

CITY OF GARDENDALE, ALABAMA
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2017

MICHAEL R. WILLIAMS, C.P.A., P.C.
CERTIFIED PUBLIC ACCOUNTANT

CITY OF GARDENDALE, ALABAMA
CITY OFFICIALS

SEPTEMBER 30, 2017

MAYOR

Honorable Stan Hogeland

CITY COUNCIL

District 1Mr. Allen Jerkins
District 2Mr. Adam Berendt
District 3 and Council President Mr. Alvin Currington
District 4Mr. Greg Colvert
District 5Mr. Will Hardman

CITY CLERK / TREASURER

Ms. Melissa Honeycutt

DEPARTMENT HEADS

Administration Department Ms. Melissa Honeycutt
Municipal Court Magistrate Supervisor..... Ms. Sherry Baggett
Police DepartmentPolice Chief Mike Walker
Fire and Rescue Department Fire Chief Clint Doss
Public Works DepartmentMr. Jeff Holliyan
Inspections DepartmentMr. Robert Ryant
Civic CenterMr. Keith Mosley
Parks and Recreation DepartmentMr. Dale Hyche
Gardendale-Martha Moore Public Library Ms. Connie L. Smith

CITY OF GARDENDALE, ALABAMA

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
and Members of the City Council
City of Gardendale, Alabama

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Gardendale, Alabama, as of and for the year ended September 30, 2017, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

To the Honorable Mayor
and Members of the City Council
City of Gardendale, Alabama
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statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Gardendale, Alabama, as of September 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (Pages 7-15), budgetary comparison information, the schedule of changes in the net pension liability and related ratios, and the schedule of employer contributions (Pages 62-66) 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

To the Honorable Mayor
and Members of the City Council
City of Gardendale, Alabama
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assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Michael R. Williams, C.P.A., P.C.

Birmingham, Alabama
March 13, 2018



Mayor:
STAN HOGELAND

City Council:
GREG COLVERT
ALVIN CURRINGTON
ADAM BERENDT
WILL HARDMAN
ALLEN JERKINS

City of Gardendale Management's Discussion & Analysis (MD&A) For the Year Ended September 30, 2017

The City of Gardendale's management presents to the readers of its financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here as a part of the whole. Readers should also review and evaluate all sections of this report, including the note disclosures and supplemental information that is provided in addition to this MD&A.

Financial Highlights

The assets and deferred outflows of resources of the City of Gardendale (City) exceeded liabilities and deferred inflows of resources at the close of the current fiscal year by \$20,737,877 (net position). Of this amount, \$23,947,563 is net investment in capital assets, \$1,061,973 is restricted net position and (\$4,271,659) is unrestricted net position.

Net position decreased by \$868,175 mainly due to depreciation and pension expenses.

The City's governmental funds reported a combined ending fund balance of \$9,434,284, an increase of \$719,331 in comparison to the prior year. The general fund reported fund balance of \$7,373,839, of which \$803,982 is categorized as unassigned.

The City's total bonded debt increased by \$10,305,000 from the issuance of a new bond.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains information in addition to the basic financial statements that will help the reader gain a more in-depth understanding of the City.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's financial position, similar to consolidated financial statements in a private-sector business. These statements consist of the statement of net position and the statement of activities.

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. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information on how net position changed during the current fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement may result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused personal leave).

Effective October 1, 2008, the City implemented Government Accounting Standard Statement 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (GASB 45). The City's Annual Required Contribution (ARC) was actuarially determined to be \$80,645. The liability of the net OPEB obligation at year end was \$489,650.

Effective October 1, 2014, the City implemented Government Accounting Standard Statement 68, Accounting and Financial Reporting for Pensions, which requires unfunded pension liabilities to be reported on the balance sheet (statement of net position) of governmental financial statements as Net Pension Liability. That liability equals the difference between the total pension liability and the value of assets set aside in a pension plan to pay benefits and was \$11,203,731 as of September 30, 2017.

Both of the government-wide financial statements report functions of the City that are governmental in nature and principally supported by taxes and intergovernmental revenues. The governmental activities for the City include administration, police, fire, public works, inspections, the civic center, parks and recreation, and the library.

The government-wide financial statements can be found on Pages 16 and 17 of this report.

Fund Financial Statements

A fund is a separate set of accounts used to control resources that have been segregated for a specific purpose. The City uses fund accounting to demonstrate compliance with legal and finance-related requirements. All funds of the City are governmental funds.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may be able to better understand the long-term impact of near-term financing decisions. Reconciliations from the governmental fund statements to the government-wide statements are provided to aid in the comparison.

The City maintains ten individual governmental funds. Information is presented separately on the governmental fund balance sheet and on the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, gasoline tax fund, and debt service fund, all of which are considered to be major funds. Information for the other governmental funds is combined into a single, aggregated column. Individual presentations for each of the nonmajor governmental funds are provided in the form of combining statements in the supplementary information section of this report as listed in the table of contents.

The City adopts annual appropriated budgets for its general and special revenue funds. Budgetary comparison schedules are provided to demonstrate compliance with budgetary requirements. These schedules can be found in the required supplementary information and supplementary information sections of this report as listed in the table of contents.

The basic governmental fund financial statements can be found as listed in the table of contents.

Notes to the Financial Statements

The notes to the financial statements provide information that is essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements can be found as listed in the table of contents.

Condensed Statement of Net Position

Table 1 presents condensed information on net assets for fiscal years ended September 30, 2017 and 2016.

Table 1 – City of Gardendale
Condensed Statement of Net Position

	Governmental Activities	
	2017	2016
Current and other assets	\$ 9,729,660	\$ 9,731,368
Capital assets	42,682,562	34,035,062
Deferred outflows of resources	2,776,618	1,499,056
Total assets	<u>\$ 55,188,840</u>	<u>\$ 45,265,486</u>
Current liabilities	\$ 714,141	\$ 717,586
Long-term liabilities	34,155,587	22,659,206
Total liabilities	<u>34,869,728</u>	<u>23,376,792</u>
Deferred inflows of resources	119,309	298,829
Net investment in capital assets	23,947,563	24,947,322
Restricted	1,061,973	1,118,796
Unrestricted	(4,271,659)	(4,476,253)
	<u>\$ 20,737,877</u>	<u>\$ 21,589,865</u>

As noted earlier, net position assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Gardendale, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$20,737,877 at the close of the current fiscal year.

By far the largest portion of the City's net position is invested in capital assets (e.g. land, buildings, infrastructure and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens who live, work, pass through, or benefit in other ways from the City. By their nature, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt typically must be provided from other sources, since the assets themselves are not typically used to liquidate these liabilities.

An additional part of net position is assets that are subject to external restrictions on how they may be expended (e.g., debt service, capital projects, etc.). The remaining unrestricted net position can be used to meet the City's ongoing obligations to its citizens and creditors.

Condensed Statement of Activities

Table 2 presents the City's changes in net position for the fiscal years ended September 30, 2017 and 2016.

Table 2 - City of Gardendale
Changes in Net Assets

	Governmental Activities	
	2017	2016
Revenues:		
Program revenues:		
Charges for service	\$ 911,907	\$ 723,210
Operating grants and contributions	10,167	14,460
Capital grants and contributions	-	176,950
General revenues:		
Sales taxes	12,317,016	11,970,107
Ad valorem property taxes	1,601,923	1,624,550
Other taxes	1,343,044	1,214,649
Business licenses	2,380,564	2,380,413
Permits	329,383	250,600
Fines and forfeitures	394,108	280,475
Investment earnings	10,633	7,319
Gain on sale of capital assets	21,899	549,152
Other	653,708	612,206
Total revenues	<u>19,974,352</u>	<u>19,804,091</u>
Expenses:		
Primary government:		
Governmental activities:		
General and Administrative	6,169,552	3,536,607
Court	317,667	306,949
Police Department	4,596,872	4,070,434
Fire and Rescue	2,913,502	2,807,792
Public Works Department	2,314,058	2,555,152
Inspection Department	542,821	656,395
Civic Center	1,284,324	1,151,226
Senior Center	184,130	187,604
Parks and Recreation Department	1,402,865	1,276,385
Gardendale-Martha Moore Public Library	751,712	697,854
Interest on Long-Term Debt	365,024	270,678
Total expenses	<u>20,842,527</u>	<u>17,517,076</u>
Increase in net assets	<u>(868,175)</u>	<u>2,287,015</u>
Net Assets - Beginning	21,589,865	19,302,850
Prior Period Adjustment	16,187	-
Net Assets - Ending	<u>\$ 20,737,877</u>	<u>\$ 21,589,865</u>

Governmental Activities

Governmental activities net position decreased by \$868,175 for the current fiscal year. Key elements of this decrease are as follows:

- Net investment in capital assets decreased by \$1,015,946. This decrease is composed of new investment in capital assets, retirement of outstanding debt on existing assets, net of depreciation and a prior period adjustment relating to capital assets.
- Restricted net position decreased by \$56,823, primarily related to capital asset spending and other constraints imposed by the laws of the State of Alabama.
- Unrestricted net position increased by \$204,594, due to a conservative approach to budgeting and spending.

Financial Analysis of the City of Gardendale's Funds

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

Governmental Funds

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

Governmental fund balance is reported in five separate categories: nonspendable, restricted, committed, assigned and unassigned. Nonspendable fund balance includes amounts that cannot be spent for legal or practical reasons. An example would be long-term notes receivable. Restricted fund balance includes amounts restricted to specific purposes by external parties such as amounts restricted for debt service.

Committed fund balance includes amounts that have been set aside by the City Council for a specific purpose prior to the end of the fiscal year. Assigned fund balance includes amounts that have been set aside by the City Council for a specific purpose, but subsequent to the end of the fiscal year. Unassigned fund balance includes all remaining amounts.

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$9,434,284, with an increase of \$719,331 compared to the prior fiscal year. Of the total balance, \$121,248 is nonspendable, \$1,061,973 is restricted, \$5,883,596 is committed, \$1,563,485 is assigned, and \$803,982 is unassigned.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund reported a fund balance of \$7,373,839, of which \$121,248 is

nonspendable, \$284,463 is restricted, \$5,883,596 is committed, \$280,550 is assigned, and \$803,982 is unassigned.

Fund balance of the general fund decreased by \$73,908 due to purchases of capital assets and related costs of the issuance of 2017 bond debt.

Fund balance of the gasoline tax fund decreased by \$28,756 due to more funds spent on road projects than received.

Fund balance of the debt service fund increased by \$776,577 primarily due to more proceeds received from the 2017 bond issue than used to purchase land.

General Fund Budgetary Highlights

Differences between the general fund's original budget and the final amended budget amounted to a total increase in appropriations of \$966,863 or approximately 5 percent. A significant part of the increase in appropriations is briefly summarized as follows:

- The City appropriated an additional approximately \$1,600,000 for the Gardendale Board of Education.
- The City appropriated an additional approximately \$70,000 for legal services.

Other changes in appropriations were for miscellaneous items.

Significant differences between the final budget and actual results are as follows:

- Purchase price of land in the amount of approximately \$9,350,000 was not budgeted – was paid for from bond proceeds.
- The amount budgeted for economic development, \$992,500, was not spent.
- Approximately \$350,000 was budgeted for dues and contributions, but only approximately \$200,000 was spent.

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental activities amounts to \$23,947,563 (net of related debt). This investment in capital assets includes land, buildings, infrastructure, and equipment.

Major capital events during the current fiscal year include the following:

- The City purchased land during the year which cost approximately \$9,350,000.
- The City spent approximately \$170,000 during the year on upgrades to Kenny Clemons Park.

- The City completed a HVAC project at the civic center, spending approximately \$50,000 on this project during the year.

Table 3 presents the City's capital assets for the fiscal years ended September 30, 2017 and 2016.

Table 3 – City of Gardendale
Capital Assets

	2017	2016 (Adjusted)
Land	\$ 21,842,692	\$ 12,383,178
Land Improvements	875,278	809,450
Buildings and Improvements	20,608,175	20,532,863
Equipment	7,906,999	8,816,690
Infrastructure	9,854,407	9,733,574
Construction in Progress	1,065,452	827,582
	<u>62,153,003</u>	<u>53,103,337</u>
Accumulated Depreciation	<u>(19,470,441)</u>	<u>(19,052,088)</u>
Total	<u>\$ 42,682,562</u>	<u>\$ 34,051,249</u>

Additional information regarding the City's capital assets can be found in the Capital Assets Note in the notes to the financial statements of this report.

At the end of the current fiscal year, the City had principal outstanding on notes, capital leases and bonds of \$18,734,999. Of this amount, \$17,980,000 comprises debt backed by the full faith and credit of the City and the remainder represents debt secured by other revenue sources (e.g., sales tax, rental income, etc.).

Table 4 presents the City's notes payable, capital leases payable and bonds payable for the fiscal years ended September 30, 2017 and 2016.

Table 4 – City of Gardendale
Notes Payable, Capital Leases Payable and Bonds Payable

	2017	2016
Note payable	\$ 238,651	\$ 295,315
Capital leases payable	516,348	592,425
General obligation warrants	7,335,000	7,705,000
General obligation taxable warrants	10,645,000	495,000
	<u>18,734,999</u>	<u>9,087,740</u>
Total	<u>\$ 18,734,999</u>	<u>\$ 9,087,740</u>

Utilizing bond insurance, rated bonds outstanding had a rating of AA- by S&P Global Ratings at issuance.

Additional information on the City's long-term debt can be found in the Long-Term Debt Note in the notes to the financial statements of this report.

Economic Factors and Next Year's Budgets and Rates

The City continues to approach budgeting for revenues conservatively with a focus on long-term sustainability.

Requests for information

This financial report is designed to provide a general overview of the City of Gardendale's finances. Questions regarding any of the information contained in this report or requests for additional information should be addressed to the Mayor's office at Post Office Box 889, Gardendale, Alabama 35071.

CITY OF GARDENDALE, ALABAMA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Governmental Activities	ComponentUnit Gardendale - Martha Moore Public Library
ASSETS		
Cash and cash equivalents	\$ 9,729,660	\$ 11,437
Short-term investments	174,941	-
Receivables, net and prepaids	363,133	3,619
Capital assets, net		
Non-depreciable	22,908,144	90,263
Depreciable	19,774,418	50,117
TOTAL ASSETS	52,950,296	155,436
DEFERRED OUTFLOWS OF RESOURCES		
Pension related amount	2,776,618	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,776,618	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 55,726,914	\$ 155,436
LIABILITIES		
Accounts payable	\$ 496,288	\$ 1,323
Accrued salaries and wages	189,378	-
Deposits from others	28,475	-
Noncurrent liabilities		
Due within one year		
Note payable	58,374	-
Capital leases payable	128,086	-
Bonds payable	545,000	-
Due in more than one year		
Note payable	180,277	-
Capital leases payable	388,262	-
Bonds payable	17,435,000	-
Net OPEB obligation	489,650	-
Net pension liability	11,203,731	-
Compensated absences	3,497,039	-
Overtime leave	230,168	-
TOTAL LIABILITIES	34,869,728	1,323
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue	119,309	-
TOTAL DEFERRED INFLOWS OF RESOURCES	119,309	-
NET POSITION		
Net investment in capital assets	23,947,563	140,380
Restricted	1,061,973	-
Unrestricted	(4,271,659)	13,733
TOTAL NET POSITION	\$ 20,737,877	\$ 154,113

See accompanying independent auditor's report and notes to basic financial statements.

CITY OF GARDENDALE, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Functions / Programs	Program Revenues				Net (Expense)	Component
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position	Unit
Primary government:						
Governmental activities:						
General and Administrative	\$ 6,169,552	\$ 3,820	\$ 10,167	\$ -	\$ (6,155,565)	\$ -
Court	317,667	-	-	-	(317,667)	-
Police Department	4,596,872	280,562	-	-	(4,316,310)	-
Fire and Rescue	2,913,502	167,808	-	-	(2,745,694)	-
Public Works Department	2,314,058	-	-	-	(2,314,058)	-
Inspection Department	542,821	-	-	-	(542,821)	-
Civic Center	1,284,324	383,687	-	-	(900,637)	-
Senior Center	184,130	-	-	-	(184,130)	-
Parks and Recreation Department	1,402,865	76,030	-	-	(1,326,835)	-
Gardendale-Martha Moore Public Library	751,712	-	-	-	(751,712)	(55,423)
Interest and Charges on Long-Term Debt	365,024	-	-	-	(365,024)	-
Total governmental activities	\$ 20,842,527	\$ 911,907	\$ 10,167	\$ -	\$ (19,920,453)	\$ (55,423)
			General revenues:			
			Taxes:			
			Sales taxes	\$ 12,317,016	\$ -	
			Ad valorem property taxes	1,601,923	-	
			Other taxes	1,343,044	-	
			Business licenses	2,380,564	-	
			Permits	329,383	-	
			Fines and forfeitures	394,108	-	
			Investment earnings	10,633	-	
			Gain on sale of capital assets	21,899	-	
			Other	653,708		56,695
			Total general revenues	19,052,278		56,695
			Change in net position	(868,175)		1,272
			Net Position - Beginning	21,589,865		152,841
			Prior Period Adjustment	16,187		-
			Net Position - Beginning (Restated)	21,606,052		-
			Net Position - Ending	\$ 20,737,877		\$ 154,113

See accompanying independent auditor's report and notes to basic financial statements.

CITY OF GARDENDALE, ALABAMA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	Major Funds				
	General Fund	Gasoline Tax Fund	Debt Service Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 7,638,456	\$ 434,918	\$ 1,209,500	\$ 446,786	\$ 9,729,660
Short-term investments	10,128	-	-	164,813	174,941
Receivables, net and prepaids	361,948	-	-	1,185	363,133
TOTAL ASSETS	\$ 8,010,532	\$ 434,918	\$ 1,209,500	\$ 612,784	\$ 10,267,734
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 342,721	\$ 109,221	\$ -	\$ 44,346	\$ 496,288
Accrued salaries and wages	189,378	-	-	-	189,378
Deposits from others	28,475	-	-	-	28,475
TOTAL LIABILITIES	560,574	109,221	-	44,346	714,141
DEFERRED INFLOWS OF RESOURCES					
Unearned revenue	76,119	-	-	43,190	119,309
FUND BALANCES					
Nonspendable - prepaid items	121,248	-	-	-	121,248
Restricted	284,463	325,697	-	451,813	1,061,973
Committed	5,883,596	-	-	-	5,883,596
Assigned	280,550	-	1,209,500	73,435	1,563,485
Unassigned	803,982	-	-	-	803,982
TOTAL FUND BALANCES	7,373,839	325,697	1,209,500	525,248	9,434,284
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 8,010,532	\$ 434,918	\$ 1,209,500	\$ 612,784	\$ 10,267,734

See accompanying independent auditor's report and notes to basic financial statements.

CITY OF GARDENDALE, ALABAMA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Fund Balances - Total Governmental Funds	\$	9,434,284
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.</p>		
Governmental capital assets	62,153,003	
Less accumulated depreciation	<u>(19,470,441)</u>	42,682,562
<p>Deferred outflows of resources</p>		
Deferred amount related to pension:		2,776,618
<p>Net pension liability is not due and payable in the current period and therefore, not reported in the governmental funds balance sheet</p>		
		(11,203,731)
<p>Net OBEB obligation is not due and payable in the current period and therefore, not reported in the governmental funds balance sheet</p>		
		(489,650)
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.</p>		
Note payable	(238,651)	
Capital leases payable	(516,348)	
Bonds payable	(17,980,000)	
Compensated absences	(3,497,039)	
Overtime leave	<u>(230,168)</u>	(22,462,206)
Net Position of Governmental Activities	\$	<u>20,737,877</u>

See accompanying independent auditor's report and notes to basic financial statements.

CITY OF GARDENDALE, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Major Funds			Total Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Gasoline Tax Fund	Debt Service Fund		
REVENUES					
Taxes, licenses, and permits	\$ 17,019,627	\$ -	\$ -	\$ -	\$ 17,019,627
Intergovernmental revenue	676,258	276,045	-	-	952,303
Charges for services	423,497	-	-	488,409	911,906
Fines and forfeitures	343,633	-	-	50,475	394,108
Interest income	7,468	76	1,218	2,318	11,080
Other	675,814	-	478	15,578	691,870
TOTAL REVENUES	19,146,297	276,121	1,696	556,780	19,980,894
EXPENDITURES					
General and Administrative	5,308,272	-	-	-	5,308,272
Court	152,871	-	-	99,044	251,915
Police Department	3,756,986	-	-	324,039	4,081,025
Fire and Rescue	2,716,364	-	-	-	2,716,364
Public Works Department	1,954,099	39,170	-	-	1,993,269
Inspection Department	507,011	-	-	-	507,011
Civic Center	1,082,392	-	-	-	1,082,392
Senior Center	172,650	-	-	-	172,650
Parks and Recreation Department	1,177,166	-	-	5,729	1,182,895
Gardendale-Martha Moore Public Library	676,072	-	-	-	676,072
Capital Outlay	9,999,955	38,290	-	426,465	10,464,710
Debt service					
Principal payments	56,664	-	525,000	-	581,664
Interest charges	7,890	-	246,967	-	254,857
Other charges	-	-	110,167	-	110,167
TOTAL EXPENDITURES	27,568,392	77,460	882,134	855,277	29,383,263
Excess (deficiency) of revenues over expenditures	(8,422,095)	198,661	(880,438)	(298,497)	(9,402,369)
Other financing sources (uses)					
Bond proceeds	10,305,000	-	-	-	10,305,000
Bond issuance discount	(205,199)	-	-	-	(205,199)
Sale of capital assets	21,899	-	-	-	21,899
Operating transfers in	3,050,197	491,202	1,657,015	1,133,935	6,332,349
Operating transfers out	(4,823,710)	(718,619)	-	(790,020)	(6,332,349)
	(73,908)	(28,756)	776,577	45,418	719,331
Fund Balances - Beginning	7,447,747	354,453	432,923	479,830	8,714,953
Fund Balances - Ending	\$ 7,373,839	\$ 325,697	\$ 1,209,500	\$ 525,248	\$ 9,434,284

See accompanying independent auditor's report and notes to basic financial statements.

CITY OF GARDENDALE, ALABAMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Net change in fund balances - total governmental funds	\$	719,331
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Expenditures for capital assets	10,464,710	
Less current year depreciation	<u>(1,802,466)</u>	8,662,244
In the statement of activities, only the gain on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from a sale increase financial resources. Thus, the change in net assets will differ from the change in fund balance by the cost of the asset removed.		
		(73,339)
The effect of the net increase (decrease) in deferred outflows of resources		
		1,277,562
The issuance of long-term debt 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. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Bond proceeds	(10,305,000)	
Note payable payments	56,664	
Capital lease payments	118,485	
Principal bond payments	<u>525,000</u>	(9,604,851)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.		
Change in net OPEB obligation	(80,645)	
Change in pension liability	(1,559,667)	
Change in compensated absences	(180,595)	
Change in overtime leave	<u>(28,215)</u>	(1,849,122)
Change in net position of governmental activities	\$	<u>(868,175)</u>

See accompanying independent auditor's report and notes to basic financial statements.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Gardendale, Alabama (“City”), an Alabama Municipal Corporation, was incorporated in June 1955 under the laws of the State of Alabama. The City operates under a Mayor-Council form of government which is governed by a mayor, elected at large, and five council members, elected from defined districts. The City Council President presides over the City Council meetings. The City provides the following services to its community: Public Safety – Police, Fire and Rescue, Public Works and Inspection; Culture – Parks and Recreation, Civic Center and Senior Center; Gardendale-Martha Moore Public Library, Court and General and Administrative services.

Accounting

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting through its pronouncements (Statements and Interpretations). The accounting and reporting framework and the more significant accounting policies established in GAAP and used by the City are discussed in subsequent subsections of this note.

Financial Reporting Entity

The Governmental Accounting Standards Board establishes standards for defining and reporting on the financial reporting entity. As required by accounting principles generally accepted in the United States of America, these financial statements present the City (the primary government) and its component unit. The component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. It is included in the City’s reporting entity because of the significance of its operational or financial relationship with the City. The City has no blended component units.

Based on the aforementioned, the following are included as component units in the City’s reporting entity:

Gardendale-Martha Moore Public Library – Presentation of the component unit’s financial statements are discretely presented in the City’s basic financial statements since it is fiscally

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial Reporting Entity – Continued

dependent on the City because its operational and capital budgets are approved by the City Council. In addition, the Library is prohibited from issuing debt without the approval of the City Council. The component unit has a September 30 year-end.

Gardendale Downtown Redevelopment Authority – Presentation of the component unit's financial statements are blended in the City's basic financial statements. Although legally separate, the Gardendale Downtown Redevelopment Authority is blended as a governmental fund component unit into the City because the structure meets the GASB Statement 61 criteria for blending. A separate financial report is not prepared.

Basic Financial Statements – Government-Wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and fire protection, parks and recreation, civic center, library, street and inspection, and general and administrative services are classified as governmental activities. There are no business-type activities.

The primary government is reported separately from the legally separate component unit.

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

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given program, and (b) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Government-Wide Statements – Continued

The City does not employ an indirect cost allocation system. Internal activity between funds is limited to transfers and the loaning of money between funds, which has been eliminated in the government-wide statements. Any other internal activity between funds is nominal.

The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City (sales and use taxes, certain intergovernmental revenues, fines, permits, charges, etc.).

Basic Financial Statements – Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. There are no proprietary activities for year-ended September 30, 2017.

Nonmajor funds by category are summarized into a single column. GASB reporting standards set forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category) for the determination of major funds. The City electively added funds, as major funds, which had specific community focus. The nonmajor funds are combined in a column in the fund financial statements.

The following fund types are used by the City: Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources.

The City has presented the following major governmental funds:

General Fund – The General Fund serves as the general operating fund of the City and is always classified as a major fund. All general operating revenues which are not restricted or designated as to their use by outside sources are recorded in the General Fund.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Fund Financial Statements - Continued

Gasoline Tax Fund – This fund is used to account for gasoline tax revenue received from the State of Alabama. Under state law, the city must use the seven-cent gasoline tax revenue only for street and highway purposes. The use of four and five-cent gasoline tax revenue is limited to resurfacing and rehabilitating roads, streets and bridges.

Debt Service Fund – These funds are used to account for the accumulation of resources and the payment of principal and interest on debt not accounted for in the General Fund.

The City has presented the following nonmajor governmental funds:

Capital Projects Fund – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Corrections Fund – These funds are segregated and are to be used for maintenance and operation of the City’s jail and for maintenance and operation of the City’s Municipal Court. The State of Alabama requires that a certain portion of the amount received by Court defendants is to be set aside in a special fund to be used for corrections.

Drug Enforcement Fund – These funds are segregated and are to be used for drug enforcement policy in accordance with regulatory provisions.

Court Ordered Fund – These funds are used to account for court funding sources on state and county courts. These funds are expended by presiding judge and/or municipal court clerk for the operation of the City’s Municipal Court.

E-911 District Fund – These funds are segregated and are to be used for the purpose of communications with emergency personnel and communication equipment for the City’s E-911 dispatchers to receive incoming E-911 emergency calls. The City receives an E-911 surcharge on all telephones within the City’s E-911 District.

Parks and Recreation Rental Fund – These funds are segregated and by City ordinance are used only for maintenance, repair, improvement, purchase or construction of parks and recreation facilities or property required by the City’s Parks & Recreational Department to meet the recreational needs of its citizens.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Fund Financial Statements - Continued

Income from this fund is derived from a usage fee for the rental of meeting rooms, park pavilions, Park Place, the Splash Pad and the Splash Pad Pavilion at the Kenneth A. Clemons Recreational Complex.

Basis of Accounting/Measurement Focus

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are prepared on the accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis using the flow of current financial resources measurement focus.

Accrual Basis – Revenues are recognized when earned and expenses are recognized when incurred under the accrual basis of accounting.

Modified Accrual Basis – Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. “Available” means collectible within the current period or within sixty days after year-end, to be used to pay liabilities of the current period. Most taxes and intergovernmental receipts are subject to accrual. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, except for principal and interest payments of general obligation warrants which are reported when due.

Encumbrances

In the fund financial statements, the City utilizes encumbrance accounting techniques in which fund balances are reserved upon the issuance of purchase orders. No encumbrances were outstanding at September 30, 2017.

Budgetary Accounting

The City Charter established the fiscal year as the twelve-month period beginning October 1. An operating budget is adopted each fiscal year for the general fund, special revenue funds and debt service obligations on the same modified accrual basis used to reflect actual revenues and expenditures in the governmental funds financial statements.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Budgetary Accounting – Continued

Annually, the Finance Committee submits to the City Council a proposed budget for the upcoming fiscal year. The budget includes proposed expenditures and the means of financing those expenditures. The budget is legally enacted through passage of a resolution. The City Clerk is authorized to transfer budgeted amounts between line items and departments within any fund; however, appropriations that amend the total expenditures of any fund require City Council resolution. Formal budgetary integration is employed as a management control device during the year for the general, special revenue, capital projects and debt service funds. At the end of the year, unencumbered appropriations automatically lapse.

Budgeted amounts are as originally adopted on October 3, 2016 by the City Council (Resolution Number 2016-139). The budget is revised by City Council approved budget amendments or through administrative reclassifications that do not change the surplus.

Cash and Investments

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agent. In addition, any marketable securities not included in the common pooled accounts that are purchased with a maturity of ninety days or less from the date of acquisition are also considered to be “cash equivalents.” The State Attorney General has issued a legal opinion which states that cities may not place public funds at risk by investing in companies not insured by the federal government. The City maintains a cash and investment system in which substantially all cash is invested either in interest-bearing checking accounts or certificates of deposit.

Inventories

Inventory in the General Fund is valued at cost on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased rather than when consumed. Reported inventories are equally offset by a fund balance reserve, which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets. There are no significant inventory items at September 30, 2017.

CITY OF GARDENDALE, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Prepaid Expenditures

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid expenditures has been recognized to signify that a portion of non-spendable fund balance is not available for other subsequent expenditures.

Capital Assets and Depreciation

In accordance with GASB reporting standards, the City reports and depreciates capital assets in the government-wide financial statements. Capital assets which include buildings, improvements, furniture, machinery, equipment and vehicles purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Donated assets are valued at their estimated fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Capital Asset Class	Years
Buildings	40
Additions to buildings, improvements and other structures	15
Furniture, machinery and equipment	7
Vehicles / transportation equipment	7
Computer equipment and software	5
Infrastructure	15-40

Infrastructure assets including roads, bridges, sidewalks, underground pipes/sewers, traffic signals, etc. are recorded as capital assets by the City and are being depreciated accordingly.

When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, “Deferred Outflows of Resources,” represents a consumption of net position that applies to a future period and so will not be recognized as an expense/expenditure until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, “Deferred Inflows of Resources,” represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then.

Compensated Absences

The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

All full-time classified employees will accrue paid vacation leave determined by a schedule of completed service years. An employee will not accrue vacation leave during any month in which, for more than fifteen (15) days of the month, the employee is on a leave of absence without pay, is suspended, or is otherwise in a non-pay status.

Vacation leave accrued but not used may be accumulated during the calendar year with no maximum amount. However, no more than 320 hours of accrued vacation leave may be carried forward from one calendar year to the next for most City employees, the exception being in the Fire Department. Firefighters may accrue a maximum of 420 hours of accrued vacation leave.

City employees had accumulated unpaid vacation leave benefits amounting to \$880,002 at September 30, 2017.

All employees, with the exception of Fire Department personnel, will accrue paid sick leave at the rate of 8.0 hours per month of service. Fire Department personnel accrue paid sick leave at the rate of 10.64 hours per month of service. An employee will not accrue sick leave during any month in which, for more than fifteen (15) days of the month, the

CITY OF GARDENDALE, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Compensated Absences – Continued

employee is on a leave of absence without pay, a suspension, or is otherwise in a non-pay status.

Sick leave may be accumulated and carried forward from year to year with no maximum amount.

Employees may accumulate unused sick leave on an unlimited basis which can be converted to “creditable months of service” upon service retirement. An employee’s accrued leave may be used toward legitimate, approved, sickness after one year’s service. Upon retirement or termination, after 5 years “in good standing”, the maximum payment allowable for accrued sick leave conversion will be fifty percent (50%) of all accrued sick time not to exceed 60 days (30 day maximum). At retirement, an employee may convert 100% of sick leave to calculated months of service with the Retirement Systems of Alabama instead of receiving payment the employee is entitled to receive.

City employees had accumulated unused sick leave benefits amounting to \$2,617,037 at September 30, 2017.

Overtime Leave

Employees may accumulate overtime leave for overtime hours worked, but not compensated for, during a specific pay period. This amount will carry over and is a liability of the City until the employee is paid in future periods. Departmental accumulation of overtime leave liability at September 30, 2017 is as follows:

Overtime Leave:	
General and Administrative	\$ 1,771
Court	4,901
Police Department	85,394
Fire and Rescue	45,110
Public Works Department	44,600
Inspection Department	6,436
Civic Center	12,230
Senior Center	695
Parks and Recreation Department	29,031
Gardendale-Martha Moore Public Library	-
Total Overtime Leave	\$ <u>230,168</u>

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Pension

The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

Interfund Receivables and Payables

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Interfund loans are classified as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Ad Valorem Property Taxes

The City Council enacted a 5 mills ad valorem tax to support a proposed new school system. An additional 5 mills ad valorem was later passed by public referendum to fund the establishment of the City school system.

The City's ad valorem property taxes are collected and remitted to the City by Jefferson County. Property taxes are assessed for property as of October 1 of the preceding year based on millage rates established by the Jefferson County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31.

Long-Term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements. All long-term debt to be repaid from governmental resources are reported as liabilities in the government-wide statements.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Long-Term Obligations – Continued

The long-term debt consists primarily of warrants payable, notes payable, lines of credit and compensated absences. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures.

Equity Classifications

Equity is classified differently depending on whether it is in the government-wide financial statements or the fund financial statements.

In the government-wide statements, equity is classified as net assets and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – Consists of all other net positions that do not meet the definition of “restricted” or “net investment in capital assets.”

In the fund financial statements, governmental fund equity is classified as fund balance. Fund balance is presented in five possible categories:

- a. Nonspendable – resources which cannot be spent because they are either 1) not in spendable form or; 2) legally or contractually required to be maintained intact.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Equity Classifications – Continued

- b. Restricted – resources with constraints placed on the use of resources which are either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation.
- c. Committed – resources which are subject to limitations the City imposes upon itself by action of the City Council, and that remain binding unless the limitations are removed in the same manner.
- d. Assigned – resources neither restricted nor committed for which the City has a stated intended use as established by the City Council or a body or official to which the City Council has delegated the authority to assign amounts for specific purposes.
- e. Unassigned – resources which cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Tax Abatements

The City extends abatement agreements in accordance with Alabama Constitutional Amendment 772. Applicants must show their development or redevelopment benefits the citizens of the City by increasing the economic tax base, increasing jobs to the areas or otherwise improving the City. In the fiscal year ending September 30, 2017, the City had six (6) active tax abatements for retail developments:

Dewey Barber Chevrolet, Inc. – Sales taxes and business licenses are abated up to 7 years or until a maximum of \$800,000 in abatement rebates are reached, whichever occurs first. Abatement rebates began in August 2013. Sales tax abatement rebate terms are half of 3% of tax remitted for 7 years or until maximum is reached. Business license abatement rebate terms are of 100% for 5 years or until maximum is reached. The maximum abatement amounts were reached in February 2017. Abated amounts: sales tax – \$27,490 and business license – \$44,084.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Tax Abatements – Continued

Gardendale (New Castle) DG, LLC – Sales taxes are abated until a maximum of \$51,000 in abatement rebates are reached. Abatement rebate agreement was signed in July 2014. Sales tax abatement rebate terms are half of 3% of tax remitted until maximum is reached. The maximum abatement amounts were reached in September 2017. Abated amounts: sales tax – \$21,503.

Gardendale Retail, LLC – Sales taxes are abated for a period of 10 years. Abatement rebates began in January 2015. Sales tax abatement rebate terms are half of 3% of tax remitted for 10 years. Abated amounts: sales tax – \$74,168.

PGP Gardendale, LLC – Sales taxes are abated for a period of 10 years. Abatement rebates began in March 2015. Sales tax abatement rebate terms are half of 3% of tax remitted for 10 years. Abated amounts: sales tax – \$455,168.

Gauldin Investment Company, Inc. – Sales taxes are abated for a period of 5 years. Abatement rebates began in February 2017. Sales tax abatement rebate terms are half of 3% of tax remitted for 5 years. Abated amounts: sales tax – \$16,698.

McAdam Properties, LLC – Sales taxes are abated for a period of 5 years. Abatement rebates began in February 2017. Sales tax abatement rebate terms are half of 3% of tax remitted for 5 years. Abated amounts: sales tax – \$32,043.

NOTE B – REVENUES AND EXPENDITURES

Revenues and Major Revenue Sources

Substantially all governmental fund revenues are accrued.

The City's primary sources of revenue include sales and use taxes, ad valorem property taxes, business licenses and permits. Collectively, these taxes and licenses totaled approximately \$16.6 million or 83% of the total General and Special Revenue Fund revenues during the year ended September 30, 2017.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE B – REVENUES AND EXPENDITURES – CONTINUED

1-Cent Temporary Sales and Use Tax Increase

Effective January 1, 2011, the City's local sales and use tax rate increased from 3% to 4%. Under the terms of the authorizing ordinance, the additional 1-cent tax expired on December 31, 2014, and the revenues from the additional tax may be used only for the following three purposes: (1) expansion and renovation of the Gardendale-Martha Moore Public Library; (2) retirement of debt; and (3) economic development initiatives. The ordinance was reinstated on November 17, 2014, for a period of January 1, 2015 through December 31, 2018, modifying its intent for future expenditure purposes to debt retirement and community and economic development.

Lease Revenue

The City leases a commercial building to the United States Postal Service serving the citizens of Gardendale, Alabama. The lease, commencing February 19, 1999, is a non-cancelable operating lease for 20 years. Minimum lease revenue, for the next 2 years, is as follows:

<u>Lease Revenue</u>		
<u>Year</u>	<u>Totals</u>	
2018	\$	218,137
2019		72,712

Rental income for year-ending September 30, 2017 was \$218,137.

Expenditures

Expenditures are recognized when the related fund liability is incurred.

Management Estimates

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, contingent liabilities and the reported amount of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

CITY OF GARDENDALE, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

NOTE C – DEPOSITS AND INVESTMENTS

Deposits

The Alabama State Legislature has enacted the Security of Alabama Funds Enhancement (SAFE) Program (Title 41, Chapter 14A, Code of Alabama 1975, as amended) that prescribes the way all Alabama public deposits are collateralized. The City manages custodial credit risk, which is the risk that in the event of a bank failure the City's deposits may not be returned. The City approves, by resolution, all banks or other financial institutions utilized as depositories for City funds. Prior to approval, each proposed depository must provide evidence of its designation by the Alabama State Treasurer as a qualified public depository under SAFE. From time to time, the Council may request that the depository provide evidence of its continuing designation as a qualified public depository. The enactment of the SAFE program changed the way all Alabama public deposits are collateralized. In the past, the bank pledged collateral directly to each individual public entity. Under the mandatory SAFE program, each qualified public depository (QPD) is required to hold collateral for all its public depositories on a pooled basis in a custody account established for the State Treasurer as SAFE administrator. In the unlikely event a public entity should suffer a deposit loss due to QPD insolvency or default, a claim form would be filed with the State Treasurer who would use the SAFE pool collateral or other means to reimburse the loss.

At September 30, 2017, the carrying amount of the City's deposits was \$9,916,038 and the bank balance was \$9,916,038. The total bank balance at year-end was covered by federal depository insurance or collateral held by the fiscal agent in the City's name under the SAFE program.

Investments

As of September 30, 2017, the City had the following investments:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less than 1	1-5
Certificates of Deposit	\$ 174,941	\$ 174,941	\$ -

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE D – ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following account balances at September 30, 2017:

Paving receivable	\$ 75,000
House demolition and Weed Control Ordinance violations receivables	<u>66,821</u>
Total	<u>\$ 141,821</u>

NOTE E – SEWER ASSESSMENTS RECEIVABLE

Sewer construction is partially financed by assessments levied on property owners benefiting from the construction. There was no sewer construction in progress at September 30, 2017.

NOTE F – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 is stated on the following page.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE F – CAPITAL ASSETS – CONTINUED

	Balance October 1, 2016	Additions	Dispositions/ Retirements/ Completions	Balance September 30, 2017
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 12,383,178	\$ 9,487,904	\$ (28,390)	\$ 21,842,692
Construction in Progress	827,582	343,712	(105,842)	1,065,452
Total Capital Assets Not Being Depreciated	<u>13,210,760</u>	<u>9,831,616</u>	<u>(134,232)</u>	<u>22,908,144</u>
Capital Assets Being Depreciated:				
Land Improvements	809,450	94,218	(28,390)	875,278
Buildings and Improvements	20,532,863	123,291	(47,979)	20,608,175
Equipment	8,816,690	439,074	(1,348,765)	7,906,999
Infrastructure	9,733,574	123,867	(3,034)	9,854,407
Total Capital Assets Being Depreciated	<u>39,892,577</u>	<u>780,450</u>	<u>(1,428,168)</u>	<u>39,244,859</u>
Less Accumulated Depreciation for:				
Land Improvements	(963,296)	(48,476)	22,869	(988,903)
Buildings and Improvements	(4,615,367)	(543,564)	29,900	(5,129,031)
Equipment	(6,859,295)	(669,335)	1,331,344	(6,197,286)
Infrastructure	(6,614,130)	(541,091)	-	(7,155,221)
Total Accumulated Depreciation	<u>(19,052,088)</u>	<u>(1,802,466)</u>	<u>1,384,113</u>	<u>(19,470,441)</u>
Total Capital Assets Being Depreciated, Net	<u>20,840,489</u>	<u>(1,022,016)</u>	<u>(44,055)</u>	<u>19,774,418</u>
Governmental Activities Capital Assets, Net	<u>\$ 34,051,249</u>	<u>\$ 8,809,600</u>	<u>\$ (178,287)</u>	<u>\$ 42,682,562</u>

CITY OF GARDENDALE, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

NOTE F – CAPITAL ASSETS – CONTINUED

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental Activities:	
General and Administrative	\$ 515,102
Court	53,385
Police Department	459,229
Fire and Rescue	105,887
Public Works Department	239,522
Inspection Department	23,573
Civic Center	171,443
Senior Center	7,598
Parks and Recreation Department	163,661
Gardendale-Martha Moore Public Library	<u>63,066</u>
Total depreciation expense-	
Governmental activities	<u>\$ 1,802,466</u>

NOTE G – CONSTRUCTION-IN-PROGRESS

Storm Shelter

The City is currently building a tornado safe room behind Fire Station #1 located on Decatur Highway. The shelter project is currently in the engineering and designing phases with construction expected to begin during the fiscal year 2018. Once completed the shelter will be open to the public during bad weather events and have a capacity of approximately 100 people. Construction-in-progress at September 30, 2017 totaled \$8,000.

Fire Station #3

The City has purchased land for a future site of Fire Station #3 off of Tarrant Road. The project is currently in the designing and planning phases with an unknown construction start date. Construction-in-progress at September 30, 2017 totaled \$43,419.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE G – CONSTRUCTION-IN-PROGRESS – CONTINUED

Splash Pad Additions

The City began renovations and additions to the existing Splash Pad in Kenny Clemons Park Complex during the 2017 fiscal year. This included increasing the size of the splash pad area for toddler usage, upgrades to pavilions, and new splash pad features. The project is expected to be completed prior to the Summer 2018. Construction-in-progress at September 30, 2017 totaled \$26,248.

Blue Building Renovations

The City is renovating an existing storage building located on the edge of Kenny Clemons Park for civic/public usage in the future. The City has historically used this building, including the surrounding area, for overflow storage for the Park and Recreation and Public Works Departments. The planned future use of this building will be a basic meeting area for recreational or civic type groups. Construction-in-progress at September 30, 2017 totaled \$4,005.

Lighthouse and Civil House Properties

The City purchased the Lighthouse and Civil House properties for renovation of both the interior and exterior of the existing buildings. The City's long-range plan for these properties is to host city events as well as to rent them to the public for weddings, reunions, etc. The work on the projects is ongoing. No projected completion date is set for these projects. Construction-in-progress at September 30, 2017 totaled \$437,692.

Public Safety Center Renovation

The City has unoccupied space in the building located at 1309 Decatur Highway. The City's long range plan for this space includes creation of on-site storage for city departments, as well as future leaseholds to retail or service industry. No projected completion date is set for these projects, however, work began on the on-site storage in the second quarter of 2017. Construction-in-progress at September 30, 2017 totaled \$37,677.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE G – CONSTRUCTION-IN-PROGRESS – CONTINUED

Pedestrian Improvements / Sidewalk Projects

In conjunction with Alabama Department of Transportation (ALDOT), a resolution approved pedestrian and sidewalk improvements along Main Street, Bell Street, and the new City Hall complex. The project entered the design phase during October 2013. The project continues to be ongoing as ALDOT has not announced an expected completion date. Construction-in-progress at September 30, 2017 totaled \$99,041.

Road / Surface Street Improvements

In conjunction with Alabama Department of Transportation (ALDOT), the City entered into grants for road and surface street improvements within the city. The City agreed to fund twenty percent (20%) of the total project cost. The following projects were approved under this arrangement and started in the year ending September 30, 2017:

Fieldstown Road Widening – Construction-in-progress at September 30, 2017 totaled \$10,101.

Intersection of Fieldstown Road / Shady Grove Road Project – This project is in the planning and survey phase, ALDOT expects to let the bids for the project by Spring 2018. Construction-in-progress at September 30, 2017 totaled \$181,942.

Main Street and Odum Road Traffic Signal / Turn Lane Project

The City is in the process of completing a turn lane and traffic signal installation at Main Street and Odum Road. Construction-in-progress at September 30, 2017 totaled \$217,326.

NOTE H – LETTER OF CREDIT

The City entered into a \$3,000,000 Letter of Credit on September 19, 2016 with Regions Bank. Interest rate was 1.585% per annum. The Letter of Credit is collateralized by the good faith and credit of the City. There was no outstanding liability balance at September 30, 2017.

CITY OF GARDENDALE, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

NOTE I – LONG-TERM DEBT

Note Payable

The City entered into a \$300,000 note payable on August 22, 2016 with USAmeriBank for the purpose of replacing HVAC units at the Civic Center. Interest rate was 2.875% per annum. Monthly payment amounts are \$5,379.

Scheduled maturities of principal and interest are as follows:

Year Ended September 30	Governmental Activities		
	Total	Principal	Interest
2018	\$ 64,553	\$ 58,374	\$ 6,179
2019	64,553	60,099	4,454
2020	64,553	61,867	2,686
2021	59,174	58,323	851
Totals	\$252,833	\$ 238,663	\$ 14,170

Total interest expense for the year-ended September 30, 2017 was \$7,854.

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of a city vehicle and police vehicles, including additional equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases amount to \$633,935 and are recorded in governmental activities.

CITY OF GARDENDALE, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

NOTE I – LONG-TERM DEBT – CONTINUED

Capital Leases – Continued

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2017, were as follows:

Year ending September 30	Present Value of Minimum Lease Payments	Interest Expense	Total Lease Payments
2018	\$ 126,271	\$ 1,815	\$ 128,086
2019	126,604	1,482	128,086
2020	126,952	1,134	128,086
2021	127,314	772	128,086
2022	9,207	394	9,601
Total	<u>\$ 516,348</u>	<u>\$ 5,597</u>	<u>\$ 521,945</u>

There was no interest expense for the year-ended September 30, 2017.

General Obligation Warrants and General Obligation Taxable Warrants

General Obligation Warrants and General Obligation Taxable Warrants are direct obligations issued on a pledge of the general taxing power of the payment of the debt obligations of the City. The obligations require the City to compute at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity; the City is in compliance with this requirement.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE I – LONG-TERM DEBT – CONTINUED

General Obligation Warrants and General Obligation Taxable Warrants – Continued

At September 30, 2017, warrants consisted of two (2) outstanding general obligation warrants and two (2) outstanding general obligation taxable warrants, as scheduled below:

	Governmental Activities					
	Interest Rates	Issue Date	Maturity Date	Original Issue	Amount Outstanding at September 30, 2017	
General Obligation Taxable Warrants, Series 1999 – United States Postal Service Building	5.74% to 6.77%	1/1/1999	1/1/2019	\$ 2,050,000	\$ 340,000	
General Obligation Warrants, Series 2011 – Defeasance of General Obligation Warrants, Series 1998	1.10% to 3.35%	2/1/2011	10/1/2018	2,640,000	720,000	
General Obligation Warrants, Series 2013 – Public Safety Center, New City Hall and Second Fire Station	1.80% to 3.35%	6/1/2013	6/1/2033	6,715,000	6,615,000	
General Obligation Taxable Warrants, Series 2017 – Acquisition of Property	2.00% to 4.00%	7/1/2017	7/1/2042	<u>10,305,000</u>	<u>10,305,000</u>	
				<u>\$ 21,710,000</u>	<u>\$ 17,980,000</u>	

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE I – LONG-TERM DEBT – CONTINUED

General Obligation Warrants and General Obligation Taxable Warrants - Continued

Annual debt service requirements to maturity for the general obligation warrants and general obligation taxable warrants are as follows:

Year Ended September 30	Total	Annual Requirement Principal	Governmental Activities							
			1999 General Obligation Taxable Warrants		2011 General Obligation Warrants		2013 General Obligation Warrants		2017 General Obligation Taxable Warrants	
			Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 1,083,732	\$ 545,000	\$ 165,000	\$ 17,433	\$ 355,000	\$ 17,553	\$ 25,000	\$ 191,063	\$ -	\$ 312,683
2019	1,090,190	565,000	175,000	5,924	365,000	6,114	25,000	190,613	-	322,539
2020	3,702,702	3,190,000	-	-	-	-	395,000	190,163	2,795,000	322,539
2021	1,094,494	645,000	-	-	-	-	405,000	182,855	240,000	266,639
2022	1,090,709	655,000	-	-	-	-	410,000	174,350	245,000	261,359
2023	1,095,154	675,000	-	-	-	-	420,000	164,920	255,000	255,234
2024	1,092,769	690,000	-	-	-	-	430,000	154,420	260,000	248,349
2025	1,094,309	710,000	-	-	-	-	445,000	143,240	265,000	241,069
2026	1,094,122	730,000	-	-	-	-	455,000	131,003	275,000	233,119
2027	1,097,904	755,000	-	-	-	-	470,000	118,035	285,000	224,869
2028	1,089,826	770,000	-	-	-	-	480,000	103,935	290,000	215,891
2029	1,090,521	795,000	-	-	-	-	495,000	89,055	300,000	206,466
2030	1,094,384	825,000	-	-	-	-	515,000	72,968	310,000	196,416
2031	1,096,796	855,000	-	-	-	-	530,000	56,230	325,000	185,566
2032	1,097,504	885,000	-	-	-	-	550,000	38,475	335,000	174,029
2033	1,091,576	910,000	-	-	-	-	565,000	19,775	345,000	161,801
2034-2042	4,569,911	3,780,000	-	-	-	-	-	-	3,780,000	789,911
Totals	<u>\$ 24,666,603</u>	<u>\$ 17,980,000</u>	<u>\$ 340,000</u>	<u>\$ 23,357</u>	<u>\$ 720,000</u>	<u>\$ 23,667</u>	<u>\$ 6,615,000</u>	<u>\$ 2,021,100</u>	<u>\$ 10,305,000</u>	<u>\$ 4,618,479</u>

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE I – LONG-TERM DEBT – CONTINUED

The following is a summary of long-term debt transactions of the City for the year-ended September 30, 2017:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities:					
Note payable	\$ 295,315	\$ -	\$ 56,664	\$ 238,651	\$ 58,374
Capital leases payable	592,425	42,408	118,485	516,348	128,086
Warrants payable:					
General obligation warrants	7,705,000	-	370,000	7,335,000	380,000
General obligation taxable warrants	495,000	10,305,000	155,000	10,645,000	165,000
Total note, capital leases and bonds payable	<u>9,087,740</u>	<u>10,347,408</u>	<u>700,149</u>	<u>18,734,999</u>	<u>731,460</u>
Net OPEB obligation	409,005	80,645	-	489,650	-
Net pension liability	9,644,064	1,559,667	-	11,203,731	-
Compensated absences:					
Vacation leave	869,374	519,134	508,506	880,002	-
Sick leave	2,447,070	451,188	281,221	2,617,037	-
Overtime leave	201,953	40,171	11,956	230,168	-
Governmental activity long-term liabilities	<u>\$ 22,659,206</u>	<u>\$12,998,213</u>	<u>\$ 1,501,832</u>	<u>\$ 34,155,587</u>	<u>\$ 731,460</u>

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE J – PENSION PLAN

Plan Description

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

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

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

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for 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)

CITY OF GARDENDALE, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

NOTE J – PENSION PLAN – CONTINUED

Benefits Provided – Continued

are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity’s election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, 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 875 local participating employers. These participating employers include 294 cities, 65 counties, and 516 other public entities. The ERS membership includes approximately 85,874 participants. As of September 30, 2016, membership consisted of:

Retirees and beneficiaries currently receiving benefits	23,007
Terminated employees entitled to but not yet receiving benefits	1,155
Terminated employees not entitled to a benefit	6,654
Active members	55,058
Total	85,874

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE J – PENSION PLAN – CONTINUED

Contributions

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

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2017, the City's active employee contribution rate was 8.86 percent of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 4.67 percent of covered employee payroll.

City's contractually required contribution rate for the year ended September 30, 2017 was 10.02 percent of pensionable pay for Tier 1 employees, and 9.38 percent of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2015, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City were \$759,536 for the year ended September 30, 2017.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE J – PENSION PLAN – CONTINUED

Net Pension Liability

The City’s net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2015 rolled forward to September 30, 2016 using standard roll-forward techniques as shown in the following table:

	<u>Expected</u>	<u>Actual-2015 Valuation Assumptions</u>	<u>Actual-2016 Valuation Assumptions</u>
(a) TPL as of September 30, 2015	\$26,713,136	\$27,654,118	\$28,636,403
(b) Discount rate	8.00%	8.00%	7.75%
(c) Entry Age Normal Cost for the period October 1, 2015 – September 30, 2016	625,258	625,258	627,451
(d) Transfers Among Employers:		(120,917)	(120,917)
(e) Actual Benefit Payments and Refunds for the period October 1, 2015– September 30, 2016	<u>(1,387,041)</u>	<u>(1,387,041)</u>	<u>(1,387,041)</u>
(f) TPL as of September 30, 2016 = [(a) x (1+(b))] + (c) + (d) + [(e) x (1+ 0.5*(b))]	<u>\$28,032,922</u>	<u>\$28,928,266</u>	<u>\$29,921,469</u>
(g) Difference between Expected and Actual:		\$895,344	
(h) Less Liability Transferred for Immediate Recognition:		<u>(120,917)</u>	
(i) Experience (Gain)/Loss = (g) – (h)		\$1,016,261	
(j) Difference between Actual (2015 Assumptions) and Actual (2016 Assumptions): Assumption Change (Gain)/Loss			\$993,203

Actuarial Assumptions

The total pension liability as of September 30, 2016 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2015. The key actuarial assumptions are summarized below:

Inflation	3.00%
Salary increases	3.75% - 7.25%
Investment rate of return*	8.00%
* Net of pension plan investment expense, including inflation	

CITY OF GARDENDALE, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

NOTE J – PENSION PLAN – CONTINUED

Actuarial Assumptions – Continued

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

The actuarial assumptions used in the September 30, 2015 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.

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

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

*Includes assumed rate of inflation of 2.50%

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE J – PENSION PLAN – CONTINUED

Discount Rate

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

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at September 30, 2015	\$ 26,713,136	\$ 17,069,072	\$ 9,644,064
Changes for the year:			
Service cost	625,258	-	625,258
Interest	2,081,569	-	2,081,569
Changes in assumptions	993,203	-	993,203
Difference between expected and actual experience	1,016,261	-	1,016,261
Contributions – employer	-	777,262	(777,262)
Contributions – employee	-	645,370	(645,370)
Net investment income	-	1,733,992	(1,733,992)
Benefit payments, including refunds of employee contributions	(1,387,041)	(1,387,041)	-
Administrative expense	-	-	-
Transfers among employers	(120,917)	(120,917)	-
Net changes	<u>3,208,333</u>	<u>1,648,666</u>	<u>1,559,667</u>
Balances at September 30, 2016	<u>\$ 29,921,469</u>	<u>\$ 18,717,738</u>	<u>\$ 11,203,731</u>

CITY OF GARDENDALE, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

NOTE J – PENSION PLAN – CONTINUED

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease (6.75%)	Current Rate 7.75%	1% Increase (8.75%)
City’s Net Pension Liability	\$ 14,890,325	\$ 11,203,731	\$ 6,894,262

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, 2016. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2016. The auditor’s report dated September 18, 2017 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

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

For the year ended September 30, 2017, the City recognized pension expense of \$282,105. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,008,485	\$ -
Changes in assumptions	857,148	-
Net difference between projected and actual earnings on plan investments	151,449	-
Employer contributions subsequent to the measurement date	759,536	-
Total	<u>\$ 2,776,618</u>	<u>\$ -</u>

CITY OF GARDENDALE, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

NOTE J – PENSION PLAN – CONTINUED

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions - Continued

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

Year ended September 30:		
2018	\$	336,626
2019		336,626
2020		458,851
2021		227,718
2022		299,411
Thereafter		357,850

NOTE K – DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. RSA-1, Deferred Compensation Plan administered by The Retirement Systems Deferred Compensation Plan, was authorized by an act of the Alabama Legislature for the benefit of Alabama’s public employees.

The plan, available to all City employees, permits them to defer a portion of their salary until future years. There is no minimum employees may defer. An employee may defer up to 100% of their includible income (as defined by the Internal Revenue Service), reduced by other tax deferred retirement contributions and pretax salary reductions, but not more than the following annual contribution maximums: Under 50 years of age - \$17,500; 50 years of age and over \$35,000. If an employee is within three years of retirement, the deferred limit may be higher. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The City funds all amounts of compensation deferred under the plan, at the direction of the covered employee, through investments administered by The Retirement Systems of Alabama.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE L – OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

The City's medical benefits are provided through a comprehensive medical plan and are made available to employees upon actual retirement. The employees are covered by a retirement system and the eligibility requirement to receive retiree medical benefits is age 62 and 10 years of service (see below under "Method of Determining Value of Benefits" for graded percentage of employer payment of retiree premiums based on service at retirement). Complete plan provisions are included in the official plan documents.

Contribution Rates

Employees do not contribute to their post employment benefits costs until they become retirees and begin receiving those benefits. The plan provisions and contribution rates are contained in the official plan documents.

Fund Policy

Until Fiscal Year Ending September 30, 2008, the City recognized the cost of providing post-employment medical benefits (the City's portion of the retiree medical benefit premiums) as an expense when the benefit premiums were due and thus financed the cost of the post-employment benefits on a pay-as-you-go basis. In Fiscal Year Ending September 30, 2017, the City's portion of health care funding cost for retired employees totaled \$6,935.

Effective with the Fiscal Year beginning October 1, 2008, the City implemented GASB No. 45, "Accounting and Financial Reporting by Employers for Post employment Benefits Other than Pensions." These amounts were applied toward the Net OPEB Benefit Obligation as shown in the table on the following table.

Annual Required Contribution

The City's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB No. 45. The ARC is the sum of the Normal Cost plus the contribution to amortize the Underfunded Actuarial Accrued Liability (UAAL). A level dollar, open amortization period of 30 years (the maximum amortization period allowed by GASB 43/45) has been used for the post-employment benefits.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE L – OTHER POST EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Annual Required Contribution – Continued

The actuarially computed ARC as follows:

Normal Cost	\$ 54,217
30-year UAL amortization amount	39,217
Annual required contribution (ARC)	<u>\$ 93,434</u>

Net Post-employment Benefit Obligation (Asset)

The table below shows the City's Net Other Post-employment Benefit (OPEB) Obligation for fiscal year ending September 30, 2017:

Beginning Net OPEB Obligation – 10/1/2016	\$ 409,005
Annual required contribution	93,434
Interest on Net OPEB Obligation	13,134
ARC Adjustment	<u>(18,988)</u>
OPEB Cost	87,580
Contribution to Irrevocable Trust	-
Current year retiree premium	<u>(6,935)</u>
Change in Net OPEB Obligation	80,645
Ending Net OPEB Obligation – 9/30/2017	<u>\$ 489,650</u>

The following table shows the City's annual other post employment benefits (OPEB) cost, percentage of the cost contributed, and the net other post employment benefits (OPEB) liability:

Annual Fiscal Year Ended September 30, 2017 Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
\$87,580	7.92%	\$489,650

CITY OF GARDENDALE, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

NOTE L – OTHER POST EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Funded Status and Funding Progress

In the fiscal year ending September 30, 2017, the City made no contributions to its post employment benefits plan. The plan was not funded, has no assets, and hence has a funded ratio of zero. Based on the October 1, 2015 actuarial valuation, the most recent valuation, the Actuarial Accrued Liability (AAL) at fiscal year end September 30, 2017 was \$705,213, which is defined as that portion, as determined by a particular actuarial cost method (the City uses the Projected Unit Credit Cost Method), of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost.

Actuarial Accrued Liability (AAL)	\$ 705,213
Actuarial Value of Plan Assets (AVP)	-
Unfunded Act. Accrued Liability (UAAL)	705,213
Funded Ratio (AVP/AAL)	0.00%
Covered Payroll (active plan members)	7,772,804
UAAL as a percentage of covered payroll	9.07%

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarial valuation for post employment benefits includes estimates and assumptions regarding (1) turnover rate; (2) retirement rate; (3) health care cost trend rate; (4) mortality rate; (5) discount rate (investment return assumption); and (6) the period to which the costs apply (past, current, or future years of service by employees). Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the City and its employee plan members) at the time of the valuation and on the pattern of sharing costs between the City and its plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the City and plan members in the future.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE L – OTHER POST EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Actuarial Methods and Assumptions – Continued

Consistent with the long-term perspective of actuarial calculations, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets.

Actuarial Cost Method

The ARC is determined using the Projected Unit Credit Cost Method. The employer portion of the cost for retiree medical care in each future year is determined by projecting the current cost levels using the healthcare cost trend rate and discounting this projected amount to the valuation date using the other described pertinent actuarial assumptions, including the investment return assumption (discount rate), mortality, and turnover.

Actuarial Value of Plan Assets

There are not any plan assets. It is anticipated that in future valuations, should funding take place, a smoothed market value consistent with Actuarial Standards Board ASOP 6, as provided in paragraph number 125 of GASB No. 45 will be used.

Turnover Rate

An age-related turnover scale based on actual experience has been used. The rates, when applied to the active employee census, produce a composite annual turnover of approximately 5%.

Post Employment Benefit Plan Eligibility Requirements

Because of the graded schedule of employer contributions based on service at retirement and the necessity of retiring at not earlier than age 62 for employer payment of retiree premiums, it has been assumed that entitlement to benefits will commence at the later of attainment of age 62 and completion of 10 years of service. Medical benefits are provided to employees upon actual retirement.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE L – OTHER POST EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Investment Return Assumption (Discount Rate)

GASB No. 45 states that the investment return assumption should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits (for a plan that is funded). Based on the assumption the ARC will not be funded, a 4% annual investment return rate has been used in this valuation.

Health Care Cost Trend Rate

The expected rate of increase in medical cost is based on a graded schedule beginning with 8% annually, down to an ultimate annual rate of 5.0% for ten years out and later.

Mortality Rate

The 1994 Group Annuity Reserving (94GAR) table, projected to 2002, based on a fixed blend of 50% of the unloaded male mortality rate and 50% of the unloaded female mortality rates, is used. This is a recently published mortality table which has been used in determining the value of accrued benefits in defined benefit pension plans. Projected future mortality improvement has not been used since it is our opinion that this table contains sufficiently conservative margin for the population involved in this valuation.

Method of Determining Value of Benefits

The "value of benefits" has been assumed to be the portion of the premium after retirement date expected to be paid by the employer for each retiree and has been used as the basis for calculating the actuarial present value of OPEB benefits to be paid. The employer pays for a portion of the retiree unblended premium based on service at retirement. That portion is equal to 100% for employees retiring with 20 or more years of service. For employees retiring with less than 20 years of service, the employer pays 70% at 10 years plus 2% for each year above 10 years to 88% for 19 years. The employer pays for retiree coverage only, not dependents, and retiree coverage ceases at age 65.

Inflation Rate

Included in both the Investment Return Assumption and the Healthcare Cost Trend rates above is an implicit inflation assumption of 2.50% annually.

CITY OF GARDENDALE, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

NOTE L – OTHER POST EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Projected Salary Increases

This assumption is not applicable since neither the benefit structure nor the valuation methodology involves salary.

Post-retirement Benefit Increases

The plan benefit provisions in effect for retirees as of the valuation date have been used and it has been assumed for valuation purposes that there will not be any changes in the future.

OPEB Costs and Contributions – Last Three Fiscal Years

	<u>09/30/2015</u>	<u>09/30/2016</u>	<u>09/30/2017</u>
OPEB Cost	\$ 75,136	\$ 87,579	\$ 87,579
Contribution	-	-	-
Retiree premium	<u>25,658</u>	<u>6,935</u>	<u>6,935</u>
Total contribution and premium	<u>25,658</u>	<u>6,935</u>	<u>6,935</u>
Change in net OPEB obligation	<u>\$ 49,478</u>	<u>\$ 80,644</u>	<u>\$ 80,644</u>
Percent of contribution to cost	0.00%	0.00%	0.00%
Percent of contribution plus premium to cost	34.15%	7.92%	7.92%

NOTE M – PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$16,187 was made due to a prior year capital asset reclassification discovered when the City converted to a new software accounting system. The result is restating beginning net assets for governmental activities.

CITY OF GARDENDALE, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE N – RISK MANAGEMENT

The City carries traditional insurance coverage rather than finance risks through self-insurance.

NOTE O – CONTINGENT LIABILITIES

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed to be material. The City is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

A class action lawsuit has been filed against the City for refund of ad valorem taxes collected, including attorney's fees and related costs. The lawsuit claims the City is unlawfully collecting up to 10 mills of ad valorem tax. The basis of the claim is that the City's tax levy for public school purposes is unconstitutional as applied due to a recent court decision not allowing a formation of a local board of education. The City is planning on vigorously defending the lawsuit and there is no evaluation of potential outcome at the present time.

NOTE P – SUBSEQUENT EVENTS

The City has evaluated subsequent events through the date of issuance of these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GARDENDALE, ALABAMA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Orginal Budget	Final Budget	Actual	Variance
REVENUES				
Taxes, licenses, and permits	\$ 15,419,700	\$ 15,419,700	\$ 17,019,627	\$ 1,599,927
Intergovernmental revenue	611,905	611,905	676,258	64,353
Charges for services	438,000	438,000	423,497	(14,503)
Fines and forfeitures	265,000	265,000	343,633	78,633
Interest income	4,000	4,000	7,468	3,468
Sale of capital assets	700	700	21,899	21,199
Other	466,658	466,658	675,814	209,156
TOTAL REVENUES	<u>17,205,963</u>	<u>17,205,963</u>	<u>19,168,196</u>	<u>1,962,233</u>
EXPENDITURES				
General and Administrative	5,564,168	6,986,219	14,771,612	(7,785,393)
Court	258,959	255,063	152,871	102,192
Police Department	4,369,565	4,206,807	3,846,094	360,713
Fire and Rescue	2,811,775	2,864,587	2,746,632	117,955
Public Works Department	1,991,195	2,023,223	2,002,649	20,574
Inspection Department	527,699	527,699	515,080	12,619
Civic Center	1,272,084	1,272,084	1,172,946	99,138
Senior Center	194,859	198,538	177,650	20,888
Parks and Recreation Department	1,472,724	1,488,674	1,434,257	54,417
Gardendale-Martha Moore Public Library	685,757	692,754	684,047	8,707
Debt service				
Principal payments	-	-	56,664	(56,664)
Interest charges	-	-	7,890	(7,890)
TOTAL EXPENDITURES	<u>19,148,785</u>	<u>20,515,648</u>	<u>27,568,392</u>	<u>(7,052,744)</u>
Excess (deficiency) of revenues over expenditures	(1,942,822)	(3,309,685)	(8,400,196)	(5,090,511)
Other financing sources (uses)				
Bond proceeds	10,305,000	10,305,000	10,305,000	-
Bond issuance discount	(205,199)	(205,199)	(205,199)	-
Operating transfers in (out)	(1,773,513)	(1,773,513)	(1,773,513)	-
	6,383,466	5,016,603	(73,908)	(5,090,511)
Fund Balances - Beginning	<u>7,447,747</u>	<u>7,447,747</u>	<u>7,447,747</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 13,831,213</u>	<u>\$ 12,464,350</u>	<u>\$ 7,373,839</u>	<u>\$ (5,090,511)</u>

See accompanying independent auditor's report and notes to basic financial statements.

CITY OF GARDENDALE, ALABAMA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgets and Budgetary Accounting

The City has adopted and adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

1. The Finance Committee submits to the City Council a proposed budget for the fiscal year commencing October 1. The budget includes proposed expenditures and the means of financing those expenditures.
2. The budget is legally enacted through the passage of a resolution.
3. Any revisions that alter the budget of any fund or transfer of funds between departments must be approved by the City Council.
4. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Capital Projects and Debt Service Funds.
5. At the end of the year, unencumbered appropriations automatically lapse.

Budget information presented in the financial statements is based on the budget as adopted by the City Council on October 3, 2016 (Resolution Number 2016-139). The budget is revised by City Council approved budget amendments or through administrative reclassifications that do not change the surplus.

CITY OF GARDENDALE, ALABAMA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	2016	2015	2014
Total pension liability			
Service costs	\$ 625,258	\$ 595,057	\$ 567,596
Interest	2,081,569	1,973,367	1,885,956
Changes of benefit terms	-	-	-
Differences between expected and actual experience	1,016,261	185,086	-
Changes of assumptions	993,203	-	-
Benefit payments, including refunds of employee contributions	(1,387,041)	(1,414,932)	(1,306,895)
Transfers among employers	(120,917)	-	-
Net change in total pension liability	3,208,333	1,338,578	1,146,657
Total pension liability, beginning	26,713,136	25,374,558	24,227,901
Total pension liability, ending (a)	<u>\$ 29,921,469</u>	<u>\$ 26,713,136</u>	<u>\$ 25,374,558</u>
Plan fiduciary net position			
Contributions - employer	\$ 777,262	\$ 669,193	\$ 755,846
Contributions - employee	645,370	589,079	368,121
Net investment income	1,733,992	201,223	1,833,806
Benefit payments, including refunds of employee contributions	(1,387,041)	(1,414,932)	(1,306,895)
Transfers among employers	(120,917)	(29,972)	57,259
Net change in plan fiduciary net	1,648,666	14,591	1,708,137
Total net position, beginning	17,069,072	17,054,481	15,346,344
Total net position, ending (b)	<u>\$ 18,717,738</u>	<u>\$ 17,069,072</u>	<u>\$ 17,054,481</u>
Net pension liability (asset), ending (a) - (b)	11,203,731	9,644,064	8,320,077
Plan fiduciary net position as a percentage of the total pension liability	62.56%	63.90%	67.21%
Covered-employee payroll ⁽¹⁾	7,703,051	8,381,330	7,947,852
Net pension liability (asset) as a percentage of the covered-employee payroll	145.45%	115.07%	104.68%

⁽¹⁾ Covered payroll during the measurement period is the total payroll on which contributions to the pension plan are based. For fiscal year 2017, the measurement period is October 1, 2015 - September 30, 2016.

See accompanying independent auditor's report and notes to basic financial statements.

CITY OF GARDENDALE, ALABAMA
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 759,536	\$ 782,933	\$ 669,193
Contributions in relation to the actuarially determined contribution	<u>759,536</u>	<u>782,933</u>	<u>669,193</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	<u>\$ 7,803,646</u>	<u>\$ 7,703,051</u>	<u>\$ 8,381,330</u>
Contributions as a percentage of covered-employee payroll	<u>9.73%</u>	<u>10.16%</u>	<u>7.98%</u>

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 2017 were based on the September 30, 2014 actuarial valuation.

Methods and assumption used to determine contribution rates for the period October 1, 2016 to September 30, 2017:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	27 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75—7.25% including inflation
Investment rate of return (discount rate)	8.00%, net of pension plan investment expense, including inflation

See accompanying independent auditor's report and notes to basic financial statements.

SUPPLEMENTARY INFORMATION

CITY OF GARDENDALE, ALABAMA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2017

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Corrections Fund	Drug Enforcement Fund	Court Ordered Fund	E-911 District Fund	Parks and Recreation Rental Fund	Capital Projects Fund	
ASSETS							
Cash and cash equivalents	\$ 168,251	\$ 61,239	\$ 97,263	\$ 39,598	\$ 80,435	\$ -	\$ 446,786
Short-term investments	70,470	-	-	94,343	-	-	164,813
Receivables-net and prepaids	34	-	-	1,151	-	-	1,185
TOTAL ASSETS	\$ 238,755	\$ 61,239	\$ 97,263	\$ 135,092	\$ 80,435	\$ -	\$ 612,784
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
LIABILITIES							
Accounts Payable	\$ 119	\$ 1,080	\$ -	\$ 36,147	\$ 7,000	\$ -	\$ 44,346
TOTAL LIABILITIES	119	1,080	-	36,147	7,000	-	44,346
DEFERRED INFLOWS OF RESOURCES							
Unearned Revenue	-	43,190	-	-	-	-	43,190
FUND BALANCES							
Restricted	238,636	16,969	97,263	98,945	-	-	451,813
Assigned	-	-	-	-	73,435	-	73,435
TOTAL FUND BALANCES	238,636	16,969	97,263	98,945	73,435	-	525,248
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 238,755	\$ 61,239	\$ 97,263	\$ 135,092	\$ 80,435	\$ -	\$ 612,784

See accompanying independent auditor's report and notes to basic financial statements.

CITY OF GARDENDALE, ALABAMA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Corrections Fund	Drug Enforcement Fund	Court Ordered Fund	E-911 District Fund	Parks and Recreation Rental Fund	Capital Projects Fund	
REVENUES							
Charges for services	\$ 112,754	\$ -	\$ -	\$ 335,615	\$ 40,040	\$ -	\$ 488,409
Fines and forfeitures	-	9,286	41,189	-	-	-	50,475
Interest income	1,156	68	-	1,094	-	-	2,318
Other	707	2,502	159	-	12,210	-	15,578
TOTAL REVENUES	114,617	11,856	41,348	336,709	52,250	-	556,780
EXPENDITURES							
Court	85,000	-	14,044	-	-	-	99,044
Police Department	2,812	6,523	-	314,704	-	-	324,039
Parks and Recreation Department	-	-	-	-	5,729	-	5,729
Capital Outlay	-	26,092	-	48,161	8,500	343,712	426,465
TOTAL EXPENDITURES	87,812	32,615	14,044	362,865	14,229	343,712	855,277
Excess (deficiency) of revenues over expenditures	26,805	(20,759)	27,304	(26,156)	38,021	(343,712)	(298,497)
Other financing sources (uses)							
Operating transfers in	115,447	2,160	41,535	300,025	60,198	614,570	1,133,935
Operating transfers out	(112,754)	(2,160)	(41,520)	(302,500)	(60,228)	(270,858)	(790,020)
	29,498	(20,759)	27,319	(28,631)	37,991	-	45,418
Fund Balances - Beginning	209,138	37,728	69,944	127,576	35,444	-	479,830
Fund Balances - Ending	\$ 238,636	\$ 16,969	\$ 97,263	\$ 98,945	\$ 73,435	\$ -	\$ 525,248

See accompanying independent auditor's report and notes to basic financial statements.

CITY OF GARDENDALE, ALABAMA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Intergovernmental revenue	\$ 253,470	\$ 253,470	\$ 276,045	\$ 22,575
Charges for services	431,800	431,800	488,409	56,609
Fines and forfeitures	41,800	41,800	50,475	8,675
Interest income	350	350	2,394	2,044
Other	1,178	1,178	15,578	14,400
TOTAL REVENUES	728,598	728,598	832,901	104,303
EXPENDITURES				
Court	-	111,000	99,044	11,956
Police Department	-	428,958	398,292	30,666
Public Works Department	32,500	796,069	77,460	718,609
Parks and Recreation Department	-	30,075	14,229	15,846
TOTAL EXPENDITURES	32,500	1,366,102	589,025	777,077
Excess (deficiency) of revenues over expenditures	696,098	(637,504)	243,876	881,380
Other financing sources (uses) Operating transfers in (out)	(227,214)	(227,214)	(227,214)	-
	468,884	(864,718)	16,662	881,380
Fund Balances - Beginning	834,283	834,283	834,283	-
Fund Balances - Ending	<u>\$ 1,303,167</u>	<u>\$ (30,435)</u>	<u>\$ 850,945</u>	<u>\$ 881,380</u>

See accompanying independent auditor's report and notes to basic financial statements.

GARDENDALE-MARTHA MOORE PUBLIC LIBRARY
BALANCE SHEET
SEPTEMBER 30, 2017

	General Fund
ASSETS	
Cash and cash equivalents	\$ 11,437
Accounts receivable	3,619
TOTAL ASSETS	\$ 15,056
LIABILITIES	
Accounts payable	\$ 1,323
TOTAL LIABILITIES	1,323
FUND BALANCE	
Unassigned	13,733
TOTAL LIABILITIES AND FUND BALANCE	\$ 15,056

GARDENDALE-MARTHA MOORE PUBLIC LIBRARY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2017

REVENUES	
Book sales	\$ 1,886
Coffee and food sales	1,076
Copier income	1,224
Donations and memorials	362
E-rate	5,049
Fax charges	3,359
Fines	11,695
Interest income	4
Laminator fees	426
Library card replacement	486
Lost or damaged material	2,030
Miscellaneous	34
Non-resident card fees	735
Printer income	8,165
Reimbursement	7,990
Rental of meeting room	1,025
Scans	319
State aid	8,450
Test proctor fee	1,500
Tickets	880
TOTAL REVENUES	<u>56,695</u>
EXPENDITURES	
Adult programs	4,548
Building expenses	118
Books	3,074
Cellular telephone expense	1,680
Cleaning supplies	610
Copier fee	1,216
Dues and subscriptions	1,055
Equipment	6,032
E-rate	-
Food and medical	2,708
Hotspot Checkout	7,274
Internet expense	300
Miscellaneous	781
Office supplies	2,000
Periodicals	941
Postage and shipping	86
Programs	10,063
Promotional	1,645
Refund / lost material	48
Repair and maintenance	369
Security	1,232
Staff development	260
State aid expenditures	8,450
Video and DVDs	933
TOTAL EXPENDITURES	<u>55,423</u>
EXCESS OF REVENUES OVER EXPENDITURES	1,272
FUND BALANCE AT BEGINNING OF THE YEAR	<u>12,461</u>
FUND BALANCE AT END OF THE YEAR	<u>\$ 13,733</u>

GARDENDALE-MARTHA MOORE PUBLIC LIBRARY
SCHEDULE OF STATE AID (ALABAMA PUBLIC LIBRARY SERVICE)
YEAR ENDED SEPTEMBER 30, 2017

REVENUES	
State aid	<u>\$ 8,450</u>
TOTAL REVENUES - (Received and deposited)	<u>8,450</u>
EXPENDITURES	
Books/DVD's	3,715
Computer expense	1,244
Dues and subscriptions	786
Miscellaneous	377
Paid labor	<u>2,328</u>
TOTAL EXPENDITURES	<u>8,450</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>

The above schedule reflects cash basis method of accounting.