

**CITY OF PINSON
Pinson, Alabama**

Financial Statements

**For the Year Ended
June 30, 2017**

**CITY OF PINSON
Pinson, Alabama**

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For the Year Ended June 30, 2017**

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CITY OF PINSON, ALABAMA

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

The City of Pinson's (the City) Management's Discussion and Analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position, identify any material deviations from the financial plan, and identify individual fund issues or concerns.

Since the Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

As of June 30, 2017, the City's assets and deferred outflows exceeded its liabilities and deferred inflows by \$5,373,864, net position. This is an increase of \$773,866, or 17%, from the prior period. The General Fund Balance increased by \$592,046, or 45%. Non-major Governmental Fund Balances decreased by \$38,103, or 9%.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a long-term view of the City's finances. For governmental activities, these statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail by providing information about the City's most significant funds.

Reporting on the City as a Whole

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used in most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the City's *net position* and changes in them. You can think of the City's net position – the difference between assets and liabilities – as one way to measure the City's *financial health* or *financial position*. Over time, *increases* or *decreases* in the City's net position is one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors, such as changes in the City's business base and the condition of the City's roads, to assess the overall health of the City.

Reporting on the City's Funds

The fund financial statements provide detailed information about the City's funds. The City's General Fund is classified as a major fund. All others are classified as non-major funds. Some funds are required to be established by State law and by covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes and other money. All of the City's funds are governmental funds, which focus on how money flows into and out of those funds and balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

CITY OF PINSON, ALABAMA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2017

The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides.

Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position or Statement of Activities) and governmental funds in reconciliations after the fund financial statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The following table presents a condensed Statement of Net Position, including all assets and liabilities, as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Assets			
Cash and cash equivalents	\$ 1,782,151	\$ 1,163,650	\$ 618,501
Capital assets, net	5,826,691	5,731,922	94,769
Other assets	577,484	624,529	(47,045)
Total Assets	<u>\$ 8,186,326</u>	<u>\$ 7,520,101</u>	<u>\$ 666,225</u>
Deferred Outflows of Resources	<u>\$ 121,095</u>	<u>\$ 33,348</u>	<u>\$ 87,747</u>
Liabilities			
Long-term debt	\$ 2,717,787	\$ 2,837,633	\$ (119,846)
Other Liabilities	215,770	115,818	99,952
Total Liabilities	<u>\$ 2,933,557</u>	<u>\$ 2,953,451</u>	<u>\$ (19,894)</u>
Deferred Inflows of Resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Position			
Net investment in capital assets	\$ 3,108,904	\$ 2,894,289	\$ 214,615
Restricted	388,952	382,592	6,360
Unrestricted	1,876,008	1,323,117	552,891
Total Net Position	<u>\$ 5,373,864</u>	<u>\$ 4,599,998</u>	<u>\$ 773,866</u>

As of June 30, 2017, the City's net position increased \$773,866, or 17%. Cash on hand of \$1,782,151, represented 33% of net position compared to 25% in the prior period. The City continues to be in a strong financial position, evidenced by an unrestricted net position of \$1,876,008. Unrestricted amounts available for operations is approximately 10 months, an increase from 8 months in the prior year. Going forward the City anticipates investing some of these unrestricted reserves into capital projects, notably the Rock School renovation.

For more detailed information, see the Statement of Net Position.

CITY OF PINSON, ALABAMA

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

Change in Net Position

The following table presents, in summary form, total revenues by major source for the years ended June 30, 2017 and 2016:

	Governmental Activities		
	For the Year Ended June 30		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
Taxes			
Sales and use	\$ 1,920,196	\$ 1,446,558	\$ 473,638
Gasoline and other	366,915	328,412	38,503
Auto licenses	26,064	24,067	1,997
Business licenses	152,753	148,547	4,206
Utility franchise fees in lieu of business licenses	405,507	405,334	173
Grant programs	12,520	11,996	524
Alabama Trust Fund proceeds	63,071	64,790	(1,719)
Investment earnings	3,328	1,982	1,346
Fines and forfeitures	3,235	3,817	(582)
Contributions and reimbursements	1,110	150	960
Other	129,856	139,981	(10,125)
	<u>\$ 3,084,555</u>	<u>\$ 2,575,634</u>	<u>\$ 508,921</u>
Total Revenues			

The following table presents, in summary form, program expenses by function for the years ended June 30, 2017 and 2016:

	For the Year Ended June 30,		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
General government	\$ 1,112,890	\$ 975,833	\$ 137,057
Public safety	285,852	280,923	4,929
Public service	651,537	577,162	74,375
Special appropriations	179,023	166,579	12,444
Interest and finance charges	81,387	85,596	(4,209)
Total Governmental Activities	<u>2,310,689</u>	<u>2,086,093</u>	<u>224,596</u>
Total Primary Government	<u>\$ 2,310,689</u>	<u>\$ 2,086,093</u>	<u>\$ 224,596</u>

Overall revenue increased \$508,921, or 20%, from the previous fiscal year. This was due, largely, to a significant increase in sales and use taxes. During 2016, the City increased the sales and use tax rate by 2%. Fiscal year 2017 experienced a full year of the increased sales and use tax rates. Sales and use taxes increased by \$473,638, or 33%.

Overall expenses increased by \$224,596, or 11%, from the previous fiscal year. The largest increase was in general government expenses for \$137,057, or 14%. The increase consisted of a \$90,505 increase in salaries and wages from hiring of full-time, part-time, and seasonal employees during 2017. Public service expenses increased by \$74,375, or 13%, due to increases in park utilities, repairs and maintenance, and public works.

CITY OF PINSON, ALABAMA

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

Increased revenue and a strong financial base allowed the City to fund basic general government expenses, public safety, numerous street projects, repairs, and capital purchases from both unrestricted and restricted sources on hand.

THE CITY'S FINANCES FROM A FUND PERSPECTIVE

	<u>General Fund</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Revenue	\$ 2,942,017	\$ 142,538	\$ 3,084,555
Operating expenditures	1,828,192	185,414	2,013,606
Capital outlay and debt service	313,802	203,204	517,006
Other financing sources (uses)	<u>(207,977)</u>	<u>207,977</u>	<u>-</u>
Net Change in Fund Balances	592,046	(38,103)	553,943
Beginning Fund Balances	1,309,787	403,064	1,712,851
Ending Fund Balances	<u>\$ 1,901,833</u>	<u>\$ 364,961</u>	<u>\$ 2,266,794</u>

As of June 30, 2017, the Governmental funds reported a combined fund balance of \$2,266,794, an increase of \$553,943, or 32%, from the prior year. Sales and use tax revenue increases contributed largely to the increase.

Budget Reporting

The budget has always been used to encourage spending adherence, ensuring that expenditures do not exceed budget, and therefore complying with a legally adopted budget. The form of the budget historically set forth a "budget-to-actual" comparison statement. The General Fund budget adopted by the City Council for the fiscal year ended June 30, 2017, projected \$2,965,500 in revenues and \$2,759,500 in expenditures. Actual General Fund revenues for the period were \$2,942,017; \$23,483 less than budgeted, while General Fund expenditures totaled \$2,141,994; \$617,506 less than budgeted. Budgeted expenditures exceeded actual for fiscal year 2017 largely from a budget variance in capital outlays of \$646,198.

The City, as is typical for similarly sized municipalities, does not formally amend its budget throughout the fiscal period to match actual expenditures. A detailed analysis of the variance between actual results and budgeted amounts is included in the Budgetary Comparison Schedule – General Fund contained in the Required Supplementary Information section of the accompanying financial statements and is herein incorporated by reference.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, net capital assets of the governmental activities totaled \$5,826,691. Capital additions of \$313,802 included routine purchases of vehicles, building and land improvements, and other equipment.

CITY OF PINSON, ALABAMA

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

Long-Term Debt

At June 30, 2017, outstanding debt totaled \$2,717,787. Current and long-term portions of debt are \$121,363 and \$2,596,424, respectively. Principal reductions during the year totaled \$119,846. The City did not incur any new debt during the fiscal year.

**ECONOMIC FACTORS AFFECTING THE CITY OF PINSON
AND NEXT YEAR'S BUDGET INFORMATION**

Key Revenue Assumptions and Trends for fiscal year 2016-2017

The 2016-2017 fiscal year continued to bring increased revenues to the City. Sales and use tax revenues continued to increase from the prior year. Expenditures increased as the City's growth led to the hiring of new employees largely in parks and recreation and public works. Additionally, the City performed repairs and maintenance as funds allowed.

Key Revenue Assumptions and Trends for fiscal year 2017-2018

Sales and use tax revenues should meet the budgeted amount of \$2,100,000. The City has annexed numerous properties over the years and expects more annexations to continue for 2018. Those additions to the City will continue to increase certain revenues. The City is expecting to begin major renovations on the Rock School. The City's intention has been to pre-fund its capital expenditures as finances allow. The City has budgeted to use reserves including those accumulated in the 2017 fiscal year to fund major renovations to the Rock School. Fiscal year 2017-2018 capital outlays have been budgeted for \$1,400,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City Clerk at the City of Pinson, P.O. Box 1599, Pinson, AL 35126.

BORLAND
BENEFIELD**INDEPENDENT AUDITOR'S REPORT**

To the City Council
City of Pinson, Alabama

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pinson, Alabama (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability, schedule of city contributions, and notes to the required supplementary information on pages 1–5 and 30-33 are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pinson, Alabama's basic financial statements. The combining non-major governmental fund financial statements and financial trend information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The financial trend information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance of them.



Borland Benefield, P.C.
Birmingham, Alabama
December 15, 2017

CITY OF PINSON, ALABAMA

Statement of Net Position
As of June 30, 2017

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,782,151
Receivables, net	308,749
Investments	256,140
Prepaid expenses	12,595
Capital assets not being depreciated	1,732,623
Capital assets, net of accumulated depreciation	<u>4,094,068</u>
Total Assets	<u>\$ 8,186,326</u>
Deferred Outflows of Resources	
Pension related (See Note 8)	<u>\$ 121,095</u>
Liabilities	
Accounts payable	\$ 83,724
Accrued interest payable	27,017
Other current liabilities	9,117
Net pension liability	95,912
Noncurrent liabilities	
Long-term debt due within one year	121,363
Long-term debt due in more than one year	<u>2,596,424</u>
Total Liabilities	<u>\$ 2,933,557</u>
Deferred Inflows of Resources	
None	<u>\$ -</u>
Net Position	
Net investment in capital assets	\$ 3,108,904
Restricted	388,952
Unrestricted	<u>1,876,008</u>
Total Net Position	<u>\$ 5,373,864</u>

See accompanying notes to financial statements.

CITY OF PINSON, ALABAMA

**Statement of Activities - Government-Wide
For the Year Ended June 30, 2017**

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in</u> <u>Net Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Primary Government					
Governmental Activities					
General government	\$ 1,291,913	\$ -	\$ 76,701	\$ -	\$ (1,215,212)
Public safety	285,852	3,235	-	-	(282,617)
Public service	651,537	-	-	-	(651,537)
Interest and fiscal charges on long-term debt	<u>81,387</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(81,387)</u>
Total Governmental Activities	<u>2,310,689</u>	<u>3,235</u>	<u>76,701</u>	<u>-</u>	<u>(2,230,753)</u>
		General Revenues			
					2,287,111
					584,324
					3,328
					<u>129,856</u>
					<u>3,004,619</u>
					773,866
					<u>4,599,998</u>
					<u>\$ 5,373,864</u>

See accompanying notes to financial statements.

CITY OF PINSON, ALABAMA

**Balance Sheet - Governmental Funds
As of June 30, 2017**

	<u>General Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 1,287,372	\$ 120,681	\$ 1,408,053
Investments	256,140	-	256,140
Accounts receivable - net	287,875	20,874	308,749
Restricted cash and cash equivalents	144,672	229,426	374,098
Prepaid expenses	12,595	-	12,595
Total Assets	<u>\$ 1,988,654</u>	<u>\$ 370,981</u>	<u>\$ 2,359,635</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 77,704	\$ 6,020	\$ 83,724
Accrued expenses	9,117	-	9,117
Total Liabilities	<u>86,821</u>	<u>6,020</u>	<u>92,841</u>
Fund Balances			
Nonspendable	12,595	-	12,595
Restricted	144,672	244,280	388,952
Committed	-	120,681	120,681
Unassigned	1,744,566	-	1,744,566
Total Fund Balances	<u>1,901,833</u>	<u>364,961</u>	<u>2,266,794</u>
Total Liabilities and Fund Balances	<u>\$ 1,988,654</u>	<u>\$ 370,981</u>	<u>\$ 2,359,635</u>

See accompanying notes to financial statements.

CITY OF PINSON, ALABAMA

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
For the Year Ended June 30, 2017

Total fund balance, governmental funds \$ 2,266,794

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources, and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 5,826,691

Deferred outflows of resources related to pensions are not reported in the governmental fund because the consumption of net position will occur in future periods. 121,095

Certain liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position. Those liabilities consist of the following:

Accrued interest	(27,017)	
Net pension liability	(95,912)	
Long-term debt	<u>(2,717,787)</u>	<u>(2,840,716)</u>

Net Position of Governmental Activities \$ 5,373,864

See accompanying notes to financial statements.

CITY OF PINSON, ALABAMA

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds**

For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Revenue			
Sales and use taxes	\$ 1,920,196	\$ -	\$ 1,920,196
Utility franchise fees in lieu of business licenses	405,507	-	405,507
Business licenses	152,753	-	152,753
Gasoline and other taxes	224,426	142,489	366,915
Fines and forfeitures	3,235	-	3,235
Auto licenses	26,064	-	26,064
Investment earnings	3,279	49	3,328
Alabama Trust Fund proceeds	63,071	-	63,071
Grant Programs	12,520	-	12,520
Contributions and reimbursements	1,110	-	1,110
Other revenues	129,856	-	129,856
Total Revenue	<u>2,942,017</u>	<u>142,538</u>	<u>3,084,555</u>
Expenditures			
Current			
General government			
General and administrative	981,025	-	981,025
Appropriations	179,023	-	179,023
Public Safety	268,510	-	268,510
Public Service	399,634	185,414	585,048
Debt Service			
Principal	-	119,846	119,846
Interest and other charges	-	83,358	83,358
Capital Outlay	313,802	-	313,802
Total Expenditures	<u>2,141,994</u>	<u>388,618</u>	<u>2,530,612</u>
Excess (deficiency) of revenues over expenditures	<u>800,023</u>	<u>(246,080)</u>	<u>553,943</u>
Other Financing Sources (Uses)			
Transfers in	-	207,977	207,977
Transfers out	(207,977)	-	(207,977)
Total Other Financing Sources (Uses)	<u>(207,977)</u>	<u>207,977</u>	<u>-</u>
Net Change in Fund Balances	592,046	(38,103)	553,943
Fund Balances, Beginning	<u>1,309,787</u>	<u>403,064</u>	<u>1,712,851</u>
Fund Balances, Ending	<u>\$ 1,901,833</u>	<u>\$ 364,961</u>	<u>\$ 2,266,794</u>

See accompanying notes to financial statements.

City of Pinson, Alabama

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statements of Activities and Net Position
For the Year Ended June 30, 2017**

Net change in fund balances - total governmental funds: \$ 553,943

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays of \$313,802 exceeded depreciation of \$219,033 in the current period. 94,769

Governmental funds report debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. There were no issuances of long-term debt in the current period. This is the amount by which repayments reduced long-term debts. 119,846

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Net effect of accrued interest not reflected in governmental funds 1,971

Governmental funds report pension contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of charges in deferred outflows and inflows of resources to pensions, and investment experience. 3,337

Change in Net Position of Governmental Activities \$ 773,866

See accompanying notes to financial statements.

CITY OF PINSON, ALABAMA

Notes to Financial Statements For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies

The City of Pinson, Alabama (the City) was incorporated in 2004 and operates under a Mayor-Council form of government, providing the following services: annexation and general administrative services and public safety.

The financial statements of the City are prepared in conformity with *Generally Accepted Accounting Principles* as applied to governmental units (GAAP). The more significant of the City's accounting policies are described below:

The Reporting Entity

The City's basic financial statements include the accounts of all City operations. The City has no business-type activities or component units.

Basis of Presentation

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information on all of the activities of the City. The effect of inter-fund activity within the governmental activities has been removed from these statements.

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

Fund Financial Statements

The City segregates transactions related to certain function or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The emphasis of fund financial statements is on the major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Governmental funds are those through which general governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities are accounted for through governmental funds as there are no proprietary funds. The following is a brief description of the fund types used by the City in fiscal year ended June 30, 2017:

Major governmental funds:

The **General Fund** is the City's primary operating fund and accounts for all financial resources except for those required to be accounted for in other funds.

Non-major funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

See independent auditor's report.

CITY OF PINSON, ALABAMA

Notes to Financial Statements (continued) For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

The **Debt Service Funds** are used to account for the accumulation of resources for and the payment of general long-term debt, principal, interest, and related costs.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 including special assessment. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers local tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other governmental fund revenues are recognized when received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Reconciliation of Government-Wide and Fund Financial Statements

The governmental funds balance sheet includes a reconciliation of the fund balances in the governmental funds to the net position reported in the government-wide statements. The reconciling items reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and accrual basis of accounting. In addition, capital assets and long-term debt are added to the governmental funds to compile the long-term view in the governmental activities column of the government-wide statement of net position.

A similar reconciliation is included for the statement of revenues, expenditures and changes in fund balances of the governmental funds. The reconciling items reflect the transition from the modified accrual basis of accounting used for governmental funds to the accrual basis of accounting used in the statement of activities. Capital outlay is replaced with depreciation expense. The principal payments on long-term debt are eliminated from operating costs.

See independent auditor's report.

CITY OF PINSON, ALABAMA

**Notes to Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 1 – Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting

A budget is adopted each year for General Fund only. Anticipated revenues and expenses are appropriated on a basis consistent with generally accepted accounting principles.

Cash and cash equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments consist of bank issued certificates of deposit. These are considered nonparticipating interest-earning investment contracts that are measured based upon cost plus any accrued interest per GASB Statement No. 31.

Prepaid Items

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

Capital Assets

Capital assets include property, buildings, infrastructure (which consist of the City's roads), furniture, vehicles and other equipment. Capital assets are reported in the governmental activities column in the government-wide financial statement. Capital outlays are recorded as expenditures of the governmental funds. Capital assets are recorded at cost where historical cost is available or at estimated historical cost if actual cost is not available. Donated capital assets are recorded at their estimated fair value at time of donation. The costs of normal repair and maintenance that do not add to the value of the asset or materially extend useful lives are expensed. Upon sale or retirement of capital assets, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

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

<u>Assets</u>	<u>Years</u>
Furniture and equipment	5 – 10
Leasehold improvements	20
Vehicles	5
Buildings	40
Building improvements	10 – 20
Infrastructure	20

The City elects to capitalize all infrastructure assets that are acquired (purchased, constructed, or donated), subsequent to its incorporation. All infrastructure assets within the City limits, at the time of incorporation, remain the assets of Jefferson County (the County) or the State of Alabama (the State).

See independent auditor's report.

CITY OF PINSON, ALABAMA

Notes to Financial Statements (continued) For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates

In preparing these financial statements, management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property Tax Calendar

The City's ad valorem property taxes are collected and remitted to the City by Jefferson County. Property taxes are levied by the Jefferson County Commission at its first regular meeting in February of each year based on the property on record as of the preceding October 1. The taxes are due the following October 1 and are delinquent after December 31. The enforceable legal claim for property taxes exists on October 1 preceding the February meeting of the County Commission.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

Net Position and Fund Balances

Net position in the government-wide financial statements is classified as net investment in capital assets, restricted, and unrestricted. Net investment in capital assets consists of capital assets net of accumulated depreciation, construction in progress, land, and reduced by the outstanding balances of any debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or law or regulations of other governments or imposed by law through state statute. Unrestricted net position is all other net position that does not meet the definition of restricted or net investment in capital assets.

In the fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent. The governmental fund types classify fund balance as follows:

Non-spendable – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. The City considers prepaid items and its long term receivable to be Non-spendable Fund Balance.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions, enabling legislation or constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The City considers unspent gas tax revenues in the 7-2 and 4-6-5 Street Funds and unspent Alabama Trust Fund receipts to be Restricted Fund Balance.

Committed – Amounts that can only be used for specific purposes determined by a formal action by City Council ordinance or resolution. The City considers amounts held for debt service payments to be Committed Fund Balance.

See independent auditor's report.

CITY OF PINSON, ALABAMA

**Notes to Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 1 – Summary of Significant Accounting Policies (continued)

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The City has no Assigned Fund Balance.

Unassigned – All amounts not included in other spendable classifications.

The City has not adopted a minimum fund balance policy for the General Fund. When fund balance resources are available for a specific purpose in more than one classification, it is the City's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the City has pension activity that qualifies for reporting in this category (See Note 8).

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the City has pension activity that qualifies for reporting in this category (See Note 8).

Pension

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

Note 2 – Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. All of these accounts are insured by the FDIC up to \$250,000 per institution. In addition, all City monies are deposited with member banks of the Security for Alabama Funds Enhancement Program (SAFE). The SAFE program eliminates the need for individually collateralized deposits for balances in excess of the FDIC coverage.

The City's investments carried at cost plus accrued interest as of June 30, 2017, are:

<u>Investments</u>	<u>Cost Plus Accrued Interest</u>	<u>Effective Duration</u>	<u>Interest Rate</u>
Certificate of deposit	\$ <u>256,140</u>	1 year	1.00%

See independent auditor's report.

CITY OF PINSON, ALABAMA

**Notes to Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 2 – Deposits and Investments (continued)

The City does not have a formal investment policy; however, all funds are invested in compliance with state statutes. State statutes authorize the City to invest in obligations of the U.S. Treasury, U.S. corporate equities, State of Alabama obligations, County obligations, and other municipal obligations, as well as bank certificates of deposit and bank public funds investment accounts.

Note 3 – Accounts Receivable

Accounts receivable are presented at cost which approximates their fair market value. Due to the nature of the accounts, an allowance for doubtful accounts is not maintained. Accounts receivable consists of the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Gas tax (7%) street fund	\$ -	\$ 8,997	\$ 8,997
Gas tax (5%) street fund	-	3,923	3,923
Gas tax (4%) street fund	-	7,954	7,954
Sales and use taxes	181,606	-	181,606
Financial institution excise tax	67,856	-	67,856
Franchise fees	15,864	-	15,864
Beer tax	7,798	-	7,798
Auto licenses	4,889	-	4,889
ABC board profits	2,896	-	2,896
Other receivables	2,366	-	2,366
Road & bridge tax	2,305	-	2,305
Gasoline tax	2,295	-	2,295
Total	<u>\$ 287,875</u>	<u>\$ 20,874</u>	<u>\$ 308,749</u>

Note 4 – Interfund Receivables and Payables

At times throughout the year, interfund receivables and payables exist. During the year, transfers are made between the general fund, capital project fund, special revenue funds, and debt service funds. At June 30, 2017, no interfund payables or receivables exist. If there were, these amounts would be eliminated in the government-wide financial statements.

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See independent auditor's report.

CITY OF PINSON, ALABAMA

**Notes to Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>July 1 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2017</u>
Capital Assets Not Being Depreciated				
Land	\$ 1,664,683	\$ 7,881	\$ -	\$ 1,672,564
Construction in progress	-	60,059	-	60,059
Total Capital Assets Not Being Depreciated	<u>1,664,683</u>	<u>67,940</u>	<u>-</u>	<u>1,732,623</u>
Capital Assets Being Depreciated				
Buildings and improvements	1,331,136	40,350	-	1,371,486
Land improvements	1,939,516	48,761	-	1,988,277
Leasehold improvements	78,557	-	-	78,557
Vehicles	139,246	49,487	-	188,733
Furniture and equipment	142,310	4,588	-	146,898
Other equipment	293,889	89,441	-	383,330
Infrastructure	812,167	13,235	-	825,402
Total Capital Assets Being Depreciated	<u>4,736,821</u>	<u>245,862</u>	<u>-</u>	<u>4,982,683</u>
Less: Accumulated depreciation for:				
Buildings and improvements	270,136	56,362	-	326,498
Land improvements	23,119	64,559	-	87,678
Leasehold improvements	18,797	4,012	-	22,809
Vehicles	84,788	18,164	-	102,952
Furniture and equipment	99,859	9,999	-	109,858
Other equipment	48,219	26,894	-	75,113
Infrastructure	124,664	39,043	-	163,707
Total Accumulated Depreciation	<u>669,582</u>	<u>219,033</u>	<u>-</u>	<u>888,615</u>
Total Capital Assets Being Depreciated, net	<u>4,067,239</u>	<u>26,829</u>	<u>-</u>	<u>4,094,068</u>
Total Capital Assets, net	<u>\$ 5,731,922</u>	<u>\$ 94,769</u>	<u>\$ -</u>	<u>\$ 5,826,691</u>

Depreciation expense for the year ended June 30, 2017 is charged to functions as follows:

General and administrative	\$ 135,202
Public safety	17,342
Public service	<u>66,489</u>
	<u>\$ 219,033</u>

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See independent auditor's report.

CITY OF PINSON, ALABAMA

**Notes to Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 6 – Lease Agreements

In March 2010, the City leased the Palmerdale Homestead Community Center (PHCC) and Palmerdale Fire District (PFD) property from the Jefferson County Board of Education for a period of twenty years. The City will pay no rent, but will maintain the facility, pay for operating and maintenance expenses, and preserve the public liability insurance. The City, in turn, subleases the properties to the PHCC and the PFD and receives all monies that the PHCC receives from citizens who rent the use of the building. These sub-rental agreements continue through December 31, 2020.

Beginning in December 2014, the City agreed to lease a certain portion of the Rock School Center to the Center Point Church of Christ for an initial term of one year with a lease payment of \$600 per month. After conclusion of the initial term, the lease will automatically review itself for additional terms of one year apiece, upon a maximum cumulative lease of five years. Either the City or Church may elect to terminate the lease prior to the end of the initial term or any additional term by giving the other party ninety days written notice.

Note 7 – Long-Term Debt

Changes in long-term obligations for the year ended June 30, 2017, are as follows:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Due Within</u> <u>One Year</u>
2013 GO warrant	\$ 812,633	\$ -	\$ (34,846)	\$ 777,787	\$ 36,363
2014 GO warrants	<u>2,025,000</u>	<u>-</u>	<u>(85,000)</u>	<u>1,940,000</u>	<u>85,000</u>
Total	<u>\$ 2,837,633</u>	<u>\$ -</u>	<u>\$ (119,846)</u>	<u>\$ 2,717,787</u>	<u>\$ 121,363</u>

2013 GO Warrant: On October 15, 2013, the City issued a qualified tax-exempt general obligation warrant in the amount of \$900,000 to assist in financing the purchase of property known as the Rock School located in Pinson, Alabama. The warrant holds an annual rate of 3.31% and is payable in monthly installments of \$5,132 over five years with a balloon payment due October 15, 2018, of the unpaid principal and interest.

2014 GO Warrants: On July 1, 2014, the City issued tax-exempt General Obligation Warrants, Series 2014, in the amount of \$2,110,000 in which a partial amount of principal proceeds were applied to the cost of refunding the City's General Obligation Warrant, Series 2007, dated November 14, 2007. The remaining proceeds, net of issuance costs, are being used for the cost of acquiring and constructing the Bicentennial Park. The warrants mature and become payable on July 1 in the years 2017 through 2034 and shall bear interest from 2.00% to 3.50%.

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See independent auditor's report.

CITY OF PINSON, ALABAMA

**Notes to Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 7 – Long-Term Debt (continued)

Annual requirements to retire general long-term debt as of June 30, 2017, for the next five years and in five year increments are as follows:

Years Ended June 30,	Principal 2013 GO Warrant	Principal 2014 GO Warrants	Interest 2013 GO Warrant	Interest 2014 GO Warrants	Total
2018	\$ 36,363	\$ 85,000	\$ 25,224	\$ 55,165	\$ 201,752
2019	741,424	90,000	8,111	49,358	888,893
2020	-	90,000	-	48,295	138,295
2021	-	95,000	-	42,020	137,020
2022	-	95,000	-	45,405	140,405
2023-2027	-	505,000	-	192,015	697,015
2028-2032	-	585,000	-	112,303	697,303
2033-2035	-	395,000	-	15,870	410,870
Total	<u>\$ 777,787</u>	<u>\$ 1,940,000</u>	<u>\$ 33,335</u>	<u>\$ 560,431</u>	<u>\$ 3,311,553</u>

Note 8 – Pension Plan

General Information about the Pension Plan

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

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

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:

See independent auditor's report.

CITY OF PINSON, ALABAMA

**Notes to Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 8 – Pension Plan (continued)

- a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
- b. Two vested active state employees.
- c. Two vested active employees of an employer participating in ERS pursuant to § 36-27-6.

Benefits provided: State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for Tier 1 ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

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.

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See independent auditor's report.

CITY OF PINSON, ALABAMA

**Notes to Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 8 – Pension Plan (continued)

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

	<u>ERS</u>	<u>City</u>
Retirees and beneficiaries currently receiving benefits	23,007	-
Terminated employees entitled to but not yet receiving benefits	1,155	-
Terminated employees not entitled to a benefit	6,654	-
Active members	54,823	9
Post-DROP participants still in active service	<u>235</u>	<u>-</u>
Total	<u><u>85,874</u></u>	<u><u>9</u></u>

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

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

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 June 30, 2017, the City's active employee contribution rate was 7.50% and 6.00% of regular covered employee payroll for Tier 1 and Tier 2, respectively. Additionally, the City's average contribution rate to fund the normal and accrued liability costs was 3.77% of covered employee payroll.

See independent auditor's report.

CITY OF PINSON, ALABAMA

**Notes to Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 8 – Pension Plan (continued)

City's contractually required contribution rate for the year ended June 30, 2017 was 3.41% of pensionable pay for Tier 1 employees, and 2.91% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City were \$14,440 for the year ended June 30, 2017.

Net Pension Liability

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

	<u>Expected</u>	Actual-2015 Valuation Assumptions	Actual-2016 Valuation Assumptions
(a) Total Pension Liability as of September 30, 2015	\$ 148,428	\$ 195,396	\$ 237,164
(b) Discount rate	8.00%	8.00%	7.75%
(c) Entry Age Normal Cost for the period October 1, 2015 - September 30, 2016	28,233	28,233	37,037
(d) Transfers Among Employers		-	-
(e) Actual Benefit Payments and Refunds for the period October 1, 2015 - September 30, 2016	-	-	-
(f) Total Pension Liability as of September 30, 2016 =[(a) x (1+(b))] + (c) + (d) + [(e) x (1 + 0.5*(b))]	<u>\$ 188,535</u>	<u>\$ 239,261</u>	<u>\$ 292,581</u>
(g) Difference between Expected and Actual		\$ 50,726	
(h) Less Liability Transferred for Immediate Recognition		-	
(i) Experience (Gain)/Loss = (g) - (h)		<u>\$ 50,726</u>	
(j) Difference between Actual (2015 Assumptions) and Actual (2016 Assumptions): Assumption Change (Gain)/Loss			<u>\$ 53,320</u>

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See independent auditor's report.

CITY OF PINSON, ALABAMA

**Notes to Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 8 – Pension Plan (continued)

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

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

* Net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the September 30, 2015 valuation were based on the results of an actuarial experience study for the period October 1, 2010 – September 30, 2015.

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

The target asset allocation and best estimates of geometric real rates of return for each major asset class, as provided by the ERS, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.00%	4.40%
US Large Stocks	32.00%	8.00%
US Mid Stocks	9.00%	10.00%
US Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
Total	<u>100%</u>	

* Includes assumed rate of inflation of 2.50%

See independent auditor's report.

CITY OF PINSON, ALABAMA

**Notes to Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 8 – Pension Plan (continued)

Discount rate: The discount rate used to measure the total pension liability at September 30, 2016 was the long term rate of return, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at rates currently in effect and that employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Projected future benefit payments for all current plan members were projected for all years.

Based on those assumptions, each employer’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability and a municipal bond rate was not used in determining the discount rate.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at September 30, 2015	\$ 148,428	\$ 136,926	\$ 11,502
Changes for the year:			
Service cost	28,233	-	28,233
Interest	11,874	-	11,874
Changes of assumptions	53,320	-	53,320
Differences between expected and actual experience	50,726	-	50,726
Contributions - employer	-	16,066	(16,066)
Contributions - employee	-	27,513	(27,513)
Net investment income	-	16,164	(16,164)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	-	-
Transfers among employers	-	-	-
Net changes	<u>144,153</u>	<u>59,743</u>	<u>84,410</u>
Balances at September 30, 2016	<u>\$ 292,581</u>	<u>\$ 196,669</u>	<u>\$ 95,912</u>

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

	1% Decrease (6.75%)	Current Rate 7.75%	1% Increase (8.75%)
City's net pension liability	\$ 145,913	\$ 95,912	\$ 54,994

See independent auditor's report.

CITY OF PINSON, ALABAMA

**Notes to Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 8 – Pension Plan (continued)

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2016. The auditor's report dated September 18, 2017 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

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

For the year ended June 30, 2017, the City recognized net pension expense \$11,430. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 60,876	\$ -
Changes of assumptions	48,683	-
Net difference between projected and actual earnings on pension plan investments	690	-
Employer contributions subsequent to the measurement date	<u>10,846</u>	<u>-</u>
Total	<u>\$ 121,095</u>	<u>\$ -</u>

Deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date totaling \$10,846 will be recognized as a reduction of net pension liability in the year June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 11,164
2019	11,162
2020	11,597
2021	10,151
2022	10,846
Thereafter	55,329

Note 9 – 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 disaster. Risk Management is the process of managing the City's activities to minimize the adverse effects of certain types of losses and to obtain finances to provide for or restore the economic damages of these losses. The City finances its risk through the purchase of general liability insurance.

See independent auditor's report.

CITY OF PINSON, ALABAMA

**Notes to Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 10 – Recently Issued Accounting Pronouncements

GASB Statement No. 82 – Pension Issues. This Statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Requirements for this Statement are effective for financial statements whose fiscal year begins after June 15, 2016.

Note 11 – Subsequent Events

The City has evaluated subsequent events through December 15, 2017, the date the financial statements were available to be issued.

See independent auditor's report.

CITY OF PINSON, ALABAMA

**Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues			
Sales and use taxes	\$ 2,000,000	\$ 1,920,196	\$ (79,804)
Franchise fees in lieu of business licenses	400,000	405,507	5,507
Business licenses	160,000	152,753	(7,247)
Alcohol tax	80,000	61,596	(18,404)
Alabama Trust Fund proceeds	65,000	63,071	(1,929)
Pinson Youth Sports Complex income	60,000	60,569	569
Gasoline tax	55,000	46,507	(8,493)
Road and bridge tax	55,000	56,766	1,766
Auto licenses	22,000	26,064	4,064
Park income	20,000	18,862	(1,138)
Financial institution excise tax	10,000	67,856	57,856
PHCC use income	8,000	2,000	(6,000)
Rock School Center income	7,500	9,060	1,560
Fines and forfeitures	6,000	3,235	(2,765)
Tobacco tax	6,000	5,870	(130)
Community Center use	5,000	4,070	(930)
Miscellaneous revenues	5,000	37,735	32,735
Zoning / subdivision fees	1,000	300	(700)
Total Revenue	<u>2,965,500</u>	<u>2,942,017</u>	<u>(23,483)</u>
Expenditures			
Capital outlay	960,000	313,802	(646,198)
Public safety	421,500	326,140	(95,360)
Payroll	402,000	437,599	35,599
Library expenses	191,000	218,240	27,240
Parks and recreation	176,000	210,354	34,354
Utilities	137,000	170,238	33,238
Legal and professional	100,000	80,335	(19,665)
Schools	100,000	94,552	(5,448)
City promotions	52,000	47,745	(4,255)
Road maintenance	50,000	18,306	(31,694)
Office expenses	40,000	59,941	19,941
Insurance	36,000	36,036	36
Conferences, training and dues	34,000	47,078	13,078
Building and grounds	30,000	47,433	17,433
Auto fleet and equipment	13,000	9,511	(3,489)
Animal control	12,000	10,987	(1,013)
Probate and elections	5,000	13,697	8,697
Total Expenditures	<u>2,759,500</u>	<u>2,141,994</u>	<u>(617,506)</u>
Excess (deficiency) of revenues over expenditures	<u>206,000</u>	<u>800,023</u>	<u>594,023</u>
Other Financing Sources (Uses)			
Transfers out	<u>(206,000)</u>	<u>(207,977)</u>	<u>(1,977)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 592,046</u>	<u>\$ 592,046</u>

CITY OF PINSON, ALABAMA

**Schedules of Required Supplementary Information
Schedule of Changes in the Net Pension Liability
Last 10 Fiscal Years Ending June 30**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total Pension Liability										
Service cost	\$ 28,233	\$ 22,108	\$ 19,479							
Interest	11,874	8,012	5,976							
Changes of benefit terms	-	-	-							
Differences between expected and actual experience	50,726	18,157	-							
Changes of assumptions	53,320	-	-							
Benefit payments, including refunds of employee contributions	-	-	-							
Transfers among employers	-	-	-							
Net change in total pension liability	<u>144,153</u>	<u>48,277</u>	<u>25,455</u>							
Total pension liability - beginning	<u>148,428</u>	<u>100,151</u>	<u>74,696</u>							
Total pension liability - ending (a)	<u>\$ 292,581</u>	<u>\$ 148,428</u>	<u>\$ 100,151</u>							
Plan Fiduciary Net Position										
Contributions - employer	\$ 16,066	\$ 8,331	\$ 13,255							
Contributions - member	27,513	22,126	17,889							
Net investment income	16,164	1,256	6,487							
Benefit payments, including refunds of employee contributions	-	-	-							
Transfers among employers	-	29,094	-							
Net change in plan fiduciary net position	<u>59,743</u>	<u>60,807</u>	<u>37,631</u>							
Plan net position - beginning	<u>136,926</u>	<u>76,119</u>	<u>38,488</u>							
Plan net position - ending (b)	<u>\$ 196,669</u>	<u>\$ 136,926</u>	<u>\$ 76,119</u>							
Net pension liability (asset) - ending (a) - (b)	\$ 95,912	\$ 11,502	\$ 24,032							
Plan fiduciary net position as a percentage of the total pension liability	67.22%	92.25%	76.00%							
Covered-employee payroll*	\$ 378,660	\$ 292,206	\$ 306,330							
Net pension liability (asset) as a percentage of covered-employee payroll	25.33%	3.94%	7.85%							

* Employer's covered payroll during the measurement period is the total covered payroll. For FY2017 the measurement period is October 1, 2015 - September 30, 2016. GASB issued a statement "Pension Issues" in March 2016 to redefine covered payroll for FY2017.

Fiscal year ended June 30, 2015 was the first year of implementation, therefore prior information is not provided.

CITY OF PINSON, ALABAMA

**Schedules of Required Supplementary Information
Schedule of City Contributions
Last 10 Fiscal Years Ending June 30**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution*	\$ 14,440	\$ 15,054	\$ 10,469							
Contributions in relation to the actuarially determined contribution	<u>(14,440)</u>	<u>(15,054)</u>	<u>(10,469)</u>							
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
City's covered-employee payroll**	\$ 382,760	\$ 351,915	\$ 335,796							
Contributions as a percentage of covered-employee payroll	3.77%	4.28%	3.12%							

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

** Employer's covered payroll for FY2017 is the total covered payroll for the 12 month period of the underlying financial statement.

Fiscal year ended June 30, 2015 was the first year of implementation, therefore prior information is not provided.

CITY OF PINSON, ALABAMA

**Notes to Required Supplementary Information
For the Year Ended June 30, 2017**

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

Since the City's financial reporting period of June 30, 2017 is other than September 30, 2017, additional assumptions are reported for the basis of determining the portion of the contribution prior to September 30, 2017 as follows:

For the Year Ended June 30, 2017

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2017 were based on the September 30, 2014 actuarial valuation.

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

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	17 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increase	3.75 – 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

For the Year Ended June 30, 2016

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

Methods and assumptions used to determine contribution rates for the period October 1, 2015 to September 30, 2016 are as follows:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	16 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increase	3.75 – 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

CITY OF PINSON, ALABAMA

Combining Balance Sheet - Non-Major Governmental Funds
 Non-Major Governmental Funds
 As of June 30, 2017

	<u>Special Revenue Funds</u>		<u>Debt Service Fund 2013 Warrant</u>	<u>Debt Service Fund 2014 Warrants</u>	<u>Total</u>
	<u>Street Fund 7-2</u>	<u>Street Fund 4-6-5</u>			
Assets					
Cash and cash equivalents	\$ -	\$ -	\$ 8,664	\$ 112,017	\$ 120,681
Accounts receivable - net	8,997	11,877	-	-	20,874
Restricted cash and cash equivalents	91,380	138,046	-	-	229,426
Total Assets	<u>\$ 100,377</u>	<u>\$ 149,923</u>	<u>\$ 8,664</u>	<u>\$ 112,017</u>	<u>\$ 370,981</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 6,020	\$ -	\$ -	\$ -	\$ 6,020
Total Liabilities	<u>6,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,020</u>
Fund Balances					
Restricted	94,357	149,923	-	-	244,280
Committed	-	-	8,664	112,017	120,681
Total Fund Balances	<u>94,357</u>	<u>149,923</u>	<u>8,664</u>	<u>112,017</u>	<u>364,961</u>
Total Liabilities and Fund Balances	<u>\$ 100,377</u>	<u>\$ 149,923</u>	<u>\$ 8,664</u>	<u>\$ 112,017</u>	<u>\$ 370,981</u>

CITY OF PINSON, ALABAMA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Non-Major Governmental Funds
 For the Year Ended June 30, 2017

	<u>Special Revenue Funds</u>		<u>Debt Service Fund 2013 Warrant</u>	<u>Debt Service Fund 2014 Warrants</u>	<u>Total</u>
	<u>Street Fund 7-2</u>	<u>Street Fund 4-6-5</u>			
Revenues					
Gasoline and other taxes	\$ 74,723	\$ 67,766	\$ -	\$ -	\$ 142,489
Investment earnings	-	49	-	-	49
Total Revenues	<u>74,723</u>	<u>67,815</u>	<u>-</u>	<u>-</u>	<u>142,538</u>
Expenditures					
Current					
Public Service	130,746	54,668	-	-	185,414
Debt Service					
Principal	-	-	34,846	85,000	119,846
Interest and other charges	-	-	27,131	56,227	83,358
Total Expenditures	<u>130,746</u>	<u>54,668</u>	<u>61,977</u>	<u>141,227</u>	<u>388,618</u>
Excess (deficiency) of revenues over expenditures	<u>(56,023)</u>	<u>13,147</u>	<u>(61,977)</u>	<u>(141,227)</u>	<u>(246,080)</u>
Other Financing Sources (Uses)					
Transfers in	-	-	67,600	140,377	207,977
Net Change in Fund Balances	<u>(56,023)</u>	<u>13,147</u>	<u>5,623</u>	<u>(850)</u>	<u>(38,103)</u>
Fund Balances, Beginning	<u>150,380</u>	<u>136,776</u>	<u>3,041</u>	<u>112,867</u>	<u>403,064</u>
Fund Balances, Ending	<u>\$ 94,357</u>	<u>\$ 149,923</u>	<u>\$ 8,664</u>	<u>\$ 112,017</u>	<u>\$ 364,961</u>

CITY OF PINSON, ALABAMA

**Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
For the Years Ended June 30, 2012 through 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue						
Sales and use taxes	\$ 1,920,196	\$ 1,446,558	\$ 1,111,189	\$ 967,761	\$ 977,272	\$ 993,788
Franchise fees	405,507	405,334	402,074	382,038	351,716	315,291
Business licenses	152,753	148,547	156,340	140,304	125,793	120,436
Gasoline and other taxes	224,426	190,969	178,899	170,106	191,320	190,678
Fines and forfeitures	3,235	3,817	3,964	10,263	11,324	9,381
Auto licenses	26,064	24,067	22,820	19,217	18,117	18,663
Investment earnings	3,279	1,961	223	364	1,215	8
Alabama Trust Fund proceeds	63,071	64,790	63,024	63,154	163,433	62,484
Grant Programs	12,520	11,996	127,876	11,181	14,134	4,889
Contributions and reimbursements	1,110	150	-	77,547	-	-
Other revenues	129,856	139,981	97,096	117,768	39,141	44,479
Total Revenue	<u>2,942,017</u>	<u>2,438,170</u>	<u>2,163,505</u>	<u>1,959,703</u>	<u>1,893,465</u>	<u>1,760,097</u>
Expenditures						
Current						
General government						
General and administrative	981,025	923,526	773,257	777,648	683,984	568,661
Appropriations	179,023	166,579	182,175	104,198	132,272	113,662
Public Safety	268,510	269,020	357,398	365,944	362,945	299,794
Public Service	399,634	363,897	222,288	306,451	188,894	223,718
Debt Service						
Principal	-	-	81,250	81,250	20,000	20,000
Interest and other charges	-	-	106,710	22,125	-	-
Capital Outlay	313,802	487,894	166,243	1,262,924	285,871	375,454
Total Expenditures	<u>2,141,994</u>	<u>2,210,916</u>	<u>1,889,321</u>	<u>2,920,540</u>	<u>1,673,966</u>	<u>1,601,289</u>
Excess (deficiency) of revenues over expenditures	<u>800,023</u>	<u>227,254</u>	<u>274,184</u>	<u>(960,837)</u>	<u>219,499</u>	<u>158,808</u>
Other Financing Sources (Uses)						
Transfers out	(207,977)	(257,902)	(2,292,568)	(96,700)	(48,000)	(44,000)
Proceeds from issuance of long-term debt	-	-	2,110,000	900,000	162,500	-
Proceeds from disposal of capital assets	-	-	-	10,256	-	-
Total Other Financing Sources (Uses)	<u>(207,977)</u>	<u>(257,902)</u>	<u>(182,568)</u>	<u>813,556</u>	<u>114,500</u>	<u>(44,000)</u>
Net Change in Fund Balances	592,046	(30,648)	91,616	(147,281)	333,999	114,808
Fund Balances, Beginning	<u>1,309,787</u>	<u>1,340,435</u>	<u>1,248,819</u>	<u>1,396,100</u>	<u>1,062,101</u>	<u>947,293</u>
Fund Balances, Ending	<u>\$ 1,901,833</u>	<u>\$ 1,309,787</u>	<u>\$ 1,340,435</u>	<u>\$ 1,248,819</u>	<u>\$ 1,396,100</u>	<u>\$ 1,062,101</u>