balances - beginning	23,200	38,940
<hr/>		
Fund balances - ending	\$ 32,509	\$ 50,896
<hr/> <hr/>		

Funds		Permanent Fund		
\$.02 Gas Tax	Tobacco Tax	Joseph Carroll Library Fund		Total
\$ 80,615	\$ 14,800	\$ -	\$ -	\$ 116,672
1,012	57	45		1,122
81,627	14,857	45		117,794
(26,000)	(14,017)	(45)		(40,062)
55,627	840	-		77,732
261,002	21,838	18,043		363,023
\$ 316,629	\$ 22,678	\$ 18,043	\$ -	\$ 440,755

City of Brundidge
Required Supplementary Information
Schedule of Changes in Net Pension Liability

<i>September 30,</i>	2014
Total Pension Liability	
Service cost	\$ 134,487
Interest	358,681
Benefit payments, including refunds of employee contributions	(86,041)
<hr/>	
Net change in total pension liability	407,127
<hr/>	
Total pension liability - beginning	4,526,527
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Total pension liability - ending (a)	\$ 4,933,654
<hr/>	
Plan Fiduciary Net Position	
Contributions - employer	\$ 126,264
Contributions - member	84,441
Net investment income	461,874
Benefit payments, including refunds of employee contributions	(86,041)
Transfers among employers	(13,232)
<hr/>	
Net change in plan fiduciary net position	573,306
<hr/>	
Plan net position - beginning	3,793,659
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Plan net position - ending (b)	\$ 4,366,965
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Net pension liability (asset) - ending (a) - (b)	\$ 566,689
Plan fiduciary net position as a percentage of the total pension liability	88.51%
Covered-employee payroll*	\$ 1,609,718
Net pension liability (asset) as a percentage of covered-employee payroll	35.20%

*Employer's covered-payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For FY 2014, the measurement period is October 1, 2013 - September 2014.

City of Brundidge
Required Supplementary Information
Schedule of Employer Contributions

<i>September 30,</i>	2015
Actuarially determined contribution*	\$ 133,666
Contributions in relation to the actuarially determined contribution*	133,666
Contribution deficiency (excess)	\$ -
Covered-employee payroll**	\$ 1,628,777
Contributions as a percentage of covered-employee payroll	8.21%

*Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. For FY2015, the fiscal year is the twelve month period beginning 10/1/2014 and ending 9/30/2015.

**Employer's covered-payroll during fiscal year is the total payroll paid to covered employees (not just pensionable payroll). For FY 2015, the fiscal year is the twelve month period beginning 10/1/2014 and ending 9/30/2015.

Notes to Schedule

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2015 were based on the September 30, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	18 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75 - 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

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, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated February 9, 2016.

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.

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

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. We did identify a certain deficiency described below that we consider to be a material weakness.

2015-001 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.

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.

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 above. The City's response was not subjected to audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

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

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

Certified Public Accountants

February 9, 2016