

CITY OF PHENIX CITY, ALABAMA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

SEPTEMBER 30, 2017

CITY OF PHENIX CITY, ALABAMA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and Members
of the City Council
Phenix City, Alabama**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Phenix City, 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

The City's 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 ("GAAP"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") 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.

We did not audit the financial statements of the Phenix City Board of Education for the year ended September 30, 2017. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for this component unit, is solely based on the reports of the other auditors.

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 City'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 City'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 and based on our audit and the reports 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 as of September 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with GAAP.

Other Matters

Required Supplementary Information

GAAP requires that the Management's Discussion and Analysis (on pages 4 - 10) and the Required Supplementary Information (on pages 65 - 67) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2019, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the City's internal control over financial reporting and compliance.

Robinson, Grimes + Company, P.C.

Certified Public Accountants

January 30, 2019

CITY OF PHENIX CITY, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

This report represents management's discussion and analysis of the City's financial statements and financial performance for the fiscal year, which ended September 30, 2017. This report should be read in conjunction with the City's financial statements, which follow.

The City's financial statements consist of three parts: the management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements provide government-wide financial information about the City's overall financial status. The financial statements also include narrative notes that explain some of the information in the financial statements and provide more detailed data.

Government-Wide Statements

The government-wide financial statements report information about the City as a whole, using accounting methods similar to those used by private-sector companies.

- The statement of net position includes all of the government's assets, deferred outflows of resources and liabilities, with the difference reported as net position.
- All of the current year's revenues and expenses are accounted for in the statement of activities and changes in net position regardless of when cash is received or paid. This represents a change in net position in the most recent fiscal year. All changes in net position, revenues, or expenses are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

To assess the overall economic health of the City, additional non-financial factors such as changes in the City's tax base and the condition of the City's infrastructure should be considered.

The government-wide financial statements of the City are divided into three categories:

- **Governmental Activities** - most of the City's basic services are included here, such as general government (which includes administration, personnel, finance, and the City Courts) public safety, public works, parks and recreation, the Public Building Authority (a Blended Component Unit) and interest and fees on long-term debt;
- **Business-Type Activities** - the water and sewer services are included here; and
- **Discretely Presented Component Units** - financial information on the Phenix City Board of Education is presented here.

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MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

Fund Financial Statements

State law and/or accounting rules require certain revenue sources or types of expenses to be accounted for separately in special funds. Fund financial statements provide more detailed information about the City's most significant funds, rather than the City as a whole.

- State law requires the various gas taxes to be accounted for separately because their expenditures are restricted to specific uses.
- The City Council has established Debt Service and Capital Projects Funds to better control the use of monies dedicated to a particular purpose such as the 7 Mill Tax Fund used for general obligation debt service.
- The City Council has also established funds to show compliance with certain legally restricted revenue sources, such as the Corrections Fund and Confiscated Property Funds that must be used for public safety related expenses.
- The City established a Public Building Authority in 2011 to build and maintain several public buildings including a new community center, a downtown parking garage and new administrative offices.

The City's Funds are separated into three types:

- Governmental Funds. Most of the City's basic services are accounted for in governmental funds, which focus on:
 - How cash and other financial assets that can be readily converted to cash flow in and out and,
 - Balances left at fiscal year-end that are available for spending in future years.

Consequently, governmental funds' statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's services. A comparison of the short-term governmental funds focus of accounting and the government-wide long-term focus of accounting can provide useful information and a better understanding of the long-term impact of the City's short-term funding decisions.

- Proprietary Funds. Services provided to the general public for which customers are charged a fee are generally reported in Enterprise funds, which are called proprietary funds in the financial statements. The City of Phenix City has one proprietary fund:
 - The Public Utilities Fund, which provides water and sewer services to residential, commercial, and industrial customers residing within the City's utility district.

CITY OF PHENIX CITY, ALABAMA

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

This fund functions like a business activity, so its financial statements provide different information than those of the governmental funds, such as capital assets, long-term debt, depreciation expense, and cash flows.

- Internal Service Funds. Services provided to other city funds for which the funds are charged a fee are generally reported in an Internal Service Fund. The City of Phenix City has one internal service fund:
 - Governmental Activities Internal Service Fund which provides health insurance for all city employees.

Component Units:

The City has one component unit and one blended component unit.

- The Public Building Authority is a Blended Component Unit and was established to issue debt needed to build facilities which are then leased back to the City. The City's lease payments to the Public Building Authority are equal to the annual debt service on the Warrants issued to fund the facilities. The activities of the Public Building Authority are reported as part of the Governmental Activities portion of the City of Phenix financial statements.
- The Phenix City Board of Education is a component unit of the City established to manage the activities of the City's public school system. The City has issued bonds for the construction of facilities managed by the Board of Education and is obligated for the debt. Complete financial statements for the Board of Education are issued separately

Financial Analysis of the City (Primary Government)

Assets

Total assets of the City were \$211,824,603 for 2017 compared to \$199,900,747 for 2016. Most of the Governmental Activities net position is invested in capital assets (land, buildings, equipment, roads, etc.). The City's investment in such capital assets as of September 30, 2017 was \$155,784,182, which is an increase of \$5,413,691 from September 30, 2016 of 150,370,491. The City has recorded an accumulated \$75,948,736 in depreciation expense against these capital assets leaving a net asset book value of \$79,835,446. Debt outstanding related to capital assets was \$67,401,094 leaving an investment in capital assets of \$12,434,352 compared to \$19,810,571 for 2016. This decrease is related to the City's postponement of several large capital projects.

The City's Business-type Activities had capital assets as of September 30, 2017 of \$125,142,203, which represents an increase of \$2,706,405 from September 2016 of \$122,435,798. Net of \$50,095,381 in accumulated depreciation expense, the City's Business-type Activities had \$75,046,822 in capital assets which were related to Public Utilities (water and sewer). The City's water and sewer system debt

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MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

outstanding related to capital assets was \$43,285,695 leaving an investment in capital assets of \$31,759,123 for 2017 compared to \$31,602,376 for 2016.

Revenues

The City's total revenue from Governmental Funds was \$45,232,462, an increase of 5.56% from the previous year \$42,724,189. This increase was related to an increase in tax revenues. The largest revenue source for the City is the sales and use tax totaling \$22,341,136, which represents 49.4% of total revenues. Licenses and permits totaled \$5,551,391, charges for service totaled \$2,795,894 property taxes totaled \$5,815,670, other business taxes totaled \$1,307,814, and interest totaled \$119,920. The property tax rate for the City is 19 mills with seven mills dedicated for education, seven mills dedicated for debt service, and the remaining five mills is for operations. Of the total for property taxes, \$2,085,166 is dedicated to debt service and \$2,235,560 for education.

Expenditures

Departmental operating expenditures totaled \$34,822,644 or 85.5% of total non-capital expenditures of \$40,713,258. The City transferred \$2,229,110 to the Phenix City Board of Education and debt service on general obligation debt totaled \$5,890,614. Capital outlays during the fiscal year were \$3,427,893.

Public safety (police, code enforcement, and fire departments) is the largest category of departmental operating expenses totaling \$11,991,107 or 34.42%. General government, which includes the city manager's office, city clerk, finance, personnel, economic development, IT, the solid waste removal contract, insurance costs, and the municipal court, is second with a total of \$11,164,988 or 32.08%. Culture and recreation at \$4,628,076 or 13.28% and Public works at \$4,809,363 or 13.8% represent most of the balance of departmental operating expenditures. The decrease in departmental expenses resulted mostly from a reduction in spending in the general government.

Business-Type Activities

The City operates a Proprietary Fund, the Public Utilities, which provide water and sewer services.

Operating revenues in the Public Utilities division of \$10,508,784 were down \$95,944 in 2017 compared to \$10,604,728 in 2016 due to unusually wet weather during the summer of 2017. Operating expenses of \$7,754,549, not including depreciation and amortization expenses, were up \$106,283 compared to \$7,648,266 in 2016. Operating income, not including depreciation and amortization was down \$202,227. Depreciation and amortization expenses of \$2,716,977 increased \$124,078 from \$2,592,899 in 2016, interest expense was \$1,766,480 in 2017 compared to \$2,270,984 in 2016, interest income was \$54,959 in 2017 compared to \$42,537 in 2016, and contributed assets were \$48,951 in 2017

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FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

compared to \$0 in 2016 due to an increase in residential development in 2017. The change in net fund position was \$(1,279,808) for 2017, which was up from \$(1,513,477) in 2016 due to a decrease in interest expense. Contributed assets are capital assets constructed by private developers and contributed to the City when the City accepts a new development.

Fund Balances/Net Assets

The General Fund's Fund Balance increased \$2,407,132 to \$11,284,852 in 2017 compared to \$8,877,720 in 2016 due to increases in revenue and decreases in general governmental expenditures. The fund balance for the City's Other Governmental Funds increased \$9,945,175 to \$24,323,748 in 2017 compared to \$14,378,573 in 2016 primarily due to an increase in bond proceeds to complete several planned capital projects.

Net fund position in Public Utilities decreased \$1,279,808 to \$34,076,836 in 2017 compared to \$35,356,644 in 2016.

Budgetary Highlights

The City adopts annual budgets for the General Fund, all special revenue funds, and the Public Utilities Fund.

Total operating revenues were \$365,833 more than budgetary projections in the General Fund, due primarily to an increase in revenue from the sale of property and higher than expected intergovernmental revenues. Departmental expenditures were \$2,240,014 less than budgeted due to tightened budgetary controls instituted due to the slowdown in the local economy.

Gas Taxes were reduced in 2017 due to a dispute with Russell County. State Gas Taxes are remitted to the County and a portion is then allocated to the City. The City and County are in discussions to resolve the dispute.

Water and sewer revenues in Public Utilities were down \$95,944 due to an unusually wet summer in 2017. The City raised water rates and sewer rates by 4.5% in October of 2012 to account for increased operating expenses and planned capital improvements and renovations. The City increased rates on water and sewer services 6% in 2017, and plans a 5% increase in 2018, and a 5% increase in 2019 to complete the planned capital improvement plan and increase reserves to 120 days. The City is in the 9th year of a 9 year planned capital spending of 15 to 19 million dollars primarily in improvements to the wastewater plant and the collection system due to the State of Alabama EPA mandated improvements and replacement of old water lines to accommodate expected growth and to meet new water safety testing requirements from the state which took effect in January 2012. The City expects the slow growth in customers to improve in 2018 and 2019.

CITY OF PHENIX CITY, ALABAMA
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FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

The City has become much less reliant on its largest commercial and industrial users due to strong residential growth throughout the City and increased sales to the Russell County Water Authority, Fort Mitchell Water Authority and the Smith's Water and Sewer Authority. The City entered into new long-term contracts with the three adjacent utilities for sale of water and treatment of sewer. This will result in significant growth in these revenues over the next 5 years.

Capital Asset and Debt Management

The City included infrastructure capital assets in its financial statement for the first time as required by the Governmental Accounting Standards Board (GASB) Statement Number 34 as of September 30, 2003. The City inventoried all infrastructure assets during the fiscal year ended September 30, 2003, monitored additions and deletions closely and the Statement of Net Assets in this report complies with GASB Statement No. 34. Details of capital asset activity can be found in Note 6 on pages 31-33.

The City retired \$6,370,000 in general obligation debt in fiscal year 2017 and issued \$14,965,000 in new long-term debt. The City had \$76,075,000 outstanding in long-term general obligation debt at Fiscal 2017 year-end compared to \$67,480,000 in 2016. General obligation debt of \$35,310,000 or 46.4% of the total outstanding debt in 2017 will be retired by the end of 2027.

General obligation debt is payable from the City's general revenues. Some of the long-term debt is payable from legally restricted funds. Revenue from the City's Seven Mill Tax Fund has been dedicated for debt service.

The City's Utility Fund retired \$1,490,000 of revenue debt in 2017 and did not issue any new debt. The City had \$47,575,000 in revenue debt outstanding at the end of Fiscal 2017 compared to \$49,065,000 in 2016. Of the \$47,575,000 in Revenue Warrants payable from the Utility Fund revenues outstanding at Fiscal 2017 year-end, \$18,325,000, or 38.5% will be retired by 2027 year-end. Details of the City's debt activity can be found in Note 7 on pages 36-48.

Bond Ratings

The City received its most recent bond rating, an AA- rating with a stable outlook, from Standard & Poor's on its general obligation and an A rating on its revenue warrants.

Economic Factors and Expectations

The local economy has grown in terms of housing, jobs, and retail development, but the development of large retail developments in 2008 and 2009 in near-by cities reduced the amount of retail traffic from west Georgia and Lee County in east Alabama. Retail sales have since rebounded and the

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FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

City has shown steady growth in its retail sales since mid-2011. The City has maintained a steadily growing property tax base for the last 10 years. General Fund revenues have rebounded from the extended economic downturn, and have begun to grow steadily and we expect growth to continue over the next 3 to 5 years. The City raised its sales tax rate by .25% from 8.75% to 9% effective January 1, 2016 to fund capital projects and operating expenses. The unemployment rate is higher than the state average and has remained at a higher rate than the state due to continued slower growth. New housing starts have slowed this year and are expected to continue at a slower pace over the next year. The construction of a new KIA automotive plant 30 miles north of the city, the expansion of Fort Benning and expansion of AFLAC in Columbus, Georgia has led to increase population in the metro area over the last 3 years to five years, however; a small reduction in force at Fort Benning planned for 2016 did result in slower economic growth for 2016, and we expect the slow growth to continue through 2018. With the expected continued growth in the regional economy and the continued though slow population growth and new retail development currently planned, the City's revenues should increase sufficiently to fund planned services for at least the next three to five years.

The City completed a study of water and sewer rates in 2012 and raised rates and fees 4.5% effective October 1, 2012 and raised rates in 2014 and by 6% in 2017 with plans to increase rates by 5% in 2018 and 2019 to cover planned operations and capital expenses over the next three to five years as well as expansion of the water and sewer distribution system to accommodate the expected new growth. Both the water and sewer treatment facilities currently operate at just over 60% capacity leaving ample room for growth. The City has entered into an agreement to provide water to Fort Mitchell, Alabama in Russell County, sewer service to the City of Smiths, Alabama in Lee County, and both water and sewer service to the Russell County Utility System, which has resulted in steady revenue growth from these sources at little cost to the City. The Russell County Utility System is now the City's largest water customer and Smith's Water and Sewer Authority is the City's largest sewer customer. Both Lee and Russell Counties are among the fastest growing counties in Alabama with much of that growth centered in and around Phenix City.

The World's longest urban whitewater located on the Chattahoochee River in Columbus, GA and Phenix City opened in July of 2013. We expect this attraction to have a significant economic impact on both cities in 2017 and beyond. A new Marriott Courtyard Hotel opened in 2014 and Troy University opened its Phenix City campus downtown with construction of a 44,000 square foot educational building, in early 2015.

Contacting the City's Financial Management

This financial report is designed to provide the City of Phenix City's citizens, taxpayers, investors, customers, and creditors with a general overview of the City's finances. It is also designed to demonstrate the City's accountability for the public assets under management. Please contact the City of Phenix City Finance Department, 601 12th Street, Phenix City, Alabama 36867, with any questions or to request additional information.

CITY OF PHENIX CITY, ALABAMA

**STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | Primary Government | | | Component Unit |
|--|----------------------------|-----------------------------|----------------|-----------------------------------|
| | Governmental Activities | Business-type Activities | Total | Phenix City Board of Education |
| Cash and cash equivalents | \$ 8,714,515 | \$ 1,213,287 | \$ 9,927,802 | \$ 6,366,720 |
| Investments | - | - | - | 2,000,000 |
| Taxes receivable | 3,710,810 | - | 3,710,810 | - |
| Accounts receivable | 1,480,843 | 1,070,593 | 2,551,436 | 1,575,237 |
| Notes receivable | 345,400 | 108,860 | 454,260 | - |
| Internal balances | 460,331 | (460,331) | - | - |
| Due from other governments | 59,138 | - | 59,138 | - |
| Inventories | 48,949 | 356,770 | 405,719 | 224,284 |
| Prepaid expenses | 570,720 | 86,454 | 657,174 | 184,271 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 22,178,043 | 5,955,539 | 28,133,582 | 4,495,851 |
| Investments | 2,000,000 | - | 2,000,000 | - |
| Bond discounts | - | - | - | 532,960 |
| Capital assets, non-depreciable | 19,255,420 | 7,149,962 | 26,405,382 | 635,026 |
| Capital assets, depreciable, net of accumulated depreciation | 60,580,026 | 67,896,860 | 128,476,886 | 71,455,745 |
| Total assets | 119,404,195 | 83,377,994 | 202,782,189 | 87,470,094 |
| Deferred outflows of resources: | | | | |
| Deferred outflows related to pension plan | 3,221,884 | 549,608 | 3,771,492 | 9,645,809 |
| Deferred amounts - bond refundings | 1,978,584 | 3,292,338 | 5,270,922 | 1,326,072 |
| Total deferred outflows of resources | 5,200,468 | 3,841,946 | 9,042,414 | 10,971,881 |
| Total assets and deferred outflows of resources | \$ 124,604,663 | \$ 87,219,940 | \$ 211,824,603 | \$ 98,441,975 |
| LIABILITIES AND DEFERRED INFLOWS | | | | |
| Accounts payable | \$ 1,263,498 | \$ 162,147 | \$ 1,425,645 | \$ 18,808 |
| Accrued liabilities | 483,316 | 64,597 | 547,913 | 4,559,418 |
| Due to component units | 22,356 | - | 22,356 | - |
| Unearned revenues | 21,021 | - | 21,021 | - |
| Customer deposits | - | 68,663 | 68,663 | - |
| Accrued interest | 311,135 | 249,551 | 560,686 | - |
| Capital leases due within one year | 152,170 | 46,763 | 198,933 | - |
| Capital leases due in more than one year | 118,331 | 47,552 | 165,883 | - |
| Bonds payable due within one year | 3,040,000 | 1,535,000 | 4,575,000 | 1,756,618 |
| Bonds payable due in more than one year | 73,120,973 | 47,144,822 | 120,265,795 | 53,307,313 |
| Compensated absences due within one year | 610,548 | 100,826 | 711,374 | - |
| Compensated absences due in more than one year | 158,675 | 15,408 | 174,083 | - |
| Net pension liability | 18,010,551 | 2,968,542 | 20,979,093 | 54,143,000 |
| Net other postemployment benefits obligation | 4,134,000 | 731,000 | 4,865,000 | - |
| Total liabilities | 101,446,574 | 53,134,871 | 154,581,445 | 113,785,157 |
| Deferred inflows of resources: | | | | |
| Deferred inflows related to pension plan | 49,945 | 8,233 | 58,178 | 2,525,000 |
| Total liabilities and deferred inflows of resources | 101,496,519 | 53,143,104 | 154,639,623 | 116,310,157 |
| NET POSITION | | | | |
| Net investments in capital assets | 12,434,352 | 31,759,123 | 44,193,475 | 17,026,840 |
| Restricted for: | | | | |
| Capital projects | 14,642,855 | - | 14,642,855 | 3,144,016 |
| Debt service | 941,295 | 3,357,497 | 4,298,792 | 2,530,518 |
| Unrestricted | (4,910,358) | (1,039,784) | (5,950,142) | (40,569,556) |
| Total net position | 23,108,144 | 34,076,836 | 57,184,980 | (17,868,182) |
| Total liabilities, deferred inflows and net position | \$ 124,604,663 | \$ 87,219,940 | \$ 211,824,603 | \$ 98,441,975 |

The accompanying notes are an integral part of these financial statements.

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

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | | Component Units Phenix City Board of Education |
|--------------------------------------|----------------------|-------------------------|--|--|--|-----------------------------|------------------------|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total | |
| | | | | | Governmental Activities | Business-type Activities | | |
| Primary government: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government | \$ 14,482,754 | \$ 10,389,226 | \$ 280,053 | \$ 26,743 | \$ (3,786,732) | \$ - | \$ (3,786,732) | \$ - |
| Public safety | 13,103,400 | 1,102,018 | 24,224 | 21,230 | (11,955,928) | - | (11,955,928) | - |
| Public works | 6,390,320 | 3,508,182 | - | 2,325,550 | (556,588) | - | (556,588) | - |
| Culture and recreation | 5,527,164 | 1,269,141 | - | - | (4,258,023) | - | (4,258,023) | - |
| Education | 2,229,110 | - | - | - | (2,229,110) | - | (2,229,110) | - |
| Interest on long-term debt | 3,487,373 | - | - | - | (3,487,373) | - | (3,487,373) | - |
| Total governmental activities | <u>45,220,121</u> | <u>16,268,567</u> | <u>304,277</u> | <u>2,373,523</u> | <u>(26,273,754)</u> | <u>-</u> | <u>(26,273,754)</u> | <u>-</u> |
| Business-type activities: | | | | | | | | |
| Public Utilities | 12,238,006 | 10,508,784 | - | 367,266 | - | (1,361,956) | (1,361,956) | - |
| Total business-type activities | <u>12,238,006</u> | <u>10,508,784</u> | <u>-</u> | <u>367,266</u> | <u>-</u> | <u>(1,361,956)</u> | <u>(1,361,956)</u> | <u>-</u> |
| Total primary government | <u>\$ 57,458,127</u> | <u>\$ 26,777,351</u> | <u>\$ 304,277</u> | <u>\$ 2,740,789</u> | <u>\$ (26,273,754)</u> | <u>\$ (1,361,956)</u> | <u>\$ (27,635,710)</u> | <u>\$ -</u> |
| Component unit: | | | | | | | | |
| Phenix City Board of Education | \$ 70,637,393 | \$ 2,726,178 | \$ 54,813,834 | \$ - | \$ - | \$ - | \$ - | \$ (13,097,381) |
| Total component units | <u>\$ 70,637,393</u> | <u>\$ 2,726,178</u> | <u>\$ 54,813,834</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (13,097,381)</u> |
| General revenues: | | | | | | | | |
| Property taxes | | | | | \$ 5,896,481 | \$ - | \$ 5,896,481 | \$ 7,401,346 |
| Sales and use taxes | | | | | 22,341,136 | - | 22,341,136 | 4,227,678 |
| Business taxes | | | | | 1,307,814 | - | 1,307,814 | - |
| Unrestricted investment earnings | | | | | 119,927 | 54,959 | 174,886 | 481,312 |
| Transfers | | | | | (27,189) | 27,189 | - | - |
| Total general revenues and transfers | | | | | <u>29,638,169</u> | <u>82,148</u> | <u>29,720,317</u> | <u>12,110,336</u> |
| Change in net position | | | | | 3,364,415 | (1,279,808) | 2,084,607 | (987,045) |
| Net position, beginning of year | | | | | 19,743,729 | 35,356,644 | 55,100,373 | (16,881,137) |
| Net position, end of year | | | | | <u>\$ 23,108,144</u> | <u>\$ 34,076,836</u> | <u>\$ 57,184,980</u> | <u>\$ (17,868,182)</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017**

| ASSETS | General | Capital Improvement | 7 Mill | Public Building Authority | Nonmajor Governmental Funds | Total |
|--|----------------------|--------------------------------|---------------------|--|--|----------------------|
| Cash and cash equivalents | \$ 7,796,826 | \$ - | \$ - | \$ - | \$ 917,689 | \$ 8,714,515 |
| Taxes receivable | 2,037,286 | - | 852,441 | - | 821,083 | 3,710,810 |
| Accounts receivable | 609,326 | - | - | - | 871,517 | 1,480,843 |
| Notes receivable | - | - | - | - | 345,400 | 345,400 |
| Due from other funds | 475,294 | - | 6,366 | - | - | 481,660 |
| Due from other governments | 22,191 | 36,947 | - | - | - | 59,138 |
| Inventory | 48,949 | - | - | - | - | 48,949 |
| Prepaid items | 298,838 | - | - | - | - | 298,838 |
| Restricted cash | 20,710 | 12,393,864 | 375,776 | 9,179,767 | 193,679 | 22,163,796 |
| Restricted investments | 2,000,000 | - | - | - | - | 2,000,000 |
| Total assets | <u>\$ 13,309,420</u> | <u>\$ 12,430,811</u> | <u>\$ 1,234,583</u> | <u>\$ 9,179,767</u> | <u>\$ 3,149,368</u> | <u>\$ 39,303,949</u> |
| LIABILITIES DEFERRED INFLOWS AND FUND BALANCES | | | | | | |
| LIABILITIES AND DEFERRED INFLOWS | | | | | | |
| Accounts payable | \$ 1,146,014 | \$ 82,320 | \$ - | \$ 3,200 | \$ 31,969 | \$ 1,263,503 |
| Accrued expenses | 483,316 | - | - | - | - | 483,316 |
| Due to other funds | 6,366 | 13,445 | - | - | 1,518 | 21,329 |
| Due to component units | - | - | - | - | 22,356 | 22,356 |
| Total liabilities | <u>1,635,696</u> | <u>95,765</u> | <u>-</u> | <u>3,200</u> | <u>55,843</u> | <u>1,790,504</u> |
| Deferred inflows - unavailable revenue | 388,872 | - | 736,643 | - | 779,330 | 1,904,845 |
| FUND BALANCES (DEFICIT) | | | | | | |
| Nonspendable: | | | | | | |
| Inventories | 48,949 | - | - | - | - | 48,949 |
| Prepaid assets | 298,838 | - | - | - | - | 298,838 |
| Restricted for: | | | | | | |
| Debt service | - | - | 497,940 | - | 17,847 | 515,787 |
| Capital projects | - | 12,335,046 | - | 9,176,567 | - | 21,511,613 |
| Street improvements | - | - | - | - | 183,039 | 183,039 |
| Revolving loans | - | - | - | - | 1,739,383 | 1,739,383 |
| Public safety | - | - | - | - | 19,661 | 19,661 |
| Municipal court | - | - | - | - | 310,114 | 310,114 |
| Committed for: | | | | | | |
| Operating reserves | 2,000,000 | - | - | - | - | 2,000,000 |
| Assigned for: | | | | | | |
| General self insurance liability | 500,000 | - | - | - | - | 500,000 |
| Unassigned | 8,437,065 | - | - | - | 44,151 | 8,481,216 |
| Total fund balances | <u>11,284,852</u> | <u>12,335,046</u> | <u>497,940</u> | <u>9,176,567</u> | <u>2,314,195</u> | <u>35,608,600</u> |
| Total liabilities and fund balances | <u>\$ 13,309,420</u> | <u>\$ 12,430,811</u> | <u>\$ 1,234,583</u> | <u>\$ 9,179,767</u> | <u>\$ 3,149,368</u> | |
| Amounts reported for governmental activities in the statement of net position are different because: | | | | | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | | | | | 79,835,446 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | | | | | | 1,883,824 |
| Internal service funds are used by management to charge the costs of risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. | | | | | | 286,134 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | | | | | | |
| Bond payables net of deferred outflows related to bond refundings | | | | | | (74,182,389) |
| Accrued interest on long-term liabilities | | | | | | (311,135) |
| Capital leases | | | | | | (270,501) |
| Accrued compensated absences | | | | | | (769,223) |
| Net pension liability net of deferred inflows and outflows related to pension | | | | | | (14,838,612) |
| Net other postemployment benefits obligation | | | | | | (4,134,000) |
| Net position of governmental activities | | | | | | <u>\$ 23,108,144</u> |

The accompanying notes are an integral part of these financial statements.

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

| | <u>General</u> | <u>Capital Improvement</u> | <u>7 Mill</u> | <u>Public Building Authority</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|--------------------------------|-------------------|--|--|---|
| Revenues: | | | | | | |
| Property taxes | \$ 1,494,944 | \$ - | \$ 2,085,166 | \$ - | \$ 2,235,560 | \$ 5,815,670 |
| Sales and use taxes | 21,938,292 | - | - | - | 402,844 | 22,341,136 |
| Business taxes | 298,237 | - | 1,009,577 | - | - | 1,307,814 |
| Licenses and permits | 5,551,391 | - | - | - | - | 5,551,391 |
| Intergovernmental | 352,250 | 2,310,050 | - | - | - | 2,662,300 |
| Charges for services | 2,564,058 | - | - | - | 231,836 | 2,795,894 |
| Fines and forfeitures | 910,155 | - | - | - | 129,712 | 1,039,867 |
| Interest | 56,102 | 12,351 | 399 | 43,772 | 7,296 | 119,920 |
| Other revenues | 1,036,405 | 18,170 | 60 | 1,331,001 | 9,821 | 2,395,457 |
| Parks and recreation | 1,203,013 | - | - | - | - | 1,203,013 |
| Total revenues | <u>35,404,847</u> | <u>2,340,571</u> | <u>3,095,202</u> | <u>1,374,773</u> | <u>3,017,069</u> | <u>45,232,462</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | 11,111,524 | - | 11,200 | 25,264 | 17,000 | 11,164,988 |
| Public safety | 11,982,447 | - | - | - | 8,660 | 11,991,107 |
| Public works | 4,117,957 | - | - | - | 691,406 | 4,809,363 |
| Culture and recreation | 4,628,076 | - | - | - | - | 4,628,076 |
| Education | - | - | - | - | 2,229,110 | 2,229,110 |
| Capital outlay | - | 3,395,528 | - | 3,200 | 29,165 | 3,427,893 |
| Debt service: | | | | | | |
| Principal | 216,642 | - | 1,999,990 | 640,000 | - | 2,856,632 |
| Interest | 9,768 | 434,116 | 1,899,098 | 691,000 | - | 3,033,982 |
| Total expenditures | <u>32,066,414</u> | <u>3,829,644</u> | <u>3,910,288</u> | <u>1,359,464</u> | <u>2,975,341</u> | <u>44,141,151</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>3,338,433</u> | <u>(1,489,073)</u> | <u>(815,086)</u> | <u>15,309</u> | <u>41,728</u> | <u>1,091,311</u> |
| Other financing sources (uses): | | | | | | |
| Bond proceeds | - | 11,288,185 | - | - | - | 11,288,185 |
| Transfers in | 68,438 | - | 972,550 | - | 585,000 | 1,625,988 |
| Transfers out | (999,739) | - | - | - | (653,438) | (1,653,177) |
| Total other financing sources (uses) | <u>(931,301)</u> | <u>11,288,185</u> | <u>972,550</u> | <u>-</u> | <u>(68,438)</u> | <u>11,260,996</u> |
| Net change in fund balances | 2,407,132 | 9,799,112 | 157,464 | 15,309 | (26,710) | 12,352,307 |
| Fund balances, beginning of year | <u>8,877,720</u> | <u>2,535,934</u> | <u>340,476</u> | <u>9,161,258</u> | <u>2,340,905</u> | <u>23,256,293</u> |
| Fund balances, end of year | <u>\$ 11,284,852</u> | <u>\$ 12,335,046</u> | <u>\$ 497,940</u> | <u>\$ 9,176,567</u> | <u>\$ 2,314,195</u> | <u>\$ 35,608,600</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA

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

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

| | |
|---|---------------------|
| Net change in fund balances - total governmental funds | \$ 12,352,307 |
| 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. This is the difference between depreciation expense and capital outlay in the current period. | 1,472,692 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Deferred revenues increased during the year by this amount. | 80,808 |
| The issuance of long-term debt (i.e., bonds, leases) 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 premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | (8,848,911) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | (1,682,005) |
| Internal service funds are used by management to charge the costs of insurance to individual funds. | (3,293,428) |
| The revenue of certain activities of internal service funds is reported with governmental activities. | <u>3,282,952</u> |
| Change in net position of governmental activities | <u>\$ 3,364,415</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|----------------------------------|-------------------|-------------------|-------------------|----------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Property taxes | \$ 1,583,319 | \$ 1,583,319 | \$ 1,494,944 | \$ (88,375) |
| Sales and use taxes | 22,093,708 | 22,093,708 | 21,938,292 | (155,416) |
| Business taxes | 346,818 | 346,818 | 298,237 | (48,581) |
| Licenses and permits | 5,412,477 | 5,412,477 | 5,551,391 | 138,914 |
| Intergovernmental | 25,000 | 25,000 | 352,250 | 327,250 |
| Charges for services | 2,685,355 | 2,685,355 | 2,564,058 | (121,297) |
| Fines and forfeitures | 875,000 | 875,000 | 910,155 | 35,155 |
| Interest income | 13,264 | 13,264 | 56,102 | 42,838 |
| Miscellaneous Income | 472,148 | 472,148 | 1,036,405 | 564,257 |
| Parks and recreation | 1,531,925 | 1,531,925 | 1,203,013 | (328,912) |
| Total revenues | <u>35,039,014</u> | <u>35,039,014</u> | <u>35,404,847</u> | <u>365,833</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government: | | | | |
| City manager | 452,763 | 452,763 | 258,683 | 194,080 |
| Personnel | 324,572 | 324,572 | 292,083 | 32,489 |
| City clerk | 461,970 | 460,641 | 431,369 | 29,272 |
| Information Technology | 376,806 | 397,289 | 349,218 | 48,071 |
| Municipal court | 385,688 | 385,688 | 374,141 | 11,547 |
| Finance | 669,985 | 669,985 | 522,787 | 147,198 |
| Finance - revenue collection | 186,504 | 199,004 | 139,564 | 59,440 |
| Non-departmental | 6,314,699 | 6,383,988 | 7,532,206 | (1,148,218) |
| Appropriations and contributions | 744,499 | 744,499 | 580,278 | 164,221 |
| Economic development | 375,052 | 317,585 | 318,406 | (821) |
| Building maintenance | 452,836 | 466,130 | 312,789 | 153,341 |
| Total general government | <u>10,745,374</u> | <u>10,802,144</u> | <u>11,111,524</u> | <u>(309,380)</u> |
| Public safety: | | | | |
| Code enforcement | 691,599 | 691,599 | 503,798 | 187,801 |
| Fire | 5,254,341 | 4,932,587 | 4,501,824 | 430,763 |
| Police | 7,527,208 | 7,531,702 | 6,827,880 | 703,822 |
| Animal control | 182,203 | 182,203 | 148,945 | 33,258 |
| Total public safety | <u>13,655,351</u> | <u>13,338,091</u> | <u>11,982,447</u> | <u>1,355,644</u> |

(Continued)

CITY OF PHENIX CITY, ALABAMA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|--|---------------------|---------------------|----------------------|----------------------------------|
| | Original | Final | | |
| Expenditures: (Continued) | | | | |
| Current: | | | | |
| Public works: | | | | |
| Vehicle maintenance | \$ 538,077 | \$ 596,366 | \$ 492,251 | \$ 104,115 |
| Engineering | 624,258 | 624,258 | 395,088 | 229,170 |
| Administration | 426,175 | 426,174 | 397,893 | 28,281 |
| Limbs and debris | 1,719,734 | 1,806,491 | 1,609,373 | 197,118 |
| Refuse disposal | 141,209 | 153,682 | 138,530 | 15,152 |
| Streets and drainage | 1,087,741 | 1,206,516 | 1,084,822 | 121,694 |
| Total public works | <u>4,537,194</u> | <u>4,813,487</u> | <u>4,117,957</u> | <u>695,530</u> |
| Culture and recreation: | | | | |
| Parks and recreation | 3,407,369 | 3,364,017 | 3,116,215 | 247,802 |
| Central activity center | 105,400 | 146,800 | 93,379 | 53,421 |
| Amphitheater | 199,850 | 257,350 | 198,278 | 59,072 |
| Golf course | 1,046,389 | 958,989 | 862,614 | 96,375 |
| Library | 392,313 | 399,140 | 357,590 | 41,550 |
| Total culture and recreation | <u>5,151,321</u> | <u>5,126,296</u> | <u>4,628,076</u> | <u>498,220</u> |
| Debt service: | | | | |
| Principal | 276,915 | 276,915 | 216,642 | 60,273 |
| Interest | 15,263 | 15,263 | 9,768 | 5,495 |
| Total debt service | <u>292,178</u> | <u>292,178</u> | <u>226,410</u> | <u>65,768</u> |
| Total expenditures | <u>34,381,418</u> | <u>34,372,196</u> | <u>32,066,414</u> | <u>2,305,782</u> |
| Excess of revenues over expenditures | <u>657,596</u> | <u>666,818</u> | <u>3,338,433</u> | <u>2,671,615</u> |
| Other financing sources (uses): | | | | |
| Transfers in | 142,750 | 142,750 | 68,438 | (74,312) |
| Transfers out | <u>(1,022,550)</u> | <u>(1,022,550)</u> | <u>(999,739)</u> | <u>22,811</u> |
| Total other financing uses | <u>(879,800)</u> | <u>(879,800)</u> | <u>(931,301)</u> | <u>(51,501)</u> |
| Net change in fund balances | (222,204) | (212,982) | 2,407,132 | 2,620,114 |
| Fund balance, beginning of year | <u>8,877,720</u> | <u>8,877,720</u> | <u>8,877,720</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 8,655,516</u> | <u>\$ 8,664,738</u> | <u>\$ 11,284,852</u> | <u>\$ 2,620,114</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA

STATEMENT OF NET POSITION PROPRIETARY FUNDS SEPTEMBER 30, 2017

| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | Business-type Activities | | Governmental Activities Internal Service Fund |
|--|--------------------------|--|--|
| | Enterprise Funds | | |
| | Public Utilities | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 1,213,287 | | \$ - |
| Accounts receivable, net of allowances | 1,070,593 | | - |
| Notes receivable | 108,860 | | - |
| Due from other funds | 51,446 | | - |
| Inventories | 356,770 | | - |
| Prepaid expenses | 86,454 | | 271,886 |
| Total current assets | 2,887,410 | | 271,886 |
| RESTRICTED ASSETS | | | |
| Cash and cash equivalents | 5,955,539 | | 14,249 |
| NONCURRENT ASSETS | | | |
| Capital assets: | | | |
| Nondepreciable | 7,149,962 | | - |
| Depreciable, net of accumulated depreciation | 67,896,860 | | - |
| Total noncurrent assets | 75,046,822 | | - |
| Total assets | 83,889,771 | | 286,135 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pension plan | 549,608 | | - |
| Deferred amounts - bond refundings | 3,292,338 | | - |
| Total deferred outflows of resources | 3,841,946 | | - |
| LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | 162,147 | | - |
| Accrued expenses | 64,597 | | - |
| Due to other funds | 511,777 | | - |
| Customer deposits | 68,663 | | - |
| Accrued interest | 249,551 | | - |
| Current portion - capital lease | 46,763 | | - |
| Current portion - bonds payable | 1,535,000 | | - |
| Current portion - compensated absences | 100,826 | | - |
| Total current liabilities | 2,739,324 | | - |
| LONG-TERM LIABILITIES | | | |
| Capital lease, net of current portion | 47,552 | | - |
| Bonds payable, net of current portion | 47,144,822 | | - |
| Compensated absences, net of current portion | 15,408 | | - |
| Net pension liability | 2,968,542 | | - |
| Net other postemployment benefits obligation | 731,000 | | - |
| Total long-term liabilities | 50,907,324 | | - |
| Total liabilities | 53,646,648 | | - |
| DEFERRED INFLOWS OF RESOURCES - PENSION | | | |
| | 8,233 | | - |
| NET POSITION | | | |
| Net investments in capital assets | 31,759,123 | | - |
| Restricted for debt service | 3,357,497 | | - |
| Unrestricted | (1,039,784) | | 286,135 |
| Total net position | \$ 34,076,836 | | \$ 286,135 |

The accompanying notes are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

| | Business-type Activities | |
|--|---------------------------------|--------------------------------|
| | Enterprise Funds | Governmental Activities |
| | Public Utilities | Internal Service Fund |
| OPERATING REVENUES | | |
| Charges for services | \$ 10,481,660 | \$ 3,282,945 |
| Miscellaneous | 27,124 | - |
| Total operating revenues | <u>10,508,784</u> | <u>3,282,945</u> |
| OPERATING EXPENSES | | |
| Administrative | 2,870,475 | - |
| Water plant | 1,619,025 | - |
| Water distribution | 1,044,079 | - |
| Wastewater distribution | 1,014,225 | - |
| Wastewater plant | 1,206,745 | - |
| Depreciation and amortization | 2,716,977 | - |
| Claims and damages | - | 3,293,428 |
| Total operating expenses | <u>10,471,526</u> | <u>3,293,428</u> |
| Operating income | <u>37,258</u> | <u>(10,483)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Intergovernmental | 149,920 | - |
| Interest income | 54,959 | 7 |
| Interest expense | (1,766,480) | - |
| System development fees | 168,395 | - |
| Total nonoperating income (loss) | <u>(1,393,206)</u> | <u>7</u> |
| Income (loss) before contributions and transfers | <u>(1,355,948)</u> | <u>(10,476)</u> |
| CAPITAL CONTRIBUTIONS | <u>48,951</u> | <u>-</u> |
| TRANSFERS | | |
| Transfers in | 27,189 | - |
| Total transfers | <u>27,189</u> | <u>-</u> |
| Change in net position | <u>(1,279,808)</u> | <u>(10,476)</u> |
| NET POSITION, beginning of year | <u>35,356,644</u> | <u>296,611</u> |
| NET POSITION, end of year | <u>\$ 34,076,836</u> | <u>\$ 286,135</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

| | Business-type Activities Enterprise Funds | Governmental Activities Internal Service Fund |
|---|--|--|
| | Public Utilities | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers and users | \$ 10,768,867 | \$ 3,282,945 |
| Payments to suppliers | (7,777,771) | (3,284,671) |
| Payments to employees | 5,148 | - |
| Net cash provided by operating activities | <u>2,996,244</u> | <u>(1,726)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfers in | 27,189 | - |
| System development fees | 168,395 | - |
| Net cash provided by (used in) noncapital financing activities | <u>345,504</u> | <u>-</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (2,167,197) | - |
| Principal paid on bonds | (1,490,000) | - |
| Principal paid on capital lease | (45,987) | - |
| Interest paid | (2,045,510) | - |
| Net cash used in capital and related financing activities | <u>(5,748,694)</u> | <u>-</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on investments | 54,959 | 7 |
| Net cash provided by investing activities | <u>54,959</u> | <u>7</u> |
| Net increase (decrease) in cash and cash equivalents | (2,351,987) | (1,719) |
| Cash and cash equivalents: | | |
| Beginning of year | 9,520,813 | 15,968 |
| End of year | <u>\$ 7,168,826</u> | <u>\$ 14,249</u> |
| Classified as: | | |
| Cash | \$ 1,213,287 | \$ - |
| Restricted assets, cash | 5,955,539 | 14,249 |
| | <u>\$ 7,168,826</u> | <u>\$ 14,249</u> |

(Continued)

CITY OF PHENIX CITY, ALABAMA

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

| | Business-type Activities | |
|---|---------------------------------|--------------------------------|
| | Enterprise Funds | Governmental Activities |
| | Public Utilities | Internal Service Fund |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 37,258 | \$ (10,483) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 2,716,977 | - |
| Decrease in accounts receivable | 127,630 | - |
| Decrease in notes receivable | 11,615 | - |
| Increase in due from other funds | (44,118) | - |
| Decrease in inventory | 858 | - |
| Increase in prepaid expenses | 3,986 | 8,757 |
| Decrease in accounts payable | (325,094) | - |
| Increase in accrued expenses | 435 | - |
| Decrease in due to other funds | 166,637 | - |
| Decrease in customer deposits | (1,681) | - |
| Increase in compensated absences | 4,713 | - |
| Increase in other postretirement benefits obligation | 178,000 | - |
| Net cash provided by (used in) operating activities | <u>\$ 2,996,244</u> | <u>\$ (1,726)</u> |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | |
| Capitalized interest | \$ 490,257 | |
| Amortization of bond discounts, premiums and deferred amounts, net | 295,163 | |

The accompanying notes are an integral part of these financial statements.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Phenix City, Alabama (the "City") have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. The Financial Reporting Entity

The City was created by a legislative act of the State of Alabama in 1889. The City is a municipal corporation which operates under the mayor-council form of government with an appointed City Manager. The City provides the following services and operations as authorized by its charter: public safety (police and fire); public works; public utilities; and recreation.

As required by GAAP, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

Based on criteria set forth in Section 2100 of the GASB's Codification of Governmental Accounting and Financial Reporting Standards for including organizations as component units within the City's reporting entity, the City has one discretely presented component unit and one blended component unit. The discretely presented component unit is reported separately in the government-wide financial statements to emphasize that it is legally separate from the City. The discretely presented component unit has a September 30 year-end. The blended component unit is reported as a major governmental fund and is included in governmental activities in the government-wide financial statements.

Discretely Presented Component Unit

The Phenix City Board of Education (the "Board of Education") – The City appoints all members of the Board of Education's governing body. Additionally, the City issued bonds for the construction of facilities for the Board of Education, and the City is obligated for the debt. Complete financial statements for the Board of Education can be obtained from the Phenix City Board of Education's administrative office located at 1212 9th Avenue, Phenix City, Alabama 36868.

CITY OF PHENIX CITY, ALABAMA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. The Financial Reporting Entity (Continued)

Blended Component Unit

The Public Building Authority (the "PBA") – The main purpose of the PBA is to provide buildings and facilities for lease to and use by the City in performance of its public functions. The PBA is a blended component unit based on the aforementioned criteria, specifically in that it has a separate governing body that is appointed by the Council and the Council can impose its will upon the PBA. The PBA is presented as a blended component unit since its purpose is to provide services to the City and it is fiscally dependent upon the City. There are no separately issued financial statements for the PBA.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

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

CITY OF PHENIX CITY, ALABAMA

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Basis of Presentation
(Continued)

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

Property taxes, sales and use taxes, business taxes, licenses, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are 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 City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Capital Improvement Fund** accounts for the projects funded through bond proceeds. Funds are used for: road and drainage projects; animal shelter projects; recreation projects, and other projects within the City as specified by bond resolutions.

The **7 Mill Fund** is used to account for the resources accumulated and payments made for principal and interest on long-term debt of the City.

The **Public Building Authority** is a blended component unit of the City. It is presented as a major capital projects fund. It accounts for specific capital projects of the PBA and the related debt associated with the projects.

The City reports the following major proprietary fund:

The **Public Utilities Fund** is an enterprise fund used to account for the cost of providing water and sewer service to the City. Activities of the fund include water and sewer administration, operations, billing and collections.

Additionally, the City reports the following fund types:

The **special revenue funds** account for revenue sources that are legally restricted to expenditure for specific purposes.

CITY OF PHENIX CITY, ALABAMA

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**C. Measurement Focus, Basis of Accounting and Basis of Presentation
(Continued)**

The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term debt of the City.

The *Internal Service Fund* accounts for a self-insured program for health insurance. This fund was created to accommodate the payment of claims and administrative expenses for the self-insured program.

Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

D. Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. All cash and investments reported in the proprietary funds, including restricted cash and investments, meet this definition and are therefore considered to be cash equivalents.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Investments that do not have an established market are reported at estimated fair values.

F. Inventory

Inventory in Proprietary Funds is valued at the lower of cost (first-in, first-out method) or market. Inventory in the General Fund, which is valued at cost (first-in, first-out method) consists of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

G. Short-Term Interfund Receivables/Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

H. Prepaid Items

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

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City elected to record infrastructure assets prior to 1980. Capital assets are defined by the City as assets with an initial, individual cost of \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend useful lives are expensed as incurred.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets (Continued)

Major outlays for capital assets and major improvements are capitalized as projects are constructed. Interest incurred during the construction period of capital assets in the Public Utilities Fund is included as part of the capitalized value of the assets constructed. Interest expense of approximately \$452,000 was capitalized in the Public Utilities Fund during the fiscal year ending September 30, 2017.

Depreciation is provided on the straight-line method over the following estimated useful lives:

Primary Government

| | |
|----------------------------|---------------|
| Buildings and improvements | 10 - 50 years |
| Machinery and equipment | 5 - 10 years |
| Infrastructure | 40 years |
| Water and Sewer System | 50 years |

Phenix City Board of Education

| | |
|----------------------------|--------------|
| Buildings and improvements | 50 years |
| Machinery and equipment | 5 - 20 years |

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. No liability is recorded for nonvesting accumulation rights to receive sick pay benefits.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Equity

In accordance with the requirements of GASB 54 "Fund Balance Reporting and Governmental Fund Type Definitions, the following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance – The City's nonspendable fund balance consists solely of amounts that are not in spendable form such as inventories and prepaid expenses;

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

Committed fund balance - Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (the Council); to be reported as committed, amounts cannot be used for any other purpose unless the Council takes the same highest level action to remove or change the constraint;

Assigned fund balance - Amounts the City intends to use for a specific purpose; intent can be expressed by the Council or by a designee to whom the Council delegates authority. The Council has designated authority to the Director of Finance;

Unassigned fund balance - Amounts that are available for any legal purpose.

The Council establishes (and modifies or rescinds) fund balance commitments through adoptions and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Council through adoption or amendment of the budget as intended for a specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes). When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

M. Management Estimates

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

CITY OF PHENIX CITY, ALABAMA

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Deferred Inflows and Outflows of Resources

During the year ended September 30, 2015, the City implemented the provisions of GASB No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68") which provides financial reporting guidance related to state and local government pensions. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, this Statement details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position.

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

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

| | |
|---|------------------------|
| Bonds payable | \$ (76,075,000) |
| Deferred outflow of resources - bond refundings | 1,978,584 |
| Unamortized original issue discount | 484,498 |
| Unamortized original issue premium | (570,471) |
| Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i> | <u>\$ (74,182,389)</u> |

CITY OF PHENIX CITY, ALABAMA

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes 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 useful lives and reported as depreciation expense.” The details of this difference are as follows:

| | |
|---|---------------------|
| Capital outlay | \$ 5,413,691 |
| Depreciation expense | <u>(3,940,999)</u> |
| Net adjustment to increase net changes in fund balances - total <i>governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> | <u>\$ 1,472,692</u> |

Another element of that reconciliation explains 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 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:

| | |
|--|-----------------------|
| Issuance of bonds | \$ (14,965,000) |
| Premium on bond issuance, net | (151,642) |
| Principal repayment - capital lease | \$ 216,642 |
| Principal repayment - bonds | 6,370,000 |
| Amortization of discounts, premiums and defeasance on bonds | <u>(318,911)</u> |
| Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> | <u>\$ (8,848,911)</u> |

CITY OF PHENIX CITY, ALABAMA

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this difference are as follows:

| | |
|--|-----------------------|
| Change in accrued interest | \$ (40,878) |
| Change in compensated absences | 4,831 |
| Increase in net other postemployment benefits obligation | (999,000) |
| Change in net pension obligation | (1,625,586) |
| Change in deferred inflows and outflows of resources | <u>978,628</u> |
| Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <u>\$ (1,682,005)</u> |

NOTE 3. LEGAL COMPLIANCE – BUDGETS

A. Budgets and Budgetary Accounting

The City’s annual budgets for all governmental fund types are adopted on a basis consistent with generally accepted accounting principles for governmental fund types. Revenues are budgeted by source. Expenditures are budgeted by department. The department level constitutes the legal level of control. Expenditures may not exceed appropriations at this level. The City Manager, with the approval of Council, has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes.

The original budget is adopted by the City on the 3rd Tuesday of September of each year. The City Council approves budget amendments during the year.

B. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the City.

CITY OF PHENIX CITY, ALABAMA

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 3. LEGAL COMPLIANCE – BUDGETS (CONTINUED)

C. Excess Expenditures Over Appropriations

For the year ended September 30, 2017, the following departments had excess of actual expenditures over appropriations, which were funded by available fund balance of the General Fund:

| | <u>Excess</u> |
|----------------------|----------------|
| Non-departmental | \$ (1,148,218) |
| Economic development | (821) |

For the year ended September 30, 2017, non-departmental expenditures exceeded budget due to approved capital outlay expenditures incurred that exceeded budgeted amounts. Economic development departmental expenditures exceeded budget due to approved advertising expenses incurred that exceeded budgeted amounts.

NOTE 4. CASH AND INVESTMENTS

Credit risk. State statutes authorize the City to invest in obligations of the U.S. Government Treasury and Agency securities, certificates of deposit and money market accounts, repurchase agreements and reverse repurchase agreements, banker's acceptances and commercial paper.

Interest rate risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial credit risk – deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits with Alabama financial institutions that are in excess of the FDIC insurance are secured under the Security for Alabama Funds Enhancement Act (SAFE Program). Through the SAFE program, all public funds are protected through a collateral pool administered by the Alabama State Treasury. As of September 30, 2017, the City and the Board of Education had no uncollateralized deposits.

Investments. Investments are short-term certificates of deposits with maturities of one year or less and are reported at cost which approximates fair value.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. RECEIVABLES

Receivables consisted of the following at September 30, 2017:

| | General Fund | 7 Mill Fund | Nonmajor Governmental Funds | Public Utilities Fund | Total |
|--------------------------------------|---------------------------|-------------------------|--|--------------------------------------|---------------------------|
| Receivables: | | | | | |
| Taxes | \$2,195,609 | \$852,441 | \$ 821,083 | \$ - | \$3,869,133 |
| Accounts | 609,326 | - | 871,517 | 3,037,942 | 4,518,785 |
| Notes | - | - | 345,400 | 108,860 | 454,260 |
| Gross receivables | <u>2,804,935</u> | <u>852,441</u> | <u>2,038,000</u> | <u>3,146,802</u> | <u>8,842,178</u> |
| Less allowance for uncollectibles | <u>(158,323)</u> | <u>-</u> | <u>-</u> | <u>(1,967,349)</u> | <u>(2,125,672)</u> |
| Net total receivable | <u><u>\$2,646,612</u></u> | <u><u>\$852,441</u></u> | <u><u>\$ 2,038,000</u></u> | <u><u>\$1,179,453</u></u> | <u><u>\$6,716,506</u></u> |

Property taxes attached as an enforceable lien on property as of January 1, 2016. Property taxes were levied on October 1, 2016, and payable on or before December 31, 2016. Property taxes levied for 2016 are recorded as receivables, net of estimated uncollectibles. The net receivables collected during the year ended September 30, 2017, and collected by November 30, 2017, are recognized as revenues in the year ended September 30, 2017. Net receivables estimated to be collected subsequent to November 30, 2017, are recorded as revenue when received. Prior year levies were recorded using substantially the same principles, and remaining receivables are reevaluated annually.

Notes receivable consist of community development loans to businesses. Financing has been provided by the U.S. Department of Housing and Urban Development.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 6. CAPITAL ASSETS

A. Primary Government

The City's capital asset activity for the year ended September 30, 2017 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Transfers</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|------------------|--------------------|---------------------------|
| Governmental Activities: | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land and improvements | \$ 17,711,571 | \$ 11,400 | \$ - | \$ - | \$ 17,722,971 |
| Construction in progress | 8,499,662 | 1,921,535 | - | (8,888,748) | 1,532,449 |
| Total capital assets, not being depreciated | <u>26,211,233</u> | <u>1,932,935</u> | <u>-</u> | <u>(8,888,748)</u> | <u>19,255,420</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings | 40,177,732 | 126,269 | - | - | 40,304,001 |
| Machinery and equipment | 17,945,990 | 892,474 | - | 4,337,938 | 23,176,402 |
| Infrastructure | 66,035,536 | 2,462,013 | - | 4,550,810 | 73,048,359 |
| Total capital assets, being depreciated | <u>124,159,258</u> | <u>3,480,756</u> | <u>-</u> | <u>8,888,748</u> | <u>136,528,762</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings | (19,674,282) | (1,071,904) | - | - | (20,746,186) |
| Machinery and equipment | (14,016,638) | (1,611,652) | - | - | (15,628,290) |
| Infrastructure | (38,316,817) | (1,257,443) | - | - | (39,574,260) |
| Total accumulated depreciation | <u>(72,007,737)</u> | <u>(3,940,999)</u> | <u>-</u> | <u>-</u> | <u>(75,948,736)</u> |
| Total capital assets, being depreciated, net | <u>52,151,521</u> | <u>(460,243)</u> | <u>-</u> | <u>8,888,748</u> | <u>60,580,026</u> |
| Governmental activities capital assets, net | <u>\$ 78,362,754</u> | <u>\$ 1,472,692</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 79,835,446</u> |
| Business-type Activities: | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 275,782 | \$ - | \$ - | \$ - | \$ 275,782 |
| Construction in progress | 7,520,602 | 2,298,470 | - | (2,944,892) | 6,874,180 |
| Total capital assets, not being depreciated | <u>7,796,384</u> | <u>2,298,470</u> | <u>-</u> | <u>(2,944,892)</u> | <u>7,149,962</u> |
| Capital assets, being depreciated: | | | | | |
| Building and improvements | 1,015,534 | - | - | - | 1,015,534 |
| Machinery and equipment | 6,865,953 | 203,872 | - | - | 7,069,825 |
| Plant facilities | 106,757,927 | 204,063 | - | 2,944,892 | 109,906,882 |
| Total capital assets, being depreciated | <u>114,639,414</u> | <u>407,935</u> | <u>-</u> | <u>2,944,892</u> | <u>117,992,241</u> |
| Less accumulated depreciation for: | | | | | |
| Building and improvements | (721,108) | (40,888) | - | - | (761,996) |
| Machinery and equipment | (5,573,013) | (284,935) | - | - | (5,857,948) |
| Plant facilities | (41,084,283) | (2,391,154) | - | - | (43,475,437) |
| Total accumulated depreciation | <u>(47,378,404)</u> | <u>(2,716,977)</u> | <u>-</u> | <u>-</u> | <u>(50,095,381)</u> |
| Total capital assets, being depreciated, net | <u>67,261,010</u> | <u>(2,309,042)</u> | <u>-</u> | <u>2,944,892</u> | <u>67,896,860</u> |
| Business-type activities capital assets, net | <u>\$ 75,057,394</u> | <u>\$ (10,572)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 75,046,822</u> |

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 6. CAPITAL ASSETS (CONTINUED)

A. Primary Government (Continued)

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

| | |
|--|---------------------|
| Governmental activities: | |
| General government | \$ 88,038 |
| Public safety | 1,050,562 |
| Public works | 1,847,342 |
| Culture and recreation | <u>955,057</u> |
| Total depreciation expense - governmental activities | <u>\$ 3,940,999</u> |

B. Discretely Presented Component Unit – Phenix City Board of Education

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|-----------------------|---------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 635,026 | \$ - | \$ - | \$ 635,026 |
| Construction in progress | 5,513,542 | - | (5,513,542) | - |
| Total capital assets, not being depreciated | <u>6,148,568</u> | <u>-</u> | <u>(5,513,542)</u> | <u>635,026</u> |
| Capital assets, being depreciated: | | | | |
| Building and improvements | 86,858,303 | 7,182,856 | - | 94,041,159 |
| Machinery and equipment | 8,867,369 | 1,506,384 | (232,971) | 10,140,782 |
| Total | <u>95,725,672</u> | <u>8,689,240</u> | <u>(232,971)</u> | <u>104,181,941</u> |
| Less accumulated depreciation: | <u>(30,529,172)</u> | <u>(2,417,705)</u> | 220,681 | <u>(32,726,196)</u> |
| Total capital assets, being depreciated, net | <u>65,196,500</u> | <u>6,271,535</u> | <u>(12,290)</u> | <u>71,455,745</u> |
| Discretely presented component unit capital assets, net | <u>\$ 71,345,068</u> | <u>\$ 6,271,535</u> | <u>\$ (5,525,832)</u> | <u>\$ 72,090,771</u> |

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT

A. Primary Government

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---|------------------------------|----------------------------|------------------------------|----------------------------|--------------------------------|
| Governmental activities: | | | | | |
| Bonds payable | \$67,480,000 | \$14,965,000 | \$ (6,370,000) | \$76,075,000 | \$ 3,040,000 |
| Less deferred amounts: | | | | | |
| Unamortized premium | 458,409 | 175,410 | (63,348) | 570,471 | - |
| Unamortized discount | (499,370) | (23,768) | 38,640 | (484,498) | - |
| Net bonds payable | <u>67,439,039</u> | <u>15,116,642</u> | <u>(6,394,708)</u> | <u>76,160,973</u> | <u>3,040,000</u> |
| Capital leases payable | 487,143 | - | (216,642) | 270,501 | 152,170 |
| Compensated absences | 774,054 | - | (4,831) | 769,223 | 610,548 |
| Claims payable | 0 | 2,884 | (2,884) | 0 | - |
| Governmental activities long-term liabilities | <u><u>\$68,700,236</u></u> | <u><u>\$15,119,526</u></u> | <u><u>\$ (6,619,065)</u></u> | <u><u>\$77,200,697</u></u> | <u><u>\$ 3,802,718</u></u> |
| Business-type activities: | | | | | |
| Bonds payable | \$49,065,000 | \$ - | \$ (1,490,000) | \$47,575,000 | \$ 1,535,000 |
| Less deferred amounts: | | | | | |
| Unamortized discount | (222,222) | - | 16,279 | (205,943) | - |
| Unamortized premium | 1,433,215 | - | (122,450) | 1,310,765 | - |
| Net bonds payable | <u>50,275,993</u> | <u>-</u> | <u>(1,596,171)</u> | <u>48,679,822</u> | <u>1,535,000</u> |
| Capital leases payable | 140,302 | - | (45,987) | 94,315 | 46,763 |
| Compensated absences | 111,521 | 4,713 | - | 116,234 | 100,826 |
| Business-type activities long-term liabilities | <u><u>\$50,527,816</u></u> | <u><u>\$ 4,713</u></u> | <u><u>\$ (1,642,158)</u></u> | <u><u>\$48,890,371</u></u> | <u><u>\$ 1,682,589</u></u> |

For governmental activities, compensated absences are generally liquidated by the General Fund and self-insurance claims payable are liquidated by user charges. For business-type activities, compensated absences are liquidated by the Public Utilities Fund.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT (CONTINUED)

Governmental Activities Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. These bonds are direct general obligations of the City. General obligation bonds have been issued for general government activities and are reported in the governmental column of the government-wide statements. Principal and interest are payable from an ad valorem tax upon all property of the City.

General obligation and PBA revenue bonds outstanding at September 30, 2017, are as follows:

| | Interest Rates | September 30, 2017 |
|--|---------------------------|-------------------------------|
| 2007-A Issue | 3.60% - 5.00% | \$ 190,000 |
| 2010-B Issue | 2.10% - 3.94% | 28,575,000 |
| 2011-A Issue | 1.63% - 4.38% | 10,355,000 |
| 2015-A Issue | 2.00% - 4.00% | 4,660,000 |
| 2017-A Issue | 2.00% - 3.00% | 3,030,000 |
| 2017-B Issue | 2.00% - 4.00% | 7,995,000 |
| 2017-C Issue | 2.00% - 3.00% | 3,940,000 |
| 2011-A Issue - Public Building Authority | 1.00% - 4.38% | 17,330,000 |
| | | 76,075,000 |
| Less: unamortized discount, net | | 85,973 |
| | | \$ 76,160,973 |

A description of these bond issues is provided below.

General Obligation Bonds, Series 2007-A, \$3,775,000 Principal

The City has tax-exempt General Obligation Bonds, Series 2007-A (Series 2007-A Bonds) outstanding at September 30, 2017 in the amount of \$190,000. Proceeds of the bonds were used for the purpose of financing 1) all or a portion of the cost of acquisition, construction, development and equipping of various capital outlay projects located within the City; and 2) to pay the costs of issuance of the bonds. The bonds are limited obligations of the City and are payable solely from the property taxes of the City.

The Series 2007-A Bonds maturing on January 1, 2018 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after January 1, 2017, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date. Subsequent to year end, these bonds were redeemed on the maturity date.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Governmental Activities Debt (Continued)

General Obligation Bonds (Continued)

General Obligation Bonds, Series 2009-A, \$7,850,000 Principal

The City had tax-exempt General Obligation Refunding Bonds, Series 2009-A (Series 2009-A Bonds) which were refunded during the year by the issuance of tax-exempt General Obligation Refunding Bonds, Series 2017-C (Series 2017-C Bonds). The proceeds from the bonds were to be used for advance refunding of the City's Series 2001 general obligation bonds and for the purpose of financing 1) all or a portion of the cost of acquisition, construction, development and equipping of various capital outlay projects located within the City; and 2) to pay the costs of issuance of the bonds.

General Obligation Bonds, Series 2010-B, \$33,940,000 Principal

The City has tax-exempt General Obligation Refunding Bonds, Series 2010-B (Series 2010-B Bonds) outstanding at September 30, 2017 in the amount of \$28,575,000. The proceeds from the bonds are to be used for 1) financing various capital improvements of the City, 2) refunding certain outstanding debt of the City, 3) funding interest on a portion of the Series 2010-B general obligation refunding bonds for the period ending August 1, 2012, and 3) to pay the costs of issuance of the bonds. The advanced refunding included a portion of the Series 2001 and 2009-A general obligation bonds and the total outstanding balance of the Series 2004, Series 2005-A, and Series 2005-B general obligation bonds. The bonds are limited obligations of the City and are payable solely from the property taxes of the City. The carrying amount of the old debt exceeded the reacquisition price by \$2,774,285. This amount is deferred and recognized as a component of interest expense over the life of the new debt. The transaction also resulted in an economic gain of \$2,929,008.

The Series 2010-B Bonds maturing on February 1, 2021 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after February 1, 2020, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Governmental Activities Debt (Continued)

General Obligation Bonds (Continued)

General Obligation Bonds, Series 2011-A, \$12,195,000 Principal

The City has tax exempt General Obligation Refunding Bonds, Series 2011-A (Series 2011-A Bonds) outstanding at September 30, 2017 in the amount of \$10,355,000. The proceeds of the bonds are to be used for 1) financing various capital improvements of the City, 2) refunding certain outstanding debt of the City and, 3) paying the costs of issuance of the bonds. The advanced refunding included the remaining outstanding balance of the Series 2001 Bonds. The bonds are limited obligations of the City and are payable solely from the property taxes of the City. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$212,498. This difference is netted with deferred outflows of resources in the accompanying financial statements and is being charged to interest expense through the year 2014 using the effective interest method. The City completed the advance refunding to reduce its total debt service payments by \$98,942 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$ 87,867.

The Series 2011-A Bonds maturing on April 1, 2022 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after April 1, 2012, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

General Obligation Bonds, Series 2012-A, \$2,035,000 Principal

The City had tax exempt General Obligation Refunding Bonds, Series 2012-A (Series 2012-A Bonds) which were paid in full during the year. The proceeds of the bonds were donated to Troy University to finance a portion of the University's construction of a new downtown Phenix City campus. The City had pledged revenues from business and professional license fees to service the debt.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Governmental Activities Debt (Continued)

General Obligation Bonds, Series 2015-A, \$4,660,000 Principal

The City has tax exempt General Obligation Refunding Bonds, Series 2015-A (Series 2015-A Bonds) outstanding at September 30, 2017 in the amount of \$4,660,000. The proceeds of the bonds are to be used for 1) financing various capital improvements of the City, 2) refunding certain outstanding debt of the City and, 3) paying the costs of issuance of the bonds.

The advanced refunding included a portion of the outstanding balance of the Series 2007 Bonds. The bonds are limited obligations of the City and are payable solely from the property taxes of the City. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$182,260. This difference is included in deferred outflows of resources in the accompanying financial statements and is being charged to interest expense through the year 2027 using the effective interest method. The City has pledged revenues from business and professional license fees to service the debt.

The Series 2015-A Bonds maturing on February 1, 2026 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after February 1, 2025, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

General Obligation Bonds, Series 2017-A, \$3,030,000 Principal

The City has tax exempt General Obligation Bonds, Series 2017-A (Series 2017-A Bonds) outstanding at September 30, 2017 in the amount of \$3,030,000. The proceeds of the bonds are to be used for 1) financing various capital improvements of the City, and, 2) paying the costs of issuance of the bonds.

The bonds are general obligations of the City, however the City has pledged and assigned sales and use tax collections to the payment of debt service on the bonds. The Series 2017-A Bonds mature beginning on February 1, 2018 through February 1, 2027 and are not subject to redemption prior to maturity.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Governmental Activities Debt (Continued)

General Obligation Bonds, Series 2017-B, \$7,995,000 Principal

The City has tax exempt General Obligation Bonds, Series 2017-B (Series 2017-B Bonds) outstanding at September 30, 2017 in the amount of \$7,995,000. The proceeds of the bonds are to be used for 1) financing various capital improvements of the City, and, 2) paying the costs of issuance of the bonds.

The bonds are general obligations of the City, however the City has pledged and assigned sales and use tax collections to the payment of debt service on the bonds. The Series 2017-B Bonds maturing on February 1, 2028 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after February 1, 2027, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

General Obligation Refunding Bonds, Series 2017-C, \$3,940,000 Principal

The City has tax exempt General Obligation Refunding Bonds, Series 2017-C (Series 2017-C Bonds) outstanding at September 30, 2017 in the amount of \$3,940,000. The proceeds of the bonds are to be used for 1) financing various capital improvements of the City, 2) refunding certain outstanding debt of the City and, 3) paying the costs of issuance of the bonds.

The advanced refunding included a portion of the outstanding balance of the Series 2009 and Series 2010 Bonds. The bonds are general obligations of the City, however the City has pledged and assigned sales and use tax collections to the payment of debt service on the bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$103,457. This difference is included in deferred outflows of resources in the accompanying financial statements and is being charged to interest expense through the year 2035 using the effective interest method.

The Series 2017-C Bonds maturing on February 1, 2026 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after February 1, 2025, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Governmental Activities Debt (Continued)

Revenue Bonds – Blended Component Unit

Revenue Bonds, Series 2011-A, \$20,875,000 Principal – Public Building Authority

The PBA has Revenue Bonds, Series 2011-A (PBA Series 2011-A Bonds) outstanding at September 30, 2017 in the amount of \$17,330,000. The proceeds of the bonds are to be used for 1) financing the costs of acquiring, constructing and equipping certain facilities of the PBA (bond-financed facilities), and 2) paying the costs of issuance of the bonds. The bonds are limited obligations of the PBA and are payable solely out of payments by the City pursuant to a lease agreement.

The bond financed facilities have been leased to the City pursuant to a lease agreement dated September 1, 2011. The bond-financed facilities will consist of a 1) new municipal office for the City, 2) new municipal parking deck for the City 3) new municipal community facility for the City, 4) new public works maintenance facility for the City, and 5) new municipal utility warehouse and employee building for the City. The lease agreement will be for a period of no longer than the current fiscal year but contains an option to renew the agreement until the PBA Series 2011-A Bonds are paid.

The City has an obligation to make payments under the Lease Agreement. Revenues available for payment under the lease agreement include sales and use tax revenues, certain ad valorem taxes, revenues from City-owned enterprises and other general revenues of the City. In addition, the City has pledged sales tax collected in the corporate limits as security for the lease payments. Lease payments will be due in relation to the debt service requirements of the bond. The General Fund is obligated to pay 70.56% of the lease payment, which amounted to \$939,154 for the year ended September 30, 2017 and is recorded as a non-departmental expense.

The Phenix City Utilities Fund will finance, out of water and sewer revenues, a significant portion of the annual debt service on the PBA Series 2011-A Bonds as the Utilities department will occupy portions of the facilities financed with the bonds. The Utilities Fund is obligated to pay 29.44% of the lease payment, which amounted to \$391,846 for the year ended September 30, 2017 and is recorded in operating expenses as an administrative expense.

The PBA Series 2011-A Bonds maturing on April 1, 2022 or thereafter are subject to redemption prior to maturity, at the option of the City, on or after April 1, 2021, in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Governmental Activities Debt (Continued)

General obligation and revenue bonds debt service requirements to maturity are as follows (including debt service for blended component unit bonds):

| Fiscal Year Ending September 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|----------------------|----------------------|-----------------------|
| 2018 | \$ 3,040,000 | \$ 2,833,225 | \$ 5,873,225 |
| 2019 | 3,140,000 | 2,746,642 | 5,886,642 |
| 2020 | 3,235,000 | 2,649,842 | 5,884,842 |
| 2021 | 3,325,000 | 2,560,930 | 5,885,930 |
| 2022 | 3,430,000 | 2,455,014 | 5,885,014 |
| 2023 - 2027 | 19,140,000 | 10,306,306 | 29,446,306 |
| 2028 - 2032 | 19,550,000 | 6,676,518 | 26,226,518 |
| 2033 - 2037 | 19,080,000 | 2,279,115 | 21,359,115 |
| 2038 - 2042 | 2,135,000 | 175,095 | 2,310,095 |
| | <u>76,075,000</u> | <u>\$ 32,682,687</u> | <u>\$ 108,757,687</u> |
| Less: unamortized discount, net | 85,973 | | |
| | <u>\$ 76,160,973</u> | | |

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of equipment. The lease agreements qualify as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of leased assets under capital leases as of September 30, 2017:

| | <u>Governmental Activities</u> |
|--------------------------------|------------------------------------|
| Equipment | \$ 610,466 |
| Less: Accumulated depreciation | (262,037) |
| | <u>\$ 348,429</u> |

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Governmental Activities Debt (Continued)

Capital Leases (Continued)

The following is a schedule of future minimum lease payments together with the present value of net minimum lease payments as of September 30, 2017:

| | Governmental Activities |
|--|------------------------------------|
| | <hr/> |
| Fiscal year ending September 30, | |
| 2018 | \$ 157,242 |
| 2019 | 60,729 |
| 2020 | <hr/> 60,729 |
| Total minimum lease payments | 278,700 |
| Less amount representing interest | <hr/> (8,199) |
| | |
| Present value of future minimum lease payments | <hr/> <hr/> \$ 270,501 |

Business-type Activities Debt

Revenue Bonds

The City also issues revenue bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds have been issued for business-like activities and are reported in the business-type column of the government-wide statements. Principal and interest are payable from enterprise fund revenue.

Revenue bonds outstanding at September 30, 2017, are as follows:

| | Interest Rates | Balance September 30, 2017 |
|---|---------------------------|---|
| | <hr/> | <hr/> |
| 2009-A Water and Sewer Revenue Bonds | 3.00% - 5.00% | \$ 8,545,000 |
| 2010-A Water and Sewer Revenue Bonds | 4.25% - 5.00% | 15,375,000 |
| 2011-A Water and Sewer Revenue Bonds | 1.00% - 4.38% | 3,325,000 |
| 2014-A Water and Sewer Revenue Bonds | 2.00% - 4.00% | 6,555,000 |
| 2016-A Water and Sewer Revenue Bonds | 3.00% - 4.00% | <hr/> 13,775,000 |
| | | 47,575,000 |
| Less: unamortized premium (discount), net | | <hr/> 1,104,822 |
| | | <hr/> <hr/> \$ 48,679,822 |

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Business-type Activities Debt (Continued)

Revenue Bonds (Continued)

Water and Sewer Refunding Bonds, Series 2009-A, \$29,265,000 Principal

The City has tax-exempt Water and Sewer Revenue Bonds, Series 2009-A (Series 2009-A Bonds) outstanding at September 30, 2017 in the amount of \$8,545,000. The proceeds from the bonds were to be used for 1) the refunding of the City's Series 2004-B bonds; 2) improvements to the system; and 3) to pay the costs of issuance of the bonds. These bonds are limited obligations of the City and are payable solely from the net revenues of the Water and Sewer System. The carrying amount of the old debt exceeded the reacquisition price by \$1,444,078. This amount is deferred and recognized as a component of interest expense over the life of the new debt. The transaction also resulted in an economic gain of \$1,461,041.

The Series 2009-A Bonds maturing on August 15, 2034 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after August 15, 2033 in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date. During 2016, certain warrants, with stated maturities ranging from 2023 thru 2034, were refunded pursuant to the issuance of Water and Sewer Bonds, Series 2016-A.

Water and Sewer Refunding Bonds, Series 2010-A, \$15,375,000 Principal

The City has tax-exempt Water and Sewer Revenue Bonds, Series 2010-A (Series 2010-A Bonds) outstanding at September 30, 2017 in the amount of \$15,375,000. The proceeds from the bonds are to be used for 1) financing certain capital improvements to the water and sewer system, specifically warrant-financed facilities, 2) refunding certain outstanding debt of the City, 4) funding interest on a portion of the Series 2010-A Bonds for the period ending August 15, 2012 and 5) to pay the costs of issuance of the bonds. These bonds are limited obligations of the City and are payable solely from the net revenues of the Water and Sewer System. A portion of the Series 2010-A Bonds refunded the remaining outstanding balance plus accrued interest on the Series 2004 Bond and Series 2006-A Bonds as well as a portion of the Series 2009-A Bonds. The reacquisition price of the new debt exceeded the carrying value of the old debt in the amount of \$2,398,807. This amount is deferred and recognized as a component of interest expense over the life of the new debt. The advance refunding resulted in an increase in total estimated debt service payments relating to the refunding of approximately \$12,509,000 and an economic loss (difference between the present values of the old and new debt service payments) of \$1,324,178.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Business-type Activities Debt (Continued)

Revenue Bonds (Continued)

The Series 2010-A Bonds maturing on August 15, 2035 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after August 15, 2020 in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

Water and Sewer Bonds, Series 2011-A, \$4,045,000 Principal

The City has tax-exempt Water and Sewer Revenue Bonds, Series 2011-A (Series 2011-A Bonds) outstanding at September 30, 2017 in the amount of \$3,325,000. The proceeds from the bonds are to be used for 1) improvements to the water and sewer system; 2) funding a reserve fund and, 3) to pay the costs of issuance of the bonds. These bonds are limited obligations of the City and are payable solely from the net revenues of the Water and Sewer System.

The Series 2011-A Bonds maturing on August 15, 2022 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after August 15, 2021 in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

Water and Sewer Bonds, Series 2014-A, \$7,170,000 Principal

The City has tax-exempt Water and Sewer Revenue Bonds, Series 2014-A (Series 2014-A Bonds) outstanding at September 30, 2017 in the amount of \$6,555,000. The proceeds from the bonds are to be used for 1) improvements to the water and sewer system; 2) funding a reserve fund and, 3) to pay the costs of issuance of the bonds. These bonds are limited obligations of the City and are payable solely from the net revenues of the Water and Sewer System.

The Series 2014-A Bonds maturing on August 15, 2028 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after August 15, 2024 in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Business-type Activities Debt (Continued)

Revenue Bonds (Continued)

Water and Sewer Bonds, Series 2016-A, \$13,825,000 Principal

The City has tax-exempt Water and Sewer Revenue Bonds, Series 2016-A (Series 2016-A Bonds) outstanding at September 30, 2017 in the amount of \$13,775,000. The proceeds from the bonds are to be used for 1) refunding a portion of Water and Sewer Refunding Bonds, Series 2009-A, 2) improvements to the water and sewer system, 3) funding a reserve fund, and 4) to pay the costs of issuance of the bonds. These bonds are limited obligations of the City and are payable solely from the net revenues of the Water and Sewer System. The reacquisition price of the new debt exceeded the carrying value of the old debt in the amount of \$1,715,973. This amount is deferred and recognized as a component of interest expense over the life of the new debt. The City completed the advance refunding to reduce its total debt service payments by \$662,702 and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$503,106.

The Series 2016-A Bonds maturing on August 15, 2027 and thereafter are subject to redemption prior to maturity, at the option of the City, on or after February 15, 2026 in whole or in part (in any order of maturity and by lot within a maturity) at any time, at a price of par plus accrued interest to the redemption date.

Water and Sewer Revenue bonds debt service requirements to maturity for revenue bonds are as follows:

| Fiscal Year Ending September 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|----------------------|----------------------|----------------------|
| 2018 | \$ 1,535,000 | \$ 1,996,408 | \$ 3,531,408 |
| 2019 | 1,585,000 | 1,943,421 | 3,528,421 |
| 2020 | 1,665,000 | 1,875,308 | 3,540,308 |
| 2021 | 1,730,000 | 1,798,933 | 3,528,933 |
| 2022 | 1,795,000 | 1,737,158 | 3,532,158 |
| 2023 - 2027 | 10,015,000 | 7,640,999 | 17,655,999 |
| 2028 - 2032 | 10,625,000 | 5,384,111 | 16,009,111 |
| 2033 - 2037 | 11,460,000 | 3,300,965 | 14,760,965 |
| 2038 - 2042 | 7,165,000 | 691,376 | 7,856,376 |
| | <u>47,575,000</u> | <u>\$ 26,368,679</u> | <u>\$ 73,943,679</u> |
| Plus: unamortized premium, net | <u>1,104,822</u> | | |
| | <u>\$ 48,679,822</u> | | |

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT (CONTINUED)

A. Primary Government (Continued)

Business-type Activities Debt

Capital leases

The City has entered into lease agreements as lessee for financing the acquisition of equipment. The lease agreements qualify as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of leased assets under capital leases as of September 30, 2017:

| | Business-type Activities |
|--------------------------------|-------------------------------------|
| Equipment | \$ 359,905 |
| Less: Accumulated depreciation | (169,943) |
| | \$ 261,943 |

The following is a schedule of future minimum lease payments together with the present value of net minimum lease payments as of September 30, 2017:

| | Business-type Activities |
|-----------------------------------|-------------------------------------|
| Fiscal year ending September 30, | |
| 2018 | \$ 48,152 |
| 2019 | 48,152 |
| Total minimum lease payments | 96,304 |
| Less amount representing interest | (1,989) |
| | \$ 94,315 |

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT (CONTINUED)

B. Discretely Presented Component Unit – Phenix City Board of Education

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|---------------------|-----------------------|---------------------------|--------------------------------|
| 2007-B Series Warrants | \$ 8,520,000 | \$ - | \$ (8,520,000) | \$ - | \$ - |
| Unamortized premium | 317,313 | - | (317,313) | - | - |
| 2009-D Series Qualified School Construction Bonds | 8,105,000 | - | - | 8,105,000 | 421,794 |
| 2013-A Series Warrants | 9,245,000 | - | (185,000) | 9,060,000 | 185,000 |
| 2014-A Series Warrants | 9,745,000 | - | (215,000) | 9,530,000 | 215,000 |
| Unamortized premium | 37,058 | - | (1,324) | 35,734 | - |
| 2014-B Series Warants | 10,900,000 | - | (75,000) | 10,825,000 | 80,000 |
| 2015-A Series Warrants | 6,220,000 | - | (290,000) | 5,930,000 | 290,000 |
| 2016-A Series Warrants | - | 9,465,000 | (165,000) | 9,300,000 | 241,423 |
| Unamortized premium | | 1,098,615 | (61,034) | 1,037,581 | - |
| Installment Purchase Agreements | 1,125,274 | 662,098 | (546,756) | 1,240,616 | 323,401 |
| Total | <u>\$54,214,645</u> | <u>\$11,225,713</u> | <u>\$(10,376,427)</u> | <u>\$55,063,931</u> | <u>\$ 1,756,618</u> |

Details of long-term debt are as follows:

2017 Installment Purchase Agreement: The Board of Education has entered into an installment purchase agreement for the purchase of equipment over 10 years with annual payments of \$74,326 due beginning December 2016 and ending December 2025. The cash value of the equipment is \$662,098. The effective interest rate is 2.67%.

City of Phenix City General Obligation School Warrants, 2016A: In November 2016, the Board issued \$9,465,000 in General Obligation School Warrants with an average interest rate of 3.0% to advance refund \$8,520,000 of outstanding 2007B Series warrants with an average rate of 4.25% to provide funds for the construction of school facilities. The Board has agreed to pay the principal and interest of the warrants out of certain sales and ad valorem taxes paid to the Board. These warrants are due in annual installments of \$90,000 to \$940,000 through August 2032. Interest is calculated at rates ranging from 2.00% to 4.00%.

2016 Installment Purchase Agreement: The Board of Education has an installment agreement for the purchase of computer equipment over two years with annual payments of \$175,634 beginning September 2016 and ending September 2019. The cash value of the equipment is \$504,696. The effective interest rate is 4.40%.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT (CONTINUED)

**B. Discretely Presented Component Unit – Phenix City Board of Education
(Continued)**

City of Phenix City General Obligation School Warrants, 2015A: In June 2015, the Board of Education issued \$6,415,000 in General Obligation School Warrants with an average interest rate of 2.45% to advance refund \$5,730,000 of outstanding 2007B Series warrants with an average rate of 4.25% to provide funds for the construction of school facilities. The Board has agreed to pay the principal and interest of the warrants out of certain sales and ad valorem taxes paid to the Board. These warrants are due in annual installments of \$195,000 to \$475,000 through August 2043. Interest is calculated at rates ranging from 2.00% to 3.40%.

2015 Installment Purchase Agreements: The Board has entered into an installment purchase agreement for the purchase of computer equipment over two years with annual payments of \$221,882 due beginning June 15, 2015 through June 15, 2017. The cash value of the equipment is \$659,725. The effective interest is 0.90%.

The Board has entered into a separate installment purchase agreement for the purchase of computer equipment over three years with annual payments of \$11,920 due beginning September 23, 2015 and ending September 23, 2017. The cash value of the equipment is \$33,100.

City of Phenix City General Obligation School Warrants, 2014B: In March 2014, the City issued \$11,070,000 in General Obligation School Warrants with an average interest rate of 3.00%. The Board has agreed to pay the principal and interest of the warrants out of certain sales and ad valorem taxes paid to the Board. These warrants are due in annual installments of \$70,000 to \$1,220,000 through August 2043. Interest is calculated at rates ranging from 1.00% to 5.50%.

City of Phenix City General Obligation School Warrants, 2014A: In March 2014, the City issued \$10,145,000 in General Obligation School Warrants for the construction of school facilities. The Board has agreed to pay the principal and interest of the warrants out of certain sales and ad valorem taxes paid to the Board. These warrants are due in annual installments of \$195,000 to \$770,000 through August 2043. Interest is calculated at rates ranging from 1.50% to 5.00%.

City of Phenix City General Obligation School Warrants, 2013A: In April 2013, the City issued \$9,895,000 in General Obligation School Warrants with an average interest rate of 1.88%. The Board of Education has agreed to pay the principal and interest of the warrants out of certain sales and ad valorem taxes paid to the Board of Education. These warrants are due in annual installments of \$130,000 to \$1,270,000 through August 1, 2028. Interest is 1.10% to 2.50%.

2011 Installment Purchase Agreement: The Board of Education has an installment agreement for 9 school buses over 10 years with annual payments of \$109,173 beginning October 5, 2012 through October 5, 2021. The cash value of the school buses is \$843,007. The effective rate is 5.00%.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7. LONG-TERM DEBT (CONTINUED)

**B. Discretely Presented Component Unit – Phenix City Board of Education
(Continued)**

Alabama Public School and College Authority Qualified School Construction Bonds, Series 2009-D: In 2010, the Alabama Public School and College Authority issued \$8,105,000 of Qualified School Construction Bonds. All proceeds of the issue must be used for the construction, rehabilitation, or repair of a public school facility or for the acquisition of land on which such a facility is to be constructed. The Board of Education has agreed to have interest payments withheld from local taxes and public school funds and to make sinking fund payments from the same fund sources. The first annual sinking fund payment was made December 2011 in the amount of \$421,794 with the same amount due for each of the next 15 years until the bond matures December 15, 2025. Interest payments are \$151,158 for each of the remaining years until the bond matures. Interest is at 1.865%. Net earnings of the sinking fund may reduce final interest or principal payments.

City of Phenix City General Obligation School Warrants, Series 2007B: On May 3, 2008, the City issued \$23,925,000 in General Obligation School Warrants with an average interest rate of 4.35%. The 2007B warrants were advance refunded with the issuance of the 2016A warrants.

The annual requirements to amortize all debt outstanding at September 30, 2017 are as follows:

| Fiscal Year Ending September 30, | <u>Principal</u> | <u>Interest</u> | <u>Sinking Fund Payment</u> | <u>Total</u> |
|----------------------------------|----------------------|----------------------|---------------------------------|----------------------|
| 2018 | \$ 1,183,401 | \$ 1,851,354 | \$ 421,794 | \$ 3,456,549 |
| 2019 | 1,025,172 | 1,821,694 | 421,794 | 3,268,660 |
| 2020 | 1,036,339 | 1,799,477 | 421,794 | 3,257,610 |
| 2021 | 1,057,751 | 1,775,825 | 421,794 | 3,255,370 |
| 2022 | 2,184,471 | 1,750,141 | 421,794 | 4,356,406 |
| 2023 - 2027 | 20,008,482 | 7,734,727 | 1,687,176 | 29,430,385 |
| 2028 - 2032 | 8,360,000 | 5,551,803 | - | 13,911,803 |
| 2033 - 2037 | 7,475,000 | 4,083,443 | - | 11,558,443 |
| 2038 - 2042 | 9,465,000 | 2,091,171 | - | 11,556,171 |
| 2043 - 2047 | 2,195,000 | 114,249 | - | 2,309,249 |
| | <u>\$ 53,990,616</u> | <u>\$ 28,573,884</u> | <u>\$ 3,796,146</u> | <u>\$ 86,360,646</u> |

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2017, is as follows:

Due to/from other funds:

| <u>Payable To</u> | <u>Payable From</u> | | | | <u>Total</u> |
|-------------------|---------------------|----------------------------|-----------------|-------------------------|-------------------|
| | <u>General</u> | <u>Capital Improvement</u> | <u>Nonmajor</u> | <u>Public Utilities</u> | |
| General | \$ - | \$ 13,445 | \$ 1,518 | \$ 460,331 | \$ 475,294 |
| 7 Mill | 6,366 | - | - | - | 6,366 |
| | <u>\$ 6,366</u> | <u>\$ 13,445</u> | <u>\$ 1,518</u> | <u>\$ 460,331</u> | <u>\$ 481,660</u> |

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers:

| <u>Transfer To</u> | <u>Transfer From</u> | | <u>Total</u> |
|-----------------------------|----------------------|-----------------------------------|---------------------|
| | <u>General Fund</u> | <u>Nonmajor Governmental Fund</u> | |
| General | \$ - | \$ 68,438 | \$ 68,438 |
| 7 Mill Fund | 972,550 | - | 972,550 |
| Nonmajor Governmental Funds | - | 585,000 | 585,000 |
| Public Utilities Fund | 27,189 | - | 27,189 |
| Total | <u>\$ 999,739</u> | <u>\$ 653,438</u> | <u>\$ 1,653,177</u> |

Transfers are used to (1) move revenues from the fund that statute or budget require to collect them to the fund that the statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

Effective January 1, 2015 the City joined the “Local Government Health Insurance Program (LGHIP)” which is a self-funded group of numerous Cities and Counties across Alabama. The plan provisions are contained in the official plan documents. Employee’s retirement eligibility is governed by criteria established by the “Employees Retirement System of Alabama” as further describe in the Benefits Provided section of Note 10.

Funding Policy and Contribution Rates

Employees do not contribute to their post-employment benefits cost until they become retirees and begin receiving those benefits. The cost to employees is adjusted each year based upon the cost of health insurance through the LGHIP Board and based upon age at retirement and years of service. The plan provisions are contained in the official plan documents.

Funding Policy and Contribution Rates (Continued)

The City recognizes the cost of providing post-employment medical benefits (the City’s portion of the retiree medical benefit premiums) as an expense when the benefit premiums are due and thus finance the costs of the post-employment benefits on a pay-as-you-go basis. For fiscal year 2017, the City of Phenix City’s portion of health care funding cost for retired employees totaled approximately \$436,000.

Annual OPEB Cost and Net OPEB Obligation

The City’s Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The ARC is the sum of the Normal Cost plus the contribution to amortize the Unfunded Actuarial Accrued Liability (UAAL). A level dollar, open amortization period of 30 years (the maximum amortization period allowed by GASB 43/45) has been used for the post-employment benefits. The actuarially computed ARC and net OPEB obligation is as follows:

| | Governmental Activities | Business-type Activities | Total |
|---|------------------------------------|-------------------------------------|---------------------|
| Normal cost | \$ 485,000 | \$ 96,000 | \$ 581,000 |
| Amortization of actuarial liability | 888,000 | 144,000 | 1,032,000 |
| Annual required contribution (ARC) | 1,373,000 | 240,000 | 1,613,000 |
| Current year retiree premium | (374,000) | (62,000) | (436,000) |
| Increase in Net OPEB obligation | 999,000 | 178,000 | 1,177,000 |
| Net OPEB obligation - beginning of year | 3,135,000 | 553,000 | 3,688,000 |
| Net OPEB obligation - end of year | <u>\$ 4,134,000</u> | <u>\$ 731,000</u> | <u>\$ 4,865,000</u> |

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for September 30, 2017 and the two preceding years were as follows:

| <u>Year ended</u> | <u>Annual OPEB cost</u> | <u>Percentage of OPEB cost contributed</u> | <u>Net OPEB obligation</u> |
|-------------------|-------------------------|--|----------------------------|
| 09/30/15 | \$ 833,000 | 34.05% | \$ 3,227,000 |
| 09/30/16 | 833,000 | 44.66% | 3,688,000 |
| 09/30/17 | 1,613,000 | 27.03% | 4,865,000 |

Funded Status and Funding Progress

The City has made no contributions to its post employment benefits plan. The plan is not funded, has no assets, and hence has a funded ratio of zero. Based on the October 1, 2015 actuarial valuation, the most recent valuation, the Actuarial Accrued Liability (AAL) and Unfunded Actuarial Accrued Liability (UAAL) was \$14,037,251 which is defined as that portion of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost. The UAAL is 86.07% of covered payroll (active plan members) which is approximately \$16.309 million.

As of October 1, 2015, the most recent actuarial valuation date, the funded status of the Plan was as follows:

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) Entry Age (b)</u> | <u>Unfunded AAL (UAAL) (b-a)</u> | <u>Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>UAAL as a Percentage of Covered Payroll (b-a) / c)</u> |
|---------------------------------|--------------------------------------|--|----------------------------------|---------------------------|----------------------------|---|
| 10/1/2015 | \$ - | \$ 14,037,251 | \$ 14,037,251 | 0.00% | \$ 16,308,684 | 86.07% |
| 10/1/2013 | - | 10,233,383 | 10,233,383 | 0.00% | 15,229,962 | 67.19% |
| 10/1/2011 | - | 8,461,604 | 8,461,604 | 0.00% | 14,438,352 | 58.61% |

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF PHENIX CITY, ALABAMA

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

The actuarial calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the City and its employee plan members) at the time of the valuation and on the pattern of sharing costs between the City and its plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the City and plan members in the future. Consistent with the long-term perspective of actuarial calculations, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarial valuation for post employment benefits includes estimates and assumptions regarding the following:

| | |
|-----------------------------|--|
| Current valuation date | October 1, 2015 |
| Actuarial cost method | Projected Unit Credit Cost Method |
| Amortization method | Level dollar, open amortization period of 30 years |
| Turnover rate | 19% |
| Eligibility requirements: | |
| <i>Tier 1</i> | Fire and Police: 25 years of service at any age or age 56 and 10 years of service. All other: 25 years of service at any age or age 60 and 10 years of service. |
| <i>Tier 2</i> | Fire and Police: 25 years of service at any age or age 60 and 10 years of service. All other: 25 years of service at any age or age 62 and 10 years of service. |
| Discount rate | 4% |
| Health care cost trend rate | Graded schedule beginning with 8.0% annually, down to an ultimate annual rate of 5.0% for ten years out and later. |
| Mortality rate | 1994 Group Annuity Reserving (94GAR) table, projected to 2002 |
| Inflation rate | 2.5% annually |

CITY OF PHENIX CITY, ALABAMA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 10. DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

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

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

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 10. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Description (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 serves approximately 875 local participating employers. These participating employers include 294 cities, 65 counties, and 516 other public entities. The ERS membership includes approximately 83,642 participants. As of September 30, 2017, membership consisted of:

| | |
|----------------------------------|-----------------------------|
| Retirees and beneficiaries | |
| currently receiving benefits | 23,242 |
| Terminated employees entitled to | |
| but not yet receiving benefits | 7,809 |
| Active members | <u>55,058</u> |
| Total | <u><u>86,109</u></u> |

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

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 10. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2017 (or other year-end if not September), the City's active employee contribution rate was 7.50% and 6.00%, respectively, of covered employee payroll for Tier 1 and 2 regular employees, and 8.50% and 7.00%, respectively, of covered employee payroll for Tier 1 and 2 firefighters, law enforcement, and correctional officers. The City's average contribution rate to fund the normal and accrued liability costs was 8.34% and 7.90%, respectively, of covered employee payroll for Tier 1 and 2.

City's contractually required contribution rate for the year ended September 30, 2017 was 8.46% of pensionable pay for Tier 1 employees, and 7.76% of pensionable pay for Tier 2 employees,. These required contribution rates are based upon the actuarial valuation dated September 30, 2016, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$1,277,747 for the year ended September 30, 2017.

CITY OF PHENIX CITY, ALABAMA

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Net Pension Liability

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

| | |
|---|----------------------|
| Total Pension Liability as of September 30, 2015 | \$ 55,486,259 |
| Entry Age Normal Cost for October 1, 2015 - September 30, 2016 | 1,465,902 |
| Interest | 4,288,329 |
| Changes of assumptions | 2,386,270 |
| Difference between expected and actual experience | (67,715) |
| Actual Benefit Payments and Refunds for October 1, 2015 - September 30, 2016 | <u>(3,761,134)</u> |
| Total Pension Liability as of September 30, 2016 | <u>\$ 59,797,911</u> |

Actuarial assumptions – The total pension liability in the September 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

*Net of pension plan investment expense

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

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 10. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class as of September 30, 2017 are as follows:

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

* Includes assumed rate of inflation of 2.50%

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

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 10. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Changes in Net Pension Liability

| | <u>Total Pension Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Net Pension Liability</u> |
|--|------------------------------------|--|----------------------------------|
| Balances at September 30, 2015 | \$ 55,486,259 | \$ 36,400,685 | \$ 19,085,574 |
| Changes for the year: | | | |
| Service cost | 1,465,902 | - | 1,465,902 |
| Interest | 4,288,329 | - | 4,288,329 |
| Changes of assumptions | 2,386,270 | - | 2,386,270 |
| Difference between expected and actual experience | (67,715) | - | (67,715) |
| Contributions - employer | - | 1,277,747 | (1,277,747) |
| Contributions - employee | - | 1,256,883 | (1,256,883) |
| Net investment income | - | 3,644,637 | (3,644,637) |
| Benefit payments, including refunds of employee contributions | (3,764,288) | (3,764,288) | - |
| Administrative expense | - | - | - |
| Transfers among employers | 3,154 | 3,154 | - |
| Net changes | <u>4,311,652</u> | <u>2,418,133</u> | <u>1,893,519</u> |
| Balances at September 30, 2016 | <u>\$ 59,797,911</u> | <u>\$ 38,818,818</u> | <u>\$ 20,979,093</u> |

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

| | <u>1% Decrease (6.75%)</u> | <u>Current Rate (7.75%)</u> | <u>1% Increase (8.75%)</u> |
|------------------------------|------------------------------------|---------------------------------|------------------------------------|
| Plan's Net Pension Liability | \$ 27,877,453 | \$ 20,979,093 | \$ 15,167,241 |

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 March 27, 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.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 10. DEFINED BENEFIT 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 pension expense of \$1,529,939. 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 | \$ 99,825 | \$ 58,178 |
| Changes of assumptions | 2,050,176 | - |
| Net difference between projected and actual earnings on pension plan investments | 330,702 | - |
| Employer contributions subsequent to the measurement date | 1,290,789 | - |
| Total | \$ 3,771,492 | \$ 58,178 |

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 | \$ 422,421 |
| 2019 | 422,423 |
| 2020 | 685,576 |
| 2021 | 191,466 |
| 2022 | 341,426 |
| Thereafter | 359,213 |
| | \$ 2,422,525 |

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 11. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The General Fund is used to account for the employee life, health, property and liability, unemployment and disability insurance programs of the City. The City has a risk management program whereby a death benefit of \$10,000 is paid to the named beneficiary of eligible employees. Full time employees must be employed one year before becoming eligible to participate.

The City is accounting for and financing its uninsured risks of loss for all health-related claims liabilities for which the City is exposed through the Self Administered Insurance Fund (an Internal Service Fund). Changes in the balances of the claims liability during the year are as follows:

| | September 30, 2017 | September 30, 2016 | September 30, 2015 |
|--|-------------------------------|-----------------------|-----------------------|
| Unpaid claims, beginning of year | \$ - | \$ 111 | \$ 342,935 |
| Incurred claims and changes in estimates | - | 2,773 | 634,943 |
| Claim payments | - | (2,884) | (977,767) |
| Unpaid claims, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 111</u> |

As of January 1, 2015, the City moved from its self-administered plan to the state employees Local Government Health Insurance Plan. There were no significant reductions of insurance coverage compared to the prior year. Settled claims in the past three years have not exceeded the coverage.

CITY OF PHENIX CITY, ALABAMA

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 12. COMMITMENTS AND CONTINGENCIES

Litigation

The City is involved in a number of legal matters, which either have or could result in litigation. The nature of the lawsuits varies considerably. Liability, if any, which might result from these proceedings, would not, in the opinion of management and legal counsel, have a material adverse effect on the financial position of the City.

Grant Contingencies

The City has received Federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to the disallowance of certain expenditures previously reimbursed by those agencies. Based upon prior experience, City management believes such disallowances, if any, will not be significant.

NOTE 13. TAX ABATEMENTS

For the year ended September 30, 2017, the City's sales tax revenues were reduced by \$226,875 and property tax revenues were reduced by \$17,267 under various tax abatement agreements entered into with various entities between 2011 and 2017 under the economic development laws of the State of Alabama, specifically the Tax Incentive Reform Act of 1992, which qualify for disclosure under GASB Statement Number 77, Tax Abatement Disclosures. The purpose of the tax abatement program is to stimulate economic growth through new job creation and capital investment. Under the agreements, certain incentives were offered such as abatement of sales and use and property taxes as well as certain mortgage and recording taxes for between 5 and 10 years based on investments made by the entities and new or expanded job opportunities and achievement of certain investment targets. The amount of the tax abatement is based upon the actual amount incurred by the entity receiving the abatement and good faith projections made by the entity upon application to the granting authority, the City Council. Once the agreed upon abatement period terminates, all remaining and depreciated property taxes are recaptured annually.

NOTE 14. SUBSEQUENT EVENTS

Subsequent to year end, the City has entered into various revenue sharing agreements with developers under section 772 of the State of Alabama Constitution. The City agreed to share a portion of the sales tax generated by the related developments with the developers for a period of 10 years not to exceed \$6,100,000.

CITY OF PHENIX CITY, ALABAMA

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY**

LAST 10 FISCAL YEARS ENDING SEPTEMBER 30

| | 2016 | 2015 | 2014 |
|--|-----------------------------|-----------------------------|-----------------------------|
| Total pension liability: | | | |
| Service cost | \$ 1,465,902 | \$ 1,424,261 | \$ 1,402,948 |
| Interest | 4,288,329 | 4,112,059 | 3,933,478 |
| Differences between expected and actual experience | (67,715) | 142,303 | - |
| Changes of assumptions | 2,386,270 | - | - |
| Benefit payments, including refunds of employee contributions | (3,764,288) | (3,186,194) | (3,022,147) |
| Transfers among employers | 3,154 | - | - |
| Net change in total pension liability | 4,311,652 | 2,492,429 | 2,314,279 |
| Total pension liability, beginning | 55,486,259 | 52,993,830 | 50,679,551 |
| Total pension liability, ending (a) | <u>\$ 59,797,911</u> | <u>\$ 55,486,259</u> | <u>\$ 52,993,830</u> |
| Plan fiduciary net position: | | | |
| Contributions, employer | \$ 1,277,747 | \$ 1,411,812 | \$ 1,336,262 |
| Contributions, member | 1,256,883 | 1,275,641 | 1,183,559 |
| Net investment income | 3,644,637 | 430,168 | 3,948,281 |
| Benefit payments, including refunds of employee contributions | (3,764,288) | (3,186,194) | (3,022,147) |
| Transfers among employers | 3,154 | (78,122) | (111,916) |
| Net change in plan fiduciary net position | 2,418,133 | (146,695) | 3,334,039 |
| Plan net position, beginning | 36,400,685 | 36,547,380 | 33,213,341 |
| Plan net position, ending (b) | <u>\$ 38,818,818</u> | <u>\$ 36,400,685</u> | <u>\$ 36,547,380</u> |
| Net pension liability, ending (a) - (b) | \$ 20,979,093 | \$ 19,085,574 | \$ 16,446,450 |
| Plan fiduciary net position as a percentage of the total pension liability | 64.92% | 65.60% | 68.97% |
| Covered-employee payroll* | \$ 16,308,684 | \$ 15,576,766 | \$ 15,229,962 |
| Net pension liability (asset) as a percentage of covered-employee payroll | 128.64% | 122.53% | 107.99% |

NOTES TO SCHEDULE

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

CITY OF PHENIX CITY, ALABAMA

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY**

LAST 10 FISCAL YEARS

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|------------------|------------------|------------------|
| Actuarially determined contribution | \$ 1,290,789 | \$ 1,277,747 | \$ 1,385,670 |
| Contributions in relation to the actuarially determined contribution* | <u>1,290,789</u> | <u>1,277,747</u> | <u>1,385,670</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered-employee payroll** | \$ 16,573,024 | \$ 16,308,684 | \$ 15,576,766 |
| Contributions as a percentage of covered- covered payroll | 7.79% | 7.83% | 8.90% |

* Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. For FY 2017, the fiscal year is the twelve month period beginning after 6/15/2016.

** Employer's covered-payroll during fiscal year is the total payroll paid to covered employees (not just pensionable payroll) for the twelve month period of the underlying financial statement.

NOTES TO SCHEDULE

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|---|
| Actuarial cost method | Entry age |
| Amortization method | Level percent closed |
| Remaining amortization period | 30 years |
| Asset valuation method | Five year smoothed market |
| Inflation | 3.00% |
| Salary increases | 3.75 - 7.25%, including inflation |
| Investment rate of return | 8.00%, net of pension plan investment expense, including inflation |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

CITY OF PHENIX CITY, ALABAMA

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS**

OPEB Health Care Plan

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b-a) / c) |
|--------------------------------|--|---|---------------------------------|--------------------------|----------------------------|--|
| 10/1/2015 | \$ - | \$ 14,037,251 | \$ 14,037,251 | 0.00% | \$ 16,308,684 | 86.07% |
| 10/1/2013 | - | 10,233,383 | 10,233,383 | 0.00% | 15,229,962 | 67.19% |
| 10/1/2011 | - | 8,461,604 | 8,461,604 | 0.00% | 14,438,352 | 58.61% |

CITY OF PHENIX CITY, ALABAMA
NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Two Cent Gas Tax Fund is used to account for the resources received from the two cent add-on tax and expenditures related to street improvements.

Four Cent Gas Tax Fund is used to account for the resources received from the four cent add-on tax and expenditures related to street improvements.

Five Cent Gas Tax Fund is used to account for the resources received from the five cent add-on tax and expenditures related to street improvements.

Seven Cent Gas Tax Fund is used to account for the resources received from the seven cent add-on tax and expenditures related to street improvements.

Corrections Fund is used to account for revenues collected by the imposition of an add-on fine as provided for by Section 11-47-7.1 of the Code of Alabama 1975.

Second Mortgage Fund is a special revenue fund used to account for the operations of the City's revolving loans.

Confiscated Property Fund is used to account for cash received either as a result of a cash confiscation or cash received from a sale of capital assets acquired from a drug raid.

Debt Service Funds

3 Mill Fund is used to account for the resources accumulated and payments made to the Phenix City School Board for principal and interest on long-term debt.

4 Mill Fund is used to account for the resources accumulated and payments made to the Phenix City School Board for principal and interest on long-term debt.

Other Funds

Municipal Court Fund is used to account for revenues collected by the imposition of add-on fees as provided in Section 12-19-172 of the Code of Alabama and in the Alabama Legislative Act 2012-535.

Donated Money Fund is used to account for the resources received from funds donated to the City and expenditures related to employee acknowledgements and designated requests.

Employee Fund is used to account for the resources received from commissions from vending machines.

CITY OF PHENIX CITY, ALABAMA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017**

| | Special Revenue Funds | | | | | | Debt Service Funds | | | | Total Nonmajor Governmental Funds | | |
|---|-----------------------|-------------------|-------------------|--------------------|-----------------|---------------------|----------------------|-------------------|-------------------|-------------------|-----------------------------------|-----------------|---------------------|
| | Two Cent Gas Tax | Four Cent Gas Tax | Five Cent Gas Tax | Seven Cent Gas Tax | Corrections | Second Mortgage | Confiscated Property | 3 Mill | 4 Mill | Municipal Court | | Donated Funds | Employee Fund |
| ASSETS | | | | | | | | | | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - | \$ - | \$ 6,018 | \$ 536,553 | \$ 20,092 | \$ - | \$ - | \$ 310,724 | \$ 42,084 | \$ 2,218 | \$ 917,689 |
| Taxes receivable | 1,947 | 7,816 | 3,587 | 12,556 | - | - | - | 340,793 | 454,384 | - | - | - | 821,083 |
| Accounts receivable | - | - | - | - | - | 871,517 | - | - | - | - | - | - | 871,517 |
| Notes receivable | - | - | - | - | - | 345,400 | - | - | - | - | - | - | 345,400 |
| Restricted cash | 14,678 | 36,602 | 54,245 | 63,798 | - | - | - | 10,581 | 13,775 | - | - | - | 193,679 |
| Total assets | <u>\$ 16,625</u> | <u>\$ 44,418</u> | <u>\$ 57,832</u> | <u>\$ 76,354</u> | <u>\$ 6,018</u> | <u>\$ 1,753,470</u> | <u>\$ 20,092</u> | <u>\$ 351,374</u> | <u>\$ 468,159</u> | <u>\$ 310,724</u> | <u>\$ 42,084</u> | <u>\$ 2,218</u> | <u>\$ 3,149,368</u> |
| LIABILITIES DEFERRED INFLOWS AND FUND BALANCES | | | | | | | | | | | | | |
| LIABILITIES AND DEFERRED INFLOWS | | | | | | | | | | | | | |
| Accounts payable | \$ - | \$ - | \$ 12,190 | \$ - | \$ 5,019 | \$ 14,087 | \$ 50 | \$ - | \$ - | \$ 472 | \$ 151 | \$ - | \$ 31,969 |
| Due to other funds | - | - | - | - | 80 | - | 1,300 | - | - | 138 | - | - | 1,518 |
| Due to component units | - | - | - | - | - | - | - | 9,581 | 12,775 | - | - | - | 22,356 |
| Total liabilities | <u>-</u> | <u>-</u> | <u>12,190</u> | <u>-</u> | <u>5,099</u> | <u>14,087</u> | <u>1,350</u> | <u>9,581</u> | <u>12,775</u> | <u>610</u> | <u>151</u> | <u>-</u> | <u>55,843</u> |
| Deferred inflows | - | - | - | - | - | - | - | 333,999 | 445,331 | - | - | - | 779,330 |
| FUND BALANCES | | | | | | | | | | | | | |
| Restricted for: | | | | | | | | | | | | | |
| Debt service | - | - | - | - | - | - | - | 7,794 | 10,053 | - | - | - | 17,847 |
| Street improvements | 16,625 | 44,418 | 45,642 | 76,354 | - | - | - | - | - | - | - | - | 183,039 |
| Revolving loans | - | - | - | - | - | 1,739,383 | - | - | - | - | - | - | 1,739,383 |
| Public safety | - | - | - | - | 919 | - | 18,742 | - | - | - | - | - | 19,661 |
| Municipal court | - | - | - | - | - | - | - | - | - | 310,114 | - | - | 310,114 |
| Unassigned | - | - | - | - | - | - | - | - | - | - | 41,933 | 2,218 | 44,151 |
| Total fund balances | <u>16,625</u> | <u>44,418</u> | <u>45,642</u> | <u>76,354</u> | <u>919</u> | <u>1,739,383</u> | <u>18,742</u> | <u>7,794</u> | <u>10,053</u> | <u>310,114</u> | <u>41,933</u> | <u>2,218</u> | <u>2,314,195</u> |
| Total liabilities and fund balances | <u>\$ 16,625</u> | <u>\$ 44,418</u> | <u>\$ 57,832</u> | <u>\$ 76,354</u> | <u>\$ 6,018</u> | <u>\$ 1,753,470</u> | <u>\$ 20,092</u> | <u>\$ 351,374</u> | <u>\$ 468,159</u> | <u>\$ 310,724</u> | <u>\$ 42,084</u> | <u>\$ 2,218</u> | <u>\$ 3,149,368</u> |

CITY OF PHENIX CITY, ALABAMA

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

| | Special Revenue Funds | | | | | | Debt Service Funds | | | | Employee Fund | Total Nonmajor Governmental Funds | |
|---|-----------------------|-------------------|-------------------|--------------------|-----------------|---------------------|----------------------|-----------------|------------------|-------------------|------------------|-----------------------------------|---------------------|
| | Two Cent Gas Tax | Four Cent Gas Tax | Five Cent Gas Tax | Seven Cent Gas Tax | Corrections | Second Mortgage | Confiscated Property | 3 Mill | 4 Mill | Municipal Court | | | Donated Funds |
| Revenues: | | | | | | | | | | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 958,097 | \$ 1,277,463 | \$ - | \$ - | \$ - | \$ - | \$ 2,235,560 |
| Sales and use taxes | 22,103 | 122,416 | 57,405 | 200,920 | - | - | - | - | - | - | - | - | 402,844 |
| Charges for services | - | - | - | - | - | 231,836 | - | - | - | - | - | - | 231,836 |
| Fines and forfeitures | - | - | - | - | 68,353 | - | 8,726 | - | - | 52,633 | - | - | 129,712 |
| Interest income | 22 | 29 | 68 | 69 | 4 | 6,724 | 11 | 77 | 95 | 171 | 25 | 1 | 7,296 |
| Other revenues | - | - | - | - | - | - | - | - | - | - | 7,255 | 2,566 | 9,821 |
| Total revenues | 22,125 | 122,445 | 57,473 | 200,989 | 68,357 | 238,560 | 8,737 | 958,174 | 1,277,558 | 52,804 | 7,280 | 2,567 | 3,017,069 |
| Expenditures: | | | | | | | | | | | | | |
| Current | | | | | | | | | | | | | |
| General government | - | - | - | - | - | - | - | - | - | 6,973 | 8,188 | 1,839 | 17,000 |
| Public safety | - | - | - | - | - | - | 8,660 | - | - | - | - | - | 8,660 |
| Public works | - | - | 688,206 | - | - | 3,200 | - | - | - | - | - | - | 691,406 |
| Education | - | - | - | - | - | - | - | 955,336 | 1,273,774 | - | - | - | 2,229,110 |
| Capital outlay | - | - | - | - | - | 29,165 | - | - | - | - | - | - | 29,165 |
| Total expenditures | - | - | 688,206 | - | - | 32,365 | 8,660 | 955,336 | 1,273,774 | 6,973 | 8,188 | 1,839 | 2,975,341 |
| Excess (deficiency) of revenues over (under) expenditures | 22,125 | 122,445 | (630,733) | 200,989 | 68,357 | 206,195 | 77 | 2,838 | 3,784 | 45,831 | (908) | 728 | 41,728 |
| Other financing sources (uses): | | | | | | | | | | | | | |
| Transfers in | - | - | 585,000 | - | - | - | - | - | - | - | - | - | 585,000 |
| Transfers out | (50,000) | (130,000) | - | (405,000) | (68,438) | - | - | - | - | - | - | - | (653,438) |
| Total other financing sources (uses) | (50,000) | (130,000) | 585,000 | (405,000) | (68,438) | - | - | - | - | - | - | - | (68,438) |
| Net change in fund balances | (27,875) | (7,555) | (45,733) | (204,011) | (81) | 206,195 | 77 | 2,838 | 3,784 | 45,831 | (908) | 728 | (26,710) |
| Fund balances, beginning of year | 44,500 | 51,973 | 91,375 | 280,365 | 1,000 | 1,533,188 | 18,665 | 4,956 | 6,269 | 264,283 | 42,841 | 1,490 | 2,340,905 |
| Fund balances, end of year | \$ 16,625 | \$ 44,418 | \$ 45,642 | \$ 76,354 | \$ 919 | \$ 1,739,383 | \$ 18,742 | \$ 7,794 | \$ 10,053 | \$ 310,114 | \$ 41,933 | \$ 2,218 | \$ 2,314,195 |

COMPLIANCE SECTION

**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
Phenix City, Alabama**

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Phenix City, 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 January 30, 2019. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Phenix City Board of Education, as described in our report on the City’s financial statements. The report does not include our consideration of the results of the other auditor’s testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other 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 City’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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

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

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Grimes + Company, P.C.

Certified Public Accountants

January 30, 2019

CITY OF PHENIX CITY, ALABAMA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES**

No findings

CITY OF PHENIX CITY, ALABAMA
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

2016 - 1. Management of Capital Asset Accounts

Criteria: Generally accepted accounting principles require the reporting of all capital assets at their historical cost, which is written off periodically, or depreciated, in a systematic and rational manner.

Condition: The City did not properly reconcile capital outlay and fund capital expenditures to capital asset additions and disposals during the fiscal year ended September 30, 2016.

Status: Resolved.