

ANNUAL FINANCIAL REPORT

CITY OF GADSDEN, ALABAMA

For the Year Ended September 30, 2017



Prepared by:

**Finance Department
Lisa Rosser, Finance Director**

CITY OF GADSDEN, ALABAMA

**Annual Financial Report
For the Year Ended September 30, 2017**

TABLE OF CONTENTS

Introductory Section

Principal City Officials i
Organizational Charts ii

Financial Section

Independent Auditor's Report 1-3
Management's Discussion and Analysis (unaudited) 4-11

Basic Financial Statements

Government – Wide Financial Statements
Statement of Net Position 12
Statement of Activities 13

Fund Financial Statements
Balance Sheet – Governmental Funds 14
Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds 15
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities 16
Statement of Net Position – Proprietary Funds 17
Statement of Revenue, Expenditures and Changes in Fund Net Position – Proprietary Funds 18
Statement of Cash Flows – Proprietary Funds 19

Notes to Financial Statements 20-58

Required Supplementary Information

General Fund
Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual 59

School Ad Valorem Tax Fund
Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual 60

Capital Improvements Fund
Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual 61

Schedule of Changes in the Net Pension Liability 62

Schedule of Employer Contributions 63

Schedule of Changes in Total OPEB Liability and Related Ratios 64

Notes to Required Supplemental Information 65

Combining and Individual Fund Statements and Schedules

Nonmajor Governmental Funds	
Combining Balance Sheet	66-69
Combining Statement of Revenue, Expenditures and Changes in Fund Balances	70-73

Statistical Section

Schedule 1 – Net Position by Component.....	75
Schedule 2 – Changes in Net Position	76
Schedule 3 – Fund Balance, Governmental Funds.....	77
Schedule 4 – Changes in Fund Balance, Governmental Funds	78
Schedule 5 – Assessed Value and Estimated Actual Value of Taxable Property.....	79
Schedule 5A – Top Ten Tax Sales Receipts by Category	80
Schedule 6 – Direct and Overlapping Property Tax Rates.....	81
Schedule 7 – Principal Property Tax Payers	82
Schedule 8 – Property Tax Levies and Collections	83
Schedule 9 – Ratios of Outstanding Debt by Type	84
Schedule 10 – Ratios of General Bonded Debt Outstanding	85
Schedule 11 – Direct and Overlapping Governmental Activities Debt	86
Schedule 12 – Legal Debt Margin Information	87
Schedule 13 – Demographic and Economic Statistics	88
Schedule 14 – Principal Employers	89
Schedule 15 – Full-Time Equivalent City Government Employees by Function/Program	90
Schedule 16 – Operating Indicators by Function/Program.....	91
Schedule 17 – Capital Asset Statistics by Function/Program	92

Single Audit Section

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	93-94
Independent Auditors' Report on Compliance For Each Major Program and on Internal Controls Over Compliance Required by the Uniform Guidance	95-96
Schedule of Expenditures of Federal and State Awards	97-98
Notes to the Schedule of Expenditures of Federal and State Awards	99
Schedule of Findings and Questioned Costs	100-101



INTRODUCTORY SECTION

PRINCIPAL CITY OFFICIALS

ORGANIZATIONAL CHART



**CITY OF GADSDEN, ALABAMA
PRINCIPAL CITY OFFICIALS**

September 30, 2017

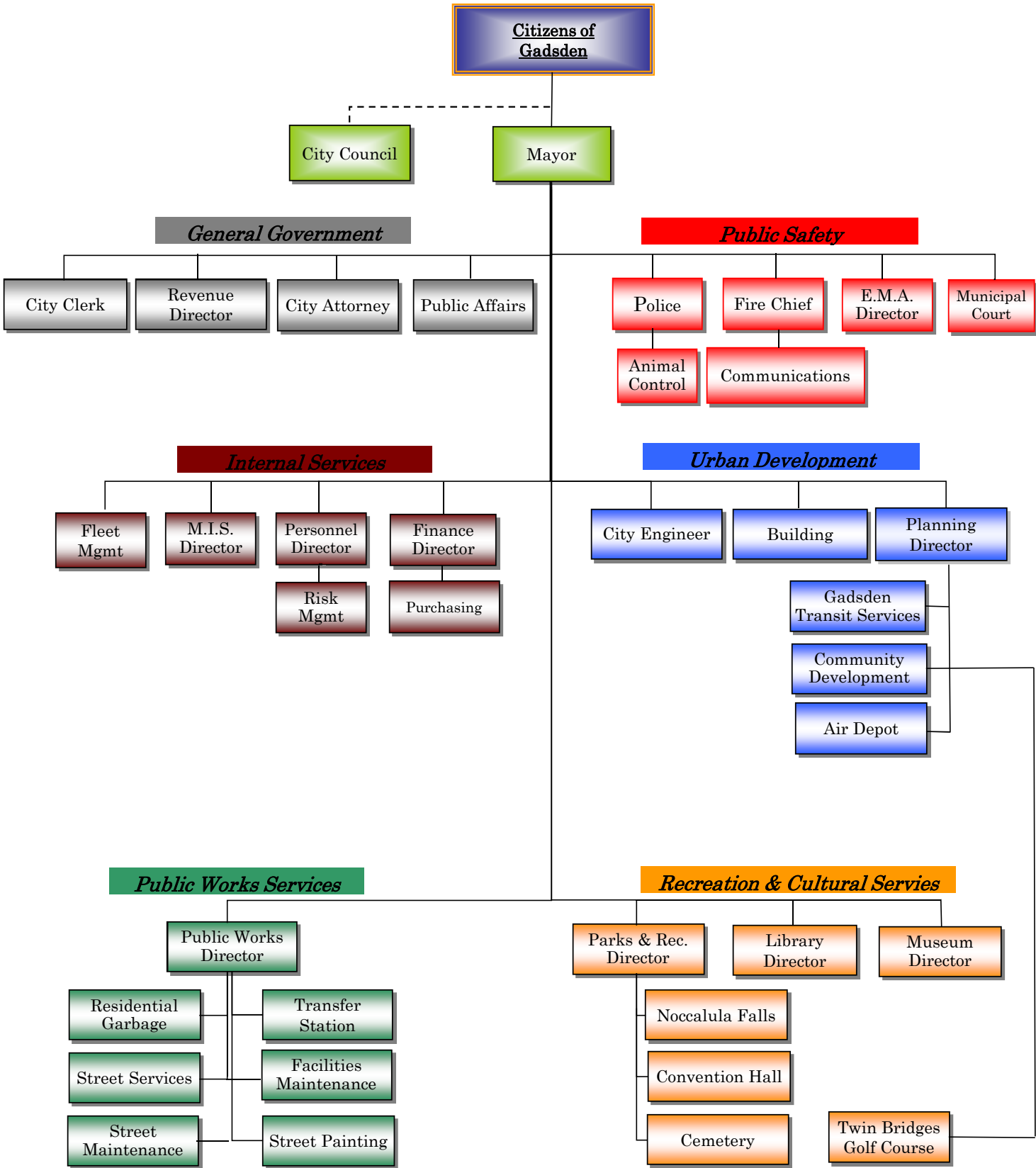
MAYOR

Sherman Guyton

CITY COUNCIL

Dr. Cynthia Toles, District 1
Deverick Williams, District 2 (President)
Thomas Worthy, District 3
Robert Echols, District 4
Billy Billingsley, District 5
Johnny Cannon, District 6 (President Pro Tem)
Ben Reed, District 7

City of Gadsden Organization Chart



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
And Members of the City Council
City of Gadsden, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Gadsden, Alabama (the City), 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 did not audit the financial statements of the Gadsden City Board of Education or the Gadsden Airport Authority, which represent 93%, 95%, and 99% of the assets and deferred outflows of resources, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Gadsden City Board of Education and the Gadsden Airport Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Gadsden, Alabama, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability, schedule of employer contributions, and schedule of changes in total OPEB liability and related ratios on pages 4-11 and 59-65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards 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 non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Gadsden, Alabama's internal control over financial reporting and compliance.

Emphasis of a Matter

Change in Accounting Principle

As discussed in Note 14 to the financial statements, in 2017 the City adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Birmingham, Alabama
March 20, 2018

CITY OF GADSDEN, ALABAMA

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2017

As management of the City of Gadsden, Alabama (the City), we present this narrative overview and analysis designed to assist readers of the City's financial statements for the fiscal year ended September 30, 2017. Our discussion and analysis focuses on significant financial issues, provides an overview of the City's financial activity, identifies changes in the City's financial position, identifies any material deviations from the financial plan (the approved budget), and identifies individual fund issues or concerns.

Financial Highlights

• Total net position	\$ 3,897,078
• Change in total net position	23,951,990
• Fund balances, governmental funds	39,075,719
• Change in fund balances, governmental funds	1,953,684
• Unassigned fund balance, general fund	17,591,083
• Change in fund balance, general fund	1,279,696
• Long-term liabilities	133,840,194
• Net change in long-term liabilities	(21,381,526)

The assets and deferred outflows of resources of the City of Gadsden exceed its liabilities and deferred inflows of resources at the close of the fiscal year ended September 30, 2017, by \$3,897,078 (*net position*).

As of the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$39,075,719 an increase of \$1,953,684 from the prior year. Of this amount, \$17,586,810 or approximately 45% of total fund balances are available for spending at the City's discretion (*unassigned fund balances*).

At the end of the current fiscal year, the unassigned fund balance of the General Fund (the City's primary operating fund) was \$17,591,083 or approximately 37% of total General Fund expenditures.

Overview of the Financial Statements

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with an overview of the City's finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. This statement combines governmental funds' current financial resources with capital assets and long-term obligations. 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 focused on functions, and shows how the City's net position changed during the most recent fiscal year. This is intended to summarize and simplify the user's analysis of revenue and expenses of various governmental services and/or subsidies to various business-type activities. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused employee leave).

CITY OF GADSDEN, ALABAMA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued) For the Year Ended September 30, 2017

Both of the government-wide financial statements distinguish functions of the City of Gadsden that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to typically recover all or a significant portion of the cost of operation, including depreciation, through user fees and charges for services (*business-type activities*).

The governmental activities of the City of Gadsden include general government, public safety, public works, urban development, recreation and cultural services, internal services, and non-departmental. The business-type activities of the City of Gadsden reflect private sector type operations and include air depot operations, garbage services and the City's golf course.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the activities of its *component units*: the Gadsden Board of Education, the Gadsden Airport Authority and the Public Building Authority of the City of Gadsden. A component unit is a legally separate organization over which the City can exercise influence and/or may be obligated to provide financial subsidies. The focus of the statements is clearly on the primary government and the presentation allows the readers to address the City's relative relationship with the component units. The Board of Education, the Airport Authority and the Public Building Authority issue complete financial statements, which may be obtained by contacting the entities directly.

Fund Financial Statements

Traditional users of governmental financial statements will find the *Fund Financial Statements* presentation more familiar. The focus is on the City's major funds rather than the City as a whole. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Gadsden, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental, proprietary and fiduciary are the three categories of fund types.

Governmental Funds – The City of Gadsden maintains three individual *major governmental funds*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the general fund, the school ad valorem tax fund, and the capital improvements fund. Data from other governmental funds are combined into a single, *non-major governmental funds* aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

For management control of expenditures, the City of Gadsden adopts an annual appropriated budget for all funds with the exception of the golf course enterprise fund. A budgetary comparison statement has been provided as required supplementary information for the City's major governmental funds to demonstrate compliance with their budgets.

Proprietary Funds – The City of Gadsden maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Gadsden uses enterprise funds to provide for separate information for the Air Depot, Residential Garbage and Golf Course activities, each of which is considered a major fund of the City. An *internal service fund* is used to accumulate and allocate costs of workers' compensation and employee health care internally among the City's various functions. Because the internal service fund primarily benefits governmental rather than business-type activities, it has been included within governmental activities in the government-wide financial statements.

Notes to the Financial Statements – The notes to the financial statements provided in this report convey additional essential information that will magnify the readers' understanding of the data in the government-wide and fund financial statements.

CITY OF GADSDEN, ALABAMA

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the Year Ended September 30, 2017**

Government-Wide Financial Analysis

**Condensed Statements of Net Position
As of September 30, 2017 and 2016**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 53,348,533	\$ 51,703,024	\$ (683,600)	\$ (1,227,152)	\$ 52,664,933	\$ 50,475,872
Capital assets, net of accumulated depreciation	<u>77,784,840</u>	<u>77,582,781</u>	<u>7,780,212</u>	<u>8,445,586</u>	<u>85,565,052</u>	<u>86,028,367</u>
Total Assets	\$ 131,133,373	\$ 129,285,805	\$ 7,096,612	\$ 7,218,434	\$ 138,229,985	\$ 136,504,239
Deferred Outflows of Resources	\$ 8,997,093	\$ 7,103,290	\$ 396,019	\$ 295,642	\$ 9,393,112	\$ 7,398,932
Current and other liabilities	\$ 15,483,775	\$ 18,666,182	\$ 879,297	\$ 817,262	\$ 16,363,072	\$ 19,483,444
Long-term liabilities, net of current portion	<u>117,221,577</u>	<u>138,052,153</u>	<u>6,990,518</u>	<u>4,768,361</u>	<u>124,212,095</u>	<u>142,820,514</u>
Total Liabilities	\$ 132,705,352	\$ 156,718,335	\$ 7,869,815	\$ 5,585,623	\$ 140,575,167	\$ 162,303,958
Deferred Inflows of Resources	\$ 2,991,150	\$ 1,577,704	\$ 159,702	\$ 76,421	\$ 3,150,852	\$ 1,654,125
Net Position						
Net investment in capital assets	\$ 63,375,285	\$ 61,245,198	\$ 7,480,212	\$ 8,045,586	\$ 70,855,497	\$ 69,290,784
Restricted	5,169,139	4,878,735	-	-	5,169,139	4,878,735
Unrestricted	<u>(64,110,460)</u>	<u>(88,030,877)</u>	<u>(8,017,098)</u>	<u>(6,193,554)</u>	<u>(72,127,558)</u>	<u>(94,224,431)</u>
Total Net Position	\$ 4,433,964	\$ (21,906,944)	\$ (536,886)	\$ 1,852,032	\$ 3,897,078	\$ (20,054,912)

The largest portion of the City's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, 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 must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City's total net position increased by \$23,951,990 in fiscal year 2017. This was largely due to the adoption of GASB 75. Adoption and its effects resulted in a substantially lower liability at 2016 resulting in a prior period adjustment of \$20,482,120.

The restricted portion of the City's net position represents resources that are subject to external restrictions on how they are used.

The remaining unrestricted net position reflects a deficit of \$72,127,558. This deficit is primarily the result of the following:

- The OPEB liability of \$21,791,044.
- The net pension liability of \$53,962,551.

The deficit balance in unrestricted net position of governmental activities is also affected by the fact that the assets of Twin Bridges Golf Course are reflected in business-type activities, while the related debt is expected to be paid from governmental activities and reported as such.

CITY OF GADSDEN, ALABAMA

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the Year Ended September 30, 2017**

**Condensed Statements of Activities
For the Years Ended September 30, 2017 and 2016**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenue						
Program Revenue						
Charges for services	\$ 3,154,104	\$ 2,829,425	\$ 3,231,053	\$ 2,776,439	\$ 6,385,157	\$ 5,605,864
Operating grants and contributions	2,544,900	2,355,791	-	-	2,544,900	2,355,791
Cap grants and contributions	730,505	361,474	-	-	730,505	361,474
General Revenue						
Taxes	51,451,553	51,822,478	-	-	51,451,553	51,822,478
Licenses and permits	7,134,787	7,247,356	-	-	7,134,787	7,247,356
Investment earnings	506,229	520,799	-	-	506,229	520,799
Gain on sale of assets	217,300	-	-	-	217,300	-
Other general revenue	500,389	544,753	-	-	500,389	544,753
Total Revenue	<u>66,239,767</u>	<u>65,682,076</u>	<u>3,231,053</u>	<u>2,776,439</u>	<u>69,470,820</u>	<u>68,458,515</u>
Expenses						
Governmental Activities						
General government	2,381,006	2,416,177	-	-	2,381,006	2,416,177
Internal services	3,262,736	3,331,109	-	-	3,262,736	3,331,109
Public safety	23,700,063	23,217,184	-	-	23,700,063	23,217,184
Recreation and cultural services	8,382,281	8,197,657	-	-	8,382,281	8,197,657
Public works	6,010,652	6,143,063	-	-	6,010,652	6,143,063
Urban development	4,859,328	6,355,444	-	-	4,859,328	6,355,444
Intergovernmental	5,121,805	3,261,942	-	-	5,121,805	3,261,942
Non-departmental	3,510,847	3,068,824	-	-	3,510,847	3,068,824
Interest on long-term debt	1,853,486	1,926,780	-	-	1,853,486	1,926,780
Business-type Activities						
Airport-air depot	-	-	241,547	285,428	241,547	285,428
Garbage	-	-	5,436,064	2,403,472	5,436,064	2,403,472
Golf course	-	-	1,241,135	1,262,018	1,241,135	1,262,018
Total Expenses	<u>59,082,204</u>	<u>57,918,180</u>	<u>6,918,746</u>	<u>3,950,918</u>	<u>66,000,950</u>	<u>61,869,098</u>
Change in Net Position Before Transfers and Special Items	7,157,563	7,763,896	(3,687,693)	(1,174,479)	3,469,870	6,589,417
Transfers	<u>(1,007,685)</u>	<u>(996,524)</u>	<u>1,007,685</u>	<u>996,524</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>\$ 6,149,878</u>	<u>\$ 6,767,372</u>	<u>\$ (2,680,008)</u>	<u>\$ (177,955)</u>	<u>\$ 3,469,870</u>	<u>\$ 6,589,417</u>

Governmental Activities – Governmental activities increased the City's net position by \$6,149,878. Key elements of this increase are as follows: revenues exceeding governmental expenses, outside of transfers. This was driven by consistent total revenue and close monitoring of budgeted expenses.

Business-Type Activities – Business-type activities decreased the City's net position by \$2,680,008. Key elements of this decrease are as follows: expenses exceeding revenues by approximately \$3.7 million, offset by transfers of approximately \$1 million. The large decrease is attributable to a change in estimate charges related to the landfill closure liability of over \$3.0 million.

CITY OF GADSDEN, ALABAMA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the Year Ended September 30, 2017

Fund Financial Analysis

Governmental Funds – The *General Fund* is the chief operating fund of the City. The total general fund balance increased by \$1,279,696 in 2017 to \$20,652,637. At the end of the current fiscal year, the *unassigned fund balance* was \$17,591,083, an increase of \$1,902,182.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. This is very useful in assessing the City's financing requirements. 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. Unassigned fund balance represents approximately 37% of total general fund expenditures, while total fund balance represents 43% of the total general fund expenditures.

General Fund - Fund Balances
As of September 30, 2017 and 2016

	Fund Balance		Increase (Decrease)
	2017	2016	
Nonspendable	\$ 266,482	\$ 255,837	\$ 10,645
Committed	2,795,072	3,428,203	(633,131)
Unassigned	<u>17,591,083</u>	<u>15,688,901</u>	<u>1,902,182</u>
Total Fund Balance	<u>\$ 20,652,637</u>	<u>\$ 19,372,941</u>	<u>\$ 1,279,696</u>

The increase in unassigned general fund balance was due to spending controls implemented by the administration.

Enterprise Funds – The City's enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail. The combined net position of the enterprise funds were a deficit \$536,886, a decrease of \$2,680,008. The following table compares enterprise funds' net position with the previous year.

Enterprise Funds - Net Position
As of September 30, 2017 and 2016

	Net Position		Increase (Decrease)
	2017	2016	
Airport	\$ 814,286	\$ 739,254	\$ 75,032
Garbage	(4,833,947)	(2,645,697)	(2,188,250)
Golf course	3,515,223	3,790,841	(275,618)
Adjustment to reflect consolidation of Internal Service Fund	<u>(32,448)</u>	<u>(32,366)</u>	<u>(82)</u>
Total Net Position	<u>\$ (536,886)</u>	<u>\$ 1,852,032</u>	<u>\$ (2,388,918)</u>

Internal Service Fund – As previously mentioned, the City utilizes an internal service fund to accumulate and allocate the costs of workers' compensation and employee health care internally among the City's various functions. At the end of the current fiscal year, the net position of the internal service fund was \$147,027, a decrease of \$1,567.

CITY OF GADSDEN, ALABAMA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the Year Ended September 30, 2017

Internal Service Fund - Net Position
As of September 30, 2017 and 2016

	Net Position		Increase (Decrease)
	2017	2016	
Unrestricted	\$ 149,027	\$ 150,594	\$ (1,567)
Total Net Position	\$ 149,027	\$ 150,594	\$ (1,567)

Budgetary Highlights

Differences between the general fund original budget and the final amended budget totaled \$3,133,282. Actual revenue was higher than final budgeted amounts by \$387,161 largely due to higher than expected charges for services. Certain budgeted expenses were lower than expected due to spending controls implemented by the administration.

General Budget Fund
For the Year Ended September 30, 2017

	Original Budget	Final Budget	Actual Amounts	Variance From Final Budget
Revenue	\$ 50,344,475	\$ 50,345,225	\$ 50,732,386	\$ 387,161
Expenditures	49,193,339	52,308,820	47,985,748	4,323,072
Other sources (uses)	(1,401,107)	(1,419,658)	(1,466,942)	(47,284)
Total	\$ (249,971)	\$ (3,383,253)	\$ 1,279,696	\$ 4,662,949

Capital Asset and Debt Administration

Capital Assets
As of September 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Land	\$ 20,884,373	\$ 20,767,230	\$ 2,976,164	\$ 2,976,164	\$ 23,860,537	\$ 23,743,394
Buildings	14,114,816	12,308,476	1,584,560	1,741,256	15,699,376	14,049,732
Improvements other than buildings	14,615,694	12,710,890	2,369,093	2,643,741	16,984,787	15,354,631
Equipment	8,198,014	8,664,334	850,395	1,084,425	9,048,409	9,748,759
Infrastructure	18,953,993	18,850,923	-	-	18,953,993	18,850,923
Construction in progress	1,017,950	4,280,928	-	-	1,017,950	4,280,928
Net Total Capital Assets	\$ 77,784,840	\$ 77,582,781	\$ 7,780,212	\$ 8,445,586	\$ 85,565,052	\$ 86,028,367

This investment in capital assets includes land, buildings, improvements other than buildings, system improvements (drainage and streets), machinery and equipment, park facilities, roads, highways, and bridges.

CITY OF GADSDEN, ALABAMA

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the Year Ended September 30, 2017**

Long-term Liabilities

Outstanding Debt & Long-term Liabilities As of September 30, 2017 and 2016		
	2017	2016
Governmental		
General Obligation Warrants	\$ 45,278,726	\$ 48,971,226
HUD Section 108 Loans	675,000	750,000
Capital leases	<u>912,063</u>	<u>1,563,867</u>
Outstanding debt	46,865,789	51,285,093
Compensated absences	3,074,429	2,927,032
Claims and judgments	3,561,184	3,767,064
Net pension liability	51,389,404	49,106,429
OPEB liability	<u>21,519,192</u>	<u>42,891,932</u>
	<u>126,409,998</u>	<u>149,977,550</u>
Business-Type		
General Obligation Warrants	300,000	400,000
Compensated absences	111,323	99,409
Landfill closure and post closure	4,173,874	1,700,747
Net pension liability	2,573,147	2,411,579
OPEB liability	<u>271,852</u>	<u>632,435</u>
	<u>7,430,196</u>	<u>5,244,170</u>
Total Long-term Liabilities	<u>\$ 133,840,194</u>	<u>\$ 155,221,720</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to twenty percent (20%) of its total assessed valuation.

Economic Factors

The City relies primarily on taxes (sales and ad valorem) and fees (business licenses and occupational licenses) for their governmental activities. The primary source of revenue is sales taxes.

In the business-type and certain governmental activities (airport, garbage services, golf course, and recreational programs, etc.) the user pays a related fee or charge associated with the service.

The level of taxes, fees and charges for services have a direct bearing on the City's ability to (a) annex additional land into its corporate limits and (b) encourage development (office, retail, residential and industrial) to choose to be located in the jurisdiction. The City places significant emphasis on encouraging both annexation and economic development.

Major Financial Events to Expect Next Year

Subsequent to year end, the City enacted a \$0.01 increase in the local sales tax. This took effect on November 1, 2017. This tax will be accounted for in a new capital improvements fund and the receipts are only to be used for capital improvements, economic and industry recruitment, debt repayment and other general development activities. On November 30, 2017 we closed on the issuance of \$20,615,000, at face value due to new, general obligation warrants to fund capital projects at Coosa Landing, East Gadsden Community Center and Noccoalula Falls Park.

CITY OF GADSDEN, ALABAMA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the Year Ended September 30, 2017

Financial Information Contact

The City of Gadsden's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances. If you have questions about the report or need additional financial information, contact the Finance Department at 267 Broad Street, Gadsden, Alabama 35902.

CITY OF GADSDEN, ALABAMA

STATEMENT OF NET POSITION
September 30, 2017

	Primary Government			Component Units		
	Governmental Activities	Business Type Activities	Total	Gadsden Board of Education	Gadsden Airport Authority	Public Building Authority of the City of Gadsden
Assets						
Current Assets						
Pooled cash and investments	\$ 32,178,526	\$ 9,279	\$ 32,187,805	\$ 10,435,530	\$ 107,819	\$ 459,545
Receivables, net of allowances for uncollectibles	9,118,474	503,205	9,621,679	9,157,117	215,022	-
Internal balances	1,221,905	(1,221,905)	-	-	-	-
Due from primary government	-	-	-	-	3,670,000	-
Inventories	256,094	25,821	281,915	137,029	-	-
Prepays and other	2,383	-	2,383	20,032	5,342	-
Restricted assets	122,829	-	122,829	-	822,504	-
Due from component units	10,448,322	-	10,448,322	-	-	-
Lease receivable	-	-	-	-	-	6,119,136
Capital Assets, Net of Accumulated Depreciation						
Land	20,884,373	2,976,164	23,860,537	5,644,526	595,244	-
Buildings	14,114,816	1,584,560	15,699,376	36,680,103	52,801	-
Improvements	14,615,694	2,369,093	16,984,787	9,665,496	4,982,698	-
Equipment	8,198,014	850,395	9,048,409	550,698	22,896	-
Infrastructure	18,953,993	-	18,953,993	-	1,421,669	-
Construction in progress	1,017,950	-	1,017,950	-	-	-
Total Assets	\$ 131,133,373	\$ 7,096,612	\$ 138,229,985	\$ 72,290,531	\$ 11,895,995	\$ 6,578,681
Deferred Outflows of Resources						
Deferred charges on refundings	\$ 1,088,040	\$ -	\$ 1,088,040	\$ 241,641	\$ -	\$ -
Pension related	7,909,053	396,019	8,305,072	8,095,322	-	-
Total Deferred Outflows of Resources	\$ 8,997,093	\$ 396,019	\$ 9,393,112	\$ 8,336,963	\$ -	\$ -
Liabilities						
Current Liabilities						
Accounts payable and other current liabilities	\$ 1,153,431	\$ 403,490	\$ 1,556,921	\$ 3,627,548	\$ 4,448	\$ 61,513
Accrued payroll and related liabilities	785,431	36,129	821,560	-	-	-
Due to component units	4,356,492	-	4,356,492	-	-	-
Due to primary government	-	-	-	-	646,500	-
Unearned revenue	-	-	-	134,644	-	-
Noncurrent Liabilities						
Due within one year	9,188,421	439,678	9,628,099	1,079,762	3,670,000	395,842
Due in more than one year	117,221,577	6,990,518	124,212,095	62,676,512	-	5,524,145
Total Liabilities	\$ 132,705,352	\$ 7,869,815	\$ 140,575,167	\$ 67,518,466	\$ 4,320,948	\$ 5,981,500
Deferred Inflows of Resources						
Unavailable revenue - property taxes	\$ -	\$ -	\$ -	\$ 8,090,787	\$ -	\$ -
Pension related	1,854,331	92,849	1,947,180	1,214,000	-	-
OPEB related	1,136,819	66,853	1,203,672	-	-	-
Total Deferred Inflows of Resources	\$ 2,991,150	\$ 159,702	\$ 3,150,852	\$ 9,304,787	\$ -	\$ -
Net Position						
Net investment in capital assets	\$ 63,375,285	\$ 7,480,212	\$ 70,855,497	\$ 36,172,190	\$ 7,075,308	\$ -
Restricted						
Debt service	126,491	-	126,491	-	150,366	161,126
Economic development	708,754	-	708,754	-	-	-
Public safety	862,216	-	862,216	-	-	-
Recreation and cultural services						
Expendable	182,125	-	182,125	-	-	-
Nonexpendable	44,769	-	44,769	-	-	-
Other purposes	3,244,784	-	3,244,784	2,632,764	-	-
Unrestricted	(64,110,460)	(8,017,098)	(72,127,558)	(35,000,713)	349,373	436,055
Total Net Position	\$ 4,433,964	\$ (536,886)	\$ 3,897,078	\$ 3,804,241	\$ 7,575,047	\$ 597,181

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

Functions/Programs	Program Revenue				Net Revenue (Expense) and Changes in Net Position							
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units				
					Governmental Activities	Business-Type Activities	Total	Gadsden Board of Education	Gadsden Airport Authority	Public Building Authority of the City of Gadsden		
Primary Government												
Governmental activities												
General government	\$ (2,381,006)	\$ 79,752	\$ -	\$ -	\$ (2,301,254)	\$ -	\$ (2,301,254)	\$ -	\$ -	\$ -	\$ -	\$ -
Internal services	(3,262,736)	-	-	-	(3,262,736)	-	(3,262,736)	-	-	-	-	-
Public safety	(23,700,063)	750,573	108,533	-	(22,840,957)	-	(22,840,957)	-	-	-	-	-
Recreation and cultural services	(8,382,281)	1,998,004	224,448	-	(6,159,829)	-	(6,159,829)	-	-	-	-	-
Public works services	(6,010,652)	-	566,981	-	(5,443,671)	-	(5,443,671)	-	-	-	-	-
Urban development	(4,859,328)	325,775	1,644,938	730,505	(2,158,110)	-	(2,158,110)	-	-	-	-	-
Intergovernmental	(5,121,805)	-	-	-	(5,121,805)	-	(5,121,805)	-	-	-	-	-
Non-departmental	(3,510,847)	-	-	-	(3,510,847)	-	(3,510,847)	-	-	-	-	-
Interest on long-term debt	(1,853,486)	-	-	-	(1,853,486)	-	(1,853,486)	-	-	-	-	-
Total Governmental Activities	<u>(59,082,204)</u>	<u>3,154,104</u>	<u>2,544,900</u>	<u>730,505</u>	<u>(52,652,695)</u>	<u>-</u>	<u>(52,652,695)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-type activities												
Air depot	(241,547)	316,579	-	-	-	75,032	75,032	-	-	-	-	-
Residential garbage	(5,436,064)	2,357,208	-	-	-	(3,078,856)	(3,078,856)	-	-	-	-	-
Golf course	(1,241,135)	557,266	-	-	-	(683,869)	(683,869)	-	-	-	-	-
Total Business-Type Activities	<u>(6,918,746)</u>	<u>3,231,053</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,687,693)</u>	<u>(3,687,693)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ (66,000,950)</u>	<u>\$ 6,385,157</u>	<u>\$ 2,544,900</u>	<u>\$ 730,505</u>	<u>\$ (52,652,695)</u>	<u>\$ (3,687,693)</u>	<u>\$ (56,340,388)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Component Units												
Board of Education	<u>\$ (55,737,573)</u>	<u>\$ 4,992,523</u>	<u>\$ 35,313,806</u>	<u>\$ 1,234,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,196,784)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Airport Authority	<u>\$ (825,964)</u>	<u>\$ 39,611</u>	<u>\$ 337,451</u>	<u>\$ 394,135</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (54,767)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Public Building Authority	<u>\$ (254,828)</u>	<u>\$ 231,928</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (22,900)</u>	<u>\$ -</u>
General Revenue												
Sales and use tax					\$ 28,420,758	\$ -	\$ 28,420,758	\$ 1,490,273	\$ -	\$ -	\$ -	\$ -
Occupational license fee					15,234,723	-	15,234,723	-	-	-	-	-
Licenses and permits					7,134,787	-	7,134,787	-	-	-	-	-
Property tax					4,992,025	-	4,992,025	8,084,391	-	-	-	-
Lodging tax					1,242,905	-	1,242,905	-	-	-	-	-
Gasoline tax					601,775	-	601,775	-	-	-	-	-
Tobacco tax					391,796	-	391,796	-	-	-	-	-
Beer tax					209,684	-	209,684	69,666	-	-	-	-
Wine and liquor tax					210,476	-	210,476	-	-	-	-	-
Financial institution excise tax					147,411	-	147,411	-	-	-	-	-
Gain on sale of assets					217,300	-	217,300	-	-	-	-	-
Unrestricted investment earnings					506,229	-	506,229	77,410	19,311	-	-	-
Other general revenue					500,389	-	500,389	2,106,708	-	-	-	-
Transfers					(1,007,685)	1,007,685	-	-	-	-	-	-
Total General Revenue and Transfers					<u>58,802,573</u>	<u>1,007,685</u>	<u>59,810,258</u>	<u>11,828,448</u>	<u>19,311</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position					<u>6,149,878</u>	<u>(2,680,008)</u>	<u>3,469,870</u>	<u>(2,368,336)</u>	<u>(35,456)</u>	<u>(22,900)</u>	<u>-</u>	<u>-</u>
Net Position, Beginning of Year, As Originally Stated					(21,906,944)	1,852,032	(20,054,912)	6,172,577	7,610,503	620,081	-	-
Prior Period Adjustment (See Note 14)					20,191,030	291,090	20,482,120	-	-	-	-	-
Net Position, Beginning of Year, As Restated					<u>(1,715,914)</u>	<u>2,143,122</u>	<u>427,208</u>	<u>6,172,577</u>	<u>7,610,503</u>	<u>620,081</u>	<u>-</u>	<u>-</u>
Net Position, End of Year					<u>\$ 4,433,964</u>	<u>\$ (536,886)</u>	<u>\$ 3,897,078</u>	<u>\$ 3,804,241</u>	<u>\$ 7,575,047</u>	<u>\$ 597,181</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2017

	<u>General Fund</u>	<u>School Ad Valorem Tax Fund</u>	<u>Capital Improvements Fund</u>	<u>Ad Valorem Fire Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and cash equivalents	\$ 17,388,885	\$ 1,143,061	\$ 2,124,891	\$ 752,792	\$ 7,378,302	\$ 28,787,931
Investments	-	-	-	-	166,924	166,924
Receivables, net of allowances for uncollectibles						
Taxes	5,580,222	1,333,521	568,132	1,196,802	106,248	8,784,925
Intergovernmental	1,000	-	-	-	288,677	289,677
Other	10,388	-	-	-	326	10,714
Due from other funds	1,259,185	-	-	-	-	1,259,185
Due from component units	-	-	10,448,322	-	-	10,448,322
Inventories	256,094	-	-	-	-	256,094
Restricted assets	-	-	-	-	122,829	122,829
Total Assets	<u>\$ 24,495,774</u>	<u>\$ 2,476,582</u>	<u>\$ 13,141,345</u>	<u>\$ 1,949,594</u>	<u>\$ 8,063,306</u>	<u>\$ 50,126,601</u>
Liabilities, Deferred Inflows of Resources and Fund Balances						
Accounts payable and other liabilities	\$ 712,649	\$ -	\$ 24,687	\$ 17,976	\$ 214,159	\$ 969,471
Accrued payroll and related liabilities	761,710	-	-	-	20,571	782,281
Due to other funds	-	-	-	-	69,728	69,728
Due to component units	-	672,762	3,683,730	-	-	4,356,492
Total Liabilities	<u>1,474,359</u>	<u>672,762</u>	<u>3,708,417</u>	<u>17,976</u>	<u>304,458</u>	<u>6,177,972</u>
Deferred Inflows of Resources						
Unavailable revenue - property tax	<u>2,368,778</u>	<u>1,320,582</u>	<u>-</u>	<u>1,183,550</u>	<u>-</u>	<u>4,872,910</u>
Fund balances						
Non-spendable	266,482	-	6,764,592	-	-	7,031,074
Restricted	-	483,238	-	734,028	3,942,106	5,159,372
Committed	2,795,072	-	2,668,336	14,040	3,821,015	9,298,463
Unassigned	<u>17,591,083</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,273)</u>	<u>17,586,810</u>
Total Fund Balance	<u>20,652,637</u>	<u>483,238</u>	<u>9,432,928</u>	<u>748,068</u>	<u>7,758,848</u>	<u>39,075,719</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 24,495,774</u>	<u>\$ 2,476,582</u>	<u>\$ 13,141,345</u>	<u>\$ 1,949,594</u>	<u>\$ 8,063,306</u>	
Amounts reported for governmental activities in the statement of net position are different because:						
Capital assets used in governmental activities are not expendable, available financial resources and, therefore, are not reported in the funds.						\$ 77,784,840
Internal service funds are used by management to charge the costs of workers' compensation and employee health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.						181,475
Certain revenue reported in the statement of activities is not available to pay the liabilities of the current year and, therefore, are deferred in the funds.						4,872,910
Long-term liabilities are not due and payable in the current year and, therefore, are not reported in the funds.						<u>(117,480,980)</u>
Net Position of Governmental Activities						<u>\$ 4,433,964</u>

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended September 30, 2017

	General Fund	School Ad Valorem Tax Fund	Capital Improvements Fund	Ad Valorem Fire Tax Fund	Other Governmental Funds	Total Governmental Funds
Revenue						
Taxes	\$ 40,339,853	\$ 1,071,976	\$ 7,041,105	\$ 1,041,879	\$ 1,770,602	\$ 51,265,415
Licenses and permits	7,134,787	-	-	-	-	7,134,787
Intergovernmental	374,010	-	-	-	2,985,306	3,359,316
Charges for services	2,151,934	-	-	-	180,241	2,332,175
Fines and forfeitures	424,243	-	-	-	79,831	504,074
Other revenue	307,559	-	438,887	25,560	468,556	1,240,562
Total Revenue	<u>50,732,386</u>	<u>1,071,976</u>	<u>7,479,992</u>	<u>1,067,439</u>	<u>5,484,536</u>	<u>65,836,329</u>
Expenditures						
Current						
General government	2,318,049	-	-	-	-	2,318,049
Internal services	3,132,984	-	-	-	-	3,132,984
Public safety	20,464,406	-	-	560,227	450,944	21,475,577
Recreation and cultural services	6,545,854	-	-	-	436,979	6,982,833
Public works services	5,549,204	-	-	-	-	5,549,204
Urban development	2,145,242	-	-	-	4,868	2,150,110
Non-departmental	3,458,939	-	-	-	-	3,458,939
Intergovernmental	2,544,535	1,059,037	-	-	1,518,233	5,121,805
Debt service						
Principal retirement	-	-	-	-	6,617,113	6,617,113
Interest and fiscal charges	-	-	-	-	1,780,659	1,780,659
Capital outlays	1,826,535	-	2,566,288	79,927	2,298,439	6,771,189
Total Expenditures	<u>47,985,748</u>	<u>1,059,037</u>	<u>2,566,288</u>	<u>640,154</u>	<u>13,107,235</u>	<u>65,358,462</u>
Excess (Deficiency) of Revenue Over/(Under) Expenditures	<u>2,746,638</u>	<u>12,939</u>	<u>4,913,704</u>	<u>427,285</u>	<u>(7,622,699)</u>	<u>477,867</u>
Other Financing Sources/(Uses)						
Proceeds from refunding warrants	-	-	-	-	2,222,550	2,222,550
Proceeds from sale of assets	73,798	-	-	5,106	182,050	260,954
Transfers	(1,540,740)	-	(4,577,240)	(393,592)	5,503,885	(1,007,687)
Total Other Financing Sources (Uses)	<u>(1,466,942)</u>	<u>-</u>	<u>(4,577,240)</u>	<u>(388,486)</u>	<u>7,908,485</u>	<u>1,475,817</u>
Net Change in Fund Balances	1,279,696	12,939	336,464	38,799	285,786	1,953,684
Fund Balance, Beginning of Year	<u>19,372,941</u>	<u>470,299</u>	<u>9,096,464</u>	<u>709,269</u>	<u>7,473,062</u>	<u>37,122,035</u>
Fund Balance, End of Year	<u>\$ 20,652,637</u>	<u>\$ 483,238</u>	<u>\$ 9,432,928</u>	<u>\$ 748,068</u>	<u>\$ 7,758,848</u>	<u>\$ 39,075,719</u>

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
September 30, 2017

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

Net change in fund balance - total governmental funds	\$	1,953,684
Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		245,713
In the statement of activities, a gain or loss is reported for each disposal of capital assets		(43,654)
Revenue is recognized in the governmental funds when they are both measurable and available to pay the liabilities of the current period. Revenues are recognized in the statement of activities when they are earned.		186,140
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. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		4,321,736
Some expenses reported in the statement of activities differ from amounts reported as expenditures in governmental funds.		(512,256)
An internal service fund is used by management to charge the costs of workers' compensation and employee health insurance to individual funds. The net revenue of certain activities of the internal service fund is reported as governmental activities in the statement of activities.		(1,485)
Change in Net Position of Governmental Activities	\$	<u>6,149,878</u>

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2017

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Air Depot	Garbage	Golf	Totals	
Assets					
Current Assets					
Cash and cash equivalents	\$ 7,959	\$ 620	\$ 700	\$ 9,279	\$ 3,223,671
Receivables, net of allowances for uncollectibles					
Accounts	150	503,055	-	503,205	33,158
Inventories	-	-	25,821	25,821	-
Prepays	-	-	-	-	2,383
Total Current Assets	<u>8,109</u>	<u>503,675</u>	<u>26,521</u>	<u>538,305</u>	<u>3,259,212</u>
Capital assets, net of accumulated depreciation					
Land	111,470	267,134	2,597,560	2,976,164	-
Buildings	991,454	67,500	525,606	1,584,560	-
Improvements	11,729	234,148	2,123,216	2,369,093	-
Equipment	5,537	762,903	81,955	850,395	-
Total Assets	<u>\$ 1,128,299</u>	<u>\$ 1,835,360</u>	<u>\$ 5,354,858</u>	<u>\$ 8,318,517</u>	<u>\$ 3,259,212</u>
Deferred Outflows of Resources					
Pension related	\$ -	\$ 311,558	\$ 84,461	\$ 396,019	\$ 46,284
Liabilities					
Current Liabilities					
Accounts payable and other current liabilities	14,013	371,107	18,370	403,490	1,423
Accrued payroll and related liabilities	-	25,600	10,529	36,129	3,150
Compensated absences payable	-	86,357	24,966	111,323	8,122
Claims and adjustments payable	-	-	-	-	2,832,186
Accrued landfill closure and post closure	-	43,200	-	43,200	-
Current portion of general obligation warrants	100,000	-	-	100,000	-
Due to other funds	-	10,795	1,178,662	1,189,457	-
Total Current Liabilities	<u>114,013</u>	<u>537,059</u>	<u>1,232,527</u>	<u>1,883,599</u>	<u>2,844,881</u>
Accrued landfill closure and post closure	-	4,130,674	-	4,130,674	-
OPEB liability	-	169,281	102,571	271,852	-
Net pension liability	-	2,024,361	548,786	2,573,147	300,736
General obligation warrants payable	200,000	-	-	200,000	-
Total Liabilities	<u>314,013</u>	<u>6,861,375</u>	<u>1,883,884</u>	<u>9,059,272</u>	<u>3,145,617</u>
Deferred Inflows of Resources					
Pension related	-	73,047	19,802	92,849	10,852
OPEB related	-	46,443	20,410	66,853	-
Total Deferred Inflows of Resources	<u>-</u>	<u>119,490</u>	<u>40,212</u>	<u>159,702</u>	<u>10,852</u>
Net Position					
Net investment in capital assets	820,190	1,331,685	5,328,337	7,480,212	-
Unrestricted	(5,904)	(6,165,632)	(1,813,114)	(7,984,650)	149,027
Total Net Position	<u>\$ 814,286</u>	<u>\$ (4,833,947)</u>	<u>\$ 3,515,223</u>	<u>\$ (504,438)</u>	<u>\$ 149,027</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				<u>\$ (32,448)</u>	
Net Position of Business-Type Activities				<u>\$ (536,886)</u>	

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended September 30, 2017

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Air Depot	Garbage	Golf	Totals	
Operating Revenue					
Charges for sales and services	\$ 316,579	\$ 2,357,208	\$ 557,266	\$ 3,231,053	\$ 7,826,347
Total Operating Revenue	<u>316,579</u>	<u>2,357,208</u>	<u>557,266</u>	<u>3,231,053</u>	<u>7,826,347</u>
Operating Expenses					
Cost of sales and services	122,204	5,198,899	908,980	6,230,083	7,827,914
Depreciation	96,052	237,109	332,129	665,290	-
Total Operating Expenses	<u>218,256</u>	<u>5,436,008</u>	<u>1,241,109</u>	<u>6,895,373</u>	<u>7,827,914</u>
Operating income (loss)	<u>98,323</u>	<u>(3,078,800)</u>	<u>(683,843)</u>	<u>(3,664,320)</u>	<u>(1,567)</u>
Nonoperating Revenue (Expenses)					
Interest expense	(23,291)	-	-	(23,291)	-
Total Nonoperating Revenue (Expenses)	<u>(23,291)</u>	<u>-</u>	<u>-</u>	<u>(23,291)</u>	<u>-</u>
Net Income (Loss) Before Contributions					
Transfers and Special Items	<u>75,032</u>	<u>(3,078,800)</u>	<u>(683,843)</u>	<u>(3,687,611)</u>	<u>(1,567)</u>
Other Financing Sources (Uses)					
Operating transfers in	-	700,000	307,685	1,007,685	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>700,000</u>	<u>307,685</u>	<u>1,007,685</u>	<u>-</u>
Change in Net Position	75,032	(2,378,800)	(376,158)	(2,679,926)	(1,567)
Net Position - Beginning of Year	739,254	(2,645,697)	3,790,841	1,884,398	150,594
Prior Period Adjustment (See Note 14)	-	190,550	100,540	291,090	-
Net Position - Beginning of Year (restated)	<u>739,254</u>	<u>(2,455,147)</u>	<u>3,891,381</u>	<u>2,175,488</u>	<u>150,594</u>
Net Position - End of Year	<u>\$ 814,286</u>	<u>\$ (4,833,947)</u>	<u>\$ 3,515,223</u>	<u>\$ (504,438)</u>	<u>\$ 149,027</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				\$ (82)	
Change In Net Position of Business-Type Activities				<u>\$ (2,680,008)</u>	

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2017

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	<u>Air Depot</u>	<u>Garbage</u>	<u>Golf</u>	<u>Totals</u>	
Cash Flows From Operating Activities					
Receipts from customers and users	\$ 316,429	\$ 2,191,322	\$ 557,266	\$ 3,065,017	\$ 7,830,860
Payments to suppliers	(185,179)	(2,068,617)	(443,456)	(2,697,252)	(7,730,292)
Payments to employees	-	(822,705)	(421,495)	(1,244,200)	(144,126)
Net Cash Provided (Used) by Operating Activities	<u>131,250</u>	<u>(700,000)</u>	<u>(307,685)</u>	<u>(876,435)</u>	<u>(43,558)</u>
Cash Flows From Noncapital Financing Activities					
Transfers from other funds	-	700,000	307,685	1,007,685	-
Net Cash Flows Provided by Noncapital Financing Activities	<u>-</u>	<u>700,000</u>	<u>307,685</u>	<u>1,007,685</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities					
Principal paid on capital debt	(100,000)	-	-	(100,000)	-
Interest paid on capital debt	(23,291)	-	-	(23,291)	-
Net Cash Flows (Used) by Capital and Related Financing Activities	<u>(123,291)</u>	<u>-</u>	<u>-</u>	<u>(123,291)</u>	<u>-</u>
Net Increase (Decrease) In Cash and Cash Equivalents	7,959	-	-	7,959	(43,558)
Cash and Cash Equivalents, Beginning of Year	<u>-</u>	<u>620</u>	<u>700</u>	<u>1,320</u>	<u>3,267,229</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,959</u>	<u>\$ 620</u>	<u>\$ 700</u>	<u>\$ 9,279</u>	<u>\$ 3,223,671</u>
Reconciliation of Operating Income to Net Cash Flows From Operating Activities					
Operating income (loss)	\$ 98,323	\$ (3,078,800)	\$ (683,843)	\$ (3,664,320)	\$ (1,567)
Depreciation	96,052	237,109	332,212	665,373	-
Change in receivables	(150)	(165,886)	-	(166,036)	4,513
Change in prepaids	-	-	-	-	163
Change in inventories	-	-	4,088	4,088	-
Change in accounts payable and other current liabilities	(6,989)	112,414	(4,751)	100,674	649
Change in due to other funds	(55,986)	(371,640)	53,900	(373,726)	-
Change in accrued payroll and related liabilities	-	(1,921)	(589)	(2,510)	82
Change in accrued compensated absences	-	2,118	9,797	11,915	(1,406)
Change in accrued landfill closure and post closure	-	2,473,128	-	2,473,128	-
Change in OPEB liability	-	(48,277)	(21,216)	(69,493)	-
Change in net pension liability	-	160,781	787	161,568	16,871
Change in claims payable	-	-	-	-	(53,199)
Change in deferred outflows	-	(80,093)	(20,284)	(100,377)	(11,514)
Change in deferred inflows	-	61,067	22,214	83,281	1,850
Net Cash Provided (Used) by Operating Activities	<u>\$ 131,250</u>	<u>\$ (700,000)</u>	<u>\$ (307,685)</u>	<u>\$ (876,435)</u>	<u>\$ (43,558)</u>

See accompanying notes to financial statements.

CITY OF GADSDEN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2017

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The City of Gadsden (the City) is a municipal corporation which was incorporated on March 19, 1871. The City operates under the Mayor-Council form of government as provided by Act. No. 85-926 of the Alabama Legislature, now codified as Sections 11-43B-1 et seq. of the Code of Alabama 1975 (The Mayor-Council Act), and is comprised of a Mayor and a seven-member council (elected at large).

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes the ultimate authority on GAAP for state and local governmental units. The more significant of the City's accounting policies are described below.

As required by GAAP, these financial statements present the City and its component units, legally, separate entities for which the City is considered to be financially accountable. The City has no blended component units. On the other hand, the City does have three discretely presented component units. The component units have September 30 year-ends.

- Gadsden Board of Education – The members of the Board of Education are appointed by the City and the Board of Education as an agency of the State of Alabama under the general supervision and financial jurisdiction of the Alabama State Department of Education. The City is obligated in some manner for the debt of the Board of Education and the City levies a property tax specifically for operations of the Board of Education. Complete financial statements for the Board of Education may be obtained at the following administrative office: Gadsden Board of Education, 1026 Chestnut Street, P.O. Box 184 Gadsden, Alabama 35902.

The Board of Education's financial statements include certain long-term debt and related debt service expenditures of the City. In addition, the Board of Education's financial statements include certain property tax revenue, receivables and deferred amounts of the City. No eliminations have been made to these amounts.

- Gadsden Airport Authority – The Airport Authority's board members are appointed by the City and the City is obligated in some manner for the debt of the Airport Authority. Complete financial statements for the Airport Authority may be obtained at the following administrative office: Gadsden Airport Authority, P. O. Box 961 Gadsden, Alabama 35902.
- Public Building Authority of the City of Gadsden – The Public Building Authority's board members are appointed by the City and the City is obligated in some manner for the debt of the Public Building Authority. Compiled financial statements may be obtained at the following address: Public Building Authority of the City of Gadsden, 90 Broad Street Gadsden, Alabama 35901.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued) For the Year Ended September 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

- Related Organizations – The City is also responsible for appointing a voting majority of the boards of other organizations, but the City's financial accountability for these organizations does not extend beyond making the appointments, or the financial resources and obligations of these organizations are immaterial. The City appointed a voting majority of the following boards: Gadsden Water Works and Sewer Board, Greater Gadsden Housing Authority, Gadsden Industrial Development Board, the Etowah-Gadsden Industrial Development Authority, the Forrest Cemetery Foundation, and others. These organizations are related organizations, which have not been included in the reporting entity. During the year, the City made appropriations to the Etowah Gadsden Industrial Development Board and the Gadsden Commercial Development Authority in the amounts of \$200,007 and \$135,000 respectively. The City received a payment in lieu of taxes from the Greater Gadsden Housing Authority in the amount of \$79,752.

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. Government-wide financial statements focus on the City as a whole, and are designed to allow the users of financial reports to assess the City's *operational accountability*. The fund financial statements focus on major individual funds, and are designed to demonstrate the City's *fiscal accountability*. *Operational accountability* refers to the City's responsibility to report the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose, and whether it can continue to meet those objectives for the foreseeable future. *Fiscal accountability* is the City's responsibility to demonstrate that its actions in the current period have complied with public decisions concerning the raising and spending of public monies in the short term (usually one budgetary cycle or year).

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. In addition, the primary government is reported separately from component units.

The government-wide statement of activities reflects both the gross and net costs per functional category (i.e. general government, public safety, etc.) by offsetting direct expenses with program revenue. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenue includes: 1) charges to customers or others who purchase, use or directly benefit from goods, services or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenue are reported instead as general revenue.

The fund financial statements provide separate financial statements for governmental funds, proprietary funds and fiduciary funds (even though fiduciary funds are excluded from the government-wide financial statements). The emphasis of the fund financial statements is on the City's major funds, and each major fund is reported in a separate column. Non-major funds of each type are summarized into a single column.

CITY OF GADSDEN, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017**

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Property taxes, sales and use taxes, beer taxes, occupational taxes, lodging taxes, rental and leasing taxes, payments in lieu of taxes, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal year. All other revenue is considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- The *general fund* is the primary operating fund of the City. General tax revenue and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Expenditures applicable to the general operations of the City are paid from the general fund.
- The *school ad valorem tax fund* accounts for funds received from a three mills property tax that is earmarked for educational purposes.
- The *capital improvements fund* accounts for the proceeds of certain capital debt and for the portion of sales and use taxes that are earmarked for capital purposes.
- The *ad valorem fire tax fund* accounts for the funds received from a three mills property tax that is earmarked for public safety purposes.

The City reports the following major proprietary funds:

- The *Air Depot fund* accounts for the activities of the Air Depot.
- The *residential garbage fund* accounts for the activities of the City's residential garbage service, including waste disposal at the current landfill and future landfill closure and post closure care costs at all landfill sites.
- The *golf course fund* accounts for the activities of Twin Bridges Golf Course.

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017**

Note 1 – Summary of Significant Accounting Policies (continued)

Additionally, the City reports the following fund types:

- The City's nonmajor *special revenue funds* are used to account for resources that are legally restricted to expenditure for specific purposes, not including those accounted for in capital projects funds or permanent funds.
- *Debt service funds* account for the payment of principal and interest on long-term debt not being financed by proprietary funds.
- The City's nonmajor *capital projects funds* account for the costs of constructing or acquiring capital assets and major improvements other than those financed by proprietary funds.
- *Permanent funds* are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs - that is, for the benefit of the City or its citizens.
- An *internal service fund* accounts for the accumulation of funds and the allocation of claims arising from the City's self-insured workers' compensation program and for the accumulation of funds for the payment of employee health care costs.

The proprietary and internal service funds are reported using the economic resources measurement focus and the accrual basis of accounting.

Proprietary funds distinguish *operating* revenue and expenses from *non-operating* items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds and internal service fund are charges to customers and users for sales and services. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Assets, Liabilities, Deferred Outflows/Inflows, and Net Position/Fund Balance

Cash and Investments – Cash includes cash on hand, amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City. State statutes authorize the City to invest in U.S. Government obligations, U.S. Government agency obligations, U.S. corporate stock, U.S. corporate debt, State of Alabama Government obligations, County Government obligations, and other Municipal Government obligations. All investments are reported at fair value.

For purposes of the statements of cash flows, cash and cash equivalents include short-term investments with an original maturity date of three months or less.

CITY OF GADSDEN, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017**

Note 1 – Summary of Significant Accounting Policies (continued)

Receivables and Payables – Activity between funds that are representative of lending and borrowing arrangements, as well as all other outstanding balances between funds at year-end are referred to as due to/from other funds. These balances resulted from the time lag between dates that goods and services were provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments are made between funds. Management does not expect the balances owed by the Golf and Garbage funds to be fully collected by the General Fund in the subsequent year. Any outstanding balances between governmental activities and business-type activities are reported in the government-wide statement of net position as internal balances.

Advances to other funds are offset by a fund balance reserve in the fund financial statements to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectible accounts.

Property taxes are assessed by the Etowah County Tax Assessor and collected by the Etowah County Tax Collector. The Etowah County property tax calendar specifies the following actions on the following dates:

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

Inventories and Prepaid Items – All inventories are valued at cost using the first in/first out method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – Certain proceeds of long-term debt, as well as certain resources set aside for its repayment, are classified as restricted assets because they are maintained in separate bank accounts and their use is limited by applicable debt agreements.

Capital Assets – Capital outlays are recorded as expenditures in governmental fund financial statements. In contrast, capital assets, which include land, buildings, improvements other than buildings, equipment, construction in progress, and infrastructure (e.g., roads, bridges, sidewalks and similar items) are reported in the government-wide and proprietary fund financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 1 – Summary of Significant Accounting Principles (continued)

Capital assets are defined by the City as assets with an estimated useful life in excess of one year and with an individual cost at least equal to the following amounts:

Land	\$	1
Buildings		50,000
Improvements other than buildings		50,000
Equipment		1,000
Infrastructure		
Street construction and improvements		100,000
Bridges		100,000
Street resurfacing, sidewalks, drainage, etc.		50,000

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

Land	Not depreciated
Construction in progress	Not depreciated
Buildings	25 years
Improvements	25 years
Equipment	5-10 years
Infrastructure	
Street construction and improvements	50 years
Bridges	30 years
Street resurfacing, sidewalks, drainage, etc.	10-25 years

Pension – The City participates in the Employee’s Retirement System of Alabama (the Plan). The Plan’s 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 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.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position and/or balance sheet 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(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City’s deferred outflows of resources reported in the government-wide statement of financial position include deferred charges on refunding and the pension-related activity. A deferred charge on refunded debt results from the difference in carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows of resources for pension activity result from the City’s participation in the Employee’s Retirement System of Alabama. The pension activity represents changes in assumptions, net difference between projected and actual earnings on pension plan investments, and amounts resulting from employer contributions made subsequent to the Plan’s measurement date but as of the date of the City’s basic financial statements.

See independent auditors’ report.

CITY OF GADSDEN, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017**

Note 1 – Summary of Significant Accounting Principles (continued)

In addition to liabilities, the statement of financial position and or balance sheet 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(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City reports a type of deferred inflow, unavailable property tax revenue, which arises only under a modified accrual basis of accounting that qualifies for reporting this category. Accordingly, the unavailable property tax revenue is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also reports pension related activity as a type of deferred inflow. The pension activity represents differences between expected and actual experience.

Compensated Absences – City employees earn sick leave at the rate of one day per month of service. Each employee can accumulate up to sixty days of sick leave. Employees earn vacation leave at graduated rates based on their length of service. Each employee can accumulate up to twenty days of vacation leave and carry it over to the next year.

Accumulated vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund. Premiums and discounts are deferred and amortized over the life of the related debt using the straight-line method. Long-term debt is reported net of the unamortized portion of these amounts. Long-term obligations are not reported in governmental funds.

Lease Obligations – Capital lease obligations are stated at the original fair value of leased assets capitalized, less payments since the inception of the lease discounted at the implicit rate of interest in the lease. Also, in the year an asset is acquired by capital lease, the expenditure for the asset and the offsetting amount of the financing source are reflected in the fund financial statements. Capital lease obligations of proprietary funds and governmental activities in the government-wide financial statements and the cost of assets so acquired are reflected in the accounts of those funds and statements.

Net Position – Net position is reported in the government-wide financial statements and is classified into the following categories:

- Net investment in capital assets;
- Restricted; and
- Unrestricted.

Restricted net position is that whose use by the City is subject to externally imposed stipulations that can be fulfilled by actions of the City or that expire with the passage of time. The government-wide statement of net position reports \$5,169,139 of restricted net position, of which \$1,939,595 is restricted by enabling legislation. Unrestricted net position is not subject to external restrictions but may be designated for specific purposes by the City's management or the City council.

CITY OF GADSDEN, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017**

Note 1 – Summary of Significant Accounting Principles (continued)

Fund Balance Policies – Governmental Funds – The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Non-spendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as non-spendable at September 30, 2017 by the City, are non-spendable in form. The City has not reported any amounts that are legally or contractually required to be maintained intact.

	<u>General Fund</u>	<u>Capital Improvements Fund</u>	<u>Total</u>
Non-spendable Funds			
Inventories	\$ 256,094	\$ -	\$ 256,094
Non-current receivables	10,388	6,764,592	6,774,980
Non-spendable Fund Balance	<u>\$ 266,482</u>	<u>\$ 6,764,592</u>	<u>\$ 7,031,074</u>

- Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

	<u>School Ad Valorem Tax Fund</u>	<u>Ad Valorem Fire Tax Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Permanent Funds</u>	<u>Total</u>
Restricted for						
Community development and social services	\$ -	\$ -	\$ 708,753	\$ -	\$ -	\$ 708,753
Other purposes and grants	483,238	-	2,725,492	-	-	3,208,730
Public safety	-	734,028	114,148	-	-	848,176
Recreational and cultural	-	-	44,769	-	182,125	226,894
Road repair	-	-	40,328	-	-	40,328
Debt service reserves	-	-	-	126,491	-	126,491
Restricted Fund Balance	<u>\$ 483,238</u>	<u>\$ 734,028</u>	<u>\$ 3,633,490</u>	<u>\$ 126,491</u>	<u>\$ 182,125</u>	<u>\$ 5,159,372</u>

- Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to ordinances passed by the City Council, The City's highest level of decision making authority. Commitments may be modified or rescinded only through ordinances approved by the City Council.

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Ad Valorem Fire Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Committed for					
Legal claims	\$ 608,306	\$ -	\$ -	\$ -	\$ 608,306
Comp absences	560,083	-	-	-	560,083
Encumbrances	1,626,683	-	-	-	1,626,683
Capitol improvements	-	2,668,336	14,040	3,821,015	6,503,391
Committed Fund Balance	<u>\$ 2,795,072</u>	<u>\$ 2,668,336</u>	<u>\$ 14,040</u>	<u>\$ 3,821,015</u>	<u>\$ 9,298,463</u>

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 1 – Summary of Significant Accounting Principles (continued)

- Assigned – includes amounts that The City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Amounts may be assigned by the Finance Director or other City management. The City had no assigned fund balances at September 30, 2017.
- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. The City reports all amounts that meet the Unrestricted General Fund Balance Policy described below as unassigned.

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

Note 2 – Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net position:

The governmental funds balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the statement of net position. One element of that reconciliation explains that long-term liabilities are not due and payable in the current year and, therefore, are not reported in the funds. The details of this difference are as follows:

General obligation warrants payable	\$ (45,005,173)
Deferred charge on refunding (to be amortized as interest expense)	1,088,040
Issuance discounts and premiums (to be amortized as interest expense)	(273,553)
HUD Section 108 loans	(675,000)
Capital leases	(912,063)
Accrued interest payable	(182,537)
Compensated absences	(3,066,307)
Claims and judgments	(728,998)
OPEB liability	(21,519,192)
Net pension liability	(51,088,668)
Deferred outflows of resources - pension related	7,862,769
Deferred inflows of resources - pension related	(1,843,479)
Deferred inflows of resources - OPEB	<u>(1,136,819)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ (117,480,980)</u>

Explanation of certain differences between the governmental funds statement of revenue, expenditures and changes in fund balances and the government-wide statement of activities:

The governmental funds statement of revenue, expenditures and changes in fund balances includes reconciliation between Net Change in Fund Balances – total governmental funds, and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 2 – Reconciliation of Government-Wide and Fund Balance Statements (continued)

Outlays capitalized	\$	6,719,083
Net value of assets disposed or transferred to proprietary funds		(43,655)
Depreciation expense		<u>(6,473,369)</u>
Net adjustment to increase net change in fund balances -		
total government funds to arrive at changes in net position of governmental activities	\$	<u>202,059</u>

Another element of that reconciliation states that 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. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this difference are as follows:

Debt issued or incurred		
Proceeds from long-term debt issued	\$	(2,222,550)
Amortization of long-term debt related, premiums, discounts, etc.		(73,645)
Principal repayments (including refunding proceeds to escrow agent)		<u>6,617,931</u>
Net adjustment to increase net change in fund balances - total governmental		
funds to arrive at changes in net position of governmental activities	\$	<u>4,321,736</u>

Another element of that reconciliation states that some expenses reported in the statement of activities differ from amounts reported as expenditures in governmental funds. The details of this difference are as follows:

Compensated absences	\$	(148,804)
Claims and judgments		152,681
OPEB		44,891
Pension		(561,024)
Accrued interest		<u>-</u>
Net adjustment to decrease net change in fund balances - total governmental funds		
to arrive at changes in net position of governmental activities	\$	<u>(512,256)</u>

Note 3 – Stewardship, Compliance and Accountability

Budgetary Information – The City follows these procedures in adopting its annual budgets:

1. The Mayor annually submits to the City Council a proposed Operating Budget for the general fund and special revenue funds for the fiscal year commencing October 1. The Operating Budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance.
4. The Mayor is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any fund or transfer between departments must be approved by City Council Ordinance.

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 3 – Stewardship, Compliance and Accountability (continued)

5. Formal budgetary integration is employed as a management control device during the year.
6. Budgets are adopted on a basis consistent with generally accepted accounting principles except that budgets and budgetary schedules included in these financial statements are prepared using encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of monies are recorded. At the end of the fiscal year, unencumbered appropriations automatically lapse.
7. The adopted Operating Budget is allotted to each department or agency of the City according to the Mayor-Council Act. Total appropriations may not be exceeded by expenditures unless the City Council amends the budget due to increased revenue or through a reduction of fund balance. This year's Operating Budget was amended as needed throughout the year by City Council action, provided adequate funds were available at the time of the amendment.

Excess of Expenditures Over Appropriations – During the fiscal year ended September 30, 2017, there were no expenditures in excess of appropriations in any fund (the legal level of budgetary control).

Note 4 – Deposits and Investments

Custodial Credit Risk – This is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City participates in a collateral risk pool, the Security for Alabama Funds Enhancement program (SAFE). The pool is administered by the State of Alabama Office of the State Treasurer and was established to protect public deposits in excess of FDIC coverage. Bank deposits are collateralized by securities held in the risk pool. Under the SAFE program, participating banks pledge securities to the State Treasurer for the SAFE collateral pool.

Interest Rate Risk – The City does not have a formal investment policy that limits investment securities as a means of managing its exposure to fair-value losses arising from increasing interest rates.

The City's deposits, including certificates of deposit, were fully insured or collateralized as required by state statutes at September 30, 2017.

At September 30, 2017, the entire bank balance of the City's component unit, the Gadsden Board of Education, was fully covered by federal depository insurance or the SAFE Program.

Restricted assets held in trust for retirement of debt in accordance with applicable trust indentures and for other purposes consist of the following:

Airport Authority	\$	12,760
2012-D G.O. Warrants		6,104
2006-A G.O. Warrants		10,542
2011 G.O. Warrants		6,652
2017-A G.O. Warrants		86,131
2014-D G.O. Warrants		172
Capital Leases		468
Total	\$	<u>122,829</u>

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 5 – Receivables

Receivables of the City’s individual major funds, and non-major and internal service funds in the aggregate were as follows at year-end:

	<u>General</u>	<u>School Ad Valorem</u>	<u>Capital Improvements</u>	<u>Ad Valorem Fire Tax</u>
Taxes receivable	\$ 5,580,222	\$ 1,333,521	\$ 568,132	\$ 1,196,802
Accounts receivable	-	-	-	-
Intergovernmental receivables	1,000	-	-	-
Notes and other receivables	<u>372,593</u>	<u>-</u>	<u>-</u>	<u>-</u>
Gross receivables	5,953,815	1,333,521	568,132	1,196,802
Allowance for uncollectibles	<u>(362,205)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Receivables	<u>\$ 5,591,610</u>	<u>\$ 1,333,521</u>	<u>\$ 568,132</u>	<u>\$ 1,196,802</u>

	<u>Air Depot</u>	<u>Garbage</u>	<u>Non-Major and Other</u>	<u>Total</u>
Taxes receivable	\$ -	\$ -	\$ 106,248	\$ 8,784,925
Accounts receivable	150	854,392	-	854,542
Intergovernmental receivables	-	-	288,677	289,677
Notes and other receivables	<u>-</u>	<u>-</u>	<u>108,352</u>	<u>480,945</u>
Gross receivables	150	854,392	503,277	10,410,089
Allowance for uncollectibles	<u>-</u>	<u>(351,337)</u>	<u>(108,026)</u>	<u>(821,568)</u>
Net Receivables	<u>\$ 150</u>	<u>\$ 503,055</u>	<u>\$ 395,251</u>	<u>\$ 9,588,521</u>

The City reports revenue net of uncollectible amounts.

Lease Receivable – In 2009, a component unit of the City, the Public Building Authority of the City of Gadsden, entered into a lease agreement with the Alabama Department of Human Resources. The lease is classified as a direct financing lease expiring in 2029.

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

Years ending September 30:	
2018	\$ 641,345
2019	642,132
2020	641,484
2021	639,733
2022	638,232
2023-2027	3,200,604
2028-2029	<u>1,121,925</u>
Total minimum lease payments	7,525,455
Less: amount representing interest	<u>1,406,319</u>
Present value of minimum lease payments	<u>\$ 6,119,136</u>

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 6 – Capital Assets

Governmental Activities

The following table summarizes the changes in capital assets during the year:

	Balance Beginning of Year	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2017
Capital Assets Not Being Depreciated				
Land	\$ 20,767,230	\$ 117,143	\$ -	\$ 20,884,373
Construction in progress	<u>4,280,928</u>	<u>157,465</u>	<u>(3,420,443)</u>	<u>1,017,950</u>
Total Capital Assets Not Being Depreciated	<u>25,048,158</u>	<u>274,608</u>	<u>(3,420,443)</u>	<u>21,902,323</u>
Capital Assets Being Depreciated				
Buildings and capital facilities	45,999,114	2,718,755	-	48,717,869
Improvements	18,839,708	2,716,574	-	21,556,282
Equipment	37,486,713	2,242,065	(897,166)	38,831,612
Other infrastructures	<u>51,489,861</u>	<u>2,187,523</u>	<u>-</u>	<u>53,677,384</u>
Total Capital Assets Being Depreciated	<u>153,815,396</u>	<u>9,864,917</u>	<u>(897,166)</u>	<u>162,783,147</u>
Less Accumulated Depreciation for:				
Buildings and capital facilities	33,690,638	912,415	-	34,603,053
Improvements	6,128,818	811,770	-	6,940,588
Equipment	28,822,379	2,664,731	(853,512)	30,633,598
Other infrastructures	<u>32,638,938</u>	<u>2,084,453</u>	<u>-</u>	<u>34,723,391</u>
Total Accumulated Depreciation	<u>101,280,773</u>	<u>6,473,369</u>	<u>(853,512)</u>	<u>106,900,630</u>
Total Capital Assets Being Depreciated, net	<u>52,534,623</u>	<u>3,391,548</u>	<u>(43,654)</u>	<u>55,882,517</u>
Total Capital Assets, net	<u>\$ 77,582,781</u>	<u>\$ 3,666,156</u>	<u>\$ (3,464,097)</u>	<u>\$ 77,784,840</u>

[The remainder of this page intentionally left blank.]

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 6 – Capital Assets (continued)

Business-Type Activities

	Balance Beginning of Year	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2017
Capital Assets Not Being Depreciated				
Land	\$ 2,976,164	\$ -	\$ -	\$ 2,976,164
Total Capital Assets Not Being Depreciated	<u>2,976,164</u>	<u>-</u>	<u>-</u>	<u>2,976,164</u>
Capital Assets Being Depreciated				
Buildings and capital facilities	7,158,278	-	-	7,158,278
Improvements	7,047,625	-	-	7,047,625
Equipment	4,342,670	-	(45,203)	4,297,467
Total Capital Assets Being Depreciated	<u>18,548,573</u>	<u>-</u>	<u>(45,203)</u>	<u>18,503,370</u>
Less Accumulated Depreciation for:				
Buildings and capital facilities	5,417,022	156,696	-	5,573,718
Improvements	4,403,884	274,648	-	4,678,532
Equipment	3,258,246	234,029	(45,203)	3,447,072
Total Accumulated Depreciation	<u>13,079,152</u>	<u>665,373</u>	<u>(45,203)</u>	<u>13,699,322</u>
Total Capital Assets Being Depreciated, net	<u>5,469,421</u>	<u>(665,373)</u>	<u>-</u>	<u>4,804,048</u>
Total Capital Assets, net	<u>\$ 8,445,585</u>	<u>\$ (665,373)</u>	<u>\$ -</u>	<u>\$ 7,780,212</u>

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

General government	\$ 47,233
Internal services	94,469
Public safety	1,907,084
Recreation and cultural services	1,339,015
Public works services	405,361
Urban development	<u>2,680,207</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 6,473,369</u>
Airport	\$ 96,052
Garbage	237,109
Golf Course	<u>332,212</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 665,373</u>

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 6 – Capital Assets (continued)

Construction Commitments

The City had active construction projects at the end of the fiscal year. At year end, the City's commitments related to these projects were as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
South 11th Street Widening	\$ 50,470	\$ 60,239
South 11th Street Bridge	561,538	52,521
Tuscaloosa Ave. Bridge	235,750	50,421
Venue at Coosa Landing	<u>170,192</u>	<u>10,330,225</u>
Total	<u>\$ 1,017,950</u>	<u>\$ 10,493,406</u>

These projects are being funded primarily from the proceeds of capital debt and capital grants.

[The remainder of this page intentionally left blank.]

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 6 – Capital Assets (continued)

Discretely Presented Component Units

Gadsden Board of Education

	Balance Beginning of Year	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2017
Capital Assets Not Being Depreciated				
Land	\$ 5,644,526	\$ -	\$ -	\$ 5,644,526
Total Capital Assets Not Being Depreciated	<u>5,644,526</u>	<u>-</u>	<u>-</u>	<u>5,644,526</u>
Other Capital Assets				
Buildings	61,774,180	-	-	61,774,180
Building improvements	17,187,375	-	-	17,187,375
Furniture and equipment	1,209,787	138,269	(8,000)	1,340,056
Vehicles	119,045	11,300	-	130,345
Total Capital Assets Being Depreciated	<u>80,290,387</u>	<u>149,569</u>	<u>(8,000)</u>	<u>80,431,956</u>
Less Accumulated Depreciation for:				
Buildings	24,064,859	1,029,218	-	25,094,077
Building improvements	7,222,819	299,059	-	7,521,878
Furniture and equipment	828,404	94,900	(3,600)	919,704
Total Accumulated Depreciation	<u>32,116,082</u>	<u>1,423,177</u>	<u>(3,600)</u>	<u>33,535,659</u>
Total Capital Assets Being Depreciated, net	<u>48,174,305</u>	<u>(1,273,608)</u>	<u>(4,400)</u>	<u>46,896,297</u>
Total Capital Assets, net	<u>\$ 53,818,831</u>	<u>\$ (1,273,608)</u>	<u>\$ (4,400)</u>	<u>\$ 52,540,823</u>

[The remainder of this page intentionally left blank.]

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 6 – Capital Assets (continued)

Discretely Presented Component Units

Gadsden Airport Authority

	Balance Beginning of Year	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 595,244	\$ -	\$ -	\$ 595,244
Total Capital Assets Not Being Depreciated	<u>595,244</u>	<u>-</u>	<u>-</u>	<u>595,244</u>
Other Capital Assets				
Airport runways	7,739,974	-	-	7,739,974
Buildings	195,516	-	-	195,518
Equipment	188,342	-	-	188,342
Improvements, other than building	<u>6,121,373</u>	<u>446,161</u>	<u>-</u>	<u>6,567,534</u>
Total Capital Assets Being Depreciated	<u>14,245,205</u>	<u>446,161</u>	<u>-</u>	<u>14,691,366</u>
Less Accumulated Depreciation for:				-
Airport runways	6,188,185	129,920	-	6,318,105
Buildings	137,174	5,541	-	142,715
Equipment	156,878	8,568	-	165,446
Improvements, other than building	<u>1,369,282</u>	<u>215,754</u>	<u>-</u>	<u>1,585,036</u>
Total Accumulated Depreciation	<u>7,851,519</u>	<u>359,783</u>	<u>-</u>	<u>8,211,302</u>
Total Capital Assets Being Depreciated, Net	<u>6,393,686</u>	<u>86,378</u>	<u>-</u>	<u>6,480,064</u>
Total Capital Assets, Net	<u>\$ 6,988,930</u>	<u>\$ 86,378</u>	<u>\$ -</u>	<u>\$ 7,075,308</u>

[The remainder of this page intentionally left blank.]

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 7 – Interfund Receivables, Payables and Transfers

The following is a detailed listing of interfund balances at year-end:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Due To/From Other Funds		
General	\$ 1,259,185	\$ -
Golf Course	-	1,178,662
Community Development	-	35,434
Transportation & Planning	-	31,541
Residential Garbage	-	10,795
Miscellaneous Grants	-	<u>2,753</u>
Total	<u>\$ 1,259,185</u>	<u>\$ 1,259,185</u>

[The remainder of this page intentionally left blank.]

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 7 – Interfund Receivables, Payables and Transfers (continued)

	<u>Purpose</u>	<u>Amount</u>
<u>Transfers From General Fund - Transfers To</u>		
Residential Garbage	Operations	\$ 700,000
Gadsden Transit Grants	Operations	524,507
Transportation and Planning	Operations	35,496
Aging Program	Operations	93,297
Golf Course	Operations	307,685
Law Enforcement Grants	Operations	18,525
Capital Projects	Capital	<u>66,192</u>
Total Transfers From General Fund		<u>1,745,702</u>
 <u>Transfers From Ad Valorem Fire Tax Fund - Transfers To</u>		
Capital Lease	Debt Service	<u>393,592</u>
 <u>Transfers From Capital Improvements Fund - Transfers To</u>		
2014A GOW Debt Service	Debt Service	250,000
2012C GOW Debt Service	Debt Service	654,935
Airport Authority Warrant	Debt Service	(6,400)
2014B GOW Debt Service	Debt Service	315,219
Capital Lease Obligation	Debt Service	279,939
2014C GOW Debt Service	Debt Service	85,617
2014D GOW Debt Service	Debt Service	205,089
2006A GOW Debt Service	Debt Service	78,275
2011 GOW Debt Service	Debt Service	457,681
2012A GOW Debt Service	Debt Service	1,545,796
2012B GOW Debt Service	Debt Service	437,650
2012D GOW Debt Service	Debt Service	<u>279,890</u>
Total Transfers From Capital Improvements Fund		<u>4,583,691</u>
 <u>Transfers From Nonmajor Governmental Funds - Transfers To</u>		
2012D GOW Debt Service	Debt Service	1,050,000
Resurfacing Fund	Capital	343,800
General Fund	Operations	204,963
Capital Improvements Fund	Operations	<u>6,450</u>
Total Transfers From Nonmajor Funds		<u>1,605,213</u>
 Total Transfers		 <u>\$ 8,328,198</u>

In the fund financial statements, total transfers in are different from total transfers out because of the accounting treatment of transfers of capital assets between governmental activities and proprietary activities. No amounts are reported in governmental funds because the amounts do not involve transfers of expendable available financial resources. However, proprietary funds do report the transfers at the net book value of the capital assets transferred.

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 8 – Intra-Entity Receivables and Payables

Resource flows between the City and its discretely presented component units are reported as if they were external transactions - that is, as revenue and expenses. However, amounts payable and receivable between the City and its discretely presented component units or between those units are reported on a separate line in the statement of net position.

Due From Component Units

On December 22, 2003, the City issued warrants for the purpose of financing the costs of acquiring, constructing and equipping a new high school in connection with the consolidation of the Gadsden City Board of Education's existing three high schools. While the City is solely responsible for the debt service on these warrants, the City and the Board of Education executed a Funding Agreement that requires the Board of Education to make monthly payments to the City in the amount of \$75,000. The City refunded the Series 2003 Warrants with Series 2014-B. \$ 9,801,822

On August 26, 2004, the Gadsden Airport Authority issued its \$6,905,000 Taxable Airport Revenue Bonds, Series 2004. These bonds were issued for the purpose of financing the acquisition and construction of a mixed-use community south and southeast of the Gadsden Municipal Airport, including the acquisition of approximately 405 acres of land and the construction of roads, sidewalks, sewers, parks and other improvements, and financing the acquisition and construction of an automotive mold-making facility in the Gadsden Airport Industrial Park that the Airport Authority will lease to a manufacturer. As an integral part of the issuance of these bonds, the City and the Airport Authority executed a Funding Agreement which requires the City to make the debt service payments on the bonds on behalf of the Airport Authority (see Due to Component Units below) and requires the Airport Authority to pay to the City all amounts received under its lease of the automotive mold-making facility. The amount due from the Airport Authority under this Funding Agreement has been recorded at its estimated present value. 646,500

Total Due from Component Units \$10,448,322

Due To Component Units

The Taxable Airport Revenue Bonds, Series 2004 discussed above are demand bonds which may be tendered for payment by the bondholder in whole or in part on any business day at a purchase price equal to 100% of the principal amount tendered plus accrued interest. During the fiscal year 2009, the bondholder called the outstanding bonds of \$6,360,000 plus \$13,730 in accrued interest. To provide temporary short-term financing for this contingency, the City has obtained an irrevocable letter of credit from a financial institution in the amount of \$6,984,455. The City activated the irrevocable letter of credit, and has performed on all debt service payments. The amount due has been recorded at the current principal balance outstanding on the letter of credit. \$ 3,683,730

School Ad Valorem Taxes receivable from taxpayers which are ultimately due to the Board of Education 672,762

Total Due to Component Units \$ 4,356,492

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 9 – Long-term Liabilities

Changes in long-term liabilities during the year are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
Governmental Activities						
General Obligation Warrants, Series 2017-A	\$ -	\$ 2,222,550	\$ (111,127)	\$ 2,111,423	\$ 222,255	\$ 1,889,168
General Obligation Warrants, Series 2014-A	2,120,000	-	(2,120,000)	-	-	-
General Obligation Warrants, Series 2014-B	7,445,000	-	(40,000)	7,405,000	45,000	7,360,000
General Obligation Warrants, Series 2014-C	2,090,000	-	(10,000)	2,080,000	10,000	2,070,000
General Obligation Warrants, Series 2014-D	1,278,750	-	(165,000)	1,113,750	165,000	948,750
General Obligation Warrants, Series 2012-D	6,460,000	-	(1,315,000)	5,145,000	1,340,000	3,805,000
General Obligation Warrants, Series 2012-A	15,915,000	-	(985,000)	14,930,000	1,015,000	13,915,000
General Obligation Warrants, Series 2012-B	2,930,000	-	(325,000)	2,605,000	335,000	2,270,000
General Obligation Warrants, Series 2012-C	6,260,000	-	(445,000)	5,815,000	455,000	5,360,000
General Obligation Warrants, Series 2011-A	3,570,000	-	(325,000)	3,245,000	340,000	2,905,000
General Obligation Warrants, Series 2006-A	605,000	-	(50,000)	555,000	50,000	505,000
Less deferred amounts						
For issuance discounts	(68,560)	-	6,176	(62,384)	-	(62,384)
Plus deferred amounts						
For issuance premiums	366,036	-	(30,099)	335,937	-	335,937
Total General Obligation Warrants	48,971,226	2,222,550	(5,915,050)	45,278,726	3,977,255	41,301,471
Other Long-Term Liabilities						
HUD Section 108 Loans	750,000	-	(75,000)	675,000	75,000	600,000
Capital leases	1,563,867	-	(651,804)	912,063	116,346	795,717
Compensated absences	2,927,032	147,397	-	3,074,429	637,008	2,437,421
OPEB liability	42,891,932	-	(21,372,740)	21,519,192	-	21,519,192
Net pension liability	49,106,429	2,282,975	-	51,389,404	3,697,812	47,691,592
Claims and judgments	3,767,064	813,818	(1,019,698)	3,561,184	685,000	2,876,184
Governmental Activities Long-term Liabilities	<u>\$ 149,977,550</u>	<u>\$ 5,466,740</u>	<u>\$ (29,034,292)</u>	<u>\$ 126,409,998</u>	<u>\$ 9,188,421</u>	<u>\$ 117,221,577</u>
Business-Type Activities						
Taxable general obligation warrants, Series 2005-B	\$ 400,000	\$ -	\$ (100,000)	\$ 300,000	\$ 100,000	\$ 200,000
Compensated absences	99,409	11,914	-	111,323	111,323	-
OPEB liability	632,435	-	(360,583)	271,852	-	271,852
Net pension liability	2,411,579	161,568	-	2,573,147	185,155	2,387,992
Accrued landfill closure and post closure	1,700,747	2,473,127	-	4,173,874	43,200	4,130,674
Business-Type Activities Long-term Liabilities	<u>\$ 5,244,170</u>	<u>\$ 2,646,609</u>	<u>\$ (460,583)</u>	<u>\$ 7,430,196</u>	<u>\$ 439,678</u>	<u>\$ 6,990,518</u>

The City's internal service fund primarily serves the governmental funds. Accordingly, its long-term liabilities are included as part of the long-term liabilities of governmental activities above.

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017**

Note 9 – Long-term Liabilities (continued)

Compensated absences and claims and judgments liabilities of governmental activities typically have been liquidated from the general fund in prior years.

General Obligation Warrants, Special Obligation Bonds and Notes Payable

The City issues long-term bonds and warrants to provide funds for the acquisition and construction of major capital facilities. The bonds and warrants have been issued for both governmental and business-type activities. General obligation debt represents direct obligations and pledges the full faith and credit of the City. These bonds and warrants are generally issued as serial bonds and warrants with varying amounts of principal maturing each year.

Governmental Activities:

General Obligation Warrant dated January 18, 2017 is due in quarterly principal installments of \$55,564 starting May 11, 2017 through May 11, 2027, with interest payable monthly from inception at 3.8125 percent.	\$ 2,111,423
General Obligation Warrants dated June 26, 2014 are due in annual principal installments ranging from \$316,000 to \$1,866,000 starting July 10, 2014 through August 1, 2033, with interest payable semi-annually from inception at rates varying from 2.0 percent to 3.7 percent.	7,405,000
General Obligation Warrants dated June 26, 2014 are due in annual principal installments ranging from \$84,000 to \$518,000 starting July 10, 2014 through August 1, 2033, with interest payable semi-annually from inception at rates varying from 2.0 percent to 3.7 percent.	2,080,000
General Obligation Warrants dated June 30, 2014 are due in annual principal installments ranging from \$41,250 to \$165,000 starting June 30, 2014 through June 30, 2024, with interest payable semi-annually from inception at 3.25 percent.	1,113,750
General Obligation Warrants dated December 21, 2012 are due in annual principal installments ranging from \$795,000 to \$1,365,000 starting March 1, 2013 through March 1, 2022, with interest payable semi-annually from inception at 1.98 percent.	5,145,000
General Obligation Warrants dated February 2, 2012 are due in annual principal installments ranging from \$925,000 to \$1,490,000 starting August 1, 2015 through August 1, 2029, with interest payable semi-annually from inception at rates varying from 2.75 percent to 4 percent.	14,930,000
General Obligation Warrants dated February 2, 2012 are due in annual principal installments ranging from \$30,000 to \$420,000 through August 1, 2024, with interest payable semi-annually at rates varying from 1.51 percent to 4.45 percent.	2,605,000
General Obligation Warrants dated February 2, 2012 are due in annual principal installments ranging from \$110,000 to \$570,000 through August 1, 2029, with interest payable semi-annually at rates varying from 2 percent to 4 percent.	5,815,000
General Obligation Bank Qualified Warrants dated August 30, 2011 are due in quarterly principal installments ranging from \$65,000 to \$100,000 through December 1, 2021, with interest due monthly at a fixed rate of 3.85%. Balance of \$1,810,000 due at end of term.	3,245,000

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 9 – Long-term Liabilities (continued)

General Obligation Warrants dated June 12, 2007, are due in annual principal installments ranging from \$30,000 to \$325,000 through November 20, 2025, with variable interest payable semi-annually. 555,000

HUD Section 108 Loans dated October 14, 2007, due in annual principal installments ranging from \$42,745 to \$537,787 through October 14, 2025, with interest payable semi-annually at LIBOR + 20 basis points. 675,000

Total Governmental Activities \$45,680,173

Business-type Activities:

General Obligation Warrants of 2007 dated April 28, 2005, are due in annual principal installments of \$100,000 beginning May 1, 2007 through May 1, 2020, with interest payable semi-annually at 6.51 percent. \$ 300,000

Total Business-Type Activities \$ 300,000

[The remainder of this page intentionally left blank.]

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 9 – Long-term Liabilities (continued)

The following schedules show debt service to maturity for general obligation warrants, special obligation bonds and notes payable outstanding at September 30, 2017:

	<u>Total</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Governmental Activities					
GOW Series 2017-A					
Principal	\$ 2,111,423	\$ 222,255	\$ 222,255	\$ 222,255	\$ 222,255
Interest	379,050	69,947	68,091	59,786	51,156
Total	<u>2,490,473</u>	<u>292,202</u>	<u>290,346</u>	<u>282,041</u>	<u>273,411</u>
GOW Series 2014-B					
Principal	7,405,000	45,000	45,000	45,000	45,000
Interest	3,868,747	273,359	272,459	271,559	270,659
Total	<u>11,273,747</u>	<u>318,359</u>	<u>317,459</u>	<u>316,559</u>	<u>315,659</u>
GOW Series 2014-C					
Principal	2,080,000	10,000	15,000	15,000	15,000
Interest	1,037,469	74,156	73,856	73,406	72,956
Total	<u>3,117,469</u>	<u>84,156</u>	<u>88,856</u>	<u>88,406</u>	<u>87,956</u>
GOW Series 2014-D					
Principal	1,113,750	165,000	165,000	165,000	165,000
Interest	128,458	34,651	29,214	23,845	18,341
Total	<u>1,242,208</u>	<u>199,651</u>	<u>194,214</u>	<u>188,845</u>	<u>183,341</u>
GOW Series 2012-D					
Principal	5,145,000	1,340,000	1,365,000	795,000	815,000
Interest	223,592	88,605	61,826	40,442	24,503
Total	<u>5,368,592</u>	<u>1,428,605</u>	<u>1,426,826</u>	<u>835,442</u>	<u>839,503</u>
GOW Series 2012-A					
Principal	14,930,000	1,015,000	1,060,000	1,100,000	1,140,000
Interest	3,622,669	530,206	489,606	447,206	403,206
Total	<u>18,552,669</u>	<u>1,545,206</u>	<u>1,549,606</u>	<u>1,547,206</u>	<u>1,543,206</u>
GOW Series 2012-B					
Principal	2,605,000	335,000	345,000	355,000	365,000
Interest	446,608	102,431	91,845	79,563	66,322
Total	<u>3,051,608</u>	<u>437,431</u>	<u>436,845</u>	<u>434,563</u>	<u>431,322</u>
GOW Series 2012-C					
Principal	5,815,000	455,000	475,000	495,000	510,000
Interest	1,246,606	195,525	177,325	158,325	143,475
Total	<u>7,061,606</u>	<u>650,525</u>	<u>652,325</u>	<u>653,325</u>	<u>653,475</u>
GOW Series 2011					
Principal	3,245,000	340,000	340,000	370,000	385,000
Interest	414,886	120,024	105,298	93,266	78,877
Total	<u>3,659,886</u>	<u>460,024</u>	<u>445,298</u>	<u>463,266</u>	<u>463,877</u>
GOW Series 2006-A					
Principal	555,000	50,000	60,000	60,000	60,000
Interest	107,430	21,727	19,625	17,222	14,818
Total	<u>662,430</u>	<u>71,727</u>	<u>79,625</u>	<u>77,222</u>	<u>74,818</u>
HUD Section 108 Loan					
Principal	675,000	75,000	75,000	75,000	75,000
Interest	182,173	37,748	33,713	29,625	25,493
Total	<u>857,173</u>	<u>112,748</u>	<u>108,713</u>	<u>104,625</u>	<u>100,493</u>
Total Governmental Activities					
Principal	45,680,173	4,052,255	4,167,255	3,697,255	3,797,255
Interest	11,657,688	1,548,379	1,422,858	1,294,245	1,169,806
Total	<u>\$ 57,337,861</u>	<u>\$ 5,600,634</u>	<u>\$ 5,590,113</u>	<u>\$ 4,991,500</u>	<u>\$ 4,967,061</u>

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 9 – Long-term Liabilities (continued)

	<u>2022</u>	<u>2023-2027</u>	<u>2028-2032</u>	<u>2033</u>
Governmental Activities				
GOW Series 2017-A				
Principal	\$ 222,255	\$ 1,000,148	\$ -	\$ -
Interest	42,688	87,382	-	-
Total	<u>264,943</u>	<u>1,087,530</u>	<u>-</u>	<u>-</u>
GOW Series 2014-B				
Principal	45,000	260,000	5,120,000	1,800,000
Interest	269,703	1,329,100	1,115,308	66,600
Total	<u>314,703</u>	<u>1,589,100</u>	<u>6,235,308</u>	<u>1,866,600</u>
GOW Series 2014-C				
Principal	15,000	75,000	1,435,000	500,000
Interest	72,506	355,556	296,281	18,750
Total	<u>87,506</u>	<u>430,556</u>	<u>1,731,281</u>	<u>518,750</u>
GOW Series 2014-D				
Principal	165,000	288,750	-	-
Interest	12,904	9,504	-	-
Total	<u>177,904</u>	<u>298,254</u>	<u>-</u>	<u>-</u>
GOW Series 2012-D				
Principal	830,000	-	-	-
Interest	8,217	-	-	-
Total	<u>838,217</u>	<u>-</u>	<u>-</u>	<u>-</u>
GOW Series 2012-A				
Principal	1,190,000	6,500,000	2,925,000	-
Interest	357,606	1,229,276	165,562	-
Total	<u>1,547,606</u>	<u>7,729,276</u>	<u>3,090,562</u>	<u>-</u>
GOW Series 2012-B				
Principal	385,000	820,000	-	-
Interest	51,867	54,580	-	-
Total	<u>436,867</u>	<u>874,580</u>	<u>-</u>	<u>-</u>
GOW Series 2012-C				
Principal	525,000	2,540,000	815,000	-
Interest	128,175	397,656	46,125	-
Total	<u>653,175</u>	<u>2,937,656</u>	<u>861,125</u>	<u>-</u>
GOW Series 2011				
Principal	1,810,000	-	-	-
Interest	17,421	-	-	-
Total	<u>1,827,421</u>	<u>-</u>	<u>-</u>	<u>-</u>
GOW Series 2006-A				
Principal	65,000	260,000	-	-
Interest	12,416	21,622	-	-
Total	<u>77,416</u>	<u>281,622</u>	<u>-</u>	<u>-</u>
HUD Section 108 Loan				
Principal	75,000	300,000	-	-
Interest	21,315	34,280	-	-
Total	<u>96,315</u>	<u>334,280</u>	<u>-</u>	<u>-</u>
Total Governmental Activities				
Principal	5,327,255	12,043,898	10,295,000	2,300,000
Interest	994,818	3,518,956	1,623,276	85,350
Total	<u>\$ 6,322,073</u>	<u>\$ 15,562,854</u>	<u>\$ 11,918,276</u>	<u>\$ 2,385,350</u>

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 9 – Long-term Liabilities (continued)

	<u>Total</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Busines-Type Activities				
GOW, Series 2005-B				
Principal	\$ 300,000	\$ 100,000	\$ 100,000	\$ 100,000
Interest	39,621	19,801	13,201	6,619
Total	<u>\$ 339,621</u>	<u>\$ 119,801</u>	<u>\$ 113,201</u>	<u>\$ 106,619</u>

Capital Leases

The City has entered into capital leases to finance the acquisition of computer equipment, vehicles and other equipment. These lease agreements are classified as capital leases for accounting purposes and, therefore, are reported as long-term liabilities at the present value of their future minimum lease payments.

The net carrying values of assets acquired under capital leases at year end were:

Governmental Activities	
Equipment	\$ 2,674,610
Less: Accumulated depreciation	<u>(1,452,852)</u>
Net Carrying Value	<u>\$ 1,221,758</u>

The future minimum lease payments and the net present value of these minimum lease payments were as follows at year end:

	<u>Governmental</u> <u>Activities</u>
Years ending September 30,	
2018	\$ 446,993
2019	285,752
2020	81,965
2021	81,965
2022	<u>40,915</u>
Total minimum lease payments	937,590
Less: Amounts representing interest	<u>(25,527)</u>
Present Value of Minimum Lease Payments	<u>\$ 912,063</u>

[The remainder of this page intentionally left blank.]

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017**

Note 9 – Long-term Liabilities (continued)

Public Building Authority of the City of Gadsden

General Obligation Warrants dated April 1, 2009 were issued to construct a building. Payments are due in annual principal installments ranging from \$300,000 to \$615,000 through July 1, 2029, with interest payable semi-annually at rates varying from 3.375% to 4.50%.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
General Obligation Warrants - Series 2009	\$ 6,290,000	\$ -	\$ 380,000.00	\$ 5,910,000	\$ 395,000	\$ 5,515,000
Deferred amounts for issuance discount	<u>10,829</u>	<u>-</u>	<u>842</u>	<u>9,987</u>	<u>842</u>	<u>9,145</u>
	<u>\$ 6,300,829</u>	<u>\$ -</u>	<u>\$ 380,842</u>	<u>\$ 5,919,987</u>	<u>\$ 395,842</u>	<u>\$ 5,524,145</u>

Future debt service to maturities for the General Obligation Warrants – Series 2009 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 395,000	\$ 220,846	\$ 615,846
2019	410,000	205,693	615,693
2020	425,000	189,965	614,965
2021	440,000	173,662	613,662
2022	455,000	156,783	611,783
2023-2027	2,585,000	506,476	3,091,476
2028-2029	<u>1,200,000</u>	<u>57,890</u>	<u>1,257,890</u>
Total	<u>\$ 5,910,000</u>	<u>\$ 1,511,315</u>	<u>\$ 7,421,315</u>

Claims and Judgments

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; job-related illnesses and injuries to employees; and natural disasters. The City has established a limited risk management program for employee medical and workers' compensation. The City has purchased commercial insurance coverage for employee medical expenses exceeding \$50,000 per employee per year, and for workers' compensation claims exceeding \$300,000 per claim and for aggregate claims exceeding 275 percent of expected annual claims. The City has also purchased commercial insurance coverage for commercial general liability, automobile and property, public officials and other employee bonds, etc. with varying coverage amounts and deductibles. Settlements have not exceeded coverage in any of the last three fiscal years.

The liabilities for employee medical and workers' compensation claims are reported in the internal service fund. The liabilities for other legal claims (e.g. settlements of lawsuits against the City) are not reported as a fund liability until they become due and payable because they are paid from the general fund. The government-wide statement of net position includes all liabilities for claims and judgments as part of long-term liabilities.

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017**

Note 9 – Long-term Liabilities (continued)

Liabilities for claims and judgments are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liabilities is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines and damage awards.

Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liabilities also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liabilities estimate. Changes in the balances of claims liabilities during the fiscal year were:

	Workers' Compensation and Medical Claims	Legal Claims	Total
Unpaid claims, beginning of year	\$ 2,885,385	\$ 881,679	\$ 3,767,064
Incurred claims (including IBNRs)	813,818	-	813,818
Claim payments	<u>(867,017)</u>	<u>(152,681)</u>	<u>(1,019,698)</u>
Unpaid Claims, End of Year	<u>\$ 2,832,186</u>	<u>\$ 728,998</u>	<u>\$ 3,561,184</u>

The Board of Education is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board of Education has insurance for its buildings and contents through the State Insurance Fund (SIF), Alabama Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state-owned properties and boards of education. The Board of Education pays the annual premium based on the amount of coverage. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million. Errors and omissions insurance is purchased from Alabama Risk Management for Schools (ARMS), a public entity risk pool. ARMS collects premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Board of Education purchases commercial insurance for fidelity bonds. Settled claims in the past three years have not exceeded the commercial insurance coverage.

The Board of Education's employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board. PEEHIF was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are set annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board of Education contributes the specified amount monthly to the PEEHIF for each employee. The Board of Education contribution is applied against the employees' premium for the coverage selected and the employee pays any remaining premium.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 9 – Long-term Liabilities (continued)

The State Board of Adjustments is a state agency with which people can file claims against the Board of Education to collect reimbursement for damages when all other means have been exhausted. The Board of Education does not have insurance coverage for job-related injuries. Claims for employee job-related injuries may be filed with the State Board of Adjustment. The Board of Adjustment determines if a claim is valid and determines the proper amount of compensation. Payments are made from state appropriated funds at no cost to the Board of Education. Several such claims or related settlements have occurred in the past three years.

Landfill Closure and Post Closure Care Cost

State and federal laws and regulations require the City to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and post closure care costs as an operating expense of the residential garbage enterprise fund in each period based on landfill capacity used as of fiscal year end.

The \$4,173,874 reported as landfill closure and post closure care liability at September 30, 2017, represents the cumulative amount reported to date, based on the use of 85 percent of the estimated capacity of its Brunsway Drive site and post closure care costs for 14 remaining years at the Nocalula Falls sites. The City will recognize the remaining estimated cost of closure and post closure care of \$3,569,074 as the remaining estimated capacity of the Brunsway Drive site is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2017. The City expects to close the Brunsway Drive site in the year 2026. Actual cost may be higher due to inflation, changes in technology or changes in regulations.

The City met the Environmental Protection Agency's ("EPA") regulations regarding financial assurance provisions by meeting the EPA's financial test as of September 30, 2017.

Note 10 – Contingencies

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

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

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 11 – Pension Plan

General Information about the Pension Plan

Plan description: The Employees' Retirement System of Alabama (ERS), an agency multiple-employer public employee retirement 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. Assets of the ERS are pooled for investment purposes. However, separate accounts are maintained for each individual employer, so that each employer's share of the pooled assets is legally available to pay the benefits of its employees only. The responsibility for the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

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

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

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

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017**

Note 11 – Pension Plan (continued)

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 membership includes approximately 85,874 participants from approximately 906 local participating employers. As of September 30, 2016, membership consisted of:

	ERS	City
Retirees and beneficiaries currently receiving benefits	23,007	415
Terminated employees entitled to but not yet receiving benefits	1,155	3
Terminated employees not entitled to a benefit	6,654	25
Active members	54,823	510
Post-DROP participants still in active service	<u>235</u>	<u>3</u>
Total	<u>85,874</u>	<u>956</u>

Contributions: Tier 1 covered members of the ERS (except State Police and certified law enforcement, correctional officers, and firefighters) contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, Tier 1 covered members of the ERS (except State Police and certified law enforcement, correctional officers, and firefighters) were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, Tier 1 covered members of the ERS (except State Police and certified law enforcement, correctional officers, and firefighters) are required by statute to contribute 7.50% of earnable compensation. Tier 1 certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, Tier 1 certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, Tier 1 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. Tier 1 State Police members 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 (except State Police and certified law enforcement, correctional officers, and firefighters) contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 11 – Pension Plan (continued)

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 average contribution rate to fund the normal and accrued liability costs was 18.71% of covered employee payroll.

City's contractually required contribution rate for the year ended September 30, 2017 was 18.99% of pensionable pay for Tier 1 employees, and 17.90% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City were \$3,822,967 for the year ended September 30, 2017.

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) Total Pension Liability as of September 30, 2015	\$ 115,103,425	\$ 114,322,844	\$ 118,962,900
(b) Discount rate	8.00%	8.00%	7.75%
(c) Entry Age Normal Cost for the period October 1, 2015 - September 30, 2016	1,786,596	1,786,596	1,770,049
(d) Transfers Among Employers		32,697	32,697
(e) Actual Benefit Payments and Refunds for the period October 1, 2015 - September 30, 2016	<u>(8,939,771)</u>	<u>(8,939,771)</u>	<u>(8,939,771)</u>
(f) Total Pension Liability as of September 30, 2016 =[(a) x (1+(b))] + (c) + (d) + [(e) x (1 + 0.5*(b))]	<u>\$ 116,800,933</u>	<u>\$ 115,990,603</u>	<u>\$ 120,699,084</u>
(g) Difference between Expected and Actual		\$ (810,330)	
(h) Less Liability Transferred for Immediate Recognition		<u>32,697</u>	
(i) Experience (Gain)/Loss = (g) - (h)		<u>\$ (843,027)</u>	
(j) Difference between Actual (2015 Assumptions) and Actual (2016 Assumptions): Assumption Change (Gain)/Loss			<u>\$ 4,708,481</u>

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017**

Note 11 – Pension Plan (continued)

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

* Net of pension plan investment expense, including inflation

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 actuarial experience study for the period October 1, 2010 – September 30, 2015.

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, as provided by the ERS, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.00%	4.40%
US Large Stocks	32.00%	8.00%
US Mid Stocks	9.00%	10.00%
US 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%	

* Includes assumed rate of inflation of 2.50%

Discount rate: The discount rate used to measure the total pension liability at September 30, 2016 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 rates currently in effect and that employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Projected future benefit payments for all current plan members were projected for all years.

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 11 – Pension Plan (continued)

Based on those assumptions, each employer’s fiduciary net position was 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 and a municipal bond rate was not used in determining the discount rate.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at September 30, 2015	\$ 115,103,425	\$ 63,585,417	\$ 51,518,008
Changes for the year:			
Service cost	1,786,596	-	1,786,596
Interest	8,850,683	-	8,850,683
Changes of assumptions	4,708,481	-	4,708,481
Differences between expected and actual experience	(843,027)	-	(843,027)
Contributions - employer	-	4,124,581	(4,124,581)
Contributions - employee	-	1,619,074	(1,619,074)
Net investment income	-	6,314,534	(6,314,534)
Benefit payments, including refunds of employee contributions	(8,939,771)	(8,939,771)	-
Administrative expense	-	-	-
Transfers among employers	32,697	32,697	-
Net changes	<u>5,595,659</u>	<u>3,151,115</u>	<u>2,444,544</u>
Balances at September 30, 2016	<u>\$ 120,699,084</u>	<u>\$ 66,736,532</u>	<u>\$ 53,962,552</u>

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City’s 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	\$ 66,624,595	\$ 53,962,552	\$ 43,188,387

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.

See independent auditors’ report.

CITY OF GADSDEN, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017**

Note 11 – Pension Plan (continued)

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

For the year ended September 30, 2017, the City recognized net pension expense \$4,528,819. 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	\$ -	\$ 1,947,180
Changes of assumptions	3,836,540	-
Net difference between projected and actual earnings on pension plan investments	585,565	-
Employer contributions subsequent to the measurement date	<u>3,882,967</u>	<u>-</u>
Total	<u>\$ 8,305,072</u>	<u>\$ 1,947,180</u>

Deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date totaling \$3,882,967 will be recognized as a reduction of net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2018	\$ 444,765
2019	444,764
2020	932,857
2021	366,209
2022	286,330
Thereafter	-

Note 12 – Post-Employment Benefits

The City provides post-retirement health care, prescription drug and life insurance benefits, in accordance with City statutes, to all retirees qualifying for benefits through the State of Alabama Retirement System and who, upon retirement, elect to remain on the group health program.

In the past, coverage has been extended to those employees who did not elect to participate in the RSA program when it was originally offered and participation was optional. If the employee has sufficient years of service to have retired from the City, but did not choose participation in the retirement program for eligibility purposes of this program, these employees have been considered retirees of the City.

The City is subsidizing the amount of validated claims for this division at approximately 60% for medical and hospitalization cost for eligible retirees and their dependents. This includes secondary payments of approved charges not paid by Medicare for those retirees and dependents covered by Medicare.

CITY OF GADSDEN, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017**

Note 12 – Post-Employment Benefits (continued)

During the fiscal year ended September 30, 1991, the City adopted an ordinance that limits post-retirement health care benefits for all employees retiring after October 1, 1991. This ordinance specifically requires that any employee retiring before age 55 will pay 100 percent of the applicable premiums. Employees retiring due to medical disability or retiring between the ages of 55 and 65 will have their premiums subsidized by the City at \$150 per month for family coverage and \$65 per month for single coverage.

During the fiscal year ended September 30, 2012, the City adopted several ordinances amending (Plan Amendments) the post-retirement health care benefits for employees. The City Council adopted ordinances that authorized: (1) eliminating the subsidy paid to retired employees, who terminated employment prior to May 1, under a tiered arrangement based on different past arrangements, who after October 1, 2012, will receive a \$200 Medicare Part B supplement to be paid to the insurance provider; (2) that those employees who become Medicare eligible after October 1, 2012 will no longer be entitled to the subsidized premium rates available through Local Government Health Insurance Plan (LGHIP); and (3) to provide for health insurance coverage of certain 55 year old retirees who retired prior to May 1, 2012 with spouses who were too young to receive Medicare coverage until they reached age 65 with subsidy amounts of \$576 per month until spouses become Medicare-eligible and thereafter, \$200 per month towards the retirees' Medicare-supplemental policy.

Plan Assets. No assets are accumulated in a trust that meets all of the following criteria of GASBS No. 75, paragraph 4, to pay benefits:

- Contributions from the employer and any non-employer contributing entities, and earnings thereon, must be irrevocable.
- Plan assets must be dedicated to providing OPEB to Plan members in accordance with the benefit terms.
- Plan assets must be legally protected from the creditors of the employer, non-employer contributing entities, the Plan administrator, and Plan members.

Employees Covered by Benefit Terms – At September 30, 2017, the following employees were covered by the benefit terms:

Active participants	447
Retirees	129
Spouses	<u>45</u>
	<u>621</u>

Total OPEB Liability

The City's total OPEB liability of \$21,791,044 was determined by an actuarial valuation as of the valuation date of January 1, 2017, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. There have been no significant changes between the valuation date and the fiscal year.

Discount rate. The discount rate of 3.640% as of September 30, 2017 was based on the 20 Year Tax-Exempt Municipal Bond Yield.

See independent auditors' report.

CITY OF GADSDEN, ALABAMA

NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017

Note 12 – Post-Employment Benefits (continued)

Actuarial assumptions and other inputs. The actuarial assumptions that determined the total OPEB liability as of September 30, 2017 were based on decrements used in the most recent actuarial valuation of the Employee’s Retirement System of Alabama, under which City employees are covered:

Valuation date	January 1, 2017
Measurement date	September 30, 2017
Inflation	2.30%
Salary increases including inflation	4.00%
Mortality	RP-2000 Mortality for Employees and Healthy Annuitants with generational projection per Scale AA. Employee mortality is projected to valuation year plus 15 years. Annuitant mortality is projected to valuation year plus 7 years.
Actuarial cost method	Entry Age Normal

Changes in the Total OPEB Liability

	Total OPEB Liability
Changes in Total OPEB Liability	
Balance as of September 30, 2016	\$ 23,042,247
Changes for the year:	
Service cost	541,622
Interest on total OPEB liability	704,964
Effect of plan changes	-
Effect of economic/demographic gains or losses	-
Effect of assumptions changes or inputs	(1,428,238)
Benefit payments	<u>(1,069,551)</u>
Balance as of September 30, 2017	<u>\$ 21,791,044</u>

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the City, calculated using the discount rate of 3.64%, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.64%) or 1 percentage point higher (4.64%) that the current rate:

	1% Decrease 2.64%	Discount Rate 3.64%	1% Increase 4.64%
Total OPEB liability	\$ 23,798,472	\$ 21,791,044	\$ 19,996,742

See independent auditors’ report.

CITY OF GADSDEN, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017**

Note 12 – Post-Employment Benefits (continued)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the City, calculated using the current healthcare cost trend rates as well as what the City's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current rates:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Total OPEB liability	\$ 19,862,977	\$ 21,791,044	\$ 24,057,536

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2017, the City recognized OPEB expense of \$1,022,021. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	1,203,672
Total	<u>\$ -</u>	<u>\$ 1,203,672</u>

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

Year ended September 30:	
2018	\$ (224,566)
2019	(224,566)
2020	(224,566)
2021	(224,566)
2022	(224,566)
Thereafter	(80,842)

Note 13 – Sales Tax Rebate Agreements

From time to time, the City enters into sales tax rebate agreements, generally with property developers, to encourage retail growth. As of the 2017 fiscal year end the City had 4 of these agreements in place that rebate 50% of sales tax collected to the property developer (or 2%). The agreements range in term from 3 to 15 years. Rebates for the year ended September 30, 2017 totaled \$523,059.

CITY OF GADSDEN, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (continued)
For the Year Ended September 30, 2017**

Note 14 – Accounting Changes and Accounting Standards

GASB Statement No. 75

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. The City has elected to apply this Statement to these financial statements.

The provisions of Statement No. 75 caused beginning OPEB liability to be reduced and resulted in the increases to beginning governmental activities net position of \$20,191,030 and business-type activities of \$291,090. The Statement also has new disclosure requirements, which are presented in Note 12.

GASB Statement No. 77

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about 1) a reporting government's own tax abatement agreements and 2) agreements that are entered into by other governments that reduce the reporting government's tax revenues. The Statement is effective for periods beginning after December 15, 2015 and is reflected in these financial statements. See Note 13.

Note 15 – Subsequent Events

The City Council voted in favor of a \$0.01 sale tax increase effective November 1, 2017. This tax will be accounted for in a new capital improvements fund and whose receipts can only be used for capital improvements, economic and industrial recruitment, debt repayment, community revitalization programs, equipment, riverfront development and land acquisition.

In November 2017, The City issued the 2017-B General Obligation Warrants with a face amount of \$20,615,000 to fund capital projects at Coosa Landing, East Gadsden Community Center, and Noccalula Falls.

In January 2018, the City financed, through a capital lease, the purchase of equipment up to \$1,004,055.

The City has evaluated subsequent events through March 20, 2018, the date the financial statements were available to be issued.

CITY OF GADSDEN, ALABAMA

**GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended September 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance from Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Taxes	\$ 40,414,500	\$ 40,414,500	\$ 40,339,853	\$ (74,647)
Licenses and permits	7,076,500	7,076,500	7,134,787	58,287
Intergovernmental	354,575	355,325	374,010	18,685
Charges for services	1,650,000	1,650,000	2,151,934	501,934
Fines and forfeitures	475,000	475,000	424,243	(50,757)
Other revenue	<u>373,900</u>	<u>373,900</u>	<u>307,559</u>	<u>(66,341)</u>
Total Revenue	<u>50,344,475</u>	<u>50,345,225</u>	<u>50,732,386</u>	<u>387,161</u>
Expenditures				
Current				
General government	2,242,324	2,242,986	2,318,049	(75,063)
Internal services	3,528,357	3,537,302	3,132,984	404,318
Public safety	21,382,046	21,361,854	20,464,406	897,448
Recreation and cultural services	6,920,599	6,957,393	6,545,854	411,539
Public works services	5,992,217	6,043,701	5,549,204	494,497
Urban development	1,963,980	2,529,122	2,145,242	383,880
Nondepartmental	3,327,141	3,888,450	3,458,939	429,511
Intergovernmental	2,688,150	2,767,976	2,544,535	223,441
Capital outlay	<u>1,148,525</u>	<u>2,980,036</u>	<u>1,826,535</u>	<u>1,153,501</u>
Total Expenditures	<u>49,193,339</u>	<u>52,308,820</u>	<u>47,985,748</u>	<u>4,323,072</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>1,151,136</u>	<u>(1,963,595)</u>	<u>2,746,638</u>	<u>4,710,233</u>
Other Financing Sources (Uses)				
Proceeds from the sale of assets	-	-	73,798	73,798
Transfers	<u>(1,401,107)</u>	<u>(1,419,658)</u>	<u>(1,540,740)</u>	<u>(121,082)</u>
Total Other Financing Sources (Uses)	<u>(1,401,107)</u>	<u>(1,419,658)</u>	<u>(1,466,942)</u>	<u>(47,284)</u>
Net Change in Fund Balances	(249,971)	(3,383,253)	1,279,696	4,662,949
Fund Balance - Beginning of Year	<u>19,372,941</u>	<u>19,372,941</u>	<u>19,372,941</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 19,122,970</u>	<u>\$ 15,989,688</u>	<u>\$ 20,652,637</u>	<u>\$ 4,662,949</u>

CITY OF GADSDEN, ALABAMA
SCHOOL AD VALOREM TAX FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance from Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Taxes	\$ 1,090,000	\$ 1,090,000	\$ 1,071,976	\$ (18,024)
Total Revenue	<u>1,090,000</u>	<u>1,090,000</u>	<u>1,071,976</u>	<u>(18,024)</u>
Expenditures				
Intergovernmental	1,090,000	1,090,000	1,059,037	30,963
Total Expenditures	<u>1,090,000</u>	<u>1,090,000</u>	<u>1,059,037</u>	<u>30,963</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>12,939</u>	<u>(48,987)</u>
Net Change in Fund Balances	-	-	12,939	(48,987)
Fund Balance - Beginning of Year	<u>470,299</u>	<u>470,299</u>	<u>470,299</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 470,299</u>	<u>\$ 470,299</u>	<u>\$ 483,238</u>	<u>\$ 12,939</u>

CITY OF GADSDEN, ALABAMA

**CAPITAL IMPROVEMENTS FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended September 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance from Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Taxes	\$ 7,000,000	\$ 7,000,000	\$ 7,041,105	\$ 41,105
Other	-	-	438,887	438,887
Total Revenue	<u>7,000,000</u>	<u>7,000,000</u>	<u>7,479,992</u>	<u>479,992</u>
Expenditures				
Capital outlay	<u>3,171,682</u>	<u>4,035,423</u>	<u>2,566,288</u>	<u>1,469,135</u>
Total Expenditures	<u>3,171,682</u>	<u>4,035,423</u>	<u>2,566,288</u>	<u>1,469,135</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>3,828,318</u>	<u>2,964,577</u>	<u>4,913,704</u>	<u>(989,143)</u>
Other Financing Sources (Uses)				
Transfers	<u>(5,028,317)</u>	<u>(5,028,317)</u>	<u>(4,577,240)</u>	<u>451,077</u>
Total Other Financing Sources (Uses)	<u>(5,028,317)</u>	<u>(5,028,317)</u>	<u>(4,577,240)</u>	<u>451,077</u>
Net Change in Fund Balances	<u>(1,199,999)</u>	<u>(2,063,740)</u>	<u>336,464</u>	<u>(538,066)</u>
Fund Balance - Beginning of Year	<u>9,096,464</u>	<u>9,096,464</u>	<u>9,096,464</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 7,896,465</u>	<u>\$ 7,032,724</u>	<u>\$ 9,432,928</u>	<u>\$ 2,400,204</u>

CITY OF GADSDEN, ALABAMA

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
For the Year Ended September 30, 2017**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service cost	\$ 1,786,596	\$ 1,731,440	\$ 1,716,524
Interest	8,850,683	8,880,939	8,755,913
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(843,027)	(2,047,937)	-
Changes of assumptions	4,708,481	-	-
Benefit payments, including refunds of employee contributions	(8,939,771)	(8,945,504)	(8,873,728)
Transfers among employers	<u>32,697</u>	<u>-</u>	<u>-</u>
Net change in total pension liability	5,595,659	(381,062)	1,598,709
Total pension liability - beginning	<u>115,103,425</u>	<u>115,484,487</u>	<u>113,885,778</u>
Total pension liability - ending (a)	<u>\$ 120,699,084</u>	<u>\$ 115,103,425</u>	<u>\$ 115,484,487</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 4,124,581	\$ 3,995,134	\$ 3,938,717
Contributions - member	1,619,074	1,644,309	1,536,995
Net investment income	6,314,534	767,608	7,323,153
Benefit payments, including refunds of employee contributions	(8,939,771)	(8,945,504)	(8,873,728)
Transfers among employers	<u>32,697</u>	<u>(462,753)</u>	<u>(142,214)</u>
Net change in plan fiduciary net position	<u>3,151,115</u>	<u>(3,001,206)</u>	<u>3,782,923</u>
Plan net position - beginning	63,585,417	66,586,623	62,803,700
Plan net position - ending (b)	<u>\$ 66,736,532</u>	<u>\$ 63,585,417</u>	<u>\$ 66,586,623</u>
Net pension liability - ending (a) - (b)	\$ 53,962,552	\$ 51,518,008	\$ 48,897,864
Plan fiduciary net position as a percentage of the total pension liability	55.29%	55.24%	57.66%
Covered payroll *	20,414,069	20,305,580	19,806,420
Net pension liability as a percentage of covered payroll	264.34%	253.71%	246.88%

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

* The data provided in the schedule is as of the measurement date of the City's net pension liability, which is as of the beginning of the City's fiscal year.

CITY OF GADSDEN, ALABAMA

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Year Ended September 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution*	\$ 3,882,967	\$ 4,161,168	\$ 3,706,876
Contributions in relation to the actuarially determined contribution*	<u>3,882,967</u>	<u>4,161,168</u>	<u>4,081,582</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (374,706)</u>
Covered payroll	\$ 20,750,678	\$ 20,305,580	\$ 19,806,420
Contributions as a percentage of covered payroll	18.71%	20.49%	20.61%

* The amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. The Schedule of Employer Contributions is based on the 12 month period of the underlying financial statements.

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

CITY OF GADSDEN, ALABAMA

EMPLOYEES' MEDICAL INSURANCE PLAN OF THE CITY OF GADSDEN, ALABAMA
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

For the Year Ended September 30, 2017

	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 541,622
Interest on total OPEB liability	704,964
Changes of benefit terms	-
Effect of economic/demographic gains or (losses)	-
Effect of assumption changes or inputs	(1,428,238)
Benefit payments	<u>(1,069,551)</u>
Net change in total OPEB liability	(1,251,203)
Total OPEB liability, beginning	<u>23,042,247</u>
Total OPEB liability, ending	<u>\$ 21,791,044</u>
Covered payroll	\$ 16,944,077
Total OPEB liability as a % of covered payroll	128.61%

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

CITY OF GADSDEN, ALABAMA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended September 30, 2017

Note 1 – Method and Assumptions Used in Calculations of Actuarially Determined Contributions

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 assumptions used to determine contribution rates for the period October 1, 2016 to September 30, 2017 are as follows:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	24 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increase	3.75 – 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

CITY OF GADSDEN, ALABAMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2017

	Total Nonmajor Funds	Special Revenue Funds									
		Special Auto Tax	State Gas Tax	Lodging Tax	Community Development	Library Grants	Tobacco Tax	Drug Task Force	Summer Food Service	Aging Program	Transportation and Planning
Assets											
Cash and cash equivalents	\$ 7,378,302	\$ 6,470	\$ 67	\$ 578,897	\$ 47,250	\$ 45,418	\$ 62,210	\$ 34,316	\$ 17,374	\$ -	\$ -
Investments	166,924	-	-	-	-	-	-	-	-	-	-
Receivables											
Interest	326	-	-	-	-	-	-	-	-	-	-
Taxes	106,248	9,764	24,027	26,854	-	-	-	-	-	-	-
Intergovernmental	288,677	-	-	-	34,402	-	-	-	-	1,127	35,223
Restricted cash	122,829	-	-	-	-	-	-	-	-	-	-
Total Assets	\$ 8,063,306	\$ 16,234	\$ 24,094	\$ 605,751	\$ 81,652	\$ 45,418	\$ 62,210	\$ 34,316	\$ 17,374	\$ 1,127	\$ 35,223
Liabilities, Deferred Inflows of Resources and Fund Balances											
Liabilities											
Accounts payable and other liabilities	\$ 214,159	\$ -	\$ -	\$ -	\$ 106	\$ 9	\$ -	\$ 1	\$ -	\$ 655	\$ 20
Accrued payroll and related liabilities	20,571	-	-	-	2,082	640	-	-	-	1,992	2,899
Due to other funds	69,728	-	-	-	35,434	-	-	-	-	-	31,541
Total Liabilities	304,458	-	-	-	37,622	649	-	1	-	2,647	34,460
Deferred Inflows of Resources											
Unavailable revenue - property taxes	-	-	-	-	-	-	-	-	-	-	-
Fund Balances											
Restricted	3,942,106	16,234	24,094	605,751	44,030	44,769	62,210	34,315	17,374	-	763
Committed	3,821,015	-	-	-	-	-	-	-	-	-	-
Unassigned	(4,273)	-	-	-	-	-	-	-	-	(1,520)	-
Total Fund Balances	7,758,848	16,234	24,094	605,751	44,030	44,769	62,210	34,315	17,374	(1,520)	763
Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 8,063,306	\$ 16,234	\$ 24,094	\$ 605,751	\$ 81,652	\$ 45,418	\$ 62,210	\$ 34,316	\$ 17,374	\$ 1,127	\$ 35,223

CITY OF GADSDEN, ALABAMA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET (continued)
 September 30, 2017

	Gadsden Transit Service	Emergency Solutions Grant	Chemical Stockpile	Corrections Fund	Economic Development	Law Enforcement	Other Restricted Funds	Miscellaneous Grants	Judicial Adm Fund	Total Special Revenue Funds
Assets										
Cash and cash equivalents	\$ 549,777	\$ -	\$ -	\$ 38,248	\$ 13,370	\$ 21,982	\$ 2,070,462	\$ -	\$ 25,772	\$ 3,511,613
Investments	-	-	-	-	-	-	-	-	-	-
Receivables										
Interest	-	-	-	-	-	-	-	-	-	-
Taxes	-	-	-	-	45,603	-	-	-	-	106,248
Intergovernmental	53,105	-	-	-	-	-	-	-	-	123,857
Restricted cash	-	-	-	-	-	-	-	-	-	-
Total Assets	\$ 602,882	\$ -	\$ -	\$ 38,248	\$ 58,973	\$ 21,982	\$ 2,070,462	\$ -	\$ 25,772	\$ 3,741,718
Liabilities, Deferred Inflows of Resources and Fund Balances										
Liabilities										
Accounts payable and other liabilities	\$ 8,584	\$ -	\$ -	\$ 6,169	\$ -	\$ -	\$ 6,658	\$ -	\$ -	\$ 22,202
Accrued payroll and related liabilities	12,958	-	-	-	-	-	-	-	-	20,571
Due to other funds	-	-	-	-	-	-	-	2,753	-	69,728
Total Liabilities	21,542	-	-	6,169	-	-	6,658	2,753	-	112,501
Deferred Inflows of Resources										
Unavailable revenue - property tax	-	-	-	-	-	-	-	-	-	-
Fund Balances										
Restricted	581,340	-	-	32,079	58,973	21,982	2,063,804	-	25,772	3,633,490
Committed	-	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	(2,753)	-	(4,273)
Total Fund Balances	581,340	-	-	32,079	58,973	21,982	2,063,804	(2,753)	25,772	3,629,217
Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 602,882	\$ -	\$ -	\$ 38,248	\$ 58,973	\$ 21,982	\$ 2,070,462	\$ -	\$ 25,772	\$ 3,741,718

CITY OF GADSDEN, ALABAMA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET (continued)
 September 30, 2017

	Debt Service Funds													Total Debt Service Funds	
	Honda Assistance	Airport Authority	2012-D Debt Service	2006-A Debt Service	2006-B Debt Service	2011 Debt Service	2012-A Debt Service	2012-B Debt Service	2012-C Debt Service	2014-A/ 2017-A Debt Service	2014-B Debt Service	2014-C Debt Service	2014-D Debt Service		Capital Leases
Assets															
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Receivables															
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Intergovernmental	-	4,877	-	-	-	-	-	-	-	-	-	-	-	-	
Restricted cash	-	12,760	6,104	10,542	-	6,652	-	-	-	86,131	-	-	172	468	
Total Assets	\$ -	\$ 17,637	\$ 6,104	\$ 10,542	\$ -	\$ 6,652	\$ -	\$ -	\$ -	\$ 86,131	\$ -	\$ -	\$ 172	\$ 468	\$ 127,706
Liabilities, Deferred Inflows of Resources and Fund Balances															
Liabilities															
Accounts payable and other liabilities	\$ -	\$ 1,215	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Accrued payroll and related liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Liabilities	-	1,215	-	-	-	-	-	-	-	-	-	-	-	-	
Deferred Inflows of Resources															
Unavailable revenue - property tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Fund Balances															
Restricted	-	16,422	6,104	10,542	-	6,652	-	-	-	86,131	-	-	172	468	
Committed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Unassigned	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Fund Balances	-	16,422	6,104	10,542	-	6,652	-	-	-	86,131	-	-	172	468	
Liabilities, Deferred Inflows of Resources and Fund Balances	\$ -	\$ 17,637	\$ 6,104	\$ 10,542	\$ -	\$ 6,652	\$ -	\$ -	\$ -	\$ 86,131	\$ -	\$ -	\$ 172	\$ 468	\$ 127,706

CITY OF GADSDEN, ALABAMA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET (continued)
 September 30, 2017

	Capital Projects Funds							Permanent Funds			
	Municipal Capital Improvements Funds	Capital Project Funds	Resurfacing Project 1999	2011-A Capital Project	2012-A, B, C Capital Project	2012-D Capital Project	2014-B&C Capital Project	Total Capital Project Funds	Nell Thomas Library	Library Endowment	Total Permanent Funds
Assets											
Cash and cash equivalents	\$ 2,234,362	\$ 753,988	\$ 348,438	\$ 515,026	\$ -	\$ -	\$ -	\$ 3,851,814	\$ 13,714	\$ 1,161	\$ 14,875
Investments	-	-	-	-	-	-	-	-	142,174	24,750	166,924
Receivables											
Interest	-	-	-	-	-	-	-	-	201	125	326
Taxes	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	159,943	-	-	-	-	-	159,943	-	-	-
Restricted cash	-	-	-	-	-	-	-	-	-	-	-
Total Assets	<u>\$ 2,234,362</u>	<u>\$ 913,931</u>	<u>\$ 348,438</u>	<u>\$ 515,026</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,011,757</u>	<u>\$ 156,089</u>	<u>\$ 26,036</u>	<u>\$ 182,125</u>
Liabilities, Deferred Inflows of Resources and Fund Balances											
Liabilities											
Accounts payable and other liabilities	\$ -	\$ 190,742	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 190,742	\$ -	\$ -	\$ -
Accrued payroll and related liabilities	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>190,742</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>190,742</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources											
Unavailable revenue - property tax	-	-	-	-	-	-	-	-	-	-	-
Fund Balances											
Restricted	-	-	-	-	-	-	-	-	156,089	26,036	182,125
Committed	2,234,362	723,189	348,438	515,026	-	-	-	3,821,015	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-	-	-
Total Fund Balances	<u>2,234,362</u>	<u>723,189</u>	<u>348,438</u>	<u>515,026</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,821,015</u>	<u>156,089</u>	<u>26,036</u>	<u>182,125</u>
Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,234,362</u>	<u>\$ 913,931</u>	<u>\$ 348,438</u>	<u>\$ 515,026</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,011,757</u>	<u>\$ 156,089</u>	<u>\$ 26,036</u>	<u>\$ 182,125</u>

CITY OF GADSDEN, ALABAMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2017

	Special Revenue Funds									
	Total Nonmajor Funds	Special Auto Tax	State Gas Tax	Lodging Tax	Community Development	Library Grants	Tobacco Tax	Drug Task Force	Summer Food Service	Aging Program
Revenue										
Taxes	\$ 1,770,602	\$ -	\$ -	\$ 272,105	\$ -	\$ -	\$ 391,796	\$ -	\$ -	\$ -
Intergovernmental	2,985,306	115,346	451,635	-	882,850	87,085	-	-	119,657	12,706
Charges for services	180,241	-	-	-	38,582	-	-	-	-	-
Fines and forfeitures	79,831	-	-	-	-	-	-	-	-	-
Other	468,556	-	-	-	-	-	-	(67)	-	-
Total Revenue	<u>5,484,536</u>	<u>115,346</u>	<u>451,635</u>	<u>272,105</u>	<u>921,432</u>	<u>87,085</u>	<u>391,796</u>	<u>(67)</u>	<u>119,657</u>	<u>12,706</u>
Expenditures										
Current										
Public safety	450,944	-	250,000	-	-	-	-	-	-	-
Recreation and cultural services	436,979	-	-	-	-	85,859	-	-	120,478	109,956
Urban development	4,868	-	-	-	4,868	-	-	-	-	-
Intergovernmental	1,518,233	-	-	-	254,804	-	-	-	-	-
Debt service										
Principal	6,617,113	-	-	-	75,000	-	-	-	-	-
Interest and fiscal charges	1,780,659	-	-	-	41,723	-	-	-	-	-
Capital outlays	2,298,439	-	-	-	545,037	7,099	-	-	-	-
Total Expenditures	<u>13,107,235</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>921,432</u>	<u>92,958</u>	<u>-</u>	<u>-</u>	<u>120,478</u>	<u>109,956</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>(7,622,699)</u>	<u>115,346</u>	<u>201,635</u>	<u>272,105</u>	<u>-</u>	<u>(5,873)</u>	<u>391,796</u>	<u>(67)</u>	<u>(821)</u>	<u>(97,250)</u>
Other Financing Sources (Uses)										
Proceeds from refunding warrants issued	2,222,550	-	-	-	-	-	-	-	-	-
Proceeds from sale of assets	182,050	-	-	-	-	-	-	-	-	-
Transfers	5,503,885	(120,000)	(223,800)	(200,000)	-	-	(375,000)	-	-	93,297
Total Other Financing Sources (Uses)	<u>7,908,485</u>	<u>(120,000)</u>	<u>(223,800)</u>	<u>(200,000)</u>	<u>-</u>	<u>-</u>	<u>(375,000)</u>	<u>-</u>	<u>-</u>	<u>93,297</u>
Net Change in Fund Balances	285,786	(4,654)	(22,165)	72,105	-	(5,873)	16,796	(67)	(821)	(3,953)
Fund Balances - Beginning of Year	<u>7,473,062</u>	<u>20,888</u>	<u>46,259</u>	<u>533,646</u>	<u>44,030</u>	<u>50,642</u>	<u>45,414</u>	<u>34,382</u>	<u>18,195</u>	<u>2,433</u>
Fund Balances - End of Year	<u>\$ 7,758,848</u>	<u>\$ 16,234</u>	<u>\$ 24,094</u>	<u>\$ 605,751</u>	<u>\$ 44,030</u>	<u>\$ 44,769</u>	<u>\$ 62,210</u>	<u>\$ 34,315</u>	<u>\$ 17,374</u>	<u>\$ (1,520)</u>

CITY OF GADSDEN, ALABAMA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUE, EXPENDITURES
 AND CHANGES IN FUND BALANCES (continued)
 For the Year Ended September 30, 2017

	Special Revenue Funds										Total Special Revenue Funds
	Transportation and Planning	Gadsden Transit Grants	Emergency Solutions Grant	Chemical Stockpile	Corrections Fund	Economic Development	Law Enforcement	Other Restricted Funds	Miscellaneous Grants	Judicial Adm Fund	
Revenue											
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 558,620	\$ -	\$ 548,081	\$ -	\$ -	\$ 1,770,602
Intergovernmental	122,319	435,313	200,000	-	-	-	21,809	-	34,591	-	2,483,311
Charges for services	-	73,064	-	-	-	-	-	68,595	-	-	180,241
Fines and forfeitures	-	-	-	-	45,108	-	-	4,327	-	30,396	79,831
Other	-	-	-	-	-	-	-	133,757	-	-	133,690
Total Revenue	<u>122,319</u>	<u>508,377</u>	<u>200,000</u>	<u>-</u>	<u>45,108</u>	<u>558,620</u>	<u>21,809</u>	<u>754,760</u>	<u>34,591</u>	<u>30,396</u>	<u>4,647,675</u>
Expenditures											
Current											
Public safety	-	-	-	-	6,466	-	25,133	66,753	34,591	68,001	450,944
Recreation and cultural services	-	-	-	-	-	-	-	120,686	-	-	436,979
Urban development	-	-	-	-	-	-	-	-	-	-	4,868
Intergovernmental	152,897	905,881	200,000	-	-	-	-	4,651	-	-	1,518,233
Debt service											
Principal	-	-	-	-	-	-	-	-	-	-	75,000
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	-	41,723
Capital outlays	-	-	-	-	-	112,879	-	441,890	-	-	1,106,905
Total Expenditures	<u>152,897</u>	<u>905,881</u>	<u>200,000</u>	<u>-</u>	<u>6,466</u>	<u>112,879</u>	<u>25,133</u>	<u>633,980</u>	<u>34,591</u>	<u>68,001</u>	<u>3,634,652</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>(30,578)</u>	<u>(397,504)</u>	<u>-</u>	<u>-</u>	<u>38,642</u>	<u>445,741</u>	<u>(3,324)</u>	<u>120,780</u>	<u>-</u>	<u>(37,605)</u>	<u>1,013,023</u>
Other Financing Sources (Uses)											
Proceeds from refunding warrants issued	-	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of assets	-	-	-	-	-	182,050	-	-	-	-	182,050
Transfers	30,533	524,507	-	-	-	(675,000)	18,524	-	-	-	(926,939)
Total Other Financing Sources (Uses)	<u>30,533</u>	<u>524,507</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(492,950)</u>	<u>18,524</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(744,889)</u>
Net Change in Fund Balances	<u>(45)</u>	<u>127,003</u>	<u>-</u>	<u>-</u>	<u>38,642</u>	<u>(47,209)</u>	<u>15,200</u>	<u>120,780</u>	<u>-</u>	<u>(37,605)</u>	<u>268,134</u>
Fund Balances - Beginning of Year	<u>808</u>	<u>454,337</u>	<u>-</u>	<u>-</u>	<u>(6,563)</u>	<u>106,182</u>	<u>6,782</u>	<u>1,943,024</u>	<u>(2,753)</u>	<u>63,377</u>	<u>3,361,083</u>
Fund Balances - End of Year	<u>\$ 763</u>	<u>\$ 581,340</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,079</u>	<u>\$ 58,973</u>	<u>\$ 21,982</u>	<u>\$ 2,063,804</u>	<u>\$ (2,753)</u>	<u>\$ 25,772</u>	<u>\$ 3,629,217</u>

CITY OF GADSDEN, ALABAMA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUE, EXPENDITURES
 AND CHANGES IN FUND BALANCES (continued)
 For the Year Ended September 30, 2017

	Debt Service Funds												Total Debt Service Funds
	Airport Authority	2012-D Debt Service	2006-A Debt Service	2006-B Debt Service	2011 Debt Service	2012-A Debt Service	2012-B Debt Service	2012-C Debt Service	2014-A/ 2017-A Debt Service	2014-B Debt Service	2014-C Debt Service	2014-D Debt Service	
Revenue													
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	6,451	-	-	-	-	840	-	-	-	-
Total Revenue	-	-	-	6,451	-	-	-	-	840	-	-	-	-
Expenditures													
Current													
Public safety	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreation and cultural services	-	-	-	-	-	-	-	-	-	-	-	-	-
Urban development	-	-	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt service													
Principal	-	1,315,000	50,000	-	325,000	985,000	325,000	445,000	2,231,128	40,000	10,000	165,000	650,985
Interest and fiscal charges	11,872	114,890	27,607	-	131,638	560,797	112,650	209,935	156,132	275,219	75,616	40,039	22,541
Capital outlays	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	11,872	1,429,890	77,607	-	456,638	1,545,797	437,650	654,935	2,387,260	315,219	85,616	205,039	673,526
Excess (Deficiency) of Revenue Over (Under) Expenditures	(11,872)	(1,429,890)	(77,607)	6,451	(456,638)	(1,545,797)	(437,650)	(654,935)	(2,386,420)	(315,219)	(85,616)	(205,039)	(673,526)
Other Financing Sources (Uses)													
Proceeds from refunding warrants issued	-	-	-	-	-	-	-	-	2,222,550	-	-	-	-
Proceeds from sale of assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers	(6,400)	1,329,890	78,275	(6,451)	457,681	1,545,797	437,650	654,935	250,000	315,219	85,616	205,089	673,531
Total Other Financing Sources (Uses)	(6,400)	1,329,890	78,275	(6,451)	457,681	1,545,797	437,650	654,935	2,472,550	315,219	85,616	205,089	673,531
Net Change in Fund Balances	(18,272)	(100,000)	668	-	1,043	-	-	-	86,130	-	-	50	5
Fund Balances - Beginning of Year	34,694	106,104	9,874	-	5,609	-	-	-	1	-	-	122	463
Fund Balances - End of Year	\$ 16,422	\$ 6,104	\$ 10,542	\$ -	\$ 6,652	\$ -	\$ -	\$ -	\$ 86,131	\$ -	\$ -	\$ 172	\$ 468

CITY OF GADSDEN, ALABAMA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUE, EXPENDITURES
 AND CHANGES IN FUND BALANCES (continued)
 For the Year Ended September 30, 2017

	Capital Projects Funds					Permanent Funds			
	Municipal Capital Improvements Funds	Capital Project Funds	Resurfacing Project 1999	2011-A Capital Project	2014-B&C Capital Project	Total Capital Project Funds	Nell Thomas Library	Library Endowment	Total Permanent Funds
Revenue									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	501,995	-	-	-	501,995	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-	-	-	-
Other	314,167	12,500	-	-	-	326,667	761	147	908
Total Revenue	<u>314,167</u>	<u>514,495</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>828,662</u>	<u>761</u>	<u>147</u>	<u>908</u>
Expenditures									
Current									
Public safety	-	-	-	-	-	-	-	-	-
Recreation and cultural services	-	-	-	-	-	-	-	-	-
Urban development	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-
Debt service									
Principal	-	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-	-
Capital outlays	-	573,549	460,416	-	157,569	1,191,534	-	-	-
Total Expenditures	<u>-</u>	<u>573,549</u>	<u>460,416</u>	<u>-</u>	<u>157,569</u>	<u>1,191,534</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>314,167</u>	<u>(59,054)</u>	<u>(460,416)</u>	<u>-</u>	<u>(157,569)</u>	<u>(362,872)</u>	<u>761</u>	<u>147</u>	<u>908</u>
Other Financing Sources (Uses)									
Proceeds from refunding warrants issued	-	-	-	-	-	-	-	-	-
Proceeds from sale of assets	-	-	-	-	-	-	-	-	-
Transfers	-	66,192	343,800	-	-	409,992	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>66,192</u>	<u>343,800</u>	<u>-</u>	<u>-</u>	<u>409,992</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	314,167	7,138	(116,616)	-	(157,569)	47,120	761	147	908
Fund Balances - Beginning of Year	<u>1,920,195</u>	<u>716,051</u>	<u>465,054</u>	<u>515,026</u>	<u>157,569</u>	<u>3,773,895</u>	<u>155,328</u>	<u>25,889</u>	<u>181,217</u>
Fund Balances - End of Year	<u>\$ 2,234,362</u>	<u>\$ 723,189</u>	<u>\$ 348,438</u>	<u>\$ 515,026</u>	<u>\$ -</u>	<u>\$ 3,821,015</u>	<u>\$ 156,089</u>	<u>\$ 26,036</u>	<u>\$ 182,125</u>

CITY OF GADSDEN, ALABAMA
STATISTICAL SECTION
For the Year Ended September 30, 2017

This part of the City of Gadsden's annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	75-78
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	79-83
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	84-87
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	88-89
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	90-92
Sources Unless otherwise noted, the information in these schedules is derived from the annual financial reports for the relevant year.	

CITY OF GADSDEN, ALABAMA

SCHEDULE 1
NET POSITION BY COMPONENT
LAST FIVE FISCAL YEARS

	Fiscal Years				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Governmental Activities					
Invested in capital assets, net of related debt	\$ 56,535,831	\$ 55,526,421	\$ 58,221,381	\$ 61,245,198	\$ 63,375,285
Restricted	4,624,448	4,408,649	4,391,557	4,878,735	5,169,139
Unrestricted	<u>(53,227,907)</u>	<u>(49,929,922)</u>	<u>(91,051,454)</u>	<u>(88,030,877)</u>	<u>(64,110,460)</u>
Total Governmental Activities Net Position	<u>\$ 7,932,372</u>	<u>\$ 10,005,148</u>	<u>\$ (28,438,516)</u>	<u>\$ (21,906,944)</u>	<u>\$ 4,433,964</u>
Business-Type Activities					
Invested in capital assets, net of related debt	\$ 8,407,960	\$ 8,632,873	\$ 8,632,873	\$ 8,045,586	\$ 7,480,212
Unrestricted	<u>(3,927,007)</u>	<u>(4,485,436)</u>	<u>(6,602,886)</u>	<u>(6,193,554)</u>	<u>(8,017,098)</u>
Total Business-Type Activities Net Position	<u>\$ 4,480,953</u>	<u>\$ 4,147,437</u>	<u>\$ 2,029,987</u>	<u>\$ 1,852,032</u>	<u>\$ (536,886)</u>
Primary Government					
Invested in capital assets, net of related debt	\$ 64,943,791	\$ 64,159,294	\$ 66,854,254	\$ 69,290,784	\$ 70,855,497
Restricted	4,624,448	4,408,649	4,391,557	4,878,735	5,169,139
Unrestricted	<u>(57,154,914)</u>	<u>(54,415,358)</u>	<u>(97,654,340)</u>	<u>(94,224,431)</u>	<u>(72,127,558)</u>
Total Primary Government Activities Net Position	<u>\$ 12,413,325</u>	<u>\$ 14,152,585</u>	<u>\$ (26,408,529)</u>	<u>\$ (20,054,912)</u>	<u>\$ 3,897,078</u>

CITY OF GADSDEN, ALABAMA

SCHEDULE 2
CHANGES IN NET POSITION
LAST FIVE FISCAL YEARS

	Fiscal Years				
	2013	2014	2015	2016	2017
Expenses					
Governmental activities					
General government	\$ 2,192,665	\$ 2,178,689	\$ 2,191,507	\$ 2,416,177	\$ 2,381,006
Internal services	3,219,291	3,775,416	3,222,613	3,331,109	3,262,736
Public safety	23,160,263	23,764,469	22,868,749	23,217,184	23,700,063
Recreation and cultural services	7,713,770	7,821,845	6,888,842	8,197,657	8,382,281
Public works services	5,524,090	5,727,620	6,468,979	6,143,063	6,010,652
Urban development	4,785,577	6,509,182	6,382,086	6,355,444	4,859,328
Intergovernmental	4,556,853	3,277,880	3,399,928	3,261,942	5,121,805
Non-departmental	2,997,459	2,885,965	3,051,515	3,068,824	3,510,847
Interest on long-term debt	2,748,226	2,035,902	1,993,652	1,926,780	1,853,486
Bond issuance cost	-	200,213	-	-	-
Total Governmental Activities Expenses	<u>56,898,194</u>	<u>58,177,181</u>	<u>56,467,871</u>	<u>57,918,180</u>	<u>59,082,204</u>
Business-type activities					
Airport	235,520	233,734	227,127	285,428	241,547
Residential garbage	2,694,102	2,767,199	2,757,333	2,403,472	5,436,064
Golf course	1,334,304	1,351,328	1,298,132	1,262,018	1,241,135
Total Business-Type Activities Expenses	<u>4,263,926</u>	<u>4,352,261</u>	<u>4,282,592</u>	<u>3,950,918</u>	<u>6,918,746</u>
Total Primary Government Expenses	<u>\$ 61,162,120</u>	<u>\$ 62,529,442</u>	<u>\$ 60,750,463</u>	<u>\$ 61,869,098</u>	<u>\$ 66,000,950</u>
Program Revenue					
Governmental activities					
Charges for services	\$ 2,396,768	\$ 2,412,131	\$ 2,530,128	\$ 2,829,425	\$ 3,154,104
Operating grants and contributions	3,219,871	2,649,701	3,511,925	2,355,791	2,544,900
Capital grants and contributions	318,402	387,338	338,767	361,474	730,505
Total Governmental Activities Program Revenue	<u>5,935,041</u>	<u>5,449,170</u>	<u>6,380,820</u>	<u>5,546,690</u>	<u>6,429,509</u>
Business-type activities					
Charges for services	3,121,914	2,927,749	2,831,689	2,776,439	3,231,053
Total Business-Type Activities Program Revenue	<u>3,121,914</u>	<u>2,927,749</u>	<u>2,831,689</u>	<u>2,776,439</u>	<u>3,231,053</u>
Total Primary Government Program Revenue	<u>\$ 9,056,955</u>	<u>\$ 8,376,919</u>	<u>\$ 9,212,509</u>	<u>\$ 8,323,129</u>	<u>\$ 9,660,562</u>
Net Revenue (Expenses)					
Governmental activities	\$ (50,963,153)	\$ (52,728,011)	\$ (50,087,051)	\$ (52,371,490)	\$ (52,652,695)
Business-type activities	(1,142,012)	(1,424,512)	(1,450,903)	(1,174,479)	(3,687,693)
Total Primary Government Activities, Net Expense	<u>\$ (52,105,165)</u>	<u>\$ (54,152,523)</u>	<u>\$ (51,537,954)</u>	<u>\$ (53,545,969)</u>	<u>\$ (56,340,388)</u>
General Revenue and Other Changes in Net Position					
Governmental activities					
Taxes	\$ 46,691,159	\$ 48,028,690	\$ 49,998,590	\$ 51,822,478	\$ 51,451,553
Licenses and permits	6,681,451	6,735,035	7,055,204	7,247,356	7,134,787
Investment earnings	579,430	552,642	536,644	520,799	506,229
Gain on disposal of assets	-	-	-	-	217,300
Other general revenue	1,086,955	581,875	518,192	544,753	500,389
Total Governmental Activities	<u>55,038,995</u>	<u>55,898,242</u>	<u>58,108,630</u>	<u>60,135,386</u>	<u>59,810,258</u>
Business-type activities					
Investment and other income	-	-	-	-	-
Total Business-Type Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 55,038,995</u>	<u>\$ 55,898,242</u>	<u>\$ 58,108,630</u>	<u>\$ 60,135,386</u>	<u>\$ 59,810,258</u>

CITY OF GADSDEN, ALABAMA

**SCHEDULE 3
FUND BALANCE, GOVERNMENTAL FUNDS
LAST THREE FISCAL YEARS**

	Fiscal Years		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Fund			
Nonspendable	\$ 387,613	\$ 255,837	\$ 266,482
Committed	2,111,396	3,428,203	2,795,072
Unassigned	<u>13,843,792</u>	<u>15,688,901</u>	<u>17,591,083</u>
Total General Fund	<u>\$ 16,342,801</u>	<u>\$ 19,372,941</u>	<u>\$ 20,652,637</u>
All Other Governmental Funds			
Nonspendable	\$ 6,452,779	\$ 7,107,828	\$ 6,764,592
Restricted	4,419,205	4,178,782	5,159,372
Committed	8,131,683	5,762,531	6,503,391
Unassigned	<u>(21,474)</u>	<u>(9,316)</u>	<u>(4,273)</u>
Total All Other Governmental Funds	<u>\$ 18,982,193</u>	<u>\$ 17,039,825</u>	<u>\$ 18,423,082</u>

CITY OF GADSDEN, ALABAMA

SCHEDULE 4
CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS
LAST FIVE FISCAL YEARS

	Fiscal Years				
	2013	2014	2015	2016	2017
Revenue					
Taxes	\$ 46,645,900	\$ 48,104,490	\$ 49,998,590	\$ 51,589,558	\$ 51,265,415
Licenses and permits	6,681,450	6,735,035	7,055,204	7,247,356	7,134,787
Intergovernmental	3,735,685	2,804,797	3,935,225	2,818,115	3,359,316
Charges for services	1,787,642	1,926,757	1,997,487	2,325,917	2,332,175
Fines and forfeitures	639,689	624,981	565,628	523,500	504,074
Other revenue	1,606,177	1,131,457	848,365	975,854	1,240,562
Total Revenue	<u>61,096,543</u>	<u>61,327,517</u>	<u>64,400,499</u>	<u>65,480,300</u>	<u>65,836,329</u>
Expenditures					
Current					
General government	2,047,775	2,089,518	2,138,249	2,374,135	2,318,049
Internal services	3,028,081	3,076,267	3,112,755	3,225,661	3,132,984
Public safety	20,903,746	21,384,397	20,803,156	21,206,170	21,475,577
Recreation and cultural services	6,344,707	6,441,657	6,455,618	6,930,873	6,982,833
Public works services	5,047,761	5,273,963	5,180,750	5,447,202	5,549,204
Urban development	1,689,417	3,678,963	3,540,909	3,543,250	2,150,110
Non-departmental	2,924,116	2,878,594	3,042,746	3,066,715	3,458,939
Intergovernmental	4,556,853	3,277,880	3,399,928	3,261,942	5,121,805
Debt service					
Principal retirement	4,519,731	4,602,241	4,577,283	4,408,730	6,617,113
Interest and fiscal charges	2,121,860	2,130,521	2,072,359	1,933,693	1,780,659
Issuance costs	172,050	200,213	-	-	-
Capital outlays	5,397,755	9,745,865	6,880,145	7,342,856	6,771,189
Total Expenditures	<u>58,753,852</u>	<u>64,780,079</u>	<u>61,203,898</u>	<u>62,741,227</u>	<u>65,358,462</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>2,342,691</u>	<u>(3,452,562)</u>	<u>3,196,601</u>	<u>2,739,073</u>	<u>477,867</u>
Other Financing Sources (Uses)					
Capital lease	-	2,220,050	259,694	249,998	-
Proceeds from long-term debt	11,275,000	9,615,000	-	-	-
Issuance of bonds	-	4,300,000	-	-	-
Payments to escrow agent and issuance costs	(10,546,748)	(8,524,083)	-	-	-
Proceeds from sale of assets	83,376	97,511	110,428	40,294	260,954
Discount on bonds	-	(41,595)	-	-	-
Premium on bonds	-	19,368	-	-	-
Proceeds of refunding warrants	-	-	-	-	2,222,550
Payment to refunded warrant escrow agent	-	-	-	-	-
Transfers	(996,289)	(881,678)	(1,738,144)	(996,524)	(1,007,687)
Total Other Financing Sources (Uses)	<u>(184,661)</u>	<u>6,804,573</u>	<u>(1,368,022)</u>	<u>(706,232)</u>	<u>1,475,817</u>
Net Change in Fund Balances	<u>\$ 2,158,030</u>	<u>\$ 3,352,011</u>	<u>\$ 1,828,579</u>	<u>\$ 2,032,841</u>	<u>\$ 1,953,684</u>
Debt service as a Percentage of Noncapital Expenditures	14%	14%	14%	13%	17%

CITY OF GADSDEN, ALABAMA

**SCHEDULE 5
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST FIVE FISCAL YEARS**

Fiscal Year Ended September 30,	<u>Residential Property</u>	<u>Commercial Property</u>	<u>Industrial Property</u>	Less: <u>Tax-Exempt Property and Abatements</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>
2013	74,456,280	331,438,720	31,723,400	115,877,300	321,741,100	6.00%
2014	75,039,680	330,875,500	32,877,840	117,794,980	320,998,040	6.00%
2015	73,358,900	348,125,940	33,372,860	119,031,080	335,826,620	6.00%
2016	71,241,760	362,821,080	32,285,140	121,723,180	347,805,040	6.00%
2017	71,190,180	369,604,740	35,882,320	119,566,180	357,111,060	6.00%

Source: Etowah County Revenue Commissioner

CITY OF GADSDEN, ALABAMA

**SCHEDULE 5A
TOP TEN TAX RECEIPTS BY CATEGORY
LAST FIVE FISCAL YEARS**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Warehouse, clubs and super centers	\$ 3,563,637	\$ 3,583,315	\$ 3,585,394	\$ 3,576,489	\$ 3,520,429
Department stores (except discount department stores)	1,272,040	1,166,648	-	-	915,527
Limited service restaurants	1,939,712	1,965,202	1,954,274	1,911,520	2,093,950
Supermarkets & other grocery stores (except convenience stores)	1,661,612	1,649,349	1,786,792	1,852,185	1,876,346
Home centers	1,271,442	1,289,847	1,351,931	1,409,529	1,470,809
Full service restaurants	1,424,836	1,418,296	1,472,865	1,623,684	1,639,838
Sporting goods stores	923,265	865,064	-	-	-
New car dealers	997,233	1,080,005	-	-	1,319,979
Medical, dental and hospital equipment, and supplies and merchant wholesalers	1,157,003	1,001,259	-	-	1,000,357
All other miscellaneous store retailers (except tobacco stores)	<u>641,922</u>	<u>651,245</u>	<u>-</u>	<u>-</u>	<u>974,289</u>
Total	<u>\$ 14,852,702</u>	<u>\$ 14,670,230</u>	<u>\$ 10,151,256</u>	<u>\$ 10,373,407</u>	<u>\$ 14,811,524</u>
City direct sales tax rate	4%	4%	4%	4%	4%

Sources: RDS

CITY OF GADSDEN, ALABAMA

**SCHEDULE 6
DIRECT AND OVERLAPPING PROPERTY TAX RATES
(rate per \$1,000 of assessed value)
LAST FIVE FISCAL YEARS**

City Direct Rates						Overlapping Rates				
Fiscal Year	Basic Rate	General Fund	School Debt Service	Fire Protection	Total Direct	Fire Protection	County School District	City School District	State	County
2013	12	6	3	3	12	3	10	6	6.5	11.5
2014	12	6	3	3	12	3	10	6	6.5	11.5
2015	12	6	3	3	12	3	10	6	6.5	11.5
2016	12	6	3	3	12	3	10	6	6.5	11.5
2017	12	6	3	3	12	3	10	6	6.5	11.5

CITY OF GADSDEN, ALABAMA

SCHEDULE 7
PRINCIPAL PROPERTY TAX PAYERS
LAST FIVE FISCAL YEARS

Taxpayer	2013			2014			2015			2016			2017		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Alabama Power Co.	\$ 25,012,920	1	7.77%	\$ 26,409,420	1	8.23%	\$ 27,194,680	1	8.10%	\$ 27,493,460	1	7.90%	\$ 31,429,460	1	8.80%
The Goodyear Tire & Rubber Company	12,342,280	2	3.84%	10,885,680	2	3.39%	10,595,740	2	3.16%	16,672,600	2	4.79%	20,738,680	2	5.81%
QHC of Gadsden, Inc.	9,559,580	3	2.97%	9,712,100	3	3.03%	9,754,420	3	2.90%	9,895,820	3	2.85%	9,908,440	3	2.77%
Riverview Regional Medical	5,976,340	4	1.86%	6,151,080	4	1.92%	6,021,620	4	1.79%	6,127,040	4	1.76%	-	-	-
Preit Gadsden Mall, LLC	4,392,620	5	1.37%	4,488,560	5	1.40%	4,526,880	5	1.35%	4,550,940	5	1.31%	4,775,440	6	1.34%
Gadsden Regional Medical Center	4,230,060	6	1.31%	3,778,240	7	1.18%	3,483,300	8	1.04%	3,197,840	8	0.92%	3,289,820	8	0.92%
BellSouth / AT&T Alabama	4,199,200	7	1.31%	3,954,800	6	1.23%	3,870,900	6	1.15%	2,943,100	9	0.85%	-	-	-
State of Alabama	4,497,360	8	1.40%	4,550,520	8	1.42%	2,961,000	7	0.88%	3,251,060	7	0.93%	-	-	-
General Electric Capital Corp	3,123,940	9	0.97%	2,610,360	9	0.81%	-	-	-	-	-	-	-	-	-
Comcast of Alabama, Inc.	2,291,560	10	0.71%	2,467,640	10	0.77%	-	-	-	-	-	-	-	-	-
Keystone Foods	-	-	-	-	-	-	2,409,160	9	0.72%	-	-	-	7,558,040	4	2.12%
Riverview Regional Medical Center	-	-	-	-	-	-	2,395,080	10	0.71%	-	-	-	-	-	-
Inteva Products, LLC	-	-	-	-	-	-	-	-	-	4,411,100	6	1.27%	3,988,760	7	1.12%
Koch Foods of Gadsden LLC	-	-	-	-	-	-	-	-	-	2,829,040	10	0.81%	2,722,500	9	0.76%
Prime Healthcare Services Gadsden LLC	-	-	-	-	-	-	-	-	-	-	-	-	4,968,260	5	1.39%
Goodyear Tire & Rubber Co.	-	-	-	-	-	-	-	-	-	-	-	-	2,618,700	10	0.73%
Total	<u>\$ 75,625,860</u>			<u>\$ 75,008,400</u>			<u>\$ 73,212,780</u>			<u>\$ 81,372,000</u>			<u>\$ 91,998,100</u>		
Total City Taxable Assessed Value	<u>\$321,741,100</u>			<u>\$ 320,998,040</u>			<u>\$ 335,826,620</u>			<u>\$ 347,805,040</u>			<u>\$ 357,111,060</u>		

Source: Etowah County Revenue Commissioner

CITY OF GADSDEN, ALABAMA
SCHEDULE 8
PROPERTY TAX LEVIES AND COLLECTIONS
LAST FIVE FISCAL YEARS

	Taxes Levied For the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2013	4,101,109	-	-	3,746,237	3,746,237	91.35%
2014	4,074,439	-	-	3,474,117	3,474,117	85.27%
2015	4,237,155	-	-	3,619,149	3,619,149	85.41%
2016	4,380,236	-	-	3,674,824	3,674,824	83.90%
2017	4,923,928	-	-	3,841,397	3,841,397	78.01% (a)

(a) As of report date

CITY OF GADSDEN, ALABAMA

**SCHEDULE 9
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST FIVE FISCAL YEARS**

Fiscal Year	Governmental Activities			Business-Type Activities	
	General Obligation Bonds	Other Obligations	Special Obligation Bonds	General Obligation Bonds	Total Primary Government
2013	\$ 54,169,017	\$ 2,452,421	\$ 361,861	\$ 700,000	\$ 57,683,299
2014	56,559,072	3,453,345	186,740	600,000	60,799,157
2015	52,815,149	2,719,216	-	500,000	60,799,157
2016	48,971,226	2,313,867	-	400,000	51,685,093
2017	45,278,726	1,587,063	-	300,000	47,165,789

CITY OF GADSDEN, ALABAMA

**SCHEDULE 10
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST FIVE FISCAL YEARS**

General Bonded Debt Outstanding					
<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Special Obligation Bonds</u>	<u>Total</u>	<u>Percentage of Actual Taxable Value of Property</u>	<u>Per Capita</u>
2013	\$ 54,169,017	\$ 361,861	\$ 54,530,878	17%	\$ 1,454
2014	56,559,072	186,740	56,745,812	18%	1,513
2015	52,815,149	-	52,815,149	16%	1,408
2016	48,971,226	-	48,971,226	14%	1,349
2017	45,278,726	-	45,278,726	13%	1,263

CITY OF GADSDEN, ALABAMA

**SCHEDULE 11
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF SEPTEMBER 30, 2017**

	Total Debt <u>Outstanding</u>	Estimated Percent <u>Applicable</u>	Amount Applicable to City of <u>Gadsden</u>
Direct Debt			
City of Gadsden	\$ 50,549,519	100%	\$ 50,549,519
Total Direct Debt	<u>50,549,519</u>	100%	<u>50,549,519</u>
Overlapping Debt			
Etowah County	<u>29,404,906</u> (1)	23%	<u>6,763,128</u>
Total Overlapping Debt	<u>29,404,906</u>	23%	<u>6,763,128</u>
Total Direct and Overlapping Debt	<u>\$ 79,954,425</u>		<u>\$ 57,312,647</u>

(1) - Balance per the 9-30-2016 audit report performed by the Alabama Department of Examiners of Public Accounts. 9-30-2016 financial statements was the most recent data available as of the report date.

CITY OF GADSDEN, ALABAMA
SCHEDULE 12
LEGAL DEBT MARGIN INFORMATION
LAST FIVE FISCAL YEARS

Legal Debt Margin Calculation for Fiscal Year 2017	
Assessed value	\$ 476,677,240 ⁽¹⁾
Debt limit, 20 percent of assessed value	95,335,448
Debt applicable to limit:	
Outstanding and obligation warrants, installment purchases, etc.	50,275,966
Less: Exempt amounts	<u>(18,700,774)</u>
Total Net Debt Applicable to Limit	<u>\$ 31,575,192</u>
 Legal Debt Margin	 <u>\$ 63,760,256</u>

	Fiscal Years				
	2013	2014	2015	2016	2017
Debt Limit	<u>\$ 87,545,276</u>	<u>\$ 87,758,604</u>	<u>\$ 90,971,540</u>	<u>\$ 93,905,644</u>	<u>\$ 95,335,448</u>
Total net debt applicable to limit	<u>\$ 36,614,573</u>	<u>\$ 37,480,490</u>	<u>\$ 33,908,750</u>	<u>\$ 30,533,750</u>	<u>\$ 31,575,192</u>
Legal debt margin	<u>\$ 50,930,703</u>	<u>\$ 50,278,114</u>	<u>\$ 57,062,790</u>	<u>\$ 63,371,894</u>	<u>\$ 63,760,256</u>
Total net debt applicable to the limit as a percentage of debt limit	42%	43%	37%	33%	33%

Note: Section 225, as amended, Constitution of State of Alabama, limits debt of the City of Gadsden to 20 percent of the assessed value of taxable property. Excluded from this limitation are bonds issued for schools, sewers and assessed improvements.

⁽¹⁾ Source: Etowah County Tax Assessor

CITY OF GADSDEN, ALABAMA

SCHEDULE 13
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST FIVE FISCAL YEARS

<u>Year</u>	<u>*Population</u>	<u>*Personal Income</u>	<u>*Per Capita Personal Income</u>	<u>Median Age</u>	<u>Education Level in Years of Schooling</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
2013	36,674	635,002	18,481	38	N/A	5,398	5.50%
2014	36,674	588,982	17,933	38	N/A	5,326	5.30%
2015	36,295	626,296	17,981	41	N/A	5,188	6.70%
2016	36,295	680,493	18,090	39	N/A	5,066	6.70%
2017	35,837	673,055	18,781	40	N/A	5,010	5.10%

Sources: U.S. Bureau of the Census, Gadsden BOE, Gadsden Times & the Industrial Development Authority.

CITY OF GADSDEN, ALABAMA

SCHEDULE 14
PRINCIPAL EMPLOYERS
LAST FIVE FISCAL YEARS

<u>Employer</u>	<u>2013</u>		<u>2014</u>		<u>2015</u>		<u>2016</u>		<u>2017</u>	
	<u>Employees</u>	<u>Rank</u>	<u>Employees</u>	<u>Rank</u>	<u>Employees</u>	<u>Rank</u>	<u>Employees</u>	<u>Rank</u>	<u>Employees</u>	<u>Rank</u>
Goodyear Tire & Rubber	1,500	1	1,500	1	1,605	1	1,605	1	1,698	1
Gadsden Regional Medical Center	1,300	2	1,200	2	1,200	3	1,200	3	1,142	3
Etowah County Board of Education	1,080	3	1,054	3	1,515	2	1,515	2	1,200	2
Riverview Regional Medical Center	850	4	850	4	850	4	850	4	600	8
Wal-Mart	721	5	737	5	737	5	737	5	737	6
Gadsden State Community College	697	6	727	6	722	6	722	6	742	5
Gadsden City Schools	694	7	628	7	624	7	624	8	635	7
Koch Foods	565	8	500	8	576	8	624	7	760	4
City of Gadsden	520	9	500	9	500	9	500	9		
Keystone Foods	490	10	460	10	466	10	466	10	507	10
Inteva Products, LLC									580	9

Source: Gadsden Industrial Development Authority

CITY OF GADSDEN, ALABAMA

SCHEDULE 15
 FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
 LAST FIVE FISCAL YEARS

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Government					
Mayor's Office	6	6	5	5	5
Revenue	4	4	4	4	4
City Clerk	5	3	3	3	3
Public Safety					
Police Department					
Officers	102	102	104	101	106
Civilian	30	30	28	31	31
Fire Department					
Firefighters	114	114	114	114	114
Officers	8	8	8	8	8
Civilians	2	2	2	2	2
Judicial	3	2	6	6	6
Animal Control	3	3	3	3	3
Civil Defense	3	3	3	3	3
Communications	3	3	3	3	2
Public Works					
Maintenance	19	19	19	19	19
Street Painting	5	5	5	4	4
Street Cleaning	10	10	10	10	10
Street Maintenance	38	39	38	38	38
Internal Service					
Finance	6	6	6	6	6
M.I.S.	3	3	3	3	4
Purchasing	1	1	1	1	1
Personnel	3	3	3	3	3
Legal	2	2	2	3	3
Fleet	20	19	19	20	20
Recreation and Culture					
Parks and Recreation	41	43	43	43	43
Convention Hall	2	2	2	2	2
Cemetery	6	6	6	6	6
Library	18	18	18	18	18
Museum of Arts	3	3	3	3	3
Golf Course	6	6	6	6	6
Urban Development					
Engineering	7	7	7	6	6
Building	6	6	7	7	7
Planning	6	6	6	6	6
Total	<u>485</u>	<u>484</u>	<u>487</u>	<u>487</u>	<u>492</u>

Source: City Budget

CITY OF GADSDEN, ALABAMA

SCHEDULE 16
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST FIVE FISCAL YEARS

<u>Function/Program</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Police					
Physical Arrests	2,906	2,820	2,296	2,296	2,742
Parking Violations	306	343	96	149	115
Traffic Violations	4,889	7,176	4,103	5,774	7,373
Fire					
Emergency Responses	6,936	7,258	7,940	8,284	8,608
Fires extinguished	202	296	236	299	247
Inspections	1,971	1,970	1,970	1,310	1,520
Public Works					
Potholes repaired	7,800	8,200	9,500	8,600	9,600
Parks and Recreation					
Community center admissions	301,560	312,155	359,680	449,530	466,087
Library					
Volumes in collection	105,581	106,384	102,741	106,013	104,983
Total volumes borrowed	181,028	180,255	167,100	194,174	150,073

Note: The City of Gadsden does not issue permits for Athletic Fields.

Source: Various City Departments

CITY OF GADSDEN, ALABAMA

SCHEDULE 17
 CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
 LAST FIVE FISCAL YEARS

<u>Function/Program</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Police					
Stations	1	2	2	2	2
Patrol units	49	49	50	47	54
Fire Stations	8	8	8	8	8
Other Public Works					
Street (miles)	372	372	372	372	372
Highways (miles)	35	35	35	35	35
Streetlights	4,015	4,020	4,024	4,034	4,039
Traffic signals	139	139	139	139	140
Parks and Recreation					
Acreage	566	686	686	694	694
Playgrounds	16	16	16	16	16
Baseball/Softball diamonds	19	19	19	19	19
Soccer/Football fields	14	14	14	14	14
Community centers	9	9	9	9	9

Source: Various City Departments

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Gadsden, Alabama (the City), 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, and have issued our report thereon dated March 20, 2018. Our report includes a reference to other auditors who audited the financial statements of Gadsden City Board of Education and the Gadsden Airport Authority, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Birmingham, Alabama
March 20, 2018

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

To the Honorable Mayor and Members of the City Council
City of Gadsden, State Alabama

Report on Compliance for Each Major Federal Program

We have audited the City of Gadsden, Alabama's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Gadsden City Board of Education, which received \$8,613,156 in federal awards which is not included in City's schedule of expenditures of federal awards during the year ended September 30, 2017. Our audit, described below, did not include the operations of the Gadsden City Board of Education because it was required to have a separate audit in accordance with Uniform Guidance.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

Birmingham, Alabama
March 20, 2018

CITY OF GADSDEN, ALABAMA

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2017**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Passed Through to Sub recipient</u>	<u>Total Expended</u>
Federal Awards:				
Department of Housing & Urban Development:				
<u>Direct Programs:</u>				
Community Development Block Grant	14.218	B-14-MC-010004	\$ -	\$ 136,278
Community Development Block Grant	14.218	B-15-MC-010004	13,246	239,654
Community Development Block Grant	14.218	B-16-MC-010004	88,019	500,123
Continuum of Care		AL0111L4C051300	-	6,794
<u>Passed Through Alabama Department of Economic and Community Affairs:</u>				
Emergency Solutions Grant	14.231	HESG-15-002	-	200,000
Total Department of Housing & Urban Development			<u>101,265</u>	<u>1,082,849</u>
U.S. Department of Justice				
<u>Direct Programs:</u>				
Byrne Memorial Justice Assistance Grant	16.738	2016-DJ-BX-0337		34,591
Bulletproof Vest Partnership Grant	16.607			3,325
Total U.S. Department of Justice				<u>37,916</u>
Department of Health & Human Services				
<u>Passed Through Alabama Commission on Aging:</u>				
Special Program for Aging Title III B	93.044	04-17-03-16		5,386
Special Program for Aging Title III C	93.045	04-17-03-16		7,321
Total Department of Health & Human Services				<u>12,707</u>
Department of Agriculture				
<u>Passed Through Alabama Department of Education:</u>				
Summer Food Service Program for Children	10.559	AEZ-0000		120,478
Total Department of Agriculture				<u>120,478</u>
Department of Homeland Security				
<u>Passed Through Alabama Emergency Management Agency:</u>				
Emergency Management State & Local Assistance	97.042	17-EMPG-31		52,132
Hazard Mitigation Grant Program	97.039	FEMA-4176-30-HMGP-AL		63,827
Hazard Mitigation Grant Program	97.039	FEMA-4176-31-HMGP-AL		59,861
Total Department of Homeland Security				<u>175,820</u>
Department of Transportation				
<u>Direct Programs:</u>				
Federal Transit Formula Grant	20.507	AL-90-0245		26,096
Federal Transit Formula Grant	20.507	AL-90-4245		224,888
Federal Transit Formula Grant	20.507	AL-90-4330		54,784
Federal Transit Formula Grant	20.507	AL-90-0330		15,421
Federal Transit Formula Grant	20.507	AL-90-9343		114,124
<u>Passed Through Alabama Department of Transportation:</u>				
Highway Planning and Construction Grant	20.205	P45ME-100066055		122,317
ADA TE Grant	20.205	TAPAA-TR14(921)		264,336
Total Alabama Department of Transportation				<u>821,966</u>
Total Federal Awards			<u>\$ 101,265</u>	<u>\$ 2,251,736</u>

CITY OF GADSDEN, ALABAMA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended September 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Passed Through to Sub recipient</u>	<u>Total Expended</u>
State Awards:				
Atlanta Public Library Service Library Grant		SA-00-03	\$	57,210
Emergency Management Performance Grant		17EMA		3,709
Alabama Department of Environmental Management		ARF-16-19-136		20,695
Alabama Department of Economic & Community Affairs		15-RT-54-06		72,559
Total State Awards			<u>\$ -</u>	<u>\$ 154,173</u>
Total Federal and State Awards			<u>\$ 101,265</u>	<u>\$ 2,405,909</u>

CITY OF GADSDEN, ALABAMA

**Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017**

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Gadsden, Alabama (the City) under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3 – Indirect Cost Rate

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF GADSDEN, ALABAMA

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

A. Summary of Audit Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiencies identified not considered to be material weaknesses? _____ Yes X No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiencies identified not considered to be material weaknesses? _____ Yes X No

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of major federal programs:

CFDA #14.218 – Community Development Block Grant
CFDA #20.505 – Highway Planning and Construction

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

Auditee qualified as low-risk auditee? _____ Yes X No

B. Financial Statement Findings

None Reported

C. Federal Award Findings and Questioned Costs

None Reported

CITY OF GADSDEN, ALABAMA

**Schedule of Findings and Questioned Costs (continued)
For the Year Ended September 30, 2017**

D. Summary of Prior Year Findings

2016-001 Reconciliation of Intra-Entity Receivables and Payables

Management identified a receivable from a component unit in the capital project fund that had not been adjusted to reflect payments received. This was a result of transfers between the general fund and the capital project fund not being made in a timely manner. It was also noted that the City did not reconcile the receivables/payables from the various component units with the amount reported by the component units.

This resulted in a restatement of beginning fund balance in the capital project fund of \$235,800 and a restatement of beginning net position of the governmental activity in the government-wide financial statements of \$235,800.

Management has addressed all matters related to the receipt procedures and the circumstances giving rise to the material weakness have been fully and adequately addressed by management.

2016-002 Capital Lease Recognition

It was noted that the City did not properly record a capital lease obligation in the amount of \$249,998 during the year.

Management has addressed all matters related to the liability accrual procedures and the circumstances giving rise to the significant deficiency have been fully and adequately addressed by management.