

CITY OF ANNISTON, ALABAMA

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2016



CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ANNISTON, ALABAMA

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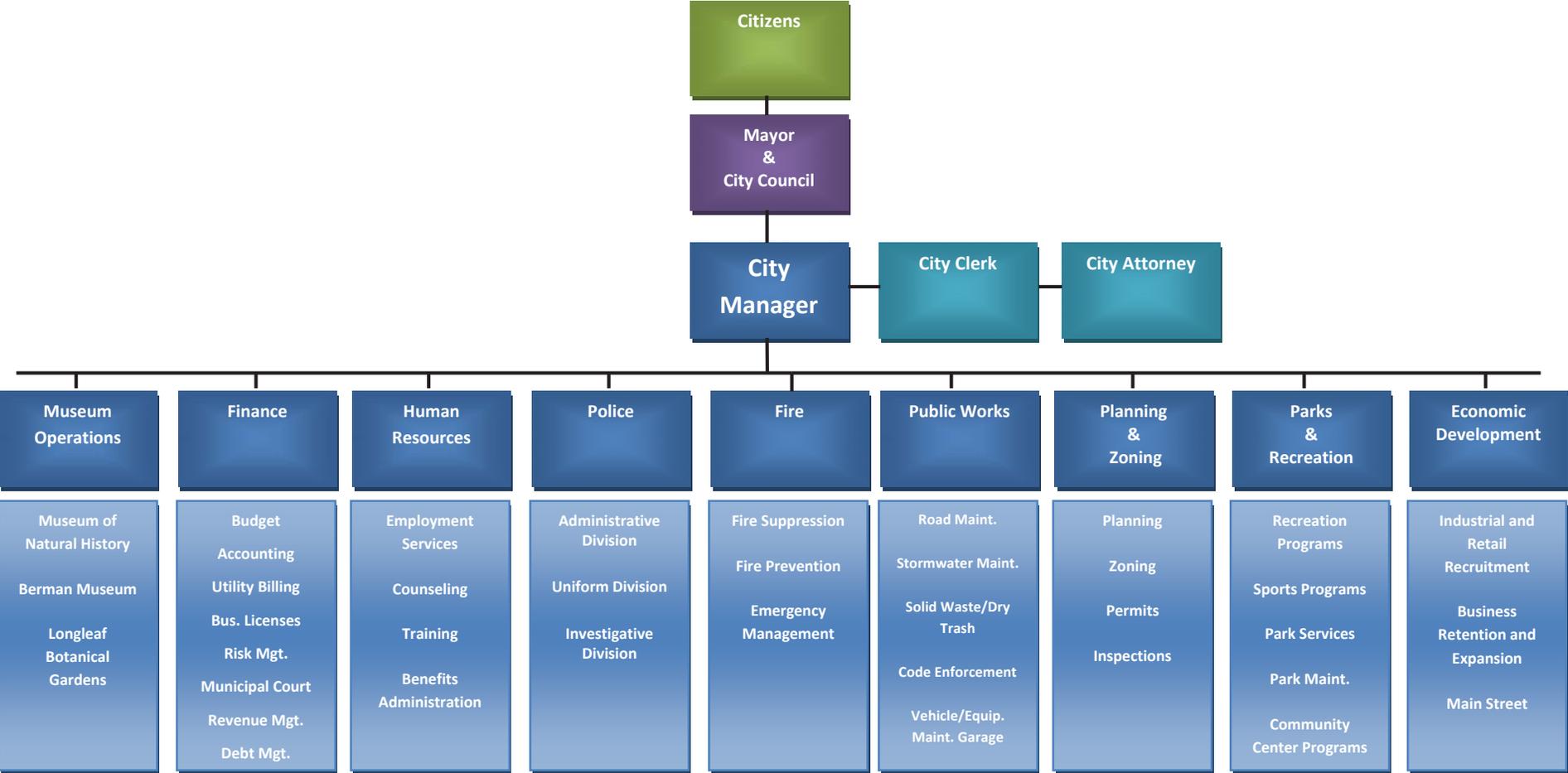
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INTRODUCTORY SECTION

CITY OF ANNISTON, ALABAMA ORGANIZATION CHART



FOR THE YEAR END SEPTEMBER 30, 2016

City Council

Vaughn M. Stewart II – Mayor

Millie Harris

Jay W. Jenkins

David E. Reddick

Seyram Selase

City Manager

Brian Johnson

Finance Director

Cory Salley

Other City Officials

City Attorney	Bruce J. Downey IV
City Clerk	Alan Atkinson
City Judge	James Sims
Economic Development	Kent Davis, Director
Fire	Tony Taylor, Chief
Human Resources	Bersheba Austin, Director
Museum Operations	Alan Robison, Director
Parks & Recreation	Steven Folks, Director
Planning & Development Services	Toby Bennington, Director
Police	Shane Denham, Chief
Public Works	Robert Dean, Director

FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS
CHATTANOOGA | MEMPHIS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Anniston, 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 Anniston, Alabama, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Anniston Board of Education, Public Library of Anniston/Calhoun County, and Anniston Museum Endowment Corporation, Inc., which represents 99%, 100% and 99%, respectively, of the assets and deferred outflows of resources, net position and revenue of the discretely-presented component units. Additionally, we did not audit the financial statements of Policemen's and Firemen's Retirement Fund, which represents 99% and 100%, respectively, of the assets and net position of the fiduciary funds. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Anniston Board of Education, Public Library of Anniston/Calhoun County, Anniston Museum Endowment Corporation, Inc., and Policemen's and Firemen's Retirement Fund is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

The financial statements of Anniston Museum League have not been audited, and we were not engaged to audit its financial statements as part of our audit of the City's basic financial statements. Anniston Museum League is included in the City's basic financial statements as a discretely-presented component unit and represent less than 1% of the assets, net position and revenues of the City's aggregate discretely-presented component units.

Opinions

In our opinion, based on our audit and the reports of other auditors except for the effects of such adjustments, if any, as might have been determined to be necessary had the Anniston Museum League financial statements been audited, the financial statements referred to previously present fairly, in all material respects, the financial position of the government activities, the business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information for the City of Anniston, Alabama, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iv through xi of the Financial Section and the required supplementary information on pages B-1 through B-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining nonmajor fund financial schedules and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining nonmajor fund schedules included as other supplementary information, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section 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 on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2017, on our consideration of the City of Anniston's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Anniston's internal control over financial reporting and compliance.

Chattanooga, Tennessee
July 31, 2017

Henderson Hutcherson
& McCullough, PLLC

FOR THE YEAR END SEPTEMBER 30, 2016

This section of the City of Anniston's ("City") annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and other supplementary information, which follow this narrative.

Financial Highlights

- The liabilities and deferred inflow of resources of the City of Anniston (primary government) exceeded its assets and deferred outflow of resources by \$33.2 million for the year ended September 30, 2016. Of the \$33.2 million in primary government deficit net position, unrestricted net position had a deficit of \$100.5 million.
- The City's total net position decreased by \$8.8 million in fiscal year 2016. Increases in net pension liabilities are primarily responsible for the decrease in net position. The City's net pension liabilities were \$107.4 million as required by GASB 68 (See Note 8).
- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$11.2 million. The combined governmental funds fund balance decreased by \$632,078 compared with the prior year. Of the \$11.2 million in fund balance, \$4.2 million is available for spending at the government's discretion (unassigned fund balance).
- The general fund ended the current year with a fund balance of \$4.9 million, up from \$4.5 million in 2015. The 2016 ending fund balance of the General Fund represents 13.0 percent of total general fund expenditures, including transfers out.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Anniston's basic financial statements. The basic financial statements consist of three components: 1. Government-wide financial statements, 2. Fund financial statements and 3. Notes to the financial statements (see figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Anniston.

Government-wide Financial Statements

The government-wide 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 and deferred outflows of resources and liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

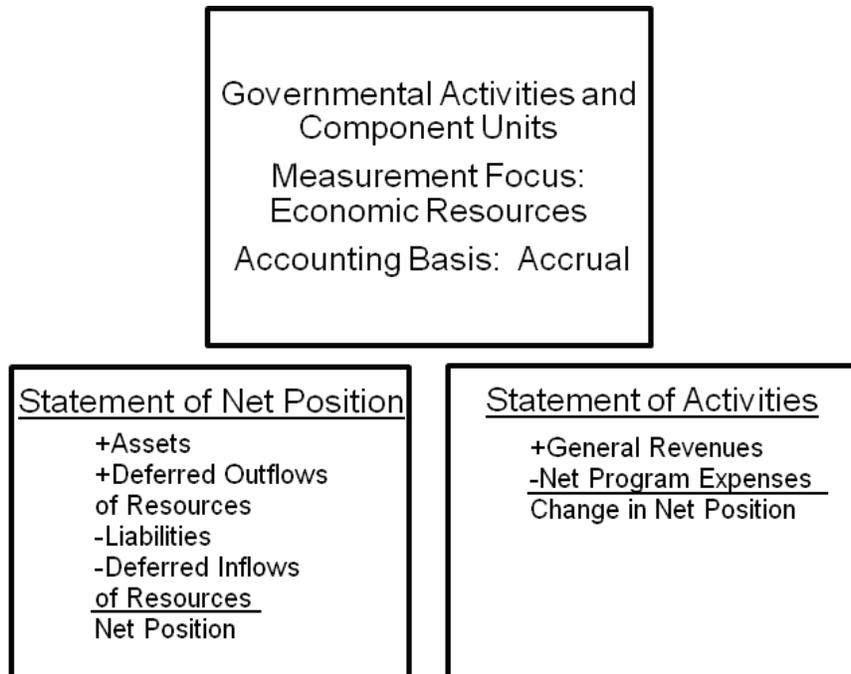
Governmental Activities – Most of the City's basic services are included here such as the police, fire, public works, parks and recreation, and general administration. Sales, use and property taxes; charges for services; and state and federal grants finance most of these activities. The *Governmental Activities* include *Blended Component units*.

FOR THE YEAR END SEPTEMBER 30, 2016

Business-type Activities – The City charges a fee to customers to help it cover the cost of certain services it provides. The City’s store at the Anniston Museum of Natural History and stormwater activities are reported here.

Component Units – The City includes other legally separate entities in its report including the Anniston City Board of Education, Public Library of Anniston/Calhoun County, Anniston Museum Endowment Corporation, and Museum League. These entities are discretely presented component units, and the City is financially accountable for these entities. The City provides administrative services for the following blended component units: the Public Building Authority, Anniston Downtown Development Authority and Industrial Development Authority.

Government-wide Financial Statements



The statement of net position includes all of the government’s assets and deferred outflows of resources and liabilities and deferred inflows of resources except fiduciary funds. The statement of activities presents information showing how the government’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements

The fund financial statements provide more detailed information about the City’s most significant funds – not the City as a whole. Funds are accounting groups that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by federal or state law while some are required by grant agreements. Other funds are established to control and manage City resources designated for specific purposes.

FOR THE YEAR END SEPTEMBER 30, 2016

The City uses three types of funds:

Governmental Funds – Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow into and out of the funds and (2) the balances left at year-end that are available for spending. Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Proprietary Funds – The City charges customers for certain services it provides, whether to outside customers or to other divisions within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The City of Anniston maintains two types of proprietary funds: enterprise and interal service funds. The City has two enterprise funds (Museum Store and Stormwater Fees) to record services for which external customers are charged a fee. Internal service funds are used to record services for which internal customers are charged a fee. The City has three of these fund types: Liability Insurance, Health Insurance, and Workers' Compensation.

Fiduciary Funds – The fiduciary fund statement reflects the financial relationship with the Policemen's and Firemen's Retirement Fund which provides benefits exclusively for certain public safety employees. The City also uses a Municipal Court fiduciary fund to account for monies that is collected on behalf of outside agencies. These funds are excluded from the City's government-wide financial statements because the City cannot use these assets to finance operations.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information that should be considered in the evaluation of the City's financial position.

Government-wide Financial Analysis**Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Anniston, liabilities and deferred inflow of resources exceeded assets and deferred outflow of resources by \$33.2 million at the close of the most recent fiscal year. Governmental activities comprise (\$33.3 million), and business-type activities make up \$175,491 of the total net position. The deficit net position is primarily a result of implementation of GASB 68, which requires the recording of net pension liabilities (\$107.4 million).

FOR THE YEAR END SEPTEMBER 30, 2016

In a condensed format, the table below shows a comparison of the net position as of the current date to the prior year:

**Condensed Statement of Net Position
As of September 30, 2016 and 2015**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 15,322,343	\$ 16,081,753	\$ 151,288	\$ 131,583	\$ 15,513,645	\$ 16,213,336
Capital assets, net of accumulated depreciation	<u>98,781,345</u>	<u>102,836,336</u>	<u>302,813</u>	<u>10,453</u>	<u> </u>	<u>102,846,789</u>
Total assets	<u>114,103,688</u>	<u>118,918,089</u>	<u>454,101</u>	<u>142,036</u>	<u>114,557,789</u>	<u>119,060,125</u>
Deferred outflow of resources	<u>10,712,518</u>	<u>3,161,332</u>	<u> </u>	<u> </u>	<u>10,712,518</u>	<u>3,161,332</u>
Current and other liabilities	7,703,863	8,647,857	14,750	9,320	7,718,613	8,657,177
Long-term liabilities, net of current portion	<u>147,461,452</u>	<u>135,288,449</u>	<u>263,860</u>	<u> </u>	<u>147,725,312</u>	<u>135,288,449</u>
Total liabilities	<u>155,165,315</u>	<u>143,936,306</u>	<u>278,610</u>	<u>9,320</u>	<u>155,443,925</u>	<u>143,945,626</u>
Deferred inflows of resources	<u>3,017,483</u>	<u>2,616,567</u>	<u> </u>	<u> </u>	<u>3,017,483</u>	<u>2,616,567</u>
Net assets:						
Net investment in capital assets	60,383,528	63,405,923	38,953	10,453	60,422,481	63,416,376
Restricted	6,889,440	6,774,588	-	78,983	6,889,440	6,853,571
Unrestricted	<u>(100,639,560)</u>	<u>(94,653,963)</u>	<u>136,538</u>	<u>43,280</u>	<u>(100,503,022)</u>	<u>(94,610,683)</u>
Total net assets	<u>\$ (33,366,592)</u>	<u>\$ (24,473,452)</u>	<u>\$ 175,491</u>	<u>\$ 132,716</u>	<u>\$ (33,191,101)</u>	<u>\$ (24,340,736)</u>

The City's investment in capital assets less any related debt still outstanding that was issued to acquire those assets is \$60.4 million. The City of Anniston uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. Additionally, \$6.9 million represents the balance of total net position that is subject to external or Council placed restrictions on how they may be used.

FOR THE YEAR END SEPTEMBER 30, 2016**Changes in Net Position**

The following table shows the changes in net position for fiscal year 2016:

	Condensed Statement of Activities					
	For the Years Ended of September 30, 2016 and 2015					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenue						
Program revenue:						
Charges for services	\$ 3,815,774	\$ 3,546,852	\$ 485,188	\$ 1,081,269	\$ 4,300,962	\$ 4,565,121
Operating grants and contributions	4,325,638	1,916,590	-	-	4,325,638	1,916,590
Capital grants and contributions	214,714	812,257	-	-	214,714	812,257
General revenue:						
Taxes	30,433,032	28,785,901	-	-	30,433,032	28,785,901
Licenses and permits	4,546,124	4,893,133	-	-	4,546,124	4,893,133
Interest earnings	8,533	68,245	-	486	8,533	68,731
Other revenues	<u>130,008</u>	<u>1,983,837</u>	<u>-</u>	<u>4,710</u>	<u>130,008</u>	<u>1,988,547</u>
Total revenue	<u>43,473,823</u>	<u>42,006,815</u>	<u>485,188</u>	<u>1,023,465</u>	<u>43,959,011</u>	<u>43,030,280</u>
Expenses						
General government	12,307,120	10,841,779	-	-	12,307,120	10,841,779
Judicial	470,060	315,987	-	-	470,060	315,987
Public safety	19,487,595	19,993,916	-	-	19,487,595	19,993,916
Public works	10,120,741	8,951,690	-	-	10,120,741	8,951,690
Housing and development	2,235,452	1,577,460	-	-	2,235,452	1,577,460
Economic development	382,193	53,149	-	-	382,193	53,149
Culture and recreation	5,061,615	8,444,971	-	-	5,061,615	8,444,971
Interest	1,768,278	1,793,745	-	-	1,768,278	1,793,745
Museum store	-	-	53,506	53,696	53,506	53,696
Victoria hotel	-	-	-	539,698	-	539,698
Stormwater	-	-	<u>388,907</u>	<u>529,891</u>	<u>388,907</u>	<u>529,891</u>
Total expenses	<u>51,833,054</u>	<u>51,972,697</u>	<u>442,413</u>	<u>1,123,285</u>	<u>52,275,467</u>	<u>53,095,982</u>
Capital transfers in	-	101,756	-	149,135	-	250,891
Capital transfers out	-	-	-	(250,891)	-	(250,891)
Loss on disposal of assets	<u>(533,909)</u>	<u>(843,457)</u>	<u>-</u>	<u>(661,976)</u>	<u>(533,909)</u>	<u>(1,505,433)</u>
Change in net position	<u>\$ 8,893,140</u>	<u>\$ (10,707,583)</u>	<u>\$ 42,775</u>	<u>\$ (863,552)</u>	<u>\$ (8,850,365)</u>	<u>\$ (11,571,135)</u>

Governmental Activities

Revenues for governmental activities totaled \$43.5 million in 2016, which represents an increase of 3.6% over 2015. Taxes account for \$30.4 million or 69.9% of total revenue in 2016 and reported an increase of \$1.6 million compared to 2015. Licenses and permits account for \$4.5 million or 10.5 % of total revenue. Charges for services accounted for \$3.8 million or 8.8% of total revenue in 2016 and reported an increase of \$264,854 from 2015. An increase in business license taxes is responsible for this increase.

Expenses for governmental activities totaled \$51.8 million in 2016, which basically represents no increase compared to 2015.

FOR THE YEAR END SEPTEMBER 30, 2016**Business-type Activities**

Revenues for business-type activities were \$485,188, which represents a decrease of 52.6% over 2015. This decrease can be attributed to the sale of the Victoria Inn in FY2015.

Expenses for business-type activities totaled \$442,413 in 2016, which represents a decrease of 60.6% compared to 2015. As with the revenues, the decrease is due to the sale of the Victoria Inn.

Financial Analysis of the City's Funds

As noted earlier, the City of Anniston uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City of Anniston's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Anniston's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year. The General Fund is the chief operating fund of the City of Anniston. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4.7 million, compared with \$4.3 million at the end of 2015. As a measure of the general fund's liquidity, it represents 12.4% of total general fund expenditures (including transfers out) at the end of 2016.

General Fund – Fund Balances
September 30, 2016 and 2015

	2016	2015	Change
Nonspendable	\$ 125,061	\$ 187,853	\$ (62,792)
Assigned	73,000	-	73,000
Unassigned	<u>4,641,676</u>	<u>4,315,045</u>	<u>326,631</u>
Total fund balances	<u>\$ 4,839,676</u>	<u>\$ 4,502,898</u>	<u>\$ 336,839</u>

Proprietary Funds

The City's proprietary funds are made up of enterprise funds and internal service funds. The City's enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail. The City has two enterprise funds, the Museum Store and Stormwater Fee Fund (initiated in FY 2015). The City also operates the retail store at the Anniston Museum of Natural History. The net position of the enterprise funds was \$175,491, an increase of \$42,775 from 2015.

Business-type – Net Position
September 30, 2016 and 2015

	2016	2015	Change
Net investment in capital assets	\$ 38,953	\$ 78,983	\$ (40,030)
Unrestricted	<u>136,538</u>	<u>53,733</u>	<u>82,805</u>
Total net position	<u>\$ 175,491</u>	<u>\$ 132,716</u>	<u>\$ 42,775</u>

FOR THE YEAR END SEPTEMBER 30, 2016

In FY 2015, the City established internal service funds to accumulate and pay the costs of workers' compensation insurance, health insurance and general liability insurance. The net position of the internal service funds was (\$221,118) in FY2016.

**Internal Service Funds – Net Position
September 30, 2016 and 2015**

	2016	2015	Change
Unrestricted net position	\$ (221,118)	\$ (276,312)	\$ 55,194

General Fund Budgetary Highlights

The City of Anniston adopts an annual appropriated budget for its general fund and other funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Internal Service Funds – Net Position
September 30, 2016 and 2015**

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget
Revenues	\$ 36,020,755	\$ 37,195,840	\$ 37,518,772	\$ 322,932
Expenditures	30,568,075	31,762,940	31,540,689	222,251
Other sources (uses)	<u>(5,452,680)</u>	<u>(5,432,900)</u>	<u>(5,641,244)</u>	<u>(208,344)</u>
Total	\$ _____ -	\$ _____ -	\$ 336,839	\$ (336,839)

Capital Asset and Debt Administration

Capital Assets: The City of Anniston's investment in capital assets for its governmental activities as of September 30, 2016 totals \$98.8 million (net of accumulated depreciation) and for its business-type activities as of September 30, 2016 totals \$302,813 (net of accumulated depreciation). These assets include infrastructure, buildings, land, machinery and equipment, facilities and vehicles, as well as the collection at the Anniston Museum of Natural History.

Additional information about the City's capital assets can be found in Note 6 beginning on page A-26.

Long-term Debt (including net pension liability): The long-term liabilities at September 30, 2016 totaled \$147.5 million. Of this amount, \$147.8 million relates to governmental activities and \$263,860 relates to business-type activities. Overall, the City's long-term liabilities increased from FY2015 by \$8.8 million.

Additional information about the City's long-term debt can be found in Note 7 beginning on page A-28.

FOR THE YEAR END SEPTEMBER 30, 2016

Economic Factors and Next Year's Budget

After decades of planning and construction, Veterans Memorial Parkway was opened in FY2016. The parkway connects Interstate 20 to U.S. Highway 431 and provides an opportunity to capitalize on significant development at the former fort as well as surrounding areas. The City has seen growth local economy with announcements of industrial expansions totaling \$7 million, investments of over \$21 million in retail shopping centers, and a \$10 million hotel development in downtown. In addition, Congress appropriated \$40 million to construct a new federal courthouse in downtown, and in January 2017, President Obama designated the Freedom Riders National Monument in Anniston, which includes the former bus station where a mob attacked the Freedom Riders.

Further capitalizing on the unique landscape of Anniston, the Coldwater Mountain Bike Trail is a 4,000 acre tract of land owned by the Alabama State Lands Division of the Department of Conservation and Natural Resources. Once completed, Anniston will be home to one of the premier ride centers in the country offering up to 68 miles of trails with varying levels of difficulty. Riders are already traveling to the area from all over the country with 25 miles already in service.

The City adopted a FY 2017 general fund budget of \$36.4 million. The City is constantly reviewing opportunities to increase revenue, as well as reduce expenditures, by using its assets more efficiently and effectively.

In preparing the FY2017 budget, the City considered outside factors that affect funding decisions such as state and local economic conditions, federal and state mandates, political and social environment, citizen concerns, and outside agency considerations. The following are a few key factors that were taken into account when building the budget:

- The City received several one-time revenue payments in FY2016. Therefore, revenues were budgeted down by \$1.3 million from the FY 2016 final amended budget.
- Sales and use tax remains the City's largest source of revenue at 58% of the total general fund revenue (including transfers in).
- Expenditures were projected to decrease by 3.3% compared to the FY2016 final amended budget. Removal of one-time expenditures is the main reason for the decrease.
- Mayor and Council approved a 2.5% cost-of-living adjustment for employees effective January 1, 2017.
- The Police and Firefighter's Pension Plan (P&F) continues to be a large expense for the City. In FY2017, the City's matching expense is expected to be \$3.6 million, or 10% of the general fund budget. In an effort to further stabilize the plan, the P&F Board amended the plan for employees hired on or after January 1, 2016 (see Note 8 for more details on the plan).
- Mayor and Council appropriated funds to cover the debt service on six (6) police vehicles, three (3) vans for parks and recreation, and three (3) pick-up trucks for parks and recreation. They also appropriated \$110,000 for public works' vehicles and equipment.

Questions or Comments

Any questions or comments about this document should be addressed to Cory Salley, Finance Director, email: csalley@anniston.al.gov.

CITY OF ANNISTON, ALABAMA

STATEMENT OF NET POSITION

September 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total Primary Government
ASSETS			
Cash and cash equivalents	\$ 5,238,074	\$ 97,059	\$ 5,335,133
Investments	1,902,045	-	1,902,045
Receivables, net of allowance for uncollectibles	5,879,107	101,353	5,980,460
Internal balances	117,432	(117,432)	-
Inventories	125,061	70,308	195,369
Other assets	-	-	-
Restricted assets:			
Cash and cash equivalents	2,060,624	-	2,060,624
Investments	-	-	-
Net pension asset	-	-	-
Capital assets:			
Land and other nondepreciable assets	17,634,458	-	17,634,458
Capital assets, net of accumulated depreciation	<u>81,146,887</u>	<u>302,813</u>	<u>81,449,700</u>
Total assets	<u>114,103,688</u>	<u>454,101</u>	<u>114,557,789</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension outflows	10,606,442	-	10,606,442
Deferred bond insurance cost	103,189	-	103,189
Deferred charges on refunding	<u>2,887</u>	<u>-</u>	<u>2,887</u>
Total deferred outflows of resources	<u>10,712,518</u>	<u>-</u>	<u>10,712,518</u>
LIABILITIES			
Short-term debt	-	-	-
Accounts payable	1,443,053	14,750	1,457,803
Accrued and other payables	1,591,777	-	1,591,777
Unearned revenues	31,242	-	31,242
OPEB obligation	4,637,791	-	4,637,791
Net pension liability	107,379,038	-	107,379,038
Long-term liabilities, due within one year	1,532,245	48,382	1,580,627
Long-term liabilities, due in more than one year	<u>38,550,169</u>	<u>215,478</u>	<u>38,765,647</u>
Total liabilities	<u>155,165,315</u>	<u>278,610</u>	<u>155,443,925</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension inflows	1,364,312	-	1,364,312
Unavailable revenue, loans	1,653,171	-	1,653,171
Unavailable revenue, property taxes	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>3,017,483</u>	<u>-</u>	<u>3,017,483</u>
NET POSITION			
Net investment in capital assets	60,383,528	38,953	60,422,481
Restricted for:			
Capital projects	2,382	-	2,382
Debt service	1,904,756	-	1,904,756
Judicial	34,629	-	34,629
Public safety	2,739,648	-	2,739,648
Road improvements	1,178,062	-	1,178,062
Culture and recreation	226,872	-	226,872
Economic and industrial development	239,610	-	239,610
Housing and development	563,481	-	563,481
Endowment fund	-	-	-
Unrestricted (deficit)	<u>(100,639,560)</u>	<u>136,538</u>	<u>(100,503,022)</u>
Total net position (deficit)	<u>\$ (33,366,592)</u>	<u>\$ 175,491</u>	<u>\$ (33,191,101)</u>

The Notes to Basic Financial Statements are an integral part of this statement.

Component Units				
Anniston City Board of Education	Public Library of Anniston/ Calhoun County	Museum League	Anniston Museum Endowment Corporation	
\$ 1,292,392	\$ 331,976	\$ 125,097	\$ 167,767	
57,556	98,594	-	1,660,121	
4,627,953	-	-	-	
-	-	-	-	
33,941	-	-	120	
38,502	12,570	-	-	
-	-	-	-	
1,872,981	-	-	13,380	
-	78,557	-	-	
1,404,063	25,907	-	19,800	
<u>12,237,465</u>	<u>313,523</u>	<u>-</u>	<u>-</u>	
<u>21,564,853</u>	<u>861,127</u>	<u>125,097</u>	<u>1,861,188</u>	
2,943,102	91,407	-	-	
-	-	-	-	
-	-	-	-	
<u>2,943,102</u>	<u>91,407</u>	<u>-</u>	<u>-</u>	
750,000	-	-	-	
802,097	38,925	-	-	
2,188,235	-	-	-	
14,521	-	-	-	
-	-	-	-	
19,841,000	-	-	-	
55,079	-	-	-	
<u>2,425,761</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<u>26,076,693</u>	<u>38,925</u>	<u>-</u>	<u>-</u>	
107,000	57,201	-	-	
-	-	-	-	
<u>3,253,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<u>3,360,040</u>	<u>57,201</u>	<u>-</u>	<u>-</u>	
11,137,201	339,430	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	25,470	-	1,861,188	
-	-	-	-	
-	-	-	-	
(16,065,979)	98,594	-	-	
-	<u>392,914</u>	<u>125,097</u>	<u>-</u>	
<u>\$ (4,928,778)</u>	<u>\$ 856,408</u>	<u>\$ 125,097</u>	<u>\$ 1,861,188</u>	

CITY OF ANNISTON, ALABAMA

STATEMENT OF ACTIVITIES

Year ended September 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities -				
General government	\$ 12,307,120	\$ 1,568,361	\$ 1,944,130	\$ -
Judicial	470,060	372,965	-	-
Public safety	19,487,595	26,948	880,379	-
Public works	10,120,741	11,808	377,012	214,714
Economic development	382,193	704,116	-	-
Culture and recreation	5,061,615	1,131,576	239,381	-
Housing and development	2,235,452	-	884,736	-
Interest on debt and other expenses	1,768,278	-	-	-
Total governmental activities	<u>51,833,054</u>	<u>3,815,774</u>	<u>4,325,638</u>	<u>214,714</u>
Business-type activities -				
Museum store	53,506	69,999	-	-
Stormwater fees	388,907	415,189	-	-
Total business-type activities	<u>442,413</u>	<u>485,188</u>	<u>-</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	\$ 52,275,467	\$ 4,300,962	\$ 4,325,638	\$ 214,714
Component units -				
Education	\$ 25,388,161	\$ 1,971,346	\$ 14,521,475	\$ 390,879
Public library	1,209,047	48,813	183,095	301,750
Museum league	8,721	2,450	-	-
Museum endowment	72,935	-	83,043	-
TOTAL COMPONENT UNITS	\$ 26,678,864	\$ 2,022,609	\$ 14,787,613	\$ 692,629

General revenues:

- Sales tax
- Property taxes
- Gasoline taxes
- Other taxes
- Licenses and permits
- City and county appropriations
- Unrestricted grants and contributions
- Unrestricted investment earnings
- Restricted investment earnings
- Miscellaneous
- Gain (loss) on disposal of assets
- Total general revenues and transfers

Change in net position

Net position, beginning

Net position, ending

The Notes to Basic Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units			
Governmental Activities	Business-type Activities	Total	Anniston City Board of Education	Public Library of Anniston/ Calhoun County	Museum League	Anniston Museum Endowment Corporation
\$ (8,794,629)	\$ -	\$ (8,794,629)	\$ -	\$ -	\$ -	\$ -
(97,095)	-	(97,095)	-	-	-	-
(18,580,268)	-	(18,580,268)	-	-	-	-
(9,517,207)	-	(9,517,207)	-	-	-	-
321,923	-	321,923	-	-	-	-
(3,690,658)	-	(3,690,658)	-	-	-	-
(1,350,716)	-	(1,350,716)	-	-	-	-
(1,768,278)	-	(1,768,278)	-	-	-	-
<u>(43,476,928)</u>	<u>-</u>	<u>(43,476,928)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	16,493	16,493	-	-	-	-
-	26,282	26,282	-	-	-	-
-	42,775	42,775	-	-	-	-
<u>(43,476,928)</u>	<u>42,775</u>	<u>(43,434,153)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	(8,504,461)	-	-	-
-	-	-	-	(675,389)	-	-
-	-	-	-	-	(6,271)	-
-	-	-	-	-	-	10,108
-	-	-	<u>(8,504,461)</u>	<u>(675,389)</u>	<u>(6,271)</u>	<u>10,108</u>
22,008,748	-	22,008,748	1,725,094	-	-	-
4,814,416	-	4,814,416	4,658,250	-	-	-
653,160	-	653,160	-	-	-	-
2,956,708	-	2,956,708	140,801	-	-	-
4,546,124	-	4,546,124	-	-	-	-
-	-	-	-	657,065	-	-
-	-	-	358,241	-	-	-
8,533	-	8,533	54,553	4,286	-	-
-	-	-	-	8,278	-	-
130,008	-	130,008	279,538	17,645	-	-
(533,909)	-	(533,909)	-	-	-	-
<u>34,583,788</u>	<u>-</u>	<u>34,583,788</u>	<u>7,216,477</u>	<u>687,274</u>	<u>-</u>	<u>-</u>
(8,893,140)	42,775	(8,850,365)	(1,287,984)	11,885	(6,271)	10,108
<u>(24,473,452)</u>	<u>132,716</u>	<u>(24,340,736)</u>	<u>(3,640,794)</u>	<u>844,523</u>	<u>131,368</u>	<u>1,851,080</u>
\$ <u>(33,366,592)</u>	\$ <u>175,491</u>	\$ <u>(33,191,101)</u>	\$ <u>(4,928,778)</u>	\$ <u>856,408</u>	\$ <u>125,097</u>	\$ <u>1,861,188</u>

CITY OF ANNISTON, ALABAMA

**BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2016

	General	McCellan Compact Construction	Fire Tax District
ASSETS			
Cash and cash equivalents	\$ 1,198,280	\$ 983,731	\$ 1,068,418
Investments	577,807	-	981,693
Receivables, net of allowance for uncollectibles:			
Taxes	2,136,502	-	-
Accounts receivables	360,348	-	-
Notes	79,732	-	-
Due from other funds	2,173,149	108,608	-
Due from other governments	323,543	78,501	12,311
Inventories	125,061	-	-
Restricted cash	-	-	-
Total assets	<u>\$ 6,974,422</u>	<u>\$ 1,170,840</u>	<u>\$ 2,062,422</u>
LIABILITIES			
Accounts payable	\$ 863,228	\$ 48,684	\$ 60,870
Accrued liabilities	892,757	-	-
Other payables	36,848	-	-
Due to other funds	310,610	-	386,464
Unearned revenue	31,242	-	-
Total liabilities	<u>2,134,685</u>	<u>48,684</u>	<u>447,334</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue, loans	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Nonspendable			
Inventories	125,061	-	-
Restricted for:			
Capital projects	-	-	-
Debt service	-	-	-
Judicial	-	-	-
Public safety	-	-	1,615,088
Road improvements	-	1,122,156	-
Culture and recreation	-	-	-
Economic and industrial development	-	-	-
Housing and development	-	-	-
Assigned	73,000	-	-
Unassigned	4,641,676	-	-
Total fund balances	<u>4,839,737</u>	<u>1,122,156</u>	<u>1,615,088</u>
Total liabilities, deferred inflows of resources, fund balances	<u>\$ 6,974,422</u>	<u>\$ 1,170,840</u>	<u>\$ 2,062,422</u>

The Notes to Basic Financial Statements are an integral part of this statement.

Public Building Authority	HOME	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 3,439	\$ 1,984,206	\$ 5,238,074
-	-	342,545	1,902,045
-	-	-	2,136,502
-	-	74,182	434,530
-	1,226,722	973,242	2,279,696
-	-	376,750	2,658,507
-	109,730	504,294	1,028,379
-	-	-	125,061
<u>2,060,624</u>	<u>-</u>	<u>-</u>	<u>2,060,624</u>
<u>\$ 2,060,624</u>	<u>\$ 1,339,891</u>	<u>\$ 4,255,219</u>	<u>\$ 17,863,418</u>
\$ -	\$ 114,856	\$ 324,069	\$ 1,411,707
-	-	521	893,278
-	-	242,759	279,607
155,868	113,299	1,385,062	2,351,303
<u>-</u>	<u>-</u>	<u>-</u>	<u>31,242</u>
<u>155,868</u>	<u>228,155</u>	<u>1,952,411</u>	<u>4,967,137</u>
<u>-</u>	<u>1,226,722</u>	<u>426,449</u>	<u>1,653,171</u>
<u>-</u>	<u>1,226,722</u>	<u>426,449</u>	<u>1,653,171</u>
-	-	-	125,061
-	-	2,382	2,382
1,904,756	-	-	1,904,756
-	-	34,629	34,629
-	-	1,124,560	2,739,648
-	-	55,906	1,178,062
-	-	226,872	226,872
-	-	239,610	239,610
-	-	563,481	563,481
-	-	-	73,000
<u>-</u>	<u>(114,986)</u>	<u>(371,081)</u>	<u>4,155,609</u>
<u>1,904,756</u>	<u>(114,986)</u>	<u>1,876,359</u>	<u>11,243,110</u>
<u>\$ 2,060,624</u>	<u>\$ 1,339,891</u>	<u>\$ 4,255,219</u>	<u>\$ 17,863,418</u>

CITY OF ANNISTON, ALABAMA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

September 30, 2016

Differences in amounts reported for governmental activities in the statement of net position on pages A-1 and A-2:

Fund balances – total governmental funds \$ 11,243,110

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. 98,781,345

The internal service fund is used by management to charge the costs of fleet management and risk management activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. (221,118)

Contributions to pension plans made after the measurement date are recorded as expenditures in governmental funds but must be deferred in the statement of net position in addition to certain other items:

Contribution to pension plans	\$ 558,928	
Experience loss - pension plans	2,004,947	
Earnings variance - pension plans	1,029,182	
Assumption change loss - pension plans	<u>7,013,385</u>	10,606,442

Certain amounts related to the net pension liabilities are deferred and amortized over time. These are not reported in the funds.

Experience gain - pension plans	(221,463)	
Earnings variance - pension plans	<u>(1,142,849)</u>	(1,364,312)

The City's other post-employment benefit plan has not been fully funded. This OPEB obligation is considered a longterm obligation and is not reported in the funds. (4,637,791)

Net pension liabilities are not due and payable in the current period and are not reported in the funds:

General pension	(10,756,120)	
Police and fire pension	<u>(96,622,918)</u>	(107,379,038)

Long-term liabilities are not due and payable in the current period and are not reported in the funds. All liabilities, both due in one year and due in more than one year, are reported in the statement of net position. These consist of:

General obligation bonds	(37,237,000)	
Add deferred refunding, issue discounts, and insurance	427,154	
Capital leases	(848,816)	
Compensated absences	(2,317,676)	
Accrued interest payable	<u>(418,892)</u>	<u>(40,395,230)</u>

Net position of governmental activities \$ (33,366,592)

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF ANNISTON, ALABAMA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

Year end September 30, 2016

	General	McCellan Compact Construction	Fire Tax District
REVENUES			
Taxes	\$ 29,407,813	\$ -	\$ 883,902
Licenses and permits	4,745,152	-	-
Intergovernmental	504,717	214,714	-
Charges for services	2,316,991	-	-
Fines and forfeitures	328,788	-	-
Contributions and donations	89,882	-	-
Investment income	625	-	-
Other revenue	124,804	-	23,805
Total revenues	<u>37,518,772</u>	<u>214,714</u>	<u>907,707</u>
EXPENDITURES			
Current			
General government	7,437,587	-	-
Judicial	340,248	-	-
Public safety	13,519,002	-	1,459,124
Public works	6,226,967	313,205	-
Economic development	266,010	-	-
Culture and recreation	3,750,875	-	-
Housing and development	-	-	-
Capital outlay	-	-	-
Debt service -			
Principal	-	124,000	-
Interest and fiscal charges	-	87,188	-
Total expenditures	<u>31,540,689</u>	<u>524,393</u>	<u>1,459,124</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>5,978,083</u>	<u>(309,679)</u>	<u>(551,417)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets	120,561	-	-
Loan proceeds	-	-	-
Transfers in	346,869	211,188	-
Transfers out	(6,108,674)	-	-
Total financing sources (uses)	<u>(5,641,244)</u>	<u>211,188</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	336,839	(98,491)	(551,417)
Fund balance, beginning	<u>4,502,898</u>	<u>1,220,647</u>	<u>2,166,505</u>
Fund balance, ending	<u>\$ 4,839,737</u>	<u>\$ 1,122,156</u>	<u>\$ 1,615,088</u>

The Notes to Basic Financial Statements are an integral part of this statement.

Public Building Authority	HOME	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 141,317	\$ 30,433,032
-	-	-	4,745,152
1,291,382	390,035	2,528,557	4,929,405
-	-	230,523	2,547,514
-	-	60,567	389,355
-	-	66,840	156,722
738	502	6,668	8,533
-	-	74,401	223,010
<u>1,292,120</u>	<u>390,537</u>	<u>3,108,873</u>	<u>43,432,723</u>
-	-	-	7,437,587
-	-	129,812	470,060
-	-	587,967	15,566,093
-	-	812,345	7,352,517
-	-	116,183	382,193
-	-	1,252,598	5,003,473
-	381,756	571,139	952,895
-	-	836,037	836,037
865,000	-	448,502	1,437,502
<u>1,357,731</u>	<u>-</u>	<u>256,169</u>	<u>1,701,088</u>
<u>2,222,731</u>	<u>381,756</u>	<u>5,010,752</u>	<u>41,139,445</u>
<u>(930,611)</u>	<u>8,781</u>	<u>(1,901,879)</u>	<u>2,293,278</u>
-	-	-	120,561
-	-	701,983	701,983
934,980	-	2,124,143	3,617,180
-	-	(1,256,406)	(7,365,080)
<u>934,980</u>	<u>-</u>	<u>1,569,720</u>	<u>(2,925,356)</u>
4,369	8,781	(332,159)	(632,078)
<u>1,900,387</u>	<u>(123,767)</u>	<u>2,208,518</u>	<u>11,875,188</u>
<u>\$ 1,904,756</u>	<u>\$ (114,986)</u>	<u>\$ 1,876,359</u>	<u>\$ 11,243,110</u>

CITY OF ANNISTON, ALABAMA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

Year ended September 30, 2016

Differences in amounts reported for governmental activities in the statement of activities on page A-3 and A-4:

Net change in fund balances – total governmental funds \$ (632,078)

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

Capital outlay reported as expenditures in the governmental funds, that meet the capitalization threshold are shown as capital assets in the statement of net position. 2,087,954

Depreciation expense on governmental capital assets are included in the statement of activities. (5,469,120)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Capital lease additions	(701,983)	
Principal repayments	1,437,502	
Amortization	(22,622)	
Change in accrued interest payable	(41,518)	671,379

Net income of the internal service fund are reported with governmental activities. 55,194

The net effect of various transactions involving capital assets is to decrease net position. (673,825)

Certain items reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds.

This item consists of:

Change in compensated absences	120,418	
Change in net pension liability and related deferrals - police and fire	(4,027,042)	
Change in net pension liability and related deferrals - general	(1,172,203)	
Change in OPEB liability	146,183	(4,932,644)

Change in net position of governmental activities \$ (8,893,140)

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF ANNISTON, ALABAMA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

Year ended September 30, 2016

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 28,084,000	\$ 29,137,700	\$ 29,407,813	\$ 270,113
Licenses and permits	4,803,275	4,731,565	4,745,152	13,587
Intergovernmental	373,000	495,000	504,717	9,717
Charges for services	2,318,980	2,326,825	2,316,991	(9,834)
Fines and forfeitures	344,500	329,500	328,788	(712)
Contributions and donations	53,000	89,250	89,882	632
Investment income	1,000	1,000	625	(375)
Other revenue	43,000	85,000	124,804	39,804
Total revenues	<u>36,020,755</u>	<u>37,195,840</u>	<u>37,518,772</u>	<u>322,932</u>
EXPENDITURES				
General Government				
Finance	903,825	1,022,615	1,018,102	4,513
Food service	518,360	543,300	553,296	(9,996)
General division	658,860	652,850	674,732	(21,882)
City Council	182,815	182,815	163,008	19,807
Planning	289,565	305,700	305,151	549
Non-departmental	1,510,000	2,496,495	2,332,274	164,221
Outside agencies	<u>2,391,500</u>	<u>2,400,500</u>	<u>2,391,024</u>	<u>9,476</u>
	<u>6,454,925</u>	<u>7,604,275</u>	<u>7,437,587</u>	<u>166,688</u>
Judicial				
Municipal court	<u>338,905</u>	<u>341,800</u>	<u>340,248</u>	<u>1,552</u>
Public Safety				
Police administration	7,591,080	7,301,875	7,308,304	(6,429)
Selective traffic enforcement	65,000	65,000	59,984	5,016
Community traffic safety	10,000	10,000	34,207	(24,207)
Police detention	538,165	540,500	523,525	16,975
Fire	<u>5,405,200</u>	<u>5,556,000</u>	<u>5,592,982</u>	<u>(36,982)</u>
	<u>13,609,445</u>	<u>13,473,375</u>	<u>13,519,002</u>	<u>(45,627)</u>

(Continued on next page)

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF ANNISTON, ALABAMA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

Year ended September 30, 2016

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
(Continued from previous page)				
Public Works				
Administration	296,725	264,920	258,896	6,024
Cemetery	78,150	75,385	76,802	(1,417)
Engineering	255,700	305,700	292,946	12,754
Garage	257,095	267,850	289,640	(21,790)
Environmental services	1,166,000	1,186,000	1,173,850	12,150
Street	2,549,800	2,585,400	2,570,392	15,008
Anniston metro airport	123,755	113,340	90,501	22,839
Building maintenance	1,374,800	1,389,100	1,350,785	38,315
Code enforcement	181,370	131,870	123,155	8,715
	<u>6,283,395</u>	<u>6,319,565</u>	<u>6,226,967</u>	<u>92,598</u>
Economic development				
Economic development	349,600	292,765	266,010	26,755
Culture and Recreation				
Administration	320,660	335,100	332,170	2,930
Publicity	8,000	8,000	8,009	(9)
Senior adult	310,357	288,620	269,823	18,797
Special events	26,250	26,250	25,834	416
Therapeutics	-	-	22,587	(22,587)
Youth services	100,738	102,750	102,433	317
PARC Carver Community	124,225	134,025	132,855	1,170
PARC City Meeting	-	-	424	(424)
PARC Hodges Community	124,035	121,350	120,557	793
PARC South Highland	115,650	120,630	120,120	510
PARC Wiggins Community	83,203	92,200	98,767	(6,567)
PARC Carver Pool	15,800	9,300	8,578	722
PARC Washington Pool	14,750	8,750	9,274	(524)
PARC Good Choices	15,000	26,000	25,041	959
PARC The Hill Golf Club	103,825	114,075	111,430	2,645
PARC Motor Pool	10,000	10,000	9,583	417
PARC Cane Creek	242,160	258,910	257,711	1,199
PARC Course Maintenance	283,300	272,300	266,946	5,354
PARC Aquatics Center	645,022	829,100	826,264	2,836
PARC Truman Gym	3,500	4,500	4,422	78
The Downtown Market	36,700	32,200	51,967	(19,767)

(Continued on next page)

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF ANNISTON, ALABAMA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

Year ended September 30, 2016

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
(Continued from previous page)				
Youth Sports Complex	355,855	313,900	332,680	(18,780)
Parks	509,775	540,200	533,776	6,424
Baseball	14,500	5,500	6,295	(795)
Basketball	21,000	23,000	22,543	457
Soccer	38,000	39,000	37,280	1,720
Flag Football	1,000	1,000	803	197
Football	8,500	14,500	12,703	1,797
	<u>3,531,805</u>	<u>3,731,160</u>	<u>3,750,875</u>	<u>(19,715)</u>
Total expenditures	<u>30,568,075</u>	<u>31,762,940</u>	<u>31,540,689</u>	<u>222,251</u>
Excess of revenues over expenditures	<u>5,452,680</u>	<u>5,432,900</u>	<u>5,978,083</u>	<u>545,183</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	15,000	120,000	120,561	561
Loan proceeds	160,000	-	-	-
Transfers in	195,500	346,500	346,869	369
Transfers out	<u>(5,823,180)</u>	<u>(5,899,400)</u>	<u>(6,108,674)</u>	<u>(209,274)</u>
Total financing sources (uses)	<u>(5,452,680)</u>	<u>(5,432,900)</u>	<u>(5,641,244)</u>	<u>(208,344)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	336,839	<u>\$ 336,839</u>
FUND BALANCES, beginning			<u>4,502,898</u>	
FUND BALANCES, ending			<u>\$ 4,839,737</u>	

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF ANNISTON, ALABAMA

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

September 30, 2016

	Business-type Activities - Enterprise Funds			Governmental
	Museum Store	Stormwater Fees	Total	Activities Internal Service Fund
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 84,162	\$ 12,897	\$ 97,059	\$ -
Accounts receivable	111	-	111	-
Inventories	70,308	-	70,308	-
Due from other funds	-	-	-	6,056
Due from other governments	-	101,242	101,242	-
Total current assets	<u>154,581</u>	<u>114,139</u>	<u>268,720</u>	<u>6,056</u>
Noncurrent assets:				
Property and equipment	58,808	340,778	399,586	-
Less accumulated depreciation	<u>(48,772)</u>	<u>(48,001)</u>	<u>(96,773)</u>	-
Net capital assets	<u>10,036</u>	<u>292,777</u>	<u>302,813</u>	-
Total assets	<u>164,617</u>	<u>406,916</u>	<u>571,533</u>	<u>6,056</u>
LIABILITIES				
Current liabilities:				
Accounts payable	2,971	11,779	14,750	31,346
Due to other funds	14,702	102,730	117,432	195,828
Capital leases payable, current	-	48,382	48,382	-
Total liabilities	<u>17,673</u>	<u>162,891</u>	<u>180,564</u>	<u>227,174</u>
Long-term liabilities:				
Capital leases payable, noncurrent	-	215,478	215,478	-
Total long-term liabilities	<u>-</u>	<u>215,478</u>	<u>215,478</u>	<u>-</u>
Total liabilities	<u>17,673</u>	<u>378,369</u>	<u>396,042</u>	<u>227,174</u>
NET POSITION				
Net investment in capital assets	10,036	28,917	38,953	-
Unrestricted	<u>136,908</u>	<u>(370)</u>	<u>136,538</u>	<u>(221,118)</u>
Total net position	<u>\$ 146,944</u>	<u>\$ 28,547</u>	<u>\$ 175,491</u>	<u>\$ (221,118)</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF ANNISTON, ALABAMA

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

Year Ended September 30, 2016

	Business-type Activities - Enterprise Funds			Governmental
	Museum Store	Stormwater Fees	Total	Internal Service Fund
OPERATING REVENUES				
Sales	\$ 69,999	\$ -	\$ 69,999	\$ -
Stormwater fees	-	415,189	415,189	-
Other	-	-	-	4,200
Total operating revenues	<u>69,999</u>	<u>415,189</u>	<u>485,188</u>	<u>4,200</u>
OPERATING EXPENSES				
Salaries and wages	12,162	268,000	280,162	7,658
Professional and contractual services	3,813	50,845	54,658	183,785
Supplies and purchased goods	33,399	235	33,634	-
Insurance	-	-	-	3,505,387
Depreciation	418	48,001	48,419	-
Other	<u>3,714</u>	<u>21,826</u>	<u>25,540</u>	<u>76</u>
Total operating expenses	<u>53,506</u>	<u>388,907</u>	<u>442,413</u>	<u>3,696,906</u>
INCOME (LOSS) BEFORE TRANSFERS	16,493	26,282	42,775	(3,692,706)
Transfers in	-	-	-	<u>3,747,900</u>
CHANGE IN NET POSITION	16,493	26,282	42,775	55,194
NET POSITION, beginning	<u>130,451</u>	<u>2,265</u>	<u>132,716</u>	<u>(276,312)</u>
NET POSITION, ending	<u>\$ 146,944</u>	<u>\$ 28,547</u>	<u>\$ 175,491</u>	<u>\$ (221,118)</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF ANNISTON, ALABAMA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

Year Ended September 30, 2016

	Business-type Activities - Enterprise Funds			Governmental
	Museum Store	Stormwater Fees	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 45,151	\$ 405,974	\$ 451,125	\$ 3,713,697
Payments to employees	(12,162)	(268,000)	(280,162)	(7,658)
Payments for goods and services	(45,950)	(66,984)	(112,934)	(3,706,039)
Net cash from operating activities	<u>(12,961)</u>	<u>70,990</u>	<u>58,029</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	-	263,860	263,860	-
Acquisition of capital assets	-	(340,778)	(340,778)	-
Net cash flows used on capital and related financing activities	<u>-</u>	<u>(76,918)</u>	<u>(76,918)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	<u>(12,961)</u>	<u>(5,928)</u>	<u>(18,889)</u>	<u>-</u>
Cash and cash equivalents, beginning of year	<u>97,123</u>	<u>18,825</u>	<u>115,948</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 84,162</u>	<u>\$ 12,897</u>	<u>\$ 97,059</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
OPERATING INCOME (LOSS)	\$ 16,493	\$ 26,282	\$ 42,775	\$ 55,194
ADJUSTMENTS NOT AFFECTING CASH				
Depreciation expense	418	48,001	48,419	-
(Increase) decrease in:				
Accounts receivable	(72)	-	(72)	-
Inventories	(4,531)	-	(4,531)	-
Due from other funds	-	-	-	199,577
Increase (decrease) in:				
Accounts payable	(493)	5,922	5,429	(16,791)
Due to other funds	(24,776)	(9,215)	(33,991)	(237,980)
Total adjustments	<u>(29,454)</u>	<u>44,708</u>	<u>15,254</u>	<u>(55,194)</u>
Net cash from operating activities	<u>\$ (12,961)</u>	<u>\$ 70,990</u>	<u>\$ 58,029</u>	<u>\$ -</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF ANNISTON, ALABAMA

**STATEMENT OF NET POSITION
FIDUCIARY FUNDS**

September 30, 2016

	Municipal Court	Policemen's and Fireman's Retirement Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 246,303	\$ 1,138,847
Receivables		
Contribution receivable	-	396,543
Accounts receivable	-	45,925
Investments at fair value:		
U.S. Government obligations	-	2,964,742
Municipal obligations	-	249,550
Corporate bonds	-	3,394,374
International obligations	-	116,013
Domestic equity securities	-	13,354,065
International equity securities	-	933,364
Collective investment fund	-	3,094,565
Timber	-	1,064,969
Real estate	-	1,344,666
Total assets	<u>246,303</u>	<u>28,097,623</u>
LIABILITIES		
Accounts payable	-	39,814
Due to other governments	<u>246,303</u>	<u>-</u>
Total liabilities	<u>246,303</u>	<u>39,814</u>
NET POSITION		
Net position restricted for pension benefits	<u>\$ -</u>	<u>\$ 28,057,809</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF ANNISTON, ALABAMA

**STATEMENT OF CHANGES OF NET POSITION
FIDUCIARY FUND**

Year Ended September 30, 2016

	<u>Policeman's and Fireman's Retirement fund</u>
ADDITIONS	
Contributions:	
Employer contributions	\$ 3,431,035
Employee contributions	<u>1,048,607</u>
Total contributions	<u>4,479,642</u>
Investment earnings	
Interest	229,622
Dividends	279,200
Net appreciation in fair value of investments	2,121,845
Less: investment expenses	<u>(79,441)</u>
Net investment earnings	<u>2,551,226</u>
Total additions	<u>7,030,868</u>
DEDUCTIONS	
Administrative expenses	199,247
Benefits paid directly to participants	<u>5,091,540</u>
Total deductions	5,290,787
NET INCREASE IN NET POSITION	1,740,081
Net position, beginning	<u>26,317,728</u>
Net position, ending	<u>\$ 28,057,809</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF ANNISTON, ALABAMA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

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CITY OF ANNISTON, ALABAMA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The City of Anniston, Alabama (the “City”) was incorporated in 1883 under Alabama law. The City is governed under the Council / Manager form of government with a City Council consisting of five council members elected for concurrent terms of four years. One council member is elected at large by the qualified voters of the City and has the title of Mayor. The City Manager is appointed by the Council and has full administrative authority for the operations of the City. The City provides services to its citizens including police and fire protection, public works, parks and recreation facilities, and general administrative services.

As required by accounting principles generally accepted in the United States of America (GAAP), the accompanying basic financial statements includes all the funds and the account groups relevant to the operations of the City.

Discretely Presented Component Units

The Anniston City Board of Education

The Anniston City Board of Education (Board) is the governing board for the City School System. Eligible voters in the City elect the members of the Board. The City schools are fiscally dependent upon the City since the Board cannot issue bonded debt directly. The bonded debt must be issued through the City which the Council must approve. These audited financial statements are located at Anniston City Hall.

The Public Library of Anniston and Calhoun County

The Public Library of Anniston and Calhoun County (Library) receives a substantial amount of financial support from the City; however, they do not approve the Library’s operations and capital budgets. The members of the governing board are appointed by the City of Anniston and Calhoun County Commission. These audited financial statements are located at Anniston City Hall.

The Anniston Museum Endowment Corporation

The Anniston Museum Endowment Corporation (Corporation) exists only due to its relationship with the Anniston Museum of Natural History, which is a department of the City; however, the City does not fiscally support its operations or capital budgets. The entity’s year end is June 30, 2016. The Corporation’s sole mission is to support the Anniston Museum of Natural History. These audited financial statements are located at Anniston City Hall.

The Museum League

The Museum League (League) exists only due to its relationship with the Anniston Museum of Natural History, which is a department of the City; however, the City does not fiscally support its operations or capital budgets. The entity’s year end is June 30, 2016. The League’s sole mission is to support the Anniston Museum of Natural History. These unaudited financial statements are located at Anniston City Hall.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Blended Component Unit

The Anniston Public Building Authority

The Anniston Public Building Authority (Authority) was established to account for the construction and ongoing maintenance of City buildings. The Authority is fiscally dependent upon the City since the Authority cannot issue bonded debt directly. The bonded debt must be issued through the City which the Council must approve. Separate financial statements are not prepared.

The Anniston Downtown Development Authority

The Anniston Downtown Development Authority (Authority) was established to promote the economic development of the City’s downtown area. The Authority’s Board of Directors is appointed by the City Council. The City provides administrative services for the Authority. Separate financial statements are not prepared.

The Industrial Development Authority

The Industrial Development Authority (Authority) was established to assist the City in promoting economic development for the City. The Authority’s Board of Directors is appointed by the City Council. The City provides administrative services for the Authority. Separate financial statements are not prepared.

Basic Financial Statements

The **Basic Financial Statements** consists of the following:

- 1) Government-wide financial statements;
- 2) Fund financial statements;
- 3) Notes to the basic financial statements.

Government-wide Financial Statements

The Government-wide Financial Statements consist of the statement of net position and the statement of activities and report information on all of the non-fiduciary activities of the Primary Government (governmental activities and business-type activities). The City reports capital assets in the government-wide statement of net position and reports depreciation expense – the cost of “using up” capital assets – in the statement of activities.

Governmental activities are normally supported by taxes and intergovernmental revenues. The governmental activities of the City include general government, public safety (police and fire), public works, public welfare, culture and recreation and general administrative support services.

The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the City’s functions, e.g., public safety, public works, etc. The expense of individual functions is compared to the revenue generated directly by the function. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the City are reported in three specific categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported instead as general revenues.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

The fund financial statements provide information about the government's funds, including its blended component units. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

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

The *McClellan Compact Construction Fund* facilitates infrastructure expansion and improvement in the McClellan Industrial Park.

The *Fire Tax Fund* accounts for the collection of special tax and revenues that are restricted for fire safety expenditures.

The *Public Building Authority Fund* facilitates the construction and financing of major facilities for lease to the City funded by building revenue bonds.

The *HOME Consortium Fund* accounts for the collection of federal grant money and revenues that are restricted for housing and development purposes within the City.

The City reports the following major enterprise funds:

The *Museum Store Fund* accounts for the operations of retail stores located within the City's public museums.

The *Stormwater Fees Fund* accounts for stormwater and drainage services provided to the residents of the City.

Additionally, the City reports the following other fund types:

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

The *Debt Service Fund* accounts for the repayment of principal and interest on the City's outstanding bond issues and other debt obligations of the City.

The *Internal Service Fund* is used to account for the City's insurance costs, including employee health, worker's compensation and general liability.

The *Capital Improvement Fund* accounts for the acquisition and construction of major facilities funded by City operations.

Fiduciary Fund Type:

The *Agency Fund* is used to account for the collection and disbursement of monies by the City Municipal Court, such as traffic fines.

The *Policemen's and Firemen's Retirement Fund* accounts for assets held by the City as an agent or trustee to be invested and expended in accordance with the conditions of the trustee capacity. The City uses this fund to account for the assets of the defined benefit plan.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in the fund financial statements, certain eliminations are made in preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included in internal balances in the governmental activities columns.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements, although the agency fund has no measurement focus. Under the accrual basis, revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis, revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected 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 and expenditures relating to claims and judgments are recognized only when payment is due.

Property taxes, state-shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable within the current fiscal period are considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be available only when cash is received by the City.

Proprietary, agency, and the pension trust funds are reported using the economic resources measurements focus and the accrual basis of accounting.

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

Use of Estimates in the Preparation of Financial Statements

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

Budgets and Budgetary Accounting

Formal budgets are adopted by the Mayor and City Council as a management control device during the year for the general fund. Other governmental funds contain restricted resources, which are mandated by third parties. Therefore, management has not established formal budgets for the special revenue and capital projects funds.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting (Continued)

Expenditures may not legally exceed budgeted appropriations at the fund level. Budgetary integration is employed as a management tool during the fiscal year, and the budget is amended, as necessary, to meet changing needs. Council approves departmental budgets. Transfers between departments and any revisions in the total appropriation must be approved by the Mayor and City Council. Unused appropriations for any of the annual funds lapse at the end of the year.

At September 30, 2016, General Fund expenditures exceeded budgeted appropriations within the public safety and culture and recreation functions by \$45,627 and \$19,715, respectively.

Cash and Cash Equivalents

For purposes of reporting cash flows, the City considers demand deposits and all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments consist of government securities and certificates of deposit. In accordance with Governmental Accounting Standards Board No. 31, Accounting for Financial Reporting for Certain Investments and for External Investment Pools, the City reports its money market investments and investments in short term debt securities that have remaining maturities of one year or less at amortized cost. All other investments are stated at fair value based on quoted market prices.

Internal Balances

Residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an asset at the time the individual item is purchased. Inventories reported in the governmental funds are equally offset by a fund balance reserve, which indicates that they do not constitute “available, spendable resources” even though they are a component of net current assets.

Certain payments to vendors reflect costs applicable to future reporting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, including property, plant, equipment, landfill and infrastructure assets (e.g., primary and secondary roads, drainage) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than two years. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets’ lives is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Property, plant and equipment of the primary government are depreciated using the straight-line method over the following useful lives:

	Useful Life
Buildings and improvements	20-40 years
Improvements other than buildings	25-40 years
Machinery and equipment	5-10 years
Infrastructure	25-75 years

Museum collections are held, cared for and used for public exhibition and scholarly study only. Museum staff are specially trained to protect and care for these objects. If any museum collection items are sold or disposed of, proceeds from the sale are restricted to replacing collection items. Using proceeds outside the restricted purposes is prohibited.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow or resources (as either an expense or expenditure) until that period. The City has only two items that qualify for reporting in this category. One is the deferred charges on refunding's reported in the government-wide statement of net position. A deferred charge on refunded debt results from the difference in carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other deferred outflow of resources is the result of the implementation of GASB Statement No. 68, regarding pension liabilities. Deferred contributions for the pension plan were made during the fiscal year but are after the measurement date of the actuarial report. These amounts will be recognized during the next measurement period.

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. The government has three types of items, program income and other income earned in future periods. The other deferred inflow of resources is the result of the implementation of GASB Statement No. 68, regarding pension liabilities. Differences between projected and actual earnings on pension plan investments are deferred and amortized over five years. Changes in pension plan assumptions are deferred and amortized over the expected remaining service lives of employees.

Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report for each category of fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

The government-wide financial statements and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets is intended to reflect the position of net assets which are associated with non-liquid capital assets less outstanding capital asset related debt.

Restricted Net Position represents net position that has third-party (statutory, bond covenant or granting agency) limitations on their use.

Unrestricted Net Position represents net position that is not restricted for any project or other purpose. While management may have categorized and segmented portions for various purposes, the City has the unrestricted authority to revisit or alter these managerial decisions.

Fund Balance

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed Fund Balance – represents amounts that can only be used for specific purposes as pursuant to official action by City Council prior to the end of the reporting period. Committed resources cannot be used for any other purposes unless the City Council removes or changes the specified use by resolution.

Assigned Fund Balance – represents amounts the City intends to use for specific purposes as expressed by the City Council or an official delegated the authority to assign amounts. This is the residual classification for all governmental funds other than the general fund. Assignment of amounts to a specific purpose as part of the annual budget ordinance may be made by resolution or motion of the City Council.

Unassigned Fund Balance – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

Compensated Absences

A portion of accumulated sick pay benefits has not been recorded as a liability. Upon leaving, employees who have sick leave or frozen sick leave are entitled to 50% of the value up to 600 hours of wages along with 100% of accumulated annual leave, PTO and comp time.

Governmental funds report the compensated absence liability at the fund reporting level only “when due.”

Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental and business-type activities statement of net position. Similarly, long-term debt and other obligations of the City are recorded as liabilities in the appropriate fund. 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. Bond issuance costs are reported as expenses when incurred.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations (Continued)

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. Premiums received on debt issuances are 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.

Property Tax Information

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

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

Property taxes are recognized when they become available. Available includes those property taxes receivable, which are expected to be collected within 60 days after year-end.

Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year as well as all other outstanding balances between funds are reported as “due to/from other funds.”

Pensions

The City’s employees (except policemen and firemen) participate in an agent multiple-employer plan administered by the Retirement Systems of Alabama. The Employees’ Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the Plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses 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. Net pension liability represents the portion of the present value of projected benefit payments attributed to past periods of service to be provided through the Pension Plan to current active and inactive employees less the fiduciary net position of the Pension Plan. It represents the City’s total pension liability minus the fiduciary net position available to pay that liability. Investments that comprise the fiduciary net position are reported at fair value. The City is required to measure and disclose amounts relating to net pension liability, deferred outflows of resources and deferred inflows of resources, pension expense, and the fiduciary net position of the Pension Plan. Actuarially determined periodic contributions are made by the City in order to maintain sufficient assets to pay benefits when due.

The City’s policemen and firemen participates in the Policemen’s and Firemen’s Retirement Fund, a Pension Trust Fund for the City of Anniston, Alabama (Fund). Participants should refer to Act No. 2002-298, 2002 Regular Session and its amendments for a more complete description of the Fund’s provisions. The Fund was substantially amended by the State of Alabama with Act No. 2012-484, effective October 1, 2012. Effective October 1, 2012, the number of trustees was increased from 3 trustees to 5 trustees.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New GASB Standards

GASB Statement No. 72, establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. This standard supersedes previous 62 statements as they relate to measuring fair value of certain assets and liabilities.

GASB Statement No. 76 addresses changes made to the hierarchy of generally accepted accounting principles. This standard supersedes Statement No. 55 and reduces the hierarchy from four to two categories.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Compliance with Finance Related Legal and Contractual Provisions

The City incurred no material violations of finance related legal and contractual provisions.

NOTE 3 – CASH DEPOSITS AND INVESTMENTS

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. However, all investments are reviewed on a monthly basis for interest rate fluctuations and appropriate actions are taken to minimize this risk.

Custodial Credit Risk

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. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. The City is restricted by State statute to investments in 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. Each of the banks holding the City's deposits, as well as those of the component units, is a certified participant in the SAFE program. Through the SAFE program, all public funds are protected through a collateral pool administered by the Alabama State Treasury. Cash deposits and savings held at local banks are insured by the FDIC or collateralized by assets administered by the state treasurer's office in accordance with the "SAFE" program.

At September 30, 2016, all of the deposits of the City were fully collateralized in accordance with the state statutes.

As of September 30, 2016, the primary government's investments consisted of money market accounts which totaled \$1,902,045.

Police and Fire Trust Fund Investments

The Police and Fire Pension Trust Fund is managed by a separate pension Board. The Fund is managed with long-term objectives that include maximizing total investment earnings. State statutes and City policies allow the Pension Trust and Other Postemployment Benefit Trust Funds a broader range of investments than other City investments. The City's Pension Trust funds have no investments in any one issuer that represent 5 percent or more of plan net position. The credit risk of investments of the Permanent, Pension Trust and Other Postemployment Benefit Trust Funds is summarized as follows:

Fair value investments classified at Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fair value investments classified as Level 2 of the fair value hierarchy are valued using the active market rates for the underlying securities. Fair value investments classified as Level 3 of the fair value hierarchy are valued using non-observable inputs.

(Continued)

NOTE 3 – CASH DEPOSITS AND INVESTMENTS (Continued)

Police and Fire Trust Fund Investments (Continued)

The fair value and classification of the investments at September 30, 2016 is as follows:

	Fair Value	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Police and Fire Pension Trust Fund:				
U.S. Government Securities				
U.S. Treasury	\$ 1,106,797	\$ 1,106,797	\$ -	\$ -
Government agencies and other	1,857,944	1,857,944	-	-
Equities				
Financial services	1,695,059	1,695,059	-	-
Healthcare	1,799,941	1,799,941	-	-
Industrial	2,703,994	2,703,994	-	-
Information technology	3,637,243	3,637,243	-	-
Consumer discretionary	2,525,660	2,525,660	-	-
Other	1,925,533	1,925,533	-	-
Municipal bonds	249,550	-	249,550	-
Corporate bonds and debentures	3,394,374	-	3,394,374	-
Foreign bonds and debentures	116,013	-	116,013	-
Collective investment pools	3,094,565	-	3,094,565	-
Real estate	1,064,969	-	-	1,064,969
Timber	1,344,666	-	-	1,344,666
Total	<u>\$ 26,516,308</u>	<u>\$ 17,252,171</u>	<u>\$ 6,854,502</u>	<u>\$ 2,409,635</u>

NOTE 4 – RECEIVABLES

Receivables at September 30, 2016, consist of the following:

	General	Special Revenue Funds	Nonmajor Governmental Funds	Total
Taxes	\$ 2,136,502	\$ -	\$ -	\$ 2,136,502
Accounts	824,800	-	74,182	898,982
Notes	<u>79,732</u>	<u>1,226,722</u>	<u>1,094,372</u>	<u>2,400,826</u>
Gross receivables	3,041,034	1,226,722	1,168,554	5,436,310
Less: Allowance for uncollectibles	<u>(464,452)</u>	<u>(-)</u>	<u>(121,130)</u>	<u>(585,582)</u>
Net receivables	<u>\$ 2,576,582</u>	<u>\$ 1,226,722</u>	<u>\$ 1,047,424</u>	<u>\$ 4,850,728</u>

NOTE 5 – INTERFUND TRANSFERS

Transfers within the City are substantially for the purpose of subsidizing operating functions and transferring cash receipt collections on utility accounts. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs. Interfund transfers are transactions between transferring funds out of one fund to support the operations of another fund.

	General Fund	Transfers in:				Total
		McCellan Compact Construction	Public Building Authority	Nonmajor Governmental Funds	Internal Service Funds	
Transfers out:						
General Fund	\$ -	\$ 211,188	\$ 327,241	\$ 1,822,345	\$ 3,747,900	\$ 6,108,674
Nonmajor Governmental Funds:						
Corrections	-	-	607,739	-	-	607,739
Alabama Trust Fund	50,000	-	-	-	-	50,000
Gasoline Tax	64,000	-	-	-	-	64,000
Seven Cents Gasoline Tax	81,500	-	-	-	-	81,500
City Court Operations	151,360	-	-	-	-	151,360
Special Drug Task Force Office	-	-	-	104,835	-	104,835
Capital Improvement Projects	-	-	-	196,963	-	196,963
Debt Service	9	-	-	-	-	9
Total	<u>\$ 346,869</u>	<u>\$ 211,188</u>	<u>\$ 934,980</u>	<u>\$ 2,124,143</u>	<u>\$ 3,747,900</u>	<u>\$ 7,365,080</u>

NOTE 6 – CAPITAL ASSETS

The following is a summary of changes in capital assets and accumulated depreciation:

	Beginning Balance	Additions	Adjustments/ Retirements	Ending Balance
Governmental Activities				
Non-depreciable capital assets:				
Land	\$ 9,115,327	\$ -	\$ 148,766	\$ 8,966,561
Collections	8,377,742	36,900	-	8,414,642
Construction in progress	<u>4,773,002</u>	<u>253,255</u>	<u>4,773,002</u>	<u>253,255</u>
Total non-depreciable assets	<u>22,266,071</u>	<u>290,155</u>	<u>4,921,768</u>	<u>17,634,458</u>
Depreciable capital assets:				
Buildings and improvements	62,305,730	2,442,677	-	64,748,407
Machinery and equipment	13,112,392	733,225	405,232	13,440,385
Improvements other than buildings	4,237,583	491,709	-	4,729,292
Infrastructure	<u>105,429,666</u>	<u>2,903,190</u>	<u>1,927,522</u>	<u>106,405,334</u>
	<u>185,085,371</u>	<u>6,570,801</u>	<u>2,332,754</u>	<u>189,323,418</u>
Less accumulated depreciation:				
Buildings and parks	20,965,291	1,589,290	-	22,554,581
Machinery and equipment	8,998,072	1,018,825	231,542	9,785,355
Vehicles	572,517	187,196	-	759,713
Landfill	<u>73,979,226</u>	<u>2,673,809</u>	<u>1,576,153</u>	<u>75,076,882</u>
	<u>104,515,106</u>	<u>5,469,120</u>	<u>1,807,695</u>	<u>108,176,531</u>
Total depreciable assets, net	<u>80,570,265</u>	<u>1,101,681</u>	<u>525,059</u>	<u>81,146,887</u>
Total capital assets, net	<u>\$ 102,836,336</u>	<u>\$ 1,391,836</u>	<u>\$ 5,446,827</u>	<u>\$ 98,781,345</u>

(Continued)

NOTE 6 – CAPITAL ASSETS (Continued)

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

General government	\$ 270,223			
Public safety	494,236			
Public works	3,001,080			
Housing and development	1,282,557			
Culture and recreation	<u>421,024</u>			
Total	<u>\$ 5,469,120</u>			
	Beginning		Adjustments/	Ending
	Balance	Additions	Retirements	Balance
Business-type Activities				
Depreciable capital assets:				
Buildings and improvements	\$ 18,930	\$ -	\$ -	\$ 18,930
Furniture, fixtures, and equipment	<u>39,878</u>	<u>340,778</u>	<u>-</u>	<u>380,656</u>
	<u>58,808</u>	<u>340,778</u>	<u>-</u>	<u>399,586</u>
Less accumulated depreciation:				
Buildings and improvements	8,477	-	-	8,477
Furniture, fixtures, and equipment	<u>39,877</u>	<u>48,419</u>	<u>-</u>	<u>88,296</u>
	<u>48,354</u>	<u>48,419</u>	<u>-</u>	<u>96,773</u>
Total capital assets, net	<u>\$ 10,454</u>	<u>\$ 292,359</u>	<u>\$ -</u>	<u>\$ 302,813</u>
	Beginning		Adjustments/	Ending
	Balance	Additions	Retirements	Balance
Component Units				
Non-depreciable capital assets:				
Land	\$ 1,423,863	\$ -	\$ -	\$ 1,423,863
Collections	<u>25,907</u>	<u>-</u>	<u>-</u>	<u>25,907</u>
Total non-depreciable assets	<u>1,449,770</u>	<u>-</u>	<u>-</u>	<u>1,449,770</u>
Depreciable capital assets:				
Collections	873,775	46,388	23,768	896,395
Buildings	17,048,132	-	-	17,048,132
Building improvements	15,599,184	12,300	-	15,611,484
Vehicles	704,464	-	-	704,464
Machinery & equipment	<u>2,194,987</u>	<u>68,293</u>	<u>-</u>	<u>2,263,280</u>
	<u>36,420,542</u>	<u>126,981</u>	<u>23,768</u>	<u>36,523,755</u>
Less accumulated depreciation:				
Collections	831,290	8,497	-	839,787
Buildings	12,026,928	321,104	-	12,348,032
Building improvements	7,662,550	536,813	-	8,199,363
Land improvements	219,489	4,655	-	224,144
Vehicles	544,102	29,984	-	574,086
Machinery & equipment	<u>1,725,728</u>	<u>83,810</u>	<u>22,183</u>	<u>1,787,355</u>
	<u>23,010,087</u>	<u>984,863</u>	<u>22,183</u>	<u>23,972,767</u>
Total depreciable assets, net	<u>13,410,455</u>	<u>(857,882)</u>	<u>1,585</u>	<u>12,550,988</u>
Total capital assets, net	<u>\$ 14,860,225</u>	<u>\$ (857,882)</u>	<u>\$ 1,585</u>	<u>\$ 14,000,758</u>

NOTE 7 – LONG-TERM LIABILITIES

Governmental Activities

Debt related to governmental activities at September 30, 2016, consisted of the following:

General Obligation Bonds and Warrants

The City periodically issues general obligation bonds for the acquisition and construction of major capital facilities. These bonds are direct obligations and are backed by the full faith and credit of the City. Certain bonds are subject to federal arbitrage regulations. These bonds are generally issued as 15 to 20-year serial bonds.

General obligation bonds are summarized by issue as follows:

Series	Original Principal	Interest Rates	Final Maturity	Principal Sept. 30, 2016
General Obligations Refunding Bonds and Warrants				
Series 2010A and 2010B	\$ 7,440,000	4.20% - 5.30%	03/01/35	\$ 6,200,000
Building Revenue Bonds, Series 2011	16,170,000	2.00% - 5.50%	05/01/33	14,460,000
Building Revenue Bonds, Series 2011	15,000,000	2.20% - 5.00%	03/01/43	14,175,000
General Obligation Warrants, Series 2014 A	<u>2,650,000</u>	3.48%	01/31/29	<u>2,402,000</u>
Total	<u>\$ 41,260,000</u>			<u>\$ 37,237,000</u>

Capital Leases

The City has entered into capital lease agreements as lessee for financing the acquisition of various 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, 2016:

Maturities of general long-term liabilities are as follows:

For the Year Ending September 30,	Bonds and Warrants	Capital Lease Obligations	Total
2017	\$ 1,284,000	\$ 248,245	\$ 1,532,245
2018	1,314,000	249,114	1,563,114
2019	1,349,000	246,691	1,595,691
2020	1,384,000	90,833	1,474,833
2021	1,719,000	13,933	1,732,933
2022-2026	18,737,000	-	18,737,000
2027-2031	3,020,000	-	3,020,000
2032-2036	2,925,000	-	2,925,000
2037-2041	3,730,000	-	3,730,000
2042-2043	<u>1,775,000</u>	<u>-</u>	<u>1,775,000</u>
	<u>\$ 37,237,000</u>	<u>\$ 848,816</u>	<u>\$ 38,085,816</u>

Business-type Activities

Debt related to business-type activities at September 30, 2016, consisted of the following:

Capital Leases

The City has entered into a capital lease agreement as lessee for financing the acquisition of stormwater equipment.

(Continued)

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Capital Leases (Continued)

The lease agreement qualifies as a capital lease for accounting purposes (titles transfer at the end of the lease terms) and therefore, has been recorded at the present value of the future minimum lease payments as of the date of its inception.

The following is an analysis of the leased asset under the capital lease as of September 30, 2016:

Maturities of general long-term liabilities are as follows:

For the Year Ending September 30,	Capital Lease Obligations
2017	\$ 48,382
2018	43,536
2019	44,490
2020	<u>127,452</u>
	<u>\$ 263,860</u>

Discretely-Presented Component Unit – Anniston City Board of Education

Debt related to the discretely-presented component unit at September 30, 2016, consisted of the following:

Warrants Payable

In 1994, the City of Anniston issued Series 1994 General Obligation Warrants which defeased the Series 1989 General Obligation School Warrants. The special 5 mill ad valorem tax was again pledged for payment of these warrants but is subordinated by the pledge in the Series 1968 and Series 1992 warrants. The pledge of this revenue source for payment of the Series 1994 General Obligation Warrants began in 2006.

In November 1992, the City of Anniston issued Series 1992 General Obligation Refund Warrants which defeased the Series 1986 General Obligation School Refunding Warrants. The special 5 mill ad valorem tax is pledged for payment of the school part of the 1992 warrants subordinated by the pledge for the Series 1968 warrants. These bonds are considered an obligation of the City of Anniston.

On September 17, 1996, the City of Anniston issued General Obligation School Warrants of \$3,700,000 dated September 1, 1996 for the purpose of making necessary improvements to the Board's physical properties. The warrants constitute a general obligation of the City and are not an obligation of the Board. The City pledged one-half cent of the four-cent sales tax for payment of the Series 1992 and 1994 General Obligation Warrants.

In 2003, the foregoing warrants were defeased by the issuance of the 2003 Series General Obligation Warrants in the amount of \$6,415,000. The special 5 mill ad valorem tax continues to be pledged for payment of the school part of these warrants. The warrants constitute a general obligation of the City and are not an obligation of the Board.

In March 2012, the PSCA issued the Series 2012-A Pool Refunding Bonds to refund, on a current basis, the outstanding 2003 Capital Improvement Pool Bonds. The principal and interest payments are payable by an irrevocable pledge of revenues from the special 5 mill ad valorem tax of the school part of these warrants. (pledged revenues).

(Continued)

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Warrants Payable (Continued)

The bonds bear interest rates from 3% to 5%. The Board recognized a bond premium on refunding on issuance of the 2012-A bonds in the amount of \$110,481. Amortization of the bond premium for the year ended September 30, 2016 was \$9,402.

QZAB – (Qualified Zone Academy Bonds)

During the year ended September 30, 2003, the Board borrowed \$2,000,000 from the Qualified Zone Academy Bond Program (QZAB). The funds were used to renovate and repair school buildings and to purchase equipment (the Project) under the jurisdiction and control of the Board. The Board entered into a lease purchase agreement to lease the Project from the Alabama School Finance Cooperative which advanced the funds for the Project. The Board has the option to purchase the project for \$1.00 at the end of the lease. The payments made by the Board were deposited into an investment account with a guaranteed yield to maturity which will pay off the debt at its maturity in May 2018. The lease payments are \$157,784 annually through May 2013.

All payments required under the lease were paid in full as of September 30, 2013.

Maturities of general long-term liabilities are as follows:

For the Year Ending September 30,	Bonds and Warrants
2017	\$ 55,079
2018	2,057,933
2019	60,942
2020	63,989
2021	67,191
2022	<u>107,536</u>
	<u>\$ 2,412,670</u>

Changes in Long-term Liabilities

Changes in long-term liabilities for the fiscal year ended September 30, 2016, were as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Amount Due Within One Year
Primary Government					
Governmental Activities:					
Bonds and warrants	\$ 38,486,000	\$ -	\$ 1,249,000	\$ 37,237,000	\$ 1,284,000
Less discount	<u>(339,194)</u>	<u>-</u>	<u>(18,116)</u>	<u>(321,078)</u>	<u>-</u>
Total bonds and warrants	38,146,806	-	1,230,884	36,915,922	1,284,000
Capital lease payable	335,335	701,983	188,502	848,816	248,245
Compensated absences	<u>2,438,094</u>	<u>-</u>	<u>120,418</u>	<u>2,317,676</u>	<u>-</u>
	<u>\$ 40,920,235</u>	<u>\$ 701,983</u>	<u>\$ 1,539,804</u>	<u>\$ 40,082,414</u>	<u>\$ 1,532,245</u>
Business-type Activities:					
Capital lease payable	<u>\$ -</u>	<u>\$ 263,860</u>	<u>\$ -</u>	<u>\$ 263,860</u>	<u>\$ 48,382</u>

(Continued)

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Discretely-Presented Component Unit – Anniston City Board of Education

2003 Pool Bond	\$ 463,071	\$ -	\$ 50,401	\$ 412,670	\$ 55,079
QZAB	2,000,000	-	-	2,000,000	-
Unamortized premium	<u>77,572</u>	<u>-</u>	<u>9,402</u>	<u>68,170</u>	<u>-</u>
	<u>\$ 2,540,643</u>	<u>\$ -</u>	<u>\$ 59,803</u>	<u>\$ 2,480,840</u>	<u>\$ 55,079</u>

NOTE 8 – EMPLOYEE BENEFIT PLANS

Employee Retirement System of Alabama (ERS) – Anniston, Alabama City Employees

General Information about the Pension Plan

Plan description. The Employees’ Retirement System of Alabama, an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, 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.

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Employee Retirement System of Alabama (ERS) – Anniston, Alabama City Employees (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 876 local participating employers. These participating employers include 294 cities, 65 counties, and 517 other public entities. The ERS membership includes approximately 83,874 participants. As of September 30, 2015, membership consisted of:

	Anniston	State
Retirees and beneficiaries currently receiving benefits	110	22,211
Terminated employees entitled to but not yet receiving benefits	9	1,353
Terminated employees not entitled to a benefit	17	5,451
Active members	<u>193</u>	<u>55,378</u>
	<u>329</u>	<u>84,393</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.

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, 2016, the City’s active employee contribution rate was 7.80% (Tier 1) and 7.56% (Tier 2) of covered employee payroll, and the City’s average contribution rate to fund the normal and accrued liability costs was 148.18 percent of covered employee payroll.

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Employee Retirement System of Alabama (ERS) – Anniston, Alabama City Employees (Continued)

City's contractually required contribution rate for the year ended September 30, 2016 was 7.80% of pensionable pay for Tier 1 employees, and 7.56% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, 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 \$558,928 for the year ended September 30, 2016.

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

(a) Total Pension Liability as of September 30, 2014	\$ 30,340,409
(b) Entry Age Normal Cost for the period October 1, 2014 – September 30, 2015	644,393
(c) Actual Benefit Payments and Refunds for the period October 1, 2014 – September 30, 2015	(1,936,258)
(d) Total Pension Liability as of September 30, 2015 = [(a) x (1.08)] + (b) – [(c) x (1.04)]	31,398,326
(e) Difference between Expected and Actual Experience (Gain)/Loss	1,980,336

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

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

*Net of pension plan investment expense

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

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

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.

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Employee Retirement System of Alabama (ERS) – Anniston, Alabama City Employees (Continued)

The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

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

*Includes assumed rate of inflation of 2.50%

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

Changes on Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) – (b)</u>
Balances at 9/30/2014	<u>\$ 28,506,764</u>	<u>\$ 21,869,836</u>	<u>\$ 6,636,928</u>
Changes for the year:			
Service cost	644,393	-	644,393
Interest expense	2,203,091	-	2,203,091
Differences between expected and actual experience	1,980,336	-	1,980,336
Contributions – employer	-	517,085	(517,085)
Contributions – employees	-	538,724	(538,724)
Net investment income	-	250,689	(250,689)
Benefits payments, including refunds of employee contributions	(1,936,258)	(1,936,258)	-
Administrative expense	-	-	-
Transfers among employers	-	(597,870)	597,870
Net changes	<u>2,891,562</u>	<u>(1,227,630)</u>	<u>4,119,192</u>
Balances at 9/30/2015	<u>\$ 31,398,326</u>	<u>\$ 20,642,206</u>	<u>\$ 10,756,120</u>

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Employee Retirement System of Alabama (ERS) – Anniston, Alabama City Employees (Continued)

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net pension liability	<u>\$ 14,161,331</u>	<u>\$ 10,756,120</u>	<u>\$ 7,864,578</u>

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended September 30, 2016, the City recognized pension expense of \$1,172,203. At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,620,275	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	676,419	-
Contributions subsequent to the measurement date of September 30, 2015	<u>558,928</u>	<u>-</u>
Total	<u>\$ 2,855,622</u>	<u>\$ -</u>

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

Year Ended September 30:	
2017	\$ 489,550
2018	489,550
2019	489,549
2020	648,014
2021	<u>180,031</u>
	<u>\$ 2,296,694</u>

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Anniston’s Policemen’s and Firemen’s Retirement Fund

Organization - The Fund is a single-employer benefit pension plan established by the State of Alabama and administered by a board of trustees. The Fund provides retirement, disability, and death benefits to police and firefighters of the City of Anniston, Alabama, and their beneficiaries.

Plan Administrator and Board Composition - The Board of Trustees administers the plan. The Board is composed of five members. One member is elected by the retirees and surviving spouses of retirees of the Plan. One member of the City of Anniston Fire Department elected by members of the Fire Department. One member is a member of the City of Anniston Police Department elected member of the Police Department. One member is the City of Anniston Finance Director. One member is appointed by the City Council of the City of Anniston who is a qualified elector in the City of Anniston, who is not a member or the spouse, child, parent, sibling, or in-law of a member currently represented on the Board of Trustees.

Funding Requirements - Employer contributions are actuarially determined. Employee contributions are as described below and may be amended by ordinance.

Effective Date - The Plan was established in 1951 through the enactment of Act No. 608 of the Alabama Legislature. The Plan was amended and restated effective October 1, 2012 with Act No. 2012-484.

Amendment one was adopted August 1, 2013. Upon the amendment and restatement effective October 1, 2012, a participant’s monthly benefit was defined to not exceed 75% of “monthly compensation” provided if the Accrued Benefit equals or exceeds 75% of “monthly compensation” as of October 1, 2012, the monthly benefit cannot exceed the Participant’s Accrued Benefit calculated as of the end of the first full year of continuous service beginning on or after October 1, 2012. Amendment One clarified that “monthly compensation” for this purpose means the Average of the Participant’s monthly compensation for the last three years preceding retirement (i.e., Average Monthly Compensation).

An amendment to the Plan was made for hires after January 1, 2016. This Plan amendment will be reflected in subsequent valuation reports.

Plan Year - The 12-month period from October 1st to the following September 30th.

Participant - An individual becomes a Participant immediately upon hire by the City of Anniston as a sworn police officer or a firefighter.

Description of Plan

Credited Service - The continuous period beginning on the first day of employment as a sworn police officer or firefighter and ending on the earliest of the date of the retirement, termination, or death. Credited Service is computed in completed years. No credit is given for partial years. Participants who terminate prior to becoming eligible to retire lose the service credited under the Plan.

Continuous service is credited in accordance with the Uniformed Services Employment and Reemployment Rights Act (USERRA) for a Participant who is an employee immediately prior to the commencement of qualified military service (and who gives advance written notice of the qualified military service under conditions other than a disqualifying or dishonorable discharge, and returns to work or applies for reemployment within the period specified below, if Employee Contributions are made for the period of absence.

<u>Military Service</u>	<u>Return to Work after Discharge</u>
< 31 days	One day
< 30 and < 181 days	14 days
>180 days	90 days

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Anniston’s Policemen’s and Firemen’s Retirement Fund (Continued)

If a participant is hospitalized for or recovering from an illness or injury that was incurred or aggravated during qualified military service, USERRA requires the Participant return to work or apply for reemployment upon recovery (recovery being no more 2 years).

Vesting - Prior to October 1, 2012, 100% upon the earlier of earning 20 years of Credited Service and age 60.

Effective October 1, 2012, 100% upon the earlier of earning 20 years of Credited Service and age 65. Members who were active Participants on September 30, 2012 and who reach age 60 prior to earning 20 years of Credited Service are also 100% vested upon attaining age 60.

Compensation – For participants hired prior to January 1, 2016, compensation includes regular salary, including accumulated vacation pay, overtime pay, longevity pay, comp pay, and any differential wage payment as defined in Code Section 3401(h)(2), generally relating to military pay. Bonuses and paid accumulated sick leave, expense allowances, and other non-regular forms of compensation are excluded.

For participants hired on or after January 1, 2016, Compensation only includes regular salary. Accumulated vacation pay, overtime pay, longevity pay, comp pay, any differential wage payment as defined in Code Section 3401(h)(2) (generally relating to military pay), bonuses and paid accumulated sick leave, expenses allowances, and other non-regular forms of compensation are all excluded.

Employee Contributions - Prior to October 1, 2012, 10% of Compensation was contributed by Participants (on a pre-tax basis effective October 1, 2002). Effective on and after October 1, 2012, 14% of Compensation is contributed by Participants on a pre-tax basis.

Employee contributions made for a period of qualified military service are made either in a lump sum payment or over a period equal to the lesser of (1) 3 x qualified military service for (2) 5 years.

A member who terminates non-vested, or before becoming eligible for a benefit from the Plan, is entitled to a refund of accumulated employee contributions without interest and has no further claim to benefits from this Plan. Nonvested terminations who subsequently return to employment are treated as a new employee and accrual of benefits begin as of the date of reemployment.

Other Contributions - Prior to October 1, 2012, the city contributed 10% of compensation. Effective on and after October 1, 2012, the City contributes amounts that are sufficient to meet the normal cost of the Plan and to amortize the Plan’s unfunded liability over 30 years.

In addition, prior to October 1, 2012, each public utility, qualified to do business under the laws of Alabama and selling electricity, electric current, natural gas, intra-city bus transportation, local exchange telephone service, or telegraph service in Anniston, annually paid into the fund a sum equal to 0.5% of gross revenues of such utilities into the fund. Effective October 1, 2012, public utilities no longer contribute to the Plan.

Also, effective October 1, 2012, if the City of Anniston’s contributions equal or exceed three times or are less than two times the employee contributions, the board may amend or modify employee contributions, the City of Anniston’s contribution, or both. benefits may also be revised by board resolution.

Average Monthly Compensation - For members hired prior to January 1, 2016, the average of monthly compensation for the last three years preceding retirement. For members hired on or after January 1, 2016, the average of monthly compensation for the last five years preceding retirement.

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Anniston’s Policemen’s and Firemen’s Retirement Fund (Continued)

Normal Retirement Eligibility - Prior to October 1, 2012, normal retirement eligibility was defined as the earlier of age 60 regardless of credited service, or the following credited service requirements regardless of age:

<u>Hire</u>	<u>Service Required For Normal Date Retirement</u>
< 5/29/1979	20 years
<= 5/29/1979	25 years

Effective October 1, 2012, normal retirement eligibility is defined as the earlier of age 65 or having earned 25 years credited service. However, participants actively employed on September 30, 2012 who reach age 60 prior to earning 20 years of credited service are eligible for normal retirement at age 60. This the normal retirement eligibility applicable to participants hired prior to January 1, 2016.

For participants hired on and after January 1, 2016, normal retirement eligibility is defined as the earlier of age 65 regardless of service, age 60 with 10 years of credited service, and age 56 with 25 years of credited service.

Normal Retirement Benefit - Prior to October 1, 2012, the benefit payable upon reaching normal retirement eligibility was the following:

$3\% \times \text{Average monthly compensation} \times \text{credited service not more than 30 years}$

Effective October 1, 2012, the normal retirement benefit for member hired on and after May 29, 1979 is calculated in accordance with the following formula where total credited service may not exceed 30 years:

$2.5\% \times \text{Average monthly compensation} \times \text{full years beginning on or after October 1, 2012 plus } 3.0\% \times \text{average monthly compensation} \times \text{years of service at } 3.0\% \text{ multiplier}^*$

*The years of service at the 3.0% multiplier equal completed years of service at retirement minus full years of service beginning on or after October 1, 2012.

Note all active members as of October 1, 2012, were hired after May 29, 1979.

However, the normal retirement benefit for participants actively employed on September 30, 2012 who reach age 60 prior to earning 20 years of credited service is as follows where total credited service may not exceed 30 years:

$2.5\% \times \text{Average monthly compensation} \times \text{credited service on or after age 60 plus } 3.0\% \times \text{average monthly compensation} \times \text{credited service before age 60}$

Note only one member as of October 1, 2012, reached age 60 prior to earning 20 years of credited service. This individual retired May 30, 2013. No other member will have benefits payable under this benefit definition in the future.

Effective October 1, 2012, the monthly benefit payable may not exceed 75% of 3-year average monthly compensation except for those where the accrued benefit exceeds 75% of 3-year average monthly compensation as of October 1, 2012. For these members, the monthly benefit payable may not exceed the participant’s accrued benefit calculated as of the end of the first full year of continuous service beginning on or after October 1, 2012.

For participants hired on or after January 1, 2016 the normal retirement benefit is calculated as the following:

$2.5\% \times 5 - \text{Year average monthly compensation} \times \text{credited service not more than 30 years}$

The normal form of payment is an unreduced 50% joint & survivor annuity.

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Anniston’s Policemen’s and Firemen’s Retirement Fund (Continued)

Early Retirement Eligibility - Participants hired before January 1, 2016 become eligible for Early Retirement upon earning at least 20 years of Credited Service, regardless of age.

For participants hired on and after January 1, 2016, Early Retirement Eligibility is defined as the earlier of age 55 with 10 years of Credited Service and age 50 with 25 years of Credited Service.

Early Retirement Eligibility - Participants hired before January 1, 2016 become eligible for Early Retirement upon earning at least 20 years of Credited Service, regardless of age.

For participants hired on and after January 1, 2016, Early Retirement Eligibility is defined as the earlier of age 55 with 10 years of Credited Service and age 50 with 25 years of Credited Service.

Early Retirement Benefit - For participants hired before January 1, 2016, the Normal Retirement Benefit reduced by 4% for each year Credited Service is less than 25 years. Prior to October 1, 2012, the Normal Retirement Benefit was not reduced for Credited Service less than 25 years for Participants who were age 60 at retirement. Effective October 1, 2012, the Normal Retirement benefit is not reduced for Credited Service less than 25 years for Participants who are at least age 65 at retirement. In addition, the Normal Retirement Benefit is not reduced for Participants who were actively employed on September 30, 2012 and reach age 60 prior to earning 20 years of Credited Service.

For participants hired on and after January 1, 2016, the Normal Retirement benefit is reduced actuarially using assumptions as adopted by the Board of Trustees for each full month of age at retirement earlier than Normal Retirement Eligibility.

Line-of-Duty Disability Benefits - Prior to October 1, 2012, participants became eligible for line-of-duty disability benefits immediately upon hire. Participants who became permanently physically or mentally disabled as a result of injuries in the line-of-duty were entitled to a monthly Disability Benefit as if 30 years of Credited Service had been worked, as follows:

$$3\% \times \text{Average monthly compensation} \times 30 \text{ years of credited service} \times \text{disability percentage}$$

For participants who had less than 3 years of service, average monthly compensation is the average of compensation over the entire period of employment.

For participants hired before July 1, 2002, the disability percentage is 100%. For participants hired on or after July 1, 2002, if the participant is determined to be 50% or more physically disabled, the disability percentage is 100%. If the participant is deemed to be less than 50% disabled, the disability percentage is the percent of physical disability as described below.

Effective October 1, 2012, participants continue to become eligible for line-of-duty disability benefits immediately upon hire. A participant who becomes physically or mentally disabled as a result of bodily injury, disease, or mental disorder received in the line-of-duty, which renders the participant incapable of continuing employment as a sworn police officer or sworn firefighter performing the same duties and having the same responsibilities as those immediately prior to the time of the disability, is entitled to receive a monthly disability benefit equal to the greater of:

$$40\% \times \text{Monthly compensation at disability or } 100\% \text{ of the accrued benefit at disability (disregarding 20-year eligibility requirement)}$$

In lieu of this monthly benefit a participant may elect instead to receive employee contributions without interest.

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Anniston’s Policemen’s and Firemen’s Retirement Fund (Continued)

Off-Duty Disability Benefits

Prior to October 1, 2012, effective July 1, 2002 participants became eligible for off-duty disability benefits after completion of at least 5 years of credited service. Once the participant had been physically or mentally disabled from any cause other than from injuries received in the line-of-duty for at least 3 months, a monthly disability benefit was payable if 25 years of credited service have been worked, as follows:

$$3\% \times \text{average monthly compensation} \times 25 \text{ years of credited service} \times \text{disability percentage}$$

Effective October 1, 2012, the plan does not provide a disability benefit to a participant who becomes physically or mentally disabled, other than as a result of injuries received in the line-of-duty. However, the participant may make a request to the retirement board for the payment of employee contributions without interest.

Disability Percentage

The participant may be sent to a physician selected by the retirement board for examination to determine the extent of the participant’s disability. The American Medical Association’s guidelines for the evaluation of permanent impairment is used to determine the percentage of disability suffered by the participant. If the retirement board determines that the participant is no longer disabled to the degree previously approved for, the retirement board shall order that the benefits to the participant be adjusted or discontinued as applicable.

Life Insurance

Prior to October 1, 2012, if any participant dies and left a surviving spouse, a \$1,500 single lump sum life insurance benefit was payable. If there was no surviving spouse, \$1,500 was split amongst any surviving children under the age of 18 years old. No life insurance is payable to any participant after October 1, 2012.

Line-Of Duty Survivor Benefits

Prior to October 1, 2012, the surviving spouse of a participant who died as a result of injuries received in the line-of-duty was entitled to a monthly survivor benefit which was the actuarial equivalent 100% joint & survivor form payable based on a monthly benefit calculated as if 30 years of credited service had been worked, as follows:

$$3\% \times \text{average monthly compensation} \times 30 \text{ years of credited service}$$

If there was no surviving spouse or if the surviving spouse was to die, 50% of this amount is split amongst any surviving children under the age of 18 years. In the event an active participant died without having a surviving spouse or surviving children under the age of 18 years, an amount equal to the accumulated employee contributions without interest was payable.

Effective October 1, 2012, the surviving spouse of a participant dies as a result of injuries received in the line-of-duty is entitled to a monthly survivor benefit equal to 62.5% of the participant’s monthly accrued benefit calculated as if 25 years of credited service had been worked. This monthly benefit is discontinued upon the remarriage of the surviving spouse. If there is no surviving spouse or if the surviving spouse should die, this benefit is split amongst any surviving children under the age of 18 years. In the event an active participant dies without having a surviving spouse or surviving children under the age of 18 years, an amount equal to the accumulated employee contributions without interest is payable.

The surviving spouse of a participant who retired prior to January 1, 1989 receives 50% of the monthly amount that was in payment to the participant at the time of death. If there is no surviving spouse, 25% of the monthly amount that was in payment is split amongst any surviving children under the age of 18 years.

Off-Duty Survivor Benefits

Prior to October 1, 2012, the surviving spouse of a participant who earned at least 20 years of credited service and who died not as a result of injuries received in the line-of-duty was entitled to a monthly survivor benefit which is the actuarially equivalent 100% joint & survivor form of the benefit defined for normal retirement, unreduced for commencement prior to normal retirement eligibility. If there was no surviving spouse or if the surviving spouse should die, 50% of this amount was split amongst any surviving children under the age of 18 years.

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Anniston’s Policemen’s and Firemen’s Retirement Fund (Continued)

In the event an active participant died without having a surviving spouse or surviving children under the age of 18 years, an amount equal to the accumulated employee contributions without interest is payable. The survivor of a participant who died off-duty with less than 20 years of credited service is due a refund of employee contributions without interest.

Effective October 1, 2012, the plan does not provide a survivor benefit for deaths not as a result of injuries received in the line-of-duty. However, the surviving spouse or children under the age of 18 years may make a request to the retirement board for the payment of employee contributions without interest. The surviving spouse of a participant who retired prior to January 1, 1989, receives 50% of the monthly amount that was in payment to the participant at the time of death. If there is no surviving spouse, 25% of the monthly amount that was in payment is split amongst any surviving children under the age of 18 years.

Optional Forms of Benefit

Members entitled to a normal retirement benefit or an early retirement benefit may elect to receive a 50% joint & survivor annuity (option a), an actuarially equivalent 100% joint & survivor annuity (option b) or an actuarially equivalent life only annuity (option c).

A participant having elected a 50% Joint & Survivor Annuity (option a) will receive the benefit described under normal retirement or early retirement. Upon the death of such participant who leaves a surviving spouse, 50% of the amount being paid to the participant at the time of death is payable to the surviving spouse. If the participant does not leave a surviving spouse but leaves surviving children under the age of 18, 25% of the monthly amount that was in payment is split amongst any surviving children under the age of 18 years. Effective for retirements occurring on and after October 1, 2012, if the deceased participant’s spouse remarries, monthly pension benefits cease.

A participant having elected a 50% Joint & Survivor Annuity (option b) will receive a monthly benefit in an amount which is the actuarial equivalent which would have been payable had the participant elected option a. This monthly amount is payable to the participant during his or her lifetime and then upon his or her death to the spouse, without reduction. Upon the death of the surviving spouse, 50% of the monthly amount that was in payment is split amongst any surviving children under the age 18 years. Effective for retirements occurring on and after October 1, 2012, if the deceased participant’s spouse remarries, monthly pension benefits cease.

A participant having elected a Life Only Annuity (option c) will receive a monthly benefit which is the actuarial equivalent of the amount which would have been paid if the participant had elected option a. No death benefits are payable to any survivor or dependents of the participant who selects this form of payment.

Actuarial Equivalence

Based on the 1971 group annuity mortality table and an interest rate of 7%. In practice, participant mortality is as under the 1971 group annuity mortality table for males and spouse mortality is as under the 1971 group annuity mortality for males set forward 7 years. The computation of the life only annuity for unmarried members assumes an actuarial increase from the normal 50% joint & survivor form assuming a spouse who is three years younger.

Partial Lump Sum Option

Prior to October 1, 2012, participants were allowed to elect to receive a monthly retirement benefit on a reduced basis in return for the payment of a lump sum amount, in cash, at the time the monthly retirement benefit is first payable. The participant could elect to receive the lump sum, based on the monthly normal or early retirement benefit payable as a life only annuity.

The monthly life only retirement benefit after deducting for the partial lump sum payment is monthly life only retirement benefit prior to reduction times the reduction factor. The monthly retirement benefit after deducting for the partial lump sum payment is then reduced appropriately for optional forms which provide survivor benefit continuance.

Effective October 1, 2012, the plan does not provide a partial lump sum option.

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Anniston’s Policemen’s and Firemen’s Retirement Fund (Continued)

Thirteenth-Checks

When the actuary certifies that the necessary funds are available, the board may increase the benefits provided retirees by passing a resolution which declares that the monthly benefit paid to each retiree, surviving spouse, or other beneficiary of the retiree shall be increased by a flat dollar amount per month, increased by a flat dollar amount per year of active service per month, or be increased to a minimum monthly amount. Additionally, the board may pass a resolution to issue 13th checks.

Actuarial Assumptions and Methods

Assumed Rate of Investment Return: 8.0% per year (net of investment and administrative expenses)

Inflation: 3.0% per year.

Salary Increase – Total Payroll: Whereas total payroll was assumed to increase 2.5% per year in the prior actuarial valuation, the current valuation assumes total payroll will increase 2.0% per year.

Salary Increase – Individual: 5.5% per year.

Mortality: Mortality is assumed under the RP 2000 Blue Collar Mortality Table (set forward 10 years for disabled members) with mortality improvements assumed using Scale AA projected from 2000 to the valuation year. 95% of active death is assumed not in the line of duty.

Retirement: For participants hired prior to January 1, 2016, unisex rates of retirement are as follows:

<u>Service</u>	<u>Rate</u>	<u>Service</u>	<u>Rate</u>	<u>Service</u>	<u>Rate</u>
0-4	15%	8	7%	12	3%
5	10%	9	6%	13-19	2%
6	9%	10	5%	20+	0%
7	8%	11	4%		

For participants hired on and after January 1, 2016, retirement is assumed at a rate of 100% at the earlier of age 65 regardless of service, age 60 with 10 years of Credited Service, and age 56 with 25 years of Credited Service. We have assumed that the basis for actuarial reduction of the monthly benefit for early retirement at the earlier of age 55 with 10 years of Credited Service and age 50 with 25 years of Credited Service are the valuation assumptions.

Termination: Unisex rates of termination are as follows:

<u>Service</u>	<u>Rate</u>	<u>Service</u>	<u>Rate</u>	<u>Service</u>	<u>Rate</u>
0-4	15%	8	7%	12	3%
5	10%	9	6%	13-19	2%
6	9%	10	5%	20+	0%
7	8%	11	4%		

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Anniston’s Policemen’s and Firemen’s Retirement Fund (Continued)

Disability: Unisex rates, as follows:

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
<=19	0.0000%	31	0.2318%	43	0.5866%	55	2.0178%
20	0.1204%	32	0.2448%	44	0.6488%	56	2.2266%
21	0.1312%	33	0.2594%	45	0.7190%	57	2.4534%
22	0.1416%	34	0.2760%	46	0.7974%	58	2.6996%
23	0.1516%	35	0.2948%	47	0.8852%	59	2.9660%
24	0.1614%	36	0.3166%	48	0.9830%	60	3.2538%
25	0.1708%	37	0.3414%	49	1.0916%	61	3.5640%
26	0.1802%	38	0.3700%	50	1.2118%	62	3.8980%
27	0.1896%	39	0.4028%	51	1.3446%	63	4.2570%
28	0.1992%	40	0.4402%	52	1.4906%	64	4.6420%
29	0.2092%	41	0.4830%	53	1.6508%	65+	0.0000%
30	0.2200%	42	0.5316%	54	1.8262%		

50% of disabilities are assumed to be service connected.

Plan Expenses: Administrative and investment expenses are assumed to be paid through the investment return.

Marital Assumption: Husbands are assumed to be three years older than wives. 75% of active service related deaths are assumed to be married.

Funding Method: Entry Age (level percent of salary).

Actuarial Value of Assets: The market value of assets is adjusted to recognize gains and losses over a five-year period. The Actuarial Value of Assets shall not be more than 120% or less than 80% of the market value of assets.

Plan Membership Statistics

Valuation as of October 1, 2016

Inactive currently receiving benefits	189
Active members	157
	346

Net Pension Liability

The total pension liability under GASB 67 and 68 is based on the October 1, 2016 actuarial valuation which used the following actuarial assumptions applied to all periods included in the measurement.

Salary increases	5.50%
Single discount rate	3.09%
Mortality	RP-00 Blue Collar Mortality Table (set forward 10 years for disabled members) with mortality improvements assumed using Scale AA projected from 2000 to the valuation year

Assumptions are based on the assumptions used by the prior actuary supplemented with changed retirement expectations resulting from Plan changes that became effective October 1, 2012 and January 1, 2016.

Further information regarding the calculation of the discount rate is found in the following section entitled “Calculation of the Discount Rate”.

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Anniston’s Policemen’s and Firemen’s Retirement Fund (Continued)

The components of the net pension liability at September 30, 2016 were as follows:

Total pension liability	\$ 124,680,727
Plan fiduciary net position	<u>(28,057,809)</u>
Net pension liability	<u>\$ 96,622,918</u>

Plan fiduciary net position as a percentage of the total pension liability 22.5 %

Sensitivity of the net position liability to changes in the discount rate is as follows:

	1% Decrease <u>(7.00%)</u>	Current Discount Rate <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
Net pension liability (asset)	<u>\$ 116,497,163</u>	<u>\$ 96,622,918</u>	<u>\$ 80,738,310</u>

Calculation of the Discount Rate

The long-term expected net rate of return on investments was determined using a building-block method. Best-estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. The long-term expected net rate of return on investments is the best-estimate ranges weighted by the asset allocation plus expected inflation. Best estimates of arithmetic real rates of return for each major asset class as provided by the investment monitor are shown in the following table:

Investment Category	Allocation	Long-Term Real Annualized Return*	Weighted by Target Allocation
Large Cap	30%	6.4%	1.9%
Smid Cap	20	7.8	1.6
International Equity	10	2.7	0.3
Real Assets	10	6.1	0.6
Fixed Income	<u>30</u>	2.7	<u>0.8</u>
	<u>100%</u>		<u>5.2%</u>

*For illustrative purposes, historical long term average returns have been used as a reasonable expectation of returns. The expected rate of inflation is 3%. The long term real annualized return weighted by target allocation plus the expected rate of inflation is 8.2%.

Whereas the funding valuation of the Plan assumes the fund will earn 8.0% per year (net of investment and administrative expenses, but including inflation), the discount rate used to measure the total pension liability was 3.09%. This is the single rate that reflects the long-term expected gross rate of return on pension plan investments expected to be used to finance the payment of benefits based on the 8.0% per year funding assumption used in years where assets were sufficient to pay for projected benefit payments and a rate of 2.24% per year in years where assets are not sufficient to pay for projected benefit payments. The 2.24% rate was supplied by the investment monitor. It is the rate as of September 30, 2016, for the Bloomberg Barclays 20 year Muni Bond index with average quality AA3/A1. We have found that that the fiduciary net position is projected to not be sufficient to make projected benefit payments.

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Anniston’s Policemen’s and Firemen’s Retirement Fund (Continued)

Changes on Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) – (b)
Balances at 9/30/2015	\$ 115,142,845	\$ 26,317,728	\$ 88,825,117
Changes for the year:			
Service cost	2,886,593	-	2,886,593
Interest expense	4,081,057	-	4,081,057
Differences between expected and actual experience	(295,284)	-	(295,284)
Changes in assumptions	7,957,056	-	7,957,056
Contributions – employer	-	3,431,035	(3,431,035)
Contributions – employees	-	1,048,607	(1,048,607)
Net investment income	-	2,351,979	(2,351,979)
Benefits payments, including refunds of employee contributions	(5,091,540)	(5,091,540)	-
Net changes	<u>9,537,882</u>	<u>1,740,081</u>	<u>7,797,801</u>
Balances at 9/30/2016	<u>\$ 124,680,727</u>	<u>\$ 28,057,809</u>	<u>\$ 96,622,918</u>

Pension Expense and Deferred Outflows and Inflows of Resources

For the year ended September 30, 2016, the City recognized pension expense of \$7,558,077. At September 30, 2016, 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	\$ 384,672	\$ 221,463
Changes in assumptions	7,013,385	-
Net difference between projected and actual earnings on pension plan investments	<u>352,763</u>	<u>1,142,849</u>
Total	<u>\$ 7,750,820</u>	<u>\$ 1,364,312</u>

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

Year Ended September 30:	
2017	\$ 2,462,452
2018	2,462,451
2019	1,747,318
2020	(285,713)
2021	<u>-</u>
	<u>\$ 6,386,508</u>

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Anniston City Board of Education, Discretely-Presented Component Unit –Teachers’ Retirement System of Alabama

Summary of Significant Accounting Policies for the Pension Plan

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

General Information about the Pension Plan

Plan description. The Teachers’ Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operating of TRS is vested in its Board of Control.

The TRS Board of Control consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 16-Chapter 25 of the Code of Alabama grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Benefits provided. State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS employees who retire after age 60 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. 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 TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

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 TRS members are eligible for retirement after age 62 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 TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. 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 based on the member’s age, service credit, employment status and eligibility for retirement.

Contributions. Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS 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 TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Anniston City Board of Education, Discretely-Presented Component Unit –Teachers’ Retirement System of Alabama (Continued)

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers contractually required contribution rate for the year ended September 30, 2016 was 11.94% of annual pay for Tier 1 members and 10.84% of annual pay for Tier 2 members.

These required contribution rates are a percent of annual payroll, 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 Board were \$1,375,656 for the year ended September 30, 2016.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At September 30, 2016, the Board reported a liability of \$19,841,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014. The Board’s proportion of the collective net pension liability was based on the employers’ shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2015, the System’s proportion was 0.189580%, which was an increase of 0.001921% from its proportion measured as of September 30, 2014.

For the year ended September 30, 2016, the Board recognized pension expense of \$1,603,000. At September 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 107,000
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	1,299,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	267,000	-
Employer contributions subsequent to the measurement date	<u>1,377,102</u>	<u>-</u>
Total	<u>\$ 2,439,102</u>	<u>\$ 107,000</u>

\$1,377,102 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension’s expense as follows:

Year Ended September 30:	
2017	\$ 288,000
2018	288,000
2019	288,000
2020	589,000
2021	<u>6,000</u>
	<u>\$ 1,459,000</u>

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Anniston City Board of Education, Discretely-Presented Component Unit –Teachers’ Retirement System of Alabama (Continued)

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

Inflation	3.00%
Salary increases	3.50% - 8.25%
Investment rate of return*	8.00%

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2014, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012. Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 setback one year for females.

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

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

*Includes assumed rate of inflation of 2.50%

Discount rate. The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan’s fiduciary net position were projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

Anniston City Board of Education, Discretely-Presented Component Unit –Teachers’ Retirement System of Alabama (Continued)

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Board’s proportionate share of collective net pension liability	<u>\$ 26,248,000</u>	<u>\$ 19,841,000</u>	<u>\$ 14,407,000</u>

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2015. The auditor’s report dated October 17, 2016 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2015, along with supporting schedules is also available. The additional financial and actuarial information is available www.rsa-al.gov.

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

City of Anniston OPEB Health Care Plan – Primary Government

Description. Effective October 1, 2007, the City adopted the provisions of GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The City, through its substantive commitment to provide other postemployment benefits (OPEB), maintains a single-employer defined benefit plan to provide certain postretirement healthcare benefits to all former employees who have 25 years of continuous service, regardless of age, or who have 10 years of continuous service and are age 60. Such benefits are available to spouses or dependents of retiree until the spouse and / or other dependent attains Medicare eligibility.

Funding Policy. The City pays for postemployment healthcare benefits on a pay-as-you-go basis. The City is studying the establishment of trusts that would be used to accumulate and invest assets necessary to pay for the accumulated liability. These financial statements assume that pay-as-you-go funding will continue.

Contributions. The City contributed \$567,960 to the OPEB Health Care Plan in fiscal year 2016. The annual required contribution amount is determined using actuarial methods and assumptions approved by the Commission. The Council establishes and may amend the funding policy for the OPEB Health Care Plan.

Annual OPEB Cost and Net OPEB Obligation. The City’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following table illustrates the components of the City’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City’s net OPEB obligation:

Annual required contribution	\$ 663,586
Interest on net OPEB obligation	171,918
Net OPEB obligation adjustment	<u>(413,727)</u>
Annual OPEB cost	421,777
Employer contributions	<u>(567,960)</u>
Decrease in net OPEB obligation	(146,183)
Net OPEB obligation, September 30, 2015	<u>4,783,974</u>
Net OPEB obligation, September 30, 2016	<u>\$ 4,637,791</u>

(Continued)

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

City of Anniston OPEB Health Care Plan – Primary Government (Continued)

Membership. The following schedule (derived from the most recent actuarial valuation report) reflects membership for the OPEB Health Care Plan as of October 1, 2015:

Active members	356
Retired members	<u>85</u>
Total	<u><u>441</u></u>

The City’s Annual OPEB Cost, percentage of OPEB Cost contributed, and Net OPEB obligation for the current year and each of the preceding years were as follows:

Fiscal Year Ended September 30,	Annual OPEB Cost	Actual OPEB Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2014	\$1,038,700	\$735,624	70.82%	\$4,519,227
2015	1,079,900	815,153	75.48%	4,783,974
2016	421,777	567,960	134.66%	4,637,791

Funding Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Funded Ratio (1)/(2)	Unfunded (1)-(2)	Annual Covered Payroll	Percentage of Covered Payroll
10/1/2011	-	\$ 13,679,400	0.0%	(\$13,679,400)	-	0.0%
10/1/2013	-	11,827,100	0.0%	(11,827,100)	-	0.0%
10/1/2015	-	5,515,010	0.0%	(5,515,019)	\$ 14,954,209	0.0%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the plan in effect at October 1, 2013. The assumptions used in the October 1, 2013 actuarial valuation are as follows:

Cost Method	Projected Unit Credit
Actuarial Asset Valuation Method	Market Value of Assets
Assumed Rate of Return on Investments	4.00%
Medical Cost Trend Rate	8.00%
Ultimate Medical Cost Trend Rate	8.00-5.00%
Year of Ultimate Trend Rate	2018
Amortization Method	Level dollar, closed
Remaining Amortization Period	30 years
Payroll Inflation Rate	2.50%

The schedule of funding progress, presented as RSI following the notes to the financial statements, is to present 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.

(Continued)

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Anniston City Board of Education – Discretely-Presented Component Unit

The Board contributes to the Alabama Retired Education Employee’s Health Care Trust (the “Plan”), a cost-sharing multiple-employer defined benefit OPEB plan established in 2007 under the provisions of Act 2007-16 as an irrevocable trust fund. The Plan is administered by members of the Public Education Employees’ Health Insurance Board (the PEEHIB). The Plan provides health care benefits to state and local school system retirees. *Code of Alabama 1975, Section 16-25A-4* provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the Plan. The Plan issues a stand-alone financial report that may be obtained on the PEEHIP website at <http://www.rsa-al.gov> under the Employer’s Financial Reports section. The Plan’s financial report for FY 2016 will be available at the end of January 2017.

Code of Alabama 1975, Section 16-25A-8 provides the PEEHIB explicit authority to set the contribution requirements for plan members and employers. The employer’s share of premiums for retired Board employee’s health insurance is included as part of the premium for active employees and is funded on a pay-as-you-go basis. The annual required contribution for the Board as determined by the Alabama legislature and the percentage of the required contribution paid by the Board for the last three years was as follows:

Fiscal Year Ended September 30,	Annual Required Contribution (ARC)	Percentage of ARC Contributed by the Board
2014	\$ 705,725	100%
2015	607,106	100%
2016	700,479	100%

The Board has no responsibility for the payment of health care benefits, beyond the payment of the premium, for retired employees.

Required monthly contribution rates for plan members for the year ended September 30, 2016 are as follows:

Retired Member Rates

Individual coverage/non-Medicare eligible	\$ 151
Family coverage/non-Medicare eligible retired member and non-Medicare eligible dependent(s)	391
Family coverage/non-Medicare eligible retired member and non-Medicare eligible dependent(s) with non-Medicare eligible spouse	416
Family coverage/non-Medicare eligible retired member and dependent Medicare eligible	250
Family coverage/non-Medicare eligible retired member and spouse dependent Medicare eligible	260
Individual coverage/Medicare eligible retired member	10
Family coverage/Medicare eligible retired member and non-Medicare eligible dependent(s) – no spouse	250
Family coverage/Medicare eligible retired member and non-Medicare eligible dependent(s) – with non-Medicare eligible spouse	275
Family coverage/Medicare eligible retired member and non-spousal Dependent Medicare eligible	109

(Continued)

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Anniston City Board of Education – Discretely-Presented Component Unit (Continued)

Family coverage/Medicare eligible retired member and spousal dependent Medicare eligible	\$ 119
Tobacco surcharge	50
PEEHIP Supplemental Plan	-

Optional plans (hospital indemnity, cancer, dental, vision) – up to two optional plans can be taken at no cost if the retiree is also not enrolled in one of the hospital medical plans. Otherwise, retirees can purchase the optional plans at the normal monthly rate of \$38 or \$50 for family dental.

For members who retired on or after October 1, 2005, and before January 1, 2012, pay two percent of the employer premium for each year under 25 years of service, and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium.

Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. Additionally, non-Medicare eligible employees who retire on or after January 1, 2012 are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies. However, the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a five-year period.

Surviving Spouse Rates

Surviving spouse non-Medicare eligible	\$ 740
Surviving spouse non-Medicare eligible and dependent non-Medicare eligible	987
Surviving spouse non-Medicare eligible and dependent Medicare eligible	1,033
Surviving spouse Medicare eligible	425
Surviving spouse Medicare eligible and dependent non-Medicare eligible	679
Surviving spouse Medicare eligible and dependent Medicare eligible	725
Individual coverage/non-Medicare eligible	151

NOTE 10 – RESTRICTIONS AND CONTINGENCIES

Grant Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

Other Contingencies

The City is a defendant in various litigations of which legal counsel and City management are of the opinion that none will have a material adverse effect on the financial statements of the City. These actions include both asserted and unasserted claims. The City's legal counsel has advised that damages on any asserted claims, should an unfavorable judgment be reached, will be within the limits of the City's insurance coverage and therefore should not impact upon municipal assets. The City's maximum liability is estimated to be from \$10,000 up to \$100,000 insurance deductible for claims. No accrual has been included in these financial statements for this matter.

NOTE 11 – RISK MANAGEMENT AND LITIGATION

The City is exposed to various risks of loss related to torts, theft, errors and omissions, job-related illnesses and injuries, and natural disasters. 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 those losses. The liability, if any, for this contingency is measured in accordance with Financial Accounting Standards Boards (FASB) Statement No. 5. Expenses are recognized when incurred and offsetting revenues are recorded as a reduction against the applicable expenditure. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Prior to November 1, 2015, the City retained insurance coverage under the following brokers and providers: Municipal Workers Compensation Fund, Inc. (MCWF) for workers' compensation insurance, Alabama Municipal Insurance Corporation (AMIC) for liability insurance, and Insurance Planning Services (IPS) for property insurance.

Effective November 1, 2014, the City of Anniston was granted authorization by the State of Alabama Department of Labor to operate as a self-insurer under the Alabama Workers' Compensation Law and terminated coverage with MCWF on March 15, 2015.

NOTE 12 – DEFERRED COMPENSATION PLAN

Employees are also eligible to participate in the PEIRAF Deferred Compensation Plan of the Retirement Systems of Alabama. Employees may defer a portion of their pre-tax compensation into this plan and are eligible to remove the proceeds at retirement. The City does not contribute to this plan.

NOTE 13 – RELATED PARTY TRANSACTIONS

Jay Jenkins, City of Anniston Council Member, is a partner at Munroe + Jenkins Architects, LLC (the "Firm"). Mr. Jenkins was appointed to City Council in 2011 to fill a vacant seat. He won a full term in 2012. The Department of Museum Operations was created in March 2014 by the City of Anniston (the "City"). This department is responsible for operating and maintaining the Anniston Museum of Natural History, the Berman Museum, and the Longleaf Botanical Gardens (the "Gardens").

The Museum first retained the Firm in 2010, prior to Mr. Jenkins appointment to the City Council, to provide master planning services. The Firm also assisted the Museum with subsequent phases by securing mechanical and electrical engineers to design the fire sprinkler system, fire alarm system, and new lighting at no charge. In an effort to save time and money, the Museum approached the Firm in May of 2014 to provide architectural services for bathroom renovations at the Gardens as a continuation of the master planning services. Prior to agreeing to perform the services, the Firm contacted and received approval from the State of Alabama Ethics Commission.

The fee for this project is 8% of the construction contract. Mayor and Council approved the construction contract of \$213,987, making the Firm's fee \$17,119. Council member Jenkins recused himself from the vote. There are no outstanding contracts as of September 30, 2016.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to the balance sheet date through the date of the auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any items requiring recognition or disclosure.

CITY OF ANNISTON, ALABAMA

**SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
EMPLOYMENT RETIREMENT SYSTEM OF ALABAMA
Last 10 Fiscal Years**

	2015	2014
Total pension liability		
Service cost	\$ 644,393	\$ 645,593
Interest	2,203,091	2,129,802
Differences between expected and actual experience	1,980,336	-
Changes of assumptions	-	-
Benefit payments, including refund of member contributions	(1,936,258)	(1,782,300)
Net change in total pension liability	<u>2,891,562</u>	<u>993,095</u>
Total pension liability - beginning	<u>28,506,764</u>	<u>27,513,669</u>
Total pension liability - ending (a)	<u><u>\$ 31,398,326</u></u>	<u><u>\$ 28,506,764</u></u>
Plan fiduciary net position		
Contributions - employer	\$ 517,085	\$ 541,741
Contributions - member	538,724	564,320
Net investment income	250,689	2,377,530
Benefit payments, including refund of member contributions	(1,936,258)	(1,782,300)
Transfers among employers	(597,870)	30,637
Net change in plan fiduciary net position	<u>(1,227,630)</u>	<u>1,731,928</u>
Plan fiduciary net position - beginning	<u>21,869,836</u>	<u>20,137,908</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 20,642,206</u></u>	<u><u>\$ 21,869,836</u></u>
Net pension liability - ending (a) - (b)	<u><u>\$ 10,756,120</u></u>	<u><u>\$ 6,636,928</u></u>
Plan fiduciary net position as a percentage of the total pension liability	65.74%	76.72%
Covered employee payroll	\$ 7,258,581	\$ 7,231,287
Net pension liability as a percentage of covered employee payroll	148.18%	91.78%

Notes to Schedule:

This schedule will present 10 years as information is available.

CITY OF ANNISTON, ALABAMA

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
 POLICEMEN AND FIREMEN'S RETIREMENT FUND
 Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Service cost	\$ 2,886,593	\$ 2,864,088	\$ 1,105,270
Interest	4,081,057	4,037,240	5,054,431
Changes of benefit terms	-	51,201	131,764
Differences between expected and actual experience	(295,284)	769,346	248,886
Changes of assumptions	7,957,056	2,091,185	43,617,061
Benefit payments, including refund of member contributions	(5,091,540)	(4,688,577)	(4,428,334)
Net change in total pension liability	<u>9,537,882</u>	<u>5,124,483</u>	<u>45,729,078</u>
Total pension liability - beginning	<u>115,142,845</u>	<u>110,018,362</u>	<u>64,289,284</u>
Total pension liability - ending (a)	<u>\$ 124,680,727</u>	<u>\$ 115,142,845</u>	<u>\$ 110,018,362</u>
Plan fiduciary net position			
Contributions - employer	\$ 3,431,035	\$ 3,332,850	\$ 3,067,464
Contributions - member	1,048,607	1,063,270	1,122,594
Net investment income	2,551,226	564,957	2,720,956
Benefit payments, including refund of member contributions	(5,091,540)	(4,688,577)	(4,428,334)
Administrative expense	(199,247)	(195,238)	(132,727)
Other	-	-	-
Net change in plan fiduciary net position	<u>1,740,081</u>	<u>77,262</u>	<u>2,349,953</u>
Plan fiduciary net position - beginning	<u>26,317,728</u>	<u>26,240,466</u>	<u>23,890,513</u>
Plan fiduciary net position - ending (b)	<u>\$ 28,057,809</u>	<u>\$ 26,317,728</u>	<u>\$ 26,240,466</u>
Net pension liability - ending (a) - (b)	<u>\$ 96,622,918</u>	<u>\$ 88,825,117</u>	<u>\$ 83,777,896</u>
Plan fiduciary net position as a percentage of the total pension liability	22.50%	22.86%	23.85%
Covered employee payroll	\$ 7,490,050	\$ 7,594,786	\$ 8,018,529
Net pension liability as a percentage of covered employee payroll	1290.02%	1169.55%	1044.80%

Notes to Schedule:

Benefit changes. None.

Changes in assumptions. None.

This schedule will present 10 years as information is available.

CITY OF ANNISTON, ALABAMA

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
EMPLOYMENT RETIREMENT SYSTEM OF ALABAMA
Last 10 Calendar Years**

	2016	2015
Actuarially determined contribution	\$ 558,928	\$ 542,490
Contributions in relation to the actuarially determined contribution	558,928	542,490
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 7,482,303	\$ 7,258,581
Contributions as a percentage of covered-employee payroll	7.47%	7.47%

Notes to Schedule:

Valuation date:

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.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	29 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 will present 10 years as information is available.

CITY OF ANNISTON, ALABAMA

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
POLICEMEN AND FIREMEN'S RETIREMENT FUND
Last 10 Fiscal Years**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 9,641,839	\$ 9,811,904	\$ 9,930,690	\$ 9,738,007	\$ 8,797,577	\$ 8,065,253	\$ 5,883,520	\$ 4,119,320	\$ 1,917,333	\$ 1,236,124
Contributions in relation to the actuarially determined contribution	3,431,035	3,332,850	3,067,464	2,738,006	1,184,715	1,212,363	1,233,630	1,207,937	1,099,448	1,072,762
Contribution deficiency (excess)	<u>\$ 6,210,804</u>	<u>\$ 6,479,054</u>	<u>\$ 6,863,226</u>	<u>\$ 7,000,001</u>	<u>\$ 7,612,862</u>	<u>\$ 6,852,890</u>	<u>\$ 4,649,890</u>	<u>\$ 2,911,383</u>	<u>\$ 817,885</u>	<u>\$ 163,362</u>
Covered employee payroll	\$ 7,490,050	\$ 7,594,786	\$ 8,018,529	\$ 7,729,129	\$ 7,652,450	\$ 7,666,590	\$ 7,823,830	\$ 7,572,280	\$ 6,775,030	\$ 6,645,830
Contributions as a percentage of covered-employee payroll	45.81%	43.88%	38.25%	35.42%	15.48%	15.81%	15.77%	15.95%	16.23%	16.14%

Notes to Schedule:

The actuarially determined contribution includes the total funding deficiency in each year. Each year's contribution deficiency includes the non-payment of deficiency in prior years.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar, closed
Remaining amortization period	30 years for each new base
Asset valuation method	Market value
Inflation	3.0%
Salary increases	5.5%, including inflation
Investment rate of return	8.0% net of investment and administrative expenses, including inflation
Retirement age	See "Description of Assumptions and Methods" for the assumed retirement age assumption
Mortality	Mortality is assumed under the RP 200 Blue Collar Mortality Table (set forward 10 years for disabled members) with mortality improvements assumed using Scale AA projected from 2000 to the valuation year.

CITY OF ANNISTON, ALABAMA

SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
 CITY OF ANNISTON OPEB HEALTH CARE PLAN
 SCHEDULE OF FUNDING PROGRESS

September 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (b)	Unfunded Liability (UAL) (c)	Normal Cost (d)	Funded Ratio (a)/(b)	Covered Payroll (d)	UAL % of Payroll [(b)-(a)/(d)]
Other Postemployment Benefit Plan							
October 1, 2011	\$ -	\$ 13,679,400	\$ 13,679,400	\$ 649,800	0%	\$ -	0%
October 1, 2013	-	11,827,100	11,827,100	535,600	0%	-	0%
October 1, 2015	-	5,515,010	5,515,010	173,751	0%	14,954,209	0%

CITY OF ANNISTON, ALABAMA

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
CITY OF ANNISTON OPEB HEALTH CARE PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

September 30, 2016

<u>Post-employment Benefits</u>				
<u>FYE</u> <u>September 30,</u>	<u>Actuarial</u> <u>Valuation Date</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Employer</u> <u>Contribution</u>	<u>% Contributed</u>
2012	10/1/2011	\$ 1,232,200	\$ 397,917	32.3%
2013	10/1/2011	1,296,400	512,332	39.5%
2014	10/1/2013	1,038,700	735,624	70.8%
2015	10/1/2013	1,079,900	815,153	75.5%
2016	10/1/2015	421,777	567,960	134.7%

Note: See assumptions used for these schedules disclosed in the notes to financial statements.

OTHER SUPPLEMENTARY INFORMATION

CITY OF ANNISTON, ALABAMA

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

September 30, 2016

	Special Revenue				
	Anniston Museum of Natural History	Berman Museum of World History	Lingleaf Botanical Gardens	Corrections	Federal Seized Assets
ASSETS					
Cash and cash equivalents	\$ 179,957	\$ -	\$ -	\$ 408,217	\$ 21,038
Investments	75,000	-	-	267,545	-
Receivables, net of allowance:					
Accounts receivables	6,722	11,532	-	1,004	-
Notes	-	-	-	-	-
Due from other funds	21,534	-	11,666	6,202	-
Due from other governments	25,000	-	-	-	-
Total assets	<u>\$ 308,213</u>	<u>\$ 11,532</u>	<u>\$ 11,666</u>	<u>\$ 682,968</u>	<u>\$ 21,038</u>
LIABILITIES					
Accounts payable	\$ 13,577	\$ 14,428	\$ 7,449	\$ -	\$ -
Accrued liabilities	-	-	-	-	-
Other payables	-	-	-	-	-
Due to other funds	91,771	10,566	13,121	-	-
Total liabilities	<u>105,348</u>	<u>24,994</u>	<u>20,570</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - loans	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted for:					
Capital projects	-	-	-	-	-
Judicial	-	-	-	-	-
Public safety	-	-	-	682,968	21,038
Road improvements	-	-	-	-	-
Culture and recreation	202,865	-	-	-	-
Economic and industrial development	-	-	-	-	-
Housing and development	-	-	-	-	-
Unassigned	-	(13,462)	(8,904)	-	-
Total fund balances	<u>202,865</u>	<u>(13,462)</u>	<u>(8,904)</u>	<u>682,968</u>	<u>21,038</u>
Total liabilities, deferred inflows of resources, fund balances	<u>\$ 308,213</u>	<u>\$ 11,532</u>	<u>\$ 11,666</u>	<u>\$ 682,968</u>	<u>\$ 21,038</u>

Special Revenue

State Seized Assets	Alabama Trust Fund	Public Safety Grant	Bulletproof Vest Grant	Airport Wildlife	Gasoline Tax	Seven Cents Gasoline Tax	Multiple Grants
\$ 15,700	\$ 110,088	\$ -	\$ -	\$ -	\$ 10,752	\$ 48,629	\$ -
-	-	-	-	-	-	-	-
-	-	38	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	27,734	-	-	-	-	-
-	-	-	4,927	67,109	6,129	7,277	369,673
<u>\$ 15,700</u>	<u>\$ 110,088</u>	<u>\$ 27,772</u>	<u>\$ 4,927</u>	<u>\$ 67,109</u>	<u>\$ 16,881</u>	<u>\$ 55,906</u>	<u>\$ 369,673</u>
\$ -	\$ 9,612	\$ -	\$ 503	\$ 4,834	\$ -	\$ -	\$ 155,544
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
13,895	100,964	-	7,641	38,268	72,788	-	230,564
<u>13,895</u>	<u>110,576</u>	<u>-</u>	<u>8,144</u>	<u>43,102</u>	<u>72,788</u>	<u>-</u>	<u>386,108</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,805	-	27,772	-	-	-	-	-
-	-	-	-	-	-	55,906	-
-	-	-	-	24,007	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	(488)	-	(3,217)	-	(55,907)	-	(16,435)
<u>1,805</u>	<u>(488)</u>	<u>27,772</u>	<u>(3,217)</u>	<u>24,007</u>	<u>(55,907)</u>	<u>55,906</u>	<u>(16,435)</u>
<u>\$ 15,700</u>	<u>\$ 110,088</u>	<u>\$ 27,772</u>	<u>\$ 4,927</u>	<u>\$ 67,109</u>	<u>\$ 16,881</u>	<u>\$ 55,906</u>	<u>\$ 369,673</u>

CITY OF ANNISTON, ALABAMA

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

September 30, 2016

	Special Revenue				
	JAG 2013 Grant	JAG 2014 Grant	City Court Operations	Special Drug Task Force	Special Drug Task Force Office
ASSETS					
Cash and cash equivalents	\$ 3,023	\$ 1,498	\$ 148,227	\$ -	\$ 780,220
Investments	-	-	-	-	-
Receivables, net of allowance					
Accounts receivables	-	-	403	-	-
Notes	-	-	-	-	-
Due from other funds	14,956	-	-	239,037	-
Due from other governments	-	-	-	-	-
Total assets	<u>\$ 17,979</u>	<u>\$ 1,498</u>	<u>\$ 148,630</u>	<u>\$ 239,037</u>	<u>\$ 780,220</u>
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-	-
Other payables	-	-	74,552	-	168,207
Due to other funds	-	1,476	39,449	470,795	239,037
Total liabilities	<u>-</u>	<u>1,476</u>	<u>114,001</u>	<u>470,795</u>	<u>407,244</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - loans	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted for:					
Capital projects	-	-	-	-	-
Judicial	-	-	34,629	-	-
Public safety	17,979	22	-	-	372,976
Road improvements	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Economic and industrial development	-	-	-	-	-
Housing and development	-	-	-	-	-
Unassigned	-	-	-	(231,758)	-
Total fund balances	<u>17,979</u>	<u>22</u>	<u>34,629</u>	<u>(231,758)</u>	<u>372,976</u>
Total liabilities, deferred inflows of resources, fund balances	<u>\$ 17,979</u>	<u>\$ 1,498</u>	<u>\$ 148,630</u>	<u>\$ 239,037</u>	<u>\$ 780,220</u>

Special Revenue

Probation Office	Community Development Block Grant	UDAG Revolving Loan	Anniston Industrial Development Authority	Anniston Downtown Development Authority	Capital Improvement Projects	Debt Service	Total
\$ -	\$ 208	\$ 17,039	\$ 21,221	\$ 218,389	\$ -	\$ -	\$ 1,984,206
-	-	-	-	-	-	-	342,545
120	-	-	-	-	54,363	-	74,182
-	426,458	546,784	-	-	-	-	973,242
145	53,094	-	-	-	2,382	-	376,750
-	24,179	-	-	-	-	-	504,294
<u>\$ 265</u>	<u>\$ 503,939</u>	<u>\$ 563,823</u>	<u>\$ 21,221</u>	<u>\$ 218,389</u>	<u>\$ 56,745</u>	<u>\$ -</u>	<u>\$ 4,255,219</u>
\$ 403	\$ 117,719	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 324,069
-	521	-	-	-	-	-	521
-	-	-	-	-	-	-	242,759
-	22	342	-	-	54,363	-	1,385,062
<u>403</u>	<u>118,262</u>	<u>342</u>	<u>-</u>	<u>-</u>	<u>54,363</u>	<u>-</u>	<u>1,952,411</u>
-	426,449	-	-	-	-	-	426,449
-	426,449	-	-	-	-	-	426,449
-	-	-	-	-	2,382	-	2,382
-	-	-	-	-	-	-	34,629
-	-	-	-	-	-	-	1,124,560
-	-	-	-	-	-	-	55,906
-	-	-	-	-	-	-	226,872
-	-	-	21,221	218,389	-	-	239,610
-	-	563,481	-	-	-	-	563,481
<u>(138)</u>	<u>(40,772)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(371,081)</u>
<u>(138)</u>	<u>(40,772)</u>	<u>563,481</u>	<u>21,221</u>	<u>218,389</u>	<u>2,382</u>	<u>-</u>	<u>1,876,359</u>
<u>\$ 265</u>	<u>\$ 503,939</u>	<u>\$ 563,823</u>	<u>\$ 21,221</u>	<u>\$ 218,389</u>	<u>\$ 56,745</u>	<u>\$ -</u>	<u>\$ 4,255,219</u>

CITY OF ANNISTON, ALABAMA

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES**

Year ended September 30, 2016

	Special Revenue				
	Anniston Museum of Natural History	Berman Museum of World History	Longleaf Botanical Gardens	Corrections	Federal Seized Assets
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	57,585	13,965	-	305,298	-
Charges for services	175,991	27,734	4,432	-	-
Fines and forfeitures	-	-	-	-	-
Contributions and donations	56,223	9,747	870	-	-
Investment income	4,400	-	-	-	-
Other revenue	1,815	22,986	16,451	-	-
Total revenues	<u>296,014</u>	<u>74,432</u>	<u>21,753</u>	<u>305,298</u>	<u>-</u>
EXPENDITURES					
Current					
Judicial	-	-	-	-	-
Public safety	-	-	-	74	-
Public works	-	-	-	-	-
Economic development	-	-	-	-	-
Culture and recreation	676,437	194,440	111,948	-	-
Housing and development	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service -					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>676,437</u>	<u>194,440</u>	<u>111,948</u>	<u>74</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(380,423)</u>	<u>(120,008)</u>	<u>(90,195)</u>	<u>305,224</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)					
Loan proceeds	-	-	-	-	-
Transfers in	384,450	141,003	88,547	-	-
Transfers out	-	-	-	(607,739)	-
Total financing sources (uses)	<u>384,450</u>	<u>141,003</u>	<u>88,547</u>	<u>(607,739)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	4,027	20,995	(1,648)	(302,515)	-
Fund balance, beginning	<u>198,838</u>	<u>(34,457)</u>	<u>(7,256)</u>	<u>985,483</u>	<u>21,038</u>
Fund balance, ending	<u>\$ 202,865</u>	<u>\$ (13,462)</u>	<u>\$ (8,904)</u>	<u>\$ 682,968</u>	<u>\$ 21,038</u>

Special Revenue

State Seized Assets	Alabama Trust Fund	Public Safety Grant	Bulletproof Vest Grant	Airport Wildlife	Gasoline Tax	Seven Cents Gasoline Tax	Multiple Grants
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,426	\$ 73,891	\$ -
-	203,436	8,786	5,326	173,576	-	-	613,197
-	-	-	-	-	-	11,808	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	203,436	8,786	5,326	173,576	67,426	85,699	613,197
-	-	-	-	-	-	-	-
-	-	-	10,652	-	-	-	-
-	-	-	-	182,713	-	-	629,632
-	-	-	-	-	-	-	-
-	269,773	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	269,773	-	10,652	182,713	-	-	629,632
-	(66,337)	8,786	(5,326)	(9,137)	67,426	85,699	(16,435)
-	-	-	-	-	-	-	-
-	-	-	5,326	9,136	71,176	-	-
-	(50,000)	-	-	-	(64,000)	(81,500)	-
-	(50,000)	-	5,326	9,136	7,176	(81,500)	-
-	(116,337)	8,786	-	(1)	74,602	4,199	(16,435)
1,805	115,849	18,986	(3,217)	24,008	(130,509)	51,707	-
\$ 1,805	\$ (488)	\$ 27,772	\$ (3,217)	\$ 24,007	\$ (55,907)	\$ 55,906	\$ (16,435)

CITY OF ANNISTON, ALABAMA

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES**

	Special Revenue				
	JAG 2013 Grant	JAG 2014 Grant	City Court Operations	Special Drug Task Force	Special Drug Task Force Office
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	20,422	-	-	189,400	330,731
Charges for services	-	-	-	-	-
Fines and forfeitures	-	-	60,567	-	-
Contributions and donations	-	-	-	-	-
Investment income	-	-	-	-	792
Other revenue	-	-	-	-	-
Total revenues	<u>20,422</u>	<u>-</u>	<u>60,567</u>	<u>189,400</u>	<u>331,523</u>
EXPENDITURES					
Current					
Judicial	-	-	270	-	-
Public safety	-	-	-	482,682	94,559
Public works	-	-	-	-	-
Economic development	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Housing and development	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service -					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>270</u>	<u>482,682</u>	<u>94,559</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>20,422</u>	<u>-</u>	<u>60,297</u>	<u>(293,282)</u>	<u>236,964</u>
OTHER FINANCING SOURCES (USES)					
Loan proceeds	-	-	-	-	-
Transfers in	-	-	-	179,835	-
Transfers out	-	-	(151,360)	-	(104,835)
Total financing sources (uses)	<u>-</u>	<u>-</u>	<u>(151,360)</u>	<u>179,835</u>	<u>(104,835)</u>
NET CHANGE IN FUND BALANCES	20,422	-	(91,063)	(113,447)	132,129
Fund balance, beginning	<u>(2,443)</u>	<u>22</u>	<u>125,692</u>	<u>(118,311)</u>	<u>240,847</u>
Fund balance, ending	<u>\$ 17,979</u>	<u>\$ 22</u>	<u>\$ 34,629</u>	<u>\$ (231,758)</u>	<u>\$ 372,976</u>

Special Revenue

Probation Office	Community Development Block Grant	UDAG Revolving Loan	Anniston Industrial Development Authority	Anniston Downtown Development Authority	Capital Improvement Projects	Debt Service	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 141,317
-	492,471	-	60,000	-	54,364	-	2,528,557
10,558	-	-	-	-	-	-	230,523
-	-	-	-	-	-	-	60,567
-	-	-	-	-	-	-	66,840
-	1,056	389	-	22	-	9	6,668
-	2,230	-	30,344	575	-	-	74,401
<u>10,558</u>	<u>495,757</u>	<u>389</u>	<u>90,344</u>	<u>597</u>	<u>54,364</u>	<u>9</u>	<u>3,108,873</u>
129,542	-	-	-	-	-	-	129,812
-	-	-	-	-	-	-	587,967
-	-	-	-	-	-	-	812,345
-	-	-	83,999	32,184	-	-	116,183
-	-	-	-	-	-	-	1,252,598
-	571,139	-	-	-	-	-	571,139
-	-	-	-	-	836,037	-	836,037
-	-	-	-	-	260,000	188,502	448,502
-	-	-	-	-	233,834	22,335	256,169
<u>129,542</u>	<u>571,139</u>	<u>-</u>	<u>83,999</u>	<u>32,184</u>	<u>1,329,871</u>	<u>210,837</u>	<u>5,010,752</u>
<u>(118,984)</u>	<u>(75,382)</u>	<u>389</u>	<u>6,345</u>	<u>(31,587)</u>	<u>(1,275,507)</u>	<u>(210,828)</u>	<u>(1,901,879)</u>
-	-	-	-	-	701,983	-	701,983
118,846	-	-	-	-	914,987	210,837	2,124,143
-	-	-	-	-	(196,963)	(9)	(1,256,406)
<u>118,846</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,420,007</u>	<u>210,828</u>	<u>1,569,720</u>
(138)	(75,382)	389	6,345	(31,587)	144,500	-	(332,159)
-	34,610	563,092	14,876	249,976	(142,118)	-	2,208,518
<u>\$ (138)</u>	<u>\$ (40,772)</u>	<u>\$ 563,481</u>	<u>\$ 21,221</u>	<u>\$ 218,389</u>	<u>\$ 2,382</u>	<u>\$ -</u>	<u>\$ 1,876,359</u>

COMPLIANCE SECTION

CITY OF ANNISTON, ALABAMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Community Development Block Grant	14.218	N/A	\$ 571,118
HOME Investment Partnership Grant Program	14.239	N/A	<u>381,756</u>
Total U.S. Department of Housing and Urban Development			<u>952,874</u>
U.S. DEPARTMENT OF INTERIOR			
Passed through Alabama Historical Commission			
Historical Preservation Fund	15.904	N/A	<u>5,625</u>
Total U.S. Department of Transportation			<u>5,625</u>
U.S. DEPARTMENT OF JUSTICE			
Justice Assistance Grant 2015	16.738	N/A	20,423
Bulletproof Vest Partnership Program	16.607	N/A	10,653
U.S. Marshals	16.609	N/A	<u>11,498</u>
Total U.S. Department of Justice			<u>42,574</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Alabama Department of Economic and Community Affairs			
Rails to Trails - McClellan	20.219	N/A	100,000
Alabama Department of Transportation			
Airport Grant	20.106	N/A	<u>182,712</u>
Total U.S. Department of Transportation			<u>282,712</u>
U.S. DEPARTMENT OF AGRICULTURE			
Farmer's Market	10.168	N/A	<u>24,572</u>
Total Expenditures of Federal Awards - Primary Government			<u>\$ 1,308,357</u>

CITY OF ANNISTON, ALABAMA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2016

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Anniston, Alabama (the "City") under programs of the federal government for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniformed Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



CERTIFIED PUBLIC ACCOUNTANTS
CHATTANOOGA | MEMPHIS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, the aggregate discretely-presented component units, each major fund and the aggregate remaining fund information of the City of Anniston, Alabama (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 31, 2017. Our report includes a reference to other auditors who audited the financial statements of Anniston Board of Education, the Public Library of Anniston-Calhoun County, and the Anniston Museum Endowment Corporation, Inc., as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Chattanooga, Tennessee
July 31, 2017

Henderson Hutcherson
& McCullough, PLLC



CERTIFIED PUBLIC ACCOUNTANTS
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Anniston, Alabama's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2016. The City of Anniston, Alabama's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. The City's basic financial statements include the operations of Anniston Board of Education, which expended federal awards which are not included in the accompanying schedule of expenditures of federal awards during the year ended September 30, 2016. Our compliance audit, described below, did not include the operations of this entity because the entity engages another auditor to perform audits in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the City of Anniston's major federal program based on our audit of the types of compliance requirements referred to above.

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

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

Opinion on Compliance for Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

Chattanooga, Tennessee
July 31, 2017

*Henderson Hutcherson
& McCullough, PLLC*

CITY OF ANNISTON, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2016

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified: yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified: yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed under the Uniform Guidance? yes no

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

14.239

U.S. Department of Housing and Urban Development
HOME Investment Partnerships Program

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

Auditee qualified as low-risk auditee? yes no

CITY OF ANNISTON, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

CITY OF ANNISTON, ALABAMA

SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2016

None reported