

City of Talladega, Alabama
Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2013

Prepared by
Theresa St. James, Finance Director

City of Talladega, Alabama
Table of Contents
September 30, 2013

	<u>Page</u>
I. Introductory Section	
Transmittal Letters	i
Certificate of Achievement for Excellence in Financial Reporting	xi
Organization Chart	xii
Officials of the City of Talladega	xiii
II. Financial Section	
Independent Auditors' Report	1-2
Management Discussion Analysis	3.1-3.13
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements:	
Balance Sheet – Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-wide Statement of Activities	9
Statement of Net Position – Proprietary Funds	10
Statement of Revenues, Expenses and Changes in Fund Net Position- Proprietary Fund	11
Statement of Cash Flows – Proprietary Fund	12-13
Statement of Net Position – Component Units	14
Statement of Activities – Component Units	15
Notes to Financial Statements Index	16
Notes to Financial Statements	17-43

City of Talladega, Alabama
Table of Contents (Continued)
September 30, 2013

Required Supplementary Information

Schedule of Revenues and Expenditures General Fund – Budget and Actual	44-47
Notes to Required Supplementary Information	48

Supplementary Information

Talladega Water and Sewer Department, Schedule of Revenues, Expenses and Changes in Fund Net Position – Budget and Actual	49
Combining Balance Sheet – Nonmajor Governmental Funds (by fund type)	50
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds (by fund type)	51
Combining Balance Sheets – Special Revenue Funds	52
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Special Revenue Funds	53
Combining Balance Sheet – Capital Projects Funds	54
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Capital Projects Funds	55

III. Statistical Section

Financial Trend Data

Net Position by Component – Last Nine Fiscal Years	56
Change in Net Position – Last Nine Fiscal Years	57-58
Governmental Activities – Tax Revenues by Source – Last Ten Fiscal Years	59
Fund Balances of Governmental Funds – Last Ten Fiscal Years	60
Changes in Fund Balance of Governmental Funds – Last Ten Fiscal Years	61
Property Tax Rates per Thousand – Direct and Overlapping Governments – Last Ten Fiscal Years	62
Principal Sales and Use Taxpayers – Current Fiscal Year and Nine Years Prior	63

City of Talladega, Alabama
Table of Contents (Continued)
September 30, 2013

Debt Capacity Data

Ratios of Outstanding Debt by Type – Last Ten Fiscal Years	64
Direct and Overlapping Debt	65
Ratios of General Debt Outstanding – Last Ten Fiscal Years	66
Legal Debt Margin Information – Last Ten Fiscal Years	67

Demographic and Economic Information

Demographic Economic Statistics – Last Ten Calendar Years	68
Principal Private-Sector Employers in the Talladega Area – Current Year and Nine Years Prior	69
Budgeted Full-Time Equivalent City Government Employees by Function Last Eight Fiscal Years	70

Operating Information

Operating Indicators by Function – Last Ten Fiscal Years	71
Capital Asset Statistics by Function	72



CITY OF TALLADEGA

FOUNDED 1834 MEMBER: ALABAMA LEAGUE OF MUNICIPALITIES

City Council

Horace L. Patterson, Sr.
Jarvis Elston
Robert D. Miller, Jr.
Ricky Simpson
Joseph C. Ballow

Brian Muenger
City Manager

March 28, 2014

Ladies and Gentlemen:

I hereby transmit the annual financial report of the City of Talladega as of and for the year ended September 30, 2013. The accounting firm, Carr, Riggs & Ingram, has audited the financial statements. The auditors' unqualified opinion of governmental activities is included in this report.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Talladega for its comprehensive annual financial report for the fiscal years ended September 30, 2009, September 30, 2010, September 2011 and September 2012. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this annual financial report could not have been accomplished without the dedicated effort of the Finance Director and her entire staff. Their efforts over the past years toward upgrading the accounting and financial reporting systems of the City of Talladega have led to the improved quality of the information being reported to the City Council and the citizens of the City of Talladega.

Respectfully submitted,

W. Brian Muenger
City Manager



CITY OF TALLADEGA

FOUNDED 1834 MEMBER: ALABAMA LEAGUE OF MUNICIPALITIES

City Council

Horace L. Patterson, Sr.
Jarvis Elston
Robert D. Miller, Jr.
Ricky Simpson
Joseph C. Ballow

Brian Muenger
City Manager

March 28, 2014

City Council
The City of Talladega, Alabama

I am pleased to submit the Comprehensive Annual Financial Report of the City of Talladega for the fiscal year ended September 30, 2013. Management assumes full responsibility for the completeness and reliability of the information contained in this report based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Carr, Riggs and Ingram, Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Talladega's governmental activities financial statements for the year ended September 30, 2013. The independent auditor's report is located at the front of the financial section of this report.

The Management Discussion and Analysis section (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

The City of Talladega was founded in 1834. Located fifty (50) miles east, southeast of Birmingham, the City is within easy access of both Birmingham and Atlanta (100 miles). Interstate 20 connecting Birmingham and Atlanta is located fifteen (15) miles north of the City. Talladega is the County seat of Talladega County (the “County”) and is the most populous City in the County.

The City is organized under the laws of Alabama pertaining to the council-manager form of government for cities, as modified by Amendment No. 738 to the Constitution of Alabama of 1901. The governing body of the City consists of the five (5) council members who are elected from single-member districts for four-year terms and exercise the legislative functions of the City government and other powers and duties which are or may be vested by law in the City Council or its members. The Mayor is elected at-large for a four-year term. Although the Mayor sits with the Council, he/she does not have a vote in its proceedings. The Mayor serves on a part-time basis and is recognized as the head of the City’s government for all ceremonial purposes but has no other administrative duties. The City Manager is employed by the City Council and is responsible for the administration of City affairs, including the appointment of all department heads.

The City provides a full range of municipal services, including police and fire protection; the construction and maintenance of streets and other infrastructure; community and economic development programs; recreational and cultural activities; water production and distribution and sanitary sewer system.

The City Council is required to adopt a final budget no later than the beginning of the fiscal year, i.e. by October 1st. This annual budget, which is prepared on a departmental basis, serves as the foundation for the City of Talladega’s financial planning and control. Though the City Manager may transfer appropriations within a department, the City Council must approve transfers between departments and additions to the budget.

LOCAL ECONOMY

Talladega is a regional retail and employment center with a dense, compact commercial core surrounded by medium to low density residential neighborhoods, the campuses of three major educational institutions, and large industrial sites. Talladega is primarily characterized as a ‘white collar’ city, with the highest percentage of its workforce employed in management, professional and related occupations. Nearly 61% of employed persons living in Talladega also work in Talladega, demonstrating employment opportunities for its residents.

A method of analyzing economic conditions in Talladega is to track trends in sales tax revenue, on which the City is heavily dependent. Due to the economic downturn of recent years, from which local governments generally have been slow to recover, the City Council made the difficult decision to adopt a sales and use tax increase of 1%

effective April 1, 2011. This revenue stream is monitored carefully and has recently shown a slight increase. As stipulated by City Council, 25% of the additional tax revenue remains in the General Fund and is available for operating expenditures. An additional \$250,000 is restricted to supplement the fund balance if necessary. All remaining additional tax revenue is dedicated to capital expenditures and funds are transferred to the Capital Improvement Fund on a regular basis. These funds are expended according to the capital improvement budget as approved by Council and have greatly minimized the need of the City to issue debt to fund capital projects.

Service industries, retail trade and manufacturing are the top three employment sectors. The establishment of Honda Manufacturing and related support industries in Talladega County has provided approximately 4,300 new jobs in the area since 2002. The most recent addition to the local industrial park is M-Tek, which produces interior trim pieces for Honda. Retail trade consists largely of basic commodities and is less susceptible to loss of revenue due to economic declines.

Talladega County is home to the Talladega SuperSpeedway and International Motorsports Hall of Fame and Museum. With NASCAR races in May and October each year, this tourist attraction brings in about 300,000 people per race, resulting in the need for additional local lodging facilities. Other local attractions include the Texaco Walk of Fame and Davey Allison Memorial Park, Cheaha State Park, Talladega National Forest and DeSoto Caverns. The Public Park Authority administers Top Trails, which has more than 70 miles of trails for off highway vehicles on 2,800 acres. Future plans include equestrian stables and trails, camping sites and zip lines. The Civilian Marksmanship Program, whose mission is teaching respect for firearms, promoting gun safety and marksmanship principles, is developing a new facility in the area. This facility will feature several ranges for pistols and rifles, as well as a range for trap and skeet shooting. As a reflection of the area as a tourist destination, retail sales in the City are 108% and 106% of state and national levels, respectively.

EDUCATIONAL RESOURCES

The City's school system is operated by the City of Talladega Board of Education which consists of five (5) members elected in districts by the City. The system employs 181 certified teachers, along with support personnel and administrators. The school system operates (i) four elementary schools (grades K through 6), serving 1,322 students, (ii) one middle school (grades 7 and 8), serving 318 students, and (iii) one high school, serving 566 students. In recent years, a pre-kindergarten program was added through funding made available by a grant award and financial support from the City administration. Additional financial support from the City allowed the implementation of a distance learning center at Talladega High School, which gives students remote access to a wider variety of curriculum. The City schools are accredited by the Alabama State Department of Education and the Southern Association of Colleges and Schools.

Alabama Institute for the Deaf and Blind - Talladega is the home for the Alabama Institute for the Deaf and Blind (AIDB), the world's most comprehensive education and

service program serving children and adults from infancy through aging with hearing and vision loss. Annually, AIDB serves more than 18,500 individuals through five Talladega based campuses and a network of eight regional centers located throughout the state.

Alabama School for the Deaf and Alabama School for the Blind are accredited preschool-12 programs serving individuals from 3 to 21 years of age. The Instructional Resource Center for the Blind, located on the Alabama School for the Blind campus, provides Braille and large print books, materials and other services to all blind and visually impaired students at AIDB and in public schools in Alabama. The Helen Keller School of Alabama is also accredited and serves multi-disabled children ages 3 to 21. Also available to students with sensory or physical disabilities is the Marianna Greene Henry Special Equestrian Arena which offers hippotherapy to motivate the movement of tightened or restricted muscles and limbs, as well as recreational riding opportunities. The program is accredited by the North American Riding for the Handicapped Association.

Adults age 16 and over pursue rehabilitation, technology, job or college prep training at the E. H. Gentry Technical Facility. The E. H. Gentry campus is linked with Regional Centers in eight locations to provide job and skill training in local communities and a lifelong continuum of services for people with hearing and vision loss. Adjustment services focus on practical skills, both for life and work. Vocational training covers a wide range of career options, ranging from carpentry to business education to sewing. Alabama Industries for the Blind provides employment and job training in a sheltered environment for over 225 blind or vision impaired adults at two production facilities and also operate Base Supply Centers in Alabama and Georgia. Employees of AIB manufacture or distribute many products used in the home, office or by the military.

Central Alabama Community College – Central Alabama Community College (CACC) was created by action of the Alabama State Board of Education on February 23, 1989. The board action consolidated Alexander City State Junior College and Nunnelle State Technical College. In 2005, CACC expanded with a campus within the City limits of Talladega. Today the Alexander City, Childersburg and Talladega campuses offer resources and expertise which address the education and training needs of central Alabama by awarding the Associate in Science, Associate in Applied Science and the Associate in Occupational Technology degrees. CACC is accredited by the Southern Association of Colleges and Schools Commission on Colleges.

Talladega College - located in the City of Talladega, Talladega College is a four year nationally accredited liberal arts college offering 16 academic majors. The college was founded in 1867 by freedmen William Savery and Thomas Tarrant, who were aided by General Wager Swayne of the Freedmen's Bureau and the American Missionary Association. Talladega College began as a one room school house constructed from salvaged lumber. Over the college's span of history, it has grown to 17 major buildings on 50 acres, surrounded by 80 acres of gently rolling woodlands. Talladega College offers 17 majors grounded in liberal arts, 7 intercollegiate sports teams and has an

enrollment of approximately 1,000 students. The College is accredited by the Southern Association of Colleges and Schools Commission on Colleges.

CULTURAL OPPORTUNITIES

The City of Talladega offers an array of cultural amenities for its residents to enjoy. Cultural amenities are important because they enhance an area's appeal and play a key role in attracting tourism. At the same time, cultural amenities can help to establish a sense of community pride among residents.

The *Talladega Arts Council* brings many programs and exhibits to Talladega, including the Alabama Symphony Orchestra, dinner theatre presentations, musicals, and lectures. Concerts are performed each year by the Military Bands. In addition, the Second Sunday Concerts Series features varied musical programs by area musicians.

The *Talladega Heritage Commission* was established by the City Council in 1981 to present and interpret the social and cultural history of the area. Monthly rotating exhibits, in a beautifully maintained National Register Library, feature local, regional, and nationally recognized artists representing a variety of art forms. Lecture series on themes of local and regional interest round out a comprehensive arts program. It is also home to the Heritage Hall Jazz Band which performs at various concerts throughout the area.

The *Historic Ritz Theatre* offers a variety of musicals, plays, and concerts in their spring and fall seasons. This calendar is supplemented by seasonal showings of classic films such as "It's a Wonderful Life" in December. The Ritz regularly offers programs to local students to supplement and enrich their school curriculum.

The *Talladega Community Choir* is very active in offering those interested in music an opportunity to participate in a variety of choral productions.

The *Talladega International Speedway* is located nine (9) miles north of the City. The speedway annually attracts over 300,000 spectators to racing events. Located adjacent to the speedway is the Motor Sports Hall of Fame which was opened in April 1983 and is a major tourist attraction.

The *International Motorsports Hall of Fame* is located near the Talladega Superspeedway. This museum holds over 100 cars at a value of more than \$25 million dollars. The collection includes stock cars and trucks, Indy cars, drag racers, sprint cars, motorcycles, go-karts, quarter midgets, and a world record off-shore power boat. The Hall of Fame is open daily and has extended hours during race weeks each May and October.

The *Talladega-Texaco Walk of Fame* is located at Davey Allison Memorial Park in downtown Talladega. The Park features a sidewalk in the shape of the Talladega Superspeedway with the tri-oval area being the memorial to Davey Allison. The track is

surrounded by plaques of individuals whom the fans have chosen to be inducted into the Talladega-Texaco Walk of Fame.

HISTORIC SITES

Indian domination over the Talladega area ended in 1832 and the historic City of Talladega was founded in 1834. Because of its importance as a trading center, Talladega was to become the County Seat in preference over other towns. The earliest homeowners were merchants, farmers and statesmen who settled in the County Seat.

The “April in Talladega” Pilgrimage annually welcomes visitors to its many antebellum and turn-of-the century homes. Talladega has four districts on the National Register of Historic Places: the Beautiful Talladega College, the “Silk Stocking District” which reflects the changing architectural styles from 1833 to the early 1900s, the North Street Historical District which is a residential area, and the Historic Talladega Courthouse Square which contains many fine examples of late 19th century architecture.

Talladega College – Talladega College Historic District represents a magnificent range of architectural styles from its period of significance including the mid-nineteenth century Greek revival, Queen Anne, Romanesque, Italianate, and the twentieth century Colonial revival. The beautiful oak-lined campus boasts several landmark buildings. Swayne Hall, named for its founding benefactor, General Swayne, and the first building of the College, has been designated a National Historic Landmark. The President’s Home, built for the College’s first president, Henry Swift DeForest, is listed in the Alabama Historic Register. Also, the Savery Library, named in honor of William Savery, is the home to the historically significant Amistad murals painted by Hale Woodruff, an internationally renowned artist of African American descent. These murals have recently been restored and are currently on a national museum tour.

Silk Stocking District – Located to the south of the Courthouse Square, the Silk Stocking District is an L-shaped area concentrated along two major streets (South Street East and East Street South). Developed in the latter part of the 19th century as the town’s finest residential neighborhood, the district is composed of closely spaced, one- and two-story frame homes. The homes were built mainly between 1885 and 1917. The district has served as the home of a number of prominent Talladega men and women, as well as the Alabama School for the Deaf, but is primarily noted for the quality and concentration of its late 19th and early 20th century homes.

Talladega Courthouse Square – Located around the Talladega County Courthouse, this historic district is comprised of 72 buildings covering an area of approximately four acres in Talladega’s central business district. The buildings in the historic district date from 1835 through the 1930’s with the large majority dating from the last two decades of the 19th century. The oldest buildings in the district were soon built after Talladega was surveyed in 1834. There is only one building in the district that was built after the 1930’s.

Construction completed in 1838, the original courthouse was a three-story structure. Although it sustained no damage during the Civil War, the following years found the building repaired and rebuilt many times due to the ravages of storms and fire. In the 1970s, the courthouse was placed on the National Register of Historic Places and completely renovated and restored to its splendid condition of today. The Alabama Historical Commission states that it is the oldest courthouse in continuous use in the state.

The Ritz Theatre – Located on the Courthouse Square, Talladega's Ritz Theatre (circa 1936) is considered one of the best surviving examples of the Art Deco main street theatres of the 1930's. Careful restoration of the landmark's extraordinary façade – comprised exclusively of opaque structural glass, a common construction material used lavishly during the Deco period in buildings like the Rockefeller Center in New York City – was completed in late 1997 with perfectly matched antique vitrolite glass by renowned St. Louis artisan Timothy J. Dunn. The historic Ritz Theatre reopened on February 16, 1998 as the premiere performing arts center of East Central Alabama with a concert by the National Symphony String Quintet. A primary purpose of the theatre is to bring arts and culture to the young citizens of Talladega and the surrounding areas, as well as to offer quality plays, musicals and concerts to those interested in the arts.

PARKS AND RECREATIONAL FACILITIES

The City of Talladega has a total of ten City parks, five recreational centers and a 9-hole golf course within its City limits to serve the recreational needs of residents. These parks and recreational centers are fairly well-distributed throughout the community.

The *Ben E. Bruner Sports Complex* is located on Sun Valley Road on a 50 acre site. This recreational facility consists of four youth baseball fields, two soccer fields, four practice fields, a football field, a picnic pavilion, and a playground.

The *Amanda Bingham Park* is located on Coosa Street on a 15 acre site. The park consists of two tennis courts, a semi-pro baseball field, a basketball court, a picnic pavilion, a playground and a walking track.

The *Duncan-Pinkston Park* is located on Martin Luther King Drive on a 5 acre site. The park consists of two baseball practice fields, a playground and a picnic pavilion.

The *Jemison Park* is located on Ashland Highway on a 3 acre site. The park consists of eight tennis courts, a playground and a newly added picnic pavilion.

The *Knoxville Park* is located on Scott Street on a 4 acre site. The park consists of a baseball field, picnic pavilion, and basketball court.

The *McMillan Park* is located on Horne Drive on an 8 acre site. The park consists of three practice fields, a Girls Little League Softball field, and a playground.

The *Harman Park* is located on Brignoli Street on a 3 acre site. The park consists of a Little League field and a playground.

The *Veteran's Memorial Park* is located on Spring Street South on a 12 acre site including a Veterans' Memorial Monument and a M47 tank. The park also consists of two picnic pavilions, a gazebo, a playground, and a walking track.

The *Westgate Park* is located on Sloan Avenue on a 3 acre site. The park consists of a softball field, a basketball court, and a playground.

The *Hill-Pope Park* is located on McMillan Street on approximately a 3 acre site. The park consists of a walking track and a playground.

Talladega Municipal Golf Course encompasses 100 beautifully landscaped acres including a stream fed pond. It is a 9-hole course, par 36/27, with separate tee boxes for the back 9 holes. The golf course is currently leased to a private management company.

The *B.N. Mabra Nutrition Center* was established in 1979 and is located on 25th Street. The Center is the home for the Senior Nutrition program which serves meals to elderly residents and also offers health programs, counseling, meal planning and budgeting.

The *Bemiston Recreation Center* has an indoor regulation size basketball court which is made available for use in the evening hours and for tournaments.

The *Mattie Simmons Recreation Center* is currently closed.

The *Brecon Recreation Center* has an indoor regulation size basketball court, currently being utilized for gymnastics classes.

The *Spring Street Community Center* has an Olympic size indoor pool, regulation size basketball court, nautilus room, video game room, walking track and is home base for the Federal Rural Transportation Service. The administrative offices for the Recreation Department are housed here as well.

LONG-TERM FINANCIAL PLANNING


As a planning tool for long-term financing and the annual budget process, the City prepares a capital improvement program. This document, which is updated annually, prioritizes capital projects by their funding source and timing. The City will use the 1% sales and use tax implemented in April, 2011 as the major source of funds for future capital improvements rather than relying on financing alone. This policy is further maximized by aggressively pursuing grant opportunities for infrastructure renovation and replacement. Bonded indebtedness is managed in coordination with debt repayment schedules to stay within legal debt limits and to maintain a stable level of debt service. General policy targets debt payments at no more than 10% of General

Fund operating expense; currently debt payments are 8% of General Fund expense. The City was first rated by Standard & Poors in 2009, achieving a rating of "A, stable" and has maintained that rating through subsequent annual reviews. Standard & Poors has recently completed its latest rating review and the City of Talladega has been upgraded to "AA-."

ACKNOWLEDGMENTS

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. I would like to express my appreciation to all members of the department who assisted and contributed to its preparation. Finally, I would like to thank the City Manager and the members of the City Council for continued interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in cursive script that reads "Theresa St. James".

Theresa St. James
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

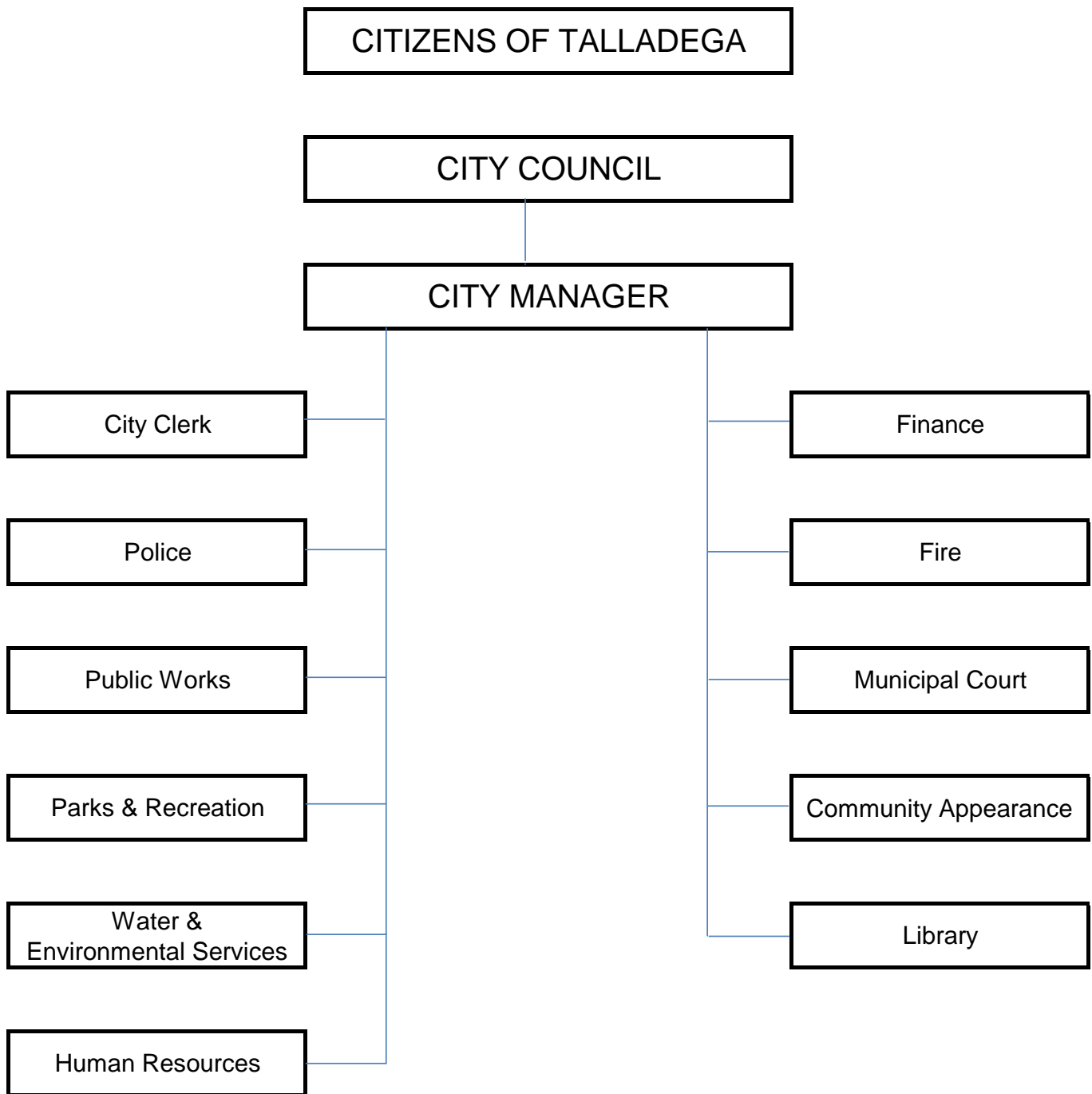
**City of Talladega
Alabama**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012



Executive Director/CEO



OFFICIALS OF THE CITY OF TALLADEGA

Mayor

Larry Barton

City Council

Dr. Horace Patterson	Ward I
Jarvis Elston	Ward II
Donnie Miller	Ward III
Ricky Simpson	Ward IV
Joseph Ballow	Ward V

City Manager

W. Brian Muenger

Other City Officials

City Clerk	Beth Cheeks
Community Appearance	Mitch Bast, Director
Finance	Theresa St. James, Director
Fire	Danny Warwick, Chief
Human Resources	Cathy Fuller, Director
Library	Vickie Harkins, Acting Director
Municipal Court	Hank Fannin, Judge
Municipal Court	Rick Nixon, Clerk
Parks and Recreation	Stacy Jones, Director
Police	Jason Busby, Acting Chief
Public Works	Karen Phillips, Director
Purchasing and Safety	Terry Hanner, Director
Water and Environmental Services	Chuck Thomerson, Director



Independent Auditors' Report

To the Manager and City Council
City of Talladega
Talladega, Alabama

We have audited the accompanying financial statements 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 Talladega, 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; 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 Talladega City Board of Education or the Talladega Municipal Airport Board, which represent 99 percent of the assets, net position, and revenues of the component units. 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 Talladega City Board of Education and the Talladega Municipal Airport Board, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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, the aggregate remaining fund information, and the budgetary comparison information of the City, 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 on pages 3.1–3.13 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Talladega, Alabama's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Car, Riggs & Ingram, L.L.C.

Birmingham, Alabama
March 27, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Talladega, Alabama's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended September 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information provided in this financial report.

Financial Highlights – Governmental Activities

- The assets of the City of Talladega exceeded its liabilities at the close of the fiscal year 2013 by \$31.92 million, a slight decrease over fiscal year 2012.
- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$7.44 million. The combined governmental funds' fund balances increased by \$.644 million during the fiscal year.
- The general fund closed with a fund balance of \$3.31 million, a decrease of \$.745 million from the \$4.05 million balance in the prior year. General fund revenues were \$12.948 million. General fund operating expenditures were \$11.639 million. As the FY 2012 ending fund balance of 31% of operating revenue (38% of operating expenses) was significantly above the established goal, the City Council approved the use of a portion of the surplus fund balance in FY 2013. Under this plan, two long-term debt obligations were paid off; \$400,000 was transferred to the Oil Trust Fund to supplement available funds for a large-scale paving project; \$669,000 was transferred to the Capital Improvements Fund for major improvements at Veterans Park; \$400,000 was transferred to the Capital Improvements Fund to provide matching funds for grants which have been awarded to the City; \$300,000 was obligated to begin funding the City's OPEB liability. The use of these surplus funds left the City well above the City Council established goal of a minimum fund balance of 8-10% of operating revenue and the overall financial position of the City remains stable.
- The capital projects trust fund closed with a fund balance of \$1,361,346, an increase from the \$908,616 balance in the prior year. Capital projects revenues were \$543, with an additional \$820,000 transferred from the General Fund as sales tax revenue restricted for capital projects per City ordinance and \$1,069,000 transferred as noted above for grant match and park improvements. Capital funds expenditures were \$1,351,813 with an additional transfer out of \$85,000 to provide a grant match. The increase in the capital projects fund is due to the full year of sales tax revenue transferred in from the General Fund for the purpose of funding capital projects as designated by the City Council as well as the transfers made as part of the fund balance reduction plan for the General Fund. Expenditure of funds for projects that took place as a part of the planned Capital Improvement Plan (CIP) include renovations at City Hall, Veterans Park (ongoing), the Kenwin/Waldrop building and the Ben E. Bruner Sports Complex.

- Also, a storm water drainage study and engineering for three bridge replacements were initiated.
- The Special Revenue Funds include nine funds which receive restricted, committed or assigned funds and include the following: 2.5 Mil Property Tax Fund, 4 Cent Gas Tax Fund, 7 Cent Gas Tax Fund, Corrections Fund, Oil Trust Fund, Brownfield Fund, Police Grants Fund, Cemetery Fund and Library Fund. The Special Revenue Funds closed with a combined fund balance of \$2,681,305, an increase of \$864,567 from the prior year. The primary factor attributed to this change is the transfer of \$400,000 from the General Fund to the Oil Trust Fund to supplement the funding of a major paving project which is planned for FY 13-14. This transfer, in addition to funds received from the State of Alabama, contributes to the \$986,766 ending fund balance, an increase of \$702,663 from FY 2012. In addition, funds in the 4 Cent and 7 Cent Gas Tax Funds are also being held for this same paving project and not expended. For this reason, the ending fund balances for these funds increased \$45,768 and \$59,510 respectively. Fund balances for other funds included in the Special Revenue Funds Combining Balance Sheet had only a slight variance from FY 2012.
- The RBEG (Rural Business Enterprise Grant) fund and the CDBG (Community Development Block Grant) fund comprise the Capital Projects Funds and closed with a combined fund balance of \$85,380. The RBEG fund closed with a fund balance of \$7,206, a reduction of \$6,778 from FY 2012 as this grant project is complete. The fund balance consists of residual grant matching funds and will be transferred back to the General Fund unless needed for future RBEG award matches. The CDBG fund closed with a balance of \$78,174, an increase of \$79,444 as a new grant project has begun in FY 2013.

Financial Highlights – Business-type Activities

- The assets of the Talladega Water and Sewer Department of the City of Talladega, Alabama, exceeded its liabilities at September 30, 2013, by \$17,079,138 (total net position). Of this amount \$5,743,591 or 30% (unrestricted net position) may be used to meet the Department's ongoing obligations. The Department's total net position decreased by \$505,080 this fiscal year.
- Proprietary Fund operating revenues for the year were \$6,920,902, a slight decrease of \$236,027 from the previous year. Operating expenses were \$5,207,252, an increase from \$5,009,965 the previous year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Talladega's basic financial statements. The basic financial statements consist of three

components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Talladega.

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The government-wide financial statements are divided into two categories:

- **Governmental Activities** - Most of the City's basic services are included here, such as police, fire, public works, recreation and general administration. Sales and use tax, property taxes, business licenses and other state-shared revenues finance most of these activities.
- **Discretely Presented Component Units** - The City includes other legally separate entities in its report including the Talladega Municipal Airport Board, Heritage Hall Commission, and the Talladega City Board of Education. The City is financially accountable for these entities.

The Statement of Activities presents information showing how the government's net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Fund Financial Statements

The Fund Financial Statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting groups that the City uses to keep track of specific sources of funds and expenditures. Some funds are required by federal or state law while others are required by grant agreements. Other funds are established to control and manage City resources designated for specific purposes.

The City uses two types of funds:

- **Governmental Funds** - Most of the City's basic services are included in governmental funds which focus on (1) how cash and other financial assets can be converted to cash flows into and out of the funds, and (2) balances left at year-end that are available to be spent. Because the focus of the governmental funds is narrower than that of the government-wide financial

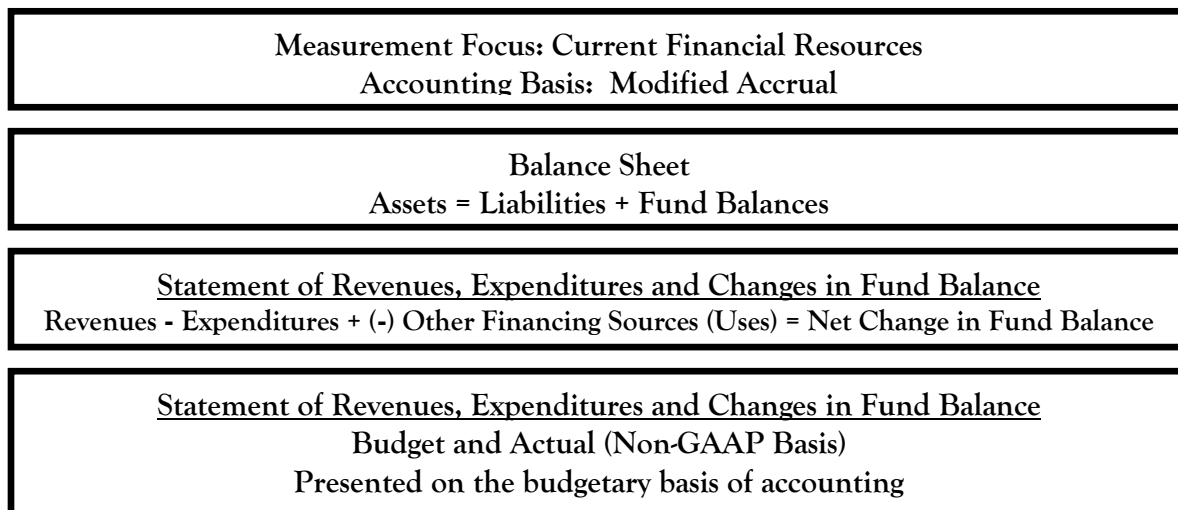
statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision.

- The City of Talladega adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided in the supplementary information for the General Fund to demonstrate compliance with this budget.
- Enterprise funds are used to report the same functions presented as business-type activities in the agency-wide financial statements. The Water and Sewer Department has one enterprise fund to account for its business-type activities. Proprietary funds provide the same type of information as the agency-wide financial statements, only in more detail.

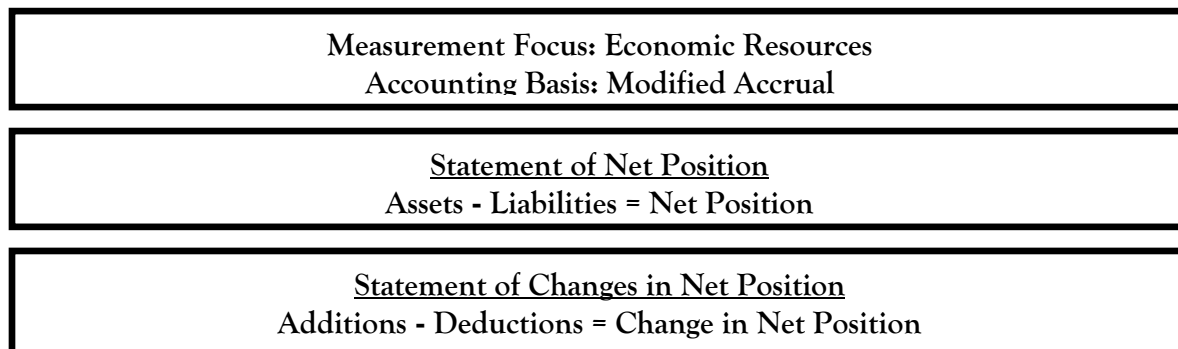
The following diagram presents the major features of the fund financial statements including the types of information contained therein.

Fund Financial Statements

Governmental Funds



Fiduciary Funds



Notes to the Financial Statements

The notes 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 the financial statements follow the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information that should be considered in the evaluation of the City's financial position.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements for the fiscal year ended September 30, 2013, are in compliance with Governmental Accounting Standards Board (GASB) Statement Number 34.

Statement of Net Assets September 30, 2013

ASSETS	Governmental Activities	Business-type Activities	Total All Activities
Cash and cash equivalents	\$ 6,177,887	\$ 5,304,153	\$ 11,482,040
Investments	741,803	-	741,803
Receivables, net	1,018,111	623,079	1,641,190
Unbilled revenue	-	607,171	607,171
Internal balances	77,187	(77,187)	-
Inventories	-	286,273	286,273
Restricted assets	-	9,698,557	9,698,557
Other assets	1,365	13,704	15,069
Capital assets not being appreciated	4,199,239	309,356	4,508,595
Capital assets, net	14,105,115	18,329,304	32,434,419
Total Assets	26,320,707	35,094,410	61,415,117
Deferred outflows of resources			
Deferred charges from refunding	-	360,126	360,126
Total assets and deferred outflows of resources	\$ 26,320,707	\$ 35,454,436	\$ 61,775,243
LIABILITIES			
Accounts payable and accrued liabilities	\$ 576,063	\$ 230,592	\$ 806,655
Customer meter deposits	-	224,691	224,691
Accrued interest	63,303	-	63,303
Noncurrent liabilities;			
Due within one year:			
Bonds and warrants payable	420,000	400,000	820,000
Capital leases	19,006	77,340	96,306
Compensated absences	33,243	-	33,243
Due in more than one year			
Bonds and warrants payable	8,515,000	17,186,487	25,701,487
Capital leases	864,920	211,608	1,076,568
OPEB payable	690,871	-	690,871
Compensated absences	299,190	44,680	343,870
Total Liabilities	11,481,596	18,375,398	29,856,994
NET POSITION			
Net investment in capital assets	8,485,428	9,625,354	18,110,782
Restricted for:			
Capital projects	1,446,726	-	1,446,726
Special revenues (gas tax and road projects)	1,531,967	-	1,531,967
Special revenues (ad valorem tax for schools)	35,237	-	35,237
Special revenues (public safety)	111,512	-	111,512
Debt service fund	-	1,710,193	1,710,193
Unrestricted	3,228,241	5,743,591	8,971,832
Total Net Position	\$14,839,111	\$17,079,138	\$31,918,249

Statement of Net Assets
September 30, 2012

ASSETS	Governmental Activities	Business-type Activities	Total All Activities
Cash and cash equivalents	\$ 5,570,432	\$ 4,415,380	\$ 9,985,812
Investments	743,575	151,555	895,130
Receivables, net	889,951	628,511	1,518,462
Unbilled revenue	-	639,827	639,827
Internal balances	111,644	(111,644)	-
Inventories	-	266,409	266,409
Restricted assets	-	10,433,658	10,433,658
Other assets	355,978	490,707	846,685
Capital assets not being appreciated	3,854,541	309,356	4,163,897
Capital assets, net	14,400,007	18,242,458	32,642,465
Total Assets	\$ 25,926,128	\$35,466,217	\$ 61,392,345
LIABILITIES			
Accounts payable and accrued liabilities	\$ 601,729	\$ 144,490	\$ 746,219
Customer meter deposits	-	224,642	224,642
Accrued interest	67,063	-	67,063
Noncurrent liabilities;			
Due within one year:			
Bonds and warrants payable	441,680	390,000	831,680
Capital leases	67,016	-	67,016
Compensated absences	30,189	-	30,189
Due in more than one year			
Bonds and warrants payable	9,024,985	17,595,246	26,620,231
Deferred charges from refunding	-	(524,879)	(524,879)
Capital leases	250,812	7,820	258,632
OPEB payable	564,343	-	564,343
Compensated absences	271,706	44,680	316,386
Total Liabilities	11,319,523	17,881,999	29,201,522
NET ASSETS			
Investment in capital assets (net of debt)	8,470,055	10,399,739	18,869,794
Restricted for:			
Capital projects	921,330	-	921,330
Special revenues (gas tax and road projects)	724,026	-	724,026
Special revenues (ad valorem tax for schools)	28,341	-	28,341
Special revenues (public safety)	104,106	-	104,106
Debt service fund	-	1,211,644	1,211,644
Unrestricted	4,358,747	5,972,835	10,331,582
Total Net Assets	\$14,606,605	\$17,584,218	\$32,190,823

The assets of the City of Talladega (primary government) exceeded its liabilities by \$31,918,249 as of September 30, 2013. However, 57% reflects the City's investment in capital assets, less any related debt still outstanding that was issued to acquire those items. The City of Talladega uses these capital assets to provide services to citizens; consequently, those assets are not available for future spending. Although the City of Talladega's investment in its capital assets is reported net of the outstanding debt, the resources needed to repay the debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. An additional total of \$4,839,635 represents net assets that are subject to external restrictions on how they may be used. The remaining balance of net assets totaling \$8,971,832 is unrestricted.

Business-type activities did not require the use of any of the Talladega Water and Sewer Department of the City of Talladega's unrestricted resources to fund expenditures. Charges for services were sufficient to cover all expenditures.

During this time period proceeds from the 2010 Capital Improvement Bond continued to be utilized on a number of system improvement projects, including rehabilitation of a second flocculator basin at the Main Water Treatment Plant, replacement of water and sewer lines in key locations, and continued investment in sewer cleaning/Inflow and Infiltration studies.

General Fund Budgetary Highlights

Total revenues for the year were \$1,188,358 above the budgeted amount, which includes proceeds from loans of \$854,998. The primary sources of overages in operating revenue were sales & use, rental and lodging taxes, general business licenses and sale of surplus property. Major categories in the General Fund which realized an unfavorable variance in budgeted to actual revenue include business licenses for several utility companies.

Overall, expenditures were \$607,317 above the original budgeted amount. As mentioned previously, a total of \$1,469,000 was transferred out of the General Fund to fund various capital projects. In addition, approximately \$300,000 was expended for the early retirement of two long-term debt obligations. These actions were approved by the City Council as the prudent use of the surplus fund balance realized at the end of FY 2012 and are reflected in the negative variances over the original budget in "Non-departmental expenditures" and "Debt Service." In light of these unbudgeted expenditures totaling \$1.769 million, to be only \$607,317 above budgeted expenditures is quite remarkable and reflects considerable budgetary oversight and conservative spending throughout the year.

In addition to the actions noted above, numerous budget line items previously accounted for as "Non-departmental Expenditures" were reclassified during the year to more accurately reflect like activities. For example, Public Works traditionally has the responsibility for garbage collection and street and traffic lights, therefore these expenditures were reclassified to that department. Personnel related expenditures were

moved to Human Resources, banking charges were moved to Finance, several recreational or cultural expenditures were included in the Parks and Recreation department and grant expenses within the oversight of the City Clerk were reclassified to that department. While these actions resulted in a negative variance to the original budget of these departments, in reality the variance was simply the result of an accounting change and does not reflect the budgetary performance of the departments. All other departments realized a favorable variance, which more accurately portrays the dedication of the staff to conservative spending. Detailed information may be found in the Required Supplementary Information, pages 44-48.

Statement of Activities For the Year Ended September 30, 2013

Functions	Expenses	Program Revenues		Capital Grants and Contributions	Governmental Activities	Net (Expense) Revenue and Changes in Net Assets	
		Fees, Fines and Charges for Services	Operating Grants and Contributions			Business-type Activities	Total
Governmental Activities:							
General government	\$ 4,032,660	\$ 128,815	\$ 128,001	\$ -	\$ (3,775,844)	\$ -	\$ (3,775,844)
Public safety	4,912,782	758,321	72,264	-	(4,082,197)	-	(4,082,197)
Public works	3,201,587	-	412,428	34,431	(2,754,728)	-	(2,754,728)
Parks and Recreation	964,970	174,458	16,503	-	(774,009)	-	(774,009)
Unallocated depreciation expense	1,498,964	-	-	-	(1,498,964)	-	(1,498,964)
Interest on long-term debt	428,798	-	-	-	(428,798)	-	(428,798)
Total Governmental Activities	15,039,761	1,061,594	629,196	34,431	(13,314,540)	-	(13,314,540)
Business-type Activities:							
Water and sewer	<u>5,966,932</u>	<u>6,920,902</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>953,970</u>	<u>953,970</u>
Total Business-type Activities							
Total Primary Government	<u>\$ 21,006,693</u>	<u>\$ 7,982,496</u>	<u>\$ 629,196</u>	<u>\$ 34,431</u>	<u>\$ (13,314,540)</u>	<u>\$ 953,970</u>	<u>\$ (12,360,570)</u>
General Revenues:							
Taxes:							
Ad Valorem					1,340,602	-	1,340,602
Sales and Use					9,179,239	-	9,179,239
Other					379,632	-	379,632
General business licenses and permits					1,868,145	-	1,868,145
Grants not restricted to specific programs					-	-	-
Payments from City of Talladega					-	-	-
Miscellaneous revenues					17,094	49,577	66,671
Interest income					16,739	13,565	30,304
Gain on sale of asset					96,989	-	96,989
Transfers					<u>922,718</u>	<u>(922,718)</u>	<u>-</u>
Total General Revenues and Transfers					13,821,158	(859,576)	12,961,582
Change in Net Position					<u>506,618</u>	<u>94,394</u>	<u>601,012</u>
Net Position, Beginning of Year					14,606,605	17,584,218	32,190,823
Restatement					<u>(274,112)</u>	<u>(599,474)</u>	<u>(873,586)</u>
Net Position at beginning of year, restated					<u>14,332,493</u>	<u>16,984,744</u>	<u>31,317,237</u>
Net Position, End of Year					<u>\$ 14,839,111</u>	<u>\$ 17,079,138</u>	<u>\$ 31,918,249</u>

Statement of Activities **For the Year Ended September 30, 2012**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$ 3,612,283	\$ 95,371	\$ 144,858	\$ -	\$ (3,372,054)	\$ -	\$ (3,556,104)
Public safety	4,763,248	724,223	67,934	10,684	(3,960,407)	-	(3,935,206)
Public works	3,407,964	-	417,021	413,830	(2,577,113)	-	(2,460,444)
Parks and Recreation	1,162,741	179,121	18,769	-	(964,851)	-	(905,304)
Unallocated depreciation expense	1,476,188	-	-	-	(1,476,188)	-	(1,476,188)
Interest on long-term debt	<u>453,617</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(453,617)</u>	<u>-</u>	<u>(472,547)</u>
Total Governmental Activities	14,876,041	998,715	648,582	424,514	(12,804,230)	-	(12,795,793)
Business-type Activities:							
Water and sewer	<u>5,777,985</u>	<u>7,156,929</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,378,944</u>	<u>1,378,944</u>
Total Business-type Activities							
Total Primary Government	<u>\$ 20,654,026</u>	<u>\$ 8,155,644</u>	<u>\$ 648,582</u>	<u>\$ 424,514</u>	<u>\$ 12,804,230</u>	<u>\$ 1,378,944</u>	<u>\$ (11,416,849)</u>
General Revenues:							
Taxes:							
Ad Valorem					1,222,215	-	1,222,215
Sales and Use					8,954,120	-	8,954,120
Other					436,181	-	436,181
General business licenses and permits					2,001,838	-	2,001,838
Grants not restricted to specific programs					-	-	-
Payments from City of Talladega					-	-	-
Miscellaneous revenues					109,742	-	109,742
Interest income					28,593	17,311	45,904
Gain on sale of asset					32,953	-	32,953
Transfers					<u>908,880</u>	<u>(908,880)</u>	<u>-</u>
Total General Revenues and Transfers					<u>13,694,522</u>	<u>(891,569)</u>	<u>12,802,953</u>
Change in Net Assets					890,292	487,375	1,377,667
Net Assets, Beginning					13,608,292	16,908,341	30,516,633
Prior Period Adjustment					<u>108,021</u>	<u>188,502</u>	<u>296,523</u>
Net Assets, Ending					<u>\$ 14,606,605</u>	<u>\$ 17,584,218</u>	<u>\$ 32,190,823</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: The City of Talladega's investment in capital assets (net of accumulated depreciation) for governmental and business-type activities as of September 30, 2013, totals \$36,943,014. These assets include buildings, land, equipment, facilities and vehicles. Additional detailed information on the capital assets may be found in the notes to the financial statements Note 7 on page 30.

Long-term Debt: As of September 30, 2013, the City of Talladega governmental funds had bonded debt outstanding of \$8,935,000 consisting of three General Obligation Warrants. In addition, the City has entered into two capital leases with terms up to 10 years. These leases had a balance of \$883,926 at 2013 fiscal year end. The Water and Sewer Department of the City had revenue bonds outstanding in the amount of \$17,350,000 and one capital lease outstanding in the amount of \$288,948 as of September 30, 2013. Additional detailed information on long-term debt may be found in the notes to the financial statements Note 11 on pages 33-36.

Economic Factors

The City of Talladega is heavily dependent on sales tax revenue, which accounts for approximately 62% of total General Fund operating revenues. Sales tax revenue realized a slight favorable variance of \$153,987 over the original budget. Operating revenue as a whole exceeded expectations during this fiscal year, however, some of this is attributed to one time receipt of revenue from the sale of surplus property and confiscated firearms. Utility company business licenses and building permits were approximately 10% less than projected. The City continues to suffer from an overall lack growth, with revenues remaining largely stagnant. While revenue streams have failed to increase significantly and the local economy still seems somewhat fragile, the City continues to have imposed upon it mandatory annual increases in employee salaries, healthcare costs and retirement costs. Additionally, the City has only in the last year begun channeling funds towards addressing its OPEB liability, a practice that should be continued in perpetuity. The aforementioned factors dictate that the City leave in place the cost-saving measures implemented in recent years, while continuing to seek out additional areas in which costs may be cut.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to:

The City of Talladega
203 South Street West
Talladega, Alabama 35160

A handwritten signature in blue ink, appearing to read 'W. Brian Muenger', with a long horizontal flourish extending to the right.

W. Brian Muenger
City Manager

City of Talladega, Alabama

Government-wide Statement of Net Position

September 30, 2013

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
Assets				
Cash and cash equivalents	\$ 6,177,887	\$ 5,304,153	\$ 11,482,040	\$ 4,985,345
Investments	741,803	-	741,803	3,343,515
Receivables, net	1,018,111	623,079	1,641,190	19,445
Unbilled revenue	-	607,171	607,171	-
Internal balances	77,187	(77,187)	-	-
Due from other governments	-	-	-	557,014
Inventories	-	286,273	286,273	-
Restricted assets	-	9,698,557	9,698,557	-
Other assets	1,365	13,704	15,069	87,811
Capital assets not being depreciated	4,199,239	309,356	4,508,595	-
Capital assets, net of accumulated depreciation	14,105,115	18,329,304	32,434,419	10,916,225
Total assets	26,320,707	35,094,410	61,415,117	19,909,355
Deferred outflows of resources				
Deferred charges from refunding	-	360,126	360,126	-
Total assets and deferred outflows of resources	26,320,707	35,454,536	61,775,243	-
Liabilities				
Bank overdraft	-	-	-	58,938
Accounts payable and accrued liabilities	576,063	230,592	806,655	1,993,118
Customer meter deposits	-	224,691	224,691	-
Accrued interest	63,303	-	63,303	-
Noncurrent liabilities:				
Due within one year:				
Bonds and warrants payable	420,000	400,000	820,000	-
Capital leases	19,006	77,340	96,346	-
Compensated absences	33,243	-	33,243	-
Due in more than one year:				
Bonds and warrants payable	8,515,000	17,186,487	25,701,487	-
Capital leases	864,920	211,608	1,076,528	-
OPEB payable	690,871	-	690,871	-
Compensated absences	299,190	44,680	343,870	94,493
Total liabilities	11,481,596	18,375,398	29,856,994	2,146,549
Net position				
Net investment in capital assets	8,485,428	9,625,354	18,110,782	10,916,225
Restricted for:				
Capital projects	1,446,726	-	1,446,726	1,555,835
Special revenues (gas tax and road projects)	1,531,967	-	1,531,967	-
Special revenues (ad valorem tax for schools)	35,237	-	35,237	648,633
Special revenues (public safety)	111,512	-	111,512	-
Debt service fund	-	1,710,193	1,710,193	-
Unrestricted	3,228,241	5,743,591	8,971,832	4,642,113
Total net position	\$ 14,839,111	\$ 17,079,138	\$ 31,918,249	\$ 17,762,806

See accompanying notes to basic financial statements.

City of Talladega, Alabama

Government-wide Statement of Activities

Year ended September 30, 2013

Program Activities	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government administration	\$ 4,032,660	\$ 128,815	\$ 128,001	\$ -	
Public safety	4,912,782	758,321	72,264	-	
Public works	3,201,587	-	412,428	34,431	
Parks and recreation	964,970	174,458	16,503	-	
Unallocated depreciation expense	1,498,964	-	-	-	
Interest on long-term debt	428,798	-	-	-	
Total governmental activities	15,039,761	1,061,594	629,196	34,431	
Business-type activities:					
Water and sewer	5,966,932	6,920,902	-	-	
Total primary government					
	\$ 21,006,693	\$ 7,982,496	\$ 629,196	\$ 34,431	
Component units:					
Board of Education	\$ 21,641,906	\$ 1,720,416	\$ 15,749,549	\$ 708,146	
Municipal Airport Board	827,324	337,802	597,306	-	
Heritage Hall	46,852	11,614	-	-	
Total Component Units	\$ 22,516,082	\$ 2,069,832	\$ 16,346,855	\$ 708,146	

General revenues:

Taxes:
Ad Valorem (real and personal property)
Sales and use
Other
General business licenses and permits
Grants not restricted to specific programs
Payments from City of Talladega
Miscellaneous revenues
Interest income
Gain on sale of asset

Transfers

Total general revenues and transfers

Change in net position

Net position at beginning of year

Restatement

Net position at beginning of year, as restated

Net position at end of year

Net (Expense) Revenue and Changes in Net Assets			Component Units
Governmental Activities	Business-type Activities	Total	Totals
\$ (3,775,844)	\$ -	\$ (3,775,844)	-
(4,082,197)	-	(4,082,197)	-
(2,754,728)	-	(2,754,728)	-
(774,009)	-	(774,009)	-
(1,498,964)	-	(1,498,964)	-
(428,798)	-	(428,798)	-
(13,314,540)	-	(13,314,540)	-
-	953,970	953,970	-
(13,314,540)	953,970	(12,360,570)	-
-	-	-	\$ (3,463,795)
-	-	-	107,784
-	-	-	(35,238)
-	-	-	(3,391,249)
1,340,602	-	1,340,602	2,003,070
9,179,239	-	9,179,239	1,497,733
379,632	-	379,632	137,362
1,868,145	-	1,868,145	-
-	-	-	90,500
-	-	-	51,315
17,094	49,577	66,671	247,197
16,739	13,565	30,304	35,759
96,989	-	96,989	-
922,718	(922,718)	-	-
13,821,158	(859,576)	12,961,582	4,062,936
506,618	94,394	601,012	671,687
14,606,605	17,584,218	32,190,823	17,091,119
(274,112)	(599,474)	(873,586)	-
14,332,493	16,984,744	31,317,237	17,091,119
\$ 14,839,111	\$ 17,079,138	\$ 31,918,249	\$ 17,762,806

City of Talladega, Alabama

Balance Sheet - Governmental Funds

<i>September 30, 2013</i>	General	Capital Projects Trust Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 2,711,724	\$ 1,423,230	\$ 2,042,933	\$ 6,177,887
Investments	-	-	741,803	741,803
Receivables, net	924,827	-	93,284	1,018,111
Due from other funds	77,187	-	-	77,187
Other assets	1,365	-	-	1,365
Total assets	\$ 3,715,103	\$ 1,423,230	\$ 2,878,020	\$ 8,016,353
Liabilities				
Accounts payable and accrued liabilities	\$ 402,844	\$ 61,884	\$ 111,335	\$ 576,063
Fund balance				
Restricted	-	1,361,346	1,764,096	3,125,442
Committed	-	-	848,233	848,233
Assigned	300,000	-	154,356	454,356
Unassigned:				
General fund	3,012,259	-	-	3,012,259
Total fund balance	3,312,259	1,361,346	2,766,685	7,440,290
Total liabilities and fund balance	\$ 3,715,103	\$ 1,423,230	\$ 2,878,020	\$ 8,016,353

See accompanying notes to basic financial statements.

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position

September 30, 2013

Fund balance - total governmental funds \$ 7,440,290

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.

Those assets consist of:

Governmental capital assets not being depreciated	\$ 4,199,239	
Governmental capital assets being depreciated	57,471,291	
Less accumulated depreciation	<u>(43,366,176)</u>	18,304,354

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities both current and long-term are reported in the statement of net assets.

Accrued interest	(63,303)	
Bonds and warrants payable	(8,935,000)	
Capital lease obligations	(883,926)	
OPEB liability	(690,871)	
Compensated absences	<u>(332,433)</u>	<u>(10,905,533)</u>

Net position of governmental activities \$ 14,839,111

City of Talladega, Alabama

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

<i>Year ended September 30, 2013</i>	General	Capital Projects Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 10,458,660	\$ -	\$ 803,539	\$ 11,262,199
Licenses and permits	1,868,146	-	-	1,868,146
Charges for services	296,681	-	717,270	1,013,951
Federal and state grants	147,206	-	148,215	295,421
Interest	6,982	543	9,216	16,741
Other revenues	170,466	-	-	170,466
Total revenues	12,948,141	543	1,678,240	14,626,924
Expenditures				
General government	1,247,816	20,591	661,665	1,930,072
Public safety	4,238,668	-	674,114	4,912,782
Public works	2,908,078	147,662	145,847	3,201,587
Recreation	964,970	-	-	964,970
Other boards and agencies	338,173	-	-	338,173
Non-departmental	1,600,356	-	-	1,600,356
Capital outlay	340,024	1,183,560	28,450	1,552,034
Debt service:				
Principal	-	-	820,565	820,565
Interest	-	-	432,558	432,558
Miscellaneous	1,332	-	5,660	6,992
Total expenditures	11,639,417	1,351,813	2,768,859	15,760,089
Excess of revenues over (under) expenditures	1,308,724	(1,351,270)	(1,090,619)	(1,133,165)
Other financing sources (uses):				
Operating transfers in	268,472	1,889,000	2,292,922	4,450,394
Operating transfers out	(4,100,324)	(85,000)	(265,070)	(4,450,394)
Transfer from Water and Sewer				
Department	922,717	-	-	922,717
Issuance of capital lease	854,998	-	-	854,998
Total other financing sources (uses)	(2,054,137)	1,804,000	2,027,852	1,777,715
Excess of revenues and other sources over (under) expenditures and other uses	(745,413)	452,730	937,233	644,550
Fund balance, beginning of year	4,057,672	908,616	1,829,452	6,795,740
Fund balance, end of year	\$ 3,312,259	\$ 1,361,346	\$ 2,766,685	\$ 7,440,290

See accompanying notes to basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Government-wide Statement of Activities

September 30, 2013

Net change in fund balances - total governmental funds		\$ 644,550
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Expenditures for capital assets	\$ 1,552,032	
Less current year depreciation and amortization	<u>(1,498,964)</u>	53,068
The net effect of transactions involving the sale of capital assets is to decrease net assets.		(3,264)
Bond proceeds provide current financial resources to governmental funds, but the repayment reduces long-term liabilities in the statement of assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Net change in long-term debt from bond proceeds, payment of principal, and refunding of debt.		531,665
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 the governmental funds.		
Change in accrued interest	3,760	
Change in OPEB liability	(126,528)	
Change in capital lease, net	(566,098)	
Change in long-term compensated absences, net	<u>(30,535)</u>	<u>(719,401)</u>
Change in net assets of governmental activities		<u>\$ 506,618</u>

See accompanying notes to basic financial statements.

Talladega Water and Sewer Department

Statement of Net Position - Proprietary Funds

September 30, 2013

Assets

Current assets

Cash and cash equivalents	\$ 5,304,153
Accounts receivable (net of \$492,996 allowance for doubtful accounts)	623,079
Unbilled revenue	607,171
Accrued interest	205
Prepaid expenses	10,499
Inventory of supplies	286,273

Total current assets	6,831,380
-----------------------------	------------------

Noncurrent assets

Noncurrent restricted assets

Cash and cash equivalents	9,698,557
---------------------------	-----------

Utility plant and equipment

Land and improvements	378,633
Buildings and improvements	34,159,778
Machinery and equipment	3,357,752
Construction in progress	82,475

37,978,638

Less accumulated depreciation	19,339,978
-------------------------------	------------

Total utility plant and equipment	18,638,660
--	-------------------

Other assets

Street deposit	3,000
----------------	-------

Total other assets	3,000
---------------------------	--------------

Total noncurrent assets	28,340,217
--------------------------------	-------------------

Deferred outflows of resources

Deferred charges from refunding	360,126
---------------------------------	---------

Total assets and deferred outflows of resources	\$ 35,531,723
--	----------------------

September 30, 2013

Liabilities and net position

Current liabilities

Accounts payable and accrued expenses	\$	230,592
Due to the City		77,187
Current portion of long-term debt		477,340

Total current liabilities		785,119
----------------------------------	--	---------

Noncurrent liabilities

Accrued annual leave		44,680
Capital lease payable		211,608
Customer meter deposits		224,691
Revenue bonds payable, net		17,186,487

Total noncurrent liabilities		17,667,466
-------------------------------------	--	------------

Total liabilities		18,452,585
--------------------------	--	------------

Net position

Net investment in capital assets		9,625,354
Restricted		1,710,193
Unrestricted		5,743,591

Total net position		17,079,138
---------------------------	--	------------

Total liabilities and net position	\$	35,531,723
---	----	------------

Talladega Water and Sewer Department

Statement of Revenues, Expenses and Changes in Fund Net Position -
Proprietary Fund

Year ended September 30, 2013

Operating revenues	
Water revenues	\$ 3,240,612
Sewer revenues	2,495,497
Garbage revenues	954,889
Other operating revenues	229,904
Total operating revenues	6,920,902
Operating expenses	
Water and sewer department expenses	968,615
Waste water plants	1,013,397
Water filters and wells	852,216
General and administrative expenses	1,360,031
Depreciation and amortization	1,012,993
Total operating expenses	5,207,252
Operating income	1,713,650
Nonoperating income (expense)	
Interest income	13,565
Miscellaneous income	49,577
Interest expense	(759,680)
Total nonoperating income (expense)	(696,538)
Total income	1,017,112
Transfers	
Transfers out	(922,718)
Total transfers	(922,718)
Change in net position	94,394
Beginning net position, as originally reported	17,584,218
Restatement	(599,474)
Net position, as restated	16,984,744
Net position, end of year	\$ 17,079,138

See accompanying notes to basic financial statements.

Talladega Water and Sewer Department

Statement of Cash Flows - Proprietary Fund

Year ended September 30, 2013

Operating activities

Cash received from customers	\$ 6,958,990
Cash paid to suppliers	(2,602,121)
Cash paid to employees	(1,526,785)
Net cash and cash equivalents provided by operating activities	2,830,084

Non-capital financing activities

Transfers to other departments	(922,718)
Net cash and cash equivalents (used by) noncapital financing activities	(922,718)

Capital and related financing activities

Acquisition and construction of capital assets	(810,891)
Principal payments for items under capital lease	(7,820)
Proceeds from insurance	49,577
Principal paid on long-term debt	(390,000)
Interest paid on long-term debt and capital lease obligations	(759,680)
Net cash and cash equivalents (used by) by capital and related financing activities	(1,918,814)

Investing activities

Proceeds from sale/(Purchase) of investments	151,555
Interest received on investments	13,565
Net cash and cash equivalents provided by investing activities	165,120

Net increase in cash and cash equivalents	153,672
--	----------------

Cash and cash equivalents, beginning of year	14,849,038
--	------------

Cash and cash equivalents, end of year	\$ 15,002,710
---	----------------------

Talladega Water and Sewer Department

Statement of Cash Flows - Proprietary Fund (Continued)

Year ended September 30, 2013

Reconciliation of net income to net cash provided (used) by operating activities:

Operating income	\$ 1,713,650
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in allowance for doubtful accounts	295,206
Depreciation and amortization of bond costs	1,046,516
Change in assets and liabilities:	
Accounts receivable	(289,774)
Unbilled revenue	32,656
Inventory of supplies	(19,864)
Accounts payable and accrued expenses	86,102
Due to City	(34,457)
Customer deposits	49
Net cash provided by operating activities	\$ 2,830,084

Noncash Capital Financing Activities

Capital assets of \$314,488 were acquired through capital leases during the year

City of Talladega, Alabama

Statement of Net Position - Component Units

September 30, 2013

	Talladega City Board of Education	Talladega Municipal Airport Board	Heritage Hall	Total
Assets				
Cash and cash equivalents	\$ 3,588,472	\$ 1,367,980	\$ 28,893	\$ 4,985,345
Investments	3,033,924	225,639	83,952	3,343,515
Due from other governments	557,014	-	-	557,014
Accrued interest receivable	19,259	186	-	19,445
Other assets	82,339	5,472	-	87,811
Capital assets, net	10,914,251	1,974	-	10,916,225
Total assets	\$ 18,195,259	\$ 1,601,251	\$ 112,845	\$ 19,909,355
Liabilities				
Bank overdraft	\$ 58,938	\$ -	\$ -	\$ 58,938
Accounts payable and accruals	1,992,219	899	-	1,993,118
Compensated absences	94,493	-	-	94,493
Total liabilities	2,145,650	899	-	2,146,549
Net position				
Net investment in capital assets	10,914,251	1,974	-	10,916,225
Restricted	2,204,468	-	-	2,204,468
Unrestricted	2,930,890	1,598,378	112,845	4,642,113
Total net position	\$ 16,049,609	\$ 1,600,352	\$ 112,845	\$ 17,762,806

See accompanying notes to basic financial statements.

City of Talladega, Alabama

Statement of Activities - Component Units

Year ended September 30, 2013

Program Activities	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Talladega City Board of Education				
Education	\$ 21,641,906	\$ 1,720,416	\$ 15,749,549	\$ 708,146
Talladega Municipal Airport Board				
Community Development	827,324	337,802	597,306	-
Heritage Hall				
Culture and recreation	46,852	11,614	-	-
Total component units	\$ 22,516,082	\$ 2,069,832	\$ 16,346,855	\$ 708,146

General revenues:

Taxes for general, debt, capital purposes
 Payment from City of Talladega
 Grants, entitlements and contributions not restricted to specific programs
 Interest income
 Miscellaneous

Total general revenues

Change in net position

Net position at beginning of year

Net position at end of year

Net (Expense) Revenue and Changes in Net Position			
Talladega City Board of Education	Talladega Municipal Airport Board	Heritage Hall	Total
\$ (3,463,795)	\$ -	\$ -	\$ (3,463,795)
-	107,784	-	107,784
-	-	(35,238)	(35,238)
(3,463,795)	107,784	(35,238)	(3,391,249)
3,638,165	-	-	3,638,165
-	-	51,315	51,315
-	-	-	-
90,500	-	-	90,500
35,745	-	14	35,759
247,197	-	-	247,197
4,011,607	-	51,329	4,062,936
547,812	107,784	16,091	671,687
15,501,797	1,492,568	96,754	17,091,119
\$ 16,049,609	\$ 1,600,352	\$ 112,845	\$ 17,762,806

Notes to Financial Statements Index

	<u>Page</u>
Note 1 – Organization and Reporting Entity	17
Note 2 – Summary of Significant Accounting Policies	18
Note 3 – Cash and Cash Equivalents	28
Note 4 – Receivables and Unbilled Revenue	28
Note 5 – Inventory of Supplies	29
Note 6 – Restricted Assets	29
Note 7 – Capital Assets	30
Note 8 – Accounts Payable and Accrued Liabilities	31
Note 9 – Interfund Transfers	32
Note 10 – Interfund Receivables and Payables	32
Note 11 – Long-term Debt	33
Note 12 – Post-Employment Benefits	36
Note 13 – Deferred Charges from Refunding	39
Note 14 – Restricted Fund Balances	39
Note 15 – Employee Retirement Plan	40
Note 16 – Commitments and Contingencies	42
Note 17 – Risk Management	42
Note 18 – Future Accounting Pronouncements	43
Note 19 - Restatement	43

NOTE 1 – ORGANIZATION AND REPORTING ENTITY

A. Organization

The City of Talladega, Alabama, (the "City") was founded in 1834. The City operates under a Manager-Council form of government with a City Council consisting of five council members elected for concurrent terms of four years. One official is elected at large by the qualified voters of the City and has the title of Mayor. The City Manager is appointed by the City Council. The City Manager has full administrative authority for all operations of the City. Members of the City Council serve part-time and are responsible for adopting all legislative ordinances and setting policies of the City, including the appropriation of money.

B. Reporting entity

The financial statements of the City have been prepared in conformity with the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board (GASB). In June 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This Statement was developed to make annual reports easier to understand and more useful to the people who use government financial information to make decisions.

As required by generally accepted accounting principles, the accompanying financial statements present the City as a primary government and its component units, entities for which the City is considered financially accountable. The component units are included in the reporting entity because of the significance of their operational relationship with the primary government. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of the organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. The primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

Blended component units, although legally separate entities, are in substance part of the primary government's operations and data from these units would be combined with the data of the City. The City has no blended component units. Each discretely presented component unit is presented in a separate column in the combined financial statements to emphasize it is legally separate from the City.

NOTE 1 – ORGANIZATION AND REPORTING ENTITY (CONTINUED)

The discretely presented component units are as follows:

- Talladega City Board of Education is a component unit of the City because it is reliant upon the City for tax revenue collections and for bond issues because the Board of Education is precluded from issuing bonds directly. The audited financial information for Talladega City Board of Education is included in this audit report.
- Heritage Hall is a component unit of the City because the City is the primary provider of funds for the entity and appoints the members of the Board. The audited information on Heritage Hall is included in this report.
- Talladega Municipal Airport Board is a component unit because the governing body of the Board is appointed by the City Council and the Airport Board exists to manage the City's airport. The audited information for the Talladega Municipal Airport Board is included in this report.

Audited financial statements for the Talladega City Board of Education and Talladega Municipal Airport Board are available at City Hall. Heritage Hall does not issue financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant of the government's accounting policies are described below.

A. Government-wide and Fund Financial Statements

The City's basic financial statements include both government-wide (based on the City as a whole) and fund financial Statements. The focus is on either the City as a whole or on major individual funds, within the fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, parks and recreation, public works, economic development, library and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reported on a full accrual, economic resource basis, which includes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts — net investment in capital assets, restricted, and unrestricted.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Government-wide and Fund Financial Statements (continued)

The government-wide Statement of Activities reports both the gross and net cost per functional category (public works, public safety, etc.), which are otherwise being supported by general government revenues (taxes, licenses and permits, etc.) and business-type activities. The Statement of Activities reduces gross expenses; including depreciation, by related program revenues (charges for services, operating and capital grants and contributions). The program revenues must be directly associated with a function or a business-type activity. The City does not allocate indirect expenses. The operating grants include operating specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The City first utilizes restricted resources to finance qualifying activities.

The governmental funds financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the governmental fund statements to the government-wide statements' governmental column.

The focus of this reporting model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type activities, as well as the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

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

The City's accounting records are organized and operated on a fund basis. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on the specific activities or attaining certain objectives, in accordance with special regulations, restrictions or limitations.

The types of funds used in accounting for the financial operations of the City and their nature and purpose are as follows:

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental funds

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position, rather than upon net income determination. The following are the City's governmental funds:

1. General Fund

The General Fund is the general operating fund of the City and is considered a major governmental fund. All general tax revenue and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. The general operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

2. Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. The special revenue funds are considered nonmajor governmental funds.

3. Debt Service Fund

The debt service funds are nonmajor governmental funds used to account for the repayment of principal and interest on the City's outstanding bond issues and other debt obligations of the City.

4. Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Capital Project Fund accounts for revenues for the acquisition or construction of major capital facilities. Capital projects funds used by the City are as follows:

1. Community Development Fund
2. Capital Project Fund
3. RBEG Fund

Proprietary funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This focus of proprietary fund measurement is upon determination of operating income, changes in net position, and cash flows.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative and personnel expenses, repairs and supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Proprietary funds include the following fund types:

- Enterprise funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City's Water and Sewer Department is an enterprise fund that provides water and sewer service for the citizens in and around the City of Talladega, Alabama.

Fiduciary funds

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations and other governmental units.

The City has no fiduciary funds.

B. Measurement focus and basis of accounting

Measurement focus refers to what is being measured, basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied. Both the governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

C. Government-wide financial statements

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund financial statements

Governmental funds

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become both "measurable and available" to finance current expenditures. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities (the City considers revenue available if it is collected within 60 days after year end). Gross receipts and selective sales and use taxes are considered available and measurable when the underlying exchange has occurred (i.e., September gross receipts taxes are recorded as revenue in September even though the taxpayers remit taxes in October) and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Property taxes are recognized as revenue when the enforceable legal claim has occurred. Grant revenues are recognized when all eligibility requirements have been met. Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditures (including capital outlay) are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on general long-term debt are exceptions to this rule and are recognized when due. Also, expenditures related to insurance claims, employee pension liability, compensated absences and the sinking fund are recognized when payable from expendable available financial resources in future years.

E. Budgets and budgetary accounting

The City follows these procedures in establishing the budgetary data presented in the accompanying financial statements:

- Normally, on or before August 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1st.
- Expenditures in excess of the originally approved budget are not formally approved by the City Council until an amended budget is adopted.
- Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for the Debt Service Funds because effective budgetary control is alternatively achieved through general obligation indenture provisions.
- All budget appropriations lapse at year end.
- The basis of accounting for the budget is the same as used in the governmental fund accounting (generally accepted accounting principles).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Revenue Recognition

Advalorem taxes are assessed on property valuations and statutory liens are attached to such properties as of October 1st each year. These taxes are due October 1st but do not become delinquent until January 1st after which penalties are levied.

Other material revenue which is susceptible to accrual includes gross receipts, interest income and state-share revenue. Revenue which is not both available and measurable and thus not susceptible to accrual includes property and franchise taxes and business licenses.

G. Program revenues

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the City.

H. Cash and investments

Cash and investments consist of cash, government securities, certificates of deposit, and repurchase agreements. Cash balances and the requirements of all funds are considered in determining the amount to be invested. Interest earned on cash and investments is recorded in the fund in which it is earned. In accordance with Governmental Accounting Standards Board No. 31, *Accounting for Financial Reporting for certain investments and for External Investment Pools*, the City reports its money market investments and investments in short-term debt securities that have remaining maturities of one year or less at amortized cost.

I. Receivables and unbilled revenues

In the Water and Sewer Department, revenues are recognized on the basis of monthly billings to customers for services provided. The City therefore extends credit to its customers. As a result of this billing method, the City accrues unbilled service revenue at the end of the fiscal period with respect to service provided but not billed at such date. The City analyzes current and past due accounts and provides an allowance for doubtful accounts for the accounts deemed uncollectible.

J. Inventories

Inventories of unused supplies and pipe are physically counted at the end of each fiscal year and recorded at cost. The cost of inventories expended for repairs are recorded as expenditures when consumed. Inventories expended for capital improvements are capitalized once a year. The cost is calculated on a first in, first out basis.

K. Customer meter deposits

The Water and Sewer Department requires customers to pay a one-time deposit of \$50 for water service, with the exception of customers who provide proof of home ownership. When a customer terminates service, the deposit is applied to the last bill and the balance is refunded.

Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital assets

The accounting treatment over capital assets depends on whether the assets are reported in the government-wide or fund financial statements.

Government-wide financial statements

In the government-wide financial statements, capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Donated capital assets are valued at their estimated fair market value on the date donated. The City capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur.

Prior to October 1, 2001, government funds' infrastructure-assets were not capitalized. In accordance with GASB Statement No. 34, infrastructure has been capitalized for additions since October 1, 2001. Pre-existing infrastructure was included the City's financial statements starting September 30, 2006.

Government-wide financial statements (continued)

Depreciation is recorded as an unallocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset for the City's governmental activities is as follows:

Buildings	40 years
Improvements	40 years
Machinery and equipment	5-10 years
Automotive equipment	5 years
Office equipment	5-10 years

Utility plant in service is stated at cost when purchased, constructed or contributed. The Water and Sewer Department records water and sewer lines constructed by sub-dividers as a part of the utility plant, upon completion of subdivision. Contributed assets are recorded at the contributor's basis. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest has not been capitalized during the construction of assets. Depreciation is recorded using the straight-line method over the estimated service lives of the assets as follows:

Plants and systems	5-40 years
Buildings	20-40 years
Building improvements	20-40 years
Office equipment	5 years
Tools and equipment	5 years
Vehicles	5 years
Parking lot and landscaping	10 years
Computers	3 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Compensated absences (continued)

Fund financial statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures upon acquisition.

The City follows Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, which requires that accrued liabilities for future vacations and sick leave be recorded to the extent the future leaves (1) relate to rights attributable to employee services already rendered, (2) relate to rights that vest or accumulate, (3) where payment is probable, and (4) where amounts can be reasonably estimated. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. In the governmental fund financial statements, amounts that would normally be paid with expendable available financial resources are recorded in the General Fund, and the amounts considered noncurrent are held in the long-term debt account group. Amounts paid or payable within sixty days are deemed to be payable from expendable financial resources.

A liability for vacation pay is reported in the governmental funds only if the obligation has matured, for example, as a result of an employee's resignation or retirement. All vacation pay is accrued when incurred in the government-wide statements. The current portion of accrued vacation at September 30, 2013 reported in the government-wide financial statements is \$33,243. The remaining long-term incurred portion of the accrued vacation of the governmental activities at September 30, 2013 totaled \$299,190.

M. Long-term liabilities

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount, or deferred amount on refunding. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding are included in interest expense.

N. Long-term liabilities

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Equity classifications

Government-wide financial statements

Equity is classified as net position and displayed in three components:

- Net investment in capital assets – Consists of capital assets including restricted capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds and mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – Constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

P. Equity classifications

Fund Financial Statements

In the fund financial statements, governmental funds report equity as fund balance. The City adopted GASB Statement No. 54 for the year ended September 30, 2012. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. The following is a description of the City's various fund balance accounts:

Nonspendable. Fund balances that cannot be spent because they are either:

Not in Spendable Form- generally, amounts that are not expected to be converted to cash, such as inventories or prepaid amounts.

Legally or Contractually Required to be Maintained Intact- amounts that are required to be maintained intact, such as the principal of a permanent fund.

Restricted- amounts that can be used only for specific purposes because of (a) constitutional provisions or enabling legislation or (b) externally imposed constraints.

Committed- amounts that can be used only for specific purposes because of a formal resolution by the City Council – the government's highest level of decision-making authority. City Council action by formal resolution is required to establish, modify or rescind a fund balance commitment.

Assigned- amounts intended to be used by the government for specific purposes. The City Council has established a policy in which the City Manager or Council can assign amount for specific purposes. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. The City Council has established a policy in which the City Manager or Council can assign amount for specific purposes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unassigned- residual classification for the general fund (i.e. everything that is not in another classification or in another fund).

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then committed, assigned, and unassigned – in order as needed.

Fund Financial Statements (continued)

The City has committed \$848,233 of the Other Governmental Funds fund balance to maintain the City's Cemetery.

The City has assigned \$154,356 of the Other Governmental Funds fund balance for the City's Library.

The City has assigned \$300,000 of the General Fund fund balance for OPEB contributions.

Q. Interfund transfers

In the fund financial statements, receivables and payables resulting from outstanding balances are classified as "interfund receivables/payables". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Flow of cash or goods from one fund to another without a requirement for repayment is reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. The government-wide statements eliminate interfund transfers and receivables/payables as reported within the segregated governmental and business activities column. Only transfers and receivables/payables between the two columns appear in this statement, which zero in total.

R. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

S. Reclassifications

Certain accounts in the Water and Sewer Department's prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

T. Subsequent events

The City has evaluated subsequent events through the date these financial statements were available to be issued.

Notes to Financial Statements

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash balances available for investment by City funds are maintained in cash and investment accounts to improve investment opportunities.

Cash equivalents consist of investments with a maturity date of six months or less.

The City is restricted by State statute to investments in U.S. Government Treasury and Agency securities, certificates of deposit and money market accounts, repurchase agreements and reverse repurchase agreements, banker's acceptances and commercial paper. Each of the banks holding the City's deposits, as well as those of the Component Units, is a certified participant in the SAFE Program. Through the SAFE program, all public funds are protected through a collateral pool administered by the Alabama State Treasury.

Due to the requirements of the SAFE program, the City has no formal custodial risk or interest risk rating policy. State statute requirement for investments are followed.

The City's governmental activities deposits, including certificates of deposit were fully insured or collateralized at September 30, 2013. At year-end, the carrying amount of the City's cash and cash equivalents was \$6,177,888. Investments consist of certificates of deposit, U. S. Treasury Notes and other fixed income securities totaling \$741,802. Cash deposits and savings held at local banks are insured by the FDIC or collateralized by assets administered by the state treasurer's office in accordance with the SAFE program.

The Water and Sewer Department's cash and cash equivalents consist of cash in checking accounts and certificates of deposit. Restricted cash consists of certificates of deposit and other investments carried at market value. Cash and cash equivalents at September 30, 2013 was \$5,304,153. Restricted cash consisted of cash of \$9,424,699 and certificates of deposits of \$273,858. The market value of the investments is the same as the carrying value.

NOTE 4 – RECEIVABLES AND UNBILLED REVENUE

Governmental activities receivables at September 30, 2013:

Receivables:

Taxes receivable	\$	924,827
Restitution receivable		51,737
Other receivables		41,547
Gross receivables		1,018,111
Net receivables	\$	1,018,111

Notes to Financial Statements

NOTE 4 – RECEIVABLES AND UNBILLED REVENUE (CONTINUED)

The Water and Sewer Department uses cycle billing and customers are billed at various times during each month. Income and unbilled receivables are recorded for the portion of customers' usage of water and sewage from the time of their last billing until September 30.

Accounts receivable	\$	1,116,075
Less: allowance for doubtful accounts		492,996
Net accounts receivable	\$	623,079

Unbilled revenues receivable at September 30, 2013 was \$607,171.

NOTE 5 – INVENTORY OF SUPPLIES

The Water and Sewer Department maintains an inventory of water pipe, fittings, meters and other materials that will be used to repair or improve the existing water and sewer system. The items are valued at cost. The value of inventories at September 30, 2013 was \$286,273.

NOTE 6 – RESTRICTED ASSETS

Restricted assets consist of monies held in trust by The Bank of New York to cover bond indenture expenses and repayment of bonds. Also included is money collected from customers and held as deposits. At September 30, 2013 monies held in trust were \$9,424,699 and customer deposits were \$273,858.

City of Talladega, Alabama

Notes to Financial Statements

NOTE 7 – CAPITAL ASSETS

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2013:

	Balance at 09/30/12	Additions and Reclassifications	Retirements and Reclassifications	Balance at 09/30/13
Capital assets not being depreciated:				
Land and improvements	\$ 3,832,454	\$ -	\$ -	\$ 3,832,454
Construction progress	22,087	726,343	(381,645)	366,785
Total capital assets not being depreciated	3,854,541	726,343	(381,645)	4,199,239
Capital assets being depreciated:				
Building and improvements	13,218,077	427,132	-	13,645,209
Infrastructure	38,589,172	103,806	-	38,692,978
Machinery and equipment	4,821,149	676,398	(364,443)	5,133,104
Total capital assets being depreciated	56,628,398	1,207,336	(364,443)	57,471,291
Less accumulated depreciation for:				
Building and improvements	6,707,415	391,682	-	7,099,097
Infrastructure	32,153,608	716,971	-	32,870,579
Machinery and equipment	3,367,368	390,311	(361,179)	3,396,500
Total accumulated depreciation	42,228,391	1,498,964	(361,179)	43,366,176
Total capital assets being depreciated, net	14,400,007	(291,629)	(3,264)	14,105,115
Governmental activities capital assets, net	\$ 18,254,548	\$ 434,713	\$ (384,909)	\$ 18,304,354

Depreciation expense at September 30, 2013 was \$1,498,964.

Notes to Financial Statements

NOTE 7 – CAPITAL ASSETS (CONTINUED)

The following is a summary of additions and retirements to fixed assets associated with the Water and Sewer Department during the year ended September 30, 2013:

	Balance at 9/30/12	Additions	Deletions	Balance at 9/30/13
Land (not depreciable)	\$ 271,376	\$ 7,950	\$ -	\$ 279,326
Land improvements	37,980	61,327	-	99,307
Buildings and improvements	33,626,824	532,954	-	34,159,778
Machinery and equipment	2,824,584	668,637	(135,469)	3,357,752
Construction in process	185,525	55,681	(158,731)	82,475
Total fixed assets	36,946,289	1,326,549	(294,200)	37,978,638
Less accumulated depreciation:				
Land improvements	18,990	2,532		21,522
Buildings and improvements	16,346,012	848,869		17,194,881
Machinery and equipment	2,029,473	161,592	(67,490)	2,123,575
Total accumulated depreciation	18,394,475	1,012,993	(67,490)	19,339,978
Utility plant, net	\$ 18,551,814	\$ 313,556	\$ (226,710)	\$ 18,638,660

Depreciation expense at September 30, 2013 was \$1,012,993.

NOTE 8 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities for governmental activities at September 30, 2013 were as follows:

Accounts payable	\$ 420,736
Accrued salaries and wages	46,105
Payroll liabilities	16,234
Other liabilities	92,988
Total	\$ 576,063

Accounts payable and accrued expenses for the Water and Sewer Department consisted of the following at September 30, 2013:

Accounts payable	\$ 121,541
Payroll liabilities	2,330
Accrued interest payable	58,278
Accrued salaries and wages	13,743
Compensated absences	34,700
Total	\$ 230,592

Notes to Financial Statements

NOTE 9 – INTERFUND TRANSFERS

Transfers within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

Interfund transfers for the year ended September 30, 2013:

	Transfers In	Transfers Out
General fund		
Other nonmajor funds	\$ 268,472	\$ 2,211,324
Capital projects funds	-	1,889,000
Total general fund	268,472	4,100,324
Capital projects trust fund		
General fund	1,889,000	-
Other nonmajor funds	-	85,000
Total capital projects trust fund	1,889,000	85,000
Other nonmajor funds		
General fund	2,207,922	265,070
Capital projects funds	85,000	-
Total nonmajor funds	2,292,922	265,070
Total interfund transfers	\$ 4,450,394	\$ 4,450,394

NOTE 10 – INTERFUND RECEIVABLES AND PAYABLES

Generally, outstanding balances between funds reported as "due to/from other funds" include subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

Interfund receivables and payables at September 30, 2013:

	Interfund Receivable	Interfund Payable
General fund		
Water and Sewer Department	\$ 77,187	\$ -
Water and Sewer Department		
General fund	-	77,187
Total interfund receivable/payable	\$ 77,187	\$ 77,187

Notes to Financial Statements
NOTE 11 – LONG-TERM DEBT

The general and limited obligation bonds/warrants and notes of the City include the following at September 30, 2013:

\$4,905,000; 2007 Series General Obligation Warrants; due at rates ranging from 3.75% - 4.25 & per annum; maturing August 1, 2027.	\$	4,090,000
\$2,070,000; 2008 Series General Obligation Warrants; due at rates ranging from 2.50% - 5.00% per annum; maturing August 1, 2027.		1,655,000
\$3,650,000; 2008 Series General Obligation Warrants; due at rates 3.00% to 5.125% per annum; maturing August 1, 2033.		3,190,000
Total obligations/warrants payable	\$	8,935,000

Bonds and warrants payable

The principal and maturities and related interest requirements for the bonds, warrants and notes payable for the next five fiscal years and thereafter are as follows:

Fiscal year ending September 30,	Principal	Interest	Total
2014	\$ 420,000	\$ 392,773	\$ 812,773
2015	425,000	376,378	801,378
2016	445,000	359,783	804,783
2017	465,000	341,983	806,983
2018	485,000	323,268	808,268
2019 – 2023	2,755,000	1,295,343	4,050,343
2024 – 2028	2,850,000	619,048	3,469,048
2029 – 2033	1,090,000	173,481	1,263,481
Total	\$ 8,935,000	\$ 3,882,057	\$ 12,817,057

Interest paid on long-term debt was \$422,748 for the year ended September 30, 2013.

Notes to Financial Statements

NOTE 11 – LONG-TERM DEBT (CONTINUED)Capital leases payable

The City has entered into capital leases for various amounts with terms up to 10 years. The lease purchase value of the equipment totals \$1,339,521. These assets have been added to the fixed asset list and depreciated accordingly. Future minimum lease payments under these capital leases at September 30, 2013 are as follows:

Fiscal year ending September 30,	Present value of minimum lease payments		Interest	Total lease payments
2014	\$	19,006	\$ 24,945	\$ 43,951
2015		60,696	23,008	83,704
2016		51,422	20,578	72,000
2017		54,781	19,216	73,997
2018		60,241	17,759	78,000
Thereafter		637,780	73,820	711,600
Total	\$	883,926	\$ 179,326	\$ 1,063,252

The changes in long-term debt for the governmental activities of the City for the year ended September 30, 2013 is as follows:

Description	Beginning balance 9/30/2012	Additions	Deletions	Ending Balance 9/30/2013	Due within one year
Bonds and warrants payable	\$ 9,466,665	\$ -	\$ 531,664	\$ 8,935,000	\$ 420,000
Capital leases	317,828	854,998	288,900	883,926	19,006
Compensated absences	301,895	30,538	-	332,433	33,243
OPEB liability	564,343	-	126,528	690,871	-
Total changes in long-term debt	\$ 10,650,731	\$ 885,536	\$ 947,092	\$ 10,842,230	\$ 472,249

The City's General Fund is typically used to liquidate long-term liabilities with the exception of bond debt service which is paid from the City's Debt Service Fund.

Notes to Financial Statements

NOTE 11 – LONG-TERM DEBT (CONTINUED)***Water and Sewer Department Long-term Debt*****Revenue Bonds Payable**

Revenue bonds payable consists of Subordinated Water and Sewer Revenue bonds issued as special obligations of the Water and Sewer Department secured by the net revenues of the water and sewer system. This debt is not a general obligation of the City. The bond principal and interest is paid by revenue earned by the system and trust restricted assets. The following schedule summarizes the changes in revenue bonds for the year ended September 30, 2013:

Description	Beginning balance 9/30/2012	Additions	Deletions	Ending Balance 9/30/2013	Amount due within one year	Interest paid
2010 Bonds	\$ 17,740,000	\$ -	\$ (390,000)	\$ 17,350,000	\$ 400,000	\$ 724,550
Premium	245,246		(8,759)	236,487	8,759	-
Total	\$ 17,985,246	\$ -	\$ (398,759)	\$ 17,595,247	\$ 408,759	\$ 724,550

Revenue bonds outstanding at September 30, 2013:

Series 2010 Bonds

On November 1, 2010, the Water and Sewer Department issued revenue bonds totaling \$18,435,000 with interest rates ranging from 2.00% to 5.00%. The proceeds were used for the following:

- 1) To make improvements to the system.
- 2) To provide funds to prepay on an advance refunding basis, all of the bonds now outstanding that were heretofore issued by The Water and Sewer Department of the City of Talladega.
- 3) To fund a debt Service reserve fund for the benefit of the Series 2010 Warrants.
- 4) To pay expenses for issuing the bonds.

The Series 2010 bonds are limited obligation bonds of the Water and Sewer Department, payable solely out of revenues of the system.

Cash in the amount of \$7,162,734 was deposited with an escrow agent pursuant to an escrow agreement. The maturities of these securities and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the defeased Series 2003 and Series 2004 Bonds as they mature. This transaction effectively released the City from its obligation to repay the defeased Series 2003 and Series 2004 Bonds and constitutes an in-substance defeasance. Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the City's financial statements. On September 30, 2013, \$1.57 million of bonds outstanding are considered defeased.

Notes to Financial Statements

NOTE 11 – LONG-TERM DEBT (CONTINUED)***Water and Sewer Department Long-term Debt (continued)***

The principal and maturities and related interest requirements for the bonds for the next five fiscal years and thereafter are as follows:

Fiscal year ending September 30,	Principal	Interest	Total
2014	\$ 400,000	\$ 716,750	\$ 1,116,750
2015	405,000	708,750	1,113,750
2016	415,000	700,650	1,115,650
2017	420,000	691,313	1,111,313
2018	435,000	680,813	1,115,813
2019 – 2023	2,405,000	3,168,550	5,573,550
2024 – 2028	2,900,000	2,670,350	5,570,350
2029 – 2033	3,530,000	2,037,588	5,567,588
2034 – 2038	4,370,000	1,187,788	5,557,788
2039 - 2040	2,070,000	156,500	2,226,500
Total	\$ 17,350,000	\$ 12,719,052	\$ 30,069,052

Capital Lease Payable

On May 20, 2013, the Water and Sewer Department entered into a capital lease agreement with Sun Trust Equipment Finance and Leasing Corporation to purchase equipment for \$314,488. The lease requires 48 monthly payments of \$6,741 with an annual interest rate of 1.4%. The balance at September 30, 2013 was \$288,948.

These assets have been added to the fixed asset list and depreciated accordingly. Future minimum lease payments under these capital leases at September 30, 2013 are as follows:

Fiscal year ending September 30,	Present value of minimum lease payments	Interest	Total lease payments
2014	\$ 77,340	\$ 3,590	\$ 80,890
2015	78,429	2,461	80,890
2016	79,534	1,355	80,890
2017	53,685	282	53,927
Total	\$ 288,948	\$ 7,688	\$ 296,597

NOTE 12 – POST-EMPLOYMENT BENEFITS**Plan description**

Effective October 1, 2007, the City adopted the provisions of GASB Statement 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions".

NOTE 12 – POST-EMPLOYMENT BENEFITS (CONTINUED)

The City, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a single-employer defined benefit plan to provide certain post retirement healthcare benefits to all former employees who have 25 years of continuous service, regardless of age, or who have 10 years of continuous service and are age 62. Such benefits are also available to retirees' spouses or dependents, but the cost of that coverage is the retiree's responsibility. Specific details of the Plan include coverage offered through the Alabama Local Government Health Insurance Program. Retirees with 25 years of continuous service have 100% of their health and life insurance coverage paid for by the City. Retirees with 10 years of continuous service must pay the entire cost of the premium and are not eligible for life insurance through the City. Medical, drug, dental, and life benefits are offered for pre-Medicare retirees.

Funding policy

The City currently pays for postemployment healthcare benefits on a pay-as-you-go basis. The City is studying the establishment of a trust that would be used to accumulate and invest assets necessary to pay for the accumulated liability. These financial statements assume that pay-as-you-go funding will continue. The City has assigned \$300,000 of General fund fund balance in the current year to begin funding the plan.

Annual OPEB Cost and Net OPEB Obligation

The City's annual Other Post-employment Benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years.

The table below shows the City's Net Other Post-employment Benefit (OPEB) Obligation (Asset) for fiscal year ending September 30, 2013:

Annual required contribution	\$ 244,617
Interest on net OPEB obligation	18,621
ARC adjustment	(14,749)
Annual OPEB cost	248,489
Contributions	-
Current year retiree premium	(121,961)
Change in net OPEB obligation	126,528
Beginning net OPEB obligation, beginning of year	564,343
Ending net OPEB obligation 9/30/2013	\$ 690,871

Notes to Financial Statements

NOTE 12 – POST-EMPLOYMENT BENEFITS (CONTINUED)

The following table shows the City's annual OPEB cost, percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
September 30, 2011	229,661	81.50%	465,518
September 30, 2012	226,251	56.32%	564,343
September 30, 2013	248,489	49.08%	690,871

Funded status and funding progress

As of October 1, 2011, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$3,397,851, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,397,851. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$5,831,921, and the ratio of the UAAL to the covered payroll equaled 58.26%.

Actuarial valuations of an ongoing plan involve 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 RSI following the notes to the financial statements, is to present multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the City maintains no Plan assets, information relative to Plan asset required disclosures is not applicable.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the City 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 City and Plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

NOTE 12 – POST-EMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions (continued)

In the actuarial valuation dated October 1, 2011, the projected unit credit cost actuarial method was used. Because the City funds its OPEB on a pay-as-you-go basis, the plan has no assets (investments) legally held exclusively for paying the post-retirement medical benefits. Based on the market value of assets method of asset valuation, the actuarial assumptions included a 4.0% discount rate, which approximates the expected rate of return on non-pension investments held by the City, including inflation at 4.5%. Actuarial assumptions also included an annual medical cost trend rate of 7.0% initially, reduced to an ultimate rate of 5.0% for costs after four years. The UAAL is being amortized as a level percentage of pay over thirty years on an open basis.

NOTE 13 – DEFERRED CHARGES FROM REFUNDING

Water and Sewer Department

The defeasement of series 2003 and 2004 revenue bonds resulted in a difference of \$629,855 between the reacquisition price and the net carrying amount of the old debt. This difference is amortized through 2022 and is reported in the accompanying financial statements as a deferred outflow of resources. As described in Note 19, \$122,471 of capitalized bond costs included in this deferred amount have been removed. The unamortized portion of the deferred charges at September 30, 2013 were \$360,126.

NOTE 14 – RESTRICTED FUND BALANCES

The restricted fund balances in the amount of \$3,125,442 are restricted for various capital outlay projects and various other purposes. The following amounts are restricted:

1. \$545,201 was derived from the 4 cent, 5 cent, and 7 cent special taxes. These revenues are restricted for street and road maintenance and improvements.
2. \$986,766 is derived from the City's share of the Oil Trust Fund and is restricted for capital improvements.
3. \$1,361,346 is derived from sales tax receipts held in the Capital Projects Trust Fund.
4. \$35,237 was derived from the 2.5 Mil Property Tax Fund and is restricted for education.
5. \$82,800 was derived from the Corrections Fund and is restricted for corrections related functions.
6. \$15,841 is derived from the Brownfield Fund and is restricted for use on the Brownfield Project.
7. \$12,871 is derived from the Police Grant and is restricted for use on the Police Grant Fund.
8. \$7,206 is derived from grant monies held in the RBEG capital projects fund.
9. \$78,174 is derived from grant monies held in the Community Development capital projects fund.

NOTE 15 – EMPLOYEE RETIREMENT PLAN**Plan description**

All full-time employees are members of the Employees' Retirement Systems of Alabama. Membership is mandatory for covered or eligible employees of the City. Benefits vest after ten years of creditable service. Retirement benefits are calculated by two methods with the retiree receiving payment under that method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method, retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner.

Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to members of the plan.

The Employees' Retirement Systems, an agent multiple-employer plan, was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for state employees, state police and on an elective basis to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement Systems is vested in the City. 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 Employees' Retirement System Board 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.

All covered employees contribute 5% of their annual covered salary except for police and fire employees who contribute 6% of their annual covered salary. The City is required to contribute an actuarially determined rate; the current rate is 2.206% of covered payroll except for certified policemen and firemen and the rate is 1.838%. The contribution requirements of plan members and the City are established, and may be amended, by the board of trustees of the plan.

The City contributes to The Retirement Systems of Alabama. The summary from the report is as follows:

Summary of Employee Census Data

Number of active members		200
Annual compensation	\$	5,922,110
Number of retired members and beneficiaries		83
Annual retirement allowances	\$	1,222,165

Notes to Financial Statements

NOTE 15 – EMPLOYEE RETIREMENT PLAN (CONTINUED)**Required Employer Contribution Rates Effective October 1, 2013**

Normal cost	3.41%
Accrued liability	7.27%
Pre-retirement death benefit	0.14%
Administrative expense	0.21%
Total	11.03%

5% Employer contribution factor (11.03%/5%)	2.206
6% Employer contribution factor (11.03%/6%)	1.838

Following is the three year trend information for the plan:

Fiscal year ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2012	\$ 506,870	100%	\$ -
September 30, 2011	550,188	100%	-
September 30, 2010	507,653	100%	-

Following is the schedule of funding progress obtained from most recent actuarial valuation:

Actuarial Valuation Date		Actuarial Value of Assets	Entry Age Actuarial Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Sept. 30,		(a)*	Entry Age (b)	(b-a)	(a/b)	(c)	(b-a/c)
2012	3,5	\$ 14,672,660	\$ 21,025,722	\$ 6,353,062	69.8%	\$ 5,922,110	107.3%
2012	5	14,672,660	20,969,736	6,297,076	70.0%	5,922,110	106.3%
2011	4	15,263,628	22,937,811	7,674,183	66.5%	6,688,593	114.7%
2010	2	15,770,507	22,470,180	6,699,673	70.2%	6,586,748	101.7%
2009		16,263,840	21,413,805	5,149,965	76.0%	7,068,194	72.9%
2008		16,380,437	20,191,739	3,811,302	81.1%	6,639,046	57.4%
2007		16,293,524	19,209,510	2,915,986	84.8%	6,533,879	44.6%

- 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.

Notes to Financial Statements

NOTE 15 – EMPLOYEE RETIREMENT PLAN (CONTINUED)

Following is additional information obtained from the most recent actuarial valuation prepared as of September 30, 2012:

Valuation date	September 30, 2012
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	26 years
Asset valuation method	5 – year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.00%
Projected salary increases*	3.75 – 7.25%
*Includes inflation at	3.00%
Cost-of-living adjusts	None

NOTE 16 – COMMITMENTS AND CONTINGENCIES

The City is a defendant in various litigation of which legal counsel and City management are of the opinion that none will have a material adverse effect on the financial statements of the City. These actions include both asserted and unasserted claims. The City's legal counsel has advised that damages on any asserted claims, should an unfavorable judgment be reached, will be within the limits of the City's insurance coverage and therefore should not impact upon municipal assets. The City's maximum liability is estimated to be the \$5,000 insurance deductible for claims. No accrual has been included in these financial statements for this matter.

In August 1991, the City authorized construction of an office building financed by a bond issue in the amount of \$1,820,000. The City has agreed to lease the building to Alabama Department of Human Resources under a lease agreement. The Department of Human Resources agreed to make the bond payments of \$16,895 per month beginning 1993 through 2008. The lease agreement provided for two additional sixty month periods at a rental rate of \$33,407 annually. The lease was extended for the second sixty month period on November 1, 2012 and will expire October 31, 2017.

NOTE 17 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. Except for collision on most vehicles, plate glass coverage, and employee dishonesty in excess of \$5,000, these risks are covered by commercial insurance with various deductibles. The amount of coverage limits of commercial insurance policies, except for increased deductibles, did not change materially over the last three fiscal years. Additionally, the amount of settlements did not exceed insurance coverage for each of the three fiscal years.

NOTE 18 – FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued statements that will become effective in subsequent fiscal years. The statements address:

- Accounting and financial reporting for pensions;
- Mergers, acquisitions and transfers of operations; and
- Financial guarantees

The City is currently evaluating the effects that these statements will have on its financial statements for subsequent fiscal years.

NOTE 19 – RESTATEMENT

The City recorded a retroactive restatement as a result of implementing Governmental Accounting Standards Board Statement 65 *Items Previously Reported as Assets and Liabilities*. The statement establishes that the costs of issuing bonds (“bond issuance costs”) are no longer be capitalized but rather be treated as an expense of the period. Accounting changes adopted to conform to this Statement should be applied retroactively. The City elected not to restate previously issued financial statements. As a result, the cumulative effect of applying this Statement has been reported as a restatement of beginning net position. The amount of the adjustment for the City was \$274,112 and the Water and Sewer Department was \$599,474 (\$477,003 was previously reported as bond issuance costs and \$122,471 represented bond issuance costs included in deferred charges from refunding).

Required Supplementary Information

City of Talladega, Alabama

Schedule of Revenues and Expenditures - General Fund
Budget and Actual

<i>Year ended September 30, 2013</i>	Original Budget	Actual	Variance
Revenues			
Taxes			
Sales and use tax	\$ 7,850,000	\$ 8,003,987	\$ 153,987
Rental tax	135,000	147,555	12,555
Lodging tax	130,000	149,958	19,958
Automobile sales tax	35,000	39,992	4,992
Motor vehicle license tax	4,000	3,459	(541)
Wholesale gasoline tax	200,000	197,030	(2,970)
Alcoholic beverage tax	20,000	21,086	1,086
Beer tax	110,000	96,539	(13,461)
Wine tax	5,000	5,308	308
Liquor tax - ABC profit	-	8,538	8,538
Cigarette tax	380,000	401,350	21,350
Alabama Gas franchise tax	56,700	47,411	(9,289)
Charter Cable franchise tax	178,800	178,962	162
10 mil property tax	1,040,000	1,049,494	9,494
Excise tax on financial institutions	80,000	77,821	(2,179)
County business privilege tax	29,500	30,170	670
Total taxes	10,254,000	10,458,660	204,660
Licenses and permits			
Business license	950,000	1,012,271	62,271
Business license - Alabama Gas Corp.	154,700	127,269	(27,431)
Business license - Alabama Power Co.	720,700	669,169	(51,531)
Business license - Coosa Valley Electric	13,700	12,638	(1,062)
Business license - telephone	1,960	3,942	1,982
Alcohol license	50	125	75
Automobile license	14,000	17,961	3,961
Chauffeur license	120	90	(30)
Total licenses and permits	1,855,230	1,843,465	(11,765)
Permits			
Building permits	30,000	21,957	(8,043)
Miscellaneous permits	4,000	2,242	(1,758)
Yard sale permits	500	482	(18)
Total permits	34,500	24,681	(9,819)

(Continued on the following page.)

See accompanying notes to required supplementary information.

City of Talladega, Alabama

Schedule of Revenues and Expenditures - General Fund
Budget and Actual (Continued)

<i>Year ended September 30, 2013</i>	Original Budget	Actual	Variance
Revenues (continued)			
Fees			
Motor vehicle registration fees	\$ 800	\$ 2,249	\$ 1,449
Returned check fees	240	245	5
Zoning Fees	500	2,000	1,500
Total fees	1,540	4,494	2,954
Police department			
Impound fees	5,000	6,130	1,130
Click-it or Ticket grant	6,000	4,052	(1,948)
Accident reports	4,000	4,680	680
Sex offenders registration	1,000	1,380	380
Animal control revenue	70,000	72,105	2,105
I & O reports	3,000	2,910	(90)
Law enforcement revenue	-	24,823	24,823
Bail bond fees	3,000	1,649	(1,351)
Total police department	92,000	117,729	25,729
Donations	3,500	7,970	4,470
Recreation department			
Spring Street Recreation Center	110,000	114,813	4,813
Refunds - Recreation Center	(1,000)	(1,560)	(560)
Bemiston Recreation Center	1,500	1,852	352
Brecon Recreation Center	4,200	4,962	762
Mabra Recreation Center	1,000	1,450	450
Bruner Sports Complex	18,000	29,115	11,115
Transportation farebox	6,300	8,176	1,876
Golf course revenue	18,780	15,650	(3,130)
Total recreation department	158,780	174,458	15,678

(Continued on the following page.)

See accompanying notes to required supplementary information.

City of Talladega, Alabama

Schedule of Revenues and Expenditures - General Fund
Budget and Actual (Continued)

<i>Year ended September 30, 2013</i>	Original Budget	Actual	Variance
Revenues (continued)			
Miscellaneous			
Senior citizens grant	\$ 24,820	\$ 11,005	\$ (13,815)
Transportation grant	24,500	39,576	15,076
FEMA grant	-	12,663	12,663
Children's summer nutrition grant	64,000	75,248	11,248
HPC grant	4,500	2,172	(2,328)
Miscellaneous grant	-	6,542	6,542
Weed abatement	8,000	5,295	(2,705)
Condemnation revenue	5,000	7,771	2,771
Rental revenue	38,500	38,632	132
Reimbursements	3,000	405	(2,595)
Insurance reimbursements	2,000	9,638	7,638
Interest revenue	10,000	6,978	(3,022)
Interest revenue - debt service	-	4	4
Revenue from vending machines	200	85	(115)
State paving reimbursement	-	-	-
Other revenue	3,000	100,670	97,670
Total miscellaneous	187,520	316,684	129,164
Transfers in from other funds			
Transfers in - garbage billing	900,000	903,614	3,614
Transfers in - CDBG	-	3,402	3,402
Transfers in - cemetery	40,000	31,856	(8,144)
Transfers in - recycling	18,000	19,103	1,103
Transfers in - police grant	60,000	71,419	11,419
Transfers in - corrections	135,400	137,493	2,093
Transfers in - brownfield	35,500	24,302	(11,198)
Total transfers in from other funds	1,188,900	1,191,189	2,289
Proceeds from loans/sales/ins	30,000	854,998	824,998
Total revenues	13,805,970	14,994,328	1,188,358

(Continued on the following page.)

See accompanying notes to required supplementary information.

City of Talladega, Alabama

Schedule of Revenues and Expenditures - General Fund
Budget and Actual (Continued)

<i>Year ended September 30, 2013</i>	Original Budget	Actual	Variance
Expenditures			
City Council	\$ 429,789	\$ 416,709	\$ 13,080
City Manager's office	433,400	420,131	13,269
Finance department	267,850	273,778	(5,928)
City Clerk's office	164,650	221,355	(56,705)
Human resources	104,450	125,156	(20,706)
Purchasing and safety	128,750	119,016	9,734
Police department	2,409,409	2,357,949	51,460
Police communications	222,000	220,062	1,938
Animal control	183,600	161,741	21,859
Fire department	1,547,350	1,528,048	19,302
Public Works department	839,300	1,983,586	(1,144,286)
Community Appearance department	1,078,150	928,659	149,491
Parks and recreation	1,106,660	964,970	141,690
City building expenditures	222,600	144,941	77,659
Non-departmental expenditures	3,862,300	4,613,522	(751,222)
Debt service	943,808	1,260,118	(316,310)
Total expenditures	13,944,066	15,739,741	(1,795,675)
Excess revenues over (under) expenditures	(138,096)	(745,413)	(607,317)
Beginning fund balance	-	4,057,672	-
Ending fund balance	\$ (138,096)	\$ 3,312,259	\$ (607,317)

See accompanying notes to required supplementary information.

Notes to Required Supplementary Information

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Budgets and budgetary accounting

The City adopts an annual budget for the general fund that is prepared on a basis consistent with generally accepted accounting principles. Any revisions that alter the total expenditures must be approved by the City Council. The budget of the General fund is presented in the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual.

Budget information presented in the financial statements is based on the original budget as adopted by the City Council on September 16, 2012.

Supplementary Information

Talladega Water and Sewer Department

Schedule of Revenues, Expenses and Changes in Fund Net Position Budget and Actual

<i>Year ended September 30, 2013</i>	Original Budget	Actual	Variance
Operating revenues			
Water revenues	\$ 3,663,380	\$ 3,240,612	\$ (422,768)
Sewer revenues	2,738,495	2,495,497	(242,998)
Garbage revenues	31,200	954,889	923,689
Other operating revenues	353,650	229,904	(123,746)
Total revenues	6,786,725	6,920,902	134,177
Operating expenses			
Water and sewer department expenses	910,630	968,615	(57,985)
Waste water plants	1,091,455	1,013,397	78,058
Water filters and wells	836,011	852,216	(16,205)
General and administrative expenses	1,234,768	1,360,031	(125,263)
Depreciation and amortization	625,242	1,012,993	(387,751)
Total operating expenses	4,698,106	5,207,252	(509,146)
Operating income	2,088,619	1,713,650	(374,969)
Nonoperating income (expense)			
Interest income	59,500	13,565	(45,935)
Miscellaneous income	-	49,577	49,577
Interest expense	(706,991)	(759,680)	(52,689)
Total nonoperating income (expense)	(647,491)	(696,538)	(49,047)
Transfers			
Transfers in (out)	-	(922,718)	(922,718)
Change in net position	\$ 1,441,128	\$ 94,394	\$ (1,346,734)

City of Talladega, Alabama

Combining Balance Sheet - Nonmajor Governmental Funds

<i>September 30, 2013</i>	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Total Other Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,952,791	\$ -	\$ 90,142	\$ 2,042,933
Investments	741,803	-	-	741,803
Receivables	93,284	-	-	93,284
Total assets	\$ 2,787,878	\$ -	\$ 90,142	\$ 2,878,020
Liabilities				
Accounts payable and accrued liabilities	\$ 106,573	\$ -	\$ 4,762	\$ 111,335
Fund balances				
Restricted	1,678,716	-	85,380	1,764,096
Committed	848,233	-	-	848,233
Assigned	154,356	-	-	154,356
Total fund balance	2,681,305	-	85,380	2,766,685
Total liabilities and fund balance	\$ 2,787,878	\$ -	\$ 90,142	\$ 2,878,020

City of Talladega, Alabama

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Nonmajor Governmental Funds

<i>Year ended September 30, 2013</i>	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Other Governmental Funds
Revenues				
Intergovernmental revenues:				
Federal and state grants	\$ 126,447	\$ -	\$ 21,768	\$ 148,215
State taxes	803,539	-	-	803,539
Other operating revenues:				
Fees, fines and charges for services	717,270	-	-	717,270
Interest on investments	9,216	-	-	9,216
Total revenues	1,656,472	-	21,768	1,678,240
Expenditures				
Current operations:				
General government	659,415	-	2,250	661,665
Public safety	674,114	-	-	674,114
Public works	145,847	-	-	145,847
Capital outlay	-	-	28,450	28,450
Debt service:				
Principal	-	820,565	-	820,565
Interest	-	432,558	-	432,558
Miscellaneous	-	5,660	-	5,660
Total expenditures	1,479,376	1,258,783	30,700	2,768,859
Excess of revenues over (under) expenditures	177,096	(1,258,783)	(8,932)	(1,090,619)
Other financing sources (uses):				
Transfers in	952,541	1,258,783	81,598	2,292,922
Transfer (out)	(265,070)	-	-	(265,070)
Total other financing sources	687,471	1,258,783	81,598	2,027,852
Excess of revenues and other sources sources over (under) expenditures and other uses	864,567	-	72,666	937,233
Fund balance, beginning of year	1,816,738	-	12,714	1,829,452
Fund balance, end of year	\$ 2,681,305	\$ -	\$ 85,380	\$ 2,766,685

City of Talladega, Alabama

Combining Balance Sheet - Special Revenue Funds

<i>September 30, 2013</i>	2.5 Mil Property Tax Fund	4 Cent Gas Tax Fund	7 Cent Gas Tax Fund	Corrections Fund
Assets				
Cash and cash equivalents	\$ 16,789	\$ 227,297	\$ 308,368	\$ 114,450
Investments	-	-	-	-
Receivables	18,448	4,196	5,340	53,931
Total assets	\$ 35,237	\$ 231,493	\$ 313,708	\$ 168,381
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 85,581
Fund balances				
Restricted	35,237	231,493	313,708	82,800
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balance	35,237	231,493	313,708	82,800
Total liabilities and fund balance	\$ 35,237	\$ 231,493	\$ 313,708	\$ 168,381

Oil Trust Fund	Brownfield Fund	Police Grant	Cemetery Fund	Library Fund	Total Special Revenue Funds
\$ 986,766	\$ 33,211	\$ 136	\$ 108,580	\$ 157,194	\$ 1,952,791
-	-	-	741,803	-	741,803
-	-	13,519	(2,150)	-	93,284
\$ 986,766	\$ 33,211	\$ 13,655	\$ 848,233	\$ 157,194	\$ 2,787,878
\$ -	\$ 17,370	\$ 784	-	\$ 2,838	\$ 106,573
986,766	15,841	12,871	-	-	1,678,716
-	-	-	848,233	-	848,233
-	-	-	-	154,356	154,356
986,766	15,841	12,871	848,233	154,356	2,681,305
\$ 986,766	\$ 33,211	\$ 13,655	\$ 848,233	\$ 157,194	\$ 2,787,878

City of Talladega, Alabama

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Special Revenue Funds

<i>Year ended September 30, 2013</i>	2.5 Mil Property Tax Fund	4 Cent Gas Tax Fund	7 Cent Gas Tax Fund	Corrections Fund
Revenues				
Intergovernmental revenues:				
Federal and state grants	\$ -	\$ -	\$ -	\$ -
State taxes	291,108	45,864	58,572	-
Other operating revenues:				
Fees, fines and charges for services	-	-	-	650,775
Interest on investments	439	-	938	-
Total revenues	291,547	45,864	59,510	650,775
Expenditures				
Current operations:				
General	284,651	96	-	-
Public safety	-	-	-	616,977
Public works	-	-	-	-
Total expenditures	284,651	96	-	616,977
Excess of revenues over (under) expenditures	6,896	45,768	59,510	33,798
Other financing sources (uses):				
Transfers in	-	-	-	131,042
Transfers (out)	-	-	-	(137,493)
Total other financing sources (uses)	-	-	-	(6,451)
Excess of revenues and other sources sources over (under) expenditures and other uses	6,896	45,768	59,510	27,347
Fund balance, beginning of year	28,341	185,725	254,198	55,453
Fund balance, end of year	\$ 35,237	\$ 231,493	\$ 313,708	\$ 82,800

Oil Trust Fund	Brownfield Fund	Police Grant	Cemetery Fund	Library Fund	Total Special Revenue Funds
\$ 7,500	\$ 42,202	\$ 60,242	\$ -	\$ 16,503	\$ 126,447
362,727	-	-	-	45,268	803,539
-	-	-	55,351	11,144	717,270
1,938	-	7	5,263	631	9,216
372,165	42,202	60,249	60,614	73,546	1,656,472
-	96	-	6,750	367,822	659,415
-	-	57,137	-	-	674,114
69,502	76,345	-	-	-	145,847
69,502	76,441	57,137	6,750	367,822	1,479,376
302,663	(34,239)	3,112	53,864	(294,276)	177,096
400,000	50,000	56,907	-	314,592	952,541
-	(24,302)	(71,419)	(31,856)	-	(265,070)
400,000	25,698	(14,512)	(31,856)	314,592	687,471
702,663	(8,541)	(11,400)	22,008	20,316	864,567
284,103	24,382	24,271	826,225	134,040	1,816,738
\$ 986,766	\$ 15,841	\$ 12,871	\$ 848,233	\$ 154,356	\$ 2,681,305

City of Talladega, Alabama

Combining Balance Sheet - Capital Projects Funds

<i>September 30, 2013</i>	RBEG Fund	Community Development	Total Capital Projects
Assets			
Cash and cash equivalents	\$ 7,206	\$ 82,936	\$ 90,142
Total assets	\$ 7,206	\$ 82,936	\$ 90,142
Liabilities			
Accounts payable and accrued liabilities	\$ -	\$ 4,762	\$ 4,762
Fund balances			
Restricted	7,206	78,174	85,380
Unassigned	-		-
Total fund balance	7,206	78,174	85,380
Total liabilities and fund balance	\$ 7,206	\$ 82,936	\$ 90,142

City of Talladega, Alabama

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Capital Projects Funds

<i>Year ended September 30, 2013</i>	RBEG Fund	Community Development	Total Capital Projects
Revenues			
Intergovernmental revenues:			
Federal and state grants	\$ -	\$ 21,768	\$ 21,768
Total revenues	-	21,768	21,768
Expenditures			
Current operations:			
General government	96	2,154	2,250
Capital outlay	6,682	21,768	28,450
Total expenditures	6,778	23,922	30,700
Excess of revenues over (under) expenditures	(6,778)	(2,154)	(8,932)
Other financing sources:			
Operating transfers in	-	81,598	81,598
Excess of revenues and other sources sources over (under) expenditures and other uses	(6,778)	79,444	72,666
Fund balance (deficit), beginning of year	13,984	(1,270)	12,714
Fund balance (deficit), end of year	\$ 7,206	\$ 78,174	\$ 85,380

Statistical Section

Financial Trend Data

These schedules contain information to help the reader understand how the City's financial performance and well-being have changed over time.

	2005	2006	2007
Governmental activities			
Net investment in capital assets	\$ 7,720,560	\$ 12,941,379	\$ 13,636,161
Restricted			
Special revenue funds	582,828	294,277	628,694
Future capital projects	109,642	41,818	13,313
Perpetual care fund	685,737	709,362	685,738
Law enforcement fund	-	-	-
Debt service fund	70,299	437	262,330
Unrestricted, general fund	1,108,060	963,162	1,546,946
Total governmental activities	\$ 10,277,126	\$ 14,950,435	\$ 16,773,182
Business-type activities			
Net investment in capital assets	\$ 6,896,562	\$ 9,608,580	\$ 11,131,900
Restricted			
Capital projects	3,211,993	1,164,327	676,380
Debt service fund	71,699	87,574	97,786
Unrestricted	2,886,010	3,164,617	3,773,957
Total business-type activities	\$ 13,066,264	\$ 14,025,098	\$ 15,680,023
Primary government			
Net investment in capital assets	\$ 14,617,122	\$ 22,549,959	\$ 24,768,061
Restricted			
Capital projects	3,321,635	1,206,145	689,693
Special revenues	582,828	294,277	628,694
Perpetual care fund	685,737	709,362	685,738
Law enforcement fund	-	-	-
Debt service fund	141,998	88,011	360,116
Unrestricted	3,994,070	4,127,779	5,320,903
Total primary government	\$ 23,343,390	\$ 28,975,533	\$ 32,453,205

City of Talladega, Alabama

Net Position by Component
Last Nine Fiscal Years

2008	2009	2010	2011	2012	2013
\$ 11,030,088	\$ 10,261,167	\$ 10,056,395	\$ 8,270,373	\$ 8,470,055	\$ 8,485,428
587,450	612,807	631,242	1,198,908	856,473	1,678,716
32,407	2,889,926	2,000,294	947,169	921,330	1,446,726
685,738	770,649	789,130	742,549	-	-
51,878	43,380	-	-	-	-
224,269	345,132	322,954	300,776	-	-
2,152,166	(1,375,617)	(722,971)	2,148,195	4,358,747	3,228,241
<u>\$ 14,763,996</u>	<u>\$ 13,547,444</u>	<u>\$ 13,077,044</u>	<u>\$ 13,607,970</u>	<u>\$ 14,606,605</u>	<u>\$ 14,839,111</u>
\$ 11,397,594	\$ 11,917,237	\$ 12,070,621	\$ 9,953,242	\$ 10,399,739	\$ 9,625,354
242,561	-	-	-	-	-
101,550	-	-	1,211,445	1,211,644	1,710,193
4,051,767	3,807,074	4,733,213	16,908,341	5,972,835	5,743,591
<u>\$ 15,793,472</u>	<u>\$ 15,724,311</u>	<u>\$ 16,803,834</u>	<u>\$ 28,073,028</u>	<u>\$ 17,584,218</u>	<u>\$ 17,079,138</u>
\$ 22,427,682	\$ 22,178,404	\$ 22,127,016	\$ 18,223,615	\$ 18,869,794	\$ 18,110,782
274,968	2,889,926	200,294	947,169	921,330	1,446,726
587,450	612,807	631,242	1,198,908	856,473	1,678,716
685,738	770,649	789,130	742,549	-	-
51,878	43,380	-	-	-	-
325,819	345,132	322,954	1,512,221	1,211,644	1,710,193
6,203,933	2,431,457	4,010,242	7,891,849	10,331,582	8,971,832
<u>\$ 30,557,468</u>	<u>\$ 29,271,755</u>	<u>\$ 28,080,878</u>	<u>\$ 30,516,311</u>	<u>\$ 32,190,823</u>	<u>\$ 31,918,249</u>

	2005	2006	2007
Expenses			
Governmental activities			
General government	\$ 1,650,929	\$ 2,092,098	\$ 1,632,271
Public protection			
Police	2,278,177	2,386,454	2,211,048
Fire	969,847	1,242,758	1,110,832
Corrections	710,646	770,545	719,899
Public works	2,411,140	2,804,541	2,501,237
Recreational	1,310,862	1,363,914	1,479,971
Nondepartmental	1,557,717	2,067,870	1,391,957
Other boards and agencies	317,261	125,663	279,229
Capital outlay	-	-	760,515
Depreciation expense	935,476	1,495,415	1,581,174
Interest and fiscal charges	349,000	342,126	296,949
Total governmental activities	12,491,055	14,691,384	13,965,082
Business-type activities			
Water and sewer	4,529,214	4,844,529	4,996,112
Total primary government	\$ 17,020,269	\$ 19,535,913	\$ 18,961,194

Program revenues

Governmental activities			
Fees, fines and charges for service			
General government	\$ 710,053	\$ 40,456	\$ 77,510
Police	-	-	71,123
Fire	-	-	55
Other public protection	820,475	996,009	831,968
Public works	-	-	-
Recreational	294,725	300,782	292,277
Other boards and agencies	-	-	-
Operating grants and contributions	89,699	141,152	123,435
Capital grants and contributions	200,744	-	825,138
Total governmental activities	2,115,696	1,478,399	2,221,506

City of Talladega, Alabama

Change in Net Position
Last Nine Fiscal Years

2008	2009	2010	2011	2012	2013
\$ 1,176,495	\$ 3,659,053	\$ 3,700,715	\$ 3,603,718	\$ 3,612,283	\$ 4,032,660
2,699,857	2,689,707	2,684,831	2,545,762	2,655,797	2,739,752
1,253,348	1,316,881	1,347,488	1,323,748	1,414,782	1,528,048
496,677	544,946	645,216	1,016,090	692,669	644,982
1,955,829	3,198,716	2,920,835	4,289,657	3,407,964	3,201,587
1,563,574	1,901,936	1,511,976	1,097,026	1,162,741	964,970
4,421,622	-	-	-	-	-
366,280	-	-	-	-	-
211,178	-	-	-	-	-
1,637,870	1,510,112	1,416,649	1,479,284	1,476,188	1,498,964
331,330	496,301	506,695	489,291	453,617	428,798
16,114,060	15,317,652	14,734,405	15,844,576	14,876,041	15,039,761
5,409,804	5,498,018	5,473,304	5,867,908	5,777,985	5,966,932
\$ 21,523,864	\$ 20,815,670	\$ 20,207,709	\$ 21,712,484	\$ 20,654,026	\$ 21,006,693

\$ 48,944	\$ 23,585	\$ 31,100	\$ 67,673	\$ 95,371	\$ 128,815
45,232	60,830	84,267	74,299	79,469	107,546
5	-	-	-	-	-
654,817	643,423	639,451	602,808	644,754	650,775
-	32,850	-	-	-	-
367,995	313,823	266,604	206,704	179,121	174,458
-	-	-	-	-	-
113,951	124,923	253,042	-	-	629,196
179,984	141,310	97,751	-	-	34,431
1,410,928	1,340,744	1,372,215	951,484	998,715	1,725,221

	2005	2006	2007
Program revenues (continued)			
Business-type activities			
Water and sewer revenues	\$ 4,884,692	\$ 6,265,703	\$ 6,087,785
Operating grants and contributions	-	-	-
Capital grants and contributions	-	-	1,150,000
Total business-type activities	4,884,692	6,265,703	7,237,785
Total business program revenues	\$ 7,000,388	\$ 7,744,102	\$ 9,459,291
Net (expense) revenue			
Governmental activities	\$ (10,375,359)	\$ (13,212,985)	\$ (11,743,576)
Business-type activities	355,478	1,421,174	2,241,673
Total primary government net expense	\$ (10,019,881)	\$ (11,791,811)	\$ (9,501,903)
General revenues			
Governmental activities			
Taxes			
Sales, property, other for general purposes	\$ 9,513,559	\$ 10,057,979	\$ 9,882,202
General business licenses and permits	1,624,837	1,672,397	1,849,809
Miscellaneous income	394,939	228,906	95,798
Interest income	43,318	46,823	53,887
Gain on sale of asset	-	-	-
Transfers	-	669,284	625,802
Total governmental activities	11,576,653	12,675,389	12,507,498
Business-type activities			
Miscellaneous income	147,390	-	-
Interest income	34,829	159,104	86,894
Transfers	-	(669,284)	(625,802)
Total business-type activities	182,219	(510,180)	(538,908)
Total general revenues	\$ 11,758,872	\$ 12,165,209	\$ 11,968,590
Change in net assets			
Governmental activities	\$ 1,201,294	\$ (537,596)	\$ 763,922
Business-type activities	537,697	910,994	1,702,765
Total primary government	\$ 1,738,991	\$ 373,398	\$ 2,466,687

City of Talladega, Alabama

Change in Net Position (Continued)
Last Nine Fiscal Years

2008	2009	2010	2011	2012	2013
\$ 5,964,989	\$ 6,394,726	\$ 7,388,493	\$ 7,306,496	\$ 7,156,929	\$ 6,920,902
-	-	-	-	-	-
111,505	-	350,000	-	-	-
6,076,494	6,394,726	7,738,493	7,306,496	7,156,929	6,920,902
\$ 7,487,422	\$ 7,735,470	\$ 9,110,708	\$ 8,257,980	\$ 8,155,644	\$ 8,646,123
\$ (14,703,132)	\$ (13,976,908)	\$ (13,362,190)	\$ (14,893,092)	\$ (13,877,326)	\$ (13,314,540)
666,690	896,708	2,265,189	1,438,588	1,378,944	953,970
\$ (14,036,442)	\$ (13,080,200)	\$ (11,097,001)	\$ (13,454,504)	\$ (12,498,382)	\$ (12,360,570)
\$ 10,047,294	\$ 9,490,399	\$ 9,635,086	\$ 10,060,229	\$ 10,612,516	\$ 10,899,473
1,914,460	2,014,668	1,944,017	2,027,174	2,001,838	1,868,145
56,404	197,044	66,271	93,764	101,305	17,094
65,171	69,183	47,507	37,281	28,593	16,739
-	-	-	69,703	32,953	96,989
610,617	989,064	1,198,909	1,158,533	908,880	922,718
12,693,946	12,760,358	12,891,790	13,446,684	13,686,085	13,821,158
-	-	-	-	-	49,577
57,376	23,195	13,243	18,685	17,311	13,565
(610,617)	(989,064)	(1,198,909)	(1,158,533)	(908,880)	(922,718)
(553,241)	(965,869)	(1,185,666)	(1,139,848)	(891,569)	(859,576)
\$ 12,140,705	\$ 11,794,489	\$ 11,706,124	\$ 12,306,836	\$ 12,794,516	\$ 12,961,582
\$ (2,009,186)	\$ (1,216,552)	\$ (470,400)	\$ 530,926	\$ 890,292	\$ 506,618
113,449	(69,161)	1,079,523	298,740	487,375	94,394
\$ (1,895,737)	\$ (1,285,713)	\$ 609,123	\$ 829,666	\$ 1,377,667	\$ 601,012

	2004	2005	2006	2007
Sales and use tax	\$ 5,063,251	\$ 7,097,775	\$ 7,166,874	\$ 6,974,881
Business licenses	1,491,005	1,522,293	1,598,429	1,789,634
10 mil tax	834,151	742,895	860,022	948,439
Other taxes and licenses	1,479,671	1,775,433	2,105,051	2,019,057
Total taxes and licenses	\$ 8,868,078	\$ 11,138,396	\$ 11,730,376	\$ 11,732,011

	2004	2005	2006	2007
City of Talladega	4.00%	4.00%	4.00%	4.00%
Talladega County	1.00%	1.00%	1.00%	1.00%
State of Alabama	4.00%	4.00%	4.00%	4.00%
Total overlapping sales and use tax	9.00%	9.00%	9.00%	9.00%

City of Talladega, Alabama

Governmental Activities - Tax Revenues by Source
Last Ten Fiscal Years

2008	2009	2010	2011	2012	2013
\$ 7,455,008	\$ 6,479,715	\$ 6,355,749	\$ 6,987,196	\$ 7,784,557	\$ 8,003,987
1,832,046	1,956,931	1,861,447	1,949,387	2,001,838	1,868,146
933,693	1,045,033	1,022,336	1,053,801	971,921	1,049,494
1,741,007	2,022,713	2,339,571	2,097,019	1,856,038	1,405,179
\$ 11,961,754	\$ 11,504,392	\$ 11,579,103	\$ 12,087,403	\$ 12,614,354	\$ 12,326,806

Sales and Use Tax
Direct and Overlapping
Last Ten Fiscal Year

2008	2009	2010	2011	2012	2013
4.00%	4.00%	4.00%	5.00%	5.00%	5.00%
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
9.00%	9.00%	9.00%	10.00%	10.00%	10.00%

	2004	2005	2006	2007
General fund				
Reserved	\$ 730,025	\$ -	\$ -	\$ -
Unreserved	1,016,298	1,122,205	1,177,660	1,399,420
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total general fund	1,746,323	1,122,205	1,177,660	1,399,420
All other governmental funds				
Reserved				
Special revenues funds	362,111	582,828	284,222	614,892
Debt service funds	88,894	70,299	-	262,330
Other nonmajor funds	-	685,737	719,417	695,893
Other governmental funds	-	-	-	-
Future capital projects	352,619	109,642	41,818	13,313
Unreserved, reported in:				
Special revenues funds	-	-	-	-
Debt service funds	-	-	437	-
Capital projects fund	-	-	-	-
Other governmental funds	-	-	-	-
Other nonmajor funds	-	275,197	195,731	200,147
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total all other governmental funds	803,624	1,723,703	1,241,625	1,786,575
Total governmental funds	\$ 2,549,947	\$ 2,845,908	\$ 2,419,285	\$ 3,185,995

City of Talladega, Alabama

Fund Balances of Governmental Funds Last Ten Fiscal Years

2008	2009	2010	2011	2012	2013
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,438,232	1,933,969	2,066,862	-	-	-
-	-	-	17,244	-	-
-	-	-	1,377,358	-	-
-	-	-	-	-	300,000
-	-	-	1,268,996	4,057,672	3,012,259
2,438,232	1,933,969	2,066,862	2,663,598	4,057,672	3,312,259
587,450	612,807	631,242	-	-	-
224,269	345,132	322,954	-	-	-
737,616	814,029	789,130	-	-	-
-	-	-	-	-	-
32,407	2,889,926	200,294	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
154,439	100,535	93,692	-	-	-
-	-	-	3,185,805	1,777,803	3,125,442
-	-	-	-	826,225	848,233
-	-	-	-	134,040	154,356
-	-	-	154,933	-	-
1,736,181	4,762,429	2,037,312	3,340,738	2,738,068	4,128,031
\$ 4,174,413	\$ 6,696,398	\$ 4,104,174	\$ 6,004,336	\$ 6,795,740	\$ 7,440,290

In fiscal year 2011 the City implemented GASB 54, "Fund Balance Reporting and Governmental Fund Type Definitions". This statement redefined the classifications of fund balance.

	2004	2005	2006	2007
Revenues				
Taxes	\$ 7,284,201	\$ 9,513,559	\$ 10,057,979	\$ 9,882,202
Licenses and permits	1,583,877	1,624,837	1,672,397	1,849,809
Changes for services	1,768,859	1,825,253	1,337,247	1,272,933
Federal and state grants	641,012	290,443	141,152	948,573
Interest	16,509	43,318	46,823	53,887
Proceeds from long-term debt	400,000	1,069,488	352,579	761,428
Other	211,294	394,939	228,906	95,798
Total revenues	11,905,752	14,761,837	13,837,083	14,864,630
Expenditures				
General government	1,334,237	1,838,088	2,083,578	1,563,646
Public safety	2,899,278	3,958,670	4,399,757	4,041,779
Public works	1,489,155	2,411,140	2,804,541	2,501,237
Recreation	1,616,430	1,310,862	1,363,914	1,479,971
Other boards and agencies	63,166	317,261	125,663	279,229
Nondepartmental	1,739,032	1,557,717	2,009,870	1,391,957
Capital expenditures	1,763,126	1,822,847	819,923	2,186,700
Debt service				
Principal	779,074	901,666	973,116	952,810
Interest and fees	452,777	349,000	342,126	321,327
Miscellaneous	-	26,110	77,020	5,066
Total expenditures	12,136,275	14,493,361	14,999,508	14,723,722
Excess revenues over (under) expenditures	(230,523)	268,476	(1,162,425)	140,908
Other financing sources (uses)				
Operating transfers in	1,496,264	2,286,332	5,439,979	4,721,070
Operating transfers out	(1,496,264)	(2,286,332)	(4,770,695)	(4,095,268)
Proceeds from long-term debt	-	-	-	-
Total other financing sources (uses)	-	-	669,284	625,802
Net change in fund balance	(230,523)	268,476	(493,141)	766,710
Fund balance, beginning of year	1,717,284	2,549,947	2,845,908	2,419,285
Prior period adjustment	1,063,186	27,485	66,518	-
Fund balance, end of year	\$ 2,549,947	\$ 2,845,908	\$ 2,419,285	\$ 3,185,995
Ratio of debt service expenditures to noncapital expenditures				
	13.48%	10.95%	10.22%	11.31%

City of Talladega, Alabama

Changes in Fund Balance of Governmental Funds
Last Ten Fiscal Years

2008	2009	2010	2011	2012	2013
\$ 10,047,294	\$ 9,490,399	\$ 9,635,086	\$ 10,060,229	\$ 11,345,272	\$ 11,262,199
1,914,460	2,014,668	1,944,017	2,027,174	2,001,838	1,868,146
1,116,993	1,074,511	1,021,422	951,484	960,054	1,013,951
293,935	266,233	350,793	1,977,334	200,354	295,421
65,171	69,183	47,507	37,281	28,592	16,741
2,208,038	3,705,700	-	-	-	-
254,289	197,044	78,796	163,467	323,467	170,466
15,900,180	16,817,738	13,077,621	15,216,969	14,859,577	14,626,924
1,166,909	2,071,339	2,093,373	1,606,559	1,699,523	1,930,072
4,423,568	4,441,888	4,625,364	4,871,600	4,734,510	4,912,782
2,021,327	1,725,131	1,727,601	3,197,571	2,236,637	3,201,587
1,572,190	1,599,223	1,363,563	994,526	1,052,011	964,970
362,640	380,600	343,854	304,850	323,900	338,173
4,421,622	2,819,353	2,677,089	2,965,022	2,598,400	1,600,356
685,541	1,102,902	1,121,126	1,375,357	1,142,607	1,552,034
602,335	654,634	599,890	571,495	584,204	820,565
252,962	467,350	487,594	458,985	445,199	432,558
13,285	22,397	29,300	30,477	26,333	6,992
15,522,379	15,284,817	15,068,754	16,376,442	14,843,324	15,760,089
377,801	1,532,921	(1,991,133)	(1,159,473)	16,253	(1,133,165)
2,390,304	3,116,754	3,194,294	3,985,545	4,132,577	5,373,111
(1,779,687)	(2,127,690)	(1,995,385)	(2,827,310)	(3,223,697)	(4,450,394)
-	-	-	101,400	49,140	854,998
610,617	989,064	1,198,909	1,259,635	958,020	1,777,715
988,418	2,521,985	(792,224)	100,162	974,273	644,550
3,185,995	4,174,413	6,696,398	5,904,174	6,004,337	6,795,740
-	-	-	-	(182,870)	-
\$ 4,174,413	\$ 6,696,398	\$ 5,904,174	\$ 6,004,336	\$ 6,795,740	\$ 7,440,290
6.12%	8.59%	8.46%	7.38%	8.12%	8.64%

City of Talladega, Alabama

Property Tax Rates Per Thousand
Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year	City of Talladega			Overlapping Rate		Total Direct and Overlapping Rate
	General Municipal Purposes	School Purposes	Total	Talladega County	State of Alabama	
2004	10.0	12.5	22.5	9.5	6.5	38.5
2005	10.0	12.5	22.5	9.5	6.5	38.5
2006	10.0	12.5	22.5	9.5	6.5	38.5
2007	10.0	12.5	22.5	9.5	6.5	38.5
2008	10.0	12.5	22.5	9.5	6.5	38.5
2009	10.0	12.5	22.5	9.5	6.5	38.5
2010	10.0	12.5	22.5	9.5	6.5	38.5
2011	10.0	12.5	22.5	9.5	6.5	38.5
2012	10.0	12.5	22.5	9.5	6.5	38.5
2013	10.0	12.5	22.5	9.5	6.5	38.5

City of Talladega, Alabama

Principal Sales and Use Taxpayers¹
Current Fiscal Year and Nine Years Prior

	2013				2004			
	Sales Tax Collected	Rank	Percentage of Total Sales Tax Collected		Sales Tax Collected	Rank	Percentage of Total Sales Tax Collected	
Wal-Mart	\$ 2,093,044	1	26.15%		\$ 1,167,455	1	20.60%	
Baker Foods	507,594	2	6.34%		217,403	2	3.84%	
Dollar General	148,980	3	1.86%		70,922	5	1.25%	
Marvins	137,356	4	1.72%		87,362	4	1.54%	
Manna Enterprises Inc.	133,146	5	1.66%		49,759	7	0.88%	
Talladega Home Center	130,771	6	1.63%		50,845	6	0.90%	
Bill Stanford	113,922	7	1.42%		92,670	3	1.63%	
Tractor Supply Co.	112,183	8	1.40%		**		0.00%	
Schuster Enterprises Inc.	107,336	9	1.34%		41,557	8	0.73%	
Mapco Express, Inc.	98,006	10	1.22%		35,207	9	0.62%	

**Business not open in 2004

¹ Talladega County Economic Development Authority

Debt Capacity Data

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue debt in the future.

Fiscal Year	Governmental Activities		Business-Type Activities		Total Primary Government
	General Obligation Bonds	Capital Leases	Revenue Bonds	Other General Debt	
2004	\$ 7,072,000	\$ 320,297	\$ 8,240,000	\$ 796,720	\$ 16,429,017
2005	6,994,970	586,089	7,980,000	840,542	16,401,601
2006	6,074,781	690,073	7,715,000	785,474	15,265,328
2007	5,826,203	967,707	7,445,000	708,624	14,947,534
2008	7,776,434	562,365	7,165,000	422,149	15,925,948
2009	10,925,578	464,288	6,880,000	276,808	18,546,674
2010	10,789,976	565,622	6,680,288	39,115	18,075,001
2011	10,319,881	618,395	18,501,520	34,181	29,473,977
2012	9,466,665	317,828	17,740,000	-	27,524,493
2013	8,935,000	883,926	17,586,487	-	27,405,413

City of Talladega

Ratios of Outstanding Debt by Type Last Ten Fiscal Years

Component Unit Activities					
General Obligation Bonds	Other General Debt	Total Entity	Percentage of Personal Income	Per Capita	
\$ 1,175,000	\$ 1,154,667	\$ 18,758,684	3.6%	1,111	
926,667	570,861	17,899,129	3.3%	1,054	
930,000	570,861	16,766,189	3.1%	984	
795,000	440,164	16,182,698	2.8%	952	
655,000	303,210	16,884,158	3.4%	1,149	
569,212	106,610	19,222,496	3.3%	1,131	
345,000	2,954,835	21,374,836	3.5%	1,636	
225,439	55,909	29,755,325	4.1%	1,898	
-	-	27,524,493	4.5%	2,107	
-	-	27,405,413	4.1%	1,758	

City of Talladega, Alabama

Direct and Overlapping Debt

September 30, 2013

Jurisdiction	Gross Debt Outstanding	Percentage Applicable to City of Talladega*	Amount Applicable to City of Talladega
City of Talladega	\$ 9,818,926	100.00%	\$ 9,818,926
Talladega County	30,255,698	12%	3,630,684
Total	\$ 40,074,624		\$ 13,449,610

*The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the government's boundaries and dividing it by the county's total taxable assessed value.

City of Talladega, Alabama

Ratios of General Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Less: Amounts Available for Debt	Net Bonded Debt Total	Percentage Estimated Actual Taxable Value of Property	Per Capita
2004	\$ 7,072,000	\$ 228,772	\$ 6,843,228	23.00%	\$ 1,097
2005	6,994,970	260,021	6,734,949	17.96%	1,039
2006	6,074,781	214,086	5,860,695	16.63%	971
2007	5,826,203	229,489	5,596,714	14.83%	939
2008	7,776,434	221,043	7,555,391	15.09%	1,134
2009	10,925,578	171,516	10,754,062	17.46%	1,121
2010	10,789,976	322,954	10,467,022	18.56%	1,612
2011	10,319,881	300,776	10,019,105	25.96%	1,879
2012	9,466,665	-	9,466,665	8.03%	725
2013	8,935,000	-	8,935,000	7.27%	573

	2004	2005	2006	2007
Assessed property value	\$ 80,559,120	\$ 98,214,240	\$ 99,556,920	\$ 107,588,100
Debt limited to	20%	20%	20%	20%
Debt limit	\$ 16,111,824	\$ 19,642,848	\$ 19,911,384	\$ 21,517,620
Total net debt applicable to limit	7,373,275	7,548,189	6,732,410	6,671,199
Legal debt margin	\$ 8,738,549	\$ 12,094,659	\$ 13,178,974	\$ 14,846,421
Total net debt applicable to the limit as a percentage of debt limit	45.76%	38.43%	33.81%	31.00%

City of Talladega, Alabama

Legal Debt Margin Information
Last Ten Fiscal Years

2008	2009	2010	2011	2012	2013
\$ 110,402,080	\$ 109,099,890	\$ 113,448,000	\$ 113,694,240	\$ 117,887,180	\$ 122,970,640
20%	20%	20%	20%	20%	20%
\$ 22,080,416	\$ 21,819,978	\$ 22,689,600	\$ 22,738,848	\$ 23,577,436	\$ 24,594,128
8,338,803	11,389,866	11,355,598	10,937,954	9,784,493	9,818,926
\$ 13,741,613	\$ 10,430,112	\$ 11,334,002	\$ 11,800,894	\$ 13,792,943	\$ 14,775,202
37.77%	52.20%	50.05%	48.10%	41.50%	39.92%

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments

	2004	2005	2006	2007	2008	2009
Population¹	16,891	16,981	17,041	16,991	14,698	16,991
Total personal income						
Household income-City	\$ 31,224	\$ 31,695	\$ 32,166	\$ 33,677	\$ 34,067	\$ 34,067
Talladega County	\$ 34,418	\$ 33,986	\$ 32,166	\$ 33,677	\$ 47,603	\$ 38,013
Per capita¹						
Personal income*	\$ 25,234	\$ 27,085	\$ 28,102	\$ 17,435	\$ 17,557	\$ 17,435
Talladega County	\$ 25,493	\$ 27,793	\$ 28,102	\$ 18,473	\$ 18,686	\$ 18,473
School district³						
Enrollment	2,864	2,778	2,721	2,606	2,573	2,395
Unemployment²						
Rate	6.1	4.3	4.6	4.5	5.9	12.1
Employed²						
Talladega County	36,174	38,005	38,223	38,291	36,258	32,296

* Personal Income is for Talladega-Sylacauga, AL

¹ U.S. Census Bureau, the Bureau of Economic Analysis

² Alabama Department of Industrial Relations

³ Talladega City Board of Education

City of Talladega, Alabama

Demographic Economic Statistics
Last Ten Calendar Years

2010	2011	2012	2013
13,062	15,676	13,062	15,591
\$ 46,499	\$ 46,499	\$ 46,499	\$ 42,760
\$ 49,430	\$ 49,430	\$ 49,430	\$ 49,494
\$ 18,583	\$ 18,583	\$ 18,583	\$ 15,855
\$ 19,762	\$ 19,762	\$ 19,762	\$ 18,744
2,576	2,315	2,622	2,206
13.2	8.4	11.5	7.2
31,958	32,067	32,067	35,199

City of Talladega, Alabama

Principal Private-Sector Employers in the Talladega Area¹
Current Year and Nine Years Prior

	2013			2004		
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
Alabama Institute for Deaf & Blind	1266	1	3.60%	628	2	1.74%
Baptist Citizen Medical Center	346	2	0.98%	322	6	0.89%
Talladega Heathcare and Rehab	340	3	0.97%	-		0.00%
Federal Correctional Institution	330	4	0.94%	317	7	0.88%
Talladega City Board of Education	298	5	0.85%	347	5	0.96%
Masterbrand Cabinets	288	6	0.82%	354	4	0.98%
Walmart	250	7	0.71%	252	8	0.70%
City of Talladega	244	8	0.69%	-		0.00%
Talladega College	157	9	0.45%	-		0.00%
Talladega Specialities	93	10	0.26%	-		0.00%

¹ Talladega County Economic Development Authority

City of Talladega, Alabama

Budgeted Full-Time Equivalent City Government Employees by Function
Last Eight Fiscal Years

Department	2006	2007	2008	2009	2010	2011	2012	2013
Administrative/City Clerk	5	5	5	2	2	2	2	2
Animal Control	3	3	4	4	4	3	3	3
City Council	6	6	6	6	6	6	6	6
City Manager	2	2	2	3	4	5	5	4
Comm. Appearance	24	24	22	22	18	23	22	22
Comm. Development	-	-	-	7	-	-	-	-
Fire	26	24	26	26	27	31	28	28
Human Resources	-	-	-	2	2	2	2	2
Library	6	7	6	6	10	8	7	7
Municipal Court	3	3	3	3	3	3	3	3
Parks and Recreation	29	31	28	28	32	27	12	11
Police	45	41	42	42	40	48	44	43
Police Communications ¹	4	4	4	4	-	-	-	-
Public Works	25	21	22	23	17	15	17	18
Purchasing	-	-	-	-	3	2	2	2
Revenue/Finance	3	3	3	5	5	5	5	5
Total	181	174	173	183	173	180	158	156

¹ The Police Communication Department was discontinued with the institution of a country-wide E911 in 2010.

Operating Information

These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.

City of Talladega, Alabama

Operating Indicators by Function
Last Ten Fiscal Years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Emergency communications										
Calls received	2,109	2,243	2,534	2,161	2,890	52,712	23,267	31,185	29,991	33,985
Police										
Calls for service	19,210	22,306	23,544	21,198	20,713	20,538	20,300	23,826	23,203	28,965
Reported crimes	7,212	3,747	3,460	3,849	3,829	3,277	4,035	6,732	6,204	4,357
Fire										
Fire responses	395	338	395	512	424	321	492	627	432	424
Medical calls	35	17	23	31	19	23	34	-	152	239
	430	355	418	543	443	344	526	627	584	663
Water										
Millions of gallons per day										
Filtration plant production	4.32	4.08	4.18	3.96	3.59	3.44	3.65	3.78	3.73	3.37
City water demand	2.87	2.95	3.08	2.91	2.55	2.53	2.58	2.08	2.12	1.85

¹ Talladega County 911 for 2001-2009; Talladega County EMA for 2010

Source: City departments

City of Talladega, Alabama

Capital Asset Statistics by Function/Program
(Unaudited)

	Fiscal Year			
	2013	2012	2011	2010
General government				
Number of general government buildings	1	1	1	1
Public safety				
Number of police stations	1	1	1	1
Number of patrol units	38	38	38	38
Number of fire stations	2	2	2	2
Public works				
Streets (lane miles)				
Number of traffic signals	32	32	32	32
Culture and recreation				
Acreage	86	86	86	86
Number of parks	7	7	7	7
Number of playgrounds	7	7	7	7
Number of swimming pools	1	1	1	1
Recreation center	5	5	5	5
Senior Center	1	1	1	1
Library	1	1	1	1
Historical park	1	1	1	1
Utilities				
Water mains (miles)	125.52	125.52	125.52	125.52
Number of fire hydrants	950	950	950	950
Storage capacity (millions of gallons)				
raw water storage	2,500,000	2,500,000	2,500,000	2,500,000
finished water	4,050,000	4,050,000	4,050,000	4,050,000
Sanitary sewers (miles)	83.2	83.2	83.2	83.2

Sources: Various City departments