

CITY OF BOAZ

Boaz, Alabama

AUDITED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

September 30, 2013

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
City of Boaz  
Boaz, 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 Boaz, Alabama, as of and for the year ended September 30, 2013, 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 did not audit the financial statements of the Boaz City Board of Education, which represents total assets of \$34,975,530 as of September 30, 2013, and total revenues of \$22,175,031 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Boaz City Board of Education, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in

the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boaz, Alabama as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress – Employees' Retirement System of Alabama, the schedule of funding progress – retiree health plan, and the budgetary comparison information on pages i through ix, page 40, page 41, and pages 42 through 43, respectively, 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 method of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Boaz, Alabama's basic financial statements. The accompanying schedule of Debt Service Requirements to Maturity is presented for purposes of additional analysis and is not a required part of the basic financial statements.

City of Boaz  
Boaz, Alabama

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

**Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2014, on our consideration of the City of Boaz, Alabama's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 of Boaz, Alabama's internal control over financial reporting and compliance.

*MDA Professional Group, P.C.*

Albertville, Alabama  
August 15, 2014

**CITY OF BOAZ, ALABAMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Boaz's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

We offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2013. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

**Financial Highlights**

- The City's governmental net assets increased \$3,052,284 in 2013 as a result of the Boaz City School Board issuing new debt to refund some the bonds the City held on behalf of the School Board.
- As of September 30, 2013, the City's governmental funds reported a combined ending fund balance of \$1,913,494, an increase of \$549,465 from the prior year.
- The City's total long-term debt had a net decrease of \$135,560 during 2013. The City issued Series 2013 General Obligation Warrants to refund debt of the City. The City added a note payable for \$2,502,535 to purchase the Boaz Outlet Center and to upgrade the theater. In addition, the Boaz City School Board issued General Obligation Warrants to refund some the bonds the City held on behalf of the School Board.
- The City's total governmental capital assets increased by \$2,234,710 over the prior year due to purchasing the outlet center and upgrading equipment.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS** – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business.

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenue and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused annual leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the City include general government, public safety related departments, public service departments, recreational activities, and intergovernmental functions. The intergovernmental functions of the City are those in which the City provides financial resources to other governmental entities, primarily the Boaz City Board of Education for support of the City school system. The business-type activities of the City includes leasing activities of the City at the Boaz Outlet Center.

As described in the notes to the financial statements, the Boaz City School Board's financial statements are included in this report because of the relationship of this legally separate entity to the City. The complete financial statements (including MD&A) of the Boaz City Board of Education may be obtained from the Boaz City Board of Education.

Other component units which normally may be included as part of the City's financial reporting entity include the Industrial Development Board, Library Board, Zoning Board of Adjustments, and Planning Commission. However, they are not included because they have insignificant or no assets and fund balances.

This discussion and analysis focuses on the primary government.

The government-wide financial statements can be found on pages 5 and 6 of this report.

**FUND FINANCIAL STATEMENTS** – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City are considered governmental funds.



*Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is more narrow than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 17 individual governmental funds:

- The General fund, Combined Debt Service fund, and Corrections fund are considered to be *major funds*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for these funds.
- The 14 other governmental funds are considered to be *nonmajor governmental funds* and they are combined into a single, aggregated presentation in the basic financial statements.

The basic governmental fund financial statements can be found on pages 7 and 8 of this report.

*Proprietary funds* (or "enterprise funds") are used to account for activities where the emphasis is placed on net income determination. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses proprietary funds to account for its ownership and leasing of the Boaz Outlet Center.

The proprietary fund, which is considered to be a major fund of the City, is reported separately as proprietary fund financial statements in the basic financial statements. The proprietary fund financial statements can be found on pages 10 through 13 in the basic financial statements.

NOTES TO FINANCIAL STATEMENTS - The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 14 through 38 of this report.

REQUIRED SUPPLEMENTARY INFORMATION – In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. Because the City adopts an annual operating budget for its general fund, a comparison of budget to actual results is provided for this fund to demonstrate compliance with the budget. Also, required schedules of funding progress for the Employees' Retirement System of Alabama and the Retiree Health Plan are presented.

OTHER INFORMATION – A schedule of Debt Service Requirements to Maturity is presented here.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve as a useful indicator of a government's financial position. Overall, the City's assets exceeded liabilities by \$9,090,204 at the close of the most recent fiscal year.

The largest portion of the City's net assets reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, machinery and equipment, vehicles, infrastructure, and construction in progress) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets represents resources that are subject to restrictions as to how they may be used. Such restrictions are imposed by legal requirements or sources other than those imposed by the City Council (e.g. state or federal law).

The remaining balance of the City's net assets is unrestricted. Unrestricted net assets represent the fact that non-capital assets of the City exceed the unrestricted debt and are available to fund governmental activities as deemed necessary by the City Council.

Revenues from governmental activities decreased during 2013 by \$6,367,248. The most significant changes were as follows:

Contributions from component units decreased as a result of the prior year's refunding of debt by the Boaz City School Board.

Expenses of governmental activities decreased approximately \$437,183 from 2012. Other expense items increased including wages, insurance, and repairs. The City did not have as many grant projects in the current year as it did in the prior year.

**City of Boaz Alabama**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended September 30, 2012**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Table 1**  
**Summary of Net Assets**  
**September 30, 2013 and 2012**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Cash and Investments</b>	\$ 2,004,909	\$ 1,073,661	\$ 165,207	\$ -	\$ 2,170,116	\$ 1,073,661
<b>Other Assets</b>	1,400,025	1,547,999	-	-	1,400,025	1,547,999
<b>Capital Assets</b>	14,974,524	15,223,281	2,483,467	-	17,457,991	15,223,281
<b>Total Assets</b>	\$ 18,379,458	\$ 17,844,941	\$ 2,648,674	\$ -	\$ 21,028,132	\$ 17,844,941
<b>Other Liabilities</b>	\$ 701,638	\$ 477,460	\$ 42,289	\$ -	\$ 743,927	\$ 477,460
<b>Long-Term Liabilities</b>	8,691,466	11,329,561	2,502,535	-	11,194,001	11,329,561
<b>Total Liabilities</b>	9,393,104	11,807,021	2,544,824	-	11,937,928	11,807,021
<b>Net Assets:</b>						
<b>Invested in Capital</b>						
<b>Assets, Net of Debt</b>	6,597,147	6,484,198	-	-	6,597,147	6,484,198
<b>Restricted</b>	1,650,201	972,939	-	-	1,650,201	972,939
<b>Unrestricted</b>	739,006	(1,419,217)	103,850	-	842,856	(1,419,217)
<b>Total Net Assets</b>	8,986,354	6,037,920	103,850	-	9,090,204	6,037,920
<b>Total Liabilities and</b>						
<b>Net Assets</b>	\$ 18,379,458	\$ 17,844,941	\$ 2,648,674	\$ -	\$ 21,028,132	\$ 17,844,941

**City of Boaz Alabama**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended September 30, 2012**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Table 2**  
**Summary of Changes in Net Assets**  
**September 30, 2013 and 2012**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Revenues</b>						
<i>Program Revenues:</i>						
<b>Charges for Services</b>	\$ 1,484,142	\$ 1,328,281	\$ 203,839	\$ -	\$ 1,687,981	\$ 1,328,281
<b>Operating Grants and Contributions</b>	272,001	207,733	-	-	272,001	207,733
<b>Capital Grants and Contributions</b>	2,526	278,169	-	-	2,526	278,169
<i>General Revenues:</i>						
<b>Taxes</b>	9,352,647	9,536,665	-	-	9,352,647	9,536,665
<b>Contributions From Component Units</b>	2,350,400	8,696,843	-	-	2,350,400	8,696,843
<b>Interest</b>	3,600	2,668	-	-	3,600	2,668
<b>Other Revenues</b>	101,565	87,609	-	-	101,565	87,609
<b>Total Revenues</b>	<u>13,566,881</u>	<u>20,137,968</u>	<u>203,839</u>	<u>-</u>	<u>13,770,720</u>	<u>20,137,968</u>
<b>Expenses</b>						
<b>Governmental Activities</b>	<u>10,618,447</u>	<u>11,155,619</u>	<u>99,989</u>	<u>-</u>	<u>10,718,436</u>	<u>11,155,619</u>
<b>Increase in Net Assets</b>	2,948,434	8,982,349	103,850	-	3,052,284	8,982,349
<b>Beginning Net Assets (Deficit)</b>	<u>6,037,920</u>	<u>(2,944,429)</u>	<u>-</u>	<u>-</u>	<u>6,037,920</u>	<u>(2,944,429)</u>
<b>Ending Net Assets (Deficit)</b>	<u><u>\$ 8,986,354</u></u>	<u><u>\$ 6,037,920</u></u>	<u><u>\$ 103,850</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,090,204</u></u>	<u><u>\$ 6,037,920</u></u>

## **Financial Analysis of the Governmental Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The combined fund balances of the City's governmental funds increased to \$1,913,494 at September 30, 2013, an increase of \$549,465 over the prior fiscal year. Of this amount, \$530,322 constitutes the unassigned fund balance, which is generally available for spending at the City's discretion, although it is subject to certain limitation inherent in the funds where the balances are retained. The remainder of the total fund balance, or \$1,383,172, is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders, pay debt service, or has generally been committed for other purposes.

The increase in the combined fund balance of the City's governmental funds was mostly attributable to the changes in the individual funds as follows:

- The fund balance for the General Fund increased \$26,119. If the debt proceeds and transfers are removed from the net change in fund balance, the General Fund had an excess of revenues over expenses of \$731,926.
- Combined Debt Service Fund increased \$238,192 due to the payment of the City's debt and proceeds from new debt.

## **Governmental Funds Budgetary Highlights**

General Fund – There was no difference between the original and final General Fund budgets.

- Revenues from Sales Tax were \$196,969 under projected amounts. Part of this decrease is a reflection of a having to refund a sales tax payment made in error.
- Expenditures in the General Government and Administration were over budget \$366,475 due to paving expenditures incurred during the year.

## **Capital Assets and Debt Administration**

CAPITAL ASSETS – The City's investment in capital assets for governmental activities and enterprise activities as of September 30, 2013, totaled \$17,457,991 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, vehicles, and construction in progress. Net capital assets increased approximately \$2,234,710 in 2013.

City of Boaz's Net Capital Assets

	Governmental Funds	Proprietary Funds
Land and Land Improvements	\$ 4,549,412	\$ -
Buildings	6,406,291	2,053,597
Infrastructure	2,612,291	-
Heavy Equipment	632,086	429,870
Furniture and Fixtures	49,119	-
Vehicles	691,454	-
Computer Equipment	33,871	-
	<u>\$ 14,974,524</u>	<u>\$ 2,483,467</u>

LONG-TERM DEBT – As of September 30, 2013, the City had \$11,194,001 of long-term debt outstanding. Of this amount, \$8,540,057 is general obligation warrants backed by the full faith and credit of the City and \$2,502,535 is comprised of a note payable for the Boaz Outlet Center.

The City's general obligation bond rating by Standard and Poor's is A+.

New debt incurred by the City during the year ended September 30, 2013, included the issuance of the Series 2013 General Obligation Warrants in the amount of \$920,000 and a note payable in the amount of \$2,502,535. Several of the City's notes payable were refunded during the year.

City of Boaz's Outstanding Debt			
	Governmental Funds	Proprietary Funds	
General Obligation Warrants	\$ 8,540,057	\$ -	
Notes Payable	-	2,502,535	
Other Post Employment Benefit Obligations	11,108	-	
Compensated Absences	140,301	-	
	<u>\$ 8,691,466</u>	<u>\$ 2,502,535</u>	

## **Requests for Information**

This financial report is designed to present a general overview of the City's finances and to demonstrate accountability for the money it receives from taxpayers, customers, and creditors. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, P.O. Box 537, Boaz, AL 35957 or by calling (256) 593-9537.

**BASIC FINANCIAL STATEMENTS**



## STATEMENT OF NET ASSETS

## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

ASSETS	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Cash	\$ 748,357	\$ 165,207	\$ 913,564	\$ 9,258,888
Receivables, net				
Tax and Tax Equivalents	1,015,583	-	1,015,583	344,834
Refuse Collections	36,897	-	36,897	-
Prepaid Expenses	215	-	215	-
Inventory	-	-	-	43,130
Unamortized Bond Issuance Costs	347,330	-	347,330	-
Restricted Assets:				
Cash	1,256,552	-	1,256,552	-
Capital Assets (net of accumulated depreciation)				
Land and Land Improvements	4,549,412	-	4,549,412	1,477,211
Buildings and Improvements	6,406,291	2,053,597	8,459,888	22,518,145
Infrastructure	2,612,291	-	2,612,291	-
Equipment	632,086	429,870	1,061,956	195,253
Furniture and Fixtures	49,119	-	49,119	-
Motor Vehicles	691,454	-	691,454	473,314
Computer Equipment	33,871	-	33,871	-
Construction in Progress	-	-	-	664,755
<b>Total Assets</b>	<b>\$ 18,379,458</b>	<b>\$ 2,648,674</b>	<b>\$ 21,028,132</b>	<b>\$ 34,975,530</b>
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities	\$ 563,857	\$ 3,837	\$ 567,694	\$ 793,615
Due to State of Alabama	82,771	-	82,771	-
Interest Payable	55,010	38,452	93,462	-
Deferred Revenue	-	-	-	13,243
Non-Current Liabilities				
Due within one year	1,049,036	2,502,535	3,551,571	938,225
Due in more than one year	7,642,430	-	7,642,430	16,056,930
<b>Total Liabilities</b>	<b>9,393,104</b>	<b>2,544,824</b>	<b>11,937,928</b>	<b>17,802,013</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	6,597,147	-	6,597,147	8,333,523
Restricted For:				
Highways, Streets, and Other Purposes	512,864	-	512,864	-
Capital Projects	224,316	-	224,316	-
Debt Service	913,021	-	913,021	-
Unrestricted Net Assets	739,006	103,850	842,856	8,839,994
<b>Total Net Assets</b>	<b>\$ 8,986,354</b>	<b>\$ 103,850</b>	<b>\$ 9,090,204</b>	<b>\$ 17,173,517</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

STATEMENT OF ACTIVITIES

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2013

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets			Component Unit
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
<b>Primary Government</b>								
Governmental Activities:								
General Government and Administrative	\$ 2,191,982	\$ -	\$ 227,211	\$ -	\$ (1,964,771)	\$ -	\$ (1,964,771)	\$ -
Police	2,296,365	28,504	33,877	2,526	(2,231,458)	-	(2,231,458)	-
Fire	1,466,174	205,032	-	-	(1,261,142)	-	(1,261,142)	-
Street	1,771,184	451,530	-	-	(1,319,654)	-	(1,319,654)	-
Park and Recreation	906,616	150,928	-	-	(755,688)	-	(755,688)	-
Library	397,602	28,860	9,490	-	(359,252)	-	(359,252)	-
Municipal Court	162,201	619,288	-	-	457,087	-	457,087	-
Senior Center	230,012	-	1,423	-	(228,589)	-	(228,589)	-
Education (payment to school board)	810,000	-	-	-	(810,000)	-	(810,000)	-
Interest, Fiscal Charges, and Amortization of Bond Costs	386,311	-	-	-	(386,311)	(38,452)	(424,763)	-
<b>Total Governmental Activities</b>	<b>\$ 10,618,447</b>	<b>\$ 1,484,142</b>	<b>\$ 272,001</b>	<b>\$ 2,526</b>	<b>(8,859,778)</b>	<b>(38,452)</b>	<b>(8,898,230)</b>	<b>-</b>
Business-Type Activities:								
Boaz Outlet Center	61,537	203,839	-	-	-	142,302	142,302	-
<b>Total Business-Type Activities</b>	<b>61,537</b>	<b>203,839</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>142,302</b>	<b>142,302</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 10,679,984</b>	<b>\$ 1,687,981</b>	<b>\$ 272,001</b>	<b>\$ 2,526</b>	<b>\$ (8,859,778)</b>	<b>\$ 103,850</b>	<b>\$ (8,755,928)</b>	<b>\$ -</b>
<b>Component Unit</b>								
Boaz City Board of Education	\$ 23,801,870	\$ 2,258,929	\$ 13,355,926	\$ 738,726	\$ -	\$ -	\$ -	\$ (7,448,289)
General Revenues:								
Taxes:								
Property Taxes and Payments in Lieu of Taxes					1,622,227	-	1,622,227	2,455,649
Local Sales Tax					6,203,031	-	6,203,031	1,887,289
Alcohol Taxes					51,057	-	51,057	-
Tobacco Taxes					40,709	-	40,709	-
Motor Fuel Taxes					151,657	-	151,657	-
Licenses, Permits, and Other Revenue					1,283,966	-	1,283,966	15,964
Investment Income					3,600	-	3,600	34,987
Contributions From Component Units					2,350,400	-	2,350,400	-
Miscellaneous					101,565	-	101,565	1,427,561
<b>Total General Revenues and Transfers</b>					<b>11,808,212</b>	<b>-</b>	<b>11,808,212</b>	<b>5,821,450</b>
Change in Net Assets					2,948,434	103,850	3,052,284	(1,626,839)
Net Assets - Beginning of Year					6,037,920	-	6,037,920	18,800,356
<b>Net Assets - End of Year</b>					<b>\$ 8,986,354</b>	<b>\$ 103,850</b>	<b>\$ 9,090,204</b>	<b>\$ 17,173,517</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

BALANCE SHEET - GOVERNMENTAL FUNDS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Totals Governmental Funds
<b>ASSETS</b>				
Cash	\$ 602,965	\$ -	\$ 145,393	\$ 748,358
Receivables, Net				
Tax and Tax Equivalents	1,015,383	-	200	1,015,583
Refuse Collection	36,897	-	-	36,897
Restricted Cash	-	925,881	330,671	1,256,552
Prepaid Expenses	215	-	-	215
Due From Other City Funds	17,424	43,763	-	61,187
<b>Total Assets</b>	<b>\$ 1,672,884</b>	<b>\$ 969,644</b>	<b>\$ 476,264</b>	<b>\$ 3,118,792</b>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 340,003	\$ 1,612	\$ 1,621	\$ 343,236
Accrued Payroll and Other Withholdings	208,574	-	-	208,574
Deferred Revenue	462,000	-	-	462,000
Due to Other City Funds	43,763	-	17,424	61,187
Other Liabilities	38,711	-	91,590	130,301
<b>Total Liabilities</b>	<b>1,093,051</b>	<b>1,612</b>	<b>110,635</b>	<b>1,205,298</b>
<b>Fund Balances:</b>				
Nonspendable	215	-	-	215
Restricted	-	-	110,956	110,956
Assigned	-	968,032	303,969	1,272,001
Unassigned	579,618	-	(49,296)	530,322
	579,833	968,032	365,629	1,913,494
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,672,884</b>	<b>\$ 969,644</b>	<b>\$ 476,264</b>	<b>\$ 3,118,792</b>

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Fund Balance - Governmental Funds	\$ 1,913,494
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the Statement of Net Assets	14,974,524
Bond issuance costs that are deferred and amortized in the Statement of Net Assets are expensed when issued and, therefore, not reported in the funds.	347,330
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	462,000
Long-term liabilities, including bonds payable and the related accrued interest payable, are not due and payable in the current period and, therefore, not reported in the funds.	(8,710,994)
Net assets of governmental activities	<u>\$ 8,986,354</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements

**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES-ALL GOVERNMENTAL FUNDS**

**CITY OF BOAZ, ALABAMA**

**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes				
Property and Payments in Lieu of Taxes	\$ 884,098	\$ -	\$ 742,036	\$ 1,626,134
Sales and Use	6,203,031	-	-	6,203,031
Rental	28,201	-	-	28,201
Motor Fuel	76,641	-	75,016	151,657
Tobacco	40,709	-	-	40,709
Alcohol	-	-	36,652	36,652
Licenses and Permits	1,147,851	-	-	1,147,851
Charges for Services	621,979	-	283,363	905,342
Fines and Costs	507,376	-	-	507,376
Intergovernmental Revenues	50,265	-	217,088	267,353
Contributions From Component Units	-	2,350,400	-	2,350,400
Other Revenues	308,671	1,556	1,907	312,134
	<u>9,868,822</u>	<u>2,351,956</u>	<u>1,356,062</u>	<u>13,576,840</u>
<b>EXPENDITURES</b>				
General Government and Administrative				
Police	2,059,725	-	83	2,059,808
Fire	2,087,859	-	-	2,087,859
Street	1,293,655	-	-	1,293,655
Senior Center	1,617,612	-	480	1,618,092
Park and Recreation	190,254	-	-	190,254
Library	838,880	-	-	838,880
Municipal Court	293,869	-	-	293,869
Capital Lease Payments	157,311	-	66,295	223,606
Principal Retirements on Long-Term Debt	16,522	357,406	-	373,928
Interest and Fiscal Agents Fees	-	3,538,593	-	3,538,593
Capital Outlay	-	363,583	-	363,583
Education	581,209	-	28,433	609,642
	<u>-</u>	<u>-</u>	<u>810,000</u>	<u>810,000</u>
	<u>9,136,896</u>	<u>4,259,582</u>	<u>905,291</u>	<u>14,301,769</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>731,926</u>	<u>(1,907,626)</u>	<u>450,771</u>	<u>(724,929)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds From Debt Issued	-	1,274,394	-	1,274,394
Transfers From Other Funds	194,000	899,807	28,433	1,122,240
Transfers to Debt Service	(899,807)	-	-	(899,807)
Transfers to Other Funds	-	(28,433)	(194,000)	(222,433)
	<u>(705,807)</u>	<u>2,145,768</u>	<u>(165,567)</u>	<u>1,274,394</u>
Net Change in Fund Balances	26,119	238,142	285,204	549,465
FUND BALANCES - Beginning of Year	<u>553,714</u>	<u>729,890</u>	<u>80,425</u>	<u>1,364,029</u>
FUND BALANCES - End of Year	<u>\$ 579,833</u>	<u>\$ 968,032</u>	<u>\$ 365,629</u>	<u>\$ 1,913,494</u>

The accompanying Notes to Financial Statements are an integral part of these financial statement

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT  
OF ACTIVITIES

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2013

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Amounts reported for governmental activities in the Statement of Activities  
(page 6) are different because:

Net Change in fund balances - total governmental funds (page 8)	\$ 549,465
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(232,038)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(4,000)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	2,616,404
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>18,603</u>
Change in Net Assets - Governmental Activities	<u><u>\$ 2,948,434</u></u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

## STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

	<u>Boaz Outlet Center</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 165,207
Total Current Assets	<u>165,207</u>
Noncurrent Assets:	
Capital Assets:	
Buildings and Improvements	2,075,214
Equipment	<u>438,924</u>
Total Capital Assets	<u>2,514,138</u>
Less Accumulated Depreciation	<u>30,671</u>
Total Noncurrent Assets	<u>2,483,467</u>
TOTAL ASSETS	<u><u>\$ 2,648,674</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	3,837
Interest Payable	38,452
Short-Term Note Payable	<u>2,502,535</u>
Total Current Liabilities	<u>2,544,824</u>
TOTAL LIABILITIES	<u><u>\$ 2,544,824</u></u>
<b>NET ASSETS</b>	
Unrestricted	<u>103,850</u>
TOTAL NET ASSETS	<u><u>\$ 103,850</u></u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
- PROPRIETARY FUNDS

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2013

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	<u>Boaz Outlet Center</u>
OPERATING REVENUES	
Facility Lease Revenue	<u>\$ 203,839</u>
Total Revenues	<u>203,839</u>
OPERATING EXPENSES	
Depreciation	30,671
Utilities	17,019
Repairs and Maintenance	9,535
Materials and Supplies	2,160
Freight Expense	1,652
Miscellaneous Expense	<u>500</u>
Total Expenses	<u>61,537</u>
OPERATING INCOME	<u>142,302</u>
NONOPERATING EXPENSES	
Interest Expense	<u>38,452</u>
Total Nonoperating Expenses	<u>38,452</u>
CHANGES IN NET ASSETS	103,850
TOTAL NET ASSETS - BEGINNING	<u>-</u>
TOTAL NET ASSETS - ENDING	<u><u>\$ 103,850</u></u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2013

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	Boaz Outlet Center
Cash Flows from Operating Activities:	
Receipts from Lease Revenue	\$ 203,839
Payments to Suppliers	<u>(27,029)</u>
Net Cash Provided by Operating Activities	<u>176,810</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition of Capital Assets	(2,514,138)
Proceeds From Short-Term Note Payable	<u>2,502,535</u>
Net Cash From Capital and Related Financing Activities	<u>(11,603)</u>
Net Increase in Cash and Cash Equivalents	<u>165,207</u>
Beginning Cash and Cash Equivalents	<u>-</u>
Ending Cash and Cash Equivalents	<u><u>\$ 165,207</u></u>

(Continued)



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	<u>Boaz Outlet Center</u>
Reconciliation of Operating Income to Net Cash From Operating Activities:	
Operating Income	<u>\$ 142,302</u>
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	30,671
Increase in Accounts Payable	<u>3,837</u>
Total Adjustments	<u>34,508</u>
Net Cash Provided by Operating Activities	<u><u>\$ 176,810</u></u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESReporting Entity

The City of Boaz, Alabama (the City) is a chartered municipality organized under the laws of the State of Alabama. The City is governed by a Mayor and a City Council consisting of five members elected to terms of four years. The City complies with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Accounting principles generally accepted in the United States of America require that the City report the entire reporting entity which consists of the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. Each component unit of the City is discretely presented in a separate column in the basic financial statements to emphasize the fact that it is legally separate from the City. The discretely presented component units has a September 30 year end.

## Discretely Presented Component Units

*Boaz City Board of Education* - The Boaz City Board of Education's five member governing body is appointed by the City.

Complete financial statements for the Boaz City Board of Education a discretely presented component unit, may be obtained at the administrative office of the entity.

Government -Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *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 are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Government -Wide and Fund Financial Statements (Continued)

of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum funds are maintained consistent with legal and managerial requirements. The City of Boaz currently has no fiduciary to report.

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*. 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 funds are used to account for the City's general governmental activities. Governmental fund financial statements use the *current financial resource measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within forty-five (45) days of the end of the fiscal period. Expenditures generally are recorded when the related fund liability is incurred, as in accrual accounting. However, debt service expenditures are recognized only when payment is due. Certain compensated absences, claims, and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, sales and use taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual. Other taxes and receipts become measurable when cash is received by the City and are recognized as revenue at that time. Shared revenues and entitlements are recorded at the time of receipt or earlier if the accrual criteria are met.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Payments in lieu of taxes are revenues from other governmental entities paid in lieu of property taxes.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The City reports the following major governmental funds:

General Fund - The General Fund accounts for all of the revenues and expenditures of the City, except those which must be accounted for in other funds, and it is the largest and most important accounting activity for the City. General Fund revenues finance all of the current operations of governmental units which basically benefit the citizenry as a whole.

Combined Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources and the payment of general long-term debt, including capital lease obligations, principal, interest, and related costs.

The City reports the following major proprietary fund:

Boaz Outlet Center - The Boaz Outlet Center accounts for the activities of the City's lease revenue and maintenance expenses related to the facility management of the Boaz Outlets.

Additionally, the government reports the following fund types:

Special Revenue Funds - A Special Revenue Fund accounts for the proceeds of specific revenue sources (other than those derived from expendable trusts or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds consist of the various state shared gasoline taxes

Capital Projects Funds - A Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Auditing Standards Board (GASB).

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

During the course of normal operations, the City has numerous transactions between funds to provide services, to pay debt, etc. These transactions are generally reflected as operating transfers except for transactions reimbursing a fund for expenditures made by it for the benefit of another fund. These transactions are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund reimbursed. As a general rule, the effects of interfund activity have been eliminated from the government-wide financial statements.

In the government-wide financial statements, amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 Boaz Outlet Center are rental income from outlet facilities.

Operating expenses for proprietary funds include the administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use unrestricted resources first, then restricted resources as they are needed, except in the case of grant monies which are used for their required purpose.

ASSETS, LIABILITIES, AND NET ASSETSCash

The City's 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.

Receivables and Payables

All outstanding balances between funds are reported as "due to/from other funds".

All trade and property tax receivables are shown net of an allowance for uncollectibles.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET ASSETS (Continued)

Property Taxes

Property taxes are levied on October 1 for the prior fiscal year beginning October 1, at which time a lien is attached. These taxes are due and payable October 1 and delinquent after December 31 each year after which a penalty and interest are required to be charged. Revenue is recognized in the year when the taxes are levied and collected at the fund level and in the year for which they are levied at the government-wide level. The taxes are collected by the Marshall County tax collector and remitted to the City.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items on both the government-wide and fund financial statements.

Restricted Assets

Cash accounts and other assets restricted for specific purposes are classified as restricted assets on the balance sheet and statement of net assets.

Capital Assets

Capital assets of the City, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed, or if inadequate records were available to determine the actual cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of governmental-type activities is not capitalized.

It is the City's policy not to depreciate historical objects and museum exhibits that are held for public exhibition. These objects are maintained by the City at a reasonable level and, if sold, proceeds are used to purchase more historical objects for public display.

(Continued)

## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and infrastructure	40-60
Building improvements	15-40
Machinery, equipment, and vehicles	5-25
Books	3

Capital assets of the Boaz City Board of Education are defined as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Depreciation is calculated using the straight-line method over estimated useful lives ranging from 5 to 50 years.

Risk Management

The City is exposed to normal business risk in the course of operations. Commercial insurance is purchased by the City to cover any normal, insurable loss up to policy limits. During the past three years, there have been no losses which exceeded insured amounts.

Compensated Absences

Employees can earn vested annual vacation leave based on years of service as follows:

0-2 years	6 days
3-10 years	12 days
11-20 years	18 days
21 years and over	24 days

Unused vacation leave not exceeding one year's annual vacation can be carried over to succeeding years. Excess unused vacation is converted into sick leave. The City has accrued a liability for vacation pay which has been earned but not taken by City employees. Vacation leave that is expected to be liquidated with expendable available resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. All unused annual leave is accrued when earned by the employees in the government-wide financial statements. Vacation leave that is expected to be liquidated during the next twelve months is considered a current liability on the government-wide financial statements.

Sick leave is earned at the rate of eight hours per month. Sick leave liability has not been accrued because of the uncertainty of the expense during the succeeding years.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Long-Term Obligations

In the government-wide financial statements and proprietary fund, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs and gains/losses on refundings, 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, discount, or gains/losses on refundings. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, long-term debt is not reported as a liability and 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 financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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 differ from those estimates.

Equity Classifications

Government-Wide statements - Equity is classified as net assets and displayed in three components:

- a) Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and outstanding balances of any bonds, mortgages, notes, or other debt attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net assets - consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
- c) Unrestricted net assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

(Continued)



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

Fund equity is reported in the fund financial statements as fund balances. The following classifications of fund balances are reported in the fund financial statements:

- a) Nonspendable - This classification includes amounts that cannot be spent because they are either (1) not in spendable form; or (2) legally or contractually required to be maintained intact.
- b) Restricted - This classification includes amounts that have constraints placed on the use of resources imposed either (1) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (2) by law through constitutional provisions or enabling legislation.
- c) Committed - This classification includes amounts that can only be used for specific purposes. It is the practice of the City to present assets in this classification pursuant to constraints imposed by formal action of the Council before the end of the fiscal year, and require the same level of formal action to remove the constraint. However, no formal policy regarding this action has been approved by the City. No amounts were reported as committed as of September 30, 2013.
- d) Assigned - This classification includes amounts that are intended to be used for specific purposes, but are neither restricted nor committed. It is the practice of the City to allow the City Council to make a determination of the assigned amounts of fund balance, and also to allow the City Council to remove the constraints. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. No formal policy regarding the assignment of fund balances to this classification has been approved by the City.
- e) Unassigned - This classification is the residual classification for the general fund, and represents fund balances that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first, when more than one classification is available.

(Continued)

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

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NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balances - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of the reconciliation explains the "long-term liabilities, including bonds payable, that are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:

Bonds and Notes Payable	\$ 8,540,057
Accrued Interest Payable	55,010
Other Post Employment Benefits Payable	9,657
Compensated Absences	<u>106,270</u>
Net adjustment to reduce <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 8,710,994</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital Outlay	\$ 609,642
Depreciation Expense	<u>(841,680)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (232,038)</u>

(Continued)

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

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NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Net Proceeds of Debt Issued	\$ (1,274,394)
Payment of Debt	3,895,998
Bond Defeasement costs	26,285
Change in Accrued Interest	9,105
Amortization of bond issue costs and original issue discounts	<u>(40,590)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 2,616,404</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

As a result of the timing differences for the collection of revenues, certain revenues are recognized for the City's governmental activities when susceptible to accrual (i.e., when they are "measurable and available"). The details of this difference are as follows:

Accrued property tax	<u>\$ (4,000)</u>
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Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment is a combination of the following items:

Loss on Disposal of Fixed Assets	\$ (16,719)
Other Post Employment Benefit Obligations	11,950
Compensated Absences	<u>23,372</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 18,603</u>

## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

## A. BUDGETARY INFORMATION

An annual budget is prepared for the City's general fund and is adopted on the modified accrual basis. All annual appropriations lapse at the fiscal year end. The City is authorized to transfer budget amounts between departments within the general fund; however, any revisions that alter the total appropriations of any fund must be approved by the Council.

## B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The City maintains a level of control at the department level. The following departments had expenditures exceeding appropriations as of September 30, 2013.

<u>Fund</u>	<u>Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General	General Government and Administrative	\$ 1,693,250	\$ 2,059,725	\$ (366,475)
	Police	2,017,350	2,087,859	(70,509)
	Fire	1,233,100	1,293,655	(60,555)
	Street	1,597,450	1,617,612	(20,162)
	Park and Recreation	782,600	838,880	(56,280)
	Municipal Court	129,750	157,311	(27,561)
	Capital Outlay	189,000	581,209	(392,209)
	Capital Lease Payments	-	16,522	(16,522)

The City's general fund total expenditures exceeded total appropriations by \$982,546. The City does not adopt a budget for the special revenue, capital project, or debt service funds.

NOTE 4 - DEPOSITS AND INVESTMENTS

At September 30, 2013, the carrying amounts of the City's deposits with three financial institutions were \$1,445,311.

Deposits at year-end were held by financial institutions in the State of Alabama's Security of Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the Code of Alabama 1974, Sections 41-14A-1 through 41-14A-14. 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 a 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 Depository 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.

(Continued)

## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

At September 30, 2013, the City had the following investments held by a trustee:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Federated U.S. Treasury Cash Reserves	785,989	52 days

*Interest rate risk* - The City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year.

*Credit risk* - State statutes limit the City's investments to U.S. Treasury obligations, State of Alabama and Alabama County obligations, and general obligations of Alabama municipalities. At September 30, 2013, the City's investments consisted of Federated U.S. Treasury Cash Reserves Fund. This money market fund seeks current income consistent with stability of principal and liquidity by investing only in a portfolio of short-term U.S. Treasury securities. The Fund seeks to maintain a stable net asset value of \$1.00 per share.

*Custodial credit risk* - This is the risk that in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2013, the City's investments consisted solely of U.S. Treasury Bills held by one financial institution.

NOTE 5 - RECEIVABLES

Receivables at September 30, 2013, consist of the following:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Sales Tax	\$ 460,673	\$ -	\$ 460,673
Garbage Collection Fees	36,897	-	36,897
Returned Checks	-	200	200
Ad Valorem Tax	554,710	-	554,710
	<u>\$ 1,052,280</u>	<u>\$ 200</u>	<u>\$ 1,052,480</u>

NOTE 6 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds are as follows:

(Continued)

## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

NOTE 6 - DEFERRED REVENUE (Continued)

	<u>Unavailable</u>
Property Taxes Receivable (General Fund)	<u>\$ 462,000</u>

NOTE 7 - CAPITAL ASSETS

The following is a summary of changes in the City's Governmental Activities capital asset activity for the fiscal year:

	Balance October 1, 2012	Additions	Disposals	Balance September 30, 2013
<u>Governmental Activities:</u>				
Land and Land				
Improvements	\$ 4,159,700	\$ 389,712	\$ -	\$ 4,549,412
Total Capital Assets not Being Depreciated	4,159,700	389,712	-	4,549,412
Building and Improvements	9,164,778	30,467	25,000	9,170,245
Computer Equipment	237,549	13,411	-	250,960
Equipment	2,845,713	89,137	-	2,934,850
Furniture and Fixtures	403,247	19,750	-	422,997
Infrastructure	3,262,552	-	-	3,262,552
Motor Vehicles	3,305,219	67,165	-	3,372,384
 Total Capital Assets Being Depreciated	 19,219,058	 219,930	 25,000	 19,413,988
Less Accumulated				
Depreciation for:				
Building and Improvements	2,498,762	273,473	8,281	2,763,954
Computer Equipment	204,261	12,828	-	217,089
Equipment	2,112,157	190,607	-	2,302,764
Furniture and Fixtures	362,039	11,839	-	373,878
Infrastructure	551,994	98,267	-	650,261
Motor Vehicles	2,426,264	254,666	-	2,680,930
	<u>8,155,477</u>	<u>841,680</u>	<u>8,281</u>	<u>8,988,876</u>
 Total Capital Assets Being Depreciated, Net	 11,063,581	 (621,750)	 16,719	 10,425,112
 Governmental Activities, Capital Assets, Net	 <u>\$ 15,223,281</u>	 <u>\$ (232,038)</u>	 <u>\$ 16,719</u>	 <u>\$ 14,974,524</u>

(Continued)

## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

NOTE 7 - CAPITAL ASSETS (Continued)

The following is a summary of changes in the City's Business-Type Activities capital asset activity for the fiscal year:

	Balance October 1, 2012	Additions	Disposals	Balance September 30, 2013
<u>Business-Type Activities:</u>				
Buildings and Improvements	\$ -	\$ 2,075,214	\$ -	\$ 2,075,214
Equipment	-	438,924	-	438,924
Total Capital Assets Being Depreciated	-	2,514,138	-	2,514,138
Less Accumulated Depreciation for:				
Building and Improvements	-	21,617	-	21,617
Equipment	-	9,054	-	9,054
	-	30,671	-	30,671
Total Capital Assets Being Depreciated, Net	-	2,483,467	-	2,483,467
Business-Type Activities, Capital Assets, Net	\$ -	\$ 2,483,467	\$ -	\$ 2,483,467

Depreciation expense is charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
Municipal Court	\$ 3,025
Library	105,030
Administration	28,853
General Government	121,843
Parks and Recreation	69,736
Senior Center	39,501
Fire	164,691
Police	148,457
Street	160,544
Total depreciation expense - governmental activities	<u>\$ 841,680</u>
<u>Business-Type Activities:</u>	
Boaz Outlet Center	<u>\$ 30,671</u>

(Continued)

## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

NOTE 7 - CAPITAL ASSETS (Continued)

Activity for the discretely presented component unit, the Boaz City Board of Education, for the year ended September 30, 2013, was as follows:

	Balance October 1, 2012	Additions	Disposals	Balance September 30, 2013
<u>Component Unit:</u>				
Construction in Progress	\$ -	\$ 664,755	\$ -	\$ 664,755
Total Capital Assets not Being Depreciated	-	664,755	-	664,755
Land and Land Improvements	1,530,957	180,350	-	1,711,307
Building	28,703,968	-	-	28,703,968
Equipment	444,689	92,483	-	537,172
Vehicles	974,273	47,309	-	1,021,582
Total Capital Assets Being Depreciated	31,653,887	320,142	-	31,974,029
Less Accumulated Depreciation for:				
Land Improvements	202,325	31,771	-	234,096
Building	5,416,357	769,466	-	6,185,823
Equipment	283,465	58,454	-	341,919
Vehicles	446,610	101,658	-	548,268
	6,348,757	961,349	-	7,310,106
Total Capital Assets Being Depreciated, Net	25,305,130	(641,207)	-	24,663,923
Governmental Activities, Capital Assets, Net	\$ 25,305,130	\$ 23,548	\$ -	\$ 25,328,678

Depreciation expense is charged to functions of the component unit as follows:

<u>Component Unit:</u>	
Instructional Services	\$ 627,479
Instructional Support Services	13,446
Operational and Maintenance Services	18,166
Student Transportation Services	96,231
Food Services	78,484
General Administrative Services	14,630
Other Expenditures	112,913
Total depreciation expense - governmental activities	\$ 961,349



CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of September 30, 2013, is as follows:

Due To/From other funds (Primary Government):

<u>Payable Fund</u>		<u>Receivable Fund</u>	
Nonmajor Funds	\$ 17,424	General Fund	\$ 17,424
General Fund	<u>43,763</u>	Debt Service Fund	<u>43,763</u>
	<u>\$ 61,187</u>		<u>\$ 61,187</u>

Interfund transfers to/from for the year ended September 30, 2013, are as follows:

<u>Transfer From</u>	<u>Transfer To</u>		
General Fund	Debt Service Fund	\$	899,807
Debt Service Fund	Nonmajor Funds		28,433
Nonmajor Funds	General Fund		<u>194,000</u>
		\$	<u>1,122,240</u>

Interfund balances are used to: (1) supply funds from a fund that has current resources to a fund that needs current resources and (2) facilitate transactions that are made by one fund for the benefit of more than one fund.

NOTE 9 - SHORT-TERM NOTE PAYABLE

The City of Boaz entered into short-term note payables at the First Bank of Boaz for the purchase of the Boaz Outlet Center and equipment. The notes bear interest at 3.75%. The notes are payable in one lump sum of outstanding principal and interest on May 6, 2014. In May 2014, the notes were renewed at an interest rate of 3.75% with outstanding principal and interest due in May 2015.

## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

NOTE 10 - LONG-TERM DEBT

The government issues general obligation warrants to provide funds for the acquisition and construction of major capital facilities. General obligation warrants have been issued for general government activities. In addition, general obligation warrants have been issued to refund general obligation warrants.

Changes in long-term obligations for the year ended September 30, 2013, are as follows:

	Interest Rate	Beginning Balance Outstanding	Additions	Reductions	Ending Balance Outstanding	Amounts Due Within One Year
General Obligation Warrants:						
Dated July 1, 2004	1.75 - 5.00%	\$ 2,260,000	\$ -	\$ 2,260,000	\$ -	\$ -
Dated November 1, 2009	3.00 - 4.50%	3,065,000	-	260,000	2,805,000	230,000
Dated October 1, 2010	2.00 - 2.875%	3,850,000	-	405,000	3,445,000	415,000
Dated June 1, 2012	0.80 - 3.00%	1,500,000	-	75,000	1,425,000	80,000
Dated January 1, 2013	2.00%	-	920,000	-	920,000	175,000
Less, Unamortized Bond Discount		(60,946)	1,336	(4,667)	(54,943)	-
		<u>10,614,054</u>	<u>921,336</u>	<u>2,995,333</u>	<u>8,540,057</u>	<u>900,000</u>
Other Liabilities:						
Note Payable - People's Independent Bank	4.35%	6,531	-	6,531	-	-
Note Payable - People's Independent Bank	4.65%	132,618	-	132,618	-	-
Note Payable - First Bank of Boaz	3.99%	45,050	-	45,050	-	-
Note Payable - First Bank of Boaz	3.99%	-	69,918	69,918	-	-
Note Payable - First Bank of Boaz	3.99%	-	284,476	284,476	-	-
Compensated Absences		149,729	156,583	166,011	140,301	140,301
Other Post Employment Benefit Obligations		24,173	-	13,065	11,108	8,735
Capital Leases		357,406	-	357,406	-	-
		<u>\$ 11,329,561</u>	<u>\$ 1,432,313</u>	<u>\$ 4,070,408</u>	<u>\$ 8,691,466</u>	<u>\$ 1,049,036</u>

(Continued)

## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

NOTE 10 - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for general obligations warrants and notes payable are as follows:

Fiscal Years Ending September 30	Principal	Interest	Totals
2014	\$ 900,000	\$ 226,900	\$ 1,126,900
2015	800,000	209,110	1,009,110
2016	820,000	192,645	1,012,645
2017	835,000	175,458	1,010,458
2018	845,000	157,146	1,002,146
2019 - 2023	2,465,000	527,526	2,992,526
2024 - 2028	1,405,000	255,155	1,660,155
2029 - 2030	525,000	22,223	547,223
	<u>\$ 8,595,000</u>	<u>\$ 1,766,163</u>	<u>\$ 10,361,163</u>

Interest expense charged to functions of the primary government for the year ended September 30, 2013, totaled \$272,761.

The City utilizes the General Fund and the Debt Service Fund to liquidate the annual principal and interest payments on the outstanding obligations for the Governmental Activities.

NOTE 11 - ADVANCE REFUNDING OF LONG-TERM DEBT

On January 1, 2013, the City issued \$920,000 in general obligation warrants with an interest rate bearing 2.00%. The City issued the warrants to advance refund \$780,739 of the outstanding note payable to People's Independent Bank, two note payables to First Bank of Boaz, and a capital lease obligation to First Banker Corporation. Of the remaining proceeds of the 2013 general obligation warrants, \$110,828 was used to pay interest and other costs of issuing the 2013 general obligation warrants, and \$28,433 was used to purchase various vehicles for the City. Proceeds of the issuance used to refund the note payables and the capital lease obligations were used by the City to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded note payables and capital lease obligations. As a result, the note payables and capital lease obligations are considered defeased, and the City has removed the liability from its accounts. The outstanding principle of the defeased note payables and capital lease obligations is \$702,860 at September 30, 2013.

The advance refunding increased total debt service payments over the next three years by approximately \$24,000. This increase results in an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately \$6,000.

## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

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NOTE 12 - DEFINED BENEFIT PENSION PLAN

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

Substantially all employees are members of the Employees' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the City. Each employee is required to contribute 5% of his/her annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 9.20% of covered payroll. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the higher monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the higher monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

As of September 30, 2012, the most recent actuarial valuation date, the actuarial value of the plan assets was \$8,839,389; the actuarial accrued liability was \$11,305,741; the total unfunded actuarial accrued liability was \$2,466,352; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 78.2%; the annual covered payroll was \$3,095,499; and the ratio of the unfunded actuarial liability to annual covered payroll was 79.7%. The actuarial assumptions used are described in the Annual Pension Cost section of this note. The Schedule of Funding Progress - Employees' Retirement System, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement Systems of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

(Continued)

## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

NOTE 12 - DEFINED BENEFIT PENSION PLAN (Continued)Annual Pension Cost

For the year ended September 30, 2013, the City's annual pension cost of \$242,720 was equal to the City's required and annual contribution. The required contribution was determined as part of the September 30, 2012, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return, (b) projected salary increases ranging from 3.75% - 7.25% per year, and no cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2012, was 24 years.

Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
09/30/10	\$ 203,760	100%	\$ -
09/30/11	\$ 247,704	100%	\$ -
09/30/12	\$ 256,970	100%	\$ -

NOTE 13 - RESTRICTED NET ASSETS AND RESERVED FUND BALANCES

The statement of net assets shows certain amounts as restricted net assets. These amounts are restricted in their use by parties outside the City such as creditors, grantors, or contributors, or are restricted by law or regulation. Components of restricted net assets include:

<u>Activity</u>	<u>Restricted By</u>	
Reserve	Council Resolution	\$ 322,254
Dixie Youth Men's Softball	Council Resolution	280
Fire and Rescue	Council Resolution	42,725
Road Surface and Repairs	Law	109,265
Capital Improvement	Council Resolution	61
School Ad Valorem	Law	1,690
Capital Projects	Law	224,316
Debt Service	Council Resolution	913,021
Special Revenues	Council Resolution	36,589

(Continued)

## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

NOTE 13 - RESTRICTED NET ASSETS AND RESERVED FUND BALANCES (Continued)

The balance sheet shows certain amounts as restricted, assigned, or unassigned fund balances. Restricted amounts are restricted by either federal or state law; assigned amounts are designated by the City leaders to use for a specific purpose; and unassigned amounts are to use in any City function. Components of fund balances are:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund Balances:				
Nonspendable:				
Prepaid Items	\$ 215	\$ -	\$ -	215
Restricted for:				
Road Surface and Repairs	-	-	109,265	109,265
Education	-	-	1,691	1,691
Assigned to:				
Reserve	-	-	-	-
Special Revenues	-	-	36,588	36,588
Dixie Youth and Men's Softball	-	-	280	280
Fire and Rescue	-	-	42,725	42,725
Cemetery	-	-	61	61
Debt Service	-	968,032	-	968,032
Capital Improvement	-	-	224,315	224,315
Unassigned:				
General	579,618	-	-	579,618
Corrections	-	-	(49,296)	(49,296)
Total Fund Balances	<u>\$ 579,833</u>	<u>\$ 968,032</u>	<u>\$ 365,629</u>	<u>\$ 1,913,494</u>

NOTE 14 - EMPLOYEE BENEFITS

The City pays for certain health, dental, and life insurance benefits for its employees. All full-time employees are eligible for these benefits. The City pays for 100% of single coverage health and dental benefits and 78% of family coverage health and dental benefits. In addition, the City pays for a \$25,000 life insurance policy for all full-time employees. During the year ended September 30, 2013, the City paid \$721,548 for insurance premiums under the employee benefit program.

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

NOTE 15 - OTHER POST EMPLOYMENT BENEFITSPlan Description

The Board administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). In May 2000, the City adopted a policy regarding postretirement employee benefits. Once employees are fully vested in the City's Retirement Plan and have completed a minimum of twenty-five years of service with the City, the City will pay one hundred percent of the cost of a single individual and seventy percent of family coverage continuing the employees' enrollment in the City's Group Health Insurance Plan that is in effect at the time of retirement for a period of three years or until the employee reaches the age of sixty-five. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy

In order to receive this postretirement benefit, the employee must remain enrolled in the health insurance plan in effect at the time of retirement. The Board contributions are financed on the pay-as-you-go basis. The City made contributions of \$12,583 during 2013 for employees who were retired during the year.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation for the Retiree Health Plan:

Annual required contribution	\$ -
Adjustment to annual required contribution	
Annual OPEB cost (expense)	(25,649)
Contributions made	<u>12,583</u>
Decrease in net OPEB Obligation	(13,066)
Net OPEB obligation - beginning of year	<u>24,174</u>
Net OPEB obligation - end of year	<u><u>\$ 11,108</u></u>

(Continued)

SEPTEMBER 30, 2013

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NOTE 15 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress

As of September 30, 2013, the actuarial liability for benefits is \$11,108, all of which is unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The simplifying assumptions made in the calculation of the accrued liability are as follows:

**Health Insurance Premiums** - The current year health insurance premiums at the members' current coverage status were used as the basis for calculation of the present value of total benefits to be paid.

**Retirement Age for Active Employees** - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62.

**Marital Status** - Marital status of members at the calculation date was assumed to continue throughout retirement.

**Turnover** - Based on historical turnover rate, the probability of members not remaining employed until the defined retirement age was considered low.

**Amortization Period** - The remaining amortization period at September 30, 2013 is three years.



## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

NOTE 16 - LEASES

During the year ended September 30, 2013, the City leased real property on a cancelable month-to-month basis, with monthly rental payments ranging from \$100 to \$1,965, at the Boaz Outlet Center. Rental revenues of \$17,027 were collected during the year ended September 30, 2013.

During the year ended September 30, 2013, the City leased real property under noncancelable operating leases, with monthly rental payments ranging from \$590 to \$23,300 and expiration dates through 2020. Rental revenues of \$186,812 were collected during the year ended September 30, 2013.

The cost of leased Buildings, Improvements, and Equipment at the Boaz Outlet Center associated with lease cancelable and noncancelable leases is \$2,502,535 with \$28,281 of accumulated depreciation as of September 30, 2013.

Future minimum lease revenues under these lease agreements are:

Fiscal Years <u>Ending September 30</u>	
2014	\$ 468,047
2015	360,000
2016	293,000
2017	279,600
2018	279,600
Thereafter	<u>349,500</u>
	<u>\$ 2,029,747</u>

NOTE 17 - CONTINGENT LIABILITIES

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

Litigation - In addition to those suits in which claims for liability are adequately covered by insurance, the City is defendant in various suits arising in the normal course of business. Management is unable to predict the outcome of the litigation but believes it has strong grounds upon which to defend these proceedings and will vigorously oppose the asserted claims. Accordingly, no provision for possible loss, if any, is included in the financial statements.

NOTE 18 - COMMITMENTS

The City has received a grant from the Alabama Department of Transportation to assist in construction of intersection improvements on U.S. Highway 431 and Mountainboro Road. As of September 30, 2013, no costs have been incurred for the project. Estimated costs to complete the project are approximately \$414,000. The City's portion of these costs is approximately \$82,000.

The City acts as guarantee for the Boaz Industrial Development Board on two notes at the First Bank of Boaz and two notes at People's Independent Bank. At September 30, 2013, the balances of the notes were \$339,515 and \$390,981 at First Bank of Boaz and \$339,515 and \$390,981 at People's Independent Bank.

NOTE 19 - SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through August 15, 2014, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY  
INFORMATION

SCHEDULE OF FUNDING PROGRESS - EMPLOYEES' RETIREMENT SYSTEM  
OF ALABAMA

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a) *	Actuarial Accrued Liability (AAL) - Entry Age (b) <sup>1</sup>	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ((b - a)/c)
9/30/07	8,824,548	9,669,942	845,394	91.3%	3,175,094	26.6%
9/30/08	9,019,122	10,352,829	1,333,707	87.1%	3,309,897	40.3%
9/30/09	9,111,941	11,183,813	2,071,872	81.5%	3,110,544	66.6%
9/30/10 <sup>2</sup>	8,949,368	11,914,687	2,965,319	75.1%	3,136,915	94.5%
9/30/11 <sup>4</sup>	8,883,496	12,052,760	3,169,264	73.7%	3,527,579	89.8%
9/30/12 <sup>5</sup>	8,839,389	11,305,741	2,466,352	78.2%	3,095,499	79.7%
9/30/12 <sup>3,5</sup>	8,839,389	11,331,367	2,491,978	78.0%	3,095,499	80.5%

- 1 Reflects liability for cost of living benefit increases granted on or after October 1, 1978.
- 2 Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.
- 3 Reflects the impact of Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.
- 4 Reflects changes in actuarial assumptions.
- 5 Reflects changes to interest smoothing methodology

\* The actuarial value of assets was set equal to the market value of assets as of September 30, 2012.

The accompanying Notes to Financial Statements are an integral part of these financial statements.

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)
09/30/11	-	53,012	53,012	0.0%
09/30/12	-	24,174	24,174	0.0%
09/30/13	-	11,108	11,108	0.0%

The accompanying Notes to Financial Statements are an integral part of these financial statements.

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - BUDGET AND ACTUAL - GENERAL FUND**

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/(Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes				
Property and Payments in Lieu of Taxes	\$ 923,000	\$ 923,000	\$ 884,098	\$ (38,902)
Sales and Use	6,400,000	6,400,000	6,203,031	(196,969)
Rental	35,500	35,500	28,201	(7,299)
Motor Fuel	100,000	100,000	76,641	(23,359)
Tobacco	49,000	49,000	40,709	(8,291)
Licenses and Permits	1,218,500	1,218,500	1,147,851	(70,649)
Charges for Services	903,200	903,200	621,979	(281,221)
Fines and Costs	348,700	348,700	507,376	158,676
Intergovernmental Revenues	52,500	52,500	50,265	(2,235)
Other Revenues	206,700	206,700	308,671	101,971
	<u>10,237,100</u>	<u>10,237,100</u>	<u>9,868,822</u>	<u>(368,278)</u>
<b>EXPENDITURES</b>				
General Government and Administrative	1,693,250	1,693,250	2,059,725	(366,475)
Police	2,017,350	2,017,350	2,087,859	(70,509)
Fire	1,233,100	1,233,100	1,293,655	(60,555)
Street	1,597,450	1,597,450	1,617,612	(20,162)
Senior Center	211,950	211,950	190,254	21,696
Park and Recreation	782,600	782,600	838,880	(56,280)
Library	299,900	299,900	293,869	6,031
Municipal Court	129,750	129,750	157,311	(27,561)
Capital Outlay	189,000	189,000	581,209	(392,209)
Capital Lease Payments	-	-	16,522	(16,522)
	<u>8,154,350</u>	<u>8,154,350</u>	<u>9,136,896</u>	<u>(982,546)</u>
Excess of Revenues Over Expenditures	<u>2,082,750</u>	<u>2,082,750</u>	<u>731,926</u>	<u>(1,350,824)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
10% Surplus	934,190	934,190	-	(934,190)
Transfers From Other Funds	-	-	194,000	194,000
Transfers to Debt Service	-	-	(899,807)	(899,807)
Transfers To Other Funds	-	-	-	-
	<u>934,190</u>	<u>934,190</u>	<u>(705,807)</u>	<u>(1,639,997)</u>
Net Change in Fund Balance	3,016,940	3,016,940	26,119	(2,990,821)
FUND BALANCES - Beginning of Year	<u>553,714</u>	<u>553,714</u>	<u>553,714</u>	<u>-</u>
FUND BALANCES - End of Year	<u>\$ 3,570,654</u>	<u>\$ 3,570,654</u>	<u>\$ 579,833</u>	<u>\$ (2,990,821)</u>

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

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An annual budget is prepared for the City's general fund and adopted on the modified accrual basis. All annual appropriations lapse at fiscal year end. Accounting principles generally accepted in the United States of America require that budget comparisons be presented for special revenue funds if a budget is legally adopted. Such a presentation has not been made because the City does not adopt budgets for these funds. The Mayor and City Council approve, by ordinance, total general fund budget appropriations only. The City is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Council. The Council did not make any budgetary amendments during the year. Also, there was an unfavorable variance between the budgeted and actual expenditures of approximately \$983,000.

OTHER FINANCIAL INFORMATION



# MDA PROFESSIONAL GROUP, P.C.

*Certified Public Accountants and Business Consultants*

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INDEPENDENT AUDITORS' 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

Mayor and City Council  
City of Boaz  
Boaz, Alabama

We have audited, in accordance with auditing standards general accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Boaz, Alabama, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Boaz, Alabama's basic financial statements, and have issued our report thereon dated March 14, 2014.

## **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Boaz, Alabama'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Boaz, Alabama's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Boaz, Alabama'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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. Given these limitations, during our audit we did not identify any

City of Boaz  
Boaz, Alabama

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose to 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*MDA Professional Group, P.C.*

Albertville, Alabama  
March 14, 2014

DEBT SERVICE REQUIREMENTS TO MATURITY -  
GENERAL LONG-TERM DEBT OBLIGATIONS AND NOTES PAYABLE

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

Maturity Date	General Obligation Warrants Dated November 1, 2009				General Obligation Warrants Dated October 1, 2010				General Obligation Warrants Dated June 1, 2012			
	Interest Rate	Principal	Interest		Interest Rate	Principal	Interest		Interest Rate	Principal	Interest	
2014	3.00 %	\$ 230,000	\$ 105,883		2.00 %	\$ 415,000	\$ 74,950		0.80 %	\$ 80,000	\$ 29,417	
2015	3.00	120,000	100,632		2.00	420,000	66,600		0.80	80,000	28,778	
2016	3.00	125,000	96,958		2.00	430,000	58,100		1.00	80,000	28,137	
2017	3.25	130,000	92,970		2.00	435,000	49,450		1.00	80,000	27,338	
2018	3.45	130,000	88,615		2.25	445,000	40,094		1.50	80,000	26,537	
2019	3.60	135,000	83,942		2.50	455,000	29,400		1.50	85,000	25,338	
2020	3.75	140,000	78,887		2.75	465,000	17,318		2.00	80,000	24,062	
2021	3.75	150,000	73,263		2.88	380,000	5,463		2.00	85,000	22,463	
2022	3.75	155,000	67,162						2.40	90,000	20,763	
2023	3.75	160,000	60,863						2.40	85,000	18,602	
2024	3.75	165,000	54,362						2.50	90,000	16,563	
2025	3.75	175,000	47,388						2.50	95,000	14,312	
2026	3.75	180,000	39,932						2.75	100,000	11,938	
2027	3.75	190,000	31,925						2.75	105,000	9,187	
2028	3.75	200,000	23,248						3.00	105,000	6,300	
2029	3.75	205,000	14,236						3.00	105,000	3,150	
2030	4.50	215,000	4,837									
		<u>\$ 2,805,000</u>	<u>\$ 1,065,103</u>			<u>\$ 3,445,000</u>	<u>\$ 341,375</u>			<u>\$ 1,425,000</u>	<u>\$ 312,885</u>	

The accompanying Notes to Financial Statements are an integral part of these financial statements.

DEBT SERVICE REQUIREMENTS TO MATURITY -  
GENERAL LONG-TERM DEBT OBLIGATIONS AND NOTES PAYABLE

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2013

General Obligation Warrants Dated January 1, 2013					Totals	
Maturity Date	Interest Rate	Principal	Interest		Principal	Interest
2014	2.00 %	\$ 175,000	\$ 16,650		\$ 900,000	\$ 226,900
2015	2.00	180,000	13,100		800,000	209,110
2016	2.00	185,000	9,450		820,000	192,645
2017	2.00	190,000	5,700		835,000	175,458
2018	2.00	190,000	1,900		845,000	157,146
2019					675,000	138,680
2020					685,000	120,267
2021					615,000	101,189
2022					245,000	87,925
2023					245,000	79,465
2024					255,000	70,925
2025					270,000	61,700
2026					280,000	51,870
2027					295,000	41,112
2028					305,000	29,548
2029					310,000	17,386
2030					215,000	4,837
		<u>\$ 920,000</u>	<u>\$ 46,800</u>		<u>\$ 8,595,000</u>	<u>\$ 1,766,163</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.