

City of Brundidge

FINANCIAL STATEMENTS

For the Year Ended September 30, 2017



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**City of Brundidge
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September 30, 2017**

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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, each major fund, and the aggregate remaining fund information of the City of Brundidge, Alabama (the "City"), as of and for the year ended September 30, 2017, 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.

Auditors' 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. The financial statements of the Brundidge Solid Waste Authority and Industrial Development Board were not audited in accordance with *Government Auditing Standards*. 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 unmodified and qualified audit opinions.

Basis for Qualified Opinion on the Discretely Presented Component Units

The financial statements of the Brundidge Solid Waste Authority and Industrial Development Board have not been audited, and we were not engaged to audit the Brundidge Solid Waste 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 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 effects of the matter discussed in the "Basis for Qualified Opinion on the Discretely Presented Component Units" paragraph, the financial statements referred to above present fairly in all material respects, the financial position of the discretely presented component units of the City as of September 30, 2017, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining information of the City of Brundidge, Alabama as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's 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 50 and schedule of employer contributions on page 51 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's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2018 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 the City's internal control over financial reporting and compliance.

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

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

Enterprise, Alabama

January 30, 2018

City of Brundidge
Statement of Net Position
September 30, 2017

Primary Government

	Governmental Activities	Business-type Activities
Assets		
Cash and cash equivalents	\$ 888,286	\$ 394,482
Receivables, net	382,402	897,545
Certificates of deposit	120,544	503,758
Internal balances	14,250	(14,250)
Restricted assets:		
Cash and cash equivalents	82,392	51,412
Investments	-	367,824
Inventory	13,456	356,406
Prepaid expenses	57,865	20,339
Other assets	22,545	42,346
Capital assets, net of depreciation	2,914,693	11,153,801
Capital assets, not being depreciated	2,329,948	60,801
Total assets	6,826,381	13,834,464
Deferred Outflows of Resources		
Deferred outflows related to pension	178,858	98,143
Deferred charge on debt refunding	-	245,983
Total deferred outflows of resources	178,858	344,126
Liabilities		
Accounts payable	253,329	462,815
Accrued expenses	57,101	73,870
Customer deposits	-	137,147
Unearned principal forgiveness	-	5,112
Noncurrent liabilities		
Compensated absences	83,922	58,597
Notes payable	-	-
Net pension liability	476,034	240,082
Revenue warrants		
Due within one year	109,592	515,000
Due in more than one year	689,757	8,774,892
Total liabilities	1,669,735	10,267,515
Deferred Inflows of Resources		
Deferred inflows related to pension	48,436	21,896
Property taxes levied for subsequent periods	207,457	-
Total deferred inflows of resources	255,893	21,896
Net Position		
Net investment in capital assets	4,739,081	2,170,693
Restricted for:		
Capital improvements	81,938	-
Court	454	-
Fire department	38,637	-
Highways and streets	311,130	-
Library	18,043	-
Debt service	-	419,236
Unrestricted	(109,672)	1,299,250
Total net position	\$ 5,079,611	\$ 3,889,179

The accompanying notes are an integral part of these financial statements.

	Component Units	
	Brundidge Solid Waste Disposal Authority (Unaudited)	Industrial Development Board (Unaudited)
Total		
\$ 1,282,768	\$ -	\$ 65,790
1,279,947	-	59,666
624,302	-	-
-	-	-
133,804	-	-
367,824	-	-
369,862	-	-
78,204	-	-
64,891	-	-
14,068,494	-	6,344,553
2,390,749	-	230,500
20,660,845	-	6,700,509
277,001	-	-
245,983	-	-
522,984	-	-
716,144	-	89,500
130,971	-	-
137,147	-	-
5,112	-	-
142,519	-	-
-	-	5,567,903
716,116	-	-
624,592	-	-
9,464,649	-	-
11,937,250	-	5,657,403
70,332	-	-
207,457	-	-
277,789	-	-
6,909,774	-	-
81,938	-	-
454	-	-
38,637	-	-
311,130	-	-
18,043	-	-
419,236	-	-
1,189,578	-	1,043,106
\$ 8,968,790	\$ -	\$ 1,043,106

City of Brundidge
Statement of Activities
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	\$ 739,265	\$ 96,199	\$ 29,662
Public safety	1,052,808	26,045	1,058
Sanitation and recycling	102,684	128,289	-
Health and welfare	92,950	-	20,497
Culture and recreation	337,196	-	11,086
Highways and streets	759,873	-	20,056
Economic development	-	-	-
Interest	14,612	-	-
Total governmental activities	3,099,388	250,533	82,359
Business-type Activities:			
Electric	4,529,364	6,112,016	-
Sewer	631,796	965,559	-
Water	478,914	613,847	-
Miscellaneous	-	12,236	-
Amortization	4,938	-	-
Interest	241,253	3,793	-
Total business-type activities	5,886,265	7,707,451	-
Total primary government	\$ 8,985,653	\$ 7,957,984	\$ 82,359
Component Units			
Industrial Development Board	\$ 1,262,339	\$ -	\$ -
Brundidge Solid Waste Authority	-	-	-
Total component units	\$ 1,262,339	\$ -	\$ -
General Revenues			
Taxes:			
Property taxes			
Sales taxes			
Gas taxes			
Other taxes			
Rental income			
Interest income			
Other revenues			
Transfers			
Total general revenues and transfers			
Change in net position			
Net position - beginning			
Net position - ending			

The accompanying notes are an integral part of these financial statements.

Revenues	Net (Expense) Revenue and Changes in Net Position					
	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	Brundidge Solid Waste Authority (Unaudited)	Industrial Development Board (Unaudited)	
Capital Grants and Contributions						
\$ -	\$ (613,404)	\$ -	\$ (613,404)	\$ -	\$ -	
118,096	(907,609)	-	(907,609)	-	-	
-	25,605	-	25,605	-	-	
-	(72,453)	-	(72,453)	-	-	
-	(326,110)	-	(326,110)	-	-	
234,985	(504,832)	-	(504,832)	-	-	
86,928	86,928	-	86,928	-	-	
-	(14,612)	-	(14,612)	-	-	
440,009	(2,326,487)	-	(2,326,487)	-	-	
-	-	1,582,652	1,582,652	-	-	
-	-	333,763	333,763	-	-	
-	-	134,933	134,933	-	-	
-	-	12,236	12,236	-	-	
-	-	(4,938)	(4,938)	-	-	
-	-	(237,460)	(237,460)	-	-	
-	-	1,821,186	1,821,186	-	-	
\$ 440,009	(2,326,487)	1,821,186	(505,301)	-	-	
\$ -	-	-	-	-	(1,262,339)	
\$ -	-	-	-	-	-	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,262,339)	
	\$ 193,082	\$ -	\$ 193,082	\$ -	\$ -	
	551,318	-	551,318	-	-	
	102,948	-	102,948	-	-	
	204,970	-	204,970	-	-	
	42,401	-	42,401	-	-	
	951	-	951	-	59	
	41,097	-	41,097	-	60,910	
	1,685,145	(1,685,066)	79	(79)	-	
	2,821,912	(1,685,066)	1,136,846	(79)	60,969	
	495,425	136,120	631,545	(79)	(1,201,370)	
	4,584,186	3,753,059	8,337,245	79	2,244,476	
\$	\$ 5,079,611	\$ 3,889,179	\$ 8,968,790	\$ -	\$ 1,043,106	

City of Brundidge
Balance Sheet – Governmental Funds
September 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 553,693	\$ 334,593	\$ 888,286
Receivables, net	370,628	11,774	382,402
Certificates of deposit	99,101	21,443	120,544
Due from other funds	14,250	-	14,250
Inventory	13,456	-	13,456
Restricted cash	82,392	-	82,392
Other assets	22,545	-	22,545
Total assets	\$ 1,156,065	\$ 367,810	\$ 1,523,875
Liabilities			
Accounts payable	\$ 253,329	\$ -	\$ 253,329
Accrued expenses	51,368	-	51,368
Total liabilities	304,697	-	304,697
Deferred Inflows of Resources			
Property taxes levied for subsequent periods	207,457	-	207,457
Fund Balances			
Nonspendable	13,456	18,043	31,499
Restricted	82,392	349,767	432,159
Unassigned	548,063	-	548,063
Total fund balances	643,911	367,810	1,011,721
Total liabilities, deferred inflows of resources and fund balances	\$ 1,156,065	\$ 367,810	\$ 1,523,875

The accompanying notes are an integral part of these financial statements.

City of Brundidge
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
September 30, 2017

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

Total fund balances - governmental funds	\$	1,011,721
Prepaid expenses are recorded as expenditures in governmental funds when paid rather than assets until consumed, as reported on the Statement of Net Position.		57,865
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.		5,244,641
Deferred inflows, deferred outflows and net pension liability 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.		(345,612)
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.		(889,004)
Net position of governmental activities in the Statement of Net Position	\$	5,079,611

The accompanying notes are an integral part of these financial statements.

City of Brundidge
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 855,787	\$ 117,648	\$ 973,435
Fees and fines	26,045	-	26,045
Licenses and permits	175,082	-	175,082
Intergovernmental	522,368	-	522,368
Charges for services	128,289	-	128,289
Investment earnings	823	128	951
Rental income	42,401	-	42,401
Miscellaneous	38,154	-	38,154
Total revenues	1,788,949	117,776	1,906,725
Expenditures			
Current			
General government	721,361	-	721,361
Public safety	942,578	-	942,578
Highways and streets	724,403	47	724,450
Sanitation and recycling	96,383	-	96,383
Health and welfare	66,156	-	66,156
Culture and recreation	309,043	-	309,043
Debt service			
Principal	103,917	-	103,917
Interest	20,051	-	20,051
Capital outlay	784,656	-	784,656
Total expenditures	3,768,548	47	3,768,595
Excess (deficiency) of revenues over expenditures	(1,979,599)	117,729	(1,861,870)
Other Financing Sources (Uses)			
Debt proceeds	197,500	-	197,500
Sale of capital assets	2,943	-	2,943
Transfers in	1,759,504	137,804	1,897,308
Transfers out	(137,804)	(74,359)	(212,163)
Total other financing sources (uses)	1,822,143	63,445	1,885,588
Net change in fund balances	(157,456)	181,174	23,718
Fund Balances - beginning	801,367	186,636	988,003
Fund Balances - ending	\$ 643,911	\$ 367,810	\$ 1,011,721

The accompanying notes are an integral part of these 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, 2017**

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

Net change in fund balances - total governmental funds:	\$	23,718
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.		3,543
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.		784,656
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		(197,500)
Repayment of debt		103,917
Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Activities.		(239,092)
Change in deferred outflow and deferred inflows as related to pension liability does not require current financial resources and are not reported in the governmental funds.		11,759
Change in accrued interest are expense in the Statement of Activities; however, these are not included in the governmental funds.		5,439
Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds:		
Compensated absences		(1,015)
Change in net position of governmental activities	\$	495,425

The accompanying notes are an integral part of these 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, 2017**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	Original Budget	Final Budget	Actual	
Revenues				
Taxes	\$ 807,000	\$ 807,000	\$ 855,787	\$ 48,787
Fees and fines	22,500	22,500	26,045	3,545
Licenses and permits	174,575	177,575	175,082	(2,493)
Intergovernmental	624,075	490,853	522,368	31,515
Charges for services	125,000	125,000	128,289	3,289
Interest	600	600	823	223
Rental income	39,495	39,495	42,401	2,906
Miscellaneous	105,794	16,500	38,154	21,654
Total revenues	1,899,039	1,679,523	1,788,949	109,426
Expenditures				
Current				
General government	711,590	719,413	721,361	(1,948)
Public safety	1,008,761	1,007,445	942,578	64,867
Highways and streets	645,331	707,948	724,403	(16,455)
Sanitation and recycling	139,250	114,750	96,383	18,367
Health and welfare	66,617	69,617	66,156	3,461
Culture and recreation	364,635	339,034	309,043	29,991
Debt service				
Principal	100,022	100,022	103,917	(3,895)
Interest	23,861	23,861	20,051	3,810
Capital outlay	854,531	820,565	784,656	35,909
Total expenditures	3,914,598	3,902,655	3,768,548	134,107
Excess (deficiency) of revenues over expenditures	(2,015,559)	(2,223,132)	(1,979,599)	243,533
Other Financing Sources				
Debt proceeds	-	247,500	197,500	(50,000)
Sale of capital assets	2,000	2,000	2,943	943
Transfers in	2,015,556	2,101,239	1,759,504	(341,735)
Transfers out	-	(144,919)	(137,804)	7,115
Total other financing sources	2,017,556	2,205,820	1,822,143	(383,677)
Net change in fund balances	1,997	(17,312)	(157,456)	(140,144)
Fund Balances - beginning	801,367	801,367	801,367	-
Fund Balances - ending	\$ 803,364	\$ 784,055	\$ 643,911	\$ (140,144)

The accompanying notes are an integral part of these financial statements.

City of Brundidge
Statement of Net Position – Proprietary Fund
September 30, 2017

Utilities Department

Assets	
Current assets	
Cash and cash equivalents	\$ 394,482
Certificates of deposit	503,758
Receivables, net	897,545
Inventory	356,406
Prepaid expenses	20,339
Total current assets	2,172,530
Noncurrent assets	
Restricted assets:	
Cash	51,412
Investments	367,824
Other assets	42,346
Capital assets, net of depreciation	11,214,602
Total noncurrent assets	11,676,184
Total assets	13,848,714
Deferred Outflows of Resources	
Deferred outflows related to pension	98,143
Deferred charge on refunding	245,983
Total deferred outflows of resources	344,126
Liabilities	
Current liabilities	
Accounts payable	462,815
Due to other funds	14,250
Accrued expenses	73,870
Customer deposits	137,147
Compensated absences	58,597
Unearned principal forgiveness	5,112
Utility revenue warrants - current	515,000
Total current liabilities	1,266,791
Noncurrent liabilities	
Net pension liability	240,082
Utility revenue warrants	8,774,892
Total noncurrent liabilities	9,014,974
Total liabilities	10,281,765

(Continued)

The accompanying notes are an integral part of these financial statements.

City of Brundidge
Statement of Net Position – Proprietary Fund (Continued)
September 30, 2017

Utilities Department

Deferred Inflows of Resources	
Deferred inflows related to pension	21,896
<hr/>	
Net Position	
Net investment in capital assets	2,170,693
Restricted for debt service	419,236
Unrestricted	1,299,250
<hr/>	
Total net position	\$ 3,889,179
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The accompanying notes are an integral part of these financial statements.

City of Brundidge
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended September 30, 2017

	Utilities Department
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Operating Revenues	
Electric	\$ 6,112,016
Sewer	965,559
Water	613,847
<hr/>	
Total operating revenues	7,691,422
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Operating Expenses	
Cost of sales and service	3,839,364
Administration	1,168,900
Repairs and maintenance	171,772
Depreciation	460,038
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Total operating expenses	5,640,074
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Operating Income	2,051,348
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Non-Operating Revenues (Expenses)	
Interest revenue	3,793
Miscellaneous	12,236
Interest expense	(241,253)
Amortization	(4,938)
<hr/>	
Total non-operating revenue (expenses)	(230,162)
<hr/>	
Income Before Transfers	1,821,186
Transfers out	(1,685,066)
<hr/>	
Change in net position	136,120
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Net Position - Beginning	3,753,059
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Net Position - ending	\$ 3,889,179
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The accompanying notes are an integral part of these financial statements.

City of Brundidge
Statement of Cash Flows – Proprietary Fund
For the Year Ended September 30, 2017

	Utilities Department
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Cash Flows From Operating Activities	
Receipts from customers and users	\$ 9,743,570
Payments to suppliers	(4,590,433)
Payments to employees	(648,550)
<hr/>	
Net cash provided by operating activities	4,504,587
<hr/>	
Cash Flows From Noncapital Financing Activities	
Other receipts	11,328
Transfers to other funds	(1,685,066)
<hr/>	
Net cash used in noncapital financing activities	(1,673,738)
<hr/>	
Cash Flows From Capital and Related Financing Activities	
Principal payments on long-term debt	(505,000)
Interest and financing payments on capital debt	(217,058)
Purchase of capital assets	(2,019,375)
Purchases of investments	(532,066)
<hr/>	
Net cash used in capital and related financing activities	(3,273,499)
<hr/>	
Cash Flows From Investing Activities	
Sales of investments	527,735
Interest received	3,793
<hr/>	
Net cash provided by investing activities	531,528
<hr/>	
Net increase in cash and cash equivalents	88,878
<hr/>	
Cash and Cash Equivalents - Beginning	357,016
<hr/>	
Cash and Cash Equivalents - Ending	\$ 445,894
<hr/>	

-Continued-

The accompanying notes are an integral part of these financial statements.

City of Brundidge
Statement of Cash Flows – Proprietary Fund (Continued)
For the Year Ended September 30, 2017

	Utilities Department
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 2,051,348
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	460,038
Changes in operating assets and liabilities:	
Decrease in receivables	2,050,699
Increase in inventory	(3,913)
Increase in prepaid expenses	(449)
Decrease in accounts payable	(41,158)
Decrease in accrued expenses	(6,820)
Decrease in net pension liability and related deferred inflows and outflows	(6,105)
Increase in customer deposits	1,449
Decrease in compensated absences	(502)
Net cash provided by operating activities	\$ 4,504,587

The accompanying notes are an integral part of these 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. Long-Term Debt
10. Operating Leases
11. Employee Retirement Plan
12. Other Post-Employment Benefits
13. Commitments and Contingencies
14. Risk Management and Litigation
15. Tax Abatements
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18. Accumulated Patronage Capital Credits
19. Economic Dependency
20. Related Organizations
21. 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 two discretely presented component units that are required to be reported in these financial statements. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the government.

Discretely Presented Component Units – 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 Authority.

Industrial Development Board (the “Board”) – The Board strives to bring economic development to the City. The citizens who serve on the Governing Board are appointed by the City Council and the City has guaranteed some of the Board’s debt. Refer to Note 14 for details of the Guaranty Agreement.

Brundidge Solid Waste Authority (the “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 of the Authority with staggering terms of office. During the fiscal year ending September 30, 2017, the Authority became inactive and all available funds were transferred to the City.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

government are eliminated from this presentation since these resources are not available for general government funding purposes. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues are classified into three categories: charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to direct recovery from customers for services rendered.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Department are charges to customers for sales and services.

Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The following is reported as a major governmental fund:

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

The 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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 3. Two Cent Gas Tax Fund
- 4. Tobacco Tax Fund

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

The following is reported as a major proprietary fund:

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

Cash and Cash Equivalents

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

Investments

The City's investments are limited to funds that invest in U.S. Government backed securities and certificates of deposits at federally insured banks. These investments are reported at fair value, except for the certificates of deposit, which are carried at amortized cost.

Receivables and Unbilled Revenue

Proprietary fund accounts receivables are shown net of an allowance for uncollectible accounts outstanding in excess of 90 days. 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 (unbilled revenue). 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 outstanding in excess of one year. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Interfund Loans and Transfers

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

Restricted Assets

The business-type activities restricted assets as reported in the Statement of Net Position are restricted by bond agreements and are to be used strictly to retire the long-term debt shown in the proprietary fund. The assets were accumulated according to the bond indenture of the various issues. Restricted asset reported as governmental activities is restricted for capital improvements, fire department, library and highways and streets.

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 acquisition 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
Water system	10 – 50 years
Buildings	25 – 50 years
Sewer 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 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, and is amortized over five years beginning with the year in which the difference occurred.

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reported \$18,043 of nonspendable fund balances in the Joseph Carroll Library fund (Permanent Fund) and \$13,456 in the general fund for inventory. 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 \$432,159 of restricted fund balance, \$311,130 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.

Property Tax Calendar

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. Taxes levied in fiscal year 2017 for the 2018 budget year have been recorded as receivables and deferred inflows - property taxes levied for subsequent periods in the amount of \$207,457. These balances are deemed collectible and no allowance for uncollectibles is reported.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management Estimates and Assumptions

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

Impact of Recently Issued Accounting Pronouncements

In fiscal year 2017, the City adopted four new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.
- GASB Statement No. 77, *Tax Abatement Disclosures*.
- GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*

GASB Statement No. 74 (GASB 74) establishes accounting and financial reporting standards, but not funding or budgetary standards, for state and local governmental other postemployment benefit (“OPEB”) plans. The statement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. The adoption of GASB 74 had no impact on the City’s financial statements. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 77 (GASB 77) defines a tax abatement and contains required disclosures about a reporting government’s own tax abatement agreements and those agreements that are entered into by other governments and that reduce the reporting government’s tax revenues. There was no impact on the City’s financial statements as a result of the implementation of GASB 77. See Note 15 that summarizes essential information about the nature and magnitude of the reduction of tax revenues realized through tax abatement programs. The requirements of GASB 77 are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 78 (GASB 78) amends the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*—and amendment of GASB Statement No. 27 to exclude pension plans provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (a) is not a state or local government pension plan, (b) is used to provide defined benefits both to employees of state or local governmental employers and to employees of employers that are not state or local governments, and (c) has no predominant state or local governmental employer (either individually

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

or collectively with other state or local governmental employers that provide pensions through the pension plan). The Statement also establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. There was no material impact on the City's financial statements as a result of the implementation of GASB 78. The requirements of GASB 78 are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 80 (GASB 80) amends the blending requirements for the financial statement presentation of component units of all state and local governments by providing an additional criterion. As provided for in GASB 80, a component unit should be included in the reporting entity financial statements using the blending method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member as identified in the component unit's articles of incorporation or bylaws. There was no impact on the City's financial statements as a result of the implementation of GASB 80. The requirements of GASB 80 are effective for reporting periods beginning after June 15, 2016.

Recently Issued But Not Yet Effective

GASB has issued the following pronouncements that may affect future financial position, results of operations, cash flows, or financial presentation of the City upon implementation. Management has not yet evaluated the effect of implementation of these standards.

GASB Statement No.	GASB Accounting Standard	Effective Fiscal Year
75	<i>Account and Financial Reporting for Postemployment Benefits Other Than Pensions</i>	2018
81	<i>Irrevocable Split-Interest Agreements</i>	2018
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2020
85	<i>Omnibus 2017</i>	2018
86	<i>Certain Debt Extinguishment Issues</i>	2018
87	<i>Leases</i>	2021

GASB Statement No. 75 (GASB 75) establishes standards of accounting and financial reporting, but not funding or budgetary standards, for OPEB that is provided to the employees of state and local governmental employers through OPEB Plans that are administered through trusts or equivalent arrangements meeting certain criteria. This statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditure. It replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. For defined benefit OPEB plans, the statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information are addressed. GASB 75 is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 81 (GASB 81) requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. GASB 81 also provides expanded guidance for circumstances in which the government holds the assets. The requirements of GASB 81 are effective for periods beginning after December 15, 2016.

GASB Statement No. 83 (GASB 83) addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in GASB 83. GASB 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement also includes various disclosure requirements. The requirements for GASB 83 are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 84 (GASB 84) establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. The requirements of GASB 84 are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 85 (GASB 85) addresses practice issues that have been identified during implementation and application of certain GASB Statements. GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of GASB 85 are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86 (GASB 86) improves the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. GASB 86 also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of GASB 86 are effective for reporting periods beginning after June 15, 2017.

The objective of GASB Statement No. 87 (GASB 87) is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB 87 are effective for reporting periods beginning after December 15, 2019.

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 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.

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

Investments

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

For an investment, custodial credit risk is the risk that an entity will not be able to recover the value of its investments that are in the possession of an outside party if the counterparty fails. The Treasury Portfolio 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, 2017, the City held the following investments:

Investment Type	Investment Rating	Maturities	Fair Value
Restricted investments			
U.S. Government backed securities	AAA	One year or less	\$ 367,824

Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets. Quoted price data is generally obtained from exchange or dealer markets.
- Level 2 inputs are significant other observable inputs. Inputs are obtained from various sources, including market participants, dealers and brokers.
- Level 3 inputs are significant unobservable inputs as they trade infrequently or not at all.

The City has the following recurring fair value measurement as of September 30, 2017:

- U.S. Government backed securities totaling \$367,824 are valued using market prices (Level 1 inputs).

City of Brundidge
Notes to Financial Statements

NOTE 4 - RECEIVABLES

Receivables at September 30, 2017 consist of the following:

	General Fund	Other Governmental Funds	Proprietary
Taxes	\$ 333,690	\$ 11,774	\$ -
Accounts	11,143	-	645,490
Unbilled revenues	2,136	-	75,583
Other receivables	14,426	-	645
Court costs and fines	86,152	-	-
Loan receivable from Alabama Department of Environmental Management ("ADEM")	-	-	178,055
Total receivable	447,547	11,774	899,773
Less allowance for uncollectible accounts	(43,616)	-	(2,228)
Less amount due to others	(33,303)	-	-
Receivables, net	\$ 370,628	\$ 11,774	\$ 897,545

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, 2017 are as follows:

Fund	Due to	Due From
General	\$ -	\$ 14,250
Proprietary	14,250	-
	\$ 14,250	\$ 14,250

Interfund transfers for the year ended September 30, 2017 are as follows:

Interfund Transfers	Transfers in	Transfers out
General fund	\$ 1,759,504	\$ 137,804
Other governmental funds	137,804	74,359
Proprietary fund	-	1,685,066
Component unit	-	79
	\$ 1,897,308	\$ 1,897,308

City of Brundidge
Notes to Financial Statements

NOTE 6 - RESTRICTED ASSETS

Restricted assets were comprised of the following:

<i>September 30, 2017</i>	General	Proprietary
Cash restricted for:		
Capital improvements	\$ 81,938	\$ -
Court	454	-
Debt service	-	51,412
Investments restricted for:		
Debt service	-	367,824
	<u>\$ 82,392</u>	<u>\$ 419,236</u>

NOTE 7 - OTHER ASSETS

Other assets at September 30, 2017 consist of the following:

	General Fund	Proprietary Fund
Deposits	\$ 22,545	\$ 2,500
Unamortized bond insurance	-	39,846
	<u>\$ 22,545</u>	<u>\$ 42,346</u>

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 was as follows:

	Beginning Balance 10/1/2016	Increases	Decreases	Ending Balance 9/30/2017
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,308,062	\$ 7,896	\$ -	\$ 2,315,958
Construction in progress	872,804	381,367	1,240,181	13,990
Capital assets, not being depreciated	<u>\$ 3,180,866</u>	<u>\$ 389,263</u>	<u>\$ 1,240,181</u>	<u>\$ 2,329,948</u>

City of Brundidge
Notes to Financial Statements

NOTE 8 – CAPITAL ASSETS (Continued)

	Beginning Balance 10/1/2016	Increases	Decreases	Ending Balance 9/30/2017
Capital assets, being depreciated:				
Equipment	\$ 2,294,022	\$ 169,515	\$ 23,175	\$ 2,440,362
Buildings	2,170,037	225,878	-	2,395,915
Public improvements	569,696	1,240,181	-	1,809,877
Total capital assets, being depreciated	5,033,755	1,635,574	23,175	6,646,154
Less accumulated depreciation for:				
Equipment	1,660,512	147,637	23,175	1,784,974
Buildings	1,399,938	66,784	-	1,466,722
Public improvements	455,094	24,671	-	479,765
	3,515,544	239,092	23,175	3,731,461
Total capital assets, being depreciated, net	\$ 1,518,211	\$ 1,396,482	\$ -	\$ 2,914,693
Business-type Activities:				
Utilities Department				
Capital assets not being depreciated:				
Land	\$ 60,801	\$ -	\$ -	\$ 60,801
Construction in progress	327,536	1,968,165	2,295,701	-
Capital assets, not being depreciated	\$ 388,337	\$ 1,968,165	\$ 2,295,701	\$ 60,801
Capital assets being depreciated:				
Equipment	\$ 993,361	\$ 42,684	\$ 7,300	\$ 1,028,745
Buildings	121,245	-	-	121,245
Public improvements	16,153,383	2,304,224	-	18,457,607
Total capital assets, being depreciated	17,267,989	2,346,908	7,300	19,607,597
Less accumulated depreciation for:				
Equipment	852,368	76,452	7,300	921,520
Buildings	86,040	4,447	-	90,487
Public improvements	7,062,653	379,139	-	7,441,792
	8,001,061	460,038	7,300	8,453,799
Total capital assets, being depreciated, net	\$ 9,266,928	\$ 1,886,870	\$ -	\$ 11,153,798

City of Brundidge
Notes to Financial Statements

NOTE 8 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions as follows:

Governmental Activities:

General government	\$ 20,851
Public safety	118,297
Highways and streets	38,246
Sanitation and recycling	6,301
Culture and recreation	28,509
Health and welfare	26,888

Total depreciation expense – governmental activities	\$ 239,092
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Business-type Activities:

Electric	\$ 165,357
Sewer	152,188
Water	142,493

Utilities department	\$ 460,038
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NOTE 9 - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2017 was as follows:

	Beginning Balance 10/1/2016	Additions	Reductions	Ending Balance 9/30/2017	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 82,907	\$ 62,967	\$ 61,952	\$ 83,922	\$ 83,922
General obligation warrants	705,766	197,500	103,917	799,349	109,592
	788,673	260,467	165,869	883,271	193,514
Business-type Activities					
Compensated absences	59,099	32,318	32,820	58,597	58,597
Utility revenue warrants	9,825,000	-	505,000	9,320,000	515,000
Bond discounts	(32,233)	-	(2,125)	(30,108)	-
	9,851,866	32,318	535,695	9,348,489	573,597
Total	\$ 10,640,539	\$ 292,785	\$ 701,564	\$ 10,231,760	\$ 767,111

City of Brundidge
Notes to Financial Statements

NOTE 9 - LONG-TERM DEBT (Continued)

Governmental Activities

Series 2015A General Obligation Warrants – Debt service requirements on these bonds at September 30, 2017 are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2018	\$ 41,026	\$ 8,579
2019	42,154	7,451
2020	43,314	6,292
2021	44,491	5,115
2022	45,728	3,877
2023-2025	91,347	3,947
	\$ 308,060	\$ 35,261

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. On November 2, 2016, a loan modification agreement was signed due to unscheduled principal reduction. The debt service requirements are based on the loan modification agreement.

Series 2016 General Obligation Warrants – Debt service requirements on these bonds at September 30, 2017 are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2018	\$ 68,566	\$ 4,591
2019	69,776	3,381
2020	71,000	2,158
2021	72,259	898
2022	12,188	27
	\$ 293,789	\$ 11,055

On August 24, 2016, the City issued General Obligation Warrants Series 2016 in the amount of \$350,000. Proceeds of the warrants were used to resurface roads. Principal and interest is payable monthly. The interest rate on the bonds is 1.75%. This warrant is a general obligation of the City on which the full faith and credit of the City has been irrevocably pledged.

NOTE 9 - LONG-TERM DEBT (Continued)

Series 2017 General Obligation Warrants – During June of 2017, the City authorized the issuance and sale of up to \$400,000 General Obligation Warrants Series 2017. Proceeds of the warrants will be used to purchase property and renovate and equip the property for use by the City as City Hall. The construction/draw period will be for 18 months at 2.48% interest. Payments of interest only shall be made quarterly starting November 30, 2017 during the draw period. At the end of the construction/draw period, the debt will convert to a 20 year term at 3.65% interest. On March 1, 2019, this warrant shall become a term warrant in a principal amount equal to the aggregate outstanding principal balance of all advances during draw period plus unpaid interest. Payments of principal and interest will be made in equal monthly installments beginning March 31, 2019 and continuing through February 28, 2039. This warrant is a general obligation of the City on which the full faith and credit of the City has been irrevocably pledged. The principal balance of \$197,500 at September 30, 2017, is included in long-term debt.

Business-type Activities

2012 Utility Revenue Warrants – Debt service requirements on these bonds at September 30, 2017 are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2018	\$ 40,000	\$ 22,275
2019	40,000	21,176
2020	40,000	20,076
2021	40,000	18,975
2022	45,000	17,806
2023-2027	235,000	70,193
2028-2032	270,000	35,336
2033-2034	120,000	3,300
	\$ 830,000	\$ 209,137

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 ADEM. 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. Such pledge is subject and subordinate to the pledge of the net revenues for the 2015 obligations. 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 \$1,039,137. Principal and interest paid for the current year and total operating net income were \$63,375 and \$2,051,348, respectively. As of September 30, 2017, the City has drawn down \$885,215 of the loan with \$18,800 of capitalized interest and the remaining balance of \$90,885 is included in receivables, which includes \$54,900 of an additional

City of Brundidge
Notes to Financial Statements

NOTE 9 - LONG-TERM DEBT (Continued)

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, 2017, the City earned \$-0- in principal forgiveness and the balance of the unearned principal forgiveness was \$5,112.

2016 Utility Revenue Warrants – Debt service requirements on these bonds at September 30, 2017 are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2018	\$ 95,000	\$ 47,245
2019	95,000	45,155
2020	100,000	43,010
2021	100,000	40,810
2022	105,000	38,555
2023-2027	545,000	157,575
2028-2032	615,000	93,995
2033-2036	540,000	24,090
	\$ 2,195,000	\$ 490,435

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 ADEM. Proceeds of the warrants will be used to make capital improvements to the City’s sewer system. Principal is payable annually and interest is payable semi-annually. The interest rate on the bonds is 2.2% and the City pledged future electric, water and sewer customer revenues, net of specified operating expenses, to repay the bonds. Such pledge is subject and subordinate to the pledge of the net revenues for the 2015 and 2012 obligations. The bonds are payable solely from customer net revenues and are payable through 2036. The total principal and interest remaining to be paid on the warrants is \$2,685,435.

Principal and interest paid for the current year and total operating net income were \$130,902 and \$2,051,348, respectively. As of September 30, 2017, the City has drawn down \$2,197,830 of the loan and the remaining balance of \$87,170 is included in receivables.

2015 Utility Revenue Warrants – Debt service requirements on these bonds at September 30, 2017 are as follows:

City of Brundidge
Notes to Financial Statements

NOTE 9 - LONG-TERM DEBT (Continued)

Fiscal Year Ending September 30,	Principal	Interest
2018	\$ 380,000	\$ 147,060
2019	385,000	139,410
2020	395,000	132,499
2021	400,000	126,138
2022	410,000	119,045
2023-2027	2,175,000	456,982
2028-2032	2,150,000	148,335
	\$ 6,295,000	\$ 1,269,469

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. The City has pledged future electric, water and sewer customer revenues, net of specified operating expenses, to repay in utility revenue bonds issued in 2015. 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 \$7,564,469. Principal and interest paid for the current year and total operating net income were \$527,735 and \$2,051,348, 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 \$290,341, which includes \$143,383 of previous unamortized refunding costs; the total amount amortized for the year ended September 30, 2017 was \$24,195 and was reported as a part of interest expense. The balance of deferred refunding cost for this warrant at September 30, 2017, was \$245,983.

The City refunded the Series 2005 Utility Revenue Warrants to obtain a lower interest rate reducing the annual debt service requirements. The refunding decreased the total debt service payments of the City over the next sixteen years by approximately \$1,521,573 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) for the City of approximately \$1,010,860.

Other Long-Term Debt

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

NOTE 10 - OPERATING LEASES

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, 2017, the City paid \$75,000 to the lessee to operate the recreation park.

The City (Lessee) entered into leases with Xerox Corporation during fiscal year ending September 30, 2017 to lease two copiers. Lease expense under this noncancelable lease for September 30, 2017 was \$627. At September 30, 2017, future minimum rentals under noncancelable operating leases with a remaining lease term in excess of one year are summarized as follows:

2018	\$	2,201
2019		2,201
2020		1,470
<hr/>		
Total	\$	5,872
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NOTE 11 - 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.

NOTE 11 - EMPLOYEE RETIREMENT PLAN (Continued)

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.

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.

NOTE 11 - EMPLOYEE RETIREMENT PLAN (Continued)

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.

The ERS services approximately 875 local participating employers. These participating employers include 294 cities, 65 counties, and 516 other public entities. The ERS membership includes approximately 85,874 participants. As of September 30, 2016, membership consisted of:

Retirees and beneficiaries currently receiving benefits	23,007
Terminated employees entitled to but not yet receiving benefits	1,155
Terminated employees not entitled to a benefit	6,654
<u>Active members</u>	<u>55,058</u>
<u>Total</u>	<u>85,874</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.

City of Brundidge
Notes to Financial Statements

NOTE 11 - EMPLOYEE RETIREMENT PLAN (Continued)

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, 2017, 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 7.17% of pensionable payroll for Tier 1 employees and 2.67% for Tier 2 employees.

The City's contractually required contribution rate for the year ended September 30, 2017 was 7.54% of pensionable pay for Tier 1 employees, and 3.04% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when 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 \$119,089 for the year ended September 30, 2017.

Net Pension Liability

The City's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2015 rolled forward to September 30, 2016 using standard roll-forward techniques as shown in the following table:

	Expected	Valuation Assumptions	
		2015 Actual	2016 Actual
Total Pension Liability			
As of September 30, 2015 (a)	\$ 5,245,885	\$ 5,239,621	\$ 5,383,362
Discount rate (b)	8.00%	8.00%	7.75%
Entry Age Normal Cost for			
October 1, 2015 – September 30, 2016 (c)	130,453	130,453	125,735
Transfers Among Employers (d)	-	58,722	58,722
Actual Benefit Payments and Refunds for			
October 1, 2015 – September 30, 2016 (e)	(107,977)	(107,977)	(107,977)
Total Pension Liability			
As of September 30, 2016			
<u>[(a) x (1+(b))] + (c) + (d) + [(e) x (1+.5*(b))]</u>	<u>\$ 5,683,713</u>	<u>\$ 5,735,670</u>	<u>\$ 5,872,868</u>
Difference between Expected and Actual		\$ 51,957	
Less Liability Transferred for Immediate			
Recognition		58,722	
<u>Experience (Gain)/Loss</u>		<u>\$ (6,765)</u>	

NOTE 11 - EMPLOYEE RETIREMENT PLAN (Continued)

Actuarial assumptions. The total pension liability in the September 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.25% - 5.00%
Investment rate of return*	7.75%

* Net of pension plan investment expense

Mortality rates for ERS were based on the sex distinct RP-2000 Blue Collar Combined Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females at ages on and after age 78. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the September 30, 2015 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 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	17.00%	4.40%
U.S. large stocks	32.00%	8.00%
U.S. mid stocks	9.00%	10.00%
U.S. small stocks	4.00%	11.00%
International developed market stocks	12.00%	9.50%
International emerging market stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real estate	10.00%	7.50%
Cash equivalents	3.00%	1.50%
Total	100.00%	

*includes assumed rate of inflations of 2.50%

City of Brundidge
Notes to Financial Statements

NOTE 11 - EMPLOYEE RETIREMENT PLAN (Continued)

Discount rate. The discount rate used to measure the total pension liability was the long-term rate of return, 7.75%. 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.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Position Liability (a) - (b)
Balances at September 30, 2015	\$ 5,245,885	\$ 4,516,695	\$ 729,190
Changes for the year:			
Service cost	130,453	-	130,453
Interest	415,352	-	415,352
Change in assumptions	137,198	-	137,198
Differences between expected and actual experience	(6,765)	-	(6,765)
Contributions - employer	-	129,885	(129,885)
Contributions - employee	-	90,715	(90,715)
Net investment income	-	468,712	(468,712)
Benefit payments, including refunds of employee contributions	(107,977)	(107,977)	-
Transfers among employers	58,722	58,722	-
Net changes	626,983	640,057	(13,074)
Balances at September 30, 2016	\$ 5,872,868	\$ 5,156,752	\$ 716,116

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 7.75%, 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 (6.75%) or 1-percentage point higher (8.75%) than the current rate:

City of Brundidge
Notes to Financial Statements

NOTE 11 - EMPLOYEE RETIREMENT PLAN (Continued)

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
City's net pension liability	\$ 1,297,581	\$ 716,116	\$ 223,973

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, 2016. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2016. The auditor's report dated September 18, 2017 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, 2017, the City recognized pension expense of \$111,745. At September 30, 2017, 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	\$ -	\$ 70,332
Changes of assumptions	119,380	-
Net difference between projected and actual earnings on pension plan investments	38,532	-
Employer contributions subsequent to the measurement date	119,089	-
Total	\$ 277,001	\$ 70,332

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
2018	\$ 14,504
2019	14,505
2020	45,289
2021	(14,882)
2022	5,221
Thereafter	22,943

NOTE 11 - EMPLOYEE RETIREMENT PLAN (Continued)

Deferred Compensation Plan

In addition to the State retirement plan discussed above, the City offers its employees a Section 457 retirement plan. The plan, available to all City employees, permits them to defer a portion of their salary until future years. All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the individuals who participate in the deferred compensation plan and are not subject to the claims of the City's general creditors.

NOTE 12 - 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 unfunded actuarial accrued liability would be \$14,325 with an estimated net annual required contribution of \$-0-.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Solid Waste Landfill

The City landfill operated by the Pike County Commission on land leased by the City 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 ADEM 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 \$73,869 during the year ended September 30, 2017.

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

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. Subsequent to year end, all parties agreed to extend the contract for one year.

The City is committed under various contracts for construction, engineering and administration services for the Community Development Block Grant SM-EF-PF 15-002 in the amount of \$125,807.

The City is committed under various contracts for grant administration for the ADECA project SM-ED-PF-15-002 in the amount of \$6,300.

Guaranty Agreement – Industrial Development Board (the “Board”)

The Board (a component unit of the City) 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 Board default, the agreement did not stipulate any recourse for the City against the Board. As of September 30, 2017, debt outstanding was \$189,583.

Business Income Insurance

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.

Wholesale Power Contract

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 13 - COMMITMENTS AND CONTINGENCIES (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.

NOTE 14 - 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 and management, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

NOTE 15 – TAX ABATEMENTS

The City enters into property tax abatement agreements with local businesses under the state Tax Incentive Reform Act of 1992 Section 40-9B-1 et seq., Code of Alabama 1975. Under the Act, cities may grant tax abatements to qualifying businesses for construction related transaction taxes, state and local non-educational portion of property taxes on real and personal property for up to a maximum of 20 years (data processing centers can be abated to up to 30 years), and mortgage and recording taxes. For the fiscal year ended September 30, 2017, the City abated property taxes totaling \$20,847.

NOTE 16 - INTEREST COSTS

The amount of interest cost, including deferred refunding cost of \$24,195, incurred for the Utilities Department was \$241,253 for the year ended September 30, 2017, all of which was charged to operations. Interest incurred during the construction phase of capital assets of the Utilities Department of \$23,376 is included as part of the capitalized value of the asset constructed in the Clean Water State Revolving Fund project.

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, 2017 was \$217,012.

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, 2017 are as follows: \$ 2,414,809

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 ended September 30, 2017, approximately 32% of total accounts receivable in the proprietary fund and 40% of total electric revenues were from Walmart Distribution Center. The Utilities Department purchases all of the electricity sold to its customers from PowerSouth Energy Cooperative. See Note 14 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 through November 6, 2016, is also the President and CEO of the First National Bank of Brundidge. At September 30, 2017, the City has cash on deposit in the amount of \$2,362,672 and general obligation warrants payable in the amount of \$308,060. 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 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 30, 2018, the date these financial statements were available to be issued. In October of 2017, a business closed, which accounted for \$388,687 or approximately 5% of fiscal year 2017 utilities revenues.

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

<i>September 30,</i>	2016	2015	2014
Total Pension Liability			
Service cost	\$ 130,453	\$ 128,917	\$ 134,487
Interest	415,352	389,942	358,681
Change of assumptions	137,198	-	-
Differences between expected and actual experience	(6,765)	(87,882)	-
Benefit payments, including refunds of employee contributions	(107,977)	(118,746)	(86,041)
Transfers among employers	58,722	-	-
Net change in total pension liability	626,983	312,231	407,127
Total pension liability - beginning	5,245,885	4,933,654	4,526,527
Total pension liability - ending (a)	\$ 5,872,868	\$ 5,245,885	\$ 4,933,654
Plan Fiduciary Net Position			
Contributions - employer	\$ 129,885	\$ 130,306	\$ 126,264
Contributions - member	90,715	85,784	84,441
Net investment income	468,712	52,386	461,874
Benefit payments, including refunds of employee contributions	(107,977)	(118,746)	(86,041)
Transfers among employers	58,722	-	(13,232)
Net change in plan fiduciary net position	640,057	149,730	573,306
Plan net position - beginning	4,516,695	4,366,965	3,793,659
Plan net position - ending (b)	\$ 5,156,752	\$ 4,516,965	\$ 4,366,965
Net pension liability (asset) - ending (a) - (b)	\$ 716,116	\$ 729,190	\$ 566,689
Plan fiduciary net position as a percentage of the total pension	87.81%	86.10%	88.51%
Covered-employee payroll*	\$ 1,718,728	\$ 1,628,777	\$ 1,609,718
Net pension liability (asset) as a percentage of covered-employee	41.67%	44.77%	35.20%

*Employer's covered-payroll during the measurement period is the total payroll paid to covered employees (not just

City of Brundidge
Required Supplementary Information
Schedule of Employer Contributions

<i>September 30,</i>	2017	2016	2015
Actuarially determined contribution*	\$ 119,089	\$ 129,705	\$ 133,666
Contributions in relation to the actuarially determined contribution*	119,089	129,705	133,666
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered-employee payroll**	\$ 1,766,434	\$ 1,718,728	\$ 1,628,777
Contributions as a percentage of covered-employee payroll	6.74%	7.55%	8.21%

*Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. The Schedule of Employer Contribution is based on the 12 month period of the underlying financial statement.

**Employer's covered-payroll for FY 2017 is the total covered payroll for the twelve month period of the underlying financial statement.

Notes to Schedule

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2017 were based on the September 30, 2014 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	16 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



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 Fund accounts for proceeds from a local gasoline tax. The use of this funding is for highway and street expenditures.

Tobacco Tax Fund 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, 2017

	Special Revenue	
	\$.04 and \$.05 Gas Tax	\$.07 Gas Tax
Assets		
Cash and cash equivalents	\$ 13,067	\$ 18,976
Receivables, net	890	1,132
Due from other funds	-	-
Investments	-	3,400
Total assets	\$ 13,957	\$ 23,508
Fund Balances		
Nonspendable	\$ -	\$ -
Restricted	13,957	23,508
Total liabilities and fund balances	\$ 13,957	\$ 23,508

Funds		Permanent Fund	
\$.02 Gas Tax	Tobacco Tax	Joseph Carroll Library Fund	Total
\$ 265,113	\$ 37,437	\$ -	\$ 334,593
8,552	1,200	-	11,774
-	-	-	-
-	-	18,043	21,443
\$ 273,665	\$ 38,637	\$ 18,043	\$ 367,810
\$ -	\$ -	\$ 18,043	\$ 18,043
273,665	38,637	-	349,767
\$ 273,665	\$ 38,637	\$ 18,043	\$ 367,810

City of Brundidge
Combining Statement of Revenues, Expenditures and Changes in Fund
Balances -
Nonmajor Governmental Funds
September 30, 2017

	<u>Special Revenue</u>	
	<u>\$.04 and \$.05 Gas Tax</u>	<u>\$.07 Gas Tax</u>
Revenues		
Taxes	\$ 9,706	\$ 12,406
Investment earnings	-	8
Total revenues	9,706	12,414
Expenditures		
Highways and streets	-	-
Excess of revenues over expenditures	9,706	12,414
Other Financing Sources (Uses)		
Transfers in	-	-
Transfers out	-	-
Total other financing sources (uses)	-	-
Net change in fund balances	9,706	12,414
Fund balances - beginning	4,251	11,094
Fund balances - ending	\$ 13,957	\$ 23,508

Funds		Permanent Fund		Total
\$.02 Gas Tax	Tobacco Tax	Joseph Carroll Library Fund		
\$ 80,836	\$ 14,700	\$ -	\$	117,648
-	75	45		128
80,836	14,775	45		117,776
47	-	-		47
80,789	14,775	45		117,729
137,804	-	-		137,804
(74,314)	-	(45)		(74,359)
63,490	-	(45)		63,445
144,279	14,775	-		181,174
129,386	23,862	18,043		186,636
\$ 273,665	\$ 38,637	\$ 18,043	\$	367,810

City of Brundidge
Schedule of Expenditures of Federal Awards
September 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Pass-Through Grantor's No.	Expenditures
U.S. Department of Housing and Urban Development			
Passed through Alabama Department of Economic and Community Affairs Community Development Block Grants / State's program and Non-Entitlement Grants in Hawaii			
	14.228	SM ED PF 15 002	\$ 86,928
U.S. Department of Justice			
Direct program Bulletproof Vest Partnership Program			
	16.607	N/A	3,797
U.S. Department of Transportation			
Passed through Alabama Department of Transportation Highway Planning and Construction **			
	20.205	TAPAA-TA13(921)	34,171
U.S. Environmental Protection Agency			
Passed through Alabama Department of Environmental Management *** Capitalization Grants for Clean Water State Revolving Funds			
	66.458	CS010864-01	1,968,165
U.S. Department of Health and Human Services			
Passed through South Central Alabama Regional Development Commission Special Programs for the Aging Title III Part B-Administration and Support Services*			
	93.044	05-03117-0000	11,700
U.S. Department of Homeland Security			
Passed through Alabama Emergency Management Agency Disaster Grants-Public Assistance (Presidentially Declared Disasters)			
	97.036	FEMA 4251-DR-AL PA 109-10240-00	25,425
U.S. Department of Homeland Security			
Direct program Assistance to Firefighters Grant			
	97.044	EMW-2015-FO-	118,096
Total expenditures of federal awards			\$ 2,248,282

* Aging Cluster

** Highway Planning and Construction Cluster

*** Clean Water State Revolving Fund Cluster

See the independent auditors' report and accompanying notes to the schedule of expenditures of federal awards.

City of Brundidge
Notes to Schedule of Expenditures of Federal Awards
September 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the SEFA) summarizes the federal expenditures of the City under programs of the federal government for the year ended September 30, 2017. The amounts reported as federal expenditures were obtained from the City's general ledger. Because the SEFA presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position and changes in net position of the City.

For purposes of the SEFA, federal awards include all grants, contracts, and similar agreements entered into directly with the federal government and other pass through entities. The City has obtained Catalog of Federal Domestic Assistance (CFDA) numbers to ensure that all programs have been identified in the SEFA. CFDA numbers have been appropriately listed by applicable programs. Federal programs with different CFDA numbers that are closely related because they share common compliance requirements are defined as a cluster by the Uniform Guidance. Three clusters are separately identified in the SEFA and are the following:

Aging Cluster - This cluster includes awards that assist cities on aging in facilitating the development and implementation of a comprehensive, coordinated system for providing long-term care in home and community-based settings, in a manner responsive to the needs and preferences of older individuals and their family caregivers.

Highway Planning and Construction Cluster - This cluster includes awards that assist cities in the planning and development of an integrate, interconnected transportation system important to interstate commerce and travel by constructing, rehabilitating and preserving the National Highway System, provide aid for repair of Federal-aid highways following disasters, foster safe highway design and improve bridge conditions, support community-level transportation infrastructure and other special purposes.

Clean Water State Revolving Fund Cluster - This cluster includes loans and other types of financial assistance to qualified cities for clean water projects.

NOTE 2 - RELATIONSHIP OF THE SCHEDULE TO PROGRAM FINANCIAL REPORTS

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

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

City of Brundidge
Notes to Schedule of Expenditures of Federal Awards
September 30, 2017

NOTE 3 - FEDERAL PASS-THROUGH FUNDS

The City is also the sub-recipient of federal funds that have been subjected to testing and are reported as expenditures and listed as federal pass-through funds. Federal awards other than those indicated as “pass-through” are considered direct.

NOTE 4 - BASIS OF ACCOUNTING

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

NOTE 5 - CONTINGENCIES

Grant monies received and disbursed by the City are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the City does not believe that such disallowance, if any, would have a material effect on the financial position of the City. As of September 30, 2017, there were no material questioned or disallowed costs as a result of grant audits in process or completed.

NOTE 6 - NONCASH ASSISTANCE

The City did not receive any federal noncash assistance for the period ended September 30, 2017.

NOTE 7 - DE MINIMIS

The City has elected to not use the 10% de Minimis indirect cost rate.

NOTE 8 – SUBRECIPIENTS

The City did not provide federal funds to subrecipients for the fiscal year ending September 30, 2017.

**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 the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Brundidge, Alabama (the City) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated January 30, 2018. We conducted our audit 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. Our report qualified an opinion on said financial statements because the financial statements of the Brundidge Solid Waste Disposal Authority and the Industrial Development Board were not audited in accordance with Government Auditing Standards, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Brundidge Solid Waste Disposal Authority and the Industrial Development Board.

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’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 first paragraph of this section 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 in internal control described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness. [2003-001]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Brundidge, Alabama's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned cost. 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 *Government 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.

Enterprise, Alabama

January 30, 2018



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Mayor and Members of
the City Council
Brundidge, Alabama

Report on Compliance for Each Major Federal Program

We have audited City of Brundidge's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended September 30, 2017. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2017.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

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

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

Enterprise, Alabama

January 30, 2018

City of Brundidge
Schedule of Findings and Questioned Costs
September 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: The auditor expressed an unmodified opinion on governmental activities, the business-type activities, each major fund and the aggregate remaining information and qualified opinion on discretely presented component units.

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR Part 200.516(a)? yes no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
66.458	Clean Water State Revolving Fund Cluster
Dollar threshold used to distinguish between type A and type B programs?	\$750,000
Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

City of Brundidge
Schedule of Findings and Questioned Costs
September 30, 2017

Section II – Financial Statements Findings (repeat)

2003-001 Separation of Duties (Repeat)

Condition – There are instances when one individual may bill, collect, receipt, and deposit 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 a 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.

Section III – Federal Award Findings and Questioned Costs

No matters were reported

**City of Brundidge
Summary Schedule of Prior Year Audit Findings
September 30, 2017**

CITY OF BRUNDIDGE

ISABELL BOYD
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BETTY BAXTER
DISTRICT 1

ARTHUR GRIFFIN
DISTRICT 2

MARGARET ROSS
DISTRICT 3

BYRON GAYNOR
DISTRICT 4

CHRISTOPHER FOSTER
DISTRICT 5

Summary Schedule of Prior Year Audit Findings

2003-001 - Repeat finding in the current year

**City of Brundidge
Corrective Action Plan
September 30, 2017**

CITY OF BRUNDIDGE

ISABELL BOYD
MAYOR
isabellboyd@yahoo.com

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Corrective Action Plan

2003-001 Separation of duties (Repeat)

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However, the City maintains records that agree receipts and deposit slips.
The City Council will continue to monitor transactions to provide financial oversight.