

CITY OF BESSEMER
Bessemer, Alabama

Financial Statements and
Supplemental Information

September 30, 2014

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 respective budgetary comparison for the General Fund of the City of Bessemer, Alabama (the "City"), as of and for the year ended September 30, 2014, 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 57 percent, 74 percent, and 48 percent, respectively, of the assets, net position, and revenues of the City. Those financial statements were audited by other auditors, whose reports thereon 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 on the reports of the other auditors.

Except as discussed in the following paragraph, 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 *Governmental 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.

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 10 percent, 25 percent, and 7 percent, respectively, of the assets, net position, and revenues of the City's aggregate discretely presented component units.

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

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

Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had BAA's financial statements been audited 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 respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information and the respective budgetary comparison for the General Fund of the City as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity 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 and budgetary comparison information on pages 4 through 12 and 20 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The schedules of funding progress on pages 65 and 66 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board Statement No. 50, Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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, and 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

Other Matters – Continued

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 financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of the other auditors, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2015, 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 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 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.

A handwritten signature in black ink that reads "Kellum, Wilson & Associates, P.C." in a cursive script.

Kellum, Wilson & Associates, P.C.

June 24, 2015

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

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, 2014. 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 assets and deferred outflows of the City of Bessemer exceeded its liabilities at the close of the fiscal year ending September 30, 2014, by \$47,769,892. Of this amount, \$32,305,482 is restricted.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$45,360,409.

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 and liabilities, with the difference between the two 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.

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.

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

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, the capital projects fund, and the debt service fund, which are considered to be major funds. Data from the remaining nine 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 67).

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, 2014**

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 34.

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, assets and deferred outflows exceeded liabilities by \$47,769,892 at the close of the most recent fiscal year.

**CONDENSED STATEMENT OF NET POSITION
September 30, 2014 and 2013**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>		<u>Total Component Units 2014</u>
	<u>2014</u>	<u>2013 As Restated</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013 As Restated</u>	
Assets							
Current and Other							
Assets	\$ 50,852,486	\$ 36,545,531	\$ 63,294,290	\$ 57,520,076	\$ 114,146,776	\$ 94,065,607	\$ 3,208,472
Capital Assets (Net)	<u>42,226,317</u>	<u>40,844,205</u>	<u>58,946,086</u>	<u>56,567,778</u>	<u>101,172,403</u>	<u>97,411,983</u>	<u>38,557,422</u>
Total Assets	<u>93,078,803</u>	<u>77,389,736</u>	<u>122,240,376</u>	<u>114,087,854</u>	<u>215,319,179</u>	<u>191,477,590</u>	<u>41,765,894</u>
Deferred Outflows	<u>13,388,364</u>	<u>-</u>	<u>552,653</u>	<u>-</u>	<u>13,941,017</u>	<u>-</u>	<u>1,516,854</u>
Liabilities							
Current Liabilities	8,462,652	10,232,300	53,823,978	50,180,427	62,286,630	60,412,727	2,427,974
Long-Term Liabilities	<u>85,688,545</u>	<u>52,684,675</u>	<u>33,515,129</u>	<u>32,406,452</u>	<u>119,203,674</u>	<u>85,091,127</u>	<u>54,358,276</u>
Total Liabilities	<u>94,151,197</u>	<u>62,916,975</u>	<u>87,339,107</u>	<u>82,586,879</u>	<u>181,490,304</u>	<u>145,503,854</u>	<u>56,786,250</u>
Net Position							
Invested in Capital Assets	(17,133,041)	1,816,089	21,147,752	20,458,579	4,014,711	22,274,668	(17,117,129)
Restricted	27,784,907	10,117,589	4,520,575	4,055,725	32,305,482	14,173,314	1,026,548
Unrestricted	<u>1,664,104</u>	<u>2,539,083</u>	<u>9,785,595</u>	<u>6,986,671</u>	<u>11,449,699</u>	<u>9,525,754</u>	<u>2,587,079</u>
Total Net Position	<u>\$ 12,315,970</u>	<u>\$ 14,472,761</u>	<u>\$ 35,453,922</u>	<u>\$ 31,500,975</u>	<u>\$ 47,769,892</u>	<u>\$ 45,973,736</u>	<u>\$ (13,503,502)</u>

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.

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

The City's total net position increased by \$1,796,156 during the fiscal year ended September 30, 2014.

**CONDENSED STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
For the years ended September 30, 2014 and 2013**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>		<u>Total Component Units 2014</u>
	<u>2014</u>	<u>2013</u> As Restated	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u> As Restated	
Revenues							
Program Revenues:							
Charges for Services	\$ 6,546,450	\$ 6,427,183	\$ 52,840,690	\$ 50,604,323	\$ 59,387,140	\$ 57,031,506	\$ 8,143,237
Operating Grants	699,909	37,961	-	-	699,909	37,961	416,937
Capital Grants	-	635,068	-	-	-	635,068	-
General Revenues:							
Property Taxes	7,632,512	7,244,615	-	-	7,632,512	7,244,615	-
Sales Taxes	28,746,213	26,440,940	-	-	28,746,213	26,440,940	-
Occupational Taxes	6,011,628	5,536,693	-	-	6,011,628	5,536,693	-
Investment Earnings	43,402	19,127	33,861	31,818	77,263	50,945	2,290
Other	<u>7,058,529</u>	<u>7,142,226</u>	<u>372,730</u>	<u>797,048</u>	<u>7,431,259</u>	<u>7,939,274</u>	<u>11,970,504</u>
Total Revenues	<u>56,738,643</u>	<u>53,483,813</u>	<u>53,247,281</u>	<u>51,433,189</u>	<u>109,985,924</u>	<u>104,917,002</u>	<u>20,532,968</u>
Special Item	-	-	-	-	-	-	<u>3,478,605</u>
Expenses							
Governmental Activities:							
General Government	16,965,181	11,747,436	-	-	16,965,181	11,747,436	-
Public Improvements	11,270,931	10,112,360	-	-	11,270,931	10,112,360	-
Public Safety	25,264,340	24,116,209	-	-	25,264,340	24,116,209	-
Cultural and Recreation	1,678,799	1,732,334	-	-	1,678,799	1,732,334	-
Interest on Long-Term Debt and Capital Lease	3,716,183	2,347,620	-	-	3,716,183	2,347,620	-
Business-Type Activities:							
Electric	-	-	33,235,577	32,803,665	33,235,577	32,803,665	-
Water	-	-	15,716,453	15,391,255	15,716,453	15,391,255	-
Civic Center	-	-	342,304	336,711	342,304	336,711	-
Component Units Activities:							
GUSC	-	-	-	-	-	-	7,018,018
Commercial Development Authority	-	-	-	-	-	-	-
Cooperative District Exit 108	-	-	-	-	-	-	200,629
Bessemer Airport Authority	-	-	-	-	-	-	<u>1,552,297</u>
Total Expenses	<u>58,895,434</u>	<u>50,055,959</u>	<u>49,294,334</u>	<u>48,531,631</u>	<u>108,189,768</u>	<u>98,587,590</u>	<u>8,770,944</u>
Change in Net Position	(2,156,791)	3,427,854	3,952,947	2,901,558	1,796,156	6,329,412	15,240,629
Beginning Net Position (As Restated)	<u>14,472,761</u>	<u>11,044,907</u>	<u>31,500,975</u>	<u>28,599,417</u>	<u>45,973,736</u>	<u>39,644,324</u>	<u>(28,744,131)</u>
Ending Net Position	\$ <u>12,315,970</u>	\$ <u>14,472,761</u>	\$ <u>35,453,922</u>	\$ <u>31,500,975</u>	\$ <u>47,769,892</u>	\$ <u>45,973,736</u>	\$ <u>(13,503,502)</u>

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

Governmental Activities

Governmental activities decreased the City's net position by \$2,156,791. The main factors contributing to the decrease include: 1) the Utilities Unreimbursed Fleet Allowance to adjust receivables from the Utilities to the net realizable value and 2) the amortization of the deferred outflow related to the Acquisition of the District and the CDA.

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, 2014, are as follows:

**Governmental Funds
Fund Balances
As of September 30, 2014 and 2013**

	Fund Balance <u>2013</u>	Increase (Decrease)	Fund Balance <u>2014</u>
General Fund	\$ 17,233,776	\$ 507,913	\$ 17,741,689
Capital Projects Fund	-	20,240,563	20,240,563
Special Revenue	8,463,726	(1,797,304)	6,666,422
Debt Service	<u>2,450,038</u>	<u>(1,738,303)</u>	<u>711,735</u>
Total Fund Balance	<u>\$ 28,147,540</u>	<u>\$ 17,212,869</u>	<u>\$ 45,360,409</u>

**Proprietary Funds
Net Position
As of September 30, 2014 and 2013**

	Net Position <u>2013</u>	Increase (Decrease)	Net Position <u>2014</u>
Electric	\$ 18,198,309	\$ 1,118,119	\$ 19,316,428
Water	12,873,198	2,879,462	15,752,660
Civic Center	<u>429,468</u>	<u>(44,634)</u>	<u>384,834</u>
Total Net Position	<u>\$ 31,500,975</u>	<u>\$ 3,952,947</u>	<u>\$ 35,453,922</u>

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

**Budget Variances in
General Fund Budget
For Year Ended September 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues	\$ 48,517,889	\$ 52,453,929	\$ 3,936,040
Other Financing Sources (Uses)	<u>990,000</u>	<u>666</u>	<u>(989,334)</u>
Total	49,507,889	52,454,595	2,946,706
Expenditures	<u>49,507,889</u>	<u>51,946,682</u>	<u>2,438,793</u>
Net Change in Fund Balance	\$ <u> -</u>	\$ <u>507,913</u>	\$ <u>507,913</u>

During the 2014 fiscal year, there was a \$507,913 variance in revenue and expenditures between actual and the final budget as amended. The following are the main components of the variance:

The Library is reported as a blended component unit of the City's general fund. The Library adopted a budget for the fiscal year 2014 which has been included in the budget to actual numbers for the General Fund for reporting purposes. The Library's budget reflected anticipated expenditures over revenues of \$37,550 to be funded from the Library's savings. The Library fund accounts for \$79,673 of the net change in actual fund balance and the variance to budget.

Actual revenues were greater than budgeted revenues by \$2,946,706. The City had better than expected consumer spending which resulted in a positive variance from sales tax revenue. The increase in workforce in the City produced higher than expected occupational tax revenue. Collections from property taxes increased over the prior years producing a positive variance. The economic development in the City produced a positive balance in business license collections.

Actual expenditures exceeded budgeted expenditures by \$2,438,793. The City did not budget the total paid to Jefferson County for the Transit Authority and Health Department. The City also created an allowance for the Utilities unreimbursed fleet charges of \$1,235,225 which was not budgeted. The City created the allowance to adjust the asset to the net realizable value carried as a payable on the Electric and Water Department's books. The City does expect to recover this receivable over the long-term once a payment agreement can be reached with the Utilities.

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets Activity

The City's investment in capital assets as of September 30, 2014, amounts to \$61,905,001 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, 2014 and 2013**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 984,959	\$ 834,402	\$ 371,854	\$ 371,854	\$ 1,356,813	\$ 1,206,256
Construction in Progress	1,612,348	-	5,614,449	2,279,392	7,226,797	2,279,392
Property Held for Sale	422,993	484,993	-	-	422,993	484,993
Buildings and Capital Facilities	11,730,601	11,673,354	4,854,905	4,854,905	16,585,506	16,528,259
Furniture and Fixtures	17,852,251	15,839,325	6,348,271	6,078,025	24,200,522	21,917,350
Plant Equipment	-	-	82,283,585	81,873,792	82,283,585	81,873,792
Infrastructure	<u>29,301,849</u>	<u>29,301,849</u>	<u>-</u>	<u>-</u>	<u>29,301,849</u>	<u>29,301,849</u>
Total Capital Assets	\$ 61,905,001	\$ 58,133,923	\$ 99,473,064	\$ 95,457,968	\$ 161,378,065	\$ 153,591,891
Less: Accumulated Depreciation	(<u>19,678,684</u>)	(<u>17,289,718</u>)	(<u>40,526,978</u>)	(<u>38,890,190</u>)	(<u>60,205,662</u>)	(<u>56,179,908</u>)
Net Capital Assets	\$ <u>42,226,317</u>	\$ <u>40,844,205</u>	\$ <u>58,946,086</u>	\$ <u>56,567,778</u>	\$ <u>101,172,403</u>	\$ <u>97,411,983</u>

Long-Term Debt Activity

As of September 30, 2014, the City had \$124,053,924 in outstanding long-term liabilities compared to \$89,542,819 last fiscal year in an overall increase in long-term liabilities of \$34,511,105. The increase is a result of the City's issuance of a portion of the Series 2013-A bonds for the construction of the City Hall and Recreational Center along with the issuance of a portion of the Series 2013-C bonds to acquire the net position of the District and the CDA.

**OUTSTANDING DEBT
September 30, 2014 and 2013**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2014</u>	<u>2013 Restated</u>	<u>2014</u>	<u>2013 Restated</u>	<u>2014</u>	<u>2013 Restated</u>
Warrants Payable	\$ 71,921,274	\$ 39,028,116	\$ 32,653,273	\$ 32,668,844	\$ 104,574,547	\$ 71,696,960
Capital Leases	826,448	-	107,350	131,730	933,798	131,730
OPEB Liability	8,286,029	6,672,733	-	-	8,286,029	6,672,733
Board of Education	866,670	1,400,000	-	-	866,670	1,400,000
Compensated Absences	7,429,384	7,487,380	1,363,496	1,254,016	8,792,880	8,741,396
Other	<u>600,000</u>	<u>900,000</u>	<u>-</u>	<u>-</u>	<u>600,000</u>	<u>900,000</u>
Total Outstanding Debt	\$ <u>89,929,805</u>	\$ <u>55,488,229</u>	\$ <u>34,124,119</u>	\$ <u>34,054,590</u>	\$ <u>124,053,924</u>	\$ <u>89,542,819</u>

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

Economic Factors Affecting the City of Bessemer and the 2014 Budgeted Information

Two notable Bessemer companies recently announced expansion plans. Milo's Tea began a \$13 million expansion of its facility off Morgan Road in Bessemer. The expansion project will create new jobs and allow the company to expand its footprint nationwide.

Masonry Arts announced the formation of a new company, JB Processing. The company is in the process of a \$34 million expansion project on Third Avenue North and 22nd Street in downtown Bessemer. The project will create new jobs and transform a blighted area.

Steyr Arms, a world renowned gun distributor, relocated its North American operations to Bessemer.

The Mayor also hailed the new leadership at Alabama Splash Adventure, the state's only amusement and waterpark.

The Council approved a three percent cost-of-living increase for all city employees in the 2015 budget.

The city's crime rate continued to fall. In his State of the City Address, Mayor Gulley announced the city's crime rate had dropped 30 percent since 2011, creating a safer environment in the city.

In 2014, the city's Building Department issued building permits in excess of \$23 million on commercial projects and \$5 million on residential projects.

The positive outlook for the City was considered in the preparation of the 2014-15 budget. The budget was passed for \$47 million dollars and is available for viewing on the City's website. Future plans include: building sidewalks around City elementary schools, constructing a bike and walking trail along an old Railroad bed on 14th Street, upgrades to municipal parks, and construction of a new Recycling Center downtown.

Bessemer Utilities – Electric

The Electric System's management has continued its incorporation of its minimum cash reserve policy. This policy was incorporated in a prior fiscal year in an effort to help maintain financial flexibility and smooth rate adjustments in view of compounded impacts of turbulent storms, sluggish economy, changing energy prices and capital improvement needs. As such, the intended "management restricted" reserves were set aside for an annual debt service expenditure and electric system contingencies. The electric system contingency reserves may be updated and reviewed by management and the Mayor annually. The remaining unrestricted net assets may be used to meet Electric Service's ongoing obligations.

The 2014 fiscal year ended with a turbulent EF-2 tornado on April 28th. With the assistance of TVA's Valley Electric Utilities, power was restored to all customers in an efficient manner. This event demonstrated the need for management's contingency reserves. Bessemer Electric's goal, despite economic obstacles and its history of turbulent storms, is to help our customer base to be stronger, more energy efficient, and better prepared.

Bessemer Utilities – Water

Bessemer Water Service continues to analyze its Water Service infrastructure with an objective to validate any changes to, and/or upgrades to its infrastructure and fixed assets. Management executed upgrades to its pump stations in the 2014 fiscal year. The pump station upgrades included replacing and/or re-building motors and pumps, with adequate additional back up pumps warehoused. In addition, management commenced renovations to its Lipscomb and Holbrook water tanks at a proposed cost of 1.2 million. The Lipscomb tank was completed the Holbrook tank was initiated with an estimated completion in the 2015 fiscal year. Funds were utilized from our Water Capital Recovery fee, initiated for infrastructure upgrades, and general revenues.

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

Bessemer Utilities – Water – Continued

The 2014 fiscal year continued to demonstrate signs of economic recovery. As our consumers become more knowledgeable about efficient water usage, we shall continue to undertake our own in-house efficiency adjustments. New business investment in the Water Service area also continues to suggest signs of economic recovery. Bessemer Water Service anticipates continued business investment for the area. As a result, it is Bessemer Water Service's point of view, despite economic obstacles; our customer base will emerge stronger and better prepared for future aberrations.

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, 1800 Third Avenue North, Bessemer, Alabama 35020.

CITY OF BESSEMER, ALABAMA
Statement of Net Position
September 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
CURRENT ASSETS				
Cash and Investments	\$ 20,838,787	\$ 10,801,752	\$ 31,640,539	\$ 219,165
Cash and Investments – Restricted	20,952,298	4,520,576	25,472,874	1,899,420
Receivables				
Accounts	4,889,195	12,049,372	16,938,567	1,005,148
Loans	2,066,247	2,510,025	4,576,272	-
Due from Component Units	-	-	-	-
Due from Proprietary Funds	-	31,579,277	31,579,277	-
Due from Other Governments	994,251	-	994,251	-
Inventories	238,412	934,069	1,172,481	26,220
Deferred Compensated Absences	-	572,234	572,234	-
Prepaid Expenses	-	248,555	248,555	58,519
TOTAL CURRENT ASSETS	49,979,190	63,215,860	113,195,050	3,208,472
NONCURRENT ASSETS				
Capital Assets				
Nondepreciated				
Land	984,959	371,854	1,356,813	3,073,353
Property Held for Resale	422,993	-	422,993	-
Construction in Progress	1,612,348	5,614,449	7,226,797	-
Depreciated				
Building and Capital Facilities	11,730,601	4,854,905	16,585,506	48,543,170
Furniture and Other Equipment	17,852,251	88,631,856	106,484,107	459,986
Infrastructure	29,301,849	-	29,301,849	1,797,802
Accumulated Depreciation	(19,678,684)	(40,526,978)	(60,205,662)	(15,316,889)
Total Capital Assets	42,226,317	58,946,086	101,172,403	38,557,422
Other Assets				
Deferred Loans Receivable	873,296	-	873,296	-
Customers' Home Insulation Loans	-	78,430	78,430	-
TOTAL NONCURRENT ASSETS	43,099,613	59,024,516	102,124,129	38,557,422
TOTAL ASSETS	93,078,803	122,240,376	215,319,179	41,765,894
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Charge on Refunding	3,231,141	552,653	3,783,794	1,516,854
Deferred Charge on Acquisition	10,157,223	-	10,157,223	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 13,388,364	\$ 552,653	\$ 13,941,017	\$ 1,516,854

The notes to the financial statements are an integral part of this statement.

CITY OF BESSEMER, ALABAMA
Statement of Net Position – Continued
September 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
LIABILITIES				
CURRENT LIABILITIES				
Accounts and Vouchers Payable	\$ 2,735,218	\$ 7,571,739	\$ 10,306,957	\$ 215,221
Accrued Payroll and Payroll Taxes Payable	1,063,741	-	1,063,741	31,975
Accrued Interest	422,433	-	422,433	862,343
Due to Other Funds	-	45,123,753	45,123,753	2,160
Current Maturities of Long-Term Liabilities				
Due to Board of Education	399,996	-	399,996	-
Compensated Absences	1,188,701	218,160	1,406,861	-
Capital Lease Payable	107,563	25,326	132,889	-
Notes Payable	300,000	-	300,000	-
Bonds and Warrants Payable	2,245,000	885,000	3,130,000	1,316,275
TOTAL CURRENT LIABILITIES	8,462,652	53,823,978	62,286,630	2,427,974
NONCURRENT LIABILITIES				
Due to Board of Education	466,674	-	466,674	-
Capitalized Leases	718,885	82,024	800,909	-
OPEB Liability	8,286,029	-	8,286,029	-
Compensated Absences	6,240,683	1,145,336	7,386,019	-
Notes Payable	300,000	-	300,000	-
Bonds and Warrants Payable	69,676,274	31,768,273	101,444,547	54,358,276
Other Liabilities	-	519,496	519,496	-
TOTAL NONCURRENT LIABILITIES	85,688,545	33,515,129	119,203,674	54,358,276
TOTAL LIABILITIES	94,151,197	87,339,107	181,490,304	56,786,250
NET POSITION				
Invested in Capital Assets	(17,133,041)	21,147,752	4,014,711	(17,117,129)
Restricted for:				
Debt Service	711,735	4,520,575	5,232,310	1,026,548
Capital Projects	20,240,563	-	20,240,563	-
Community Development Loans	2,066,247	-	2,066,247	-
Special Projects	4,766,362	-	4,766,362	-
Unrestricted	1,664,104	9,785,595	11,449,699	2,587,079
TOTAL NET POSITION	\$ 12,315,970	\$ 35,453,922	\$ 47,769,892	\$ (13,503,502)

The notes to the financial statements are an integral part of this statement.

CITY OF BESSEMER, ALABAMA
Statement of Activities
For the Year Ended September 30, 2014

	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		Total	
					Governmental Activities	Business-Type Activities		
FUNCTIONS								
PRIMARY GOVERNMENT								
Governmental Activities								
General Government	\$ 16,965,181	\$ 4,309,429	\$ 648,534	\$ -	\$ (12,007,218)	\$ -	\$ (12,007,218)	
Public Safety	25,264,340	1,397,263	21,876	-	(23,845,201)	-	(23,845,201)	
Public Improvements	11,270,931	780,700	-	-	(10,490,231)	-	(10,490,231)	
Cultural and Recreation	1,678,799	59,058	29,499	-	(1,590,242)	-	(1,590,242)	
Interest on Capital Lease	-	-	-	-	-	-	-	
Interest on Long-Term Debt	3,716,183	-	-	-	(3,716,183)	-	(3,716,183)	
Total Governmental Activities	58,895,434	6,546,450	699,909	-	(51,649,075)	-	(51,649,075)	
Business-Type Activities								
Civic Center	342,304	175,556	-	-	-	(166,748)	(166,748)	
Electric Service	33,235,577	34,124,483	-	-	-	888,906	888,906	
Water Service	15,716,453	18,540,651	-	-	-	2,824,198	2,824,198	
Total Business-Type Activities	49,294,334	52,840,690	-	-	-	3,546,356	3,546,356	
TOTAL PRIMARY GOVERNMENT	\$ 108,189,768	\$ 59,387,140	\$ 699,909	\$ -	(51,649,075)	3,546,356	(48,102,719)	
COMPONENT UNITS								
Governmental Utility Services Corporation	\$ 7,018,018	\$ 7,175,984	\$ -	\$ -				\$ 157,966
Commercial Development Authority	-	-	-	-				-
Co-Operative District Academy Drive	200,629	-	-	-				(200,629)
Bessemer Airport Authority	1,552,297	967,253	416,937	-				(168,107)
TOTAL COMPONENT UNITS	\$ 8,770,944	\$ 8,143,237	\$ 416,937	\$ -				(210,770)
GENERAL REVENUES								
Sales and Use Taxes					28,746,213	-	28,746,213	-
Occupational Tax					6,011,628	-	6,011,628	-
Property Tax					7,632,512	-	7,632,512	-
Other Taxes					2,498,975	-	2,498,975	-
Other Income					4,681,656	250,628	4,932,284	18,699
City Allocation					-	-	-	60,000
City Acquisition Proceeds					-	-	-	11,891,805
Unrestricted Investment Earnings					43,402	33,861	77,263	2,290
Transfers					(122,102)	122,102	-	-
Special Item – Disposal of Net Position					-	-	-	3,478,605
Total General Revenues					49,492,284	406,591	49,898,875	15,451,399
Changes in Net Position					(2,156,791)	3,952,947	1,796,156	15,240,629
NET POSITION – BEGINNING OF YEAR AS RESTATED					14,472,761	31,500,975	45,973,736	(28,744,131)
NET POSITION – END OF YEAR					\$ 12,315,970	\$ 35,453,922	\$ 47,769,892	\$ (13,503,502)

The notes to the financial statements are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Balance Sheet

Governmental Funds

As of September 30, 2014

	General Fund	Capital Projects Fund	Debt Service Fund	Other Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 16,267,650	\$ -	\$ 135,812	\$ 4,435,325	\$ 20,838,787
Cash with Escrow Agents	-	20,240,563	711,735	-	20,952,298
Accounts Receivable	4,881,227	-	-	7,968	4,889,195
Loans Receivable	-	-	-	2,066,247	2,066,247
Due from Other Funds	851,137	-	-	131,276	982,413
Due from Other Governments	992,340	-	-	1,911	994,251
Inventories	238,412	-	-	-	238,412
Deferred Loans Receivable	-	-	-	873,296	873,296
TOTAL ASSETS	\$ 23,230,766	\$ 20,240,563	\$ 847,547	\$ 7,516,023	\$ 51,834,899
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts and Vouchers Payable	\$ 2,601,337	\$ -	\$ -	\$ 133,881	\$ 2,735,218
Accrued Payroll and Payroll Taxes Payable	1,063,741	-	-	-	1,063,741
Lease Payable	826,448	-	-	-	826,448
Due to Board of Education	866,670	-	-	-	866,670
Due to Other Funds	130,881	-	135,812	715,720	982,413
TOTAL LIABILITIES	5,489,077	-	135,812	849,601	6,474,490
FUND BALANCES					
Unreserved					
Nonspendable Fund Balance	238,412	-	-	-	238,412
Restricted Fund Balance	166,187	20,240,563	711,735	6,666,422	27,784,907
Committed Fund Balance	1,319,577	-	-	-	1,319,577
Assigned Fund Balance	6,285,355	-	-	-	6,285,355
Unassigned Fund Balance	9,732,158	-	-	-	9,732,158
TOTAL FUND BALANCES	17,741,689	20,240,563	711,735	6,666,422	45,360,409
TOTAL LIABILITIES AND FUND BALANCES	\$ 23,230,766	\$ 20,240,563	\$ 847,547	\$ 7,516,023	

The notes to the financial statements are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Balance Sheet – Continued

Governmental Funds

As of September 30, 2014

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	\$	984,959
Construction in Progress		1,612,348
Property Held for Sale		422,993
Buildings and Capital		11,730,601
Furniture and Fixtures		17,852,251
Infrastructure		29,301,849
Less: Accumulated Depreciation		(19,678,684)

\$ 42,226,317

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	\$	(72,555,000)
Unamortized Premium		(95,682)
Unamortized Discount		729,408
Deferred Charge on Refunding		3,231,141
Deferred Charge on Acquisition		10,157,223
Accrued Interest		(422,433)
OPEB Liability		(8,286,029)
Compensated Absences		(7,429,384)
Note Payable – HUD Section 108		(600,000)

(75,270,756)

Net Position of Governmental Activities

\$ 12,315,970

CITY OF BESSEMER, ALABAMA

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended September 30, 2014

	General Fund	Capital Projects Fund	Debt Service Fund	Other Nonmajor Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 41,243,672	\$ -	\$ 1,791,799	\$ 2,017,814	\$ 45,053,285
Licenses and Permits	4,307,922	-	-	-	4,307,922
Charges for Services	403,298	-	-	649,975	1,053,273
Fines and Forfeitures	1,195,699	-	-	-	1,195,699
Intergovernmental	4,103,267	-	-	648,534	4,751,801
Investment Income	8,226	94	107	34,975	43,402
Other	352,527	-	-	164,836	517,363
TOTAL REVENUES	51,614,611	94	1,791,906	3,516,134	56,922,745
EXPENDITURES					
Public Safety	23,183,285	-	-	429,618	23,612,903
Public Improvements	10,458,317	-	-	-	10,458,317
General Government	10,716,985	336,359	1,093,599	1,704,538	13,851,481
Cultural and Recreation	1,577,702	-	-	-	1,577,702
Total	45,936,289	336,359	1,093,599	2,134,156	49,500,403
Capital Outlays	1,572,857	1,327,572	-	932,649	3,833,078
Debt Service					
Principal	-	-	1,305,000	300,000	1,605,000
Interest	-	-	3,348,122	-	3,348,122
TOTAL EXPENDITURES	47,509,146	1,663,931	5,746,721	3,366,805	58,286,603
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,105,465	(1,663,837)	(3,954,815)	149,329	(1,363,858)
OTHER FINANCING SOURCES (USES)					
Proceeds from Issuance of Bonds	-	19,065,000	49,875,000	-	68,940,000
Discount on Bond Issuance	-	(306,079)	(356,834)	-	(662,913)
Debt Service Principal	-	-	(11,265,000)	-	(11,265,000)
Payment to Bond Escrow Agent	-	-	(26,421,453)	-	(26,421,453)
Transfers from Other Funds	666	3,169,626	2,857,000	11,719,094	17,746,386
Transfers to Other Funds	(3,598,218)	(24,147)	(12,472,201)	(1,773,922)	(17,868,488)
TOTAL OTHER FINANCING SOURCES (USES)	(3,597,552)	21,904,400	2,216,512	9,945,172	30,468,532
SPECIAL ITEM					
Acquisition of the District and the CDA	-	-	-	(11,891,805)	(11,891,805)
NET CHANGE IN FUND BALANCES	507,913	20,240,563	(1,738,303)	(1,797,304)	17,212,869
FUND BALANCES – BEGINNING OF YEAR	17,233,776	-	2,450,038	8,463,726	28,147,540
FUND BALANCES – END OF YEAR	\$ 17,741,689	\$ 20,240,563	\$ 711,735	\$ 6,666,422	\$ 45,360,409

The notes to the financial statements 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, 2014

NET CHANGE IN FUND BALANCES TOTAL GOVERNMENTAL FUNDS \$ 17,212,869

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 issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.

Principal Payments	1,605,000
Issuance of Bonds	(68,940,000)
Bond Discount	662,913
Amortization of Bond Discount	(41,450)
Advanced and Current Refundings	34,120,381
Deferred Charges on Refunding	3,566,072
Amortization of Deferred Charge on Refunding	(334,933)
Deferred Charge on Acquisition of District and CDA	11,891,805
Amortization of Deferred Charge on Acquisition of District and CDA	(1,734,582)
Change in Accrued Interest	8,322

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	3,833,078
Depreciation	(2,388,966)
Cost Basis of Assets Disposed	(62,000)

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.

OPEB Annual Required Contribution	(1,613,296)
Change in Compensated Absences	57,996

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (2,156,791)

CITY OF BESSEMER, ALABAMA

General Fund – Statement of Revenues, Expenditures, and Encumbrances – Budget to Actual
 For the Year Ended September 30, 2014

REVENUES	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
Taxes			
Sales and Use	\$ 27,444,800	\$ 28,322,406	\$ 877,606
Occupational	5,068,000	6,011,627	943,627
Property Taxes County Collection	3,658,000	4,821,348	1,163,348
Financial Institution Excise Tax	-	52,947	52,947
Oil and Gas Privilege Tax	144,000	145,894	1,894
ABC 3% Sales Tax	79,000	77,597	(1,403)
Beer Sales Tax	246,000	229,572	(16,428)
Tobacco Sales Tax	27,000	24,150	(2,850)
Bessemer Electric Service – Lieu of Taxes	-	1,000,000	1,000,000
Cable TV Franchise Tax	253,000	256,447	3,447
Road and Bridge Tax	290,000	301,684	11,684
Total Taxes	<u>37,209,800</u>	<u>41,243,672</u>	<u>4,033,872</u>
Licenses and Permits			
Business	3,391,906	3,866,258	474,352
Motor Vehicle Licenses	100,900	96,397	(4,503)
Manufactured Home Tax	-	206	206
Storm Water	-	134,667	134,667
Building Permits	155,000	188,399	33,399
Electric Permits	14,400	15,659	1,259
Yard Sale Permits	100	76	(24)
Plumbing Permits	2,800	1,781	(1,019)
Gas Permits	1,400	692	(708)
Portable Signs	2,300	3,787	1,487
Total Licenses and Permits	<u>3,668,806</u>	<u>4,307,922</u>	<u>639,116</u>
Operating Transfers			
Transfers from Other Funds	990,000	666	(989,334)
Total Operating Transfers	<u>990,000</u>	<u>666</u>	<u>(989,334)</u>
Intergovernmental (Lieu of taxes)			
State of Alabama TVA	2,280,000	1,856,935	(423,065)
Operating Grants and Emergency Management	2,112,500	1,849,016	(263,484)
State of Alabama Capital Improvements	233,000	234,993	1,993
Payments in Lieu of Taxes	-	299	299
Municipal Court	200,000	142,969	(57,031)
Total Intergovernmental Revenue	<u>4,825,500</u>	<u>4,084,212</u>	<u>(741,288)</u>

The notes to the financial statements 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, 2014

REVENUES	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
Fines and Costs			
Fines and Penalties	1,606,000	1,136,641	(469,359)
Total Fines and Costs	<u>1,606,000</u>	<u>1,136,641</u>	<u>(469,359)</u>
Charges for Services			
Cemetery Lot Sales	19,000	13,650	(5,350)
Cemetery Supplies	5,900	5,685	(215)
Grave Opening	60,000	45,850	(14,150)
Auditorium Rental Fees	-	22,344	22,344
Wrecker Service Proceeds	-	33,500	33,500
Cash Bond Revenue	-	262,130	262,130
Miscellaneous	-	9,695	9,695
Total Charges for Services	<u>84,900</u>	<u>392,854</u>	<u>307,954</u>
Other Operating Revenues			
Interest on Investments	9,400	8,000	(1,400)
Other			
Municipal Assessment	3,400	4,609	1,209
Weed Liens	5,400	5,204	(196)
Photostats – Police Department	28,600	23,793	(4,807)
Appeal Board Fee	2,800	3,550	750
Rental Income	13,000	5,119	(7,881)
Bessemer Utility 48% Mayor's Salary	39,000	37,406	(1,594)
HITDA Grant	-	21,876	21,876
Golf Course Lease	150,000	103,109	(46,891)
Park Board Receipts	12,000	10,766	(1,234)
State Petroleum Inspection Fees	7,000	6,316	(684)
Miscellaneous	8,400	130,779	122,379
Total Other Operating Revenues	<u>279,000</u>	<u>360,527</u>	<u>81,527</u>
Library			
Investment Income	200	226	26
Fines and Costs	50,069	59,058	8,989
JCLC State Aid	14,960	19,055	4,095
E-Rate Reimbursement	10,200	10,444	244
City Appropriation	728,604	839,318	110,714
Other Revenue	2,300	-	(2,300)
Transfer from Savings	37,550	-	(37,550)
Total Library	<u>843,883</u>	<u>928,101</u>	<u>84,218</u>
TOTAL REVENUES	<u>\$ 49,507,889</u>	<u>\$ 52,454,595</u>	<u>\$ 2,946,706</u>

The notes to the financial statements 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, 2014

EXPENDITURES AND ENCUMBRANCES	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
Public Safety			
Police			
Personnel Services	\$ 10,444,939	\$ 9,987,385	\$ (457,554)
Other	1,081,750	1,173,029	91,279
Fire			
Personnel Services	8,618,169	9,037,562	419,393
Other	1,011,200	2,086,136	1,074,936
Building and Inspection			
Personnel Services	661,604	478,262	(183,342)
Other	91,600	55,901	(35,699)
Municipal Court			
Personnel Services	542,000	614,690	72,690
Other	994,500	978,267	(16,233)
Total Public Safety	<u>23,445,762</u>	<u>24,411,232</u>	<u>965,470</u>
Public Improvements			
Administration			
Personnel Services	736,552	697,353	(39,199)
Other	185,500	196,165	10,665
Sanitation			
Personnel Services	2,445,466	2,290,706	(154,760)
Other	1,694,250	1,602,267	(91,983)
Street			
Personnel Services	2,704,659	2,644,526	(60,133)
Other	917,000	896,577	(20,423)
Traffic			
Personnel Services	284,699	199,611	(85,088)
Other	188,100	214,528	26,428
Cemetery			
Personnel Services	505,969	475,851	(30,118)
Other	63,190	59,895	(3,295)
Dog Pound			
Personnel Services	185,719	161,170	(24,549)
Other	128,100	57,251	(70,849)
Fleet Maintenance			
Personnel Services	1,190,585	1,013,801	(176,784)
Other	218,850	189,412	(29,438)
Total Public Improvements	<u>11,448,639</u>	<u>10,699,113</u>	<u>(749,526)</u>

The notes to the financial statements 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, 2014

EXPENDITURES AND ENCUMBRANCES	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
Cultural and Recreational			
Park and Recreation			
Personnel Services	303,720	281,588	(22,132)
Other	213,500	115,686	(97,814)
Civic Center			
Personnel Services	500,601	411,472	(89,129)
Other	175,000	4,489	(170,511)
Library			
Personnel Services	487,300	463,250	(24,050)
Other	356,583	338,538	(18,045)
Total Cultural and Recreational	<u>2,036,704</u>	<u>1,615,023</u>	<u>(421,681)</u>
General Government			
City Clerk and Treasurer			
Personnel Services	933,663	679,037	(254,626)
Other	51,730	28,176	(23,554)
Government Information Systems			
Personnel Services	262,225	231,999	(30,226)
Other	133,100	79,065	(54,035)
Revenue			
Personnel Services	381,631	269,560	(112,071)
Other	17,450	2,673	(14,777)
Mayor and Council			
Personnel Services	1,677,947	1,651,510	(26,437)
Other	234,850	117,802	(117,048)
Non-Departmental			
Municipal Judge	72,000	71,437	(563)
City Attorney	336,000	336,000	-
Auditors	68,000	74,967	6,967
Sales Tax Collection and Audit	175,000	221,336	46,336
GASB 34 Accounting System	-	23,975	23,975
Chamber Tourism	75,000	75,000	-
Bessemer Public Library	672,132	839,318	167,186
Bessemer Airport Authority	60,000	60,000	-
Jefferson County Health Department	-	151,790	151,790
Jefferson County Transit Authority	-	564,143	564,143
Waste Disposal Fee	16,500	7,101	(9,399)
Copier Services	15,000	15,131	131
State Unemployment Insurance	30,000	5,251	(24,749)
CSX Railroad	2,500	2,161	(339)
Workman's Compensation	45,000	93,492	48,492
Employee Drug Abuse	25,000	33,168	8,168

The notes to the financial statements 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, 2014

EXPENDITURES AND ENCUMBRANCES	Final Budget	Actual	Over (Under)
General Government – Continued			
Non-Departmental – Continued			
Alabama League of Municipalities	7,250	7,346	96
Jefferson County Personnel Board	465,000	516,241	51,241
Jefferson County Co-Op	6,806	753	(6,053)
Emergency Management	35,000	36,516	1,516
Birmingham Regional Planning Commission	16,500	16,611	111
Liability and Property	475,000	583,065	108,065
Property Insurance	-	160	160
Legal Claims	225,000	393,273	168,273
Legal Advertising	10,000	17,042	7,042
Building and Equipment Maintenance	20,000	40,706	20,706
Alagasco	23,500	11,347	(12,153)
Electricity	-	37,600	37,600
Water	30,000	93,981	63,981
Telephone	25,000	27,516	2,516
Elevator Service	1,000	1,246	246
Engineering Services	165,000	282,509	117,509
Appraisal Fees	500	-	(500)
Dues and Subscription	7,500	1,725	(5,775)
Postage and Printing	20,000	19,558	(442)
Computer Software	346,000	84,750	(261,250)
Administrative Car	-	2,553	2,553
General Services	1,827,000	1,433,519	(393,481)
Bank Analysis Service	25,000	24,780	(220)
Returned Check Expense	5,000	-	(5,000)
Capital Equipment Administration	-	110,350	110,350
Employee Assistant Plan	7,500	9,026	1,526
Administration Expense	6,500	163	(6,337)
Administration Cellular Phone	-	6,784	6,784
Camp Bessemer Supplies	125,000	81,513	(43,487)
Academy Drive CO-OP Pledged Tax	900,000	4,950	(895,050)
Colonial Property Pledged Tax	2,050,000	753,170	(1,296,830)
Council Attorney Fees	-	17,452	17,452
Credit Card Processing Fee	-	826	826
Election	100,000	64,696	(35,304)
Clastran	15,000	29,919	14,919
Supplemental Insurance	205,000	-	(205,000)
Utilities Unreimbursed Fleet Allowance	-	1,235,225	1,235,225
Handprint Bell	75,000	42,133	(32,867)

The notes to the financial statements 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, 2014

EXPENDITURES AND ENCUMBRANCES	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
General Government – Continued			
Transfer to Other Funds	<u>72,000</u>	<u>3,598,218</u>	<u>3,526,218</u>
Total General Government	<u>12,576,784</u>	<u>15,221,314</u>	<u>2,644,530</u>
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>\$ 49,507,889</u>	<u>\$ 51,946,682</u>	<u>\$ 2,438,793</u>

The notes to the financial statements are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Statement of Fund Net Position

Proprietary Funds

As of September 30, 2014

	<u>Bessemer Electric Service</u>	<u>Bessemer Water Service</u>	<u>Civic Center</u>	<u>Total Proprietary Funds</u>
ASSETS				
CURRENT ASSETS				
Cash on Deposit	\$ 9,240,871	\$ 1,489,197	\$ 71,684	\$ 10,801,752
Cash on Deposit – Restricted	2,242,686	261,593	-	2,504,279
Certificates of Deposit – Restricted	54,149	-	-	54,149
Investments – Restricted	-	1,962,148	-	1,962,148
Accounts Receivable	12,049,372	-	-	12,049,372
Merchandising, Jobbing, and Other Receivables	76,453	2,433,572	-	2,510,025
Due from Other Funds	16,247,575	15,331,702	-	31,579,277
Materials and Supplies	345,174	588,895	-	934,069
Deferred Compensated Absences	572,234	-	-	572,234
Prepaid Items	248,555	-	-	248,555
TOTAL CURRENT ASSETS	41,077,069	22,067,107	71,684	63,215,860
CAPITAL ASSETS				
Land Held for Future Use	291,359	80,495	-	371,854
Construction in Progress	2,274,625	3,339,824	-	5,614,449
Buildings and Capital Facilities	42,498,113	47,176,056	3,812,592	93,486,761
Less Accumulated Depreciation	<u>(19,420,149)</u>	<u>(17,612,141)</u>	<u>(3,494,688)</u>	<u>(40,526,978)</u>
TOTAL CAPITAL ASSETS, NET	25,643,948	32,984,234	317,904	58,946,086
OTHER ASSETS				
Customers' Home Insulation Loans	<u>78,430</u>	<u>-</u>	<u>-</u>	<u>78,430</u>
TOTAL ASSETS	66,799,447	55,051,341	389,588	122,240,376
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Charge on Refunding of Debt	<u>552,653</u>	<u>-</u>	<u>-</u>	<u>552,653</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 67,352,100</u>	<u>\$ 55,051,341</u>	<u>\$ 389,588</u>	<u>\$ 122,793,029</u>

The notes to the financial statements are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Statement of Fund Net Position – Continued

Proprietary Funds

As of September 30, 2014

	Bessemer Electric Service	Bessemer Water Service	Civic Center	Total Proprietary Funds
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 6,017,521	\$ 1,549,464	\$ 4,754	\$ 7,571,739
Current Maturities of Revenue Warrants	405,000	480,000	-	885,000
Capital Lease Obligation, Net of Long-Term Portion	25,326	-	-	25,326
Compensated Absences	91,558	126,602	-	218,160
Due to Other Funds	30,291,777	14,831,976	-	45,123,753
TOTAL CURRENT LIABILITIES	36,831,182	16,988,042	4,754	53,823,978
LONG-TERM LIABILITIES				
Revenue Warrants	10,122,294	21,645,979	-	31,768,273
Capital Lease Obligation, Less Current Portion	82,024	-	-	82,024
Compensated Absences	480,676	664,660	-	1,145,336
Other Liabilities	519,496	-	-	519,496
TOTAL LIABILITIES	48,035,672	39,298,681	4,754	87,339,107
NET POSITION				
Invested in Capital Assets	12,145,614	8,684,234	317,904	21,147,752
Restricted	2,296,834	2,223,741	-	4,520,575
Unrestricted	4,873,980	4,844,685	66,930	9,785,595
TOTAL NET POSITION	19,316,428	15,752,660	384,834	35,453,922
TOTAL LIABILITIES AND NET POSITION	\$ 67,352,100	\$ 55,051,341	\$ 389,588	\$ 122,793,029

The notes to the financial statements 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, 2014

	Bessemer Electric Service	Bessemer Water Service	Civic Center	Total Proprietary Funds
OPERATING REVENUES				
Service Fees	\$ 34,124,483	\$ 18,540,651	\$ 175,556	\$ 52,840,690
Other	196,376	54,252	-	250,628
TOTAL OPERATING REVENUES	34,320,859	18,594,903	175,556	53,091,318
OPERATING EXPENSES				
Direct Cost of Services	26,146,556	7,209,135	266,050	33,621,741
Power and Pumping	-	581,926	-	581,926
Distribution - Operations and Maintenance	2,490,509	3,251,671	-	5,742,180
Customer Accounting and Collection	681,953	1,277,085	-	1,959,038
Bad Debt Expense	136,852	413	-	137,265
Administrative and General	1,081,871	1,165,610	-	2,247,481
Depreciation and Amortization	882,802	677,733	76,254	1,636,789
Tax Equivalents	999,996	198,655	-	1,198,651
Payroll Taxes	162,593	220,930	-	383,523
TOTAL OPERATING EXPENSES	32,583,132	14,583,158	342,304	47,508,594
OPERATING INCOME (LOSS)	1,737,727	4,011,745	(166,748)	5,582,724
NONOPERATING REVENUES (EXPENSES)				
Transfers In	-	-	122,102	122,102
Transfers Out	-	-	-	-
Interest Income	32,837	1,012	12	33,861
Interest Expense	(425,013)	(1,117,250)	-	(1,542,263)
Amortization of Bond Cost	(227,432)	(16,045)	-	(243,477)
TOTAL NONOPERATING REVENUES (EXPENSES)	(619,608)	(1,132,283)	122,114	(1,629,777)
CHANGE IN NET POSITION	1,118,119	2,879,462	(44,634)	3,952,947
NET POSITION - BEGINNING OF YEAR	18,198,309	12,873,198	429,468	31,500,975
NET POSITION - END OF YEAR	\$ 19,316,428	\$ 15,752,660	\$ 384,834	\$ 35,453,922

The notes to the financial statements are an integral part of this statement.

CITY OF BESSEMER, ALABAMA
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2014

	Bessemer Electric Service	Bessemer Water Service	Civic Center	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	\$ 32,595,019	\$ 17,957,000	\$ 175,556	\$ 50,727,575
Cash Payments to Suppliers	(29,729,026)	(10,428,266)	(262,223)	(40,419,515)
Cash Payments to Employees	(2,089,926)	(3,138,257)	-	(5,228,183)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	776,067	4,390,477	(86,667)	5,079,877
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers	-	-	122,102	122,102
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	-	-	122,102	122,102
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Payments on Capital Lease	(24,380)	-	-	(24,380)
Principal Payments on Revenue Warrants	(395,000)	(460,000)	-	(855,000)
Interest Paid	(381,492)	(1,121,850)	-	(1,503,342)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(800,872)	(1,581,850)	-	(2,382,722)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of (Reduction in) Property, Plant, and Equipment	(369,228)	(2,012,186)	-	(2,381,414)
Purchase of and Proceeds from the Sale of Investments	-	(2,529,143)	-	(2,529,143)
Interest Received	32,837	1,012	12	33,861
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(336,391)	(4,540,317)	12	(4,876,696)
NET INCREASE (DECREASE) IN CASH	(361,196)	(1,731,690)	35,447	(2,057,439)
CASH – BEGINNING OF YEAR	11,844,753	3,482,480	36,237	15,363,470
CASH – END OF YEAR	\$ 11,483,557	\$ 1,750,790	\$ 71,684	\$ 13,306,031

The notes to the financial statements are an integral part of this statement.

CITY OF BESSEMER, ALABAMA
Statement of Cash Flows – Continued
Proprietary Funds
For the Year Ended September 30, 2014

	Bessemer Electric Service	Bessemer Water Service	Civic Center	Total Proprietary Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 1,737,727	\$ 4,011,745	\$ (166,748)	\$ 5,582,724
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation and Amortization	882,802	677,733	76,254	1,636,789
Bad Debt Adjustment	136,852	413	-	137,265
Changes in Assets and Liabilities				
(Increase) Decrease in Accounts Receivable	(1,725,840)	-	-	(1,725,840)
(Increase) Decrease in Prepaid Expenses	9,276	42,280	-	51,556
(Increase) Decrease in Due to/from Other Funds	(482,963)	114,112	-	(368,851)
(Increase) Decrease in Inventories	2,397	(270,801)	-	(268,404)
(Increase) Decrease in Other Assets	54,462	(637,902)	-	(583,440)
Increase (Decrease) in Accounts Payable	255,474	17,107	3,827	276,408
Increase (Decrease) in Other Liabilities	(68,794)	435,790	-	366,996
Increase (Decrease) in Customer Deposits	(25,326)	-	-	(25,326)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 776,067</u>	<u>\$ 4,390,477</u>	<u>\$ (86,667)</u>	<u>\$ 5,079,877</u>
CASH – END OF YEAR SHOWN ON THE STATEMENT OF FUND NET POSITION UNDER THE FOLLOWING CAPTIONS:				
Cash on Deposit	\$ 9,240,871	\$ 1,489,197	\$ 71,684	\$ 10,801,752
Cash on Deposit – Restricted	<u>2,242,686</u>	<u>261,593</u>	<u>-</u>	<u>2,504,279</u>
CASH – END OF YEAR	<u>\$ 11,483,557</u>	<u>\$ 1,750,790</u>	<u>\$ 71,684</u>	<u>\$ 13,306,031</u>

The notes to the financial statements are an integral part of this statement.

CITY OF BESSEMER, ALABAMA
Statement of Net Position – Component Units
September 30, 2014

	Governmental Utility Service Corp	Bessemer Airport Authority	Co-Operative District – Academy Drive	Commercial Development Authority	Total Component Units
ASSETS					
Current Assets					
Cash and Investments	\$ 111,788	\$ 107,377	\$ -	\$ -	\$ 219,165
Accounts Receivables – Net of Allowances for Uncollectible	992,195	12,953	-	-	1,005,148
Inventory	-	26,220	-	-	26,220
Prepaid Items	58,519	-	-	-	58,519
Capital Assets					
Land	639,576	2,433,777	-	-	3,073,353
Building and Capital Facilities	46,960,948	1,582,222	-	-	48,543,170
Furniture and Equipment	349,629	110,357	-	-	459,986
Infrastructure	-	1,797,802	-	-	1,797,802
Accumulated Depreciation	(13,280,022)	(2,036,867)	-	-	(15,316,889)
Restricted Assets					
Cash and Investments	1,886,577	12,843	-	-	1,899,420
TOTAL ASSETS	37,719,210	4,046,684	-	-	41,765,894
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Amount on Refunding	1,516,854	-	-	-	1,516,854
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,516,854	-	-	-	1,516,854
LIABILITIES					
Current Liabilities					
Accounts and Vouchers Payable	208,433	6,788	-	-	215,221
Accrued Payroll and Payroll Taxes Payable	31,758	217	-	-	31,975
Accrued Interest	860,029	2,314	-	-	862,343
Unearned Revenue	-	2,160	-	-	2,160
Current Portion of Long-Term Debt	1,280,000	36,275	-	-	1,316,275
Long-Term Liabilities					
Bonds Payable	53,704,262	654,014	-	-	54,358,276
TOTAL LIABILITIES	56,084,482	701,768	-	-	56,786,250
NET POSITION					
Investment in Capital Assets	(20,314,131)	3,197,002	-	-	(17,117,129)
Restricted	1,026,548	-	-	-	1,026,548
Unrestricted	2,439,165	147,914	-	-	2,587,079
TOTAL NET POSITION	\$ (16,848,418)	\$ 3,344,916	\$ -	\$ -	\$ (13,503,502)

The notes to the financial statements are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Statement of Activities – Component Units

For the Year Ended September 30, 2014

	<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	\$ 7,018,018	\$ 7,175,984	\$ -	\$ -	\$ 157,966
Bessemer Airport Authority	1,552,297	967,253	416,937	-	(168,107)
Co-Operative District Academy Drive	200,629	-	-	-	(200,629)
Commercial Development Authority	-	-	-	-	-
Total Component Units	\$ 8,770,944	\$ 8,143,237	\$ 416,937	\$ -	(210,770)
GENERAL REVENUES					
Taxes					-
Unrestricted Investment Earnings					2,290
City Allocation					60,000
City Acquisition Proceeds					11,891,805
Other					18,699
Total General Revenues					11,972,794
SPECIAL ITEM					
Gain on Disposal of Net Position					3,478,605
Change in Net Position					15,240,629
NET POSITION – BEGINNING OF YEAR					(27,631,592)
PRIOR PERIOD ADJUSTMENT					(1,112,539)
NET POSITION BEGINNING OF YEAR – AS RESTATED					(28,744,131)
NET POSITION – END OF YEAR					\$ (13,503,502)

The notes to the financial statements are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

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, 2014, for the Electric Service Department and September 30, 2014, for the Water Service Department.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

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 89 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, 2014, 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.
- The Commercial Development Authority (CDA) – the CDA is a five-member board appointed by the City and is a public corporation under the provisions of the code of Alabama. The CDA’s fiscal year ends on September 30. During the year, the City acquired the CDA’s net position for \$436,000, see Note 10.
- The Co-Operative District of the City of Bessemer – Academy Drive Public Facilities (District) – the District is a five-member board with four members appointed by the governing body of the City and one member appointed by the CDA. The District is a public corporation under the provisions of the code of Alabama. The District’s fiscal year ends on September 30. The property, plant, and equipment are owned by the City of Bessemer and are reported in its financial statements. During the year, the City acquired the District’s net position for \$11,455,805, see Note 10.

Complete financial statements or other financial information as of September 30, 2014, for the discretely presented component units may be obtained at the following administrative offices:

Governmental Utility Services Corporation
1800 Third Avenue North
Bessemer, Alabama 35020

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

The Commercial Development Authority
1800 Third Avenue North
Bessemer, Alabama 35020

The Co-Operative District of the City of
Bessemer – Academy Drive Public Facilities
1800 Third Avenue North
Bessemer, Alabama 35020

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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. General revenues include 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.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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 so 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 the date the financial statements were issued.

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 Capital Projects Fund is a major fund and accounts for the capital improvements which have been financed by the Series 2013-A General Obligation Bonds.

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.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund and Accounting Entity (Continued)

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.

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.

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.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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 \$500. 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.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, 2014, totaled \$2,130,591.

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, 2014, totaled \$2,914,622.

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, 2014, totaled \$2,384,171.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.”

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 nonspendable 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 fund 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.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – CONTINUED

Budgets and Budgetary Accounting (Continued)

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.

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. Investments are reported at fair value which is the amount at which financial instruments could be exchanged in a current transaction between willing parties.

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, Fidelity Government Money Funds, and Bayerisch Landesbank Repurchase Agreement make up 3 percent, 0 percent, and 97 percent of the City's investments, respectively.

<u>Investments (All within Trustee Held Funds)</u>	<u>Credit Rating</u>	<u>Maturity</u>	<u>Fair Value</u>
U.S. Treasury Bills	AAAm, AAA	1 – 90 days	\$ 711,403
Fidelity Government Money Funds	AAAm, AAA	1 – 90 days	332
Bayerisch Landesbank Repurchase Agreement	AAAm, AAA	9/1/2016	<u>20,240,563</u>
Total			<u>\$ 20,952,298</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2014, was as follows:

Primary Government

	Balance 10/1/13	Increases	Decreases	Balance 9/30/14
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 834,402	\$ 150,557	\$ -	\$ 984,959
Property Held for Resale – See Note 16	484,993	-	62,000	422,993
Construction in Progress	<u>-</u>	<u>1,612,348</u>	<u>-</u>	<u>1,612,348</u>
Total Capital Assets, Not Being Depreciated	<u>1,319,395</u>	<u>1,762,905</u>	<u>62,000</u>	<u>3,020,300</u>
Capital Assets, Being Depreciated				
Building and Capital Facilities	11,673,354	57,247	-	11,730,601
Furniture and Other Equipment	15,839,325	2,012,926	-	17,852,251
Infrastructure	<u>29,301,849</u>	<u>-</u>	<u>-</u>	<u>29,301,849</u>
Total Capital Assets, Being Depreciated	<u>56,814,528</u>	<u>2,070,173</u>	<u>-</u>	<u>58,884,701</u>
Less Accumulated Depreciation:				
Building and Capital Facilities	1,866,492	248,679	-	2,115,171
Furniture and Other Equipment	8,469,724	1,061,139	-	9,530,863
Infrastructure	<u>6,953,502</u>	<u>1,079,148</u>	<u>-</u>	<u>8,032,650</u>
Total Accumulated Depreciation	<u>17,289,718</u>	<u>2,388,966</u>	<u>-</u>	<u>19,678,684</u>
Net Capital Assets, Being Depreciated	<u>39,524,810</u>	<u>(318,793)</u>	<u>-</u>	<u>39,206,017</u>
Net Capital Assets – Governmental Activities	<u>\$ 40,844,205</u>	<u>\$ 1,444,112</u>	<u>\$ 62,000</u>	<u>\$ 42,226,317</u>

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

General Government	\$ 1,273,542
Public Safety	770,096
Public Improvement	292,158
Cultural and Recreation	<u>53,170</u>
Total Depreciation Expense for Governmental Activities	<u>\$ 2,388,966</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 4 – CAPITAL ASSETS – CONTINUED

	<u>Balance</u> <u>10/1/13</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9/30/14</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 371,854	\$ -	\$ -	\$ 371,854
Construction in Progress	<u>2,279,392</u>	<u>3,335,057</u>	<u>-</u>	<u>5,614,449</u>
Total Capital Assets, Not Being Depreciated	2,651,246	3,335,057	-	5,986,303
Capital Assets, Being Depreciated				
Building and Capital Facilities	4,854,905	-	-	4,854,905
Plant and Equipment	81,873,792	409,793	-	82,283,585
Furniture and Other Equipment	<u>6,078,025</u>	<u>270,246</u>	<u>-</u>	<u>6,348,271</u>
Total Capital Assets, Being Depreciated	92,806,722	680,039	-	93,486,761
Less Accumulated Depreciation:				
Building and Capital Facilities	4,131,474	105,645	-	4,237,119
Plant and Equipment	27,436,483	1,194,581	-	28,631,064
Furniture and Other Equipment	<u>7,322,233</u>	<u>336,562</u>	<u>-</u>	<u>7,658,795</u>
Total Accumulated Depreciation	<u>38,890,190</u>	<u>1,636,788</u>	<u>-</u>	<u>40,526,978</u>
Net Capital Assets, Being Depreciated	<u>53,916,532</u>	<u>(956,749)</u>	<u>-</u>	<u>52,959,783</u>
Net Capital Assets – Business-Type Activities	\$ <u>56,567,778</u>	\$ <u>2,378,308</u>	\$ <u>-</u>	\$ <u>58,946,086</u>

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

Water	\$ 677,733
Electric	882,803
Civic Center	<u>76,252</u>
Total Depreciation Expense for Business-Type Activities	\$ <u>1,636,788</u>

NOTE 5 – 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, 2014, is as follows:

Due to/from Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Funds	\$ 715,325
General Fund	Debt Service Fund	135,812
Nonmajor Funds	General Fund	130,881
Nonmajor Funds	Nonmajor Funds	<u>395</u>
Total		\$ <u>982,413</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 5 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS – CONTINUED

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, 2014, is as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
General Fund	Nonmajor Funds	\$ 666
Debt Service Fund	Nonmajor Funds	1,217,470
Nonmajor Funds	Nonmajor Funds	555,786
Capital Projects Fund	Debt Service Fund	1,564,730
Nonmajor Funds	Debt Service Fund	10,907,471
Debt Service Fund	Capital Projects Fund	24,147
Debt Service Fund	General Fund	1,615,383
Capital Projects Fund	General Fund	1,604,896
Nonmajor Funds	General Fund	255,837
Proprietary Fund	General Fund	<u>122,102</u>
Total Fund Financial Statements		\$ <u>17,868,488</u>

NOTE 6 – NOTES PAYABLE

Governmental Activities:

Due to the Board of Education:

During the fiscal year-ended September, 30, 2011, the City approved a mediation agreement related to a dispute with the Bessemer Board of Education regarding the underpayment of general sales taxes and errors in remitting ad valorem tax revenue. Pursuant to the mediation, the City will pay the Board \$4,000,000 with no interest over 64 months.

The future minimum obligations under the agreement at September 30, 2014, are as follows:

<u>Year Ending September 30,</u>	<u>Total</u>
2015	\$ 399,996
2016	399,996
2017	<u>66,678</u>
Total	\$ <u>866,670</u>

Section 108 Loan Guarantee:

The loan guarantee provision of the Community Development Block Grant (CDBG) program that provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. Local governments borrowing funds guaranteed by Section 108 loans must pledge their current and future CDBG allocations to cover the loan amount as security for the loan.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 6 – NOTES PAYABLE – CONTINUED

Debt service requirements to maturity at September 30, 2014, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 300,000	\$ 14,580	\$ 314,580
2016	<u>300,000</u>	<u>7,980</u>	<u>307,980</u>
Total	\$ <u>600,000</u>	\$ <u>22,560</u>	\$ <u>622,560</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 payment as of September 30, 2014 are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 107,563	\$ 25,537	\$ 133,100
2016	110,887	22,213	133,100
2017	114,313	18,787	133,100
2018	117,846	15,254	133,100
2019	121,487	11,613	133,100
Thereafter	<u>254,352</u>	<u>11,848</u>	<u>266,200</u>
Total	\$ <u>826,448</u>	\$ <u>105,252</u>	\$ <u>931,700</u>

Assets acquired through capital leases are as follows:

Assets:	<u>Governmental Activities</u>
Machinery and Equipment	\$ 946,448
Less: Accumulated Depreciation	<u>(39,435)</u>
Total	\$ <u>907,013</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 7 – CAPITAL LEASES – CONTINUED***Business-Type Activities:***

The Electric Service Department leases equipment under a noncancelable lease expiring January 15, 2018, 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 \$161,220. The related present value of the remaining obligations under the capital lease which totaled \$107,350 at June 30, 2014, is included in the capital assets and long-term liabilities, accordingly.

The future minimum obligations under the capital lease at September 30, 2014, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 25,326	\$ 4,163	\$ 29,489
2016	26,308	3,181	29,489
2017	27,328	2,161	29,489
2018	<u>28,388</u>	<u>1,101</u>	<u>29,489</u>
Total	\$ <u>107,350</u>	\$ <u>10,606</u>	\$ <u>117,956</u>

Assets acquired through capital leases are as follows:

Assets:	<u>Business-Type Activities</u>
Machinery and Equipment	\$ 161,220
Less: Accumulated Depreciation	<u>(22,839)</u>
Total	\$ <u>138,381</u>

NOTE 8 – 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.

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:

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 8 – CURRENT AND ADVANCED REFUNDINGS – CONTINUED

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.

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 outstanding principal of the defeased bonds is \$17,180,000 as of September 30, 2014. 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 outstanding principal of the defeased bonds is \$6,520,000 as of September 30, 2014. 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.

Deferred and amortized amounts on the City's bond refundings (which are reported as deferred inflows or deferred outflows of resources) at September 30, 2014, 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.

Governmental Activities:

<u>Type and Purpose</u>	<u>Balance</u> <u>10/01/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9/30/2014</u>
Deferred Outflow on Refundings	\$ -	\$ 3,566,072	\$ 334,931	\$ 3,231,141
Deferred Outflow on Acquisition	\$ -	\$ 11,891,805	\$ 1,734,582	\$ 10,157,223

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 9 – GENERAL AND LIMITED OBLIGATION WARRANTS PAYABLE***Business-Type Activities:***

<u>Type and Purpose</u>	<u>Balance 10/01/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2014</u>
Deferred Outflow on Refunding	\$ 580,637	\$ -	\$ 27,984	\$ 552,653

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:

Primary Government***Governmental Activities:***

<u>Type and Purpose</u>	<u>Balance 10/01/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2014</u>
General Obligation Warrants Series 1999 – Due in varying amounts beginning February 1, 2013, until February 1, 2024. Interest is payable semiannually on February 1 and August 1, ranging from 5.60 percent to 6.25 percent. Secured by the pledge of 8.6 mills on each \$1.00 of taxable property in the City.	\$ 6,225,000	\$ -	\$ 6,225,000	\$ -
General Obligation Warrants Series 2005 – Due in varying amounts beginning August 1, 2025, until August 1, 2035. Interest is payable semiannually on February 1 and August 1, at 5.00 percent. Secured by the pledge of 8.6 mills on each \$1.00 of taxable property in the City.	6,520,000	-	6,520,000	-
Limited Obligation Library Warrants Series 2012 – Due in varying amounts beginning February 1, 2014, until February 1, 2030. Interest is payable semiannually on February 1 and August 1, ranging from 2.0 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.	4,480,000	-	215,000	4,265,000

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 9 – GENERAL AND LIMITED OBLIGATION WARRANTS PAYABLE – CONTINUED

Limited Obligation Gasoline Tax Warrants Series 2002 – Due in varying amounts beginning December 1, 2011, until December 1, 2027. Interest is payable semiannually on June 1 and December 1, ranging from 3.50 percent to 4.75 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.

2,455,000	-	2,455,000	-
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Limited Obligation Warrants Series 2007 – Due in varying amounts beginning February 1, 2013, until February 1, 2037. Interest is payable semiannually on June 1 and December 1, at 6.50 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.

17,500,000	-	17,500,000	-
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Tax Increment Financing District 1 Revenue Warrants Series 2004 – Due in varying amounts beginning May 1, 2013, until May 1, 2024. Interest is payable semiannually on May 1 and November 1 ranging from 5.40 percent to 6.00 percent. Payable solely from and secured by the pledge of the incremental ad valorem tax increase within the tax increment financing district.

2,705,000	-	2,705,000	-
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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.

-	25,025,000	375,000	24,650,000
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CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 9 – GENERAL AND LIMITED OBLIGATION WARRANTS PAYABLE – CONTINUED

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.	-	2,225,000	-	2,225,000
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.	-	13,795,000	275,000	13,520,000
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.	-	20,825,000	-	20,825,000
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>7,070,000</u>	-	<u>7,070,000</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 9 – GENERAL AND LIMITED OBLIGATION WARRANTS PAYABLE – CONTINUED

Total Warrants Payable – Governmental Activities	39,885,000	68,940,000	36,270,000	72,555,000
Plus: Unamortized Premium	-	128,331	32,649	95,682
Less: Unamortized Discount	<u>(856,884)</u>	<u>(791,244)</u>	<u>(918,720)</u>	<u>(729,408)</u>
Total Warrants Payable for Governmental Activities	<u>\$ 39,028,116</u>	<u>\$ 68,277,087</u>	<u>\$ 35,383,929</u>	<u>\$ 71,921,274</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>
2015	\$ 2,245,000	\$ 2,664,543	\$ 4,909,543
2016	2,355,000	2,577,534	4,932,534
2017	2,430,000	2,508,084	4,938,084
2018	2,495,000	2,436,559	4,931,559
2019	2,565,000	2,366,868	4,931,868
2020 – 2024	13,875,000	10,740,043	24,615,043
2025 – 2029	13,320,000	8,504,369	21,824,369
2030 – 2034	14,665,000	5,793,285	20,458,285
2035 – 2039	11,620,000	2,778,722	14,398,722
2040 – 2043	<u>6,985,000</u>	<u>682,931</u>	<u>7,667,931</u>
Total	<u>\$ 72,555,000</u>	<u>\$ 41,052,938</u>	<u>\$ 113,607,938</u>

Business-Type Activities:

<u>Type and Purpose</u>	<u>Balance 10/01/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2014</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.	\$ 22,960,000	\$ -	\$ 460,000	\$ 22,500,000
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>11,220,000</u>	<u>-</u>	<u>395,000</u>	<u>10,825,000</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 9 – GENERAL AND LIMITED OBLIGATION WARRANTS PAYABLE – CONTINUED

Total Warrants Payable –				
Business-Type Activities	34,180,000	-	855,000	33,325,000
Less: Unamortized Discount	(390,066)	-	(16,045)	(374,021)
Less: Unamortized Issue Costs	(227,432)	-	(227,432)	-
Less: Unamortized Discount	<u>(313,021)</u>	<u>-</u>	<u>(15,315)</u>	<u>(297,706)</u>
Total Warrants Payable for				
Business-Type Activities	\$ <u>33,249,481</u>	\$ <u>-</u>	\$ <u>(596,208)</u>	\$ <u>32,653,273</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>
2015	\$ 885,000	\$ 1,477,113	\$ 2,362,113
2016	910,000	1,449,413	2,359,413
2017	940,000	1,420,813	2,360,813
2018	970,000	1,389,113	2,359,113
2019	1,005,000	1,358,163	2,363,163
2020 – 2024	5,615,000	6,211,789	11,826,789
2025 – 2029	7,050,000	4,774,926	11,824,926
2030 – 2034	8,945,000	2,915,065	11,860,065
2035 – 2039	<u>7,005,000</u>	<u>910,625</u>	<u>7,915,625</u>
Total	\$ <u>33,325,000</u>	\$ <u>21,907,020</u>	\$ <u>55,232,020</u>

Non-Compliance 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.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 10 – COMPONENT UNITS’ REVENUE BONDS PAYABLE**GUSC:**

<u>Type and Purpose</u>	<u>Balance 10/01/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2014</u>
Revenue Bonds Series 2002 and 2008 – Due in varying amounts beginning June 1, 2014, until June 1, 2039. Interest is payable semiannually on June 1 and December 1, ranging from 3.00 percent to 5.00 percent. Payable solely from and secured by the pledge of water supply revenues.	\$ 56,855,000	\$ -	\$ 1,235,000	\$ 55,620,000
Less: Unamortized Discount	<u>(691,532)</u>	<u>-</u>	<u>(55,794)</u>	<u>(635,738)</u>
Total Bonds Payable for GUSC	<u>\$ 56,163,468</u>	<u>\$ -</u>	<u>\$ 1,179,206</u>	<u>\$ 54,984,262</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>
2015	\$ 1,280,000	\$ 2,580,091	\$ 3,860,091
2016	1,330,000	2,532,091	3,862,091
2017	1,380,000	2,482,216	3,862,216
2018	1,430,000	2,430,466	3,860,466
2019	1,485,000	2,373,266	3,858,266
2020 – 2024	8,405,000	10,896,228	19,301,228
2025 – 2029	10,445,000	8,853,804	19,298,804
2030 – 2034	13,155,000	6,145,803	19,300,803
2035 – 2039	<u>16,710,000</u>	<u>2,587,750</u>	<u>19,297,750</u>
Total	<u>\$ 55,620,000</u>	<u>\$ 40,881,715</u>	<u>\$ 96,501,715</u>

Defeased Debt

On April 1, 2008, the GUSC issued \$61,310,000 in Water Supply Revenue Refunding Bonds (“Series 2008 Bonds”) with interest rates ranging from 3.00 – 5.00 percent to currently refund \$53,755,000 of outstanding Series 1998 bonds with interest rates ranging from 4.70 – 5.25 percent and to advance refund \$1,865,000 in Series 2002 bonds with interest rates ranging from 4.80 – 5.00 percent. The net proceeds of \$57,166,518 (the face amount less an issue discount of \$1,083,633, payment of \$1,559,849 in issuance costs, and payment of \$1,500,000 to terminate the Water Service Agreement) plus an additional \$1,028,174 of Series 1998 and Series 2002 sinking fund monies were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the current refunding of the Series 1998 bonds and all future debt service payments on the refunded Series 2002 bonds. As a result, the Series 1998 bonds and \$1,865,000 of the Series 2002 bonds are considered to be defeased and the liability for those bonds has been removed. With proceeds from the irrevocable trust, on June 1, 2008, the Series 1998 Bonds were called with a 2 percent premium pursuant to the original bond indenture. Also, from the proceeds of the irrevocable trust, on June 1, 2010, the Series 2002 Bonds maturing on June 1, 2014, and after were called at par value pursuant to the original bond indenture. No defeased debt from the Series 2002 bonds remains outstanding as of September 30, 2014.

NOTE 10 – COMPONENT UNITS’ REVENUE BONDS PAYABLE – CONTINUED

District:

<u>Type and Purpose</u>	<u>Balance 10/01/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2014</u>
Limited Obligation Revenue Bonds Series 2003 – Due in varying amounts beginning March 1, 2014, until March 1, 2035. Interest is payable semiannually on March 1 and September 1, ranging from 5.125 percent to 5.375 percent. Payable solely from and secured by the pledge of general sales and use tax and occupational tax payable to the City from retail establishments conducting business in the District. The bonds are additionally secured pursuant to a Developer Guaranty for any deficiencies in pledged tax revenues.	\$ 11,560,000	\$ -	\$ 11,560,000	\$ -
Less: Unamortized Discount	<u>(840,921)</u>	<u>-</u>	<u>(840,921)</u>	<u>-</u>
Total Bonds Payable for the District	<u>\$ 10,719,079</u>	<u>\$ -</u>	<u>\$ 10,719,079</u>	<u>\$ -</u>

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, 2014, was \$1,734,582 leaving an unamortized deferred outflow of \$10,157,223.

Airport Authority:

<u>Type and Purpose</u>	<u>Balance 10/01/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2014</u>
Revenue Bond Series 2013 – 4.25% annual interest rate, principal and interest due in monthly installments of \$5,407, with a balloon payment of \$614,522 due November 1, 2016, collateralized by funding agreement with the City.	\$ -	\$ 718,779	\$ 28,490	\$ 690,289

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 10 – COMPONENT UNITS’ REVENUE BONDS PAYABLE – 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>
2015	\$ 36,275	\$ 28,612	\$ 64,887
2016	37,848	27,039	64,887
2017	616,166	3,763	619,929
Thereafter	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>690,289</u>	\$ <u>59,414</u>	\$ <u>749,703</u>

NOTE 11 – CHANGES IN LONG-TERM LIABILITIES

Primary Government

	<u>Balance</u> <u>10/1/13</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9/30/14</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities					
Warrants Payable	\$ 39,028,116	\$ 68,277,087	\$ 35,383,929	\$ 71,921,274	\$ 2,245,000
Capital Lease	-	946,448	120,000	826,448	107,563
Compensated Absences	7,487,380	-	57,996	7,429,384	1,188,701
OPEB Liability	6,672,733	1,613,296	-	8,286,029	-
Due to Board of Education	1,400,000	-	533,330	866,670	399,996
Note Payable	<u>900,000</u>	<u>-</u>	<u>300,000</u>	<u>600,000</u>	<u>300,000</u>
Total	\$ <u>55,488,229</u>	\$ <u>70,836,831</u>	\$ <u>36,395,255</u>	\$ <u>89,929,805</u>	\$ <u>4,241,260</u>
Business-Type Activities					
Warrants Payable	\$ 33,249,481	\$ -	\$ 596,208	\$ 32,653,273	\$ 885,000
Capital Lease	131,730	-	24,380	107,350	25,326
Compensated Absences	<u>1,254,016</u>	<u>119,009</u>	<u>9,529</u>	<u>1,363,496</u>	<u>218,160</u>
Total	\$ <u>34,635,227</u>	\$ <u>119,009</u>	\$ <u>630,117</u>	\$ <u>34,124,119</u>	\$ <u>1,128,486</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 12 – FUND BALANCES – GOVERNMENTAL FUNDS

As of September 30, 2014, fund balances are composed of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Other Nonmajor Fund</u>	<u>Total Governmental Funds</u>
Nonspendable For:					
Inventory	\$ <u>238,412</u>	\$ _____	\$ _____	\$ _____	\$ <u>238,412</u>
	238,412	-	-	-	238,412
Restricted For:					
Judicial Administrative Funds	166,187	-	-	-	166,187
Capital Projects	-	20,240,563	-	-	20,240,563
Debt Service	-	-	711,735	-	711,735
Special Revenue Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,666,422</u>	<u>6,666,422</u>
	166,187	20,240,563	711,735	6,666,422	27,784,907
Committed For:					
Recreation Facility	849,600	-	-	-	849,600
Library	<u>469,977</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>469,977</u>
	1,319,577	-	-	-	1,319,577
Assigned For:					
Storm Water	308,088	-	-	-	308,088
Police Donated Funds	133,731	-	-	-	133,731
Emergency Expenditures	4,854,886	-	-	-	4,854,886
Municipal Court	<u>988,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>988,650</u>
	6,285,355	-	-	-	6,285,355
Unassigned	<u>9,732,158</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,732,158</u>
Totals	\$ <u>17,741,689</u>	\$ <u>20,240,563</u>	\$ <u>711,735</u>	\$ <u>6,666,422</u>	\$ <u>45,360,409</u>

NOTE 13 – RISK MANAGEMENT

The City is self-insured for workers' compensation claims. The City pays undisputed medical claims related to workers' compensation within 30 days of receiving the completed claim form. The liability for incurred and unpaid claims is included in the government-wide financial statements. Expenditures are recognized in the General Fund for the amount determined to fund claims incurred but not paid. There is no estimated liability for claims incurred but not reported.

Significant losses are covered by commercial insurance for all major programs except workers' compensation, for which the City retains all risk of loss. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 14 – 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. However, there is one action that could result in an adverse impact that would be material to the financial statements of the City. Currently, the City intends to vigorously defend their position but estimates that an unfavorable outcome would not exceed \$300,000.

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. As of September 30, 2014, the City's remaining funding requirements totaled \$660,000.

NOTE 15 – RETIREMENT PLAN

Plan Description

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

NOTE 15 – RETIREMENT PLAN – CONTINUED

Plan Description – Continued

Substantially all employees are members of the System. Membership is mandatory for covered or eligible employees of the City. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Members hired prior to January 1, 2013, are considered Tier I employees. Members hired on or after January 1, 2013, and who have never been in the System before are considered Tier II employees. Tier I vested employees may retire with full benefits at age 60 or after 25 years of service. Tier II vested employees may retire with full benefits at age 62. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are: (1) Minimum Guaranteed and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method, Tier I retirees are allowed 2.0125 percent of their average final salary (best three of the last ten years) for each year of service with no benefit cap and Tier II retirees are allowed 1.650 percent of their average final salary (best five of the last ten years) for each year of service with a benefit cap of 80 percent of the average final salary. Disability retirement benefits are calculated in the same manner. Preretirement death benefits, in the amount of the annual salary for the fiscal year preceding death, are provided to plan members.

The System was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for state employees, state police, and on an elective basis to all cities, counties, towns, and quasi-public organizations. The responsibility for general administration and operation of the System is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Section 36-27-1 through 36-27B-5. Authority to amend the plan rests with the legislature of Alabama. However, the legislature has granted the commission authority to accept or reject various Cost-Of-Living Adjustments (COLA) granted to retirees.

Effective January 1, 2001, the member contribution rate for state correctional officers, certified full-time firefighters, and certified full-time law enforcement officers increased to 6 percent of employees' compensation. Regular member contributions are 5 percent of employees' compensation. With the enactment of Act 2011-676, the member contribution rate for regular state employees, public education employees, law enforcement officers, correctional officers, firefighters, and judges increased 2.25 percent for paychecks dated on or after October 1, 2013, through September 30, 2014, and 2.5 percent for paychecks dated on or after October 1, 2014. The Act did not mandate that local agencies participating in the System increase their member contributions but the Act provides for the election to increase member contributions. The City did not elect to increase member contributions; therefore, their member contributions remain at 5 percent of employees' compensation.

Effective March 24, 2011, new participation in the Deferred Retirement Option Plan ("DROP") was prohibited and interest paid on accounts was limited with the enactment of Act 2011-27.

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

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 15 – RETIREMENT PLAN – CONTINUEDFunding

Certified full-time firefighters and certified full-time law enforcement officers that are employees of the City are required to pay 6% of their covered compensation to the System. All other City employees are required to pay 5% of their covered compensation to the System. The City is required to contribute the remaining amounts necessary to fund the System using the actuarial basis specified by law. The rate for the year ended September 30, 2014, was 14.46% of covered payroll for Tier I employees and 12.16% of covered payroll for Tier II employees. This rate will increase to 14.65% of covered payroll for Tier I employees and decrease to 11.52% of covered payroll for Tier II employees for the year ended September 30, 2015.

The total contribution to the System for the year ended September 30, 2014, was \$5,417,009. This contribution was made in accordance with actuarially determined requirements computed through an actuarial valuation. The employer contributions during fiscal year 2014 totaled \$3,914,858 and the employee contributions totaled \$1,502,151. The required contribution was determined as part of the September 30, 2013, actuarial valuation using the entry age actuarial cost method.

Significant actuarial assumptions used in the valuation include (i) a rate of return on the investment of present and future assets of 8 percent a year compounded annually; (ii) projected salary increases, depending on the employee's age, of 3.75 percent to 7.25 percent a year compounded annually, attributable to inflation and seniority/merit; (iii) no benefit increases after retirement unless agreed to by applicable City to pay a separate cost-of-living increase on its retirees; and (iv) no cost-of-living adjustments. Both (i) and (ii) included an inflation component of 3.0 percent. The actuarial value of the System's assets was determined using the market value of investments. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at September 30, 2013, was thirty years.

The following is a schedule of funding progress as of the actuarial date September 30:

	<u>2013</u> ²	<u>2012</u> ³	<u>2011</u> ⁴	<u>2010</u> ⁵
Actuarial value of assets* (a)	\$ 60,535,634	\$ 57,313,772	\$ 60,091,416	\$ 62,707,451
Actuarial accrued liability (AAL) entry age (b) ¹	\$ 106,869,783	\$ 97,100,303	\$ 104,068,632	\$ 102,738,678
Unfunded AAL (UAAL)(b-a)	\$ 46,334,149	\$ 39,786,531	\$ 43,977,216	\$ 40,031,227
Funded ratio (a/b)	56.6%	59.0%	57.7%	61.0%
Covered payroll (c)	\$ 25,663,266	\$ 22,598,543	\$ 25,001,223	\$ 24,563,265
UAAL as a percentage of covered payroll [(b-a)/c]	180.5%	176.1%	175.9%	163.0%

¹ Reflects liability cost of living benefit increases granted on or after October 1, 1978.

² Reflects implementation of Board Funding Policy.

³ Reflects changes to interest smoothing methodology.

⁴ Reflects changes in actuarial assumptions.

⁵ Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 15 – RETIREMENT PLAN – CONTINUED

Funding – Continued

* The actuarial value of assets was set equal to the market value of assets as of September 30, 2012.
Market Value of Assets as of September 30, 2013: \$63,463,382

Three-Year Trend Information for the City

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (NPO)</u>
9/30/2011	\$ 3,203,515	100.0%	\$ -0-
9/30/2012	\$ 2,973,814	100.0%	\$ -0-
9/30/2013	\$ 3,347,603	100.0%	\$ -0-

NOTE 16 – OTHER POST-RETIREMENT EMPLOYMENT BENEFITS (OPEB)

Plan Description: 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 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.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 16 – OTHER POST-RETIREMENT EMPLOYMENT BENEFITS (OPEB) – CONTINUED

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.

Annual Required Contribution and Funded Status: The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The ARC is \$2,625,859.

Net Post-Employment Benefit Obligation: The table below shows the City's Net Other Post-Employment Benefit (OPEB) Obligation for fiscal year ending September 30, 2014:

Beginning Net OPEB Obligation – 10/1/2013	<u>\$ 6,672,733</u>
Annual Required Contribution	2,112,398
Interest on Net OPEB Obligation	266,909
ARC adjustment	<u>246,552</u>
OPEB Cost	2,625,859
Contribution	<u>(1,012,563)</u>
Change in Net OPEB Obligation	<u>1,613,296</u>
Ending Net OPEB Obligation – 9/30/2014	<u>\$ 8,286,029</u>

The funded status of the Plan based on an actuarial update using age-adjusted premiums as of September 30, 2012, was as follows:

Actuarial accrued liability (AAL)	\$ 24,909,537
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 24,909,537</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 22,318,190
UAAL as a percentage of covered payroll	111.61%

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 16 – OTHER POST-RETIREMENT EMPLOYMENT BENEFITS (OPEB) – CONTINUED

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 is as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2012	\$ 2,469,377	42.5%	\$ 5,057,790
9/30/2013	\$ 2,501,591	35.4%	\$ 6,672,733
9/30/2014	\$ 2,625,859	38.6%	\$ 8,286,029

Actuarial Methods and Assumptions: Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on values which the City's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in any of several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status, could result in actual costs being less or greater than estimated.

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

In the actuarial valuation for the Plan as of September 30, 2012, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return because the City has no assets set aside that are legally held exclusively for retiree health benefits. The actuarial assumptions included an annual Pre-Medicare medical cost trend rate of 5% to 8.5% and Post-Medicare medical cost trend rate of 5% to 6.25%. The investment rate of return includes assumed inflation at 3.25%. Representative values of the assumed annual rates of plan participation and spouse coverage are plan participation 100% and spouse coverage 45%. The annual service cost is the present value of the portion of the projected benefit attributable to participation service during the upcoming year and the Actuarial Accrued Liability (AAL) is equal to the present value of the portion of the projected benefit attributable to service before the valuation date. Service from hire date through full retirement eligibility date was used in allocating costs.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2014

NOTE 17 – PRIOR PERIOD ADJUSTMENTS

The beginning net position of September 30, 2014, has been restated as follows:

<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:			
Correct Compensated Absences		\$ (1,110,982)	
Note Payable not Previously Recorded		<u>(900,000)</u>	
Total Net Position	\$ <u>16,483,743</u>	\$ <u>(2,010,982)</u>	\$ <u>14,472,761</u>

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was implemented during the year ended September 30, 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. The adoption of GASB Statement No. 65 required debt issuance costs that were previously reported as assets to be shown as an expense. The effects of this statement were applied retroactively by reporting the cumulative effect of the application as a restatement of beginning net position or fund balance, as appropriate. The change did not result in the restatements of the government-wide governmental and business-type activities, however, the beginning net positions of the District and the GUSC decreased \$117,107 and \$995,432, respectively. The adoption had no effect on the governmental fund financial statements.

NOTE 18 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 24, 2015, the date which the financial statements were available to be issued.

CITY OF BESSEMER, ALABAMA
 Schedule of Pension Plan Funding Progress
 September 30, 2014

Schedule of Pension Plan Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b) ¹	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL Percentage of Covered Payroll ((b-a)/c)
9/30/04	\$ 60,238,111	\$ 75,578,756	\$ 15,340,645	79.7%	\$ 20,057,240	76.5%
9/30/05	\$ 61,844,294	\$ 80,808,837	\$ 18,964,543	76.5%	\$ 21,292,992	89.1%
9/30/06	\$ 63,481,046	\$ 86,906,157	\$ 23,425,111	73.0%	\$ 22,126,153	105.9%
9/30/07	\$ 65,611,064	\$ 90,063,098	\$ 24,452,034	72.9%	\$ 23,722,668	103.1%
9/30/08	\$ 65,531,384	\$ 95,380,996	\$ 29,849,612	68.7%	\$ 24,378,401	122.4%
9/30/09	\$ 64,453,036	\$ 97,741,355	\$ 33,288,319	65.9%	\$ 24,615,358	135.2%
9/30/10 ²	\$ 62,707,451	\$ 102,738,678	\$ 40,031,227	61.0%	\$ 24,563,265	163.0%
9/30/11 ³	\$ 60,091,416	\$ 104,068,632	\$ 43,977,216	57.7%	\$ 25,001,223	175.9%
9/30/12 ⁴	\$ 57,313,772	\$ 97,100,303	\$ 39,786,531	59.0%	\$ 22,598,543	176.1%
9/30/13 ⁵	\$ 60,535,634	\$ 106,869,783	\$ 46,334,149	56.6%	\$ 25,663,266	180.5%

¹ Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

² Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

³ Reflects changes in actuarial assumptions.

⁴ Reflects changes to interest smoothing methodology.

⁵ Reflects implementation of Board Funding Policy.

* The actuarial value of assets was set equal to the market value of assets as of September 30, 2012.
 The Market Value of Assets as of September 30, 2013, equaled \$63,463,382.

CITY OF BESSEMER, ALABAMA
 Schedule of OPEB Funding Progress
 September 30, 2014

Schedule of OPEB Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2010	\$0	\$ 30,657,651	\$ 30,657,651	0.00%	\$ 24,516,610	125.05%
9/30/2012	\$0	\$ 24,909,537	\$ 24,909,537	0.00%	\$ 22,318,190	111.61%

The notes to the financial statements are an integral part of this statement.

CITY OF BESSEMER, ALABAMACombining Balance Sheet
Nonmajor Governmental Funds
September 30, 2014

	<u>Community Development</u>	<u>Confiscated Drug Funds</u>	<u>TIF District</u>	<u>Police Grant</u>	<u>State Seized Funds</u>	<u>7 Cent Gas Fund</u>
ASSETS						
Cash and Investments	\$ 1,092,835	\$ 795,079	\$ 506,492	\$ 453	\$ 40,184	\$ 53,953
Accounts Receivable	-	-	-	-	-	7,968
Loans Receivable	2,066,247	-	-	-	-	-
Due from Component Units	-	-	-	-	-	-
Due from Other Funds	100,362	17,258	394	-	-	13,262
Due from Other Governments	-	-	1,911	-	-	-
Deferred Loans Receivable	873,296	-	-	-	-	-
TOTAL ASSETS	<u>\$ 4,132,740</u>	<u>\$ 812,337</u>	<u>\$ 508,797</u>	<u>\$ 453</u>	<u>\$ 40,184</u>	<u>\$ 75,183</u>
LIABILITIES AND FUND BALANCE						
Accounts Payable	\$ 46,742	\$ -	\$ 25,787	\$ -	\$ -	\$ 58,342
Due to Other Funds	231,957	-	483,010	359	-	-
TOTAL LIABILITIES	278,699	-	508,797	359	-	58,342
FUND BALANCE						
Nonspendable Fund Balance	-	-	-	-	-	-
Restricted Fund Balance	3,854,041	812,337	-	94	40,184	16,841
Committed Fund Balance	-	-	-	-	-	-
Assigned Fund Balance	-	-	-	-	-	-
TOTAL FUND BALANCE	<u>3,854,041</u>	<u>812,337</u>	<u>-</u>	<u>94</u>	<u>40,184</u>	<u>16,841</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 4,132,740</u>	<u>\$ 812,337</u>	<u>\$ 508,797</u>	<u>\$ 453</u>	<u>\$ 40,184</u>	<u>\$ 75,183</u>

See Independent Auditors' Report.

CITY OF BESSEMER, ALABAMA
Combining Balance Sheet – Continued
Nonmajor Governmental Funds
September 30, 2014

	4 and 5 Cent Gas Fund	1 Cent Gas Fund	E-911	Total Nonmajor Governmental Funds
ASSETS				
Cash and Investments	\$ 268,956	\$ 1,377,147	\$ 300,226	\$ 4,435,325
Accounts Receivable	-	-	-	7,968
Loans Receivable	-	-	-	2,066,247
Due from Component Units	-	-	-	-
Due from Other Funds	-	-	-	131,276
Due from Other Governments	-	-	-	1,911
Deferred Loans Receivable	-	-	-	873,296
TOTAL ASSETS	<u>\$ 268,956</u>	<u>\$ 1,377,147</u>	<u>\$ 300,226</u>	<u>\$ 7,516,023</u>
LIABILITIES AND FUND BALANCE				
Accounts Payable	\$ -	\$ -	\$ 3,010	\$ 133,881
Due to Other Funds	394	-	-	715,720
TOTAL LIABILITIES	394	-	3,010	849,601
FUND BALANCE				
Nonspendable Fund Balance	-	-	-	-
Restricted Fund Balance	268,562	1,377,147	297,216	6,666,422
Committed Fund Balance	-	-	-	-
Assigned Fund Balance	-	-	-	-
TOTAL FUND BALANCE	<u>268,562</u>	<u>1,377,147</u>	<u>297,216</u>	<u>6,666,422</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 268,956</u>	<u>\$ 1,377,147</u>	<u>\$ 300,226</u>	<u>\$ 7,516,023</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, 2014

	Community Development	Confiscated Drug Funds	TIF District	Police Grant	State Seized Funds	7 Cent Gas Fund	4 and 5 Cent Gas Fund
REVENUES							
Taxes	\$ -	\$ -	\$ 1,019,365	\$ -	\$ -	\$ 256,686	\$ 238,104
Intergovernmental	648,534	-	-	-	-	-	-
Charges for Services	-	-	-	-	38,140	7,968	-
Fines and Cost	-	-	-	-	-	-	-
Investment Income	34,975	-	-	-	-	-	-
Other	107,803	57,033	-	-	-	-	-
TOTAL REVENUES	791,312	57,033	1,019,365	-	38,140	264,654	238,104
EXPENDITURES							
Public Safety	-	57,546	-	-	-	-	-
Public Improvements	-	-	-	-	-	-	-
General Government	1,333,685	-	85,767	-	41,868	243,218	-
Principal	300,000	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital Outlays	-	94,869	-	-	-	425,566	-
TOTAL EXPENDITURES	1,633,685	152,415	85,767	-	41,868	668,784	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(842,373)	(95,382)	933,598	-	(3,728)	(404,130)	238,104
OTHER FINANCING SOURCES (USES)							
Operating Transfers							
Transfers In	4,350	-	11,158,958	-	7,094	548,692	-
Transfers Out	(7,093)	-	(996,249)	-	-	(221,493)	(549,087)
TOTAL OTHER FINANCING SOURCES (USES)	(2,743)	-	10,162,709	-	7,094	327,199	(549,087)
SPECIAL ITEM							
Acquisition of the District and CDA	-	-	(11,891,805)	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(845,116)	(95,382)	(795,498)	-	3,366	(76,931)	(310,983)
FUND BALANCE BEGINNING OF YEAR AS RESTATED	4,699,157	907,719	795,498	94	36,818	93,772	579,545
FUND BALANCE END OF YEAR	\$ 3,854,041	\$ 812,337	\$ -	\$ 94	\$ 40,184	\$ 16,841	\$ 268,562

See Independent Auditors' Report.

CITY OF BESSEMER, ALABAMA

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

Nonmajor Governmental Funds

For the Year Ended September 30, 2014

	1 Cent Gas Fund	E-911	Total Nonmajor Governmental Funds
REVENUES			
Taxes	\$ 503,659	\$ -	\$ 2,017,814
Intergovernmental	-	-	648,534
Charges for Services	-	603,867	649,975
Fines and Cost	-	-	-
Investment Income	-	-	34,975
Other	-	-	164,836
TOTAL REVENUES	503,659	603,867	3,516,134
EXPENDITURES			
Public Safety	-	372,072	429,618
Public Improvements	-	-	-
General Government	-	-	1,704,538
Principal	-	-	300,000
Interest	-	-	-
Capital Outlays	-	412,214	932,649
TOTAL EXPENDITURES	-	784,286	3,366,805
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	503,659	(180,419)	149,329
OTHER FINANCING SOURCES (USES)			
Operating Transfers			
Transfers In	-	-	11,719,094
Transfers Out	-	-	(1,773,922)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	9,945,172
SPECIAL ITEM			
Acquisition of the District and CDA	-	-	(11,891,805)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	503,659	(180,419)	(1,797,304)
FUND BALANCE BEGINNING OF YEAR AS RESTATED	873,488	477,635	8,463,726
FUND BALANCE END OF YEAR	\$ 1,377,147	\$ 297,216	\$ 6,666,422

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, 2013, for which taxes became due and payable on October 1, 2014, is \$331,153,720. Consequently, the general constitutional debt limitation currently applicable to the City is \$66,230,744.

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 Mediation Agreement, 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, 2014, was \$54,196,054. Consequently, the City may hereafter incur additional indebtedness in the approximate amount of \$12,034,690 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 school houses, waterworks and sewers will not reduce the current unused general constitutional debt capacity of \$12,034,690. 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, 2014

The following statement reflects the City's legal debt margins as of September 30, 2014:

City of Bessemer, Alabama
Statement of Legal Debt Margins

Net assessed value of taxable property (as of September 30, 2013) ^[1]	\$ 331,153,720
General debt limit (20% of assessed value)	\$ 66,230,744
Section 94.01 debt limit	\$ 165,576,860
Total chargeable indebtedness ^[2]	
General Obligation Warrants, Series 2013-A	\$ 24,650,000
General Obligation Warrants, Series 2013-C	13,520,000
General Obligation Warrants, Series 2013-E	7,070,000
Mediation Agreement	866,670
Airport Authority Funding Agreement	660,000
Compensated Absences Liability	<u>7,429,384</u>
Total chargeable debt outstanding	\$ 54,196,054
Less: Bonds or Warrants for exempt purposes	<u> -</u>
Total debt chargeable against general debt limit	\$ 54,196,054
General legal debt margin	\$ 12,034,690
Total debt chargeable against Section 94.01 debt margin	\$ 20,825,000
Section 94.01 legal debt margin	\$ 144,751,860

^[1] Includes real and personal property (\$299,319,380) and motor vehicles (\$31,834,340), net of exemptions.

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

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

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, 2014, 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, 2015. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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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. We consider the following deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 04-1, 06-1, 06-2, 06-6, 10-1, 12-2, 12-3, 13-1, 14-1, 14-2 and 14-3.

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.

Compliance and Other Matters

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

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.

Kellum, Wilson & Associates, P.C.

Kellum, Wilson and Associates, P.C.

June 24, 2015

KELLUM, WILSON & ASSOCIATES, P.C.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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 Circular A-133 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, 2014. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

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Other Matters

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 13-1. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 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 our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Kellum, Wilson & Associates, P.C.

June 24, 2015

SUPPLEMENTAL SCHEDULES

CITY OF BESSEMER
 Schedule of Expenditures of Federal Awards
 For the Year Ended September 30, 2014

<u>FEDERAL GRANTOR, PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
U.S. Department of Justice		
Equitable Sharing Program	16.922	\$ 154,110
U.S. Department of Transportation		
Passed through State of Alabama Highway Department: Alabama Transportation Rehabilitation and Improvement Program	20.205	7,968
Executive Office of the President		
Passed through Alabama Department of Public Safety: High Intensity Drug Trafficking Areas Program	07.999	14,970
Department of Homeland Security		
Disaster Grants - Public Assistance	97.036	1,466,711
U. S. Department of Housing and Urban Development		
Community Development Block Grant	14.228	<u>1,237,700</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ <u>2,881,459</u>

See Independent Auditors' Report.

CITY OF BESSEMER, ALABAMA

Notes to Schedule of Expenditures of Federal Awards
September 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Bessemer, Alabama, and is presented on the accrual basis of accounting. This method is consistent with the method used in the preparation of the City's financial statements.

CITY OF BESSEMER, ALABAMA
 Schedule of Findings and Questioned Costs
 For the Year Ended September 30, 2014

Section I: Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

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 OMB Circular A-133 Section .510 (a) Yes X No

Identification of major programs:

CFDA Number (s)	Name of Federal Program or Cluster
97.036 14.228	Disaster Grants – Public Assistance Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

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 completed reconciliation, including adjustments required for reconciling items, should be reviewed and approved by the City Clerk. The City Clerk should also verify the reconciled balance back to the posted general ledger to ensure that the balance has been properly corrected in the City's books.

Effect: A failure to perform account reconciliations and to review the cash reconciliation 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.

Corrective Action: Effective June 1, 2015, the Finance Director has implemented a procedure that all balance sheet accounts must be reconciled by the 20th of the following month. A memo has been sent to all Finance staff regarding the process for reconciling accounts, analyzing accounts, researching and resolving errors timely, gathering supporting documentation, preparing supporting schedules, and making adjusting entries. Reconciliations will be reviewed periodically by the Finance Director.

Finding 06-1 Monthly Reconciliation and Review Procedures

Condition: In the process of performing our audit, we noted that monthly account reconciliations and financial statement review and approvals were not done. We encountered discrepancies in many supporting schedules, and in some instances supporting schedules could not be provided. We concluded that there is no systematic method of ensuring that complete monthly reconciliation and closing procedures are performed.

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: Numerous audit adjustments had to be made at year-end to accurately state balances.

CITY OF BESSEMER, ALABAMA
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2014

Recommendation: We strongly suggest that the City establish effective review and reconciliation policies and procedures 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 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: Effective June 1, 2015, the Finance Director has implemented a procedure that all balance sheet accounts must be reconciled by the 20th of the following month. A memo has been sent to all Finance staff regarding the process for reconciling accounts, analyzing accounts, researching and resolving errors timely, gathering supporting documentation, preparing supporting schedules, and making adjusting entries. Reconciliations will be reviewed periodically by the Finance Director.

Finding 06-2 Capital Assets

Condition: During our audit, we noted the City did not maintain a complete detailed schedule of property and equipment. The City does not have “capital outlay” accounts within their chart of accounts or a formal fixed asset purchase or disposal process. They do have a “capital equipment” account that is typically where most items that are deemed to be fixed assets are coded; however, there are many other items that are posted to those accounts. There is not an account that is designated only for items that will be reflected on the City’s fixed asset schedule.

Criteria: According to Governmental Accounting Standards Board (GASB), governmental entities should follow a method/system that accurately reports capital assets. Internal controls should be in place to accurately report the existence or non-existence of fixed assets.

Effect: Assets could be potentially misappropriated without proper records being maintained and controls in place. This situation could lead to inaccurate reporting of fixed assets and depreciation expense. Audit adjustments had to be made at year-end to correct the general ledger balances.

Recommendation: We recommend that the City update the detailed schedule of property and equipment and reconcile to the general ledger. We further recommend that a physical inventory be taken annually. It is also recommended that formal fixed asset procedures for purchases and disposals be developed to properly track and record purchases and disposals in the general ledger.

Corrective Action: Effective June 1, 2015, the Finance Director has implemented a procedure that all balance sheet accounts must be reconciled by the 20th of the following month. A memo has been sent to all Finance staff regarding the process for reconciling accounts, analyzing accounts, researching and resolving errors timely, gathering supporting documentation, preparing supporting schedules, and making adjusting entries. Reconciliations will be reviewed periodically by the Finance Director.

In addition, The Finance Department will implement policies and procedures for maintaining and reporting fixed assets. These policies will address fixed asset purchases, disposals, coding, capital outlay accounts, preparing fixed asset schedules, etc. Capital outlay accounts will be reviewed monthly to ensure proper coding. The City currently has a \$500.00 capitalization threshold. A recommendation will be made to increase this threshold.

CITY OF BESSEMER, ALABAMA
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2014

Finding 06-6 Reconciling the Subsidiary Ledger to the General Ledger

Condition: Subsidiary ledgers for rehabilitation loans receivable were not routinely reconciled to the general ledger. During the year ended September 30, 2014, Community Development outsourced the servicing and maintenance of the subsidiary. The personnel maintaining these ledgers is experienced with real estate transactions and is going through the documents and activity for each loan to ensure accuracy. While this aspect has improved, the system for translating the subsidiary information to the general ledger still needs to be refined.

Criteria: Internal control procedures should be in place to reconcile rehabilitation loans receivable subsidiary ledgers to the general ledger accounts on a monthly basis. This should include properly recording any new loans made on the general ledger and subsidiary ledger from the closing documents. Any unrecorded loans discovered should also be incorporated into the ledgers, accounting system, and loan servicing process to ensure accurate reporting and collections.

Effect: The absence of this procedure has resulted in the inability to verify the rehabilitation loans receivable general ledger accounts in a timely manner. Unreconciled subsidiary ledgers may delay collections which can result in cash flow problems. This can also impact the City's goodwill in the community. The Community Development department is currently servicing these loans and, in effect, enforcing some loans but not others because they are not reflected in their subsidiary ledger. The unequal enforcement could reflect poorly on management.

Recommendation: The detail listing of rehabilitation loans receivable should be reconciled to the general ledger control accounts at the end of each month. It should be verified that all payments received have been properly recorded and posted to all ledgers. The process of updating the subsidiary ledgers should continue to be refined and corrected as errors and omissions are discovered. This will ascertain the accuracy of the record keeping process and ensure that rehabilitation loans receivable are maintained on a more timely and accurate basis.

Corrective Action: Effective June 1, 2015, the Finance Director has implemented a procedure that all balance sheet accounts must be reconciled by the 20th of the following month. A memo has been sent to all Finance staff regarding the process for reconciling accounts, analyzing accounts, researching and resolving errors and discrepancies timely, gathering supporting documentation, preparing supporting schedules, and making adjusting entries. Reconciliations will be reviewed periodically by the Finance Director.

Finding 10-1 Establishment and Implementation of Accounting Policies and Procedures

Condition: The City has not established or implemented adequate accounting policies and procedures (written or oral) to ensure that accurate financial information can be accumulated in the following areas:

- Timely reconciliations of bank accounts
- Procedures to ensure that employees withholdings are properly set up and to periodically review the set-up
- The need for time sheets or cards for all hourly employees
- Proper and consistent classification of revenue and expenses in the proper account and fund
- Accounts payable and subsidiary ledgers
- Accounts receivables

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- Restricted or committed funds
- Complete detailed schedule of property and equipment
- Production of timely and accurate financial reports
- Investment policy
- Compensated leave
- Monthly reconciliations and closing procedures
- Bond covenants
- Transfers between funds
- Due to/from funds
- Timely reconciliation of rehabilitation loan subsidiary ledgers to the general ledger
- Budget to actual comparison
- Cash bond reconciliation

Criteria: Internal controls should be in place to ensure that accurate and timely financial information can be accumulated in all transaction cycles.

Cause: There is inconsistent accountability and no procedures in place to ensure that financial information can be accumulated in all transaction cycles.

Effect: Because of the lack of procedures and review, it is possible that errors and fraud will not be detected on a timely basis. Also, the absence of these procedures will prevent the City from making accurate and timely budgets to properly manage the City.

Recommendation: Procedures should be implemented that would address all transaction cycles as soon as possible.

Corrective Action: Effective June 1, 2015, the Finance Director has implemented a procedure that all balance sheet accounts must be reconciled by the 20th of the following month. A memo has been sent to all Finance staff regarding the process for reconciling accounts, analyzing accounts, researching and resolving errors and discrepancies timely, gathering supporting documentation, preparing supporting schedules, and making adjusting entries. Reconciliations will be reviewed periodically by the Finance Director.

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

Condition: The 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. Most deposits were not posted to the general ledger until well after the end of the fiscal year. The posting of expenditures is inadequate as evidenced by transfers between accounts being posted as revenue and expense instead of transfers, program cost and administrative costs being charged to one account entitled "expense" instead of being charged to meaningful categories, and payments on notes receivable being listed as revenue instead of being posted as principal payments and interest income.

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.

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Effect: The City was unable to appropriately monitor cash balances and had an instance of overdrawing one account at the end of the previous year. A failure to perform account reconciliations, to post adjustments, and to review the 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. Bank reconciliations should be performed as soon as the bank statements are received and inter-fund transactions should be reconciled and verified as being posted in each fund. All reconciliations should be completed, adjustments posted to the general ledger, and reviews made by the Finance Director for accuracy no later than 15 to 20 days after month end.

Corrective Action: Effective June 1, 2015, the Finance Director has implemented a procedure that all balance sheet accounts must be reconciled by the 20th of the following month. A memo has been sent to all members of the Finance staff regarding the process for reconciling accounts, analyzing accounts, researching and resolving errors and discrepancies timely, gathering supporting documentation, preparing supporting schedules, and making adjusting entries. Reconciliations will be reviewed periodically by the Finance Director.

In addition, the policies have been implemented for the Senior Accountant to use a checklist to ensure that all activity is posted to the ledger daily.

Finding 12-3 Grant Accounting Policies and Procedures

Condition: Based on our audit testing, we found that controls over grants of federal and state funds should be significantly improved. The previous City Clerk had assigned the maintenance of grant documentation to the principal accountant; however, grant documentation is not being adequately maintained. There is no summary schedule kept for the City's grants. The City has no formal procedure for the review, analysis, and accounting of its grants.

Criteria: Compliance with laws and regulations regarding federal grants and contracts is of the utmost importance. Violation of these laws and regulations can impose significant operating and financial penalties on the City and can prevent the City from receiving funds in the future.

Effect: The accounting system in place made it difficult to determine the funds received and expended for each individual grant. Establishing procedures to accurately account for funds received, funds expended, and compliance will facilitate the reporting requirements for grants and greatly improve internal control. A summary schedule keeps track of the various aspects pertaining to grants and ensures compliance with grant agreements.

Recommendation: We recommend that the City implement procedures to maintain grant documentation and to properly account for funds received and funds expended. This should include but not be limited to: 1) training department heads on the proper procedures when grants are awarded and funds are disbursed, 2) maintaining a file for each existing City grant to include the grant agreement, revenue collected, expenses paid, federal reports filed, supporting documents, and financial reports, 3) maintaining a summary schedule of all existing City grants that includes the amount, term, dates of receipt, reporting, requirements, any restrictions, and other pertinent information, 4) detailed accounting records

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for each grant to ensure the proper recording in the general ledger, and 5) reviewing the grant agreements on a regular basis to ensure understanding of and compliance with specific grant terms as well as consistency of reporting for all grant agreements on a timely basis.

Corrective Action: The Department has promoted a new staff member who will be responsible for grant accounting, among other duties. The City will implement grant accounting policies to include monitoring revenues and expenditures, grant compliance, grant reporting, and maintenance of grant agreements and records.

Finding 13-1 Community Development – Accuracy of Loans Receivable Balances and Transaction Postings to the Subsidiary Ledger

Condition: Historically, the subsidiary ledgers for loans have not been reviewed for accuracy. During the year-ended September 30, 2014, Community Development outsourced the maintenance of subsidiary ledgers and a complete review of the Community Development loan files. During the audit, we noted that the process of reconciliation and review of all files was not complete and the progress on the review revealed previously unrecorded loans and loans having been satisfied that had not been fully repaid.

Criteria: In financial reporting, accurate valuation of assets is vital to presenting financial statements that are materially correct. Following this principle, Community Development is responsible for making and servicing residential and commercial loans that are significant. Over the course of time, the value of all loans this department services are material to the financial condition of the City. Therefore, it is imperative that this department knows the status and balance of each loan.

Effect: The loan files maintained in Community Development are not adequately organized or updated. Basic information on the loan, such as: the status of the loan, the related loan program, if the loan has been analyzed and a loan balance determined, or how the loan balance was derived. The disorganization of the loan files and the obvious entry errors of some of the basic loan information in the subsidiary ledger system lends itself to significant underreporting and underservicing of Community Development's residential and commercial loans. It also jeopardizes the City's future program funding.

Recommendation: During the year ended September 30, 2014, the Community Development director outsourced the maintenance of the subsidiary ledgers and the outsource firm has been engaged to complete a detailed review of each loan file in Community Development. The firm hired has personnel experienced in the recording, servicing, and satisfying residential and commercial loans. We recommend that the firm continue with their analysis of each file, update the subsidiary ledgers, and reflect findings in the loan files. A routing sheet should be developed to include with each file the date reviewed, who reviewed, and the pertinent loan details. The current balance of the loan should be computed with a detailed schedule of how the balance was determined (i.e., complete amortization schedule with proper interest rate, date of loan, date of each payment on the loan, etc.). If management determines the loan has been satisfied, the satisfaction date should be noted on the routing sheet and a copy of the recorded mortgage satisfaction should be included in file. The inactive files should be obviously marked as satisfied and filed separately from active loan files. We further recommend that a procedure be implemented for new loan files to ensure accurate set up and organized file maintenance.

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Corrective Action: Procedures will be implemented to ensure that each loan is recorded and the activity posted to the ledger is correct (initial loan amount, payments, etc.). Loans will be balanced to the general ledger.

Finding 14-1 Revenues and Other Receipts Received Outside of Revenue

Condition: While performing audit procedures, we noted a payment that should have been received by the City but had not yet been deposited. Upon further investigation, we determined that the payment had been received by the principal accountant. The payment was not promptly deposited and subsequently lost. The payment was reissued as a result of this discovery. The City currently has no procedures in place to document payments received outside of the revenue department and subsequently ensure that the payments are promptly deposited to the correct account.

Criteria: Common business practices indicate that payments received will be promptly deposited and credited to the correct account. The risk of misplacing receipts and payer insufficient funds increases when payments received are not promptly deposited.

Effect: The City did not have access to the funds that were misplaced. Had the misplacement not been discovered during the audit, it is likely that the City would not have recovered the funds. The correct allocation of the payment sometimes delays its deposit; however, the City does not currently have a procedure in place to track payments received but not yet deposited.

Recommendation: We recommend that City inform all personnel that payments received outside of the revenue department must be delivered to revenue upon receipt. The revenue department should maintain a log of payments received from City personnel. The log should indicate the date, the payer, the amount, the City personnel that the check was received from, and when the check was deposited. If a payment must be researched to determine which fund it should be deposited into, the payment should be kept in a secure location by the revenue department for no longer than 2 business days. After that time, if the payment cannot be identified, it should be deposited into the general fund and transferred at such time that its proper fund can be determined.

Corrective Action: The Finance Department has implemented a policy that checks received should be coded and delivered to the revenue department upon receipt. Checks should be deposited into the bank no later than 48 hours upon receipt. This procedure has been communicated to all Finance staff.

Finding 14-2 Payroll Transactions Not Posted

Condition: In our initial attempts to perform audit procedures in payroll, we determined that a substantial amount of the payroll transactions had not been posted to the general ledger for the year. We also determined that voided checks were not being properly accounted for in the general ledger. We also noted that the payroll tax liabilities are still not being reconciled and that payroll tax deposits are consistently not posted to the general ledger.

Criteria: Completeness is an essential financial statement assertion. It indicates that all transactions and events that should be recorded are recorded.

Effect: The books and records of the City were incomplete and the financial performance of the City could not be measured until the transactions were recorded.

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Recommendation: We recommend that the City immediately implement detailed procedures to ensure that payroll transactions are posted immediately upon completion to the general ledger. The completion of each step of the process should be documented and upon completion of all steps reviewed by a designated manager or the Finance Director. The implementation of the reconciliation processes noted in prior findings should provide further assurance that all transactions and events that should be recorded will be recorded.

Corrective Action: Effective June 1, 2015, the Finance Director has implemented a procedure that all balance sheet accounts must be reconciled by the 20th of the following month. A memo has been sent to all members of the Finance staff regarding the process for reconciling accounts, analyzing accounts, researching and resolving errors and discrepancies timely, gathering supporting documentation, preparing supporting schedules, and making adjusting entries. Reconciliations will be reviewed periodically by the Finance Director.

In addition, the Finance department has implemented a procedure that all subsidiary ledgers, in this instance payroll, must be posted by the following day. A checklist has been prepared for the Senior Accountant to ensure that all subsidiary information is pulled into the ledger.

Finding 14-3 Omission of New Bank Account

Condition: In March, 2014, the City opened a bank account for the Frank House Golf Course. While performing audit procedures for cash we noted that the account balance as of September 30, 2014, was a little over \$99,000. We noted that the account had been set up in the general ledger but had no transactions reported. Further investigation revealed that the deposits from the operation of the golf course, along with the revenue from the trees sold after the tornado, had been deposited in this account. The monies were being deposited through revenue; however, the revenue packets were not being posted to the general ledger. Because timely bank reconciliations are not performed and the general ledger is not being reviewed, the lack of recording the transactions went unnoticed.

Criteria: Completeness is an essential financial statement assertion. It indicates that all transactions and events that should be recorded are recorded.

Effect: The books and records of the City were incomplete and the financial performance of the City could not be measured until the transactions were recorded.

Recommendation: We recommend that the City immediately implement detailed procedures to ensure that revenue transactions are posted immediately upon completion to the general ledger. The completion of each step of the process should be documented and upon completion of all steps reviewed by a designated manager or the Finance Director. The implementation of the reconciliation processes noted in prior findings should provide further assurance that all transactions and events that should be recorded will be recorded.

Corrective Action: Effective June 1, 2015, the Finance Director has implemented a procedure that all balance sheet accounts must be reconciled by the 20th of the following month. A memo has been sent to all members of the Finance staff regarding the process for reconciling accounts, analyzing accounts, researching and resolving errors and discrepancies timely, gathering supporting documentation, preparing supporting schedules, and making adjusting entries. Reconciliations will be reviewed periodically by the Finance Director.

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In addition, the Finance department has implemented a procedure that all subsidiary ledgers, in this instance revenue, must be posted by the following day. A checklist has been prepared for the Senior Accountant to ensure that all subsidiary information is pulled into the ledger.

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Section III: Federal Awards Findings

None

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Finding 13-1 Instance of Noncompliance

CFDA 14.228 Community Development Block Grant

Condition: Historically, the subsidiary ledgers for loans have not been reviewed for accuracy. During the year-ended September 30, 2014, Community Development outsourced the maintenance of subsidiary ledgers and a complete review of the Community Development loan files. During the audit, we noted that the process of reconciliation and review of all files was not complete and the progress on the review revealed previously unrecorded loans and loans having been satisfied that had not been fully repaid.

Criteria: In financial reporting, accurate valuation of assets is vital to presenting financial statements that are materially correct. Following this principle, Community Development is responsible for making and servicing residential and commercial loans that are significant. Over the course of time, the value of all loans this department services are material to the financial condition of the City. Therefore, it is imperative that this department knows the status and balance of each loan.

Effect: The loan files maintained in Community Development are not adequately organized or updated. Basic information on the loan, such as: the status of the loan, the related loan program, if the loan has been analyzed and a loan balance determined, or how the loan balance was derived. The disorganization of the loan files and the obvious entry errors of some of the basic loan information in the subsidiary ledger system lends itself to significant underreporting and underservicing of Community Development's residential and commercial loans. It also jeopardizes the City's future program funding.

Cause: Information was not gathered and reconciled properly.

Recommendation: During the year ended September 30, 2014, the Community Development director outsourced the maintenance of the subsidiary ledgers and the outsource firm has been engaged to complete a detailed review of each loan file in Community Development. The firm hired has personnel experienced in the recording, servicing, and satisfying residential and commercial loans. We recommend that the firm continue with their analysis of each file, update the subsidiary ledgers, and reflect findings in the loan files. A routing sheet should be developed to include with each file the date reviewed, who reviewed, and the pertinent loan details. The current balance of the loan should be computed with a detailed schedule of how the balance was determined (i.e., complete amortization schedule with proper interest rate, date of loan, date of each payment on the loan, etc.). If management determines the loan has been satisfied, the satisfaction date should be noted on the routing sheet and a copy of the recorded mortgage satisfaction should be included in file. The inactive files should be obviously marked as satisfied and filed separately from active loan files. We further recommend that a procedure be implemented for new loan files to ensure accurate set up and organized file maintenance.

Corrective Actions: Procedures will be implemented to ensure that each loan is recorded and the activity posted to the ledger is correct (initial loan amount, payments, etc.). Loans will be balanced to the general ledger.

Current Status: The firm continues with the analysis of each file, updates the subsidiary ledgers, and reflects the findings in the loan files.