

CITY OF BESSEMER
Bessemer, Alabama

Financial Statements and
Supplemental Information

September 30, 2018

CITY OF BESSEMER, ALABAMA

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
Bessemer, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements 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 for the General Fund of the City of Bessemer, Alabama (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Bessemer Public Library (blended component unit), Bessemer Electric Service (business-type activity), and the Bessemer Water Service (business-type activity), which represent 52 percent, (159) percent, and 44 percent, respectively, of the assets, net position, and revenues of the City. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Bessemer Public Library, Bessemer Electric Service, and the Bessemer Water Service, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

MEMBERS OF

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS - ALABAMA STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units

The financial statements of the Bessemer Airport Authority (BAA) have not been audited, and we were not engaged to audit the BAA financial statements as part of our audit of the City's basic financial statements. BAA's financial activities are included in the City's basic financial statements as a discretely presented component unit and represent 9 percent, (23) percent, and 17 percent of the assets, net position, and revenues, respectively, of the City's aggregate discretely presented component units.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units" paragraph and based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of the City as of September 30, 2018, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, based on our audits and the report of the 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, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of OPEB funding progress, the schedule of Changes in Net Pension Liability, and the Schedule of Employer Contributions 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's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, supplementary information and supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, and schedules listed in the table of contents 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

Other Matters – Continued

States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and the schedules listed in the table of contents are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2019, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Kellum, Wilson & Associates, P.C.

Kellum, Wilson & Associates, P.C.

June 24, 2019

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Bessemer's (the "City") discussion and analysis report provides an overview of the City's financial activities for the fiscal year ending September 30, 2018. The purpose of the Management's Discussion and Analysis (MD&A) is to provide a narrative about the transactions, events, and conditions that are reflected in the government's financial report and of the fiscal policies that govern its operations. Thus, both a short and long-term analysis of the government's activities will be presented.

FINANCIAL HIGHLIGHTS

The City's governmental activities beginning net position for the fiscal year 2018 was decreased by \$20,788,935 to reflect the cumulative effect implementing GASB No. 75 – Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions and the cumulative effect of correcting the overstatement in the prior year of the Deferred Outflows Related to the Pension Liability. The City's governmental activities net position increased in fiscal year 2018 by \$4.4 million. This is primarily due to the increase in revenues of \$10.8 million.

The City decreased its outstanding Warrants Payable by \$2.5 million in fiscal year 2018. In fiscal year 2018, the general fund had an unassigned fund balance of \$6.1 million.

The liabilities and deferred inflows of the governmental activities of the City exceeded its assets and deferred outflows at the close of the fiscal year ending September 30, 2018, by \$48,232,070. Of this amount, \$12,201,906 is invested in capital assets, \$5,916,081 is restricted and a deficit of \$(66,350,057) is unrestricted.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$20,783,417.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements (see pages 13 – 15) are designed to provide readers with an overview of the City's finances in a manner that resembles that of private sector businesses. In these statements, governmental activities and business activities are consolidated into two columns, which are added together for a total for the City as a whole. In order to consolidate the two types of activities, they must both utilize the same measurement focus. Thus, the government-wide statements utilize the economic resources measurement focus and accrual basis of accounting. This contrasts with the fund financial statements, to be discussed later, which utilize the financial resources measurement focus and the modified-accrual basis of accounting.

Two statements comprise the government-wide statements. They are the Statement of Net Position and the Statement of Activities. Both of these statements provide information about the activities of the City as a whole and present a long-term view of the City's finances.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows and outflows of resources, with the difference reported as net position. This statement combines and consolidates governmental funds current financial resources (short-term spendable resources) with capital assets and long-term debt. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position for the City is improving or deteriorating.

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

The Statement of Activities presents information on both the gross expenses and the net costs, as well as how the government's net position changed during the most recent fiscal year. This statement is intended to facilitate the user's analysis of the cost of various governmental functions and/or subsidy to business-type activities. Revenues and expenses are posted in this statement for items that will result in cash flows for future fiscal periods. Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges for services (business-type activities). The governmental activities of the City include general government, public safety, municipal court, streets, sanitation, and recreation services. The business-type activities of the City include electric service, water service, and civic center.

Fund Financial Statements

Fund financial statements provide more detailed information about the City's most significant or major funds, not the City as a whole. Funds are accounting mechanisms that the City uses to keep track of specific sources of funding and spending for a particular purpose. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has two types of funds: governmental funds and proprietary funds.

Governmental Funds

Most of the City's basic services are included in governmental funds, which focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of government funds is narrower than that of the government-wide financial statements, it is useful to reconcile the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This reconciliation may allow readers to better understand the long-term impact of the government's near-term financing decisions. As a result, the governmental fund balance sheet provides a reconciliation to facilitate this comparison between governmental funds and governmental activities (see page 17). The City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and the debt service fund, which are considered to be major funds. Data from the remaining ten nonmajor governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements later in this report (beginning on page 76).

The City of Bessemer adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the general fund budget.

Proprietary Funds

Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The City maintains three enterprise funds (a component of proprietary funds), Bessemer Civic Center, Bessemer Electric Service, and Bessemer Water Service. Enterprise funds are the same as the business-type activities reported in the government-wide financial statements but provide more detail and additional information such as cash flows for proprietary funds.

The proprietary fund financial statements on pages 26 through 30 provide separate information for the Bessemer Civic Center, Bessemer Electric Service, and Bessemer Water Service, and are considered to be major funds of the City.

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

Component Units

Complete financial statements and/or other financial information for the discretely presented component units may be obtained at the administrative offices presented on page 35.

Notes to the Financial Statements

The notes to the financial statements provide additional essential information that will illuminate understanding of the data represented in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information that has resulted from the implementation of GASB Statement No. 34 which requires governments to report infrastructure and depreciate their capital assets.

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows exceeded assets and deferred outflows by \$24,684,853 at the close of the most recent fiscal year.

**CONDENSED STATEMENT OF NET POSITION
September 30, 2018 and 2017**

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total Primary Government</u> | | <u>Total Component Units 2018</u> |
|----------------------------|--------------------------------|----------------------------|---------------------------------|----------------------------|---------------------------------|----------------------------|---|
| | <u>2018</u> | <u>2017</u> As Restated | <u>2018</u> | <u>2017</u> As Restated | <u>2018</u> | <u>2017</u> As Restated | |
| Assets | | | | | | | |
| Current and Other | | | | | | | |
| Assets | \$ 25,170,619 | \$ 24,574,849 | \$ 46,755,109 | \$ 34,304,367 | \$ 71,925,728 | \$ 58,879,216 | \$ 6,370,496 |
| Capital Assets (Net) | <u>67,873,380</u> | <u>63,118,838</u> | <u>51,347,316</u> | <u>50,989,132</u> | <u>119,220,696</u> | <u>114,107,970</u> | <u>34,920,227</u> |
| Total Assets | <u>93,043,999</u> | <u>87,693,687</u> | <u>98,102,425</u> | <u>85,293,499</u> | <u>191,146,424</u> | <u>172,987,186</u> | <u>41,290,723</u> |
| Deferred Outflows | <u>18,003,674</u> | <u>19,689,192</u> | <u>3,353,359</u> | <u>2,680,506</u> | <u>21,357,033</u> | <u>22,369,698</u> | <u>1,618,890</u> |
| Liabilities | | | | | | | |
| Current Liabilities | 8,597,327 | 8,748,643 | 25,069,302 | 21,198,820 | 33,666,629 | 29,947,463 | 2,499,535 |
| Long-Term Liabilities | <u>145,653,517</u> | <u>151,278,920</u> | <u>52,405,356</u> | <u>44,314,632</u> | <u>198,058,873</u> | <u>195,593,552</u> | <u>53,736,955</u> |
| Total Liabilities | <u>154,250,844</u> | <u>160,027,563</u> | <u>77,474,658</u> | <u>65,513,452</u> | <u>231,725,502</u> | <u>225,541,015</u> | <u>56,236,490</u> |
| Deferred Inflows | <u>5,028,899</u> | <u>-</u> | <u>433,909</u> | <u>-</u> | <u>5,462,808</u> | <u>-</u> | <u>18,698</u> |
| Net Position | | | | | | | |
| Invested in Capital Assets | 12,201,906 | 6,051,498 | 24,959,438 | 17,805,394 | 37,161,344 | 23,856,892 | (20,065,818) |
| Restricted | 5,916,081 | 6,160,461 | 14,166,629 | 6,021,641 | 20,082,710 | 12,182,102 | 4,568,042 |
| Unrestricted | <u>(66,350,057)</u> | <u>(64,856,643)</u> | <u>(15,578,850)</u> | <u>(1,366,482)</u> | <u>(81,928,907)</u> | <u>(66,223,125)</u> | <u>2,152,201</u> |
| Total Net Position | \$ <u>(48,232,070)</u> | \$ <u>(52,644,684)</u> | \$ <u>23,547,217</u> | \$ <u>22,460,553</u> | \$ <u>(24,684,853)</u> | \$ <u>(30,184,131)</u> | \$ <u>(13,345,575)</u> |

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

The City's net position that is invested in capital assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other revenue sources, since the capital assets themselves cannot be liquidated to satisfy these liabilities.

The City's total net position increased by \$5,499,278 during the fiscal year ended September 30, 2018.

**CONDENSED STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
For the years ended September 30, 2018 and 2017**

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total Primary Government</u> | | <u>Total Component Units 2018</u> |
|---|--------------------------------|------------------------|---------------------------------|----------------------|---------------------------------|---------------------|---|
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> | |
| Revenues | | | | | | | |
| Program Revenues: | | | | | | | |
| Charges for Services | \$ 7,753,773 | \$ 7,055,338 | \$ 54,295,575 | \$ 53,902,281 | \$ 62,049,348 | \$ 60,957,619 | \$ 8,502,710 |
| Operating Grants | 1,063,555 | 472,852 | - | - | 1,063,555 | 472,852 | 273,514 |
| Capital Grants | 6,446,324 | 2,069,047 | - | - | 6,446,324 | 2,069,047 | - |
| General Revenues: | | | | | | | |
| Property Taxes | 8,160,333 | 8,098,876 | - | - | 8,160,333 | 8,098,876 | - |
| Sales Taxes | 32,518,853 | 28,629,946 | - | - | 32,518,853 | 28,629,946 | - |
| Occupational Taxes | 6,825,211 | 6,612,778 | - | - | 6,825,211 | 6,612,778 | - |
| Investment Earnings | 57,581 | 18,272 | 161,890 | 31,441 | 219,471 | 49,713 | 80,275 |
| Other | <u>6,251,218</u> | <u>5,308,250</u> | <u>276,997</u> | <u>346,759</u> | <u>6,528,215</u> | <u>5,655,009</u> | <u>60,450</u> |
| Total Revenues | <u>69,076,848</u> | <u>58,265,359</u> | <u>54,734,462</u> | <u>54,280,481</u> | <u>123,811,310</u> | <u>112,545,840</u> | <u>8,916,949</u> |
| Expenses | | | | | | | |
| Governmental Activities: | | | | | | | |
| General Government | 14,523,297 | 13,717,918 | - | - | 14,523,297 | 13,717,918 | - |
| Public Improvements | 12,886,456 | 12,626,926 | - | - | 12,886,456 | 12,626,926 | - |
| Public Safety | 29,151,941 | 28,965,233 | - | - | 29,151,941 | 28,965,233 | - |
| Cultural and Recreation | 5,351,655 | 4,508,943 | - | - | 5,351,655 | 4,508,943 | - |
| Interest on Long-Term Debt and Capital Lease | 2,750,885 | 2,855,925 | - | - | 2,750,885 | 2,855,925 | - |
| Business-Type Activities: | | | | | | | |
| Electric | - | - | 33,900,796 | 34,345,905 | 33,900,796 | 34,345,905 | - |
| Water | - | - | 19,279,759 | 18,218,260 | 19,279,759 | 18,218,260 | - |
| Civic Center | - | - | 467,243 | 560,521 | 467,243 | 560,521 | - |
| Component Units Activities: | | | | | | | |
| GUSC | - | - | - | - | - | - | 7,929,813 |
| Bessemer Airport Authority | - | - | - | - | - | - | <u>1,704,107</u> |
| Total Expenses | <u>64,664,234</u> | <u>62,674,945</u> | <u>53,647,798</u> | <u>53,124,686</u> | <u>118,312,032</u> | <u>115,799,631</u> | <u>9,633,920</u> |
| Change in Net Position | 4,412,614 | (4,409,586) | 1,086,664 | 1,155,795 | 5,499,278 | (3,253,791) | (716,971) |
| Beginning Net Position | (31,855,749) | (27,446,163) | 36,281,439 | 36,748,473 | 4,425,690 | 9,302,310 | (12,628,604) |
| Prior Period Adjustment | <u>(20,788,935)</u> | - | <u>(13,820,886)</u> | <u>(1,622,829)</u> | <u>(34,609,821)</u> | <u>(1,622,829)</u> | - |
| Ending Net Position | \$ <u>(48,232,070)</u> | \$ <u>(31,855,749)</u> | \$ <u>23,547,217</u> | \$ <u>36,281,439</u> | \$ <u>(24,684,853)</u> | \$ <u>4,425,690</u> | \$ <u>(13,345,575)</u> |

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

Governmental Activities

Governmental activities increased the City's net position by \$4,412,614. The City's budget for the year ended September 30, 2018, allowed for a decrease in the City's net position of \$1,426,153 by using assigned funds on hand from the previous year toward operating expenditures, however governmental activities revenue increased by \$10,811,489 over prior year while expenses increased by \$1,989,289.

Fund Financial Analysis

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

Changes in fund balances for governmental funds for the fiscal year ended September 30, 2018, are as follows:

**Governmental Funds
Fund Balances
As of September 30, 2018, and 2017**

| | Fund Balance <u>2017</u> | Increase (Decrease) | Fund Balance <u>2018</u> |
|-----------------------|-------------------------------------|--------------------------------|-------------------------------------|
| General Fund | \$ 14,225,144 | \$ 951,062 | \$ 15,176,206 |
| Capital Projects Fund | 338 | - | 338 |
| Special Revenue | 5,308,969 | (361,126) | 4,947,843 |
| Debt Service | <u>517,807</u> | <u>141,223</u> | <u>659,030</u> |
| Total Fund Balance | <u>\$ 20,052,258</u> | <u>\$ 731,159</u> | <u>\$ 20,783,417</u> |

**Proprietary Funds
Net Position
As of September 30, 2018, and 2017**

| | As Restated Net Position <u>2017</u> | Increase (Decrease) | Net Position <u>2018</u> |
|--------------------|---|--------------------------------|-------------------------------------|
| Electric | \$ 13,523,561 | \$ (931,848) | \$ 12,591,713 |
| Water | 9,148,601 | 2,252,113 | 11,400,714 |
| Civic Center | <u>(211,609)</u> | <u>(233,601)</u> | <u>(445,210)</u> |
| Total Net Position | <u>\$ 22,460,553</u> | <u>\$ 1,086,664</u> | <u>\$ 23,547,217</u> |

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

**Budget Variances in
General Fund Budget
For Year Ended September 30, 2018**

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-----------------------------------|------------------------------|----------------------------|----------------------------|
| Assigned Funds on Hand | \$ 1,426,153 | \$ - | \$(1,426,153) |
| Revenues | <u>54,771,112</u> | <u>57,956,073</u> | <u>3,184,961</u> |
| Total | 56,197,265 | 57,956,073 | 1,758,808 |
| Expenditures | <u>56,197,265</u> | <u>57,005,011</u> | <u>(807,746)</u> |
| Net Change in Fund Balance | \$ <u> -</u> | \$ <u> 951,062</u> | \$ <u> 951,062</u> |

During the 2018 fiscal year, there was a \$951,062 variance in revenue and expenditures between actual and the final budget as amended. The following are the main components of the variance:

The use of assigned funds on hand as of October 1, 2017, accounts for \$1,426,153 of the net change in actual fund balance and the variance to budget.

The Library is reported as a blended component unit of the City's general fund. The Library does not have a budget presented for the fiscal year 2018. The Library fund accounts for \$148,169 of the net change in actual fund balance and the variance to budget.

Actual revenues were greater than budgeted revenues by \$3,184,961. The cash bond, property insurance reimbursements, and library revenues do not have budgeted amounts, however the revenues are presented in the general fund resulting in actual revenues exceeding total budgeted revenues for the fund.

Actual expenditures exceeded budgeted expenditures by \$807,746. The Municipal Court's nonpersonnel expenditures and the Library expenditures do not have budgeted amounts, however the expenditures are presented in the general fund resulting in actual expenditures exceeding total budgeted expenditures for the fund.

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets Activity

The City's investment in capital assets as of September 30, 2018, amounts to \$67,873,380 for governmental activities. This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure. The notes to the financial statements report more information on capital assets, including changes that occurred during the fiscal year.

**CAPITAL ASSETS
September 30, 2018 and 2017**

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total Primary Government</u> | |
|-------------------------------------|--------------------------------|-----------------------------|---------------------------------|-----------------------------|-------------------------------------|------------------------------|
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Land | \$ 1,325,177 | \$ 1,325,177 | \$ 371,854 | \$ 371,854 | \$ 1,697,031 | \$ 1,697,031 |
| Construction in Progress | 6,131,080 | 1,643,953 | 225,631 | - | 6,356,711 | 1,643,953 |
| Property Held for Sale | 256,552 | - | - | - | 256,552 | - |
| Buildings and Capital Facilities | 35,690,336 | 35,690,336 | 5,027,498 | 4,995,906 | 40,717,834 | 40,686,242 |
| Furniture and Fixtures | 20,872,912 | 19,429,090 | 7,800,351 | 7,164,916 | 28,673,263 | 26,594,006 |
| Plant Equipment | - | - | 85,148,509 | 83,883,039 | 85,148,509 | 83,883,039 |
| Infrastructure | <u>33,461,038</u> | <u>31,841,610</u> | <u>-</u> | <u>-</u> | <u>33,461,038</u> | <u>31,841,610</u> |
| Total Capital Assets | \$ 97,737,095 | \$ 89,930,166 | \$ 98,573,843 | \$ 96,415,715 | \$ 196,310,938 | \$ 186,345,881 |
| Less: Accumulated Depreciation | (29,863,715) | (26,811,328) | (47,226,527) | (45,426,583) | (77,090,242) | (72,237,911) |
| Net Capital Assets | <u>\$ 67,873,380</u> | <u>\$ 63,118,838</u> | <u>\$ 51,347,316</u> | <u>\$ 50,989,132</u> | <u>\$ 119,220,696</u> | <u>\$ 114,107,970</u> |

Long-Term Debt Activity

**OUTSTANDING DEBT
September 30, 2018 and 2017**

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total Primary Government</u> | |
|-------------------------------|--------------------------------|------------------------------|---------------------------------|-----------------------------|-------------------------------------|------------------------------|
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Warrants Payable | \$ 62,589,801 | \$ 65,042,671 | \$ 38,268,423 | \$ 30,012,354 | \$ 100,858,224 | \$ 95,055,025 |
| Capital Leases | 375,838 | 493,684 | 225,888 | 28,880 | 601,726 | 522,564 |
| OPEB Liability | 31,563,312 | 33,118,156 | 2,069,975 | 2,069,975 | 33,633,287 | 35,188,131 |
| Net Pension Obligation | 47,496,405 | 48,464,644 | 10,320,277 | 10,530,662 | 57,816,682 | 58,995,306 |
| Compensated Absences | 7,199,766 | 7,687,394 | 1,341,105 | 1,289,233 | 8,540,871 | 8,976,627 |
| Other | <u>266,845</u> | <u>315,200</u> | <u>-</u> | <u>-</u> | <u>266,845</u> | <u>315,200</u> |
| Total Outstanding Debt | <u>\$ 149,491,967</u> | <u>\$ 155,121,749</u> | <u>\$ 52,225,668</u> | <u>\$ 43,931,104</u> | <u>\$ 201,717,635</u> | <u>\$ 199,052,853</u> |

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

Economic Factors Affecting the City of Bessemer and the 2018 Budget and Debt Information

The City of Bessemer ended 2018 on a high note economically.

Amazon announced plans in June 2018 to build a \$325 million Robotic Fulfillment Center off Powder Plant Road in Bessemer. The 800,000 square foot facility, the first of its kind in Alabama, is scheduled to open in Spring 2020 and house some 1,500 employees. Wages will start at \$15 an hour for all employees, Amazon officials announced.

The company is also partnering with the Bessemer Board of Education to offer graduating seniors from Bessemer City High School jobs at the facility and the opportunity to advance their education through a program that will help employees pay for college.

Amazon's announcement that it will locate in Bessemer has generated more interest in the city from prospective businesses and industry.

Medical West Hospital, one of Bessemer's largest employers, announced plans in late 2018 to build a new hospital and convert its current location on Ninth Avenue Southwest into a yet unspecified medical facility. Medical West has acquired land just outside the corporate limits of Bessemer to build the new hospital but plans to annex the facility into the city limits in the future.

The Census Tract that includes Downtown Bessemer and the city's Downtown Historic District was designated as an Opportunity Zone by the United States Treasury in Summer 2018. Opportunity Zones were created in the Tax Cut and Jobs Act in December 2017. The program provides a federal tax incentive for investors to use their unrealized capital gains into Opportunity Funds dedicated for investing in the designated Opportunity Zones. City leaders are currently reviewing ways to market the Opportunity Zone designation to potential investors.

City leaders plan to investigate ways to spur additional growth in the downtown, especially among millennial business owners.

The Bessemer Airport Authority announced that it received \$750,000 in grants and loans to construct a new hangar complex in 2019. In addition, Birmingham-based Sanders Capital Partners announced that it had acquired three corporate hangars at the airport for \$1.3 million.

BLOX, which specializes in prefabricated hospitals rooms, relocated its operations to Bessemer and has undergone an expansion that has resulted in more than 300 new jobs.

Milo's Tea Company has continued to expand its operation in Bessemer. Milo's Tea Company bottles more than 250 gallons of all-natural beverages per minute. The company ships to 13,000 retailers in 46 states, all from Bessemer.

Many smaller businesses opened in Bessemer in 2018. Diablo's Restaurant opened its first Alabama location in Bessemer at the Colonial Promenade. Jack's Family Restaurants opened two locations in the city and began renovations of its current location on 19th Street in the Pipe Shop community. A new Planet Fitness, the largest in Alabama, opened in Bessemer in summer 2018.

Pinnacle Motor Sports, which has a rich history of more than 40 years in the power sports industry, has opened for business in Bessemer.

The City anticipates new job growth into 2019 and will continue to explore ways to attract new business and industry into the corporate limits. Bessemer is open for business and wants to retain a solid reputation of being business-friendly and a great place to call home.

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

Budget Information

On or before October 1 of each year, City Administrators prepare and submit an annual budget to be adopted by the City Council. The comparison of the FY 2018 general fund budget to the actual results is detailed in the "Statement of Revenues, Expenditures, and Changes in Fund Balances" - Budget to Actual.

The budget for fiscal year 2018-2019 was passed for \$57.9 million dollars.

Capital Assets and Debt Administration – Governmental Activities

Capital Assets – The City's investment in capital assets for governmental activities for the year ended September 30, 2018, amounted to \$67,873,380, net of accumulated depreciation. The City's investment in capital assets includes land, infrastructure, buildings, furniture and fixtures, equipment, vehicles, and construction in progress. The City's assets are valued at historical cost where available and estimated historical cost where actual cost is not available.

Debt – The City had long-term debt of \$70.1 million at the end of fiscal year 2018. Long-term debt includes warrants payable, capital lease payable, and compensated absences. The City decreased its governmental activities long-term debt by \$3.1 million during fiscal year 2018.

Bessemer Utilities – Electric

During fiscal year 2018, management of Bessemer Electric continued plans to strengthen its infrastructure for the upcoming years.

Management has also continued its incorporation of its minimum cash reserve policy. This policy has been incorporated in an effort to help maintain financial flexibility. As such, the intended "management restricted" reserves were set aside for: annual debt service expenditures, and electric system contingencies, if necessary. The electric system contingency reserves may be updated and reviewed by management and the Mayor annually. The remaining unrestricted net position may be used to meet Electric Service's ongoing obligations.

As Bessemer Electric advances through the 2019 fiscal year, management may be reviewing the option of a cautious rate and/or expense adjustment, to somewhat counter possible future revenue decreases, and/or capital project needs.

In retrospect, Bessemer Electric's continued goal, despite economic obstacles, its history of turbulent storms, and the loss of a major industrial customer and phased infrastructure upgrades; is to help our customer base continue in its move toward a stronger, energy efficient, and better prepared electric customer.

Bessemer Utilities – Water

Bessemer Water Service continues plans to analyze its Water Service infrastructure with an objective to validate any changes to, and/or upgrades to its infrastructure and fixed assets. Furthermore, Bessemer Water continued its efforts to undertake minor and some major infrastructure improvements in Bessemer, Ross Bridge, Alabaster, Midfield, Hueytown, and other service areas. The projects, as approved, are associated to the efficiency and safety of its infrastructure. Bessemer Water has included in its 2019 budget, scheduled tank improvements as per its tank repair/maintenance plan.

Water Revenue Warrants Series 2017 were issued on December 28, 2017, for \$27,455,000. The Series 2017 Warrants were issued to: a) refund all the outstanding Series 2008 Water Revenue Warrants, b) finance the cost of improvements, and c) pay the cost of issuing the Series 2017 Warrants.

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

Management continues to stress in-house efficiency adjustments in the upcoming fiscal year. Bessemer Water Service anticipates continued business investment for the area. In addition, as we advance through the 2019 fiscal year, we will remain cautious for conditions that may affect our infrastructure and economics as a water utility.

Furthermore, management continues the application of the consumer price index as a guide for customer rates and continues to assess technological counter savings for its cost factors.

Request for Information

This financial report is designed to give a general overview of the City's finances. Questions concerning any of the information in this report may be sent to the City's Finance Director, Kela Pryor, City of Bessemer, 1700 Third Avenue North, Bessemer, Alabama 35020.

CITY OF BESSEMER, ALABAMA

Statement of Net Position

September 30, 2018

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|--------------------|--------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and Investments | \$ 16,844,080 | \$ 15,580,200 | \$ 32,424,280 | \$ 610,136 |
| Cash and Investments - Restricted | 659,368 | 14,166,628 | 14,825,996 | 5,321,966 |
| Receivables | | | | |
| Accounts | 4,466,996 | 3,108,964 | 7,575,960 | 331,408 |
| Loans | 1,588,921 | 2,381,266 | 3,970,187 | - |
| Due from Proprietary Funds | 482,479 | 9,977,934 | 10,460,413 | - |
| Due from Other Governments | 188,369 | - | 188,369 | - |
| Inventories | 252,773 | 1,273,552 | 1,526,325 | 35,142 |
| Prepaid Expenses | 244,514 | 266,565 | 511,079 | 71,844 |
| TOTAL CURRENT ASSETS | 24,727,500 | 46,755,109 | 71,482,609 | 6,370,496 |
| NONCURRENT ASSETS | | | | |
| Capital Assets | | | | |
| Nondepreciated | | | | |
| Land | 1,325,177 | 371,854 | 1,697,031 | 3,073,353 |
| Property Held for Resale | 256,552 | - | 256,552 | - |
| Construction in Progress | 6,131,080 | 225,631 | 6,356,711 | 370,163 |
| Depreciated | | | | |
| Building and Capital Facilities | 35,690,336 | 97,976,358 | 133,666,694 | 48,684,826 |
| Furniture and Other Equipment | 20,872,912 | - | 20,872,912 | 847,026 |
| Infrastructure | 33,461,038 | - | 33,461,038 | 1,797,802 |
| Accumulated Depreciation | (29,863,715) | (47,226,527) | (77,090,242) | (19,852,943) |
| Total Capital Assets | 67,873,380 | 51,347,316 | 119,220,696 | 34,920,227 |
| Other Assets | | | | |
| Deferred Loans Receivable | 443,119 | - | 443,119 | - |
| TOTAL NONCURRENT ASSETS | 68,316,499 | 51,347,316 | 119,663,815 | 34,920,227 |
| TOTAL ASSETS | 93,043,999 | 98,102,425 | 191,146,424 | 41,290,723 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred Outflows Related to Pension Liability | 9,331,646 | 2,032,686 | 11,364,332 | 189,458 |
| Deferred Outflows Related to OPEB Liability | 1,377,863 | - | 1,377,863 | - |
| Deferred Charge on Refunding of Debt | 1,922,414 | 1,320,673 | 3,243,087 | 1,429,432 |
| Deferred Charge on Acquisition | 5,371,751 | - | 5,371,751 | - |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 18,003,674 | 3,353,359 | 21,357,033 | 1,618,890 |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA
Statement of Net Position – Continued
September 30, 2018

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|------------------------|------------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| LIABILITIES | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts and Vouchers Payable | 2,908,621 | 12,838,746 | 15,747,367 | 289,244 |
| Accrued Payroll and Payroll Taxes Payable | 1,478,581 | - | 1,478,581 | 20,391 |
| Accrued Interest | 371,675 | - | 371,675 | 753,924 |
| Due to Other Funds | - | 11,049,101 | 11,049,101 | - |
| Current Maturities of Long-Term Liabilities | | | | |
| Compensated Absences | 1,151,963 | 214,576 | 1,366,539 | - |
| Capital Leases Payable | 121,487 | 41,879 | 163,366 | - |
| Notes Payable | - | - | - | 33,870 |
| Bonds and Warrants Payable | 2,565,000 | 925,000 | 3,490,000 | 1,380,000 |
| Other Liabilities | - | - | - | 22,106 |
| TOTAL CURRENT LIABILITIES | 8,597,327 | 25,069,302 | 33,666,629 | 2,499,535 |
| NONCURRENT LIABILITIES | | | | |
| Capital Leases Payable | 254,351 | 184,009 | 438,360 | - |
| OPEB Liability | 31,563,312 | 2,069,975 | 33,633,287 | - |
| Net Pension Obligation | 47,496,405 | 10,320,277 | 57,816,682 | 164,780 |
| Compensated Absences | 6,047,803 | 1,126,529 | 7,174,332 | - |
| Notes Payable | - | - | - | 611,023 |
| Bonds and Warrants Payable | 60,024,801 | 37,343,423 | 97,368,224 | 52,961,152 |
| Closure and Postclosure Costs | 266,845 | - | 266,845 | - |
| Other Liabilities | - | 1,361,143 | 1,361,143 | - |
| TOTAL NONCURRENT LIABILITIES | 145,653,517 | 52,405,356 | 198,058,873 | 53,736,955 |
| TOTAL LIABILITIES | 154,250,844 | 77,474,658 | 231,725,502 | 56,236,490 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred Inflow Related to Pension Liability | 1,996,953 | 433,909 | 2,430,862 | 18,698 |
| Deferred Inflow Related to OPEB Liability | 3,031,946 | - | 3,031,946 | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 5,028,899 | 433,909 | 5,462,808 | 18,698 |
| NET POSITION | | | | |
| Invested in Capital Assets | 12,201,906 | 24,959,438 | 37,161,344 | (20,065,818) |
| Restricted for: | | | | |
| Debt Service | 659,368 | 14,166,629 | 14,825,997 | 4,568,042 |
| Capital Projects | 338 | - | 338 | - |
| Community Development Loans | 1,588,921 | - | 1,588,921 | - |
| Special Projects | 3,667,454 | - | 3,667,454 | - |
| Unrestricted | (66,350,057) | (15,578,850) | (81,928,907) | 2,152,201 |
| TOTAL NET POSITION | \$ (48,232,070) | \$ 23,547,217 | \$ (24,684,853) | \$ (13,345,575) |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA
Statement of Activities
For the Year Ended September 30, 2018

| FUNCTIONS | Program Revenues | | | | Net (Expenses) Revenues and Changes in Net Position | | | Component Units |
|---|-----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|------------------------|------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | |
| | | | | | Governmental Activities | Business-Type Activities | Total | |
| PRIMARY GOVERNMENT | | | | | | | | |
| Governmental Activities | | | | | | | | |
| General Government | \$ 14,523,297 | \$ 4,730,398 | \$ 358,712 | \$ - | \$ (9,434,187) | \$ - | \$ (9,434,187) | |
| Public Safety | 29,151,941 | 1,504,519 | 697,880 | 718,830 | (26,230,712) | - | (26,230,712) | |
| Public Improvements | 12,886,456 | 845,019 | - | 5,727,494 | (6,313,943) | - | (6,313,943) | |
| Cultural and Recreation | 5,351,655 | 673,837 | 6,963 | - | (4,670,855) | - | (4,670,855) | |
| Interest on Capital Lease | 21,910 | - | - | - | (21,910) | - | (21,910) | |
| Interest on Long-Term Debt | 2,728,975 | - | - | - | (2,728,975) | - | (2,728,975) | |
| Total Governmental Activities | <u>64,664,234</u> | <u>7,753,773</u> | <u>1,063,555</u> | <u>6,446,324</u> | <u>(49,400,582)</u> | <u>-</u> | <u>(49,400,582)</u> | |
| Business-Type Activities | | | | | | | | |
| Civic Center | 467,243 | 233,622 | - | - | - | (233,621) | (233,621) | |
| Electric Service | 33,900,796 | 32,729,191 | - | - | - | (1,171,605) | (1,171,605) | |
| Water Service | 19,279,759 | 21,332,762 | - | - | - | 2,053,003 | 2,053,003 | |
| Total Business-Type Activities | <u>53,647,798</u> | <u>54,295,575</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>647,777</u> | <u>647,777</u> | |
| TOTAL PRIMARY GOVERNMENT | <u>\$ 118,312,032</u> | <u>\$ 62,049,348</u> | <u>\$ 1,063,555</u> | <u>\$ 6,446,324</u> | <u>(49,400,582)</u> | <u>647,777</u> | <u>(48,752,805)</u> | |
| Component Units | | | | | | | | |
| Governmental Utility Services Corporation | \$ 7,929,813 | \$ 7,276,401 | \$ - | \$ - | | | | \$ (653,412) |
| Bessemer Airport Authority | 1,704,107 | 1,226,309 | 273,514 | - | | | | (204,284) |
| Total Component Units | <u>\$ 9,633,920</u> | <u>\$ 8,502,710</u> | <u>\$ 273,514</u> | <u>\$ -</u> | | | | <u>(857,696)</u> |
| GENERAL REVENUES | | | | | | | | |
| Sales and Use Taxes | | | | | 32,518,853 | - | 32,518,853 | - |
| Occupational Tax | | | | | 6,825,211 | - | 6,825,211 | - |
| Property Tax | | | | | 8,160,333 | - | 8,160,333 | - |
| Other Tax | | | | | 2,497,231 | - | 2,497,231 | - |
| Other Income | | | | | 3,753,987 | 276,997 | 4,030,984 | 450 |
| City Allocation | | | | | - | - | - | 60,000 |
| Unrestricted Investment Earnings | | | | | 57,581 | 161,890 | 219,471 | 80,275 |
| Total General Revenues | | | | | <u>53,813,196</u> | <u>438,887</u> | <u>54,252,083</u> | <u>140,725</u> |
| Changes in Net Position | | | | | 4,412,614 | 1,086,664 | 5,499,278 | (716,971) |
| NET POSITION – BEGINNING OF YEAR AS RESTATED | | | | | <u>(52,644,684)</u> | <u>22,460,553</u> | <u>(30,184,131)</u> | <u>(12,628,604)</u> |
| NET POSITION – END OF YEAR | | | | | <u>\$ (48,232,070)</u> | <u>\$ 23,547,217</u> | <u>\$ (24,684,853)</u> | <u>\$ (13,345,575)</u> |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Balance Sheet

Governmental Funds

As of September 30, 2018

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Other Nonmajor Funds</u> | <u>Total Governmental Funds</u> |
|--|-----------------------------|------------------------------|-------------------------------------|---|
| ASSETS | | | | |
| Cash and Investments | \$ 13,545,076 | \$ - | \$ 3,299,004 | \$ 16,844,080 |
| Cash with Escrow Agents | - | 659,030 | 338 | 659,368 |
| Accounts Receivable | 4,168,161 | - | 298,835 | 4,466,996 |
| Loans Receivable | - | - | 1,588,921 | 1,588,921 |
| Due from Other Funds | 553,130 | - | 87,800 | 640,930 |
| Due from Proprietary Funds | 482,479 | - | - | 482,479 |
| Due from Other Governments | 188,369 | - | - | 188,369 |
| Inventories | 252,773 | - | - | 252,773 |
| Prepaid Expenses | 244,514 | - | - | 244,514 |
| Deferred Loans Receivable | - | - | 443,119 | 443,119 |
| TOTAL ASSETS | <u>\$ 19,434,502</u> | <u>\$ 659,030</u> | <u>\$ 5,718,017</u> | <u>\$ 25,811,549</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts and Vouchers Payable | \$ 2,692,309 | \$ - | \$ 216,312 | \$ 2,908,621 |
| Accrued Payroll and Payroll Taxes Payable | 1,478,581 | - | - | 1,478,581 |
| Due to Other Funds | 87,406 | - | 553,524 | 640,930 |
| TOTAL LIABILITIES | <u>4,258,296</u> | <u>-</u> | <u>769,836</u> | <u>5,028,132</u> |
| FUND BALANCES | | | | |
| Unreserved | | | | |
| Nonspendable Fund Balance | 497,287 | - | - | 497,287 |
| Restricted Fund Balance | 408,532 | 659,030 | 4,948,181 | 6,015,743 |
| Committed Fund Balance | 2,807,588 | - | - | 2,807,588 |
| Assigned Fund Balance | 5,373,143 | - | - | 5,373,143 |
| Unassigned Fund Balance | 6,089,656 | - | - | 6,089,656 |
| TOTAL FUND BALANCES | <u>15,176,206</u> | <u>659,030</u> | <u>4,948,181</u> | <u>20,783,417</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 19,434,502</u> | <u>\$ 659,030</u> | <u>\$ 5,718,017</u> | |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Balance Sheet – Continued

Governmental Funds

As of September 30, 2018

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

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

| | | | |
|--------------------------------|----|---------------------|---------------|
| Land | \$ | 1,325,177 | |
| Property Held for Resale | | 256,552 | |
| Construction in Progress | | 6,131,080 | |
| Buildings and Capital | | 35,690,336 | |
| Furniture and Fixtures | | 20,872,912 | |
| Infrastructure | | 33,461,038 | |
| Less: Accumulated Depreciation | | <u>(29,863,715)</u> | |
| | | | \$ 67,873,380 |

Long-term liabilities, including warrants payable, are not due and payable in the current period and, therefore, are not reported in the funds.

| | | |
|--|------------------|--|
| Warrants Payable | (63,030,000) | |
| Unamortized Premium | (28,762) | |
| Unamortized Discount | 468,961 | |
| Deferred Charge on Refunding of Debt | 1,922,414 | |
| Deferred Charge on Acquisition | 5,371,751 | |
| Accrued Interest | (371,675) | |
| Closure and Postclosure Costs | (266,845) | |
| Net Pension Obligation | (47,496,405) | |
| Deferred Outflows Related to Pension Liability | 9,331,646 | |
| Deferred Inflows Related to Pension Liability | (1,996,953) | |
| OPEB Liability | (31,563,312) | |
| Deferred Outflows Related to OPEB Liability | 1,377,863 | |
| Deferred Inflows Related to OPEB Liability | (3,031,946) | |
| Compensated Absences | (7,199,766) | |
| Capital Lease Payable | <u>(375,838)</u> | |

(136,888,867)

Net Position of Governmental Activities \$ (48,232,070)

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2018

| | General Fund | Debt Service Fund | Other Nonmajor Funds | Total Governmental Funds |
|--|----------------------|----------------------|----------------------------|--------------------------------|
| REVENUES | | | | |
| Taxes | \$ 46,213,923 | \$ 2,235,138 | \$ 1,782,901 | \$ 50,231,962 |
| Licenses and Permits | 4,729,169 | - | - | 4,729,169 |
| Charges for Services | 1,324,183 | - | 594,503 | 1,918,686 |
| Fines and Forfeitures | 1,081,837 | - | - | 1,081,837 |
| Intergovernmental | 2,211,690 | - | 6,332,927 | 8,544,617 |
| Investment Income | 45,476 | 12,105 | - | 57,581 |
| Other | 1,253,536 | - | 1,306,832 | 2,560,368 |
| TOTAL REVENUES | 56,859,814 | 2,247,243 | 10,017,163 | 69,124,220 |
| EXPENDITURES | | | | |
| Public Safety | 26,174,879 | - | 823,387 | 26,998,266 |
| Public Improvements | 11,693,259 | - | - | 11,693,259 |
| General Government | 10,219,057 | - | 1,743,069 | 11,962,126 |
| Cultural and Recreation | 4,861,168 | - | - | 4,861,168 |
| Total | 52,948,363 | - | 2,566,456 | 55,514,819 |
| Capital Outlays | 884,268 | - | 6,922,659 | 7,806,927 |
| Debt Service | | | | |
| Principal | 117,846 | 2,495,000 | - | 2,612,846 |
| Interest | 21,910 | 2,436,559 | - | 2,458,469 |
| TOTAL EXPENDITURES | 53,972,387 | 4,931,559 | 9,489,115 | 68,393,061 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 2,887,427 | (2,684,316) | 528,048 | 731,159 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers from Other Funds | 68,146 | 2,825,539 | 1,614,536 | 4,508,221 |
| Transfers to Other Funds | (2,004,511) | - | (2,503,710) | (4,508,221) |
| TOTAL OTHER FINANCING SOURCES (USES) | (1,936,365) | 2,825,539 | (889,174) | - |
| NET CHANGE IN FUND BALANCES | 951,062 | 141,223 | (361,126) | 731,159 |
| FUND BALANCES – BEGINNING OF YEAR – AS RESTATED | 14,225,144 | 517,807 | 5,309,307 | 20,052,258 |
| FUND BALANCES – END OF YEAR | \$ 15,176,206 | \$ 659,030 | \$ 4,948,181 | \$ 20,783,417 |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

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

For the Year Ended September 30, 2018

NET CHANGE IN FUND BALANCES TOTAL GOVERNMENTAL FUNDS \$ 731,159

The issuance of long-term debt (bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.

| | |
|--|-----------|
| Principal Payments | 2,495,000 |
| Capital Lease Payments | 117,846 |
| Amortization of Bond Premiums and Discounts | (42,130) |
| Amortization of Deferred Charge on Refunding | (261,832) |
| Amortization of Deferred Charge on Acquisition of District and CDA | (913,018) |
| Change in Accrued Interest | 11,546 |

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.

| | |
|-----------------------------|-------------|
| Capital Outlays Capitalized | 7,806,927 |
| Depreciation | (3,052,387) |

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

| | |
|---|----------------|
| Change in OPEB Liability | (1,275,052) |
| Change in Net Pension Obligation | (1,741,432) |
| Change in Closure and Postclosure Costs Liability | 48,359 |
| Change in Compensated Absences | <u>487,628</u> |

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 4,412,614

CITY OF BESSEMER, ALABAMA

General Fund – Statement of Revenues, Expenditures, and Encumbrances – Budget to Actual
For the Year Ended September 30, 2018

| | <u>Final Budget</u> | <u>Actual</u> | <u>Over (Under)</u> |
|--|---------------------|-------------------|---------------------|
| FUNDS ON HAND | | | |
| Assigned Funds on Hand | \$ 1,426,153 | \$ - | \$ (1,426,153) |
| REVENUES | | | |
| Taxes | | | |
| Sales and Use | 30,516,922 | 32,174,759 | 1,657,837 |
| Occupational | 7,100,000 | 6,825,211 | (274,789) |
| Property Taxes County Collection | 5,135,884 | 5,131,179 | (4,705) |
| Financial Institution Excise Tax | - | 6,074 | 6,074 |
| Oil and Gas Privilege Tax | 148,000 | 149,748 | 1,748 |
| ABC 3% Sales Tax | 80,000 | 82,097 | 2,097 |
| Beer Sales Tax | 205,000 | 208,054 | 3,054 |
| Tobacco Sales Tax | 22,000 | 20,397 | (1,603) |
| Bessemer Electric Service – Lieu of Taxes | 1,000,000 | 1,000,000 | - |
| Franchise Tax | 270,000 | 263,880 | (6,120) |
| Road and Bridge Tax | 333,000 | 352,524 | 19,524 |
| Total Taxes | <u>44,810,806</u> | <u>46,213,923</u> | <u>1,403,117</u> |
| Licenses and Permits | | | |
| Business | 4,400,000 | 3,970,509 | (429,491) |
| Motor Vehicle Licenses | 103,500 | 120,576 | 17,076 |
| Manufactured Home Tax | - | 823 | 823 |
| Storm Water Permits | 150,000 | 143,890 | (6,110) |
| Building Permits | 245,000 | 467,386 | 222,386 |
| Electric Permits | 18,000 | 14,068 | (3,932) |
| Yard Sale Permits | 105 | 37 | (68) |
| Plumbing Permits | 4,000 | 5,635 | 1,635 |
| Gas Permits | 2,700 | 1,985 | (715) |
| Portable Signs | 2,000 | 4,260 | 2,260 |
| Total Licenses and Permits | <u>4,925,305</u> | <u>4,729,169</u> | <u>(196,136)</u> |
| Operating Transfers | | | |
| Transfers from Other Funds | 500,000 | 68,146 | (431,854) |
| Total Operating Transfers | <u>500,000</u> | <u>68,146</u> | <u>(431,854)</u> |
| Intergovernmental Revenue (Lieu of taxes) | | | |
| State of Alabama TVA | 2,140,000 | 1,649,585 | (490,415) |
| Operating Grants | - | 212,219 | 212,219 |
| State of Alabama Capital Improvement | - | 235,061 | 235,061 |
| Payments in Lieu of Taxes | - | 150 | 150 |
| Municipal Court | - | 114,675 | 114,675 |
| Total Intergovernmental Revenue | <u>2,140,000</u> | <u>2,211,690</u> | <u>71,690</u> |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

General Fund – Statement of Revenues, Expenditures, and Encumbrances – Budget to Actual – Continued
 For the Year Ended September 30, 2018

| REVENUES | Final Budget | Actual | Over (Under) |
|--|----------------------|----------------------|---------------------|
| Fines and Costs | | | |
| Fines and Penalties | 500,000 | 1,013,976 | 513,976 |
| Total Fines and Costs | 500,000 | 1,013,976 | 513,976 |
| Charges for Services | | | |
| Cemetery Lot Sales | 15,000 | 24,755 | 9,755 |
| Cemetery Supplies | 5,000 | 6,551 | 1,551 |
| Grave Opening | 65,000 | 62,556 | (2,444) |
| Auditorium Rental Fees | - | 20,466 | 20,466 |
| Golf Course Receipts | 350,000 | 394,297 | 44,297 |
| Recreational Facility Receipts | 325,000 | 259,051 | (65,949) |
| Wrecker Service Proceeds | 32,150 | 46,550 | 14,400 |
| Cash Bond Revenue | - | 491,772 | 491,772 |
| Miscellaneous | - | 11,222 | 11,222 |
| Total Charges for Services | 792,150 | 1,317,220 | 525,070 |
| Other Operating Revenues | | | |
| Interest on Investments | 7,500 | 44,465 | 36,965 |
| Other | | | |
| Municipal Assessment | 7,500 | 3,918 | (3,582) |
| Weed Liens | 536 | 3,049 | 2,513 |
| Photostats – Police Department | 23,000 | 25,097 | 2,097 |
| Appeal Board Fee | 2,500 | 3,600 | 1,100 |
| Rental Income | 15,000 | 9,573 | (5,427) |
| Bessemer Utility 48% Mayor's Salary | 36,000 | 35,808 | (192) |
| HITDA Grant | - | 24,831 | 24,831 |
| Park Board Receipts | 4,015 | 5,450 | 1,435 |
| State Petroleum Inspection Fees | 6,300 | 6,555 | 255 |
| Miscellaneous | 500 | 100,164 | 99,664 |
| Bessemer Water and Utilities Fuel Reimbursement | 1,000,000 | 337,404 | (662,596) |
| Property Insurance | - | 601,659 | 601,659 |
| Refund Transfer Account | - | 96,428 | 96,428 |
| Total Other Operating Revenues | 1,102,851 | 1,298,001 | 195,150 |
| Library | | | |
| Investment Income | - | 1,011 | 1,011 |
| Fines and Costs | - | 67,861 | 67,861 |
| E-Rate Reimbursement | - | 6,963 | 6,963 |
| City Appropriation | - | 1,028,113 | 1,028,113 |
| Total Library | - | 1,103,948 | 1,103,948 |
| TOTAL REVENUES AND ASSIGNED FUNDS ON HAND | \$ 56,197,265 | \$ 57,956,073 | \$ 1,758,808 |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

General Fund – Statement of Revenues, Expenditures, and Encumbrances – Budget to Actual – Continued
 For the Year Ended September 30, 2018

| EXPENDITURES AND ENCUMBRANCES | <u>Final Budget</u> | <u>Actual</u> | <u>Over (Under)</u> |
|--------------------------------------|---------------------|-------------------|---------------------|
| Public Safety | | | |
| Police | | | |
| Personnel Services | \$ 12,687,850 | \$ 12,048,229 | \$ (639,621) |
| Other | 1,442,000 | 1,520,939 | 78,939 |
| Fire | | | |
| Personnel Services | 9,785,805 | 9,676,472 | (109,333) |
| Other | 1,469,500 | 1,230,029 | (239,471) |
| Building and Inspection | | | |
| Personnel Services | 633,812 | 441,359 | (192,453) |
| Other | 137,000 | 118,987 | (18,013) |
| Municipal Court | | | |
| Personnel Services | 623,803 | 601,998 | (21,805) |
| Other | - | 1,065,653 | 1,065,653 |
| Total Public Safety | <u>26,779,770</u> | <u>26,703,666</u> | <u>(76,104)</u> |
| Public Improvements | | | |
| Administration | | | |
| Personnel Services | 730,415 | 850,204 | 119,789 |
| Other | 198,100 | 193,825 | (4,275) |
| Sanitation | | | |
| Personnel Services | 2,960,803 | 2,953,333 | (7,470) |
| Other | 1,812,280 | 1,387,578 | (424,702) |
| Street | | | |
| Personnel Services | 3,158,960 | 2,991,860 | (167,100) |
| Other | 943,970 | 859,288 | (84,682) |
| Traffic | | | |
| Personnel Services | 366,450 | 385,850 | 19,400 |
| Other | 358,200 | 367,611 | 9,411 |
| Cemetery | | | |
| Personnel Services | 577,527 | 539,574 | (37,953) |
| Other | 83,978 | 64,919 | (19,059) |
| Dog Pound | | | |
| Personnel Services | 152,274 | 139,216 | (13,058) |
| Other | 85,500 | 56,031 | (29,469) |
| Fleet Maintenance | | | |
| Personnel Services | 1,398,977 | 1,127,205 | (271,772) |
| Other | 223,650 | 158,356 | (65,294) |
| Total Public Improvements | <u>13,051,084</u> | <u>12,074,850</u> | <u>(976,234)</u> |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

General Fund – Statement of Revenues, Expenditures, and Encumbrances – Budget to Actual – Continued
 For the Year Ended September 30, 2018

| EXPENDITURES AND ENCUMBRANCES | <u>Final Budget</u> | <u>Actual</u> | <u>Over (Under)</u> |
|--|----------------------------|----------------------|----------------------------|
| Cultural and Recreational | | | |
| Park and Recreation | | | |
| Personnel Services | 391,973 | 392,345 | 372 |
| Other | 256,000 | 246,691 | (9,309) |
| Golf Course | | | |
| Personnel Services | 72,000 | 74,346 | 2,346 |
| Other | 475,100 | 557,542 | 82,442 |
| Recreational Center | | | |
| Personnel Services | 1,120,058 | 987,554 | (132,504) |
| Other | 886,000 | 924,129 | 38,129 |
| Civic Center | | | |
| Personnel Services | 549,890 | 573,834 | 23,944 |
| Other | - | 4,826 | 4,826 |
| Library | | | |
| Personnel Services | - | 490,502 | 490,502 |
| Other | - | 465,274 | 465,274 |
| Total Cultural and Recreational | 3,751,021 | 4,717,043 | 966,022 |
| General Government | | | |
| City Clerk and Treasurer | | | |
| Personnel Services | 209,666 | 187,114 | (22,552) |
| Other | 126,650 | 38,258 | (88,392) |
| Finance | | | |
| Personnel Services | 892,406 | 812,528 | (79,878) |
| Other | 37,000 | 31,284 | (5,716) |
| Government Information Systems | | | |
| Personnel Services | 400,736 | 381,483 | (19,253) |
| Other | 293,690 | 253,057 | (40,633) |
| Revenue | | | |
| Personnel Services | 377,200 | 331,459 | (45,741) |
| Other | 14,700 | 4,436 | (10,264) |
| Mayor and Council | | | |
| Personnel Services | 1,607,723 | 1,635,563 | 27,840 |
| Other | 273,850 | 196,223 | (77,627) |
| Non-Departmental | | | |
| Municipal Judge | 117,876 | 76,303 | (41,573) |
| City Attorney | 396,000 | 396,000 | - |
| Auditors | 83,500 | 88,925 | 5,425 |
| Sales Tax Collection and Audit | 220,000 | 283,330 | 63,330 |
| Chamber Tourism | 75,000 | 75,000 | - |
| Bessemer Public Library | 1,025,000 | 1,028,113 | 3,113 |
| Bessemer Airport Authority | 60,000 | 66,611 | 6,611 |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

General Fund – Statement of Revenues, Expenditures, and Encumbrances – Budget to Actual – Continued
 For the Year Ended September 30, 2018

| EXPENDITURES AND ENCUMBRANCES | <u>Final Budget</u> | <u>Actual</u> | <u>Over (Under)</u> |
|---|---------------------|---------------|---------------------|
| General Government – Continued | | | |
| Non-Departmental – Continued | | | |
| Jefferson County Health Department | 157,587 | 342,907 | 185,320 |
| Jefferson County Transit Authority | 715,000 | 528,197 | (186,803) |
| Map and Appraisal | 107,968 | 94,548 | (13,420) |
| Waste Disposal Fee | 10,000 | - | (10,000) |
| Water Program, Jefferson County | - | 31 | 31 |
| Copier Services | 20,000 | 12,340 | (7,660) |
| State Unemployment Insurance | 7,500 | - | (7,500) |
| CSX Railroad | 2,500 | 2,261 | (239) |
| Workman's Compensation | 300,000 | 333,690 | 33,690 |
| Employee Drug Abuse | 30,000 | 20,876 | (9,124) |
| Alabama League of Municipalities | 8,000 | 8,063 | 63 |
| Jefferson County Personnel Board | 516,000 | 598,562 | 82,562 |
| Jefferson County Co-Op | 1,000 | 753 | (247) |
| Emergency Management | - | 40,278 | 40,278 |
| Birmingham Regional Planning Commission | 16,500 | 16,611 | 111 |
| Liability and Property | 600,000 | 810,379 | 210,379 |
| Legal Claims | 250,000 | 33,967 | (216,033) |
| Legal Fees | 15,000 | 349 | (14,651) |
| Legal Advertising | 15,000 | 12,445 | (2,555) |
| Building and Equipment Maintenance | 165,000 | 106,798 | (58,202) |
| Alagasco | 20,000 | 1,553 | (18,447) |
| Electricity | 15,000 | 126,691 | 111,691 |
| Water | 35,000 | 166,048 | 131,048 |
| Telephone | 50,000 | 48,359 | (1,641) |
| Elevator Service | 2,000 | 4,853 | 2,853 |
| Engineering Services | 250,000 | 698,173 | 448,173 |
| Appraisal Fees | 500 | - | (500) |
| Dues and Subscription | 10,000 | 12,092 | 2,092 |
| Postage and Printing | 20,000 | 20,898 | 898 |
| Computer Software | 245,000 | 30,795 | (214,205) |
| Administrative Car | 3,000 | 3,393 | 393 |
| General Services | 38,700 | 58,380 | 19,680 |
| Bank Analysis Service | 30,000 | 37,501 | 7,501 |
| Capital Equipment Administration | - | 223,711 | 223,711 |
| Storm Water Fee | 7,000 | - | (7,000) |
| Employee Assistant Plan | 9,000 | 8,841 | (159) |
| Administration Expense | 25,000 | 98,224 | 73,224 |
| Administration Cellular Phone | - | 7,772 | 7,772 |
| Camp Bessemer Supplies | - | 131,726 | 131,726 |
| Tax Rebate Agreements | 905,000 | 788,621 | (116,379) |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

General Fund – Statement of Revenues, Expenditures, and Encumbrances – Budget to Actual – Continued
For the Year Ended September 30, 2018

| EXPENDITURES AND ENCUMBRANCES | <u>Final Budget</u> | <u>Actual</u> | <u>Over (Under)</u> |
|--|----------------------------|----------------------|----------------------------|
| General Government – Continued | | | |
| Non-Departmental – Continued | | | |
| Advertising | 55,000 | - | (55,000) |
| Pipeshop Community | 250,000 | 807 | (249,193) |
| Council Attorney Fees | - | 19,850 | 19,850 |
| Credit Card Processing Fee | 1,000 | 1,752 | 752 |
| Living Legend Awards | 3,000 | 2,946 | (54) |
| Election | - | 46,895 | 46,895 |
| Clastran | 30,000 | 30,000 | - |
| Not for Profit Contracts | 100,000 | 90,000 | (10,000) |
| Pension | - | (3,682) | (3,682) |
| Transfer to Other Funds | <u>1,363,138</u> | <u>2,004,511</u> | <u>641,373</u> |
| Total General Government | <u>12,615,390</u> | <u>13,509,452</u> | <u>894,062</u> |
| TOTAL EXPENDITURES AND ENCUMBRANCES | <u>\$ 56,197,265</u> | <u>\$ 57,005,011</u> | <u>\$ 807,746</u> |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Statement of Fund Net Position

Proprietary Funds

As of September 30, 2018

| | Bessemer Electric Service | Bessemer Water Service | Civic Center | Total Proprietary Funds |
|--|---------------------------------|------------------------------|------------------|-------------------------------|
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash on Deposit | \$ 9,985,948 | \$ 5,569,786 | \$ 24,466 | \$ 15,580,200 |
| Cash on Deposit – Restricted | 1,797,321 | 1,678,112 | - | 3,475,433 |
| Certificates of Deposit – Restricted | 54,230 | - | - | 54,230 |
| Investments – Restricted | - | 10,636,965 | - | 10,636,965 |
| Accounts Receivable | 3,108,964 | - | - | 3,108,964 |
| Merchandising, Jobbing, and Other Receivables | - | 2,381,266 | - | 2,381,266 |
| Due from Other Funds | 4,845,898 | 5,132,036 | - | 9,977,934 |
| Materials and Supplies | 316,518 | 957,034 | - | 1,273,552 |
| Prepaid Expenses | 259,294 | 7,271 | - | 266,565 |
| TOTAL CURRENT ASSETS | 20,368,173 | 26,362,470 | 24,466 | 46,755,109 |
| CAPITAL ASSETS | | | | |
| Land Held for Future Use | 291,359 | 80,495 | - | 371,854 |
| Construction in Progress | 225,631 | - | - | 225,631 |
| Buildings and Capital Facilities | 45,593,412 | 48,570,352 | 3,812,594 | 97,976,358 |
| Less Accumulated Depreciation | (23,024,035) | (20,402,796) | (3,799,696) | (47,226,527) |
| TOTAL CAPITAL ASSETS, NET | 23,086,367 | 28,248,051 | 12,898 | 51,347,316 |
| TOTAL ASSETS | 43,454,540 | 54,610,521 | 37,364 | 98,102,425 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred Outflows Related to Pension Liability | 863,421 | 1,169,265 | - | 2,032,686 |
| Deferred Charge on Refunding of Debt | 440,716 | 879,957 | - | 1,320,673 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 1,304,137 | 2,049,222 | - | 3,353,359 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 44,758,677 | \$ 56,659,743 | \$ 37,364 | \$ 101,455,784 |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Statement of Fund Net Position – Continued

Proprietary Funds

As of September 30, 2018

| | Bessemer Electric Service | Bessemer Water Service | Civic Center | Total Proprietary Funds |
|---|---------------------------------|------------------------------|------------------|-------------------------------|
| LIABILITIES | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts Payable and Accrued Expenses | \$ 6,008,262 | \$ 6,830,389 | \$ 95 | \$ 12,838,746 |
| Current Maturities of Revenue Warrants | 445,000 | 480,000 | - | 925,000 |
| Capital Lease Obligation | 41,879 | - | - | 41,879 |
| Compensated Absences | 95,376 | 119,200 | - | 214,576 |
| Due to Other Funds | 9,800,215 | 766,407 | 482,479 | 11,049,101 |
| TOTAL CURRENT LIABILITIES | 16,390,732 | 8,195,996 | 482,574 | 25,069,302 |
| NONCURRENT LIABILITIES | | | | |
| Revenue Warrants | 8,478,554 | 28,864,869 | - | 37,343,423 |
| Capital Lease Obligation | 184,009 | - | - | 184,009 |
| Compensated Absences | 500,727 | 625,802 | - | 1,126,529 |
| Net Pension Obligation | 4,226,399 | 6,093,878 | - | 10,320,277 |
| OPEB Liability | 847,704 | 1,222,271 | - | 2,069,975 |
| Other Liabilities | 1,361,143 | - | - | 1,361,143 |
| TOTAL LIABILITIES | 31,989,268 | 45,002,816 | 482,574 | 77,474,658 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred Amount on Pension | 177,696 | 256,213 | - | 433,909 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 177,696 | 256,213 | - | 433,909 |
| NET POSITION | | | | |
| Invested in Capital Assets | 13,183,489 | 11,763,051 | 12,898 | 24,959,438 |
| Restricted | 1,851,552 | 12,315,077 | - | 14,166,629 |
| Unrestricted | (2,443,328) | (12,677,414) | (458,108) | (15,578,850) |
| TOTAL NET POSITION | 12,591,713 | 11,400,714 | (445,210) | 23,547,217 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | \$ 44,758,677 | \$ 56,659,743 | \$ 37,364 | \$ 101,455,784 |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

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

Proprietary Funds

For the Year Ended September 30, 2018

| | Bessemer Electric Service | Bessemer Water Service | Civic Center | Total Proprietary Funds |
|---|---------------------------------|------------------------------|---------------------|-------------------------------|
| OPERATING REVENUES | | | | |
| Service Fees | \$ 32,729,191 | \$ 21,332,762 | \$ 233,622 | \$ 54,295,575 |
| Other | 191,263 | 85,734 | - | 276,997 |
| TOTAL OPERATING REVENUES | 32,920,454 | 21,418,496 | 233,622 | 54,572,572 |
| OPERATING EXPENSES | | | | |
| Direct Cost of Services | 24,921,899 | 7,297,102 | 390,991 | 32,609,992 |
| Power and Pumping | - | 525,418 | - | 525,418 |
| Distribution - Operations and Maintenance | 3,280,768 | 5,207,895 | - | 8,488,663 |
| Customer Accounting and Collection | 1,252,522 | 1,006,622 | - | 2,259,144 |
| Bad Debt Expense | - | 209,711 | - | 209,711 |
| Administrative and General | 1,931,688 | 2,127,990 | - | 4,059,678 |
| Depreciation and Amortization | 936,800 | 786,893 | 76,252 | 1,799,945 |
| Tax Equivalents | 1,000,000 | 171,232 | - | 1,171,232 |
| Payroll Taxes | 191,501 | 226,560 | - | 418,061 |
| Debt Issuance Costs | - | 583,465 | - | 583,465 |
| TOTAL OPERATING EXPENSES | 33,515,178 | 18,142,888 | 467,243 | 52,125,309 |
| OPERATING INCOME (LOSS) | (594,724) | 3,275,608 | (233,621) | 2,447,263 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest Income | 48,494 | 113,376 | 20 | 161,890 |
| Interest Expense | (342,319) | (1,154,647) | - | (1,496,966) |
| Bond Related Amortization | (43,299) | 17,776 | - | (25,523) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | (337,124) | (1,023,495) | 20 | (1,360,599) |
| CHANGE IN NET POSITION | (931,848) | 2,252,113 | (233,601) | 1,086,664 |
| NET POSITION - BEGINNING OF YEAR | 17,285,480 | 19,207,568 | (211,609) | 36,281,439 |
| RESTATEMENT | (3,761,919) | (10,058,967) | - | (13,820,886) |
| NET POSITION - END OF YEAR | \$ 12,591,713 | \$ 11,400,714 | \$ (445,210) | \$ 23,547,217 |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2018

| | Bessemer Electric Service | Bessemer Water Service | Civic Center | Total Proprietary Funds |
|---|---------------------------------|------------------------------|------------------|-------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash Received from Customers | \$ 31,795,757 | \$ 21,271,612 | \$ 233,622 | \$ 53,300,991 |
| Cash Payments to Employees | (2,658,574) | (2,340,737) | - | (4,999,311) |
| Cash Payments to Suppliers | <u>(28,583,099)</u> | <u>(12,643,889)</u> | <u>(228,324)</u> | <u>(41,455,312)</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | 554,084 | 6,286,986 | 5,298 | 6,846,368 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Proceeds from Issuance Capital Lease | 276,334 | - | - | 276,334 |
| Principal Payments on Capital Lease | (79,326) | - | - | (79,326) |
| Proceeds from Issuance Series 2017 Bonds | - | 26,588,628 | - | 26,588,628 |
| Principal Payments on Revenue Warrants | (430,000) | (21,586,469) | - | (22,016,469) |
| Interest Paid | <u>(343,602)</u> | <u>(1,121,057)</u> | <u>-</u> | <u>(1,464,659)</u> |
| NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | (576,594) | 3,881,102 | - | 3,304,508 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Purchase of Property, Plant, and Equipment | - | (611,123) | - | (611,123) |
| Investment in/sale of Restricted Accounts | - | (8,795,181) | - | (8,795,181) |
| Interest Received | <u>48,494</u> | <u>113,376</u> | <u>20</u> | <u>161,890</u> |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>48,494</u> | <u>(9,292,928)</u> | <u>20</u> | <u>(9,244,414)</u> |
| NET INCREASE (DECREASE) IN CASH | 25,984 | 875,160 | 5,318 | 906,462 |
| CASH – BEGINNING OF YEAR | <u>11,757,285</u> | <u>6,372,738</u> | <u>19,148</u> | <u>18,149,171</u> |
| CASH – END OF YEAR | <u>\$ 11,783,269</u> | <u>\$ 7,247,898</u> | <u>\$ 24,466</u> | <u>\$ 19,055,633</u> |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA
Statement of Cash Flows – Continued
Proprietary Funds
For the Year Ended September 30, 2018

| | Bessemer Electric Service | Bessemer Water Service | Civic Center | Total Proprietary Funds |
|--|---------------------------------|------------------------------|------------------|-------------------------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | |
| Operating Income (Loss) | \$ (594,724) | \$ 3,275,608 | \$ (233,621) | \$ 2,447,263 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | | | |
| Depreciation and Amortization | 936,800 | 786,893 | 76,252 | 1,799,945 |
| Bad Debt Adjustment | - | 209,711 | - | 209,711 |
| Changes in Assets and Liabilities | | | | |
| (Increase) Decrease in Accounts Receivable | (1,124,697) | - | - | (1,124,697) |
| (Increase) Decrease in Prepaid Expenses | (22,945) | - | - | (22,945) |
| (Increase) Decrease in Due to/from Other Funds | (245,567) | 1,257,655 | 432,970 | 1,445,058 |
| (Increase) Decrease in Inventories | 64,191 | (390,046) | - | (325,855) |
| (Increase) Decrease in Other Assets | - | (146,884) | - | (146,884) |
| (Increase) Decrease in Deferred Outflows | 86,482 | 92,637 | - | 179,119 |
| Increase (Decrease) in Accounts Payable | 1,093,126 | 306,602 | (270,303) | 1,129,425 |
| Increase (Decrease) in Other Liabilities | 183,722 | 638,597 | - | 822,319 |
| Increase (Decrease) in Deferred Inflows | 177,696 | 256,213 | - | 433,909 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 554,084 | \$ 6,286,986 | \$ 5,298 | \$ 6,846,368 |
| CASH – END OF YEAR SHOWN ON THE STATEMENT OF FUND NET POSITION UNDER THE FOLLOWING CAPTIONS: | | | | |
| Cash on Deposit | \$ 9,985,948 | \$ 5,569,786 | \$ 24,466 | \$ 15,580,200 |
| Cash on Deposit – Restricted | 1,797,321 | 1,678,112 | - | 3,475,433 |
| CASH – END OF YEAR | \$ 11,783,269 | \$ 7,247,898 | \$ 24,466 | \$ 19,055,633 |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Statement of Net Position – Component Units

September 30, 2018

| | Governmental Utility Services Corp | Bessemer Airport Authority | Total Component Units |
|---|--|----------------------------------|-----------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and Investments | \$ 177,425 | \$ 432,711 | \$ 610,136 |
| Accounts Receivable – Net of Allowances for Uncollectible Accounts | 266,586 | 64,822 | 331,408 |
| Inventory | - | 35,142 | 35,142 |
| Other Current Assets | 58,298 | 13,546 | 71,844 |
| Capital Assets | | | |
| Land | 639,576 | 2,433,777 | 3,073,353 |
| Construction in Progress | 334,519 | 35,644 | 370,163 |
| Building and Capital Facilities | 47,102,604 | 1,582,222 | 48,684,826 |
| Furniture and Equipment | 726,369 | 120,657 | 847,026 |
| Infrastructure | - | 1,797,802 | 1,797,802 |
| Accumulated Depreciation | (17,224,199) | (2,628,744) | (19,852,943) |
| Restricted Assets | | | |
| Cash and Investments | 5,321,966 | - | 5,321,966 |
| TOTAL ASSETS | 37,403,144 | 3,887,579 | 41,290,723 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred Outflows Related to Pension Liability | 189,458 | - | 189,458 |
| Deferred Charge on Refunding of Debt | 1,429,432 | - | 1,429,432 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 1,618,890 | - | 1,618,890 |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Statement of Net Position – Component Units – Continued

September 30, 2018

| | Governmental Utility Services Corp | Bessemer Airport Authority | Total Component Units |
|---|--|----------------------------------|-----------------------------|
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts and Vouchers Payable | 190,238 | 99,006 | 289,244 |
| Accrued Expenses | 769,060 | 5,255 | 774,315 |
| Unearned Revenue | - | 22,106 | 22,106 |
| Current Portion of Long-Term Debt | 1,380,000 | 33,870 | 1,413,870 |
| Noncurrent Liabilities | | | |
| Net Pension Liability | 164,780 | - | 164,780 |
| Bonds and Notes Payable | 52,961,152 | 611,023 | 53,572,175 |
| TOTAL LIABILITIES | 55,465,230 | 771,260 | 56,236,490 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Net Difference Between Projected and Actual Earnings on Plan Investments | 18,698 | - | 18,698 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 18,698 | - | 18,698 |
| NET POSITION | | | |
| Invested in Capital Assets | (22,762,283) | 2,696,465 | (20,065,818) |
| Restricted | 4,568,042 | - | 4,568,042 |
| Unrestricted | 1,732,347 | 419,854 | 2,152,201 |
| TOTAL NET POSITION | <u>\$ (16,461,894)</u> | <u>\$ 3,116,319</u> | <u>\$ (13,345,575)</u> |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Statement of Activities – Component Units

For the Year Ended September 30, 2018

| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Net (Expenses) Revenue and Changes in Net Position</u> |
|------------------------------------|---------------------|---------------------------------|---|---|---|
| Governmental Utility Services Corp | \$ 7,929,813 | \$ 7,276,401 | \$ - | \$ - | \$ (653,412) |
| Bessemer Airport Authority | <u>1,704,107</u> | <u>1,226,309</u> | <u>273,514</u> | <u>-</u> | <u>(204,284)</u> |
| Total Component Units | <u>\$ 9,633,920</u> | <u>\$ 8,502,710</u> | <u>\$ 273,514</u> | <u>\$ -</u> | <u>(857,696)</u> |
| GENERAL REVENUES | | | | | |
| | | | | | 80,275 |
| | | | | | 60,000 |
| | | | | | <u>450</u> |
| | | | | | <u>140,725</u> |
| | | | | | (716,971) |
| | | | | | <u>(12,628,604)</u> |
| | | | | | <u>\$ (13,345,575)</u> |

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Bessemer, Alabama (the “City”), is a municipal corporation that was incorporated in 1888. The City operates under the Mayor-Council form of government as provided by Act No. 89-750 Regular Session of the Alabama Legislature and is comprised of a Mayor who is elected at large and a seven-member council that is elected by district.

The financial statements of the City have been presented in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the City’s accounting policies are described below.

Reporting Entity

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, as well as component units, which are legally separate organizations for which elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit’s board by the primary government and either:
 - a) the ability of the primary government to impose its will on the organization, or
 - b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Blended Component Units – Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City’s or the component unit provides services entirely to the City. These component units’ funds are blended into those of the City’s by appropriate activity type to compose the primary government presentation.

Discretely Presented Component Units – Discretely presented component units are separate legal entities that meet the component unit criteria described above, but do not meet the criteria for blending.

Included in the primary government are the City of Bessemer Electric Service Department and the City of Bessemer Water Service Department (the “Utilities”). The management of the Utilities is selected by the Mayor. Separate financial statements for each of the Utilities are issued presenting the financial position, changes in financial position, and cash flows for each of the Utilities for the annual periods ending on their respective fiscal year-ends. The financial statements of the City include the fiscal year ended June 30, 2018, for the Electric Service Department and September 30, 2018, for the Water Service Department.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reporting Entity – Continued

The City includes the Bessemer Public Library (the “Library”) as a blended component unit. Although the Library possesses many characteristics of a legally separate government, all capital assets and related debt for the library are included in the City’s accounts. In addition, appropriations from the City and a 3.5 mill City ad valorem tax collected make up approximately 91 percent of the Library’s cash receipts. A board of five trustees governs the Library. The Bessemer City Council appoints the trustees for four-year terms. The terms should overlap so that at least one trustee is appointed or re-appointed each year. Complete financial statements as of September 30, 2018, for the Library may be obtained at the following administrative office:

Bessemer Public Library
400 19th Street North
Bessemer, Alabama 35020

The City’s discretely presented component units are presented in total in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. The City’s discretely presented component units consist of the following:

- Governmental Utility Services Corporation (GUSC) – the GUSC is a three-member board appointed by the City and is a public corporation under the provisions of the code of Alabama. The GUSC’s fiscal year ends on September 30.
- Bessemer Airport Authority (BAA) – the BAA is a four-member board appointed by the City and is a public corporation under the provisions of the code of Alabama. The BAA’s fiscal year ends on September 30.

Complete financial statements or other financial information as of September 30, 2018, for the discretely presented component units may be obtained at the following administrative offices:

Governmental Utility Services Corporation
1700 Third Avenue North
Bessemer, Alabama 35020

Bessemer Airport Authority
900 Mitchell Field Rd SE
Bessemer, Alabama 35022

Related Organizations

The City is also responsible for appointing a voting majority of the boards of other organizations but the City’s financial accountability for these organizations does not extend beyond making the appointments. The City appointed a voting majority of the Industrial Development Board, the Public Building Authority, and the Bessemer Housing Authority. These organizations are related organizations that have not been included in the reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements of the City consist of the statement of net position and the statement of activities for all of the non-fiduciary activities of the City (primary government) and its four component units. For the most part, the effect of inter-fund activity has been removed from these statements. The statements report separately the governmental activities and business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues, whereas business-type activities rely to a significant extent on fees and charges for support. The City as the primary government is reported separately from its four legally separate component units.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-Wide and Fund Financial Statements – Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Amounts reported as program revenues include 1) charges to customers for services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes and other items not properly included among program revenues.

Included in this report are separate financial statements for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, sales taxes, use taxes, occupational taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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

Subsequent events were evaluated through June 24, 2019, the date the financial statements were available to be issued.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund and Accounting Entity

A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained which is consistent with legal and managerial requirements.

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

The Debt Service Fund is treated as a major fund and accounts for and reports financial resources that are restricted, committed, or assigned to expenditures for the payment of interest, principal, and related costs on the long-term general and limited obligation debt.

The City reports the following major proprietary funds:

The Bessemer Electric Service accounts for the operations of the Bessemer Electric Service Department.

The Bessemer Water Service accounts for the operations of the Bessemer Water Service Department.

The Bessemer Civic Center accounts for the operations of the Bessemer Civic Center.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City elected to apply Financial Accounting Standards Board (FASB) pronouncements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Utilities and the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

For purposes of the Statement of Cash Flows for all proprietary funds, the City considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund and Accounting Entity – Continued

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council or the official or other body has provided otherwise in its commitment or assignment actions.

Reclassifications

Certain prior year's data presented in the financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on total assets, change in net position, or cash flows.

Deposits and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City. State statutes authorize the City to invest in U.S. government obligations, U.S. government agency obligations, U.S. corporate stock, U.S. debt, State of Alabama obligations, county obligations, and other municipal obligations.

Investments for the City, as well as for its component units, are reported at fair value, market value, or best available estimates. Short-term investments are reported at cost, which approximates market value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. All investments have established markets to determine their fair value.

Taxes Receivable

All property taxes levied by the State, County, and City in Jefferson County, Alabama, are assessed by the Jefferson County Tax Assessor and collected by their tax collectors. The property tax calendars specify the following actions and dates:

| | |
|------------------------|------------------------|
| Levy (assessment date) | September 30 |
| Lien Date | October 1 |
| Due Date | October 1 |
| Collection Dates | October to December 31 |
| Delinquent Date | January 1 |

Tax collections are remitted to the City on a monthly basis. All amounts remitted to the City within the bill paying period are included in revenue. Taxes collected within the fiscal year but remitted to the City after year-end are accrued in both the government-wide and fund financial statements.

Short-Term Inter-Fund Receivables/Payables

During the course of normal operations, the City has numerous transactions between funds to provide services, construct assets, service debt, etc. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other funds" or "due to other funds" (i.e., the current portion of inter-fund loans) or "advances from other funds" or "advances to other funds" (i.e., the noncurrent portion of inter-fund loans). These amounts have been eliminated in the government-wide financial statements except for those amounts outstanding at year-end between the general fund and the proprietary funds.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Inventory

Inventory is valued using the first-in, first-out method. Inventory consists of expendable supplies held in the General Fund for consumption. The cost is recorded as an expenditure at the time individual inventory items are used (consumption method). Materials and supplies inventories in the business-type activities are stated at the lower of average cost or market.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets other than infrastructure are defined by the City as the items with an estimated useful life of three years or more and an individual cost in excess of \$5,000. Capital assets are recorded at cost where historical cost is available or at estimated historical cost if actual cost was not available. Donated capital assets are recorded at their estimated fair value at the time of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Upon sale or retirement of property, buildings, furniture, and other equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|---------------------------------|--------------|
| Building and Capital Facilities | 50 |
| Furniture and Other Equipment | 3 – 20 |
| Infrastructure | 25 – 50 |

The City recognizes the intrinsic value of historical works and collections. As such, the City has adopted a policy that these items will not be capitalized and subject to depreciation. Should the sale of any of the items occur, the City is committed to using the funds generated from the sale to purchase similar other collectibles.

Compensated Absences

Compensated absences have been accounted for in accordance with GASB Statement No. 16, Accounting for Compensated Absences.

Vacation leave is earned on graduated rates based on the employee's length of service (one day per month of service, initially) and up to forty days of unused leave may be carried over to the following year. After one year of service, an employee is eligible to receive up to 40 days of accrued vacation leave upon separation of service if they leave the City in good standing. Vacation pay is accrued when incurred in the government-wide financial statements and as of September 30, 2018, totaled \$2,296,896.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Compensated Absences – Continued

Sick leave is earned at a rate of one day per month of service. After five years of service, an employee is eligible to receive up to 75 days of accrued sick leave (100% of the first 60 days of accrued sick leave and 50% of the next 30 days of accrued sick leave) upon separation of service if they leave the City in good standing. Sick leave is accrued when incurred in the government-wide financial statements for those employees that meet the longevity requirements and is limited to the maximum days eligible for payment upon separation of service. Sick leave is accrued when incurred in the government-wide financial statements and as of September 30, 2018, totaled \$3,707,489.

It is necessary for various departments of the City to operate on a 24-hour basis regardless of weather or holidays. It has been the City's policy to allow those employees that work in those departments to accrue hours of holiday leave time and miscellaneous overtime leave with no cap. At various times, the City has approved lump sum payments of this accrued compensation, but this is on a discretionary basis. Upon separation of service from the City, employees are entitled to receive payment for any accrued compensation related to holiday leave or miscellaneous overtime leave. Holiday leave time and miscellaneous overtime leave is accrued when incurred in the government-wide financial statements and as of September 30, 2018, totaled \$1,195,381.

The recordkeeping for compensated absences is handled by each department and the value of compensated absences is based on the reported hours accrued at the current hourly rate for each employee. It is reasonably possible that the actual amount paid for compensated absences will be different than the estimated value of accrued compensated absences.

Long-Term Obligations

In the government-wide financial statements and for the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium and discount. In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, debt issuance costs are reported as general government expenditures.

In the fund financial statements, the bond discounts and issuance costs have been recognized in the current period. The face amount of the new debt issued along with related premiums and discounts are reported as other financing sources and uses. In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, debt issuance costs are reported as general government expenditures.

Equity Classification

In the government-wide statements, equity is classified as net position and displayed in three components: (a) Invested in capital assets – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets; (b) Restricted net position – consists of net position with constraints placed on its use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional or enabling legislation; (c) Unrestricted net position – consists of all other net position that does not meet the definition of "restricted" or "invested in capital assets."

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Equity Classification – Continued

The City follows the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the City itself by ordinance or resolution enacted by the City Council. To be reported as committed, amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed.

Assigned fund balance – amounts the City intends to use for a specific purpose that are neither restricted nor committed. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

Unassigned fund balance – amounts that are available for any purpose. The General Fund is the only fund that will report a positive unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the policy of the City to generally consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the City that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts. In both instances, when a proposed expenditure is made with specific balances identified as the source of the funding, that specific fund balance will be used.

Budgetary Comparisons

Under GASBS No. 34, budgetary comparison information is required to be presented for the General Fund and each major special revenue fund with a legally adopted budget. The City adopted a general fund budget. Budget comparison information for the general fund is included in the City's basic financial statements.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The City adopts a General Fund budget annually. Other funds are budgeted as needed.

1. During the month of July:
 - a. Department heads submit budget requests, both operating and capital to the Mayor.
 - b. Boards and authorities make written applications to the Mayor for appropriations.
 - c. Outside agencies make written requests for appropriations and are also recognized at an open Council meeting to publicly make their petition.
 - d. Public meetings are called concerning budgeting for restricted funds such as Community Development.
2. The Finance Director/Treasurer prepares an estimated revenue budget and an estimated expenditures budget based on prior year's operations, budget year requests, and general business outlook.
3. The Mayor, Council, and Finance Director/Treasurer meet with department heads, representatives of Boards and Authorities, and any interest group that is concerned with such budget meetings. A General Fund Budget is completed that meets requirements of State Law, in that budget expenditures cannot exceed available revenues.
4. Prior to the first Council meeting in October, the approved budget is presented in "Ordinance" form at a regular Council meeting. This budget is read and explained in detail and is open for discussion. Upon its adoption, the budget becomes law and cannot be changed by an ordinance amending such budget.
5. Legally adopted annual budgets are not prepared on Special Revenue Funds; consequently, there are no statements of revenue and expenditures, budget and actual, for these funds. However, budgets for them are adopted on an individual project basis. Budgets are not prepared for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation indenture provisions.
6. The General Fund operating budget is controlled at the level of authority of each departmental function. Line item adjustments may be made within each departmental function, but expenditures may not exceed budget in any area of responsibility without approval of the Mayor and this only with an anticipated increase in revenues or through a reduction in other costs. All appropriations approved for the current year's operating budget lapse at year-end.

The budget is integrated into the accounting system. The budgetary data, as presented in the financial statements for all funds with annual budgets, compares the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule for the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States of America on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 3 – DEPOSITS IN FINANCIAL INSTITUTIONS

Demand Deposits and Custodial Credit Risk

The City's demand deposits, certificates of deposit, and money market investments at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the Code of Alabama 1975, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

Trustee Held Funds

The City maintains trustee accounts required by the bond indentures which hold cash and are invested primarily in U.S. government obligations, U.S. agencies, and instrumentalities.

Interest Rate Risk

In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio outside of trustee held funds to less than ten months.

Concentration of Credit Risk

The City's investment policy does not allow investments outside of trustee held funds for investment in any one issuer that is in excess of five percent of the total investments. Investments in U.S. Treasury Reserves and other U.S. Treasury Obligations make up 100 percent of the City's investments.

| <u>Investments (All within Trustee Held Funds)</u> | <u>Credit Rating</u> | <u>Maturity</u> | <u>Fair Value</u> |
|--|----------------------|-----------------|----------------------|
| Governmental Activities | | | |
| Federated U.S. Treasury Reserves | AAAm, AAA | 1 – 90 days | \$ <u>659,368</u> |
| Total | | | \$ <u>659,368</u> |
| Business-type Activities | | | |
| Federal U.S. Treasury Obligations | AA+, AAA | Various | \$ <u>10,636,965</u> |
| Total | | | \$ <u>10,636,965</u> |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 3 – DEPOSITS IN FINANCIAL INSTITUTIONS – CONTINUED

Fair Value Measurement

Deposits and investments are reported at fair value which is the amount at which financial instruments could be exchanged in a current transaction between willing parties. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the City's investments are level 1 inputs.

Deposits and investments have been reported as either cash and cash equivalents, certificates of deposit or as investments as follows in the financial statements:

| | |
|--------------------------------|----------------------|
| Reported in governmental funds | \$ 17,503,448 |
| Reported in proprietary funds | <u>29,746,828</u> |
| Total reported | \$ <u>47,250,276</u> |
| Disclosed as deposits | \$ 35,953,943 |
| Disclosed as investments | <u>11,296,333</u> |
| Total reported | \$ <u>47,250,276</u> |

NOTE 4 – ACCOUNTS RECEIVABLE

Governmental Activities

Accounts receivable consists of various taxes and grants receivable. All amounts are considered collectable by the City and as such no allowance for doubtful accounts has been recorded.

Business-type Activities

Bessemer Electric Service bills and collects from customers for services provided by the Electric Service and Bessemer Water Service. At June 30, 2018, the Electric Service customer receivables totaled approximately \$8,631,830 and the allowance for doubtful accounts was \$5,522,866. At September 30, 2018, the Water Service customer receivables totaled approximately \$22,383,440 and the allowance for doubtful accounts was \$17,251,404.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2018, was as follows:

Primary Government

| | <u>Balance 10/1/17</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance 9/30/18</u> |
|--|----------------------------|---------------------|---------------------|----------------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 1,325,177 | \$ - | \$ - | \$ 1,325,177 |
| Property Held for Resale | - | 256,552 | - | 256,552 |
| Construction in Progress | <u>1,643,953</u> | <u>6,106,555</u> | <u>1,619,428</u> | <u>6,131,080</u> |
| Total Capital Assets, Not Being Depreciated | <u>2,969,130</u> | <u>6,363,107</u> | <u>1,619,428</u> | <u>7,712,809</u> |
| Capital Assets, Being Depreciated | | | | |
| Building and Capital Facilities | 35,690,336 | - | - | 35,690,336 |
| Furniture and Other Equipment | 19,429,090 | 1,443,822 | - | 20,872,912 |
| Infrastructure | <u>31,841,610</u> | <u>1,619,428</u> | - | <u>33,461,038</u> |
| Total Capital Assets, Being Depreciated | <u>86,961,036</u> | <u>3,063,250</u> | - | <u>90,024,286</u> |
| Less Accumulated Depreciation: | | | | |
| Building and Capital Facilities | 3,542,440 | 729,039 | - | 4,271,479 |
| Furniture and Other Equipment | 11,955,641 | 1,176,284 | - | 13,131,925 |
| Infrastructure | <u>11,313,247</u> | <u>1,147,064</u> | - | <u>12,460,311</u> |
| Total Accumulated Depreciation | <u>26,811,328</u> | <u>3,052,387</u> | - | <u>29,863,715</u> |
| Net Capital Assets, Being Depreciated | <u>60,149,708</u> | <u>10,863</u> | - | <u>60,160,571</u> |
| Net Capital Assets – Governmental Activities | <u>\$ 63,118,838</u> | <u>\$ 6,373,970</u> | <u>\$ 1,619,428</u> | <u>\$ 67,873,380</u> |

Depreciation expense for governmental activities was charged to governmental functions/programs of the City as follows:

| | |
|--|---------------------|
| General Government | \$ 1,425,479 |
| Public Safety | 806,380 |
| Public Improvement | 416,195 |
| Cultural and Recreation | <u>404,333</u> |
| Total Depreciation Expense for Governmental Activities | <u>\$ 3,052,387</u> |

During the fiscal year ended September 30, 2014, the City recognized impairment losses for damage caused by a tornado. In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, insurance recoveries during the fiscal year ended September 30, 2014, were used to offset the amount of loss that was recognized. During the fiscal year ended September 30, 2018, a final insurance recovery payment in the amount of \$549,133 was received and recorded as revenues.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 5 – CAPITAL ASSETS – CONTINUED

| | <u>Balance 10/1/17</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance 9/30/18</u> |
|---|----------------------------|---------------------|---------------------|----------------------------|
| Business-Type Activities | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 371,854 | \$ - | \$ - | \$ 371,854 |
| Construction in Progress | <u>8,283,506</u> | <u>1,166,975</u> | <u>9,224,850</u> | <u>225,631</u> |
| Total Capital Assets, Not Being Depreciated | 8,655,360 | 1,166,975 | 9,224,850 | 597,485 |
| Capital Assets, Being Depreciated | | | | |
| Building and Capital Facilities | 4,995,906 | 31,592 | - | 5,027,498 |
| Plant and Equipment | 83,956,094 | 1,192,415 | - | 85,148,509 |
| Furniture and Other Equipment | <u>7,164,917</u> | <u>635,434</u> | <u>-</u> | <u>7,800,351</u> |
| Total Capital Assets, Being Depreciated | 96,116,917 | 1,859,441 | - | 97,976,358 |
| Less Accumulated Depreciation: | | | | |
| Building and Capital Facilities | 4,558,304 | 114,395 | - | 4,672,699 |
| Plant and Equipment | 32,107,041 | 1,288,504 | - | 33,395,545 |
| Furniture and Other Equipment | <u>8,761,237</u> | <u>397,046</u> | <u>-</u> | <u>9,158,283</u> |
| Total Accumulated Depreciation | <u>45,426,582</u> | <u>1,799,945</u> | <u>-</u> | <u>47,226,527</u> |
| Net Capital Assets, Being Depreciated | <u>50,690,335</u> | <u>59,496</u> | <u>-</u> | <u>50,749,831</u> |
| Net Capital Assets – Business-Type Activities | <u>\$ 59,345,695</u> | <u>\$ 1,226,471</u> | <u>\$ 9,224,850</u> | <u>\$ 51,347,316</u> |

Depreciation expense for Business-Type activities was charged to Business-Type functions/programs of the City as follows:

| | |
|---|---------------------|
| Water | \$ 786,893 |
| Electric | 936,800 |
| Civic Center | <u>76,252</u> |
| Total Depreciation Expense for Business-Type Activities | <u>\$ 1,799,945</u> |

NOTE 6 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

The inter-fund receivables/payables are recorded to cover the temporary cash shortages in the respective funds. The composition of inter-fund balances as of September 30, 2018, is as follows:

Due to/from Other Funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|-------------------|
| General Fund | Nonmajor Funds | \$ 553,130 |
| Nonmajor Funds | General Fund | 87,406 |
| Nonmajor Funds | Nonmajor Funds | <u>394</u> |
| Total | | <u>\$ 640,930</u> |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 6 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS – CONTINUED

Due to/from Proprietary Funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|-------------------|
| General Fund | Proprietary Funds | \$ <u>482,479</u> |
| Total | | \$ <u>482,479</u> |

The amounts due to/from Bessemer Electric Service and Bessemer Water Service are not eliminated in the financial statements due to the difference in the fiscal year-ends.

During the course of normal operations, the City incurs numerous transactions between funds to provide services, construct assets, service debt, etc. These transactions are generally reported as inter-fund transfers. No expectation of repayment between funds is expected related to these inter-fund transfers.

The composition of inter-fund transfers for the year ended September 30, 2018, is as follows:

| <u>Receiving Fund</u> | <u>Paying Fund</u> | <u>Amount</u> |
|---------------------------------|--------------------|---------------------|
| Debt Service Fund | Nonmajor Funds | \$ 1,080,592 |
| General Fund | Nonmajor Funds | 68,146 |
| Nonmajor Funds | Nonmajor Funds | 1,354,972 |
| Nonmajor Funds | General Fund | 259,564 |
| Debt Service Fund | General Fund | <u>1,744,947</u> |
| Total Fund Financial Statements | | \$ <u>4,508,221</u> |

NOTE 7 – CAPITAL LEASES***Governmental Activities:***

The City has entered into a lease agreement as a lessee for financing the acquisition of two fire engines. The lease agreement qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date for amounts that meet the City's capitalization threshold.

The future minimum lease obligations and the net present value of the minimum lease payments as of September 30, 2018, are as follows:

| <u>Year Ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|-------------------|------------------|-------------------|
| 2019 | \$ 121,487 | \$ 11,613 | \$ 133,100 |
| 2020 | 125,241 | 7,859 | 133,100 |
| 2021 | 129,110 | 3,990 | 133,100 |
| 2022 | - | - | - |
| Thereafter | - | - | - |
| Total | \$ <u>375,838</u> | \$ <u>23,462</u> | \$ <u>399,300</u> |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 7 – CAPITAL LEASES – CONTINUED***Governmental Activities – Continued:***

Assets acquired through capital leases are as follows:

| | |
|--------------------------------|------------------------------------|
| Assets: | <u>Governmental Activities</u> |
| Machinery and Equipment | \$ 946,448 |
| Less: Accumulated Depreciation | <u>(228,725)</u> |
| Total | \$ <u>717,723</u> |

Business-Type Activities:

The Electric Service Department leases equipment under a noncancelable lease expiring October 2, 2023, which meets the criteria for capitalization. The capital lease is financed from general fund resources.

The estimated value of the leased machinery and equipment at the inception of the lease was \$276,334. The related present value of the remaining obligations under the capital lease which totaled \$225,888 at June 30, 2018, is included in the capital assets and long-term liabilities, accordingly.

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2018, are as follows:

| <u>Year Ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|-------------------|------------------|-------------------|
| 2019 | \$ 41,879 | \$ 8,565 | \$ 50,444 |
| 2020 | 43,467 | 6,977 | 50,444 |
| 2021 | 45,115 | 5,329 | 50,444 |
| 2022 | 46,826 | 3,618 | 50,444 |
| 2023 | 48,601 | 1,843 | 50,444 |
| Thereafter | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | \$ <u>225,888</u> | \$ <u>26,332</u> | \$ <u>252,220</u> |

Assets acquired through capital leases are as follows:

| | |
|--------------------------------|-------------------------------------|
| Assets: | <u>Business-Type Activities</u> |
| Machinery and Equipment | \$ 276,334 |
| Less: Accumulated Depreciation | <u>(55,267)</u> |
| Total | \$ <u>221,067</u> |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 8 – OPERATING LEASES

Governmental Activities:

The City leases copier equipment and golf carts under operating leases expiring at various times ranging from December 2019, through June 2022. Upon expiration, the leases may be renewed monthly.

The future minimum rental payments required by operating leases that have initial lease terms in excess of one year as of September 30, 2018, are as follows:

| <u>Year Ending September 30,</u> | <u>Total</u> |
|----------------------------------|-------------------|
| 2019 | \$ 93,282 |
| 2020 | 78,379 |
| 2021 | 47,070 |
| 2022 | 31,000 |
| Thereafter | <u>-</u> |
| Total | \$ <u>249,731</u> |

Rental expenditures for the year ended September 30, 2018, totaled \$85,499.

NOTE 9 – CURRENT AND ADVANCED REFUNDINGS

Bonds are refunded to retire all or a portion of an outstanding bond issue. Most typically, refundings are done to refinance at a lower interest rate to reduce overall debt service. Certain issues of bonds may be refunded prior to the call date, known as an advance refunding.

Future principal and interest payments on refunded bonds have been provided through advance refunding bond issues whereby refunding bonds are issued and the net proceeds, plus any additional resources that may be required, are used to purchase securities issued and guaranteed by the United States government. The City then deposits these securities in an irrevocable trust under an escrow agreement which states that all proceeds from the trust will be used to fund the principal and interest payments of the previously issued debt being refunded. The trust deposits have been computed so that the securities in the trust, along with future cash flows generated by the securities, will be sufficient to service the previously issued bonds.

Governmental Activities

During the year ended September 30, 2014, the City issued bonds to refinance the majority of its outstanding bond issues through current and advanced refundings. Below is a summary of the City's refunding activity:

General Obligation Warrants Series 2013-A were issued on November 6, 2013, for \$5,960,000 to refund the General Obligation Warrants Series 1999 principal amount of \$6,225,000. The difference between the cash flows required to service the old debt and that required to service the new debt and complete the refunding was \$1,147,009. The economic gain on refunding was \$980,449.

Limited Obligation Gasoline Tax Warrants Series 2013-B were issued on December 19, 2013, for \$2,225,000 to refund the Limited Obligation Gasoline Tax Warrants Series 2002 principal amount of \$2,335,000. The difference between the cash flows required to service the old debt and that required to service the new debt and complete the refunding was \$629,548. The economic gain on refunding was \$341,000.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 9 – CURRENT AND ADVANCED REFUNDINGS – CONTINUED

Governmental Activities – Continued

General Obligation Warrants Academy Drive and TIF District Series 2013-C were issued on December 30, 2013, for \$13,795,000 to refund the Tax Increment Financing District 1 Revenue Warrants Series 2004 principal amount of \$2,705,000 and the District's Limited Obligation Revenue Bonds Series 2003 principal amount of \$11,560,000. The difference between the cash flows required to service the old debt and that required to service the new debt and complete the refunding was \$3,339,079. The economic gain on refunding was \$2,418,595.

General Obligation Warrants Series 2014-D were issued on February 25, 2014, for \$20,825,000. The City used the net proceeds to purchase U.S. government securities that were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the Limited Obligation Warrants Series 2007. As a result, \$17,180,000 of the Series 2007 Warrants are considered defeased and the City has removed the liability from its accounts. The bonds were fully redeemed on February 1, 2017. The difference between the cash flows required to service the old debt and that required to service the new debt and complete the refunding was \$1,987,307. The economic gain on refunding was \$1,364,416.

General Obligation Warrants Series 2014-E were issued on July 24, 2014, for \$7,070,000. The City used the net proceeds to purchase U.S. government securities that were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the General Obligation Warrants Series 2005. As a result, \$6,520,000 of the Series 2005 Warrants are considered defeased and the City has removed the liability from its accounts. The bonds were fully redeemed at 101% on February 1, 2015. The difference between the cash flows required to service the old debt and that required to service the new debt and complete the refunding was \$866,035. The economic gain on refunding was \$618,041.

Business-Type Activities

Electric Revenue Refunding Warrants Series 2011 were issued on September 1, 2011, for \$11,985,000. The Utilities used the net proceeds to purchase U.S. government securities that were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the Series 1998, 1999, and 2003 Electric Revenue warrants. As a result, \$820,000 of the Series 1998, \$2,830,000 of Series 1999, and \$6,860,000 of Series 2003 Electric Revenue Warrants are considered defeased and the Utilities has removed the liability from its accounts. The bonds were fully redeemed on December 1, 2011. The difference between the cash flows required to service the old debt and that required to service the new debt and complete the refunding was \$17,233. The economic gain on refunding was \$1,964,440.

Water Revenue Warrants Series 2017 were issued on December 28, 2017, for \$27,455,000. The Series 2017 Warrants were issued to: a) refund all the outstanding Series 2008 Water Revenue Warrants, b) finance the cost of improvements, and c) pay the cost of issuing the Series 2017 Warrants. As a result, \$21,000,000 of the Series 2008 Warrants are considered defeased and the Water Service has removed the liability from its accounts. The Series 2008 Water Revenue Warrants were fully redeemed on January 22, 2018. The difference between the cash flows required to service the old debt and that required to service the new debt and complete the refunding was \$578,659. The economic loss on refunding was \$2,784,253.

Deferred and amortized amounts on the City's bond refundings (which are reported as deferred inflows or deferred outflows of resources) at September 30, 2018, are summarized below. Deferred amounts on refundings are amortized as a component of interest expense and the deferred outflow on the acquisition is amortized as a special item.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 9 – CURRENT AND ADVANCED REFUNDINGS – CONTINUED***Business-Type Activities– Continued***

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, was implemented during the year ended September 30, 2014, due to the City's acquisition of the District and the CDA. GASBS No. 69 establishes accounting and financial reporting standards related to disposals of government operations and government combinations referred to as mergers, acquisitions, and transfers of operations. For government acquisitions in which there is an exchange of significant consideration, GASBS No. 69 generally requires assets acquired and liabilities assumed to be measured based on their acquisition values. The City was generally obligated on the District's and the CDA's outstanding liabilities. The objective of the acquisition was to reduce the overall debt service requirements of the City by refunding the District's Series 2003 Bonds and satisfying the District's and the CDA's liabilities to Exit 108, LLC. The acquisition was finalized on December 30, 2013, with no contingent consideration arrangements. The total consideration provided was \$11,455,805 for the District and \$436,000 for the CDA and no net position was acquired resulting in \$11,891,805 in excess consideration provided by the City over the net position acquired. Amortization for the year ended September 30, 2018, was \$913,018 leaving an unamortized deferred outflow of \$5,371,751.

Governmental Activities:

| <u>Type and Purpose</u> | <u>Balance 10/01/2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 9/30/2018</u> |
|---------------------------------|-------------------------------|------------------|------------------|------------------------------|
| Deferred Outflow on Refundings | \$ 2,184,246 | \$ - | \$ 261,832 | \$ 1,922,414 |
| Deferred Outflow on Acquisition | \$ 6,284,769 | \$ - | \$ 913,018 | \$ 5,371,751 |

Business-Type Activities:

| <u>Type and Purpose</u> | <u>Balance 10/01/2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 9/30/2018</u> |
|--------------------------------|-------------------------------|------------------|------------------|------------------------------|
| Deferred Outflow on Refundings | \$ 468,701 | \$ 908,342 | \$ 56,370 | \$ 1,320,673 |

NOTE 10 – GENERAL AND LIMITED OBLIGATION WARRANTS PAYABLE

The City issues general obligation warrants to provide funds for the acquisition and/or construction of capital assets. General obligation warrants are direct obligations and the City pledges its full faith and credit. Under state statute, general obligation warrants can be issued without an election and must be issued for a period of maturity of not longer than thirty years. Limited obligation warrants and revenue warrants are obligations of the City that are paid from specified revenues only. These revenues include incremental ad valorem taxes, specific millage ad valorem taxes, sales and use tax revenues, occupational tax revenues, and developer guarantees.

General obligation warrants, limited obligation warrants, and revenue warrants currently outstanding are as follows:

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 10 – GENERAL AND LIMITED OBLIGATION WARRANTS PAYABLE – CONTINUED**Primary Government****Governmental Activities:**

| <u>Type and Purpose</u> | <u>Balance 10/01/2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 9/30/2018</u> |
|--|-------------------------------|------------------|------------------|------------------------------|
| Limited Obligation Library Warrants Series 2012 – Due in varying amounts beginning February 1, 2015, until February 1, 2030. Interest is payable semiannually on February 1 and August 1, ranging from 2.00 percent to 3.125 percent. Payable solely from and secured by the pledge of 3.5 mills on each \$1.00 of taxable property in the City. | \$ 3,580,000 | \$ - | \$ 235,000 | \$ 3,345,000 |
| General Obligation Warrants Series 2013-A – Due in varying amounts beginning February 1, 2014, until February 1, 2043. Interest is payable semiannually on February 1 and August 1, ranging from 3.00 percent to 4.75 percent. Secured by the pledge of 8.6 mills on each \$1.00 of taxable property in the City. | 22,775,000 | - | 665,000 | 22,110,000 |
| Limited Obligation Gasoline Tax Warrants Series 2013-B – Due in varying amounts beginning December 1, 2014, until December 1, 2023. Interest is payable semiannually on June 1 and December 1, ranging from 2.00 percent to 3.50 percent. Payable solely from and secured by the pledge of the City's share of the net proceeds of the excise tax and the supplemental excise tax levied by the State of Alabama. | 1,620,000 | - | 215,000 | 1,405,000 |
| General Obligation Warrants Series 2013-C – Due in varying amounts beginning March 1, 2014, until March 1, 2035. Interest is payable semiannually on March 1 and September 1, ranging from 3.00 percent to 4.75 percent. Payable from and secured by the pledge of the incremental ad valorem tax increase within the tax increment financing district and the pledge of general sales, use, and occupational tax collected by the City from retail establishments conducting businesses in the Exit 108 District. | 11,690,000 | - | 645,000 | 11,045,000 |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 10 – GENERAL AND LIMITED OBLIGATION WARRANTS PAYABLE – CONTINUED

Primary Government – Continued

Governmental Activities – Continued:

General Obligation Warrants Series
2014-D – Due in varying amounts beginning
February 1, 2015, until February 1, 2037.

Interest is payable semiannually on
February 1 and August 1, ranging from
2.00 percent to 4.25 percent. Payable
solely from and secured by the pledge
of general sales and use tax payable
to the City from retail establishments
conducting business at the Project.

The warrants are additionally secured
pursuant to a Developer Guaranty for
any deficiencies in pledged tax revenues.

| | | | |
|------------|---|---------|------------|
| 18,870,000 | - | 690,000 | 18,180,000 |
|------------|---|---------|------------|

General Obligation Warrants Series
2014-E – Due in varying amounts beginning
February 1, 2016, until February 1, 2035.

Interest is payable semiannually on
February 1 and August 1, ranging from
2.625 percent to 3.75 percent. Secured
by the pledge of 8.6 mills on each \$1.00
of taxable property in the City.

| | | | |
|------------------|---|---------------|------------------|
| <u>6,990,000</u> | - | <u>45,000</u> | <u>6,945,000</u> |
|------------------|---|---------------|------------------|

Total Warrants Payable –
Governmental Activities

| | | | |
|------------|---|-----------|------------|
| 65,525,000 | - | 2,495,000 | 63,030,000 |
|------------|---|-----------|------------|

Plus: Unamortized Premium

| | | | |
|--------|---|--------|--------|
| 40,369 | - | 11,607 | 28,762 |
|--------|---|--------|--------|

Less: Unamortized Discount

| | | | |
|------------------|---|-----------------|------------------|
| <u>(522,698)</u> | - | <u>(53,737)</u> | <u>(468,961)</u> |
|------------------|---|-----------------|------------------|

Total Warrants Payable for
Governmental Activities

| | | | |
|----------------------|-------------|---------------------|----------------------|
| <u>\$ 65,042,671</u> | <u>\$ -</u> | <u>\$ 2,452,870</u> | <u>\$ 62,589,801</u> |
|----------------------|-------------|---------------------|----------------------|

Annual debt service requirements to maturity for warrants payable are as follows:

| <u>Year Ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|----------------------|----------------------|----------------------|
| 2019 | \$ 2,565,000 | \$ 2,366,868 | \$ 4,931,868 |
| 2020 | 2,630,000 | 2,300,970 | 4,930,970 |
| 2021 | 2,695,000 | 2,232,126 | 4,927,126 |
| 2022 | 2,760,000 | 2,156,070 | 4,916,070 |
| 2023 | 2,855,000 | 2,071,825 | 4,926,825 |
| 2024 – 2028 | 13,400,000 | 8,982,326 | 22,382,326 |
| 2029 – 2033 | 14,415,000 | 6,377,598 | 20,792,598 |
| 2034 – 2038 | 13,175,000 | 3,326,903 | 16,501,903 |
| 2039 – 2043 | <u>8,535,000</u> | <u>1,051,531</u> | <u>9,586,531</u> |
| Total | <u>\$ 63,030,000</u> | <u>\$ 30,866,217</u> | <u>\$ 93,896,217</u> |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 10 – GENERAL AND LIMITED OBLIGATION WARRANTS PAYABLE – CONTINUED***Business-Type Activities:***

| <u>Type and Purpose</u> | <u>Balance</u> <u>10/01/2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>9/30/2018</u> |
|---|-------------------------------------|----------------------|----------------------|------------------------------------|
| Water Revenue Warrants Series 2008 – Due in varying amounts beginning January 1, 2015, until January 1, 2039. Interest is payable semiannually on January 1 and July 1, ranging from 4.00 percent to 6.00 percent. Payable solely from and secured by the pledge of water revenues. | \$ 21,000,000 | \$ - | \$ 21,000,000 | \$ - |
| Water Revenue Warrants Series 2017 – Due in varying amounts beginning January 1, 2019, until January 1, 2047. Interest is payable semiannually on January 1 and July 1, ranging from 3.00 percent to 5.00 percent. Payable solely from and secured by the pledge of water revenues. | - | 27,455,000 | - | 27,455,000 |
| Electric Revenue Warrants Series 2011 – Due in varying amounts beginning December 1, 2014, until December 1, 2033. Interest is payable semiannually on December 1 and June 1, ranging from 2.00 percent to 4.25 percent. Payable solely from and secured by the pledge of electric revenues. | <u>9,590,000</u> | <u>-</u> | <u>430,000</u> | <u>9,160,000</u> |
| Total Warrants Payable – Business-Type Activities | 30,590,000 | 27,455,000 | 21,430,000 | 36,615,000 |
| Plus: Unamortized Premium | - | 1,940,042 | 50,173 | 1,889,869 |
| Less: Unamortized Discount | (325,885) | - | (325,885) | - |
| Less: Unamortized Discount | <u>(251,761)</u> | <u>-</u> | <u>(15,315)</u> | <u>(236,446)</u> |
| Total Warrants Payable for Business-Type Activities | <u>\$ 30,012,354</u> | <u>\$ 29,395,042</u> | <u>\$ 21,138,973</u> | <u>\$ 38,268,423</u> |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 10 – GENERAL AND LIMITED OBLIGATION WARRANTS PAYABLE – CONTINUED***Business-Type Activities – Continued:***

Annual debt service requirements to maturity for warrants payable are as follows:

| <u>Year Ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|----------------------|----------------------|----------------------|
| 2019 | \$ 925,000 | \$ 1,514,869 | \$ 2,439,869 |
| 2020 | 950,000 | 1,486,989 | 2,436,989 |
| 2021 | 985,000 | 1,454,889 | 2,439,889 |
| 2022 | 1,020,000 | 1,420,901 | 2,440,901 |
| 2023 | 1,060,000 | 1,381,096 | 2,441,096 |
| 2024 – 2028 | 6,015,000 | 6,170,189 | 12,185,189 |
| 2029 – 2033 | 7,580,000 | 4,657,947 | 12,237,947 |
| 2034 – 2038 | 5,915,000 | 3,164,863 | 9,079,863 |
| 2039 – 2043 | 6,150,000 | 2,146,886 | 8,296,886 |
| 2044 – 2047 | <u>6,015,000</u> | <u>620,625</u> | <u>6,635,625</u> |
| Total | \$ <u>36,615,000</u> | \$ <u>24,019,254</u> | \$ <u>60,634,254</u> |

Noncompliance and Cure of Continuing Disclosure Undertaking

In connection with its debt obligations, the City undertook to provide annual filings of certain financial information and operating data of the City to the Municipal Securities Rulemaking Board pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "Rule"), as amended, adopted by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended. The filings are due 180 days after the close of the City's fiscal year-end. The City did not timely file such annual financial information and operating data for the current year-end. The City has filed the appropriate notices and will file the required annual filings with the Municipal Securities Rulemaking Board via its Electronic Municipal Market Access (EMMA) system upon release of the City's financial statements.

NOTE 11 – COMPONENT UNITS' REVENUE BONDS AND NOTES PAYABLE***GUSC:***

On November 17, 2017, the GUSC issued Water Supply Revenue Bonds Series 2017, for \$48,710,000 to refund the Water Supply Revenue Bonds Series 2008 principal amount of \$51,630,000 and to provide \$3,200,000 for water plant improvements. The difference between the cash flows required to service the old debt and that required to service the new debt and complete the refunding was \$6,406,207. The economic gain on refunding was \$6,685,593.

| <u>Type and Purpose</u> | <u>Balance 10/01/2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 9/30/2018</u> |
|---|-------------------------------|------------------|------------------|------------------------------|
| Revenue Bonds Series 2002 and 2008 – Due in varying amounts beginning June 1, 2018, until June 1, 2039. Interest is payable semiannually on June 1 and December 1, ranging from 3.75 percent to 5.00 percent. Payable solely from and secured by the pledge of water supply revenues. | \$ 51,630,000 | \$ - | \$ 51,630,000 | \$ - |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 11 – COMPONENT UNITS’ REVENUE BONDS AND NOTES PAYABLE – CONTINUED

GUSC – CONTINUED:

Revenue Bonds Series 2017 – Due in varying amounts beginning June 1, 2019, until June 1, 2039. Interest is payable semiannually on June 1 and December 1, ranging from 3.75 percent to 5.00 percent.

Payable solely from and secured by the pledge of water supply revenues.

| | | | | |
|------------------------------|------------------|----------------------|----------------------|----------------------|
| | - | 48,710,000 | 705,000 | 48,005,000 |
| Plus: Unamortized Premium | - | 6,800,384 | 464,232 | 6,336,152 |
| Less: Unamortized Discount | <u>(487,524)</u> | <u>-</u> | <u>(487,524)</u> | <u>-</u> |
| Total Bonds Payable for GUSC | | <u>\$ 51,142,476</u> | <u>\$ 55,510,384</u> | <u>\$ 52,311,708</u> |
| | | | <u>\$ 54,341,152</u> | |

Annual debt service requirements to maturity for warrants payable are as follows:

| <u>Year Ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|----------------------|----------------------|----------------------|
| 2019 | \$ 1,380,000 | \$ 2,261,775 | \$ 3,641,775 |
| 2020 | 1,420,000 | 2,220,375 | 3,640,375 |
| 2021 | 1,495,000 | 2,149,375 | 3,644,375 |
| 2022 | 1,570,000 | 2,074,625 | 3,644,625 |
| 2023 | 1,650,000 | 1,996,125 | 3,646,125 |
| 2024 – 2028 | 9,560,000 | 8,659,125 | 18,219,125 |
| 2029 – 2033 | 12,205,000 | 6,016,875 | 18,221,875 |
| 2034 – 2038 | 15,255,000 | 2,968,325 | 18,223,325 |
| 2039 | <u>3,470,000</u> | <u>173,500</u> | <u>3,643,500</u> |
| Total | <u>\$ 48,005,000</u> | <u>\$ 28,520,100</u> | <u>\$ 76,525,100</u> |

Airport Authority:

| <u>Type and Purpose</u> | <u>Balance 10/01/2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 9/30/2018</u> |
|---|-------------------------------|------------------|------------------|------------------------------|
| Note payable – bank, due in monthly installments at 4.67% annual interest rate, matures March 2022, collateralized by funding agreement with the City – Refinanced February 2018. | \$ 618,357 | \$ - | \$ 618,357 | \$ - |
| Note payable – bank, due in monthly installments at 3.52% annual interest rate, matures February 2028, collateralized by all assets, assignments of rents and leases, funding agreements with the City. | - | 621,793 | - | 621,793 |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 11 – COMPONENT UNITS’ REVENUE BONDS AND NOTES PAYABLE – CONTINUED

Airport Authority – CONTINUED:

Note payable – bank, due in monthly installments at 3.52% annual interest rate, matures February 2028, collateralized by all assets, assignments of rents and leases, funding agreements with the City.

| | | | |
|---|--------|---|--------|
| - | 19,960 | - | 19,960 |
|---|--------|---|--------|

Interest-free note payable – bank, payable in monthly installments, maturing May 2020, secured by capital assets

| | | | |
|-------------------|-------------------|-------------------|-------------------|
| <u>5,024</u> | <u>-</u> | <u>1,884</u> | <u>3,140</u> |
| <u>\$ 623,381</u> | <u>\$ 641,753</u> | <u>\$ 620,241</u> | <u>\$ 644,893</u> |

Annual debt service requirements to maturity for notes payable are as follows:

Year Ending September 30.

| | |
|------------|-------------------|
| 2019 | \$ 33,870 |
| 2020 | 33,984 |
| 2021 | 24,635 |
| 2022 | 25,529 |
| 2023 | 26,455 |
| Thereafter | <u>500,420</u> |
| Total | <u>\$ 644,893</u> |

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

Primary Government

| | Restated Balance <u>10/01/17</u> | <u>Increases</u> | <u>Decreases</u> | Balance <u>9/30/18</u> | Due Within <u>One Year</u> |
|--------------------------------|--|------------------|---------------------|---------------------------|-------------------------------|
| Governmental Activities | | | | | |
| Warrants Payable | \$ 65,042,671 | \$ - | \$ 2,452,870 | \$ 62,589,801 | \$ 2,565,000 |
| Capital Lease | 493,684 | - | 117,846 | 375,838 | 121,487 |
| Compensated Absences | 7,687,394 | - | 487,628 | 7,199,766 | 1,151,963 |
| OPEB Liability | 33,118,156 | - | 1,554,844 | 31,563,312 | - |
| Net Pension Obligation | 48,464,644 | - | 968,239 | 47,496,405 | - |
| Closure and Postclosure Costs | <u>315,200</u> | <u>-</u> | <u>48,355</u> | <u>266,845</u> | <u>-</u> |
| Total | <u>\$ 155,121,749</u> | <u>\$ -</u> | <u>\$ 5,629,782</u> | <u>\$ 149,491,967</u> | <u>\$ 3,838,450</u> |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES – CONTINUED

Primary Government – Continued

| | Restated Balance <u>10/01/17</u> | <u>Increases</u> | <u>Decreases</u> | Balance <u>9/30/18</u> | Due Within <u>One Year</u> |
|---------------------------------|--|----------------------|----------------------|---------------------------|-------------------------------|
| Business-Type Activities | | | | | |
| Warrants Payable | \$ 30,012,354 | \$ 29,395,042 | \$ 21,138,973 | \$ 38,268,423 | \$ 925,000 |
| Net Pension Obligation | 10,530,662 | - | 210,385 | 10,320,277 | - |
| Capital Lease | 28,880 | 276,334 | 79,326 | 225,888 | 41,879 |
| Compensated Absences | 1,289,233 | 51,872 | - | 1,341,105 | 214,576 |
| OPEB Liability | <u>2,069,975</u> | <u>-</u> | <u>-</u> | <u>2,069,975</u> | <u>-</u> |
| Total | \$ <u>43,931,104</u> | \$ <u>29,723,248</u> | \$ <u>21,428,684</u> | \$ <u>52,225,668</u> | \$ <u>1,181,455</u> |

NOTE 13 – FUND BALANCES – GOVERNMENTAL FUNDS

As of September 30, 2018, fund balances are composed of the following:

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Other Nonmajor Funds</u> | <u>Total Governmental Funds</u> |
|----------------------------------|-------------------------|----------------------------------|-------------------------------------|---|
| Nonspendable For: | | | | |
| Inventory | \$ 252,773 | \$ - | \$ - | \$ 252,773 |
| Prepaid | <u>244,514</u> | <u>-</u> | <u>-</u> | <u>244,514</u> |
| | 497,287 | - | - | 497,287 |
| Restricted For: | | | | |
| Judicial Administrative Funds | 408,532 | - | - | 408,532 |
| Capital Projects | - | - | 338 | 338 |
| Debt Service | - | 659,030 | - | 659,030 |
| Special Revenue Activities | <u>-</u> | <u>-</u> | <u>4,947,843</u> | <u>4,947,843</u> |
| | 408,532 | 659,030 | 4,948,181 | 6,015,743 |
| Committed For: | | | | |
| Recreation Facility | 1,916,486 | - | - | 1,916,486 |
| Library | <u>891,102</u> | <u>-</u> | <u>-</u> | <u>891,102</u> |
| | 2,807,588 | - | - | 2,807,588 |
| Assigned For: | | | | |
| Storm Water | 840,394 | - | - | 840,394 |
| Police Donated Funds | 64,644 | - | - | 64,644 |
| Emergency Expenditures | <u>4,468,105</u> | <u>-</u> | <u>-</u> | <u>4,468,105</u> |
| | 5,373,143 | - | - | 5,373,143 |
| Unassigned | <u>6,089,656</u> | <u>-</u> | <u>-</u> | <u>6,089,656</u> |
| Totals | \$ <u>15,176,206</u> | \$ <u>659,030</u> | \$ <u>4,948,181</u> | \$ <u>20,783,417</u> |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 14 – RISK MANAGEMENT

The City of Bessemer is exposed to various risk of loss related to torts, theft, errors and omissions, job related illness and injury, and natural disasters. Risk management is the process of managing the activities of the City to minimize the adverse effects of those losses and to also obtain resources to provide for and restore economic damages resulting from losses.

The City was self-insured through June of 2015. As of July 1, 2015, the City became part of a group self-insured fund, the Municipal Workers Compensation Fund, which is administered by Millennium Risk Managers. This insurance policy limits the City's exposure to \$500,000 per incident.

The City pays undisputed medical claims related to workers' compensation up to the deductible of \$500,000. Liabilities for incurred and unpaid claims are included in the government-wide statements. Expenditures are recognized in the fund financial statements as they are paid.

NOTE 15 – COMMITMENTS, CLAIMS, AND CONTINGENCIES

Various lawsuits are pending against the City. In addition, numerous claims have been filed which have not yet resulted in lawsuits. In the opinion of the City Attorney, the potential adverse impact of the majority of these claims, individually or in the aggregate, would not be material to the financial statements of the City.

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under the terms of the grants. City management believes such disallowances, if any, would be immaterial.

The City has entered into agreements in recent years with other entities for economic development purposes. Pursuant to these agreements, the City will make payments over stated periods of years for the development of various projects and facilities that the City believes will promote the tax and revenue base of the City and increase employment opportunities in the City. The City generally expects that these agreements will result in greater tax revenues for the City than the City is obligated to pay under such agreements, and in certain cases, the City's obligations are capped at an amount not to exceed the tax revenues it actually receives. These obligations are limited obligations of the City payable generally as rebates of taxes received by the City from private entities. Payables related to these obligations for amounts collected subject to rebate but not yet remitted have been reflected in the liabilities and expenditures of the City.

On October 1, 2013, the City and the Bessemer Airport Authority issued the Series 2013, Revenue Bond of Bessemer Airport Authority to Regions Bank for the principal amount of \$718,779. The bond is a general obligation of the City to be paid \$60,000 annually on or before December 1, 2013, and on or before October 1st of each year thereafter as long as the bond shall be outstanding. The Authority refinanced the bond with a note payable in March 2017. The Authority refinanced again in February 2018. The City has a general obligation to service \$60,000 of this debt annually. As of September 30, 2018, the outstanding balance of the notes payable was \$641,753.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 16 – LANDFILL CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the City of Bessemer (the “City”) to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the sites for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as a long-term liability. The liability is increased or decreased each period based on landfill capacity used as of each balance sheet date.

The \$266,845 reported as landfill postclosure care liability at September 30, 2018, represents the cumulative amount reported to date based on the use of 100 percent of the estimated capacity of one landfill site and 34 percent of the estimated capacity of a second landfill site. The City will recognize the remaining estimated cost of closure and postclosure care of \$236,520 as the remaining capacity is filled. These amounts are based on what it would cost to perform all postclosure care in 2018. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Officials estimate the remaining life of the open landfill site to be approximately 20 years.

NOTE 17 – RETIREMENT PLAN

General Information about the Pension Plan

Plan Description. The Employees’ Retirement System of Alabama, an agency multiple-employer plan, was established October 1, 1945, under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns, and quasi-public organizations (this includes GUSC). The responsibility for the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

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

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

Benefits Provided. State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for Tier 1 ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 17 – RETIREMENT PLAN – CONTINUED

General Information about the Pension Plan (Continued)

more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 1 members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State police are allowed 2.875% for each year of State Police service in computing the formula method.

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

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

The ERS membership includes approximately 88,517 participants from approximately 909 local participating employers. As of September 30, 2017, membership consisted of:

| | |
|---|---------------|
| Retirees and beneficiaries currently receiving benefits | 23,853 |
| Terminated employees entitled to but not yet receiving benefits | 1,401 |
| Terminated employees not entitled to a benefit | 7,154 |
| Active members | 55,941 |
| Post-DROP participants still in active service | <u>168</u> |
| Total | <u>88,517</u> |

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

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 17 – RETIREMENT PLAN – CONTINUED*General Information about the Pension Plan (Continued)*

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2018, the City's active employee contribution rate was 13.38% of covered payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 13.02% of covered employee payroll.

The City's contractually required contribution rate for the year ended September 30, 2018, was 14.27% of pensionable pay for Tier 1 employees, and 11.36% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2015, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City were \$4,296,449 for the year ended September 30, 2018.

Net Pension Liability

The City's net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016, rolled forward to September 30, 2017, using standard roll-forward techniques as shown in the following table:

| | <u>Expected</u> | Actual-2017 Valuations Assumptions |
|---|-----------------------|--|
| Total Pension Liability (TPL) | | |
| As of September 30, 2016 (a) | \$ 131,802,133 | \$ 133,113,817 |
| Discount Rate (b) | 7.75% | 7.75% |
| Entry Age Normal Cost for October 1, 2016 – September 30, 2017 (c) | 2,632,723 | 2,632,723 |
| Transfers Among Employers (d) | - | 421,885 |
| Actual Benefit Payments and Refunds for October 1, 2016 – September 30, 2017 (e) | <u>(8,181,814)</u> | <u>(8,181,814)</u> |
| TPL As of September 30, 2017 [(a)x(1+(b)))+(c)+(d)+[(e)*(1+0.5*(b))] (f) | \$ <u>136,150,662</u> | \$ <u>137,985,887</u> |
| Difference Between Expected and Actual (g) | | \$ 1,835,225 |
| Less Liability Transferred for Immediate Recognition (h) | | <u>421,885</u> |
| Experience (Gain)/Loss = (g) - (h) (i) | | \$ <u>1,413,340</u> |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 17 – RETIREMENT PLAN – CONTINUED

Net Pension Liability (Continued)

Actuarial assumptions. The total pension liability as of September 30, 2017, was determined based on the annual actuarial funding valuation report prepared as of September 30, 2016. The key actuarial assumptions are summarized below:

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

*Net of pension plan investment expense

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

The actuarial assumptions used in the actuarial valuation as of September 30, 2016, were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

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

| | <u>Target Allocation</u> | <u>Long-Term Expected Rate of Return*</u> |
|---------------------------------------|------------------------------|---|
| Fixed Income | 17.00% | 4.40% |
| U.S. Large Stocks | 32.00% | 8.00% |
| U.S. Mid Stocks | 9.00% | 10.00% |
| U.S. Small Stocks | 4.00% | 11.00% |
| International Developed Market Stocks | 12.00% | 9.50% |
| International Emerging Market Stocks | 3.00% | 11.00% |
| Alternatives | 10.00% | 10.10% |
| Real Estate | 10.00% | 7.50% |
| Cash | <u>3.00%</u> | 1.50% |
| Total | <u>100.00%</u> | |

*Includes assumed rate of inflation of 2.50%.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 17 – RETIREMENT PLAN – CONTINUED

Net Pension Liability (Continued)

Discount rate. The discount rate used to measure the total pension liability was the long-term rate of return, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

| | <u>Increase (Decrease)</u> | | |
|--|---|---|---|
| | Total Pension Liability <u>(a)</u> | Plan Fiduciary Net Position <u>(b)</u> | Net Pension Liability <u>(a)-(b)</u> |
| Balances at 9/30/2016 | \$ <u>131,802,133</u> | \$ <u>72,806,827</u> | \$ <u>58,995,306</u> |
| Changes for the Year: | | | |
| Service Cost | 2,632,723 | - | 2,632,723 |
| Interest | 9,897,620 | - | 9,897,620 |
| Changes of Assumptions | - | - | - |
| Differences Between Expected and Actual Experience | 1,413,340 | - | 1,413,340 |
| Contributions – Employer | - | 4,200,719 | (4,200,719) |
| Contributions – Employee | - | 1,717,279 | (1,717,279) |
| Net Investment Income | - | 9,204,309 | (9,204,309) |
| Benefit Payments, Including Refunds of Employee Contributions | (8,181,814) | (8,181,814) | - |
| Administrative Expenses | - | - | - |
| Transfers Among Employers | <u>421,885</u> | <u>421,885</u> | <u>-</u> |
| Net Changes | <u>6,183,754</u> | <u>7,362,378</u> | <u>(1,178,624)</u> |
| Balances at 9/30/2017 | \$ <u>137,985,887</u> | \$ <u>80,169,205</u> | \$ <u>57,816,682</u> |

Sensitivity of the net pension liability to changes in the discount rate. The following table presents the City's net pension liability calculated using the discount rate of 7.75%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

| | 1% Decrease <u>(6.75%)</u> | Current Rate <u>(7.75%)</u> | 1% Increase <u>(8.75%)</u> |
|------------------------------|-------------------------------|---------------------------------|-------------------------------|
| City's Net Pension Liability | \$ 73,321,193 | \$ 57,816,682 | \$ 44,670,194 |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 17 – RETIREMENT PLAN – CONTINUED**Changes in Net Pension Liability – Continued**

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2017. The auditor's report dated August 31, 2018, on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

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

For the year ended September 30, 2018, the City recognized pension expense of \$6,326,012. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pension of the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences Between Expected and Actual Experience | \$ 3,026,891 | \$ - |
| Changes of Assumptions | 4,157,781 | - |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | - | 2,430,862 |
| Employer Contributions Subsequent to the Measurement Date | <u>4,179,660</u> | <u>-</u> |
| Total | <u>\$ 11,364,332</u> | <u>\$ 2,430,862</u> |

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

Year Ended September 30:

| | |
|------------|---------------------|
| 2019 | \$ 5,263,760 |
| 2020 | 1,583,405 |
| 2021 | 657,590 |
| 2022 | 567,394 |
| 2023 | 732,833 |
| Thereafter | <u>128,488</u> |
| Total | <u>\$ 8,933,470</u> |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 18 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION***General Information about the OPEB Plan***

Plan Administration: The City sponsors and administers a single-employer defined benefit health care plan, the Health Care Plan of the City of Bessemer (hereinafter referred to as the “Plan”). The Plan is used to provide postemployment benefits other than pensions for permanent full-time employees. Management of the OPEB plan is governed by the City. The authority to establish and/or amend the obligation of the employer, employees, and retirees rests with the City. No assets are accumulated in a trust that meets the criteria in paragraph 4 of the Governmental Standards Board (GASB) Statement No. 75.

Benefits Provided: The Plan benefits provided in the City’s retiree health care plan include health care, prescription drug, dental, vision, and life insurance. Medicare Supplement insurance is provided to eligible retirees upon Medicare eligibility age. Dental and vision coverage are offered in separate stand-alone plans and coverage is provided for the retirees’ lifetime. Life insurance is provided for the retirees’ lifetime.

Funding Policy: Under the Plan, the City pays the cost of pre-Medicare medical insurance premiums and lifetime dental insurance premiums based on the years of creditable service at retirement using the following schedule:

| Age at Retirement | Years of Service With the City at Retirement | City Contribution Toward Retiree Coverage | City Contribution Toward Dependent Coverage |
|--------------------------|---|--|--|
| Any | 30 or more* | 100.0% | 50.0% |
| Any | 29 | 95.0% | 47.5% |
| Any | 28 | 90.0% | 45.0% |
| Any | 27 | 85.0% | 42.5% |
| Any | 26 | 80.0% | 40.0% |
| Any | 25 | 75.0% | 37.5% |
| 60 | 24 | 70.0% | 35.0% |
| 60 | 23 | 65.0% | 32.5% |
| 60 | 22 | 60.0% | 30.0% |
| 60 | 21 | 55.0% | 27.5% |
| 60 | 20 | 50.0% | 25.0% |

* Any employee retiring under disability retirement with ten years of service with the City will receive the same benefits as if they had retired with thirty years of service with the City.

Upon reaching Medicare eligibility age, the City will provide retirees with C Plus Medicare Supplement insurance, only if they qualified for City contributions according to the years of creditable service at retirement. Members not qualifying for City contributions according to the schedule above may continue to participate in the City’s pre-Medicare health and dental plans by paying the required insurance premiums. The City pays the full cost of vision coverage for all retirees for their lifetime. The City provides life insurance in the amount of \$3,000 to all retirees for their lifetime. The retiree may continue dependent coverage (and pay the required cost of this coverage) if enrolled in dependent coverage at the time of retirement. Dependents may continue Medicare Supplement insurance by paying the required cost of this coverage (50% of the C Plus Medicare Supplement if the retiree qualified for City contributions). Dependents may continue coverage in the pre-Medicare medical plan by paying the required premium rate upon the death of the retiree only if the retiree qualified for City contributions.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 18 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION – CONTINUED***General Information about the OPEB Plan – Continued***

Plan Membership: At September 30, 2016, City plan membership consisted of the following:

| | |
|--|------------|
| Inactive Employees or Beneficiaries Currently Receiving Benefits | 233 |
| Inactive Members Entitled to but not yet Receiving Benefits | - |
| Active Employees | <u>660</u> |
| Total Membership | <u>893</u> |

Total OPEB Liability

The City's total OPEB liability of \$33,633,287 was measured as of September 30, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions: The total OPEB liability was determined by an actuarial valuation as of September 30, 2016, using the following key actuarial assumptions and other inputs:

| | |
|--|--|
| Inflation | 2.875% |
| Real wage growth | 0.25% |
| Wage inflation | 3.125% |
| Salary increases, including wage inflation | 3.375% - 5.125% |
| Municipal Bond Index Rate | |
| Prior Measurement Date | 2.93% |
| Measurement Date | 3.57% |
| Health Care Cost Trends | |
| Pre-Medicare | 7.75% for 2016 decreasing to an ultimate rate of 5.00% by 2022 |
| Medicare | 5.75% for 2016 decreasing to an ultimate rate of 5.00% by 2019 |

The discount rate used to measure the TOL was based on the September average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

Mortality rates for active employees were based on the sex distinct RP-2000 Employee Mortality Table projected with Scale BB to 2020 with an adjustment factor of 70% for males and 50% for females. Postretirement mortality rates on the sex distinct RP-2000 Blue Collar Mortality Table projected with Scale BB to 2020. An adjustment of 125% at all ages for males and 120% for females beginning at age 78 was made for service retirements and beneficiaries. An adjustment of 130% for females at all ages was made for disability retirements.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the September 30, 2016 valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2016, valuation were based on a review of recent plan experience done concurrently with the September 30, 2016, valuation.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 18 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION – CONTINUED***Sensitivity – Continued***

The following table presents the City's total OPEB liability calculated using the discount rate of 3.57%, as well as what the Plan's TOL would be if it were calculated using a Discount Rate that is 1- percentage-point lower or 1-percentage-point higher than the current rate:

Discount Rate Sensitivity

| | 1% Decrease (<u>2.57%</u>) | Current Rate (<u>3.57%</u>) | 1% Increase (<u>4.57%</u>) |
|----------------------|---------------------------------|----------------------------------|---------------------------------|
| Total OPEB Liability | \$ <u>39,335,778</u> | \$ <u>33,633,287</u> | \$ <u>29,026,966</u> |

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2018, the City recognized OPEB expense of \$2,346,592. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pension of the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences Between Expected and Actual Experience | \$ 306,323 | \$ - |
| Changes of Assumptions | - | 3,031,946 |
| Employer Contributions Subsequent to the Measurement Date | <u>1,071,540</u> | <u>-</u> |
| Total | \$ <u>1,377,863</u> | \$ <u>3,031,946</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB benefits will be recognized in OPEB expense as follows:

Year Ended September 30:

| | |
|------------|------------------------|
| 2019 | \$ 646,326 |
| 2020 | (425,214) |
| 2021 | (425,214) |
| 2022 | (425,214) |
| 2023 | (425,214) |
| Thereafter | <u>(599,553)</u> |
| Total | \$(<u>1,654,083</u>) |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 19 – TAX ABATEMENTS AND INCENTIVE AGREEMENTS

The City is subject to GASB Statement 77, for the year ended September 30, 2018. This statement requires the City to disclose tax abatements granted by the City and other governmental entities that reduce the tax revenue of the City. The City and the Industrial Development Board of the City of Bessemer are involved with such abatements. GASB Statement 77 requires the City to disclose the amount of the taxes abated during the fiscal year. For purposes of this disclosure, the City chooses to disclose the aggregate information by type of taxes abated. The information below has been compiled after reasonable attempts to obtain the required information. The City makes no representation that the information is correct, complete, or the individual circumstances have not changed subsequent to this reporting.

The City offers abatements of certain state, county, and municipal ad-valorem taxes (noneducational portion), sales and use taxes, (noneducational portion), and mortgage and recording taxes with respect to the Project pursuant to the provisions of Act 92-599 enacted during the 1992 Regular Session of the Legislature of Alabama and now codified as Chapter 9B of Title 40 of the Code of Alabama (1975), as amended (herein called the "Tax Abatement Act").

From time-to-time, the City enters into economic and/or industrial development incentive agreements with entities that propose to locate businesses within the City or expand current businesses. All of this is in an attempt to develop a solid and diverse local economy, to increase employment opportunities in the City, to broaden the City's tax base, to increase revenues, and to provide necessary and improved services to the citizens of the City, thereby improving the quality of life of its citizens. In exchange for incremental jobs and/or incremental revenues created, the City will rebate all or a portion of sales and use taxes, occupational taxes, and other licenses and fees with these entities over a period of time and/or up to a capped dollar amount.

The City's tax revenues were reduced or rebated under the Tax Abatement Act and various economic and/or industrial development incentive agreements during the year ended September 30, 2018, as follows:

| | |
|---|---------------------|
| Municipal ad-valorem taxes (noneducational portion) | \$ 559,746 |
| Sales and use taxes | 893,938 |
| Occupational taxes | 4,465 |
| Other licenses and fees | <u>71</u> |
| Total | \$ <u>1,458,220</u> |

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2018

NOTE 20 – PRIOR PERIOD ADJUSTMENTS

During the year ended September 30, 2018, the City adopted GASB No. 75 related to post-employment benefits other than pensions, the Governmental Activities recorded a prior period adjustment to correct an overstatement of deferred outflows related to the pension liability, the Water Service Department recorded a prior period adjustment regarding the restatement of construction in progress, the Electric Service Department also recorded prior period adjustments regarding the restatement of accounts payable, capital assets, accumulated depreciation, and allowance for doubtful accounts which had the following impact on the net position:

| <u>Statement of Net Position Financial Statements</u> | <u>Balance as Originally Reported</u> | <u>Prior Period Adjustments</u> | <u>Balance as Restated</u> |
|---|---------------------------------------|---------------------------------|----------------------------|
| Governmental Activities: | | | |
| Cumulative Effect of Changes in Accounting Principle: | | | |
| GASB No. 75 – Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions | | \$(20,345,847) | |
| Cumulative Effect of Correction of an Error: | | | |
| Overstatement of Deferred Outflows Related to Pension Liability | | <u>(443,088)</u> | |
| Total Net Position | <u>\$(31,855,749)</u> | <u>\$(20,788,935)</u> | <u>\$(52,644,684)</u> |
| Business-Type Activities: | | | |
| Cumulative Effect of Changes in Accounting Principle: | | | |
| GASB No. 75 – Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions | | | |
| Electric Service | | \$ (847,704) | |
| Water Service | | (1,222,271) | |
| Cumulative Effect of Correction of an Error: | | | |
| Electric Service: Capital Assets, Accumulated Depreciation, Allowance for Uncollectible Accounts and Accounts Payable | | (2,914,215) | |
| Water Service: Construction in Progress | | <u>(8,836,696)</u> | |
| Total Net Position | <u>\$ 36,281,439</u> | <u>\$(13,820,886)</u> | <u>\$ 22,460,553</u> |

NOTE 21 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 24, 2019, the date which the financial statements were available to be issued.

CITY OF BESSEMER, ALABAMA
 Schedule of Changes in Total OPEB Liability
 September 30, 2018

| | <u>2017</u> |
|---|----------------------|
| TOTAL OPEB LIABILITY | |
| Service Cost at End of Year | \$ 1,757,895 |
| Interest | 1,013,911 |
| Changes of Benefit Terms | - |
| Difference Between Expected and Actual Experience | 354,111 |
| Changes of Assumptions or Other Inputs | (3,504,948) |
| Benefit Payments | (1,175,813) |
| Other | <u>-</u> |
| Net Change in Total OPEB Liability | (1,554,844) |
| Total OPEB Liability - Beginning | <u>35,188,131</u> |
| Total OPEB Liability - Ending | <u>\$ 33,633,287</u> |
| Covered-employee Payroll | \$ 30,454,186 |
| Total OPEB Liability as a Percentage of Covered-employee Payroll | 110.44% |

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to Schedule:

Benefit Changes: None

Assumption Changes: There was a change in the total OPEB liability arising from the change in the Discount Rate from 2.93% on the Prior Measurement Date to 3.57% on the Measurement Date. Therefore, the change in TOL resulting from the change in the Discount Rate is to be recognized in the OPEB Expense (OE), beginning in the current measurement period, over a closed period equal to 7.41 years. The portion to recognize in the current year is determined by spreading the total change over the average expected remaining service life of the entire Plan membership at the beginning of the measurement period. The average expected remaining service life of active members is the average number of years the active members are expected to remain in covered employment. The average expected remaining service life of the inactive members is zero. The recognition period is the weighted average of these two amounts, or 7.41 years.

CITY OF BESSEMER, ALABAMA
Schedule of Changes in Net Pension Liability
Fiscal Year Ending September 30, 2018

| | 2017 | 2016 | 2015 | 2014 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| TOTAL PENSION LIABILITY | | | | |
| Service Cost | \$ 2,632,723 | \$ 2,511,544 | \$ 2,394,443 | \$ 2,285,389 |
| Interest | 9,897,620 | 9,356,255 | 8,874,809 | 8,594,432 |
| Changes in Benefit Terms | - | - | - | - |
| Differences Between Expected and Actual Experience | 1,413,340 | 737,352 | 2,591,946 | - |
| Changes of Assumptions | - | 6,005,685 | - | - |
| Benefit Payments, Including Refunds of Employee Contributions | (8,181,814) | (8,035,313) | (7,650,923) | (7,099,318) |
| Transfers Among Employers | 421,885 | 255,767 | - | - |
| NET CHANGE IN TOTAL PENSION LIABILITY | 6,183,754 | 10,831,290 | 6,210,275 | 3,780,503 |
| TOTAL PENSION LIABILITY – BEGINNING | 131,802,133 | 120,970,843 | 114,760,568 | 110,980,065 |
| TOTAL PENSION LIABILITY – ENDING (a) | <u>\$ 137,985,887</u> | <u>\$ 131,802,133</u> | <u>\$ 120,970,843</u> | <u>\$ 114,760,568</u> |
| PLAN FIDUCIARY NET POSITION | | | | |
| Contributions – Employer | \$ 4,200,719 | \$ 4,317,742 | \$ 4,027,999 | \$ 3,819,448 |
| Contributions – Member | 1,717,279 | 1,656,712 | 1,594,175 | 1,547,167 |
| Net Investment Income | 9,204,309 | 6,812,829 | 806,003 | 7,491,327 |
| Benefit Payments, Including Refunds of Employee Contributions | (8,181,814) | (8,035,313) | (7,650,923) | (7,099,318) |
| Transfers Among Employers | 421,885 | 255,767 | 137,968 | (352,470) |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | 7,362,378 | 5,007,737 | (1,084,778) | 5,406,154 |
| PLAN NET POSITION – BEGINNING | 72,806,827 | 67,799,090 | 68,883,868 | 63,477,714 |
| PLAN NET POSITION – ENDING (b) | <u>\$ 80,169,205</u> | <u>\$ 72,806,827</u> | <u>\$ 67,799,090</u> | <u>\$ 68,883,868</u> |
| NET PENSION LIABILITY (ASSET) – ENDING (a) - (b) | \$ 57,816,682 | \$ 58,995,306 | \$ 53,171,753 | \$ 45,876,700 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 58.10% | 55.24% | 56.05% | 60.02% |
| Covered-Employee Payroll* | \$ 32,509,570 | \$ 31,558,579 | \$ 29,830,035 | \$ 28,091,007 |
| Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll | 177.85% | 186.94% | 178.25% | 163.31% |

*Employer's covered-payroll during the measurement period is the total covered payroll. For FY2018 the measurement period is October 1, 2016 – September 30, 2017.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA
 Schedule of Employer Contributions
 September 30, 2018

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|------------------|------------------|
| Actuarially Determined Contributions* | \$ 4,179,660 | \$ 4,198,444 | \$ 4,313,610 | \$ 4,125,114 |
| Contributions in Relation to the Actuarially Determined Contributions* | <u>4,179,660</u> | <u>4,198,444</u> | <u>4,313,610</u> | <u>4,125,114</u> |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - |
| Covered-Employee Payroll** | \$ 32,107,711 | \$ 32,509,570 | \$ 31,558,579 | \$ 29,830,035 |
| Contributions as a Percentage of Covered-Employee Payroll | 13.02% | 12.91% | 13.67% | 13.83% |

*Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. For FY2018, the fiscal year is October 1, 2017 through September 30, 2018.

**Employer's covered payroll for FY2018 is the total covered payroll for October 1, 2017, through September 30, 2018.

NOTES TO SCHEDULE

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2018 were based on the September 30, 2015, actuarial valuation.

Methods and Assumptions used to Determine Contribution Rates for the period October 1, 2017 to September 30, 2018:

| | |
|-------------------------------|--|
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level Percent Closed |
| Remaining Amortization Period | 29.4 Years |
| Asset Valuation Method | Five Year Smoothed Market |
| Inflation | 3% |
| Salary Increases | 3.75 – 7.25%, Including Inflation |
| Investment Rate of Return | 8.00%, Net of Pension Plan Investment Expense, Including Inflation |

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF BESSEMER, ALABAMA

Combining Balance Sheet
 Nonmajor Governmental Funds
 September 30, 2018

| | Special Revenue Funds | | | | | | | | | Capital Projects Fund | Total Nonmajor Governmental Funds | |
|---|-----------------------|------------------------|-------------------|-------------------|--------------------|-------------------|------------------------|-------------------|-------------------|-----------------------------|-----------------------------------|---------------------|
| | Community Development | Confiscated Drug Funds | TIF District | Police Grant | State Seized Funds | 7-Cent Gas Fund | 4- and 5-Cent Gas Fund | 1-Cent Gas Fund | E-911 | Total Special Revenue Funds | | |
| ASSETS | | | | | | | | | | | | |
| Cash and Investments | \$ 1,254,515 | \$ 556,490 | \$ 141,213 | \$ 117,355 | \$ 90,124 | \$ 158,984 | \$ 44,969 | \$ 318,926 | \$ 616,428 | \$ 3,299,004 | \$ - | \$ 3,299,004 |
| Cash with Escrow Agents | - | - | - | - | - | - | - | - | - | - | 338 | 338 |
| Accounts Receivable | - | 20,448 | - | 26,422 | - | 251,965 | - | - | - | 298,835 | - | 298,835 |
| Loans Receivable | 1,588,921 | - | - | - | - | - | - | - | - | 1,588,921 | - | 1,588,921 |
| Due from Other Funds | - | 19,854 | 394 | - | - | 67,552 | - | - | - | 87,800 | - | 87,800 |
| Due from Other Governments | - | - | - | - | - | - | - | - | - | - | - | - |
| Deferred Loans Receivable | 443,119 | - | - | - | - | - | - | - | - | 443,119 | - | 443,119 |
| TOTAL ASSETS | <u>\$ 3,286,555</u> | <u>\$ 596,792</u> | <u>\$ 141,607</u> | <u>\$ 143,777</u> | <u>\$ 90,124</u> | <u>\$ 478,501</u> | <u>\$ 44,969</u> | <u>\$ 318,926</u> | <u>\$ 616,428</u> | <u>\$ 5,717,679</u> | <u>\$ 338</u> | <u>\$ 5,718,017</u> |
| LIABILITIES AND FUND BALANCE | | | | | | | | | | | | |
| Accounts Payable | \$ 18,551 | \$ 19,487 | \$ 34,240 | \$ - | \$ - | \$ 119,863 | \$ - | \$ - | \$ 24,171 | \$ 216,312 | \$ - | \$ 216,312 |
| Due to Other Funds | 418,161 | - | 107,367 | 27,602 | - | - | 394 | - | - | 553,524 | - | 553,524 |
| TOTAL LIABILITIES | 436,712 | 19,487 | 141,607 | 27,602 | - | 119,863 | 394 | - | 24,171 | 769,836 | - | 769,836 |
| FUND BALANCE | | | | | | | | | | | | |
| Nonspendable Fund Balance | - | - | - | - | - | - | - | - | - | - | - | - |
| Restricted Fund Balance | 2,849,843 | 577,305 | - | 116,175 | 90,124 | 358,638 | 44,575 | 318,926 | 592,257 | 4,947,843 | 338 | 4,948,181 |
| Committed Fund Balance | - | - | - | - | - | - | - | - | - | - | - | - |
| Assigned Fund Balance | - | - | - | - | - | - | - | - | - | - | - | - |
| TOTAL FUND BALANCE | <u>2,849,843</u> | <u>577,305</u> | <u>-</u> | <u>116,175</u> | <u>90,124</u> | <u>358,638</u> | <u>44,575</u> | <u>318,926</u> | <u>592,257</u> | <u>4,947,843</u> | <u>338</u> | <u>4,948,181</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 3,286,555</u> | <u>\$ 596,792</u> | <u>\$ 141,607</u> | <u>\$ 143,777</u> | <u>\$ 90,124</u> | <u>\$ 478,501</u> | <u>\$ 44,969</u> | <u>\$ 318,926</u> | <u>\$ 616,428</u> | <u>\$ 5,717,679</u> | <u>\$ 338</u> | <u>\$ 5,718,017</u> |

See independent auditors' report

CITY OF BESSEMER, ALABAMA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended September 30, 2018

| | Special Revenue Funds | | | | | | | | | Capital Projects Fund | Total Nonmajor Governmental Funds | |
|---|--------------------------|---------------------------|------------------|-------------------|-----------------------|---------------------|---------------------------|--------------------|-------------------|-----------------------------|---|--------------------------------|
| | Community Development | Confiscated Drug Funds | TIF District | Police Grant | State Seized Funds | 7-Cents Gas Fund | 4- and 5-Cent Gas Fund | 1-Cent Gas Fund | E-911 | | | Total Special Revenue Funds |
| REVENUES | | | | | | | | | | | | |
| Taxes | \$ - | \$ - | \$ 794,016 | \$ - | \$ - | \$ 280,112 | \$ 258,341 | \$ 450,432 | \$ - | \$ 1,782,901 | \$ - | \$ 1,782,901 |
| Intergovernmental | 358,712 | - | - | 168,305 | 78,416 | 5,727,494 | - | - | - | 6,332,927 | - | 6,332,927 |
| Charges for Services | - | - | - | - | - | - | - | - | 594,503 | 594,503 | - | 594,503 |
| Other | 295,477 | 1,011,355 | - | - | - | - | - | - | - | 1,306,832 | - | 1,306,832 |
| TOTAL REVENUES | 654,189 | 1,011,355 | 794,016 | 168,305 | 78,416 | 6,007,606 | 258,341 | 450,432 | 594,503 | 10,017,163 | - | 10,017,163 |
| EXPENDITURES | | | | | | | | | | | | |
| Public Safety | - | 218,250 | - | 44,097 | - | - | - | - | 561,040 | 823,387 | - | 823,387 |
| Public Improvements | - | - | - | - | - | - | - | - | - | - | - | - |
| General Government | 610,308 | - | 361,632 | 10,033 | 30,000 | 731,096 | - | - | - | 1,743,069 | - | 1,743,069 |
| Capital Outlays | 256,552 | 718,830 | - | - | 5,170 | 5,882,844 | - | - | 59,263 | 6,922,659 | - | 6,922,659 |
| TOTAL EXPENDITURES | 866,860 | 937,080 | 361,632 | 54,130 | 35,170 | 6,613,940 | - | - | 620,303 | 9,489,115 | - | 9,489,115 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (212,671) | 74,275 | 432,384 | 114,175 | 43,246 | (606,334) | 258,341 | 450,432 | (25,800) | 528,048 | - | 528,048 |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | | | | |
| Operating Transfers | | | | | | | | | | | | |
| Transfers In | - | - | 257,564 | 2,000 | - | 1,354,972 | - | - | - | 1,614,536 | - | 1,614,536 |
| Transfers Out | (68,146) | - | (690,592) | - | - | (390,000) | (214,500) | (1,140,472) | - | (2,503,710) | - | (2,503,710) |
| TOTAL OTHER FINANCING SOURCES (USES) | (68,146) | - | (433,028) | 2,000 | - | 964,972 | (214,500) | (1,140,472) | - | (889,174) | - | (889,174) |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES, OTHER FINANCING USES, AND SPECIAL ITEMS | (280,817) | 74,275 | (644) | 116,175 | 43,246 | 358,638 | 43,841 | (690,040) | (25,800) | (361,126) | - | (361,126) |
| FUND BALANCES – BEGINNING OF YEAR | 3,130,660 | 503,030 | 644 | - | 46,878 | - | 734 | 1,008,966 | 618,057 | 5,308,969 | 338 | 5,309,307 |
| FUND BALANCES – END OF YEAR | \$ 2,849,843 | \$ 577,305 | \$ - | \$ 116,175 | \$ 90,124 | \$ 358,638 | \$ 44,575 | \$ 318,926 | \$ 592,257 | \$ 4,947,843 | \$ 338 | \$ 4,948,181 |

See independent auditors' report.

Constitutional Debt Limits

General. Pursuant to Section 225 of the Constitution of Alabama of 1901, no city, town or other municipal corporation having a population of 6,000 or more, except as hereinafter described, shall be indebted in an amount, including present indebtedness, exceeding twenty (20%) per centum of the assessed value of the property therein. The total assessed value of the property in the City as assessed for City taxation (including motor vehicles and net of exemptions) for the tax year that ended on September 30, 2017, for which taxes became due and payable on October 1, 2018, is \$371,809,632. Consequently, the general constitutional debt limitation currently applicable to the City is \$74,361,926.

The Constitution of Alabama excepts from the debt limit of cities having a population of 6,000 or more, such as the City, several categories of indebtedness. These are (i) temporary loans, to be paid in one year, made in anticipation of the collection of taxes and not exceeding one-fourth of the general revenues; (ii) bonds or other obligations already issued, or which may hereafter be issued, for the purpose of acquiring, providing or constructing school houses, waterworks and sewers; (iii) obligations incurred and bonds issued for street or sidewalk improvements, where the cost of the same, in whole or in part, is to be assessed against the property abutting said improvements; and (iv) Section 94.01 indebtedness, discussed below. Further, under existing law, the amount of any indebtedness chargeable against the constitutional debt limit is reduced by the amount of any escrow or sinking fund held for the payment of such indebtedness. Indebtedness chargeable against the constitutional debt limit does not include obligations payable solely from the revenues derived from a project which was acquired with the proceeds of such obligations.

Excluding obligations which are not chargeable to its general constitutional debt limit because advance refunding escrows have been established for their payment, but including the Series 2013-A Warrants, the Series 2013-C Warrants, the Series 2014-E Warrants, the Airport Authority Funding Agreement, and the Compensated Absences Liability, the outstanding debt of the City chargeable against its general constitutional debt limit as of September 30, 2018, was \$47,941,519. Consequently, the City may hereafter incur additional indebtedness in the approximate amount of \$26,420,407 for other than exempt purposes without exceeding its general constitutional debt limit.

Future borrowing by the City for the purposes of acquiring, providing, or constructing schoolhouses, waterworks and sewers will not reduce the current unused general constitutional debt capacity of \$26,420,407. The constitutional debt capacity of the City will increase with any increase in the assessed value of taxable property in the City.

Section 94.01. By virtue of the provisions of Amendment 772 to the Constitution of Alabama of 1901 (now codified as Section 94.01 of said Constitution and herein referred to as "Section 94.01"), certain bonds, warrants, and other securities issued by the City for economic or industrial development purposes, which may themselves be issued without the necessity of approval of the electorate in an amount up to fifty percent (50%) of the assessed value of the property in the City, are not chargeable to the generally applicable twenty percent (20%) debt limit and may be additionally secured by a pledge of such taxes and other revenues as the City may levy for such purposes. The City's Series 2014-D Warrants were issued pursuant to the provisions of Section 94.01 to refund certain warrants that had been issued to finance various public infrastructures related to a commercial shopping center developed and constructed within the City. Accordingly, the Series 2014-D Warrants are not chargeable against the generally applicable debt limit of 20% of assessed value of property in the City, but rather are chargeable against the separate 50% debt limit of Section 94.01.

CITY OF BESSEMER, ALABAMA
Statement of Constitutional Debt Limits — Continued
September 30, 2018

The following statement reflects the City's legal debt margins as of September 30, 2018:

City of Bessemer, Alabama
Statement of Legal Debt Margins

| | |
|---|----------------------------|
| Net assessed value of taxable property (as of September 30, 2017) ^[1] | \$ 371,809,632 |
| General debt limit (20% of assessed value) | \$ 74,361,926 |
| Section 94.01 debt limit | \$ 185,904,816 |
| Total chargeable indebtedness ^[2] | |
| General Obligation Warrants, Series 2013-A | \$ 22,110,000 |
| General Obligation Warrants, Series 2013-C | 11,045,000 |
| General Obligation Warrants, Series 2014-E | 6,945,000 |
| Airport Authority Funding Agreement | 641,753 |
| Compensated Absences Liability | <u>7,199,766</u> |
| Total chargeable debt outstanding | \$ 47,941,519 |
| Less: Bonds or Warrants for exempt purposes | <u> -</u> |
| Total debt chargeable against general debt limit | \$ 47,941,519 |
| General legal debt margin | \$ 26,420,407 |
| Total debt chargeable against Section 94.01 debt margin | \$ 18,180,000 |
| Section 94.01 legal debt margin | \$ 167,724,816 |

^[1] Includes real and personal property (\$335,656,680) and motor vehicles (\$36,152,952), net of exemptions.

^[2] Does not include normal accounts payable or accrued but unpaid interest on outstanding indebtedness.

KELLUM, WILSON & ASSOCIATES, P.C.

Certified Public Accountants

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(1927-2005)

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Members of the City Council
Bessemer, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bessemer, Alabama (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Bessemer's basic financial statements and have issued our report thereon dated June 24, 2019. Our report includes a reference to other auditors who audited the financial statements of the Bessemer Public Library, the City of Bessemer, Alabama Water Service Department and the City of Bessemer, Alabama Electric Service Department, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses: 04-1, 06-1, 12-2, 15-1, 18-1, and 18-2.

Compliance and Other Matters

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

City of Bessemer, Alabama's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Kellum, Wilson & Associates, P.C." The signature is written in a cursive, flowing style.

Kellum, Wilson and Associates, P.C.

June 24, 2019

KELLUM, WILSON & ASSOCIATES, P.C.

Certified Public Accountants

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

Honorable Mayor and Members of the City Council
Bessemer, Alabama

Report on Compliance for Each Major Federal Program

We have audited the City of Bessemer, Alabama's (the "City"), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2018. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

MEMBERS OF

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS - ALABAMA STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

Report on Internal Control over Compliance

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

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

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

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

A handwritten signature in black ink that reads "Kellum, Wilson & Associates, P.C." The signature is written in a cursive, flowing style.

Kellum, Wilson & Associates, P.C.

June 24, 2019

SUPPLEMENTAL SCHEDULES

CITY OF BESSEMER
 Schedule of Expenditures of Federal Awards
 For the Year Ended September 30, 2018

| <u>FEDERAL GRANTOR, PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</u> | <u>CFDA NUMBER</u> | <u>FEDERAL EXPENDITURES</u> |
|--|------------------------|-----------------------------------|
| U.S. Department of Agriculture | | |
| Passed through Appalachian Regional Commission: Local Food Promotion Program | 10.172 | \$ 8,033 |
| U.S. Department of Justice | | |
| Passed through ADECA: Juvenile Justice Title II Formula Grant | 16.540 | 41,065 |
| COPS | 16.710 | 173,103 |
| Byrne JAG Program | 16.738 | 30,610 |
| Equitable Sharing Program | 16.922 | 925,980 |
| Bullet Proof Vest | 16.607 | 20,448 |
| U.S. Department of Transportation | | |
| Passed through State of Alabama Highway Department (ATRIP): Highway Planning and Construction | 20.205 | 5,696,443 |
| Executive Office of the President | | |
| Passed through Alabama Department of Public Safety: High Intensity Drug Trafficking Areas Program | 07.999 | 18,044 |
| U. S. Department of Housing and Urban Development | | |
| Community Development Block Grant | 14.228 | <u>464,972</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | \$ <u><u>7,378,698</u></u> |

CITY OF BESSEMER, ALABAMA

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Bessemer, Alabama (the Government) under programs of the federal government for the year ended September 30, 2018. The accompanying notes are an integral part of this schedule. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Government, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Government.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Government has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C – MATCHING REQUIREMENTS

Certain Federal programs require the Government to contribute nonfederal funds (matching funds) to support the federally-funded programs. The Government has met its matching requirements. The Schedule does not include the expenditure of nonfederal matching funds.

CITY OF BESSEMER, ALABAMA
 Schedule of Findings and Questioned Costs
 For the Year Ended September 30, 2018

Section I: Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Qualified

Internal control over financial reporting:

Any material weakness(es) identified? Yes X No

Any significant deficiencies identified not considered to be material weakness? Yes None reported X

Any noncompliance material to financial statements noted? Yes No X

Federal Awards

Internal control over major programs:

Any material weakness(es) identified? Yes No X

Any significant deficiencies identified not considered to be material weakness? Yes None reported X

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

Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance Yes No X

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|-------------|--|
| 20.205 | Highway Planning and Construction Equitable Sharing Program |
| 16.922 | |

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee Yes No X

Section II: Financial Statements Findings

Finding 04-1 Unreconciled Cash Balances

Condition: Bank reconciliations were not performed and reviewed in a timely manner. Upon review of the delinquent bank reconciliations, it was also noted that outstanding items were not reviewed for relevance or verified to see if the payments were alternately made and that reconciliation adjustments are not consistently posted to the general ledger.

Criteria: Basic accounting procedures require that ending balances in cash accounts be reconciled to the balances reported in the general ledger on a monthly basis. Adjustments to properly record and recognize reconciling items should be prepared. The reconciliation, including adjustments required for reconciling items, should be completed by a senior accountant. A senior accountant should then also verify the reconciled balance back to the posted general ledger. The Finance Director should review that the task has been properly completed each month.

Effect: A failure to perform account reconciliations and to review the cash reconciliations and approve needed adjustments in a timely manner indicates that the accounting process may not be sufficient to safeguard the City's assets against misappropriation, fraud, theft, or irregularities.

Recommendation: We recommend that all cash accounts be reconciled to the general ledger each month and that all entries necessary to properly report cash balances be prepared, reviewed, approved, and recorded no later than 15 to 20 days after the close of the month. Long outstanding items should routinely be reviewed for relevance or verified to see if the payments were alternatively made or if the funds should be remitted to the State of Alabama as unclaimed property.

Corrective Action: A procedure was implemented on June 1, 2015, that accounts are reconciled on a monthly basis. Continued improvements are expected in this area with continued training, monitoring, and the continued addressing of internal issues. Staffing issues are being addressed to ensure that this condition is remedied.

Finding 06-1 Monthly Reconciliation and Review Procedures

Condition: We noted that monthly account reconciliations, financial statement review, and approvals were not completed for many accounts. We also encountered discrepancies in many supporting schedules, and in some instances supporting schedules could not be provided. Payroll liabilities and the Community Development noncash accounts were not routinely reconciled. The timeliness of account reconciliations and subsequent corrections needs improvement.

Criteria: According to 45 CFR Part 74, Section 74, 21(b), a recipient's financial management system should provide "accurate, current, and complete disclosure with the reporting requirements set forth" and should include "accounting records.....that are supported by source documentation." Accounting tasks such as monthly reconciliations, cross-checks, and reviews play a key role in proving the accuracy of accounting data and financial information that comprise interim and year-end financial statements. Complete and accurate supporting schedules are necessary for complete and accurate financial statements.

Effect: Audit adjustments had to be made at year-end to accurately state balances.

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Recommendation: We suggest that the finance team develop a timeline to get account reconciliations current for all balance sheet accounts. All balance sheet accounts should be assigned to an accountant to reconcile and all reconciliations should be submitted for review to the Finance Director. Correcting entries should be posted to the general ledger by the given deadline. That will ensure monthly reconciliations and financial statements reviews are performed and approved as a customary part of the accounting process. All necessary adjusting entries should be investigated, approved, and posted on a monthly or other regularly scheduled basis. In addition, we recommend that certain personnel improve and/or acquire different skills concerning the preparation of supporting schedules for balances recorded in the general ledger.

Corrective Action: A procedure was implemented on June 1, 2015, that accounts are reconciled on a monthly basis. All balance sheet accounts have been assigned to a staff member for reconciliation. Improvements have been made and significantly less audit entries have been made. Continued improvements are expected in this area with training, monitoring, and with the continued addressing of internal issues. Staffing issues are being addressed to ensure that this condition is remedied.

Finding 12-2 Complete and Accurate Posting of Community Development Activity

Condition: Several transactions the General Fund paid for Community Development have not been posted in the Community Development fund accounts. We also noted that the activity for the Community Development accounts was not timely posted to the general ledger. The posting of expenditures has been improved by the addition of expense accounts for each program versus only one all-encompassing "expense" account. However, transfers between accounts continue to be posted as revenue and expense instead of transfers. Also, while the servicing of the Community Development loans and the subsidiary ledgers for these loans are being maintained, the general ledger accounts for these balances are not adjusted to reflect the activity and balances the subsidiary ledgers indicate.

Criteria: According to 45 CFR Part 74, Section 74, 21(b), a recipient's financial management system should provide "accurate, current, and complete disclosure with the reporting requirements set forth" and should include "accounting records.....that are supported by source documentation." Accounting tasks such as monthly reconciliations, cross-checks, and reviews play a key role in proving the accuracy of accounting data and financial information that comprise interim and year-end financial statements. Complete and accurate supporting schedules, including the general ledger detail, are necessary for complete and accurate financial statements.

Effect: A failure to perform account reconciliations, to post adjustments, and to review the non-cash reconciliations in a timely manner indicates that the accounting process may not be sufficient to safeguard the City's assets against misappropriation, fraud, theft, or irregularities. By not classifying expenditures into meaningful categories, management cannot adequately monitor financial performance and spending trends.

Recommendation: We recommend that these issues be addressed immediately. General ledger posting should be maintained on a daily basis and categorized in such a way that is meaningful to management. Inter-fund transactions should be reconciled and verified as being posted in each fund. All reconciliations should be completed by the accounting staff, adjustments posted to the general ledger, and forwarded for review to the Finance Director.

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Corrective Action: Training has also been provided to Community Development to ensure that documents and records are timely forwarded to Finance to facilitate recording and maintenance of loans. Additional processes are being put in place to train and coordinate with Community Development to aid in timely recording of transactions.

Finding 15-1 Centralized Recordkeeping for Compensated Absences

Condition: During our audit, we noted that there were no City-wide policies established for documenting compensated absences. Each department has a separate system for documenting employee leave time.

Criteria: In financial reporting, accurate valuation of liabilities is vital to presenting financial statements that are materially correct. Compensated absences represent a large liability for the City and continual monitoring is essential to ensure that accurate records are maintained. Inaccurate tracking and accumulation can have an adverse effect on the financial position of the City.

Effect: The lack of policies and procedures for documenting compensated absences increases the risk of error and/or fraud.

Recommendation: We recommend that City-wide policies and procedures be implemented to document leave time and accrued compensated absences. We further recommend that the City track and record time for employees through a centralized system that would allow each department to input the information and approvals for time off. With a centralized system, the Finance Department could more effectively monitor and evaluate compensated absences.

Corrective Action: The City currently has time management software which has not been implemented City-wide. The Finance Director is currently working with the Information Technology Department, as well as other City administrators to implement this centralized time keeping system.

Finding 18-1 Timeliness of Depositing Monies Collected and Disbursements from Concessions

Condition: During our testing of the funds deposited on behalf of the Recreation Center, it was noted that there was a considerable time lag in the date the concessions were collected and the date funds were receipted and deposited with the Revenue Department. Upon inquiry of procedures, we found that game officials were paid in cash out of the undeposited concession funds.

Criteria: Controls over concession cash and proper reporting of disbursements, especially those for services which may require further federal reporting, need to be devised and enforced. Also, common business practices dictate that funds received should be promptly receipted and deposited in the bank. The risk of loss or misappropriation of funds increases the longer funds remain outside of the security of a financial institution.

Effect: Without the full reporting of the funds received and the amounts withdrawn, there is no means to assess if all funds are accounted for or how/if they have been spent. The services rendered may cause the City to have a 1099 filing requirement; however, that information is not being properly gathered.

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Recommendation: We recommend that stronger cash controls be implemented over concession receipts and that these funds should be deposited on a timely basis with the Revenue Department as specified in the Finance Department's policies. Also, we recommend the Finance Department develop a policy on how the City wants to facilitate the payment of game officials/event workers and then monitor that procedures are followed.

Corrective Action: The City has a policy that all departments responsible for the collection of funds remit those funds, along with daily reports, to the City's Revenue department. Prior to the 2018 audit, the Finance staff held meetings with the Director of the Recreation Center and staff to reiterate the City policy for cash management and reporting.

Finding 18-2 Late Payments of Insurance for Escrowed Mortgagees

Condition: In our testing of Community Development, we noted that several of the insurance policies for the mortgagees in the Residential Rehab program were not paid until after the expiration date. In one instance, the 30-day grace period had expired and the policy had lapsed. These were mortgagees that had paid into escrow accounts and had sufficient funds available to pay these policies.

Criteria: As the loan servicer for these mortgages, it is the responsibility of the Community Development department to ensure that disbursements for escrowed items are quantified and remitted in a timely fashion to ensure continued coverage. Escrowed funds are trustee-held funds and as such, carry a higher level of responsibility to ensure they are properly disbursed according to their intended purpose.

Effect: The lapsing of insurance would become particularly problematic if an event occurred during the lapsed period that would warrant an insurance claim. This would have financial and political ramifications.

Recommendation: We recommend that a better system of tracking when these insurance policies renew and a more proactive approach be taken to ensure timely payments of these policies. Alternately, we recommend Community Development outsource the servicing of these loans.

Corrective Action: This issue has been discussed with the Community Development Director. The Director will receive monthly reports from the City's loan service provider to ensure that timely escrow payments received are remitted to the proper agencies.

Section III: Federal Awards Findings

None