

CITY OF BESSEMER
Bessemer, Alabama

Financial Statements and
Supplemental Information

September 30, 2016

CITY OF BESSEMER, ALABAMA

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
Bessemer, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the aggregate remaining fund information, and the budgetary comparison for the General Fund of the City of Bessemer, Alabama (the "City"), as of and for the year ended September 30, 2016, 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 53 percent, 405 percent, and 49 percent, respectively, of the assets, net position, and revenues of the City. Those 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 solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units

The financial statements of the Bessemer Airport Authority (BAA) have not been audited, and we were not engaged to audit the BAA financial statements as part of our audit of the City's basic financial statements. BAA's financial activities are included in the City's basic financial statements as a discretely presented component unit and represent 10 percent, (26) percent, and 16 percent, respectively, of the assets, net position, and revenues of the City's aggregate discretely presented component units.

Qualified Opinion

In our opinion, except for the matter described in the "Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units" paragraph and based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of the City as of September 30, 2016, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2016, the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of OPEB funding progress, the schedule of Changes in Net Pension Liability, and the Schedule of Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, supplementary information and supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, and schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied 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

Other Matters – Continued

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, the schedule of expenditures of federal awards, and the schedules listed in the table of contents are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2017, 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.

Kellum, Wilson & Associates, P.C.

Kellum, Wilson & Associates, P.C.

June 20, 2017

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

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, 2016. The purpose of the Management's Discussion and Analysis (MD&A) is to provide a narrative about the transactions, events, and conditions that are reflected in the government's financial report and of the fiscal policies that govern its operations. Thus, both a short and long-term analysis of the government's activities will be presented.

FINANCIAL HIGHLIGHTS

The City's Governmental Activities net position decreased in fiscal year 2016 by \$3.9 million in fiscal year 2016. This is primarily due to the increase of \$5.9 million in net pension obligation.

The City decreased its outstanding General Obligation Warrants by \$2.3 million in fiscal year 2016. In fiscal year 2016, the general fund had an unassigned fund balance of \$9 million.

The liabilities and deferred inflows of the governmental activities of the City of Bessemer exceeded its assets and deferred outflows at the close of the fiscal year ending September 30, 2016, by \$27,446,163. Of this amount, \$1,076,751 is invested in capital assets, \$8,836,617 is restricted and a deficit of \$37,359,531 is unrestricted.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$26,579,106.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government -Wide Financial Statements

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

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

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

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

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

Fund Financial Statements

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

Governmental Funds

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

Because the focus of government funds is narrower than that of the government-wide financial statements, it is useful to reconcile the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This reconciliation may allow readers to better understand the long-term impact of the government's near-term financing decisions. As a result, the governmental fund balance sheet provides a reconciliation to facilitate this comparison between governmental funds and governmental activities (see page 17). The City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, 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 72).

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, 2016**

Component Units

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

Notes to the Financial Statements

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

Other Information

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

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$9,302,310 at the close of the most recent fiscal year.

**CONDENSED STATEMENT OF NET POSITION
September 30, 2016 and 2015**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>		<u>Total Component Units 2016</u>
	<u>2016</u>	<u>2015</u> As Restated	<u>2016</u>	<u>2015</u> As Restated	<u>2016</u>	<u>2015</u> As Restated	
Assets							
Current and Other Assets	\$ 31,080,185	\$ 43,233,211	\$ 35,039,549	\$ 30,928,303	\$ 66,119,734	\$ 74,161,514	\$ 3,680,343
Capital Assets (Net)	<u>59,289,155</u>	<u>50,098,925</u>	<u>58,924,173</u>	<u>58,549,411</u>	<u>118,213,328</u>	<u>108,648,336</u>	<u>36,467,064</u>
Total Assets	<u>90,369,340</u>	<u>93,332,136</u>	<u>93,963,722</u>	<u>89,477,714</u>	<u>184,333,062</u>	<u>182,809,850</u>	<u>40,147,407</u>
Deferred Outflows	<u>16,955,758</u>	<u>14,811,769</u>	<u>2,049,906</u>	<u>1,254,538</u>	<u>19,005,664</u>	<u>16,066,307</u>	<u>1,251,124</u>
Liabilities							
Current Liabilities	8,627,448	8,306,710	17,696,606	16,121,986	26,324,054	24,428,696	3,126,992
Long-Term Liabilities	<u>126,143,813</u>	<u>121,691,174</u>	<u>41,568,549</u>	<u>40,970,453</u>	<u>167,712,362</u>	<u>162,661,627</u>	<u>51,100,987</u>
Total Liabilities	<u>134,771,261</u>	<u>129,997,884</u>	<u>59,265,155</u>	<u>57,092,439</u>	<u>194,036,416</u>	<u>187,090,323</u>	<u>54,227,979</u>
Deferred Inflows	<u>-</u>	<u>1,640,711</u>	<u>-</u>	<u>356,503</u>	<u>-</u>	<u>1,997,214</u>	<u>-</u>
Net Position							
Invested in Capital Assets	1,076,751	(9,236,209)	24,888,462	23,586,028	25,965,213	14,349,819	(16,629,759)
Restricted	8,836,617	20,059,461	5,353,132	4,821,502	14,189,749	24,880,963	1,889,792
Unrestricted	<u>(37,359,531)</u>	<u>(34,317,942)</u>	<u>6,506,879</u>	<u>4,875,780</u>	<u>(30,852,652)</u>	<u>(29,442,162)</u>	<u>1,910,519</u>
Total Net Position	\$ <u>(27,446,163)</u>	\$ <u>(23,494,690)</u>	\$ <u>36,748,473</u>	\$ <u>33,283,310</u>	\$ <u>9,302,310</u>	\$ <u>9,788,620</u>	\$ <u>(12,829,448)</u>

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

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

The City's total net position decreased by \$486,310 during the fiscal year ended September 30, 2016.

**CONDENSED STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
For the years ended September 30, 2016 and 2015**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>		<u>Total Component Units 2016</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	
Revenues							
Program Revenues:							
Charges for Services	\$ 6,659,448	\$ 7,447,502	\$ 53,432,853	\$ 53,692,516	\$ 60,092,301	\$ 61,140,018	\$ 8,493,164
Operating Grants	634,988	708,779	-	-	634,988	708,779	329,702
Capital Grants	-	-	-	-	-	-	-
General Revenues:							
Property Taxes	7,911,944	7,856,275	-	-	7,911,944	7,856,275	-
Sales Taxes	28,018,590	28,165,913	-	-	28,018,590	28,165,913	-
Occupational Taxes	6,433,709	6,556,770	-	-	6,433,709	6,556,770	-
Investment Earnings	25,367	80,515	33,580	45,246	58,947	125,761	51
Other	<u>6,256,115</u>	<u>7,450,477</u>	<u>609,490</u>	<u>1,622,364</u>	<u>6,865,605</u>	<u>9,072,841</u>	<u>72,255</u>
Total Revenues	<u>55,940,161</u>	<u>58,266,231</u>	<u>54,075,923</u>	<u>55,360,126</u>	<u>110,016,084</u>	<u>113,626,357</u>	<u>8,895,172</u>
Expenses							
Governmental Activities:							
General Government	13,840,490	14,629,747	-	-	13,840,490	14,629,747	-
Public Improvements	12,583,832	11,090,538	-	-	12,583,832	11,090,538	-
Public Safety	27,562,823	26,676,337	-	-	27,562,823	26,676,337	-
Cultural and Recreation	2,926,264	1,953,171	-	-	2,926,264	1,953,171	-
Interest on Long-Term Debt and Capital Lease	2,978,225	3,141,628	-	-	2,978,225	3,141,628	-
Business-Type Activities:							
Electric	-	-	33,430,439	33,863,299	33,430,439	33,863,299	-
Water	-	-	16,813,168	16,464,724	16,813,168	16,464,724	-
Civic Center	-	-	367,153	283,943	367,153	283,943	-
Component Units Activities:							
GUSC	-	-	-	-	-	-	7,170,655
Bessemer Airport Authority	-	-	-	-	-	-	<u>1,397,072</u>
Total Expenses	<u>59,891,634</u>	<u>57,491,421</u>	<u>50,610,760</u>	<u>50,611,966</u>	<u>110,502,394</u>	<u>108,103,387</u>	<u>8,567,727</u>
Change in Net Position	(3,951,473)	774,810	3,465,163	4,748,160	(486,310)	5,522,970	327,445
Beginning Net Position	(23,551,796)	(24,326,606)	32,401,816	27,653,656	8,850,020	3,327,050	(13,156,893)
Prior Period Adjustment	<u>57,106</u>	-	<u>881,494</u>	-	<u>938,600</u>	-	-
Ending Net Position	\$ <u>(27,446,163)</u>	\$ <u>(23,551,796)</u>	\$ <u>36,748,473</u>	\$ <u>32,401,816</u>	\$ <u>9,302,310</u>	\$ <u>8,850,020</u>	\$ <u>(12,829,448)</u>

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

Governmental Activities

Governmental activities decreased the City's net position by \$3,951,473. The main factors contributing to the decrease include: 1) A 4.2 percent drop in overall revenue and 2) A 4.0 percent increase in overall expenses.

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, 2016, are as follows:

**Governmental Funds
Fund Balances
As of September 30, 2016 and 2015**

	As Restated Fund Balance <u>2015</u>	Increase (Decrease)	Fund Balance <u>2016</u>
General Fund	\$ 20,028,309	\$ (1,125,794)	\$ 18,902,515
Capital Projects Fund	11,285,484	(9,926,825)	1,358,659
Special Revenue	6,114,120	(193,604)	5,920,516
Debt Service	<u>1,550,205</u>	<u>(1,152,789)</u>	<u>397,416</u>
Total Fund Balance	<u>\$ 38,978,118</u>	<u>\$ (12,399,012)</u>	<u>\$ 26,579,106</u>

**Proprietary Funds
Net Position
As of September 30, 2016 and 2015**

	As Restated Net Position <u>2015</u>	Increase (Decrease)	Net Position <u>2016</u>
Electric	\$ 18,041,670	\$ 275,890	\$ 18,317,560
Water	14,963,856	3,343,067	18,306,923
Civic Center	<u>277,784</u>	<u>(153,794)</u>	<u>123,990</u>
Total Net Position	<u>\$ 33,283,310</u>	<u>\$ 3,465,163</u>	<u>\$ 36,748,473</u>

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

**Budget Variances in
General Fund Budget
For Year Ended September 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues	\$ 51,014,087	\$ 51,387,191	\$ 373,104
Other Financing Sources (Uses)	<u> -</u>	<u> -</u>	<u> -</u>
Total	51,014,087	51,387,191	373,104
Expenditures	<u>51,014,087</u>	<u>52,512,985</u>	<u>(1,498,898)</u>
Net Change in Fund Balance	\$ <u> -</u>	\$ <u>(1,125,794)</u>	\$ <u>(1,125,794)</u>

During the 2016 fiscal year, there was a \$1,125,794 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 does not have a budget presented for the fiscal year 2016. The Library fund accounts for \$117,080 of the net change in actual fund balance and the variance to budget.

Actual revenues were greater than budgeted revenues by \$373,104. Tax revenues were down \$1,450,857, with the majority of the decline occurring in Sales and Use Tax Revenue. This does represent a decline in the area of consumer spending. The Municipal Court and the Library revenues do not have budgeted amounts but the revenues are presented in the general fund resulting in actual revenues exceeding total budgeted revenues for the fund.

Actual expenditures exceeded budgeted expenditures by \$1,498,898. The City renovated the Municipal Golf Course Clubhouse and those costs were not budgeted as part of the City's adopted operating budget. The Municipal Court and the Library expenditures do not have budgeted amounts but the expenditures are presented in the general fund resulting in actual expenditures exceeding total budgeted expenditures for the fund.

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets Activity

The City's investment in capital assets as of September 30, 2016, amounts to \$59,289,155 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, 2016 and 2015**

	<u>Governmental Activities</u>		<u>Total Business-Type Activities</u>		<u>Primary Government</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 1,325,177	\$ 1,325,177	\$ 371,854	\$ 371,854	\$ 1,697,031	\$ 1,697,031
Construction in Progress	8,303,932	10,926,838	7,144,788	5,798,300	15,448,720	16,725,138
Property Held for Sale	271,993	271,993	-	-	271,993	271,993
Buildings and Capital Facilities	25,604,306	11,706,756	4,854,905	4,854,905	30,459,211	16,561,661
Furniture and Fixtures	18,493,634	17,986,534	6,972,967	6,795,321	25,466,601	24,781,855
Plant Equipment	-	-	83,333,748	82,867,450	83,333,748	82,867,450
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	\$ 83,300,891	\$ 71,519,147	\$ 102,678,262	\$ 100,687,830	\$ 185,979,153	\$ 172,206,977
Less: Accumulated Depreciation	<u>(24,011,736)</u>	<u>(21,420,222)</u>	<u>(43,754,089)</u>	<u>(42,107,709)</u>	<u>(67,765,825)</u>	<u>(63,527,931)</u>
Net Capital Assets	\$ <u>59,289,155</u>	\$ <u>50,098,925</u>	\$ <u>58,924,173</u>	\$ <u>58,580,121</u>	\$ <u>118,213,328</u>	\$ <u>108,679,046</u>

Long-Term Debt Activity

**OUTSTANDING DEBT
September 30, 2016 and 2015**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2015</u>
Warrants Payable	\$ 67,427,391	\$ 69,732,773	\$ 30,920,993	\$ 31,799,633	\$ 98,348,384	\$ 101,532,406
Capital Leases	607,977	718,885	55,716	82,024	663,713	800,909
OPEB Liability	10,432,833	9,388,450	-	-	10,432,833	9,388,450
Board of Education	66,678	466,674	-	-	66,678	466,674
Net Pension Obligation	43,680,599	37,703,065	9,491,154	8,173,635	53,171,753	45,876,700
Compensated Absences	7,422,507	7,794,298	1,199,999	1,218,513	8,622,506	9,012,811
Other	<u>304,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>304,400</u>	<u>-</u>
Total Outstanding Debt	\$ <u>129,942,405</u>	\$ <u>125,804,145</u>	\$ <u>41,667,862</u>	\$ <u>41,273,805</u>	\$ <u>171,610,267</u>	\$ <u>167,077,950</u>

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

Economic Factors Affecting the City of Bessemer and the 2016 Budget and Debt Information

American Minerals Three, formerly JB Processing facility, will open a new \$35 million facility on 22nd Street near the heart of downtown Bessemer in December 2016. The facility manufactures stone tile for shipment both nationally and internationally.

Flex-N-Gate, an automotive parts manufacturing facility here in the City, is expanding its facility and will add 107 new jobs to their current workforce.

BLOX Company, which specializes in prefabricated rooms for hospitals, has relocated its operations to the City of Bessemer. BLOX does business throughout the United States.

Our downtown area is continuing to experience an improved climate among its downtown district. Several new businesses opened in the downtown City Center in 2016 and former buildings are being purchased and re-imagined. In fiscal year 2016, the downtown area saw an increase of 20 new businesses in the City Center.

In 2017, a newly constructed City Hall will be open for business. As the hub of City operations and business, this will provide City leadership with a state of the art facility for use in conducting business locally, throughout the country, and abroad.

In September of 2016, the City opened its' first Recreation facility. This \$15 million facility has truly been a success as an estimated 5,000 members have joined. The facility offers residents and non-residents an opportunity for both leisure and recreational activities and adds to the overall quality of life of our residents.

The City will continue to explore ways to attract business into the City Center and the entire City as a whole. The City is open for business and wants to maintain a solid reputation of being business friendly.

Budget Information

On or before October 1 of each year, City Administrators prepare and submit an annual budget to be adopted by the City Council. The comparison of the FY 2016 general fund budget to the actual results is detailed in the "Statement of Revenues, Expenditures, and Changes in Fund Balances" - Budget to Actual.

The budget for fiscal year 2017-2018 was passed for \$54 million dollars.

Capital Assets and Debt Administration

Capital Assets – The City's investment in capital assets for governmental activities for the year ended September 30, 2016, amounted to \$59,289,155, net of accumulated depreciation and debt related to the acquisition of the assets. The City's investment in capital assets includes land, infrastructure, buildings, furniture and fixtures, equipment, vehicles, and construction in progress. The City's assets are valued at historical cost where available and estimated historical cost where actual cost is not available.

Debt – The City had long-term debt of \$75.5 million at the end of fiscal year 2016. Long-term debt includes of warrants payable, capital lease contracts payable, and compensated absences. The City decreased its General Long-Term warrants by \$2.3 million and the compensated absences liability by \$371,791 in FY 2016.

Bessemer Utilities – Electric

Management has continued its incorporation of its minimum cash reserve policy. This policy has been incorporated in an effort to help maintain financial flexibility and smooth rate adjustments in view of turbulent storms, sluggish economy, changing energy prices and customer efficiency.

**CITY OF BESSEMER, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

Bessemer Electric continued its goal, despite operating in unpredictable circumstances, to gain continued energy efficiencies and improvements to serve our customer base.

Bessemer Utilities – Water

Management has completed the EPA Brighton pipe upgrade. The completion of this project is expected to have a return on investment through less repairs and maintenance for in the upcoming years.

Bessemer Water continued its efforts to undertake minor infrastructure improvements in Bessemer, Ross Bridge, Alabaster, Midfield, Hueytown, and other service areas. These projects are linked to the efficiency and safety of infrastructure.

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

Request for Information

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

CITY OF BESSEMER, ALABAMA

Statement of Net Position

September 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
CURRENT ASSETS				
Cash and Investments	\$ 21,075,778	\$ 14,477,575	\$ 35,553,353	\$ 420,997
Cash and Investments - Restricted	1,756,075	5,353,132	7,109,207	2,717,296
Receivables				
Accounts	3,744,218	3,590,705	7,334,923	425,366
Loans	2,097,514	2,679,757	4,777,271	-
Due from Proprietary Funds	110,745	7,608,678	7,719,423	-
Due from Other Governments	986,444	-	986,444	-
Inventories	252,773	981,393	1,234,166	34,496
Prepaid Expenses	263,635	225,872	489,507	62,473
TOTAL CURRENT ASSETS	30,287,182	34,917,112	65,204,294	3,660,628
NONCURRENT ASSETS				
Capital Assets				
Nondepreciated				
Land	1,325,177	371,854	1,697,031	3,073,353
Property Held for Resale	271,993	-	271,993	-
Construction in Progress	8,303,932	7,144,788	15,448,720	-
Depreciated				
Building and Capital Facilities	25,604,306	95,161,620	120,765,926	48,684,826
Furniture and Other Equipment	18,493,634	-	18,493,634	493,021
Infrastructure	29,301,849	-	29,301,849	1,797,802
Accumulated Depreciation	(24,011,736)	(43,754,089)	(67,765,825)	(17,581,938)
Total Capital Assets	59,289,155	58,924,173	118,213,328	36,467,064
Other Assets				
Net Pension Asset	-	-	-	19,715
Deferred Loans Receivable	793,003	-	793,003	-
Customers' Home Insulation Loans	-	122,437	122,437	-
TOTAL NONCURRENT ASSETS	60,082,158	59,046,610	119,128,768	36,486,779
TOTAL ASSETS	90,369,340	93,963,722	184,333,062	40,147,407
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Employer Contributions				
Deferred Outflows Related to Pension Liability	7,132,774	1,553,221	8,685,995	47,945
Deferred Charge on Refunding of Debt	2,479,255	496,685	2,975,940	1,203,179
Deferred Charge on Acquisition	7,343,729	-	7,343,729	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	16,955,758	2,049,906	19,005,664	1,251,124

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA
Statement of Net Position – Continued
September 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
LIABILITIES				
CURRENT LIABILITIES				
Accounts and Vouchers Payable	3,376,114	10,578,939	13,955,053	266,457
Accrued Payroll and Payroll Taxes Payable	1,058,287	-	1,058,287	14,066
Accrued Interest	394,455	-	394,455	827,404
Due to Other Funds	-	5,958,339	5,958,339	-
Current Maturities of Long-Term Liabilities				
Due to Board of Education	66,678	-	66,678	-
Compensated Absences	1,187,601	192,000	1,379,601	-
Capital Leases Payable	114,313	27,328	141,641	-
Notes Payable	-	-	-	615,836
Bonds and Warrants Payable	2,430,000	940,000	3,370,000	1,380,000
Other Liabilities	-	-	-	23,229
TOTAL CURRENT LIABILITIES	8,627,448	17,696,606	26,324,054	3,126,992
NONCURRENT LIABILITIES				
Due to Board of Education	-	-	-	-
Capital Leases Payable	493,684	28,388	522,072	-
OPEB Liability	10,432,833	-	10,432,833	-
Net Pension Obligation	43,680,599	9,491,154	53,171,753	-
Compensated Absences	6,234,906	1,007,999	7,242,905	-
Notes Payable	-	-	-	5,024
Bonds and Warrants Payable	64,997,391	29,980,993	94,978,384	51,095,963
Closure and Postclosure Costs	304,400	-	304,400	-
Other Liabilities	-	1,060,015	1,060,015	-
TOTAL NONCURRENT LIABILITIES	126,143,813	41,568,549	167,712,362	51,100,987
TOTAL LIABILITIES	134,771,261	59,265,155	194,036,416	54,227,979
DEFERRED INFLOWS OF RESOURCES				
Net Difference Between Projected and Actual Earnings on Plan Investments	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	-	-
NET POSITION				
Invested in Capital Assets	1,076,751	24,888,462	25,965,213	(16,629,759)
Restricted for:				
Debt Service	397,416	5,353,132	5,750,548	1,889,792
Capital Projects	1,358,659	-	1,358,659	-
Community Development Loans	2,097,514	-	2,097,514	-
Special Projects	4,983,028	-	4,983,028	-
Unrestricted	(37,359,531)	6,506,879	(30,852,652)	1,910,519
TOTAL NET POSITION	\$ (27,446,163)	\$ 36,748,473	\$ 9,302,310	\$ (12,829,448)

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA
Statement of Activities
For the Year Ended September 30, 2016

	Net (Expenses) Revenues and Changes in Net Position						Component Units
	Program Revenues		Primary Government		Total	Component Units	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities			
FUNCTIONS	Expenses						
PRIMARY GOVERNMENT							
Governmental Activities							
General Government	\$ 13,840,490	\$ 4,521,037	\$ -	\$ (8,929,789)	\$ -	\$ (8,929,789)	
Public Safety	27,562,823	1,104,831	-	(26,333,505)	-	(26,333,505)	
Public Improvements	12,583,832	723,862	-	(11,756,049)	-	(11,756,049)	
Cultural and Recreation	2,926,264	309,718	-	(2,599,630)	-	(2,599,630)	
Interest on Capital Lease	22,214	-	-	(22,214)	-	(22,214)	
Interest on Long-term Debt	2,956,011	-	-	(2,956,011)	-	(2,956,011)	
Total Governmental Activities	59,891,634	6,659,448	-	(52,597,198)	-	(52,597,198)	
Business-Type Activities							
Civic Center	367,153	213,352	-	-	(153,801)	(153,801)	
Electric Service	33,430,439	33,167,261	-	-	(263,178)	(263,178)	
Water Service	16,813,168	20,052,240	-	-	3,239,072	3,239,072	
Total Business-Type Activities	50,610,760	53,432,853	-	-	2,822,093	2,822,093	
TOTAL PRIMARY GOVERNMENT	\$ 110,502,394	\$ 60,092,301	\$ -	\$ (52,597,198)	2,822,093	(49,775,105)	
Component Units							
Governmental Utility Services Corporation	\$ 7,170,655	\$ 7,477,631	\$ -	\$ -	\$ -	\$ 306,976	
Bessemer Airport Authority	1,397,072	1,015,533	329,702	-	-	(51,837)	
Total Component Units	\$ 8,567,727	\$ 8,493,164	\$ 329,702	\$ -	\$ -	255,139	
GENERAL REVENUES							
Sales and Use Taxes				28,018,590	-	28,018,590	
Occupational Tax				6,433,709	-	6,433,709	
Property Tax				7,911,944	-	7,911,944	
Other Tax				2,558,095	-	2,558,095	
Other Income				3,698,020	609,490	4,307,510	12,255
City Allocation				-	-	-	60,000
Unrestricted Investment Earnings				25,367	33,580	58,947	51
Transfers				-	-	-	-
Gain on Disposal of Assets				-	-	-	-
Total General Revenues				48,645,725	643,070	49,288,795	72,306
Changes in Net Position				(3,951,473)	3,465,163	(486,310)	327,445
NET POSITION – BEGINNING OF YEAR AS RESTATED				(23,494,690)	33,283,310	9,788,620	(13,156,893)
NET POSITION – END OF YEAR				\$ (27,446,163)	\$ 36,748,473	\$ 9,302,310	\$ (12,829,448)

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Balance Sheet

Governmental Funds

As of September 30, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Investments	\$ 17,297,836	\$ -	\$ -	\$ 3,777,942	\$ 21,075,778
Cash with Escrow Agents	-	1,358,659	397,416	-	1,756,075
Accounts Receivable	3,695,988	-	-	48,230	3,744,218
Loans Receivable	-	-	-	2,097,514	2,097,514
Due from Other Funds	765,182	-	-	82,353	847,535
Due from Proprietary Funds	110,745	-	-	-	110,745
Due from Other Governments	985,676	-	-	768	986,444
Inventories	252,773	-	-	-	252,773
Prepaid Expenses	263,635	-	-	-	263,635
Deferred Loans Receivable	-	-	-	793,003	793,003
TOTAL ASSETS	<u>\$ 23,371,835</u>	<u>\$ 1,358,659</u>	<u>\$ 397,416</u>	<u>\$ 6,799,810</u>	<u>\$ 31,927,720</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts and Vouchers Payable	\$ 3,253,984	\$ -	\$ -	\$ 122,130	\$ 3,376,114
Accrued Payroll and Payroll Taxes Payable	1,058,287	-	-	-	1,058,287
Lease Payable	-	-	-	-	-
Due to Component Units	-	-	-	-	-
Due to Board of Education	66,678	-	-	-	66,678
Due to Other Funds	90,371	-	-	757,164	847,535
TOTAL LIABILITIES	<u>4,469,320</u>	<u>-</u>	<u>-</u>	<u>879,294</u>	<u>5,348,614</u>
FUND BALANCES					
Unreserved					
Nonspendable Fund Balance	516,408	-	-	-	516,408
Restricted Fund Balance	281,500	1,358,659	397,416	5,920,516	7,958,091
Committed Fund Balance	2,938,509	-	-	-	2,938,509
Assigned Fund Balance	6,098,185	-	-	-	6,098,185
Unassigned Fund Balance	9,067,913	-	-	-	9,067,913
TOTAL FUND BALANCES	<u>18,902,515</u>	<u>1,358,659</u>	<u>397,416</u>	<u>5,920,516</u>	<u>26,579,106</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 23,371,835</u>	<u>\$ 1,358,659</u>	<u>\$ 397,416</u>	<u>\$ 6,799,810</u>	

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

Balance Sheet – Continued

Governmental Funds

As of September 30, 2016

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

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

Land	\$	1,325,177	
Property Held for Resale		271,993	
Construction in Progress		8,303,932	
Buildings and Capital		25,604,306	
Furniture and Fixtures		18,493,634	
Infrastructure		29,301,849	
Less: Accumulated Depreciation		<u>(24,011,736)</u>	
	\$		59,289,155

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	(67,955,000)	
Unamortized Premium	(54,705)	
Unamortized Discount	582,314	
Deferred Charge on Refunding	2,479,255	
Deferred Charge on Acquisition	7,343,729	
Accrued Interest	(394,455)	
Closure and Postclosure Costs	(304,400)	
Net Pension Obligation	(43,680,599)	
Deferred Outflows Related to Pension Liability	7,132,774	
Net Difference Between Projected and Actual Earnings on Plan Investments	-	
OPEB Liability	(10,432,833)	
Compensated Absences	(7,422,507)	
Capital Lease Payable	<u>(607,997)</u>	
		<u>(113,314,424)</u>
Net Position of Governmental Activities	\$	<u><u>(27,446,163)</u></u>

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2016

	General Fund	Capital Projects Fund	Debt Service Fund	Other Nonmajor Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 41,049,400	\$ -	\$ 2,201,695	\$ 1,886,325	\$ 45,137,420
Licenses and Permits	4,519,301	-	-	-	4,519,301
Charges for Services	599,729	-	-	597,434	1,197,163
Fines and Forfeitures	959,909	-	-	-	959,909
Intergovernmental	2,693,766	-	-	579,410	3,273,176
Investment Income	7,414	17,894	59	-	25,367
Other	518,307	-	-	309,518	827,825
TOTAL REVENUES	<u>50,347,826</u>	<u>17,894</u>	<u>2,201,754</u>	<u>3,372,687</u>	<u>55,940,161</u>
EXPENDITURES					
Public Safety	25,582,477	-	-	553,743	26,136,220
Public Improvements	11,385,333	-	-	-	11,385,333
General Government	9,418,693	-	-	1,722,382	11,141,075
Cultural and Recreation	2,515,197	-	-	-	2,515,197
Total	48,901,700	-	-	2,276,125	51,177,825
Capital Outlays	2,009,268	9,944,719	-	141,726	12,095,713
Debt Service					
Principal	110,887	-	2,355,000	-	2,465,887
Interest	22,214	-	2,577,534	-	2,599,748
TOTAL EXPENDITURES	<u>51,044,069</u>	<u>9,944,719</u>	<u>4,932,534</u>	<u>2,417,851</u>	<u>68,339,173</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(696,243)	(9,926,825)	(2,730,780)	954,836	(12,399,012)
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	67,143	-	1,577,991	484,781	2,129,915
Transfers to Other Funds	(496,694)	-	-	(1,633,221)	(2,129,915)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(429,551)</u>	<u>-</u>	<u>1,577,991</u>	<u>(1,148,440)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(1,125,794)	(9,926,825)	(1,152,789)	(193,604)	(12,399,012)
FUND BALANCES – BEGINNING OF YEAR – AS RESTATED	<u>20,028,309</u>	<u>11,285,484</u>	<u>1,550,205</u>	<u>6,114,120</u>	<u>38,978,118</u>
FUND BALANCES – END OF YEAR	<u>\$ 18,902,515</u>	<u>\$ 1,358,659</u>	<u>\$ 397,416</u>	<u>\$ 5,920,516</u>	<u>\$ 26,579,106</u>

The accompanying notes are an integral part of this statement.

CITY OF BESSEMER, ALABAMA

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

For the Year Ended September 30, 2016

NET CHANGE IN FUND BALANCES TOTAL GOVERNMENTAL FUNDS \$ (12,399,012)

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

Principal Payments	2,355,000
Capital Lease Payments	110,887
Amortization of Bond Premiums and Discounts	(49,618)
Amortization of Deferred Charge on Refunding	(339,725)
Amortization of Deferred Charge on Acquisition of District and CDA	(1,253,815)
Change in Accrued Interest	10,866

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	12,095,713
Depreciation	(2,782,132)
Cost Basis of Assets Disposed	(123,351)

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

OPEB Annual Required Contribution	(1,044,383)
Change in Net Pension Obligation	(599,294)
Closure and Postclosure Costs	(304,400)
Change in Compensated Absences	371,791

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (3,951,473)

CITY OF BESSEMER, ALABAMA

General Fund – Statement of Revenues, Expenditures, and Encumbrances – Budget to Actual
 For the Year Ended September 30, 2016

REVENUES	Final Budget	Actual	Over (Under)
Taxes			
Sales and Use	\$ 29,043,666	\$ 27,622,459	\$ (1,421,207)
Occupational	6,700,000	6,433,709	(266,291)
Property Taxes County Collection	4,673,385	4,875,626	202,241
Financial Institution Excise Tax	-	22,275	22,275
Oil and Gas Privilege Tax	1,000	147,562	146,562
ABC 3% Sales Tax	93,000	88,965	(4,035)
Beer Sales Tax	220,000	226,651	6,651
Tobacco Sales Tax	22,206	22,844	638
Bessemer Electric Service – Lieu of Taxes	1,000,000	1,000,000	-
Cable TV Franchise Tax	420,000	272,752	(147,248)
Road and Bridge Tax	327,000	336,557	9,557
Total Taxes	42,500,257	41,049,400	(1,450,857)
Licenses and Permits			
Business	3,925,000	3,932,884	7,884
Motor Vehicle Licenses	185,925	108,943	(76,982)
Manufactured Home Tax	-	404	404
Storm Water	150,000	142,840	(7,160)
Building Permits	200,000	304,464	104,464
Electric Permits	21,000	19,122	(1,878)
Yard Sale Permits	105	56	(49)
Plumbing Permits	6,000	4,702	(1,298)
Gas Permits	1,500	3,161	1,661
Portable Signs	2,000	2,725	725
Total Licenses and Permits	4,491,530	4,519,301	27,771
Operating Transfers			
Transfers from Other Funds	1,060,000	67,143	(992,857)
Total Operating Transfers	1,060,000	67,143	(992,857)
Intergovernmental Revenue (Lieu of taxes)			
State of Alabama TVA	2,140,000	2,129,020	(10,980)
Operating Grants and Emergency Management	-	216,251	216,251
State of Alabama Capital Improvements	-	241,264	241,264
Municipal Court	-	107,231	107,231
Total Intergovernmental Revenue	2,140,000	2,693,766	553,766

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, 2016

REVENUES	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
Fines and Costs			
Confiscated Drugs	-	10	10
Fines and Penalties	600,000	898,410	298,410
Total Fines and Costs	<u>600,000</u>	<u>898,420</u>	<u>298,420</u>
Charges for Services			
Cemetery Lot Sales	10,000	11,225	1,225
Cemetery Supplies	6,800	3,870	(2,930)
Grave Opening	60,000	48,000	(12,000)
Auditorium Rental Fees	-	23,927	23,927
Golf Course Receipts	-	222,615	222,615
Recreational Facility Receipts	-	25,614	25,614
Wrecker Service Proceeds	30,000	31,545	1,545
Cash Bond Revenue	-	208,157	208,157
Miscellaneous	-	7,860	7,860
Total Charges for Services	<u>106,800</u>	<u>582,813</u>	<u>476,013</u>
Other Operating Revenues			
Interest on Investments	16,000	7,001	(8,999)
Other			
Municipal Assessment	6,000	6,592	592
Weed Liens	5,000	536	(4,464)
Photostats – Police Department	22,500	24,588	2,088
Appeal Board Fee	3,700	2,200	(1,500)
Rental Income	15,000	9,473	(5,527)
Bessemer Utility 48% Mayor's Salary	36,000	35,808	(192)
HITDA Grant	-	18,822	18,822
Park Board Receipts	2,000	2,875	875
State Petroleum Inspection Fees	6,300	6,574	274
Miscellaneous	3,000	77,695	74,695
Bessemer Water and Utilities Fuel Reimbursement	-	251,345	251,345
Dollar General Agreement	-	37,663	37,663
Property Insurance	-	35,891	35,891
Fire Department Training Revenue	-	8,245	8,245
Total Other Operating Revenues	<u>115,500</u>	<u>525,308</u>	<u>409,808</u>
Library			
Investment Income	-	413	413
Fines and Costs	-	61,489	61,489
E-Rate Reimbursement	-	16,916	16,916
City Appropriation	-	972,222	972,222
Total Library	<u>-</u>	<u>1,051,040</u>	<u>1,051,040</u>
TOTAL REVENUES	<u>\$ 51,014,087</u>	<u>\$ 51,387,191</u>	<u>\$ 373,104</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, 2016

EXPENDITURES AND ENCUMBRANCES	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
Public Safety			
Police			
Personnel Services	\$ 11,904,423	\$ 11,253,663	\$ (650,760)
Other	1,191,800	1,022,943	(168,857)
Fire			
Personnel Services	9,304,673	10,065,030	760,357
Other	1,375,913	1,251,392	(124,521)
Building and Inspection			
Personnel Services	687,591	623,944	(63,647)
Other	119,800	69,025	(50,775)
Municipal Court			
Personnel Services	554,957	563,487	8,530
Other	-	970,712	970,712
Total Public Safety	<u>25,139,157</u>	<u>25,820,196</u>	<u>681,039</u>
Public Improvements			
Administration			
Personnel Services	668,284	704,854	36,570
Other	235,892	208,049	(27,843)
Sanitation			
Personnel Services	2,705,439	2,566,581	(138,858)
Other	1,528,080	1,764,529	236,449
Street			
Personnel Services	3,194,474	3,089,933	(104,541)
Other	972,920	771,167	(201,753)
Traffic			
Personnel Services	299,989	303,050	3,061
Other	226,100	382,755	156,655
Cemetery			
Personnel Services	562,996	519,289	(43,707)
Other	82,590	80,014	(2,576)
Dog Pound			
Personnel Services	175,398	169,252	(6,146)
Other	82,908	59,371	(23,537)
Fleet Maintenance			
Personnel Services	1,248,224	1,079,577	(168,647)
Other	207,283	177,844	(29,439)
Total Public Improvements	<u>12,190,577</u>	<u>11,876,265</u>	<u>(314,312)</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, 2016

EXPENDITURES AND ENCUMBRANCES	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
Cultural and Recreational			
Park and Recreation			
Personnel Services	385,828	330,735	(55,093)
Other	200,000	180,920	(19,080)
Golf Course			
Personnel Services	-	88,080	88,080
Other	230,000	265,432	35,432
Recreational Center			
Personnel Services	-	123,548	123,548
Other	-	123,249	123,249
Civic Center			
Personnel Services	541,567	553,146	11,579
Other	7,000	4,124	(2,876)
Library			
Personnel Services	-	517,310	517,310
Other	-	416,651	416,651
Total Cultural and Recreational	<u>1,364,395</u>	<u>2,603,195</u>	<u>1,238,800</u>
General Government			
City Clerk and Treasurer			
Personnel Services	164,186	109,351	(54,835)
Other	39,300	32,337	(6,963)
Finance			
Personnel Services	810,165	739,311	(70,854)
Other	37,200	10,339	(26,861)
Government Information Systems			
Personnel Services	343,522	304,673	(38,849)
Other	302,750	205,543	(97,207)
Revenue			
Personnel Services	397,029	333,704	(63,325)
Other	20,500	5,617	(14,883)
Mayor and Council			
Personnel Services	1,608,384	1,643,655	35,271
Other	296,850	363,589	66,739
Non-Departmental			
Municipal Judge	117,876	98,524	(19,352)
City Attorney	396,000	386,300	(9,700)
Auditors	78,500	103,999	25,499
Sales Tax Collection and Audit	175,000	223,337	48,337
GASB 34 Accounting System	-	-	-
Chamber Tourism	75,000	75,000	-
Bessemer Public Library	871,047	972,222	101,175
Bessemer Airport Authority	60,000	60,000	-

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, 2016

EXPENDITURES AND ENCUMBRANCES	Final Budget	Actual	Over (Under)
General Government – Continued			
Non-Departmental – Continued			
Jefferson County Health Department	157,587	159,306	1,719
Jefferson County Transit Authority	543,023	555,330	12,307
Map and Appraisal	107,968	68,781	(39,187)
Waste Disposal Fee	10,000	-	(10,000)
Copier Services	20,000	9,222	(10,778)
State Unemployment Insurance	20,000	5,513	(14,487)
CSX Railroad	2,500	2,236	(264)
Workman's Compensation	395,000	290,744	(104,256)
Employee Drug Abuse	30,000	29,987	(13)
Alabama League of Municipalities	8,000	-	(8,000)
Jefferson County Personnel Board	516,000	540,609	24,609
Jefferson County Co-Op	6,000	753	(5,247)
Emergency Management	-	36,516	36,516
Birmingham Regional Planning Commission	16,500	16,611	111
Liability and Property	600,000	522,989	(77,011)
Property Insurance	-	9,783	9,783
Legal Claims	315,000	92,460	(222,540)
Legal Fees	15,000	-	(15,000)
Legal Advertising	15,000	10,778	(4,222)
Building and Equipment Maintenance	50,000	50,826	826
Alagasco	30,000	8,926	(21,074)
Electricity	15,000	39,040	24,040
Water	10,000	24,701	14,701
Telephone	30,000	55,544	25,544
Elevator Service	2,000	10,893	8,893
Engineering Services	250,000	685,302	435,302
Appraisal Fees	500	-	(500)
Dues and Subscription	7,500	9,691	2,191
Postage and Printing	25,000	22,351	(2,649)
Computer Software	245,000	77,404	(167,596)
Administrative Car	2,400	2,476	76
General Services	33,450	160,394	126,944
Bank Analysis Service	20,000	33,854	13,854
Capital Equipment Administration	20,000	1,270,066	1,250,066
Storm Water Fee	7,000	-	(7,000)
Employee Assistant Plan	9,000	9,306	306
Administration Expense	15,000	36,038	21,038
Administration Cellular Phone	-	761	761
Camp Bessemer Supplies	125,000	41,718	(83,282)
Academy Drive CO-OP Pledged Tax	-	-	-
Sex Offender Notification	2,883	1,859	(1,024)

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, 2016

EXPENDITURES AND ENCUMBRANCES	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
General Government – Continued			
Tax Rebate Agreements	1,055,000	1,074,311	19,311
Council Attorney Fees	-	-	-
Credit Card Processing Fee	1,000	555	(445)
Golf Course	-	-	-
Recreational Facility Expense	-	-	-
Supplemental Insurance	-	-	-
Handprint Bell	100,000	51,500	(48,500)
Election	-	-	-
Clastran	30,000	30,000	-
Pension	300,000	-	(300,000)
Transfer to Other Funds	<u>1,363,338</u>	<u>496,694</u>	<u>(866,644)</u>
Total General Government	<u>12,319,958</u>	<u>12,213,329</u>	<u>(106,629)</u>
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>\$ 51,014,087</u>	<u>\$ 52,512,985</u>	<u>\$ 1,498,898</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, 2016

	Bessemer Electric Service	Bessemer Water Service	Civic Center	Total Proprietary Funds
ASSETS				
CURRENT ASSETS				
Cash on Deposit	\$ 10,163,133	\$ 4,302,568	\$ 11,874	\$ 14,477,575
Cash on Deposit – Restricted	2,242,686	807,301	-	3,049,987
Certificates of Deposit – Restricted	54,189	-	-	54,189
Investments – Restricted	-	2,248,956	-	2,248,956
Accounts Receivable	3,590,705	-	-	3,590,705
Merchandising, Jobbing, and Other Receivables	-	2,679,757	-	2,679,757
Due from Other Funds	3,769,670	3,839,008	-	7,608,678
Materials and Supplies	381,548	599,845	-	981,393
Prepaid Expenses	218,601	7,271	-	225,872
TOTAL CURRENT ASSETS	20,420,532	14,484,706	11,874	34,917,112
CAPITAL ASSETS				
Land Held for Future Use	291,359	80,495	-	371,854
Construction in Progress	198,634	6,946,154	-	7,144,788
Buildings and Capital Facilities	43,700,584	47,648,442	3,812,594	95,161,620
Less Accumulated Depreciation	(21,190,353)	(18,916,544)	(3,647,192)	(43,754,089)
TOTAL CAPITAL ASSETS, NET	23,000,224	35,758,547	165,402	58,924,173
OTHER ASSETS				
Customers' Home Insulation Loans	122,437	-	-	122,437
TOTAL ASSETS	43,543,193	50,243,253	177,276	93,963,722
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows Related to Pension Liability	684,860	868,361	-	1,553,221
Deferred Charge on Refunding of Debt	496,685	-	-	496,685
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,181,545	868,361	-	2,049,906
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 44,724,738	\$ 51,111,614	\$ 177,276	\$ 96,013,628

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, 2016

	Bessemer Electric Service	Bessemer Water Service	Civic Center	Total Proprietary Funds
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 5,907,705	\$ 4,667,457	\$ 3,777	\$ 10,578,939
Current Maturities of Revenue Warrants	420,000	520,000	-	940,000
Capital Lease Obligation, Net of Long-Term Portion	27,328	-	-	27,328
Compensated Absences	80,453	111,547	-	192,000
Due to Other Funds	5,251,130	657,700	49,509	5,958,339
TOTAL CURRENT LIABILITIES	11,686,616	5,956,704	53,286	17,696,606
LONG-TERM LIABILITIES				
Revenue Warrants	9,322,924	20,658,069	-	29,980,993
Capital Lease Obligation, Less Current Portion	28,388	-	-	28,388
Compensated Absences	422,380	585,619	-	1,007,999
Net Pension Obligation	3,886,855	5,604,299	-	9,491,154
Other Liabilities	1,060,015	-	-	1,060,015
TOTAL LIABILITIES	26,407,178	32,804,691	53,286	59,265,155
DEFERRED INFLOWS OF RESOURCES				
Deferred Amount on Pension	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	-	-
NET POSITION				
Invested in Capital Assets	12,444,515	12,278,547	165,400	24,888,462
Restricted	2,296,875	3,056,257	-	5,353,132
Unrestricted	3,576,170	2,972,119	(41,410)	6,506,879
TOTAL NET POSITION	18,317,560	18,306,923	123,990	36,748,473
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 44,724,738	\$ 51,111,614	\$ 177,276	\$ 96,013,628

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, 2016

	Bessemer Electric Service	Bessemer Water Service	Civic Center	Total Proprietary Funds
OPERATING REVENUES				
Service Fees	\$ 33,167,261	\$ 20,052,240	\$ 213,352	\$ 53,432,853
Other	506,355	103,135	-	609,490
TOTAL OPERATING REVENUES	33,673,616	20,155,375	213,352	54,042,343
OPERATING EXPENSES				
Direct Cost of Services	25,097,920	7,422,542	290,901	32,811,363
Power and Pumping	-	639,193	-	639,193
Distribution - Operations and Maintenance	3,159,816	3,861,217	-	7,021,033
Customer Accounting and Collection	1,146,408	1,059,804	-	2,206,212
Bad Debt Expense	158,464	200,296	-	358,760
Administrative and General	1,385,176	1,432,450	-	2,817,626
Depreciation and Amortization	882,668	687,463	76,252	1,646,383
Tax Equivalents	999,996	185,392	-	1,185,388
Payroll Taxes	193,675	230,116	-	423,791
TOTAL OPERATING EXPENSES	33,024,123	15,718,473	367,153	49,109,749
OPERATING INCOME (LOSS)	649,493	4,436,902	(153,801)	4,932,594
NONOPERATING REVENUES (EXPENSES)				
Interest Income	32,713	860	7	33,580
Interest Expense	(363,017)	(1,078,650)	-	(1,441,667)
Amortization of Bond Cost	(43,299)	(16,045)	-	(59,344)
TOTAL NONOPERATING REVENUES (EXPENSES)	(373,603)	(1,093,835)	7	(1,467,431)
CHANGE IN NET POSITION	275,890	3,343,067	(153,794)	3,465,163
NET POSITION - BEGINNING OF YEAR	18,072,380	14,051,652	277,784	32,401,816
RESTATEMENT	(30,710)	912,204	-	881,494
NET POSITION - END OF YEAR	\$ 18,317,560	\$ 18,306,923	\$ 123,990	\$ 36,748,473

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, 2016

	Bessemer Electric Service	Bessemer Water Service	Civic Center	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	\$ 34,550,344	\$ 19,629,765	\$ 213,352	\$ 54,393,461
Cash Payments to Suppliers	(2,796,796)	(3,041,102)	(275,077)	(6,112,975)
Cash Payments to Employees	(29,228,479)	(9,259,004)	-	(38,487,483)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,525,069	7,329,659	(61,725)	9,793,003
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers	-	-	-	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Payments on Capital Lease	(26,338)	-	-	(26,338)
Principal Payments on Revenue Warrants	(410,000)	(500,000)	-	(910,000)
Interest Paid	(365,229)	(1,078,651)	-	(1,443,880)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(801,567)	(1,578,651)	-	(2,380,218)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Property, Plant, and Equipment	(2,355,563)	(2,536,571)	-	(4,892,134)
Interest Received	32,713	860	7	33,580
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(2,322,850)	(2,535,711)	7	(4,858,554)
NET INCREASE (DECREASE) IN CASH	(599,348)	3,215,297	(61,718)	2,554,231
CASH - BEGINNING OF YEAR	13,005,167	1,894,572	73,592	14,973,331
CASH - END OF YEAR	\$ 12,405,819	\$ 5,109,869	\$ 11,874	\$ 17,527,562

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, 2016

	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)	\$ 649,493	\$ 4,436,902	\$ (153,801)	\$ 4,932,594
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation and Amortization	882,668	687,463	76,252	1,646,383
Bad Debt Adjustment	158,464	200,296	-	358,760
Changes in Assets and Liabilities				
(Increase) Decrease in Accounts Receivable	3,772,129	-	-	3,772,129
(Increase) Decrease in Prepaid Expenses	53,897	56,564	-	110,461
(Increase) Decrease in Due to/from Other Funds	(4,975,360)	15,237	15,088	(4,945,035)
(Increase) Decrease in Inventories	246,758	(242,175)	-	4,583
(Increase) Decrease in Other Assets	394,135	(525,610)	-	(131,475)
Increase (Decrease) in Accounts Payable	(297,484)	97,781	736	(198,967)
Increase (Decrease) in Other Liabilities	1,401,978	2,603,201	-	4,005,179
Increase (Decrease) in Customer Deposits	238,391	-	-	238,391
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 2,525,069	\$ 7,329,659	\$ (61,725)	\$ 9,793,003
CASH – END OF YEAR SHOWN ON THE STATEMENT OF FUND NET POSITION UNDER THE FOLLOWING CAPTIONS:				
Cash on Deposit	\$ 10,163,133	\$ 4,302,568	\$ 11,874	\$ 14,477,575
Cash on Deposit – Restricted	2,242,686	807,301	-	3,049,987
CASH – END OF YEAR	\$ 12,405,819	\$ 5,109,869	\$ 11,874	\$ 17,527,562

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, 2016

	Governmental Utility Service Corp	Bessemer Airport Authority	Total Component Units
ASSETS			
Current Assets			
Cash and Investments	\$ 48,673	\$ 372,324	\$ 420,997
Accounts Receivables – Net of Allowances for Uncollectible Accounts	417,296	8,070	425,366
Inventory	-	34,496	34,496
Other Current Assets	58,881	3,592	62,473
Capital Assets			
Land	639,576	2,433,777	3,073,353
Building and Capital Facilities	47,102,604	1,582,222	48,684,826
Furniture and Equipment	372,364	120,657	493,021
Infrastructure	-	1,797,802	1,797,802
Accumulated Depreciation	(15,248,520)	(2,333,418)	(17,581,938)
Net Pension Asset	19,715	-	19,715
Restricted Assets			
Cash and Investments	2,717,196	100	2,717,296
TOTAL ASSETS	36,127,785	4,019,622	40,147,407
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to Pension	47,945	-	47,945
Deferred Charge on Refunding of Debt	1,203,179	-	1,203,179
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,251,124	-	1,251,124

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

CITY OF BESSEMER, ALABAMA

Statement of Net Position – Component Units – Continued

September 30, 2016

	<u>Governmental Utility Service Corp</u>	<u>Bessemer Airport Authority</u>	<u>Total Component Units</u>
LIABILITIES			
Current Liabilities			
Accounts and Vouchers Payable	231,702	34,755	266,457
Accrued Expenses	837,931	3,539	841,470
Unearned Revenue	-	23,229	23,229
Current Portion of Long-Term Debt	1,380,000	615,836	1,995,836
Long-Term Liabilities			
Bonds and Notes Payable	<u>51,095,963</u>	<u>5,024</u>	<u>51,100,987</u>
TOTAL LIABILITIES	53,545,596	682,383	54,227,979
DEFERRED INFLOWS OF RESOURCES			
Net Difference Between Projected and Actual Earnings on Plan Investments	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Investment in Capital Assets	(19,609,939)	2,980,180	(16,629,759)
Restricted	1,889,792	-	1,889,792
Unrestricted	<u>1,553,460</u>	<u>357,059</u>	<u>1,910,519</u>
TOTAL NET POSITION	<u>\$ (16,166,687)</u>	<u>\$ 3,337,239</u>	<u>(12,829,448)</u>

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, 2016

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position
Governmental Utility Services Corp	\$ 7,170,655	\$ 7,477,631	-	-	\$ 306,976
Bessemer Airport Authority	1,397,072	1,015,533	329,702	-	(51,837)
Total Component Units	\$ 8,567,727	\$ 8,493,164	\$ 329,702	\$ -	255,139
GENERAL REVENUES					
Unrestricted Investment Earnings					51
City Allocation					60,000
Other					12,255
Total General Revenues					72,306
CHANGE IN NET POSITION					327,445
NET POSITION – BEGINNING OF YEAR					(13,156,893)
NET POSITION – END OF YEAR					\$ (12,829,448)

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

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

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, 2016, for the Electric Service Department and September 30, 2016, for the Water Service Department.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reporting Entity – Continued

The City includes the Bessemer Public Library (the “Library”) as a blended component unit. Although the Library possesses many characteristics of a legally separate government, all capital assets and related debt for the library are included in the City’s accounts. In addition, appropriations from the City and a 3.5 mill City ad valorem tax collected make up approximately 91 percent of the Library’s cash receipts. A board of five trustees governs the Library. The Bessemer City Council appoints the trustees for four-year terms. The terms should overlap so that at least one trustee is appointed or re-appointed each year. Complete financial statements as of September 30, 2016, for the Library may be obtained at the following administrative office:

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

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

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

Complete financial statements or other financial information as of September 30, 2016, for the discretely presented component units may be obtained at the following administrative offices:

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

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

Related Organizations

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

Government-Wide and Fund Financial Statements

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

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-Wide and Fund Financial Statements – Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Amounts reported as program revenues include 1) charges to customers for services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. 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.

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 June 20, 2017, the date the financial statements were available to be issued.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund and Accounting Entity

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

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

The 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.

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

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

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund and Accounting Entity – Continued

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

Deposits and Investments

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

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

Taxes Receivable

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

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

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

Short-Term Inter-Fund Receivables/Payables

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

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Inventory

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

Capital Assets

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

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

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

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

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

Compensated Absences

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

Vacation leave is earned on graduated rates based on the employee's length of service (one day per month of service, initially) and up to forty days of unused leave may be carried over to the following year. After one year of service, an employee is eligible to receive up to 40 days of accrued vacation leave upon separation of service if they leave the City in good standing. Vacation pay is accrued when incurred in the government-wide financial statements and as of September 30, 2016, totaled \$2,179,245.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Compensated Absences – Continued

Sick leave is earned at a rate of one day per month of service. After five years of service, an employee is eligible to receive up to 75 days of accrued sick leave (100% of the first 60 days of accrued sick leave and 50% of the next 30 days of accrued sick leave) upon separation of service if they leave the City in good standing. Sick leave is accrued when incurred in the government-wide financial statements for those employees that meet the longevity requirements and is limited to the maximum days eligible for payment upon separation of service. Sick leave is accrued when incurred in the government-wide financial statements and as of September 30, 2016, totaled \$3,556,124.

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, 2016, totaled \$1,687,138.

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

Long-Term Obligations

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

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

Equity Classification

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

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Equity Classification – Continued

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

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

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

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

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

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

Budgetary Comparisons

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

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

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

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

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

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 and Fidelity Government Money Funds, make up 100 percent, and 0 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	\$ 1,755,743
Fidelity Government Money Funds	AAAm, AAA	1 – 90 days	<u>332</u>
Total			\$ <u>1,756,075</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2016, was as follows:

Primary Government

	<u>Balance 10/1/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 9/30/16</u>
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 1,325,177	\$ -	\$ -	\$ 1,325,177
Property Held for Resale	271,993	-	-	271,993
Construction in Progress	<u>10,926,838</u>	<u>11,214,785</u>	<u>13,837,691</u>	<u>8,303,932</u>
Total Capital Assets, Not Being Depreciated	<u>12,524,008</u>	<u>11,214,785</u>	<u>13,837,691</u>	<u>9,901,102</u>
Capital Assets, Being Depreciated				
Building and Capital Facilities	11,706,756	13,897,550	-	25,604,306
Furniture and Other Equipment	17,986,534	821,069	313,969	18,493,634
Infrastructure	<u>29,301,849</u>	<u>-</u>	<u>-</u>	<u>29,301,849</u>
Total Capital Assets, Being Depreciated	<u>58,995,139</u>	<u>14,718,619</u>	<u>313,969</u>	<u>73,399,789</u>
Less Accumulated Depreciation:				
Building and Capital Facilities	2,361,455	523,665	-	2,885,120
Furniture and Other Equipment	9,946,968	1,179,319	190,618	10,935,669
Infrastructure	<u>9,111,799</u>	<u>1,079,148</u>	<u>-</u>	<u>10,190,947</u>
Total Accumulated Depreciation	<u>21,420,222</u>	<u>2,782,132</u>	<u>190,618</u>	<u>24,011,736</u>
Net Capital Assets, Being Depreciated	<u>37,574,917</u>	<u>11,936,487</u>	<u>123,351</u>	<u>49,388,053</u>
Net Capital Assets – Governmental Activities	<u>\$ 50,098,925</u>	<u>\$ 23,151,272</u>	<u>\$ 13,961,042</u>	<u>\$ 59,289,155</u>

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

General Government	\$ 1,287,736
Public Safety	799,465
Public Improvement	357,824
Cultural and Recreation	<u>337,107</u>
Total Depreciation Expense for Governmental Activities	<u>\$ 2,782,132</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 4 – CAPITAL ASSETS – CONTINUED

	<u>Balance 10/1/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 9/30/16</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 371,854	\$ -	\$ -	\$ 371,854
Construction in Progress	<u>5,798,300</u>	<u>1,417,854</u>	<u>71,366</u>	<u>7,144,788</u>
Total Capital Assets, Not Being Depreciated	6,170,154	1,417,854	71,366	7,516,642
Capital Assets, Being Depreciated				
Building and Capital Facilities	4,854,905	-	-	4,854,905
Plant and Equipment	82,867,450	466,298	-	83,333,748
Furniture and Other Equipment	<u>6,795,321</u>	<u>177,646</u>	<u>-</u>	<u>6,972,967</u>
Total Capital Assets, Being Depreciated	94,517,676	643,944	-	95,161,620
Less Accumulated Depreciation:				
Building and Capital Facilities	4,347,417	105,646	-	4,453,063
Plant and Equipment	29,727,585	1,199,734	-	30,927,319
Furniture and Other Equipment	<u>8,032,707</u>	<u>341,000</u>	<u>-</u>	<u>8,373,707</u>
Total Accumulated Depreciation	<u>42,107,709</u>	<u>1,646,380</u>	<u>-</u>	<u>43,754,089</u>
Net Capital Assets, Being Depreciated	<u>52,409,967</u>	<u>(1,002,436)</u>	<u>-</u>	<u>51,407,531</u>
Net Capital Assets – Business-Type Activities	<u>\$ 58,580,121</u>	<u>\$ 415,418</u>	<u>\$ 71,366</u>	<u>\$ 58,924,173</u>

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

Water	\$ 687,460
Electric	882,668
Civic Center	<u>76,252</u>
Total Depreciation Expense for Business-Type Activities	<u>\$ 1,646,380</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, 2016, is as follows:

Due to/from Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Funds	\$ 765,182
Nonmajor Funds	General Fund	81,959
Nonmajor Funds	Nonmajor Funds	<u>394</u>
Total		<u>\$ 847,535</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

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

Due to/from Proprietary Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Proprietary Funds	\$ <u>110,745</u>
Total		\$ <u>110,745</u>

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, 2016, is as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
General Fund	Nonmajor Funds	\$ 67,143
Debt Service Fund	Nonmajor Funds	1,220,645
Nonmajor Funds	Nonmajor Funds	345,433
Nonmajor Funds	General Fund	139,348
Debt Service Fund	General Fund	<u>357,346</u>
Total Fund Financial Statements		\$ <u>2,129,915</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, 2016, are as follows:

<u>Year Ending September 30,</u>	<u>Total</u>
2017	\$ <u>66,678</u>
Total	\$ <u>66,678</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

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, 2016, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 114,313	\$ 18,787	\$ 133,100
2018	117,846	15,254	133,100
2019	121,487	11,613	133,100
2020	125,241	7,859	133,100
2021	129,110	3,990	133,100
Thereafter	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>607,997</u>	\$ <u>57,503</u>	\$ <u>665,500</u>

Assets acquired through capital leases are as follows:

Assets:	<u>Governmental Activities</u>
Machinery and Equipment	\$ 946,448
Less: Accumulated Depreciation	<u>(134,080)</u>
Total	\$ <u>812,368</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

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 \$55,716 at June 30, 2016, is included in the capital assets and long-term liabilities, accordingly.

The future minimum obligations under the capital lease at September 30, 2016, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 27,328	\$ 2,161	\$ 29,489
2018	<u>28,388</u>	<u>1,101</u>	<u>29,489</u>
Total	\$ <u>55,716</u>	\$ <u>3,262</u>	\$ <u>58,978</u>

Assets acquired through capital leases are as follows:

<u>Assets:</u>	<u>Business-Type Activities</u>
Machinery and Equipment	\$ 161,220
Less: Accumulated Depreciation	<u>(55,083)</u>
Total	\$ <u>106,137</u>

NOTE 8 – OPERATING LEASES***Governmental Activities:***

The City leases copier equipment and golf carts under operating leases expiring at various times ranging from January, 2018, through June, 2019. Upon expiration the leases may be renewed monthly.

The future minimum rental payments required by operating leases that have initial lease terms in excess of one year as of September 30, 2016, are as follows:

<u>Year Ending September 30,</u>	<u>Total</u>
2017	\$ 40,279
2018	34,496
2019	22,046
2020	-
2021	-
Thereafter	<u>-</u>
Total	\$ <u>96,821</u>

Rental expenditures for the year ended September 30, 2016, totaled \$35,679.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 9 – CURRENT AND ADVANCED REFUNDINGS

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

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

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

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

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

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 \$16,470,000 as of September 30, 2016. The difference between the cash flows required to service the old debt and that required to service the new debt and complete the refunding was \$1,987,307. The economic gain on refunding was \$1,364,416.

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

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 9 – CURRENT AND ADVANCED REFUNDINGS – CONTINUED

Deferred and amortized amounts on the City's bond refundings (which are reported as deferred inflows or deferred outflows of resources) at September 30, 2016, 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.

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, 2016, was \$1,253,815 leaving an unamortized deferred outflow of \$7,343,729.

Governmental Activities:

<u>Type and Purpose</u>	<u>Balance 10/01/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2016</u>
Deferred Outflow on Refundings	\$ 2,818,980	\$ -	\$ 339,725	\$ 2,479,255
Deferred Outflow on Acquisition	\$ 8,597,544	\$ -	\$ 1,253,815	\$ 7,343,729

Business-Type Activities:

<u>Type and Purpose</u>	<u>Balance 10/01/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2016</u>
Deferred Outflow on Refunding	\$ 524,669	\$ -	\$ 27,984	\$ 496,685

NOTE 10 – GENERAL AND LIMITED OBLIGATION WARRANTS PAYABLE

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

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

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

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

<u>Type and Purpose</u>	<u>Balance 10/01/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2016</u>
Limited Obligation Library Warrants Series 2012 – Due in varying amounts beginning February 1, 2015, until February 1, 2030. Interest is payable semiannually on February 1 and August 1, ranging from 2.0 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.	\$ 4,045,000	\$ -	\$ 230,000	\$ 3,815,000
General Obligation Warrants Series 2013-A – Due in varying amounts beginning February 1, 2014, until February 1, 2043. Interest is payable semiannually on February 1 and August 1, ranging from 3.00 percent to 4.75 percent. Secured by the pledge of 8.6 mills on each \$1.00 of taxable property in the City.	24,045,000	-	625,000	23,420,000
Limited Obligation Gasoline Tax Warrants Series 2013-B – Due in varying amounts beginning December 1, 2014, until December 1, 2023. Interest is payable semiannually on June 1 and December 1, ranging from 2.00 percent to 3.50 percent. Payable solely from and secured by the pledge of the City's share of the net proceeds of the excise tax and the supplemental excise tax levied by the State of Alabama.	2,030,000	-	200,000	1,830,000
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.	12,930,000	-	610,000	12,320,000

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 10 – GENERAL AND LIMITED OBLIGATION WARRANTS PAYABLE – CONTINUED

General Obligation Warrants Series

2014-D – Due in varying amounts beginning

February 1, 2015, until February 1, 2037.

Interest is payable semiannually on

February 1 and August 1, ranging from

2.00 percent to 4.25 percent. Payable

solely from and secured by the pledge

of general sales and use tax payable

to the City from retail establishments

conducting business at the Project.

The warrants are additionally secured

pursuant to a Developer Guaranty for

any deficiencies in pledged tax revenues. 20,190,000 - 650,000 19,540,000

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. 7,070,000 - 40,000 7,030,000

Total Warrants Payable –

Governmental Activities 70,310,000 - 2,355,000 67,955,000

Plus: Unamortized Premium 72,562 - 17,857 54,705

Less: Unamortized Discount (649,789) - (67,475) (582,314)

Total Warrants Payable for

Governmental Activities \$ 69,732,773 \$ - \$ 2,305,382 \$ 67,427,391

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>
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	2,630,000	2,300,970	4,930,970
2021	2,695,000	2,232,126	4,927,126
2022 – 2026	13,600,000	9,899,148	23,499,148
2027 – 2031	13,985,000	7,480,690	21,465,690
2032 – 2036	14,800,000	4,560,256	19,360,256
2037 – 2041	9,100,000	1,850,529	10,950,529
2042 – 2043	<u>3,655,000</u>	<u>175,631</u>	<u>3,830,631</u>
Total	\$ <u>67,955,000</u>	\$ <u>35,810,861</u>	\$ <u>103,765,861</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 10 – GENERAL AND LIMITED OBLIGATION WARRANTS PAYABLE – CONTINUED

Business-Type Activities:

<u>Type and Purpose</u>	<u>Balance 10/01/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2016</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.	\$ 22,020,000	\$ -	\$ 500,000	\$ 21,520,000
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>10,420,000</u>	<u>-</u>	<u>410,000</u>	<u>10,010,000</u>
Total Warrants Payable – Business-Type Activities	32,440,000	-	910,000	31,530,000
Less: Unamortized Discount	(357,976)	-	(16,045)	(341,931)
Less: Unamortized Discount	<u>(282,391)</u>	<u>-</u>	<u>(15,315)</u>	<u>(267,076)</u>
Total Warrants Payable for Business-Type Activities	<u>\$ 31,799,633</u>	<u>\$ -</u>	<u>\$ 878,640</u>	<u>\$ 30,920,993</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>
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	1,040,000	1,323,543	2,363,543
2021	1,080,000	1,286,384	2,366,384
2022 – 2026	6,110,000	5,717,118	11,827,118
2027 – 2031	7,765,000	4,072,810	11,837,810
2032 – 2036	8,210,000	2,074,300	10,284,300
2037 – 2039	<u>4,410,000</u>	<u>338,250</u>	<u>4,748,250</u>
Total	<u>\$ 31,530,000</u>	<u>\$ 18,980,494</u>	<u>\$ 50,510,494</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 10 – GENERAL AND LIMITED OBLIGATION WARRANTS PAYABLE – CONTINUED**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.

NOTE 11 – COMPONENT UNITS’ REVENUE BONDS PAYABLE***GUSC:***

<u>Type and Purpose</u>	<u>Balance</u> <u>10/01/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9/30/2016</u>
Revenue Bonds Series 2002 and 2008 – Due in varying amounts beginning June 1, 2016, until June 1, 2039. Interest is payable semiannually on June 1 and December 1, ranging from 3.75 percent to 5.00 percent. Payable solely from and secured by the pledge of water supply revenues.	\$ 54,340,000	\$ -	\$ 1,330,000	\$ 53,010,000
Less: Unamortized Discount	<u>(583,355)</u>	<u>-</u>	<u>(49,318)</u>	<u>(534,037)</u>
Total Bonds Payable for GUSC	<u>\$ 53,756,645</u>	<u>\$ -</u>	<u>\$ 1,280,682</u>	<u>\$ 52,475,963</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>
2017	\$ 1,380,000	\$ 2,482,213	\$ 3,862,213
2018	1,430,000	2,430,463	3,860,463
2019	1,485,000	2,373,263	3,858,263
2020	1,545,000	2,313,863	3,858,863
2021	1,610,000	2,250,132	3,860,132
2022 – 2026	9,145,000	10,154,183	19,299,183
2027 – 2031	11,450,000	7,853,195	19,303,195
2032 – 2036	14,455,000	4,844,188	19,299,188
2037 – 2039	<u>10,510,000</u>	<u>1,068,000</u>	<u>11,578,000</u>
Total	<u>\$ 53,010,000</u>	<u>\$ 35,769,500</u>	<u>\$ 88,779,500</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 11 – COMPONENT UNITS’ REVENUE BONDS PAYABLE – CONTINUED

Airport Authority:

<u>Type and Purpose</u>	<u>Balance 10/01/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2016</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.	\$ 654,313	\$ -	\$ 40,360	\$ 613,953
Interest-free note payable – bank, payable in monthly installments, maturing May 2020, secured by capital assets	<u>8,642</u>	<u>-</u>	<u>1,735</u>	<u>6,907</u>
	<u>\$ 662,955</u>	<u>\$ -</u>	<u>\$ 42,095</u>	<u>\$ 620,860</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>
2017	\$ 615,836	\$ 3,763	\$ 619,599
2018	1,883	-	1,883
2019	1,883	-	1,883
2020	<u>1,258</u>	<u>-</u>	<u>1,258</u>
Total	<u>\$ 620,860</u>	<u>\$ 3,763</u>	<u>\$ 624,623</u>

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

Primary Government

	<u>Balance 10/01/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 9/30/16</u>	<u>Due Within One Year</u>
Governmental Activities					
Warrants Payable	\$ 69,732,773	\$ -	\$ 2,305,382	\$ 67,427,391	\$ 2,430,000
Capital Lease	718,885	-	110,888	607,997	114,313
Compensated Absences	7,794,298	-	371,791	7,422,507	1,187,601
OPEB Liability	9,388,450	1,044,383	-	10,432,833	-
Net Pension Obligation	37,703,065	5,977,534	-	43,680,599	-
Due to Board of Education	466,674	-	399,996	66,678	66,678
Closure and Postclosure Costs	<u>-</u>	<u>304,400</u>	<u>-</u>	<u>304,400</u>	<u>-</u>
Total	<u>\$ 125,804,145</u>	<u>\$ 7,326,317</u>	<u>\$ 3,188,057</u>	<u>\$ 129,942,405</u>	<u>\$ 3,798,592</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES – CONTINUED

	<u>Balance</u> <u>10/01/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9/30/16</u>	<u>Due Within</u> <u>One Year</u>
Business-Type Activities					
Warrants Payable	\$ 31,799,633	\$ -	\$ 878,640	\$ 30,920,993	\$ 940,000
Net Pension Obligation	8,173,635	1,317,519	-	9,491,154	-
Capital Lease	82,024	-	26,308	55,716	27,328
Compensated Absences	<u>1,218,513</u>	<u>-</u>	<u>18,514</u>	<u>1,199,999</u>	<u>192,000</u>
Total	<u>\$ 41,273,805</u>	<u>\$ 1,317,519</u>	<u>\$ 923,462</u>	<u>\$ 41,667,862</u>	<u>\$ 1,159,328</u>

NOTE 13 – FUND BALANCES – GOVERNMENTAL FUNDS

As of September 30, 2016, fund balances are composed of the following:

	<u>General</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Debt</u> <u>Service</u> <u>Fund</u>	<u>Other</u> <u>Nonmajor</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Nonspendable For:					
Inventory	\$ 252,773	\$ -	\$ -	\$ -	\$ 252,773
Prepaid	<u>263,635</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>263,635</u>
	516,408	-	-	-	516,408
Restricted For:					
Judicial Administrative Funds	281,500	-	-	-	281,500
Capital Projects	-	1,358,659	-	-	1,358,659
Debt Service	-	-	397,416	-	397,416
Special Revenue Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,920,516</u>	<u>5,920,516</u>
	281,500	1,358,659	397,416	5,920,516	7,958,091
Committed For:					
Recreation Facility	2,302,809	-	-	-	2,302,809
Library	<u>635,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>635,700</u>
	2,938,509	-	-	-	2,938,509
Assigned For:					
Storm Water	579,716	-	-	-	579,716
Police Donated Funds	83,681	-	-	-	83,681
Emergency Expenditures	4,854,886	-	-	-	4,854,886
Municipal Court	<u>579,902</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>579,902</u>
	6,098,185	-	-	-	6,098,185
Unassigned	<u>9,067,913</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,067,913</u>
Totals	<u>\$ 18,902,515</u>	<u>\$ 1,358,659</u>	<u>\$ 397,416</u>	<u>\$ 5,920,516</u>	<u>\$ 26,579,106</u>

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 14 – RISK MANAGEMENT

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

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

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

NOTE 15 – COMMITMENTS, CLAIMS, AND CONTINGENCIES

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

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

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

On October 1, 2013, the City and the Bessemer Airport Authority issued the Series 2013, Revenue Bond of Bessemer Airport Authority to Regions Bank for the principal amount of \$718,779. The bond is a general obligation of the City to be paid \$60,000 annually on or before December 1, 2013, and on or before October 1st of each year thereafter as long as the bond shall be outstanding. As of September 30, 2016, the City's remaining funding requirements totaled \$540,000.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 16 – LANDFILL CLOSURE AND POSTCLOSURE CARE COST

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

The \$304,400 reported as landfill postclosure care liability at September 30, 2016, represents the cumulative amount reported to date based on the use of 100 percent of the estimated capacity of one landfill site and 29 percent of the estimated capacity of a second landfill site. The City will recognize the remaining estimated cost of closure and postclosure care of \$255,600 as the remaining capacity is filled. These amounts are based on what it would cost to perform all postclosure care in 2016. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Officials estimate the remaining life of the open landfill site to be approximately 20 years.

NOTE 17 – RETIREMENT PLAN

General Information about the Pension Plan

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

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

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

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 17 – RETIREMENT PLAN – CONTINUED

General Information about the Pension Plan – Continued

Benefits Provided. State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 35 or 20 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State police are allowed 2.875% for each year of State Police service in computing the formula method.

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

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service credit, employment status, and eligibility for retirement.

The ERS serves approximately 846 local participating employers. These participating employers include 287 cities, 65 counties, and 494 other public entities. The ERS membership includes approximately 84,393 participants. As of September 30, 2015, membership consisted of:

Retirees and beneficiaries currently receiving benefits	22,211
Terminated employees entitled to but not yet receiving benefits	1,353
Terminated employees not entitled to a benefit	5,451
Active Members	55,164
Post-DROP participants still in active service	<u>214</u>
Total	<u>84,393</u>

NOTE 17 – RETIREMENT PLAN – CONTINUED

Contributions

The City's Tier 1 covered members of the ERS contributed 5% of earnable compensation to the ERS and the City's Tier 1 certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation to the ERS as required by statute. The City did not enact Act 2011-676, which would have increased the Tier 1 covered members contribution rates.

The City's Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS and the City's Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS contribute 7% of earnable compensation as required by statute.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2016, the City's active employee contribution rate was 14.02% of covered payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 13.67% of covered employee payroll.

The City's contractually required contribution rate for the year ended September 30, 2016, was 15.33% of pensionable pay for Tier 1 employees, and 12.20% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$4,423,181 for the year ended September 30, 2016.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 17 – RETIREMENT PLAN – CONTINUED*Net Pension Liability*

The City's net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, rolled forward to September 30, 2015, using standard roll-forward techniques as shown in the following table:

	<u>Expected</u>	<u>Actual</u>
Total Pension Liability		
As of September 30, 2014 (a)	\$ 114,760,568	\$ 117,160,518
Entry Age Normal Cost for		
October 1, 2014 – September 30, 2015 (b)	\$ 2,394,443	\$ 2,394,443
Actual Benefit Payments and Refunds for		
October 1, 2014 – September 30, 2015 (c)	\$ (7,650,923)	\$ (7,650,923)
Total Pension Liability		
As of September 30, 2015		
[(a) x (1.08)] + (b) – [(c) x (1.04)]	\$ 118,378,897	\$ 120,970,843
Difference between Expected and Actual.		\$ 2,591,946

Actuarial assumptions. The total pension liability in the September 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75% - 7.25%
Investment rate of return*	8.00%

*Net of pension plan investment expense

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2014, valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 17 – RETIREMENT PLAN – CONTINUED*Net Pension Plan Liability – Continued*

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

	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return*</u>
Fixed Income	25.00%	5.00%
U.S. Large Stocks	34.00%	9.00%
U.S. Mid Stocks	8.00%	12.00%
U.S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	<u>2.00%</u>	1.50%
Total	<u>100.00%</u>	

*Includes assumed rate of inflation of 2.50%.

Discount rate.

The discount rate used to measure the total pension liability was the long-term rate of return, 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 17 – RETIREMENT PLAN – CONTINUED

Changes in Net Pension Liability

	Increase (Decrease)		
	Total	Plan	Net
	Pension Liability <u>(a)</u>	Fiduciary Net Position <u>(b)</u>	Pension Liability <u>(a)-(b)</u>
Balances at 9/30/2014	\$ <u>114,760,569</u>	\$ <u>68,883,869</u>	\$ <u>45,876,700</u>
Changes for the year:			
Service Cost	2,394,443	-	2,394,443
Interest	8,874,809	-	8,874,809
Differences Between Expected and Actual Experience	2,591,946	-	2,591,946
Contributions – Employer	-	4,027,999	(4,027,999)
Contributions – Employee	-	1,594,175	(1,594,175)
Net Investment Income	-	806,003	(806,003)
Benefit Payments, Including Refunds of Employee Contributions	(7,650,923)	(7,650,923)	-
Administrative Expenses	-	-	-
Transfers Among Employers	-	<u>137,968</u>	<u>(137,968)</u>
Net Changes	<u>6,210,275</u>	<u>(1,084,778)</u>	<u>7,295,053</u>
Balances at 9/30/2015	\$ <u>120,970,844</u>	\$ <u>67,799,091</u>	\$ <u>53,171,753</u>

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the City's net pension liability calculated using the discount rate of 8%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease <u>(7.00%)</u>	Current Rate <u>(8.00%)</u>	1% Increases <u>(9.00%)</u>
City's Net Pension Liability	\$ 66,837,055	\$ 53,171,753	\$ 41,568,492

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2015. The auditor's report dated October 17, 2016, on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 17 – RETIREMENT PLAN – CONTINUED**Changes in Net Pension Liability – Continued****Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2016, the City recognized pension expense of \$4,953,452. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pension of the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 2,167,037	\$ -
Changes of Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,205,349	-
Employer Contributions Subsequent to the Measurement Date	<u>4,313,609</u>	<u>-</u>
Total	<u>\$ 8,685,995</u>	<u>\$ -</u>

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

Year Ended September 30:

2017	\$ 5,165,030
2018	851,421
2019	851,419
2020	1,350,724
2021	424,909
Thereafter	<u>42,492</u>
Total	<u>\$ 8,685,995</u>

NOTE 18 – 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.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 18 – OTHER POST-RETIREMENT EMPLOYMENT BENEFITS (OPEB) – CONTINUED

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

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

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

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

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 \$1,944,185.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 18 – OTHER POST-RETIREMENT EMPLOYMENT BENEFITS (OPEB) – CONTINUED

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, 2016:

Beginning Net OPEB Obligation – 10/1/2015	\$ <u>9,388,450</u>
Annual Required Contribution	1,944,185
Interest on Net OPEB Obligation	375,538
ARC adjustment	<u>(346,896)</u>
OPEB Cost	1,972,827
Contribution	<u>(928,444)</u>
Change in Net OPEB Obligation	<u>1,044,383</u>
Ending Net OPEB Obligation – 9/30/2016	\$ <u>10,432,833</u>

The funded status of the Plan based on an actuarial update using age-adjusted premiums as of September 30, 2014, was as follows:

Actuarial accrued liability (AAL)	\$ 23,010,393
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>23,010,393</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 26,655,382
UAAL as a percentage of covered payroll	86.33%

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 is as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2013	\$ 2,501,591	35.40%	\$ 6,672,733
9/30/2014	\$ 2,625,859	38.60%	\$ 8,286,029
9/30/2015	\$ 1,969,464	44.02%	\$ 9,388,450
9/30/2016	\$ 1,972,827	47.06%	\$ 10,432,833

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.

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 18 – OTHER POST-RETIREMENT EMPLOYMENT BENEFITS (OPEB) – CONTINUED

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, 2014, 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 7.5% and Post-Medicare medical cost trend rate of 5% to 5.75%. 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.

NOTE 19 – PRIOR PERIOD ADJUSTMENTS

The beginning fund balance of the general fund as of September 30, 2016, has been restated as follows:

<u>Balance Sheet – Governmental Funds</u>	<u>Balance as Originally Reported</u>	<u>Prior Period Adjustments</u>	<u>Balance as Restated</u>
General Fund:			
Correct Library Cash Balance		\$ 57,106	
Beginning Fund Balance	\$ 19,971,203	\$ 57,106	\$ 20,028,309

The beginning net position of September 30, 2016, 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 Library Cash Balance		\$ 57,106	
Total Net Position	\$(23,551,796)	\$ 57,106	\$ (23,494,690)
Business-Type Activities:			
Utilities: Capital Assets		(30,710)	
Water: Short-Term Investments, Capital Assets, Other Assets, and Other Liabilities		912,204	
Total Net Position	\$ 32,401,816	\$ 881,494	\$ 33,283,310

CITY OF BESSEMER, ALABAMA

Notes to Financial Statements

September 30, 2016

NOTE 19 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 20, 2017, the date which the financial statements were available to be issued.

CITY OF BESSEMER, ALABAMA
 Schedule of OPEB Funding Progress
 September 30, 2016

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%
9/30/2014	\$0	\$ 23,010,393	\$ 23,010,393	0.00%	\$ 26,655,382	86.33%

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

CITY OF BESSEMER, ALABAMA
Schedule of Changes in Net Pension Liability
Fiscal Year Ending September 30, 2016

	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY		
Service Cost	\$ 2,394,443	\$ 2,285,389
Interest	8,874,809	8,594,433
Changes in Benefit Terms	-	-
Differences Between Expected and Actual Experience	2,591,946	-
Changes of Assumptions	-	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(7,650,923)</u>	<u>(7,099,318)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	6,210,275	3,780,504
TOTAL PENSION LIABILITY – BEGINNING	<u>114,760,569</u>	<u>110,980,065</u>
TOTAL PENSION LIABILITY – ENDING (a)	<u>\$ 120,970,844</u>	<u>\$ 114,760,569</u>
PLAN FIDUCIARY NET POSITION		
Contributions – Employer	\$ 4,027,999	\$ 3,819,448
Contributions – Member	1,594,175	1,547,167
Net Investment Income	806,003	7,491,327
Benefit Payments, Including Refunds of Employee Contributions	(7,650,923)	(7,099,318)
Transfers Among Employers	<u>137,968</u>	<u>(352,470)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(1,084,778)	5,406,154
PLAN NET POSITION – BEGINNING	<u>68,883,869</u>	<u>63,477,715</u>
PLAN NET POSITION – ENDING (b)	<u>\$ 67,799,091</u>	<u>\$ 68,883,869</u>
NET PENSION LIABILITY (ASSET) – ENDING (a) - (b)	\$ 53,171,753	\$ 45,876,700
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	56.05%	60.02%
Covered-Employee Payroll*	\$ 29,830,035	\$ 28,091,007
Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	178.25%	163.31%

*Employer's covered-payroll during the measurement period is the total covered payroll. For FY2016 the measurement period is October 1, 2014 – September 30, 2015.

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

CITY OF BESSEMER, ALABAMA
Schedule of Employer Contributions
September 30, 2016

	<u>2016</u>	<u>2015</u>
Actuarially Determined Contributions*	\$ 4,423,181	\$ 4,125,114
Contributions in Relation to the Actuarially Determined Contributions*	<u>4,423,181</u>	<u>4,125,114</u>
Contribution Deficiency (Excess)	\$ -	\$ -
Covered-Employee Payroll**	\$ 31,558,579	\$ 29,830,035
Contributions as a Percentage of Covered-Employee Payroll	14.02%	13.83%

*Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. For FY2016, the fiscal year is October 1, 2015 through September 30, 2016.

**Employer's covered payroll for FY2016 is the total covered payroll for October 1, 2015, through September 30, 2016.

NOTES TO SCHEDULE

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2016 were based on the September 30, 2013, actuarial valuation.

Methods and Assumptions used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percent Closed
Remaining Amortization Period	30 Years
Asset Valuation Method	Five Year Smoothed Market
Inflation	3%
Salary Increases	3.75 – 7.25%, Including Inflation
Ultimate Investment Rate of Return	8.00%, Net of Pension Plan Investment Expense Including Inflation
Cost-of-living Adjustments	None

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

Special Revenue Funds

	Special Revenue Funds										Total Nonmajor Governmental Funds
	Community Development	Confiscated Drug Funds	TIF District	Police Grant	State Seized Funds	7-Cent Gas Fund	4- and 5-Cent Gas Fund	1-Cent Gas Fund	E-911		
ASSETS											
Cash and Investments	\$ 984,463	\$ 582,618	\$ 401,327	\$ 453	\$ 34,785	\$ 29,740	\$ 166,484	\$ 989,462	\$ 586,610	\$ 3,775,942	
Accounts Receivable	-	-	-	-	-	48,230	-	-	-	48,230	
Loans Receivable	2,097,514	-	-	-	-	-	-	-	-	2,097,514	
Due from Other Funds	48,843	19,854	394	-	-	13,262	-	-	-	82,353	
Due from Other Governments	768	-	-	-	-	-	-	-	-	768	
Deferred Loans Receivable	793,003	-	-	-	-	-	-	-	-	793,003	
TOTAL ASSETS	\$ 3,924,591	\$ 602,472	\$ 401,721	\$ 453	\$ 34,785	\$ 91,232	\$ 166,484	\$ 989,462	\$ 586,610	\$ 6,797,810	
LIABILITIES AND FUND BALANCE											
Accounts Payable	\$ 55,150	\$ 4,764	\$ 36,790	\$ -	\$ -	\$ 25,351	\$ -	\$ -	\$ 75	\$ 122,130	
Due To Other Funds	391,480	-	364,931	359	-	-	394	-	-	757,164	
TOTAL LIABILITIES	446,630	4,764	401,721	359	-	25,351	394	-	75	879,294	
FUND BALANCE											
Nonspendable Fund Balance	-	-	-	-	-	-	-	-	-	-	
Restricted Fund Balance	3,477,961	597,708	-	94	34,785	65,881	166,090	989,462	588,535	5,920,516	
Committed Fund Balance	-	-	-	-	-	-	-	-	-	-	
Assigned Fund Balance	-	-	-	-	-	-	-	-	-	-	
TOTAL FUND BALANCE	3,477,961	597,708	-	94	34,785	65,881	166,090	989,462	588,535	5,920,516	
TOTAL LIABILITIES AND FUND BALANCE	\$ 3,924,591	\$ 602,472	\$ 401,721	\$ 453	\$ 34,785	\$ 91,232	\$ 166,484	\$ 989,462	\$ 588,610	\$ 6,799,810	

CITY OF BESSEMER, ALABAMA
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended September 30, 2016

	Community Development	Confiscated Drug Funds	TIF District	Police Grant	State Seized Funds	7-Cents Gas Fund	4- and 5-Cent Gas Fund	1-Cent Gas Fund	E-911	Total Nonmajor Governmental Funds
REVENUES										
Taxes	\$ -	\$ -	\$ 834,623	\$ -	\$ -	\$ 273,166	\$ 258,836	\$ 519,700	\$ -	\$ 1,886,325
Intergovernmental	389,664	-	-	85,825	-	103,921	-	-	-	579,410
Charges for Services	-	-	-	-	-	-	-	-	597,434	597,434
Fines and Cost	-	-	-	-	-	-	-	-	-	-
Investment Income	-	-	-	-	-	-	-	-	-	-
Other	283,378	26,140	-	-	-	-	-	-	-	309,518
TOTAL REVENUES	673,042	26,140	834,623	85,825	-	377,087	258,836	519,700	597,434	3,372,687
EXPENDITURES										
Public Safety	-	72,186	-	-	-	-	-	-	481,557	553,743
Public Improvements	-	-	-	-	-	-	-	-	-	-
General Government	1,145,993	-	96,843	85,825	16,764	376,957	-	-	-	1,722,382
Principal	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-
Capital Outlays	-	135,646	-	-	-	-	-	-	6,080	141,726
TOTAL EXPENDITURES	1,145,993	207,832	96,843	85,825	16,764	376,957	-	-	487,637	2,417,851
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(472,951)	(181,692)	737,780	-	(16,764)	130	258,836	519,700	109,797	954,836
OTHER FINANCING SOURCES (USES)										
Operating Transfers	-	46,483	92,865	-	-	345,433	-	-	-	484,781
Transfers In	(67,143)	-	(830,645)	-	-	(390,000)	(105,000)	(240,433)	-	(1,633,221)
Transfers Out	-	-	-	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(67,143)	46,483	(737,780)	-	-	(44,567)	(105,000)	(240,433)	-	(1,148,440)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES, OTHER FINANCING USES AND SPECIAL ITEMS	(540,094)	(135,209)	-	-	(16,764)	(44,437)	153,836	279,267	109,797	(193,604)
FUND BALANCE BEGINNING OF YEAR	4,018,055	732,917	-	94	51,549	110,318	12,254	710,195	478,738	6,114,120
FUND BALANCE END OF YEAR	\$ 3,477,961	\$ 597,708	\$ -	\$ 94	\$ 34,785	\$ 65,881	\$ 166,090	\$ 989,462	\$ 588,535	\$ 5,920,516

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, 2015, for which taxes became due and payable on October 1, 2016, is \$355,479,376. Consequently, the general constitutional debt limitation currently applicable to the City is \$71,095,875.

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, 2016, was \$50,799,185. Consequently, the City may hereafter incur additional indebtedness in the approximate amount of \$20,296,690 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 \$20,296,690. 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, 2016

The following statement reflects the City's legal debt margins as of September 30, 2016:

City of Bessemer, Alabama
Statement of Legal Debt Margins

Net assessed value of taxable property (as of September 30, 2015) ^[1]	\$ 355,479,376
General debt limit (20% of assessed value)	\$ 71,095,875
Section 94.01 debt limit	\$ 177,739,688
Total chargeable indebtedness ^[2]	
General Obligation Warrants, Series 2013-A	\$ 23,420,000
General Obligation Warrants, Series 2013-C	12,320,000
General Obligation Warrants, Series 2014-E	7,030,000
Mediation Agreement	66,678
Airport Authority Funding Agreement	540,000
Compensated Absences Liability	<u>7,422,507</u>
Total chargeable debt outstanding	\$ 50,799,185
Less: Bonds or Warrants for exempt purposes	<u> -</u>
Total debt chargeable against general debt limit	\$ 50,799,185
General legal debt margin	\$ 20,296,690
Total debt chargeable against Section 94.01 debt margin	\$ 19,540,000
Section 94.01 legal debt margin	\$ 158,199,688

^[1] Includes real and personal property (\$321,332,120) and motor vehicles (\$34,147,256), 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, 2016, 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 20, 2017. Our report includes a reference to other auditors who audited the financial statements of the Bessemer Public Library, the City of Bessemer, Alabama Water Service Department and the City of Bessemer, Alabama Electric Service Department, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses: 04-1, 06-1, 06-6, 12-2, and 15-1.

Compliance and Other Matters

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

City of Bessemer, Alabama's Response to Findings

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

Purpose of this Report

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

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

Kellum, Wilson and Associates, P.C.

June 20, 2017

KELLUM, WILSON & ASSOCIATES, P.C.

Certified Public Accountants

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

Honorable Mayor and Members of the City Council
Bessemer, Alabama

Report on Compliance for Each Major Federal Program

We have audited the City of Bessemer, Alabama's (the "City"), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2016. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control over Compliance

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

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

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

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

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

Kellum, Wilson & Associates, P.C.

June 20, 2017

SUPPLEMENTAL SCHEDULES

CITY OF BESSEMER

Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2016

<u>FEDERAL GRANTOR, PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
U.S. Department of Justice		
Byrne JAG Program	16.738	\$ 86,259
Equitable Sharing Program	16.922	208,105
U.S. Department of Transportation		
Passed through State of Alabama Highway Department: Alabama Transportation Rehabilitation and Improvement Program	20.205	88,901
Executive Office of the President		
Passed through Alabama Department of Public Safety: High Intensity Drug Trafficking Areas Program	07.999	18,822
U. S. Department of Housing and Urban Development		
Community Development Block Grant	14.228	<u>623,091</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 1,025,178</u>

See Independent Auditors' Report.

CITY OF BESSEMER, ALABAMA

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Bessemer, Alabama (the Government's) under programs of the federal government for the year ended September 30, 2016. The accompanying notes are an integral part of these schedules. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Government, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Government.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - MATCHING REQUIREMENTS

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

CITY OF BESSEMER, ALABAMA
 Schedule of Findings and Questioned Costs
 For the Year Ended September 30, 2016

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 Section 200.516 of the Uniform Guidance Yes No X

Identification of major programs:

CFDA Number (s)	Name of Federal Program or Cluster
14.228	Community Development Block Grant

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

Auditee qualified as a low-risk auditee Yes No X

Section II: Financial Statements Findings

Finding 04-1 Unreconciled Cash Balances

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

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

Effect: A failure to perform account reconciliations and to review the cash 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: A procedure was implemented on 6/1/2015 that accounts are reconciled on a monthly basis. Continued improvements are expected in this area as training and increased monitoring, as well as other processes, are put in place.

Finding 06-1 Monthly Reconciliation and Review Procedures

Condition: In past audits, we noted that monthly account reconciliations and financial statement review and approvals were not completed for many accounts. In past audits, we also encountered discrepancies in many supporting schedules, and in some instances supporting schedules could not be provided. During our audit for the fiscal year-ended September 30, 2016, we noted that account reconciliations and financial statement review and approvals were being performed for most accounts. Payroll liabilities and the Community Development accounts were not routinely reconciled. The timeliness of account reconciliations and subsequent corrections still needs improvement.

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

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

CITY OF BESSEMER, ALABAMA
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

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

Corrective Action: A procedure was implemented on 6/1/2015 that accounts are reconciled on a monthly basis. All balance sheet accounts have been assigned to a staff member for reconciliation. Since that time improvements have been made and significantly less audit entries have been made. Continued improvements are expected in this area as training and monitoring continues to take place and with a full accounting staff on board.

Finding 06-6 Reconciling the Rehabilitation Loans Receivable Subsidiary Ledger to the General Ledger – Community Development

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 for the program. 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.

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Corrective Action: Recently, the Finance department added a position to work with Community Development. Continued improvements are expected in this area as training and monitoring continues to take place. Training has also been provided to Community Development to ensure that documents and records are timely forwarded to Finance to facilitate recording and maintenance of these loans.

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

Condition: Several transactions the General Fund paid for Community Development have not been posted in the Community Development fund accounts. We also noted that the activity for the Community Development accounts was not timely posted to the general ledger. The posting of expenditures 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.

Effect: 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 by accounting staff, adjustments posted to the general ledger, and forwarded to the Finance Director for review.

Corrective Action: Continued improvements are expected in this area as training and monitoring continues to take place. Additional processes are being put in place to train and coordinate with Community Development to aid in timely recording of transactions.

Finding 15-1 Centralized Recordkeeping for Compensated Absences

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

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

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

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

Corrective Action: The City currently has time management software. The Finance Director will work with the Information Technology department, as well as other City administrators to implement this centralized time keeping system.

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Section III: Federal Awards Findings

None