

CITY OF MADISON, ALABAMA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

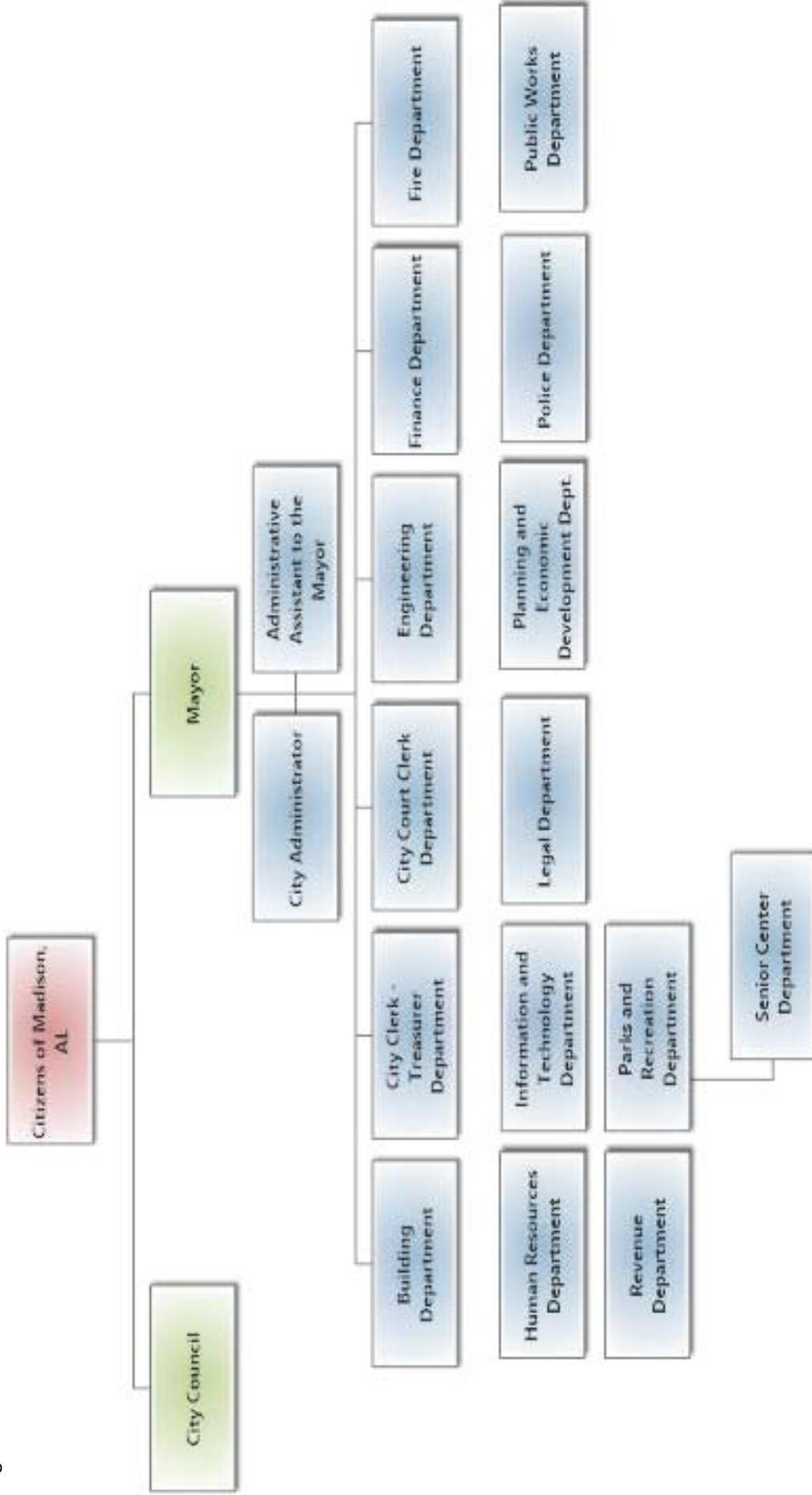


**CITY OF MADISON, ALABAMA
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City of Madison, Alabama

Organizational Structure



OFFICIALS OF THE CITY OF MADISON

MAYOR

Paul Finley

CITY COUNCIL

Tommy Overcash – President (District 5)

Maura Wroblewski	District 1
Steve Smith – Finance Committee Chairperson	District 2
Teddy Powell.....	District 3
Greg Shaw	District 4
Gerald Clark- President Pro Tempore.....	District 6
John Seifert.....	District 7

DEPARTMENT DIRECTORS

Police Chief	David Jernigan
Public Works Director	Kent Smith
City Clerk-Treasurer	Melanie Williard
Parks and Recreation Director.....	Kory Alfred
Fire Chief.....	David Bailey
Planning and Economic Development Director.....	Mary Beth Broeren
Municipal Court Clerk	Cheri Martin
Finance Director	Roger Bellomy
Human Resources Director	Terri Towry
Engineering Director.....	Gary Chynoweth
Revenue Officer and Director	Cameron Grounds
Information Technology Director.....	Jason Colee
City Attorney.....	Megan Zingarelli
Building Director	Dustin Riddle

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members
Of the City Council
City of Madison
Madison, Alabama

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Madison Board of Education or the financial statements of the Water and Wastewater Board of the City of Madison, discretely presented component units, which represent 99 percent, 99 percent, and 100 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Madison Board of Education and the Water and Wastewater Board of the City of Madison, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison, Alabama, as of September 30, 2017, and the respective changes in financial position for the then year 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, beginning on page 4, the budgetary comparison information, on pages 66 and 67, and the pension information, on pages 68 through 74 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 Madison, Alabama's basic financial statements. The combining financial statements and individual fund budgetary comparison schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018 on our consideration of the City of Madison's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Warren Averett, LLC

Warren Averett, LLC
Huntsville, Alabama

March 26, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the City of Madison (the City) offers readers of the City's financial statements this Management's Discussion and Analysis (MD&A), which provides a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017.

FINANCIAL HIGHLIGHTS

- Assets of the City of Madison exceeded its liabilities at the close of fiscal year 2017 by \$58,485,139 (net position). Of this amount, the City has a deficit unrestricted net position of (\$86,168,306) offset by \$27,723,820 in restricted net position and \$116,929,625 in net investment in capital assets.
- The City's total net position increased \$9,025,092 (18%) in fiscal year 2017. Page 6 of this MD&A offers a detailed explanation of this increase.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$42,005,712, an increase of \$2,471,402 compared to the prior year. The unassigned fund balance of the General Fund was \$13,800,988, which the City may use for any lawful purpose. The unassigned fund balance of the General fund represents 95 percent of the total General fund expenditures.
- The City's total capital assets (net of accumulated depreciation) increased \$8,715,614, which primarily consists of the acquisition of land, equipment, construction of infrastructure, facilities and construction in progress.
- The City's general obligation warrants decreased \$1,895,000. This decrease is due to continued principal reduction through schedule debt payments which exceed the difference in addition of the one new issuance of general obligation warrants in 2017, due to the majority of that issuance being related to refunding of existing debt. Page 11 of this report provides more detailed information on the changes in overall long-term liabilities.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. The focus of the statement of activities is to present the major program costs with the major matching resources. If the program costs are not recovered by grants and direct charges, the costs are paid from general taxes and other general revenues. This statement summarizes and simplifies the user's analysis to make a determination to which programs are self-supporting and/or subsidized by general revenues. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused vacation leave).

Both the government-wide financial statements distinguish functions of the City of Madison that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business type activities). The governmental activities of the City of Madison include general government, public safety, highways and streets, and parks and recreation. The City has no functions classified as business-type activities. The government-wide financial statements are found on pages 13-14 in this report.

The government-wide financial statements include not only the financial statements for the City of Madison (*primary government*), but also a legally separate school board, a legally separate utility board, and a legally separate cooperative tax district for which the City appoints the majority of the governing body. Financial information for these *component units* is reported separately from the financial information presented for the primary government. Refer to Note 1 regarding the availability of separately issued financial statements for the component units.

Fund Financial Statements

A *fund* is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City of Madison, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has all of its funds in one category: governmental funds.

Governmental Funds

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

Because the focus of governmental funds is, narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City of Madison maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, General Obligation Bond Collection Fund, School Bonds Fund, the Capital Improvement Fund, and the Debt Service Fund which are major funds. Data from the other thirteen (13) governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report, which is on pages 70-95 of this report.

The City of Madison adopted an annual appropriated budget for its general fund, general obligation debt collection fund and school bonds funds. A budgetary comparison schedule for the general fund, the general obligation bond collection fund, and the school bonds fund has been provided for these funds to demonstrate compliance with this budget and can be found on pages 66-68 of this report. The capital improvement fund budget was adopted by project, as a project was approved, Council would add the approved project to the list of projects funded by the remaining 2013 bond proceeds and the 2015 bond proceeds.

The basic governmental fund financial statements are on pages 15 through 16 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 20 - 64 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City of Madison's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information is on page 66 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

As noted earlier, net position, especially net position by category, may serve over time as a useful indicator of a government's financial position. At September 30, 2017, the City's net position was \$58,485,139 which increased by \$9,025,092 (18%) compared to prior fiscal year. This increase is a result of mainly two factors: (1) concentrated efforts to cut back expenses for each department and (2) revenues exceeding budgeted projected revenues due to continued development by large retailers and entertainment facilities which have significantly increased tax revenue across the board.

The following table reflects the Statement of Net Position compared to the prior year:

CITY OF MADISON'S NET POSITION

	Governmental Activities		
	September 30, 2017	September 30, 2016	Change
ASSETS			
Current and other asset	\$ 54,341,533	\$ 53,110,253	\$ 1,231,280
Capital Assets	195,866,570	187,150,956	8,715,614
Total assets	250,208,103	240,261,209	9,946,894
DEFERRED OUTFLOWS OF RESOURCES			
Pension related items	3,950,764	2,533,772	1,416,992
Unamortized loss on bond refunding	8,992,761	8,835,948	156,813
Total deferred outflows of resources	12,943,525	11,369,720	1,573,805
LIABILITIES			
Long-term liabilities outstanding	184,703,619	184,954,537	(250,918)
Net pension liability	13,762,594	11,928,288	1,834,306
Other liabilities	6,200,276	5,288,057	912,219
Total liabilities	204,666,489	202,170,882	2,495,607
DEFERRED INFLOWS OF RESOURCES			
Excess of actual earnings over projected earnings on pension plan investments	-	-	-
NET POSITION			
Net investment in capital assets	116,929,625	112,351,458	4,578,167
Restricted:			
Debt service	2,981	1,518,325	(1,515,344)
Capital Improvements	21,282,872	23,104,910	(1,822,038)
Other	6,437,967	2,869,999	3,567,968
Unrestricted (deficit)	(86,168,306)	(90,384,645)	4,216,339
Total net position	\$ 58,485,139	\$ 49,460,047	\$ 9,025,092

Capital assets increased \$8,715,614 (4.66%) due mainly to the purchase of equipment and the donation, by subdivisions, of streets and sidewalks to the City. Long-term liabilities outstanding decreased \$247,038 (0.13%) due to an overall reduction in general obligation warrants from principal payments and amounts transferred to escrow for refunding of existing debt exceeding the amount of the new warrants issued which were primarily for the purpose of debt refunding. By far, the largest portion of the City of Madison's net position is invested in capital assets (e.g. land, building, machinery and equipment), less any related outstanding debt, which was used to acquire the assets. Investments in capital assets at 2017 were \$116,929,625. The large negative unrestricted net position in fiscal year 2017 (\$87,505,705) is related to the debt the City issued for the benefit of the City and Madison City Board of Education, a component unit of the City of Madison. The City of Madison reports the debt on its books and Madison City Board of Education reports the assets on its books. The City has no legal ownership of the assets acquired through the issuance of debt for the benefit of Madison City School Board. This is a common financing practice in the State of Alabama.

Governmental Activities

Governmental activities increased the City of Madison's net position by \$7,687,693. Key elements of the increase are as follows:

- Acquisition of capital in the form of donated streets and sidewalks.
- Conservative efforts on behalf of the Department Heads and Finance Committee to control unnecessary spending.
- Revenue collections increasing due to infrastructure growth.

See the City of Madison's Changes in Net Position schedule on the next page for the condensed statement of activities.

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CITY OF MADISON'S CHANGES IN NET POSITION

	Governmental Activities		
	September 30, 2017	September 30, 2016	Change
REVENUES			
Program revenues:			
Charges for services	\$ 8,135,288	\$ 7,653,195	\$ 482,093
Operating grants and contributions	127,178	32,702	94,476
Capital grants and contributions	3,850,619	5,217,353	(1,366,734)
General revenues			
Property taxes and payemnts in lieu of taxes	17,194,232	16,016,598	1,177,634
Other taxes	26,324,390	23,479,086	2,845,304
Other revenue	310,290	635,066	(324,776)
Total revenues	<u>55,941,997</u>	<u>53,034,000</u>	<u>2,907,997</u>
EXPENSES			
General Services	4,022,149	4,848,883	(826,734)
Police	7,234,119	6,978,039	256,080
Public Works	6,308,528	7,411,072	(1,102,544)
City Clerk	362,283	420,348	(58,065)
Parks and Recreation	3,001,460	2,580,758	420,702
Fire	5,435,698	5,224,707	210,991
Planning and Economic Development	507,056	496,882	10,174
Municipal Court	1,138,928	1,072,466	66,462
City Council	130,258	126,618	3,640
Finance	598,215	572,938	25,277
Human Resources	4,352,429	4,011,259	341,170
Mayor's Office	336,608	182,119	154,489
Revenue	288,101	294,698	(6,597)
Engineering	2,059,074	1,910,025	149,049
Senior Center	388,656	305,514	83,142
Information Technology	584,937	534,207	50,730
Legal	349,451	455,645	(106,194)
Building	835,597	843,088	(7,491)
Interest on long-term debt	8,983,358	8,135,536	847,822
Total expenses	<u>46,916,905</u>	<u>46,404,802</u>	<u>512,103</u>
Increase (decrease) in net position	9,025,092	6,629,198	2,395,894
Net position - beginning of year	<u>49,460,047</u>	<u>42,830,849</u>	<u>6,629,198</u>
Net position - end of year	<u>\$ 58,485,139</u>	<u>\$ 49,460,047</u>	<u>\$ 9,025,092</u>

As discussed earlier, the City categorizes its governmental activities in the following programs: general government, public safety, highways and streets, and parks and recreation. All governmental programs utilize general revenue to support their functions. Various departments service the programs and the expenses for the services allocated to each department.

FINANCIAL ANALYSIS OF THE CITY'S GOVERNMENTAL FUNDS

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

Governmental Funds

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

At the end of the current fiscal year, the City of Madison's governmental funds reported combined ending fund balances of \$42,005,712, an increase of \$2,471,402 in comparison to the prior year. The amount of \$13,800,988 or 32.86% of the total fund balances constitutes unassigned fund balance, which is generally available for spending at the City's discretion, although it is subject to certain limitations inherent in the funds where the balances are retained. Of the remaining fund balance, \$477,388 are non-spendable for prepaid items, \$2,981 are restricted for debt service, \$21,282,872 are restricted for capital improvements, \$6,437,967 is other restricted, and \$3,516 is assigned fund balance to indicate that it is not available for new spending.

The General Fund is the chief operating fund of the City. At the end of fiscal year 2017, unassigned fund balance of the general fund was \$13,800,988, while the total fund balance was \$14,472,310. Unassigned general fund balance and total general fund balance represent 95.36 percent of the total general fund expenditures.

The General Fund's fund balance increased \$2,189,124 during the current fiscal year. Key factors in this increase are as follows:

- Revenue increased approximately 5.71% over the prior fiscal year (FY 2017).
- Expenditures were reduced by approximately 5.81% from the prior fiscal year (FY 2017).

At September 30, 2017, the general obligation bond collection fund had a fund balance of \$4,390,327 which represents an increase of \$3,130,450 or 248.47%. This increase is mainly due to the timing of transfers of earmarked funds collected in this fund that are used first to pay timely bond payments with any remaining balance being able to be transferred to the General Fund to pay operating expenses. The fund balance is restricted for use of the 5 ½ mill property taxes and a portion of the ½-cent sales tax for general obligation debt service requirements (payments of principal and interest).

At September 30, 2017, the school bonds fund had a fund balance of \$2,981. This fund balance represents a decrease of \$13,028, which is directly related to the difference in debt payments and property taxes collected and interest income earned on the cash accounts with fiscal agent in the fund. The fund balance is restricted for debt service requirements (payments of principal and interest).

At September 30, 2017, the capital improvement fund had a fund balance of \$17,244,371, which represents a decrease of \$3,384,004. This decrease is directly related to the expenditures of funds on capital improvement projects.

At September 30, 2017, the debt service fund had a fund balance of \$1,507,038, which represents a decrease of \$4,722.

General Fund Budgetary Highlights

During the year, the appropriations between the original and final amended budget increased \$328,957. The final amended General Fund budget increase included a three percent (3%) cost of living increase for all employees, over \$1,000,000 in road repairs and maintenance and \$1,000,000 for four (4) traffic light installations. At the end of the fiscal year, actual expenditures were under budget by \$5,419,014 or 15.8%. Several factors contributed to coming in under budget: (1) conservative spending by departments, (2) Finance Committee closely monitoring expenditures, installation of traffic signals delayed to next fiscal year and (4) delay in filling vacant positions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Madison's investment in capital assets for its governmental activities as of September 30, 2017, amounts to \$195,866,570 (net of accumulated depreciation). This investment in capital assets includes land, improvements to land, land improvements, buildings, improvements to buildings, improvements other than buildings, machinery and equipment, infrastructure (streets, sidewalks, drainage improvements and bridges), and construction in progress. The total increase in the City's investment in capital assets for the governmental activities was \$8,715,614 or 4.65% for 2017.

Major capital asset events during the current fiscal year included the following:

- Continued construction of the new library facility.
- Purchases of several vehicles, a firetruck, and various heavy material machinery.
- Construction has begun on various other streets, roads and bridges.

CITY OF MADISON'S CAPITAL ASSETS (Net of depreciation)

	Governmental Activities		
	September 30, 2017	September 30, 2016	Change
Land	\$ 35,981,831	\$ 34,515,331	\$ 1,466,500
Improvements to land	82,282	87,562	(5,280)
Buildings	7,838,158	8,159,546	(321,388)
Building improvements	2,701,867	2,930,278	(228,411)
Improvements other than buildings	1,335,957	1,505,477	(169,520)
Machinery and equipment	6,038,701	5,345,846	692,855
Infrastructure	124,743,252	120,817,939	3,925,313
Other	3,405	1,337,357	(1,333,952)
Construction in progress	17,141,117	12,451,620	4,689,497
	<u>\$ 195,866,570</u>	<u>\$ 187,150,956</u>	<u>\$ 8,715,614</u>

Additional information on the City's capital assets can be found in Note 4 on pages 34 - 37 of this report.

Long-Term Debt

At the end of the current fiscal year, the City of Madison had total outstanding debt of \$184,883,739. Of this amount, \$183,604,761 was comprised of the general obligation warrants backed by the full faith and credit of the City, \$870,648 was comprised of employees' compensated absences balance, and \$408,330 was comprised of the liability for other postemployment benefits.

Changes in debt outstanding are as follows

	Governmental Activities		
	September 30, 2017	September 30, 2016	Change
Governmental Activities			
Compensated absences	\$ 870,648	\$ 969,528	\$ (98,880)
Other post-employment benefits	408,330	365,565	42,765
General obligation warrants	173,320,000	175,215,000	(1,895,000)
Plus deferred amounts for:			
Issuance premiums, net	10,284,761	8,580,684	1,704,077
	<u>\$ 184,883,739</u>	<u>\$ 185,130,777</u>	<u>\$ (247,038)</u>

The City of Madison's total debt increased \$1,587,268 or .81% during fiscal year 2017.

Other than debt paid from proprietary fund revenue sources (e.g. sewer debt and revenue bonds), State of Alabama law limits the amount of general obligation debt cities can issue for purposes other than schools and waterworks and sewers to twenty percent of the assessed value of real and personal property. Of the \$173,320,000 outstanding, the amount of \$85,865,000 is outstanding general obligation school warrants, which is not chargeable against the allowable debt limit. As of September 30, 2017, the City's allowable debt limit was \$119,470,188. The City's debt applicable to the limit was \$90,455,000 at September 30, 2017.

The City of Madison maintains a rating of "AA+ with a stable outlook" from Standards & Poor's and a rating of Aa2 from Moody's Investors Service for general obligation debt.

Additional information on the City's long-term debt is in Note 4 on pages 39 - 45 of this report.

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

With the adoption of the fiscal year (FY) 2018 budget, the following items were funded:

- \$300,000 in storm water control
- \$1,250,000 for the installation of five (5) traffic signals
- Over \$1,400,000 in capital outlay for various equipment needed by the City's departments
- \$715,000 in neighborhood street paving
- \$100,000 in ADA compliance
- \$625,000 in collector road repairs
- Three percent (3%) step-raise for employees on anniversary date
- No reduction in services

Expenditures in the City's FY 2018 General Fund were increased by \$1,371,308 or 3.88% over FY 2017 expenditures. Revenues were increased by \$1,301,688 or 4.06%. The FY 2018 General Fund's fund balance is expected to be approximately \$9,685,231 or about 30% of Total Revenues and Other Financing Sources, which exceeds the 15% requirement of the City fiscal policy.

Request for Information

This financial report is designed to provide a general overview of the City of Madison's finances for all those with an interest in the City. Address all questions concerning any of the information provided in this report or requests for additional financial information to the Finance Department, 100 Hughes Road, City of Madison, Alabama, 35758. The City's telephone number is (256) 772-5600. Readers may obtain updated financial information on the City's website at www.madisonal.gov.

BASIC FINANCIAL STATEMENTS

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

	Primary Government	Component Units		
	Governmental Activities	The Water and Wastewater Board	Madison City Board of Education	Town Madison Cooperative District
ASSETS				
Cash and cash equivalents	\$ 38,022,450	\$ 11,965,698	\$ 34,447,064	\$ 3
Cash with fiscal agent	1,510,019	-	12,427,298	-
Investments	-	-	163,053	-
Receivables, (net of allowances):				
Taxes	13,587,151	-	2,488,828	-
Accounts	744,525	1,406,839	-	-
Other	-	4,484	-	-
Due from governmental entities	-	-	-	-
Inventories	-	507,277	176,620	-
Prepaid items	477,388	64,798	-	-
Other	-	49,586,852	6,107	-
Unamortized bond issue costs, net	-	915,246	-	-
Capital Assets:				
Land, collections and construction in process	53,122,948	24,171,331	9,086,093	11,626,340
Other assets, net of accumulated depreciation	142,743,622	177,479,320	161,069,121	-
	<u>250,208,103</u>	<u>266,101,845</u>	<u>219,864,184</u>	<u>11,626,343</u>
DEFERRED OUTFLOWS OF RESOURCES				
Loss on refunding of debt	8,992,761	1,859,773	143,045	-
Contributions to pension plan subsequent to plan measurement date	1,305,976	-	6,172,727	-
Earnings on pension plan investments	2,644,788	-	-	-
Proportionate share of collective deferred outflows related to net pension liability	-	882,469	11,157,000	-
	<u>12,943,525</u>	<u>2,742,242</u>	<u>17,472,772</u>	<u>-</u>
LIABILITIES				
Accounts payable	2,491,549	1,220,262	1,705,301	1,372,207
Accrued liabilities	332,489	12,285	7,779,716	-
Interest payable	2,776,889	1,644,534	-	797,888
Retainage payable	-	61,100	-	146,998
Due to component unit	520,191	-	-	-
Due to governmental activities	-	-	-	-
Customer deposits	79,158	-	-	-
Unearned revenue	-	-	331,225	-
Noncurrent liabilities:				
Net pension liability	13,762,594	3,416,084	84,153,000	-
Due within one year	4,730,865	3,532,000	1,614,779	275,000
Due in more than one year	179,972,754	126,852,256	52,169,027	9,319,412
	<u>204,666,489</u>	<u>136,738,521</u>	<u>147,753,048</u>	<u>11,911,505</u>
DEFERRED INFLOWS OF RESOURCES				
Proportionate share of collective deferred inflows related to net pension liability	-	13,847	2,167,000	-
	<u>-</u>	<u>13,847</u>	<u>2,167,000</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	116,929,625	105,550,039	116,964,463	2,031,928
Restricted:				
Debt service	2,981	10,907,730	17,223,009	-
Capital Improvements	21,282,872	31,868,096	-	-
Other	6,437,967	42,881	6,776,201	-
Unrestricted (deficit)	(86,168,306)	(16,277,027)	(53,546,765)	(2,317,090)
	<u>\$ 58,485,139</u>	<u>\$ 132,091,719</u>	<u>\$ 87,416,908</u>	<u>\$ (285,162)</u>

The accompanying notes are an integral part of this statement

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

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government	Component Units		
					Governmental Activities	The Water and Wastewater Board	Madison City Board of Education	Town Madison Cooperative District
PRIMARY GOVERNMENT								
GOVERNMENTAL ACTIVITIES								
General Services	\$ 4,022,149	\$ 5,868,131	\$ 79,579	\$ -	\$ 1,925,561	\$ -	\$ -	\$ -
Police	7,234,119	785,451	12,757	-	(6,435,911)	-	-	-
Public Works	6,308,528	1,100,249	-	3,850,619	(1,357,660)	-	-	-
City clerk	362,283	-	-	-	(362,283)	-	-	-
Parks and Recreation	3,001,460	381,457	7,570	-	(2,612,433)	-	-	-
Fire	5,435,698	-	27,272	-	(5,408,426)	-	-	-
Planning and Economic Development	507,056	-	-	-	(507,056)	-	-	-
Municipal Court	1,138,928	-	-	-	(1,138,928)	-	-	-
City Council	130,258	-	-	-	(130,258)	-	-	-
Finance	598,215	-	-	-	(598,215)	-	-	-
Human Resources	4,352,429	-	-	-	(4,352,429)	-	-	-
Mayor's Office	336,608	-	-	-	(336,608)	-	-	-
Revenue	288,101	-	-	-	(288,101)	-	-	-
Engineering	2,059,074	-	-	-	(2,059,074)	-	-	-
Senior Center	388,656	-	-	-	(388,656)	-	-	-
Information Technology	584,937	-	-	-	(584,937)	-	-	-
Legal	349,451	-	-	-	(349,451)	-	-	-
Building	835,597	-	-	-	(835,597)	-	-	-
Interest on long-term debt	8,983,358	-	-	-	(8,983,358)	-	-	-
Total governmental activities	<u>\$ 46,916,905</u>	<u>\$ 8,135,288</u>	<u>\$ 127,178</u>	<u>\$ 3,850,619</u>	(34,803,820)	-	-	-
COMPONENT UNITS								
The Water and Wastewater Board	\$ 14,003,550	\$ 18,584,749	\$ -	\$ 3,432,528	-	8,013,727	-	-
Madison City Board of Education	113,470,724	11,596,641	60,949,132	2,842,780	-	-	(38,082,171)	-
Town Madison Cooperative District	14,456	-	-	275,000	-	-	-	260,544
Total component units	<u>\$ 127,488,730</u>	<u>\$ 30,181,390</u>	<u>\$ 60,949,132</u>	<u>\$ 6,550,308</u>	-	-	-	-
GENERAL REVENUES								
Property and payments in lieu of taxes					17,194,232	-	18,956,540	-
Sales and use taxes					19,593,096	-	11,351,389	-
Franchise taxes					1,279,739	-	-	-
Motor fuel taxes					1,725,357	-	-	-
Alcoholic beverages taxes					1,292,509	-	-	-
Rental taxes					491,083	-	-	-
Lodging taxes					1,418,070	-	-	-
Other taxes					524,536	-	92,375	-
Grants and contributions not restricted to specific purposes					-	-	430,150	-
Unrestricted interest income					48,380	139,516	393,664	3
Other					261,910	-	4,241,795	-
Total general revenues					<u>43,828,912</u>	<u>139,516</u>	<u>35,465,913</u>	<u>3</u>
CHANGE IN NET POSITION					9,025,092	8,153,243	(2,616,258)	260,547
Net position, beginning					49,460,047	123,938,476	90,033,166	(545,709)
NET POSITION, ENDING					<u>\$ 58,485,139</u>	<u>\$ 132,091,719</u>	<u>\$ 87,416,908</u>	<u>\$ (285,162)</u>

The accompanying notes are an integral part of this statement

**CITY OF MADISON, ALABAMA
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2017**

	General Fund	General Obligation Bond Collection Fund	School Bonds Fund	Capital Improvement Fund	Debt Service Fund	Other Non-Major Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 12,091,893	\$ 3,507,354	\$ -	\$ 18,295,462	\$ -	\$ 4,127,741	\$ 38,022,450
Cash with fiscal agent	-	-	2,981	-	1,507,038	-	1,510,019
Receivables, (net of allowances):							-
Taxes	8,420,461	4,663,491	-	-	-	503,199	13,587,151
Accounts	557,797	-	-	-	-	186,728	744,525
Prepaid items	477,052	-	-	-	-	336	477,388
Due from other funds	33,970	22,649	-	-	-	35,999	92,618
Total assets	\$ 21,581,173	\$ 8,193,494	\$ 2,981	\$ 18,295,462	\$ 1,507,038	\$ 4,854,003	\$ 54,434,151
DEFERRED OUTFLOWS OF RESOURCES							
	-	-	-	-	-	-	-
LIABILITIES							
Accounts payable	\$ 625,260	\$ -	\$ -	\$ 1,051,091	\$ -	\$ 90,743	\$ 1,767,094
Accrued liabilities	332,489	-	-	-	-	-	332,489
Customer deposits	79,158	-	-	-	-	-	79,158
Due to other funds	58,648	399	-	-	-	33,571	92,618
Due to component unit	520,191	-	-	-	-	-	520,191
Other liabilities	693,117	31,338	-	-	-	-	724,455
Total liabilities	2,308,863	31,737	-	1,051,091	-	124,314	3,516,005
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	4,800,000	3,771,430	-	-	-	341,004	8,912,434
FUND BALANCES							
Nonspendable							
Prepaid items	477,052	-	-	-	-	336	477,388
Restricted:							
Debt service	-	-	2,981	-	-	-	2,981
Capital Improvements	26,756	-	-	17,244,371	1,507,038	2,504,707	21,282,872
Other	167,514	4,390,327	-	-	-	1,880,126	6,437,967
Assigned	-	-	-	-	-	3,516	3,516
Unassigned	13,800,988	-	-	-	-	-	13,800,988
Total fund balance (deficit)	14,472,310	4,390,327	2,981	17,244,371	1,507,038	4,388,685	42,005,712
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 21,581,173	\$ 8,193,494	\$ 2,981	\$ 18,295,462	\$ 1,507,038	\$ 4,854,003	

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.	195,866,570
Net pension liability	(13,762,594)
Deferred outflows - contributions to pension plan and earnings on investments subsequent to measurement date	3,950,764
Certain receivables are reported as assets in the government-wide statements. These receivables are not available to pay current period expenditures and therefore, are deferred in the funds.	8,912,434
Deferred charges on debt refunding are reported as deferred outflows of resources in the statement of net position and are not reported in the funds.	8,992,761
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(187,480,508)
Net position of governmental activities	\$ 58,485,139

The accompanying notes are an integral part of this statement

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

	General Fund	General Obligation Bond Collection Fund	School Bonds Fund	Capital Improvement Fund	Debt Service Fund	Other Non-Major Governmental Funds	Total Governmental Funds
REVENUES							
Taxes:							
Property and payments in lieu of taxes	\$ 5,561,228	\$ 5,720,440	\$ 6,919,460	\$ -	\$ -	\$ 1,237,851	\$ 19,438,979
Sales and use	11,983,553	6,060,171	-	-	-	1,493,173	19,536,897
Franchise	1,279,739	-	-	-	-	-	1,279,739
Alcoholic beverages	1,292,509	-	-	-	-	-	1,292,509
Rental	491,083	-	-	-	-	-	491,083
Lodging	1,418,070	-	-	-	-	-	1,418,070
Other	159,822	-	-	-	-	-	159,822
Licenses and permits	5,430,089	-	-	-	-	-	5,430,089
Intergovernmental	23,272	-	-	-	-	898,948	922,220
Charges for services	1,637,090	-	-	-	-	-	1,637,090
Fines	764,236	-	-	-	-	229,789	994,025
Interest income	68,693	3,349	219	19,287	9,156	4,205	104,909
Contributions and donations	42,526	-	-	50,000	-	16,636	109,162
Other revenues	988,822	-	-	-	-	448,619	1,437,441
Total revenues	31,140,732	11,783,960	6,919,679	69,287	9,156	4,329,221	54,252,035
EXPENDITURES							
Current:							
General Services	2,895,375	6,680	-	-	-	706,844	3,608,899
Police	6,767,926	-	-	-	-	14,460	6,782,386
Public Works	2,248,602	-	-	2,392	-	1,431,685	3,682,679
City Clerk	363,257	-	-	-	-	-	363,257
Parks and Recreation	2,377,695	-	-	244,350	-	-	2,622,045
Fire	4,951,969	-	-	-	-	1,798,087	6,750,056
Planning and Economic Development	508,477	-	-	-	-	-	508,477
Municipal Court	1,141,296	-	-	-	-	41,491	1,182,787
City Council	130,258	-	-	-	-	-	130,258
Finance	577,101	-	-	-	-	-	577,101
Human Resources	4,353,503	-	-	-	-	-	4,353,503
Mayor's Office	297,912	-	-	-	-	36,011	333,923
Revenue	284,190	-	-	-	-	10,703	294,893
Engineering	1,691,203	-	-	442,341	-	409,196	2,542,740
Senior Center	267,267	-	-	-	-	83,380	350,647
Information Technology	539,939	-	-	-	-	-	539,939
Legal	355,992	-	-	-	-	-	355,992
Building	811,160	-	-	-	-	65,992	877,152
Debt service:							-
Principal	-	-	1,525,000	-	2,180,000	-	3,705,000
Interest	-	-	5,407,707	-	3,271,023	-	8,678,730
Debt issuance costs	-	-	-	-	333,707	-	333,707
Capital Outlay	-	-	-	5,783,609	-	892,163	6,675,772
Total expenditures	30,563,122	6,680	6,932,707	6,472,692	5,784,730	5,490,012	55,249,943
Excess (deficiency) of revenues over expenditures	577,610	11,777,280	(13,028)	(6,403,405)	(5,775,574)	(1,160,791)	(997,908)
OTHER FINANCING SOURCES (USES)							
Sales of capital assets	128,557	-	-	-	-	-	128,557
Transfers from other funds	3,170,071	-	-	3,019,401	5,446,830	3,167,000	14,803,302
Transfers to other funds	(1,687,114)	(8,646,830)	-	-	(3,007,287)	(1,462,071)	(14,803,302)
Bond issue premium	-	-	-	2,090,759	-	-	2,090,759
Issuance of refunding bonds	-	-	-	-	26,365,000	-	26,365,000
Payment to refunding bonds escrow agent	-	-	-	-	(25,115,006)	-	(25,115,006)
Total other financing sources (uses), net	1,611,514	(8,646,830)	-	3,019,401	5,780,296	1,704,929	3,469,310
NET CHANGE IN FUND BALANCE	2,189,124	3,130,450	(13,028)	(3,384,004)	4,722	544,138	2,471,402
Fund balance (deficit), beginning	12,283,186	1,259,877	16,009	20,628,375	1,502,316	3,844,547	39,534,310
FUND BALANCE (DEFICIT), ENDING	\$ 14,472,310	\$ 4,390,327	\$ 2,981	\$ 17,244,371	\$ 1,507,038	\$ 4,388,685	\$ 42,005,712

The accompanying notes are an integral part of this statement

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

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

Net change in fund balances - total governmental funds	\$	2,471,402
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		5,289,985
Donations of capital assets increase net position in the Statement of Activities but do not in the governmental funds because they are not financial resources.		3,554,186
Governmental funds report the sales of capital assets as revenues and unlike the Statement of Activities, do not recognize the effect of the costs of those assets and their related depreciation. This is the amount by which the costs of assets sold, minus their accumulated depreciation, was exceeded by the proceeds from the sales. This amount has been included in Other revenue in the Statement of Activities.		(128,557)
Governmental funds defer receivables which have not been received within the defined period from year-end to be available. These same receivables are recognized in current year revenues within the Statement of Activities due to the change to full accrual method of accounting. Based on the amount of revenue deferred within the governmental funds from year to year and the amount recognized within the Statement of Activities, this can represent an increase or decrease in the revenues on the Statement of Activities.		(1,864,224)
For governmental funds, the issuance of long-term debt (e.g. warrants and leases) provide current financial resources and the repayment of long-term debt consumes current financial resources. Neither transaction, however has any affect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Amount is the net effect of these differences in the long-term debt and related items.		347,736
Other expenses reported in the Statement of Activities that do not require current financial resources.		<u>(645,436)</u>
Change in net position of governmental activities	\$	<u><u>9,025,092</u></u>

The accompanying notes are an integral part of this statement

NOTES TO FINANCIAL STATEMENTS

**CITY OF MADISON, ALABAMA
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SEPTEMBER 30, 2017 AND 2016**

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**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -

General Statement

The City of Madison (the City) was incorporated in 1869. The City operates under an elected Mayor-Council form of government and provides a full range of services to its citizens. The City provides services such as police and fire protection, municipal court services, land use planning services, building permits and inspection services, construction and maintenance of streets, sidewalks, traffic control services, drainage system, parks and recreation facilities, library services, trash collection and disposal services, senior citizens' programs, transportation services for the disabled citizens and general administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to Generally Accepted Accounting Principles (GAAP) in the United States of America applicable to state and local governments. The generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board.

During the year ended September 30, 2015, the City adopted GASB Statement 68, Accounting and Financial Reporting for Pensions. GASB 68 establishes accounting and financial reporting standards that record a net pension liability of the Board to employees for benefits provided through a defined benefit pension plan. Under GASB 68, an annual pension expense is recorded by the City for the change in the net pension liability adjusted for certain deferred inflows and deferred outflows of resources. These deferred inflows and deferred outflows of resources include actuarial gains and losses, changes in actuarial assumptions, pension investment return over and under the related actuarial assumption, and contributions made by the City after the respective actuarial measurement date of the pension plan.

A. FINANCIAL REPORTING ENTITY

As required by GAAP, these basic financial statements present the primary government (the City) and its component units, entities for which the City is financially accountable. The City discretely presents each component unit in a separate column in the government-wide financial statements to emphasize the fact that each is legally separate from the City. Each discretely presented component unit has a September 30 year-end.

DISCRETELY PRESENTED COMPONENT UNITS

Water and Wastewater Board of the City of Madison (Madison Utilities)

The Water and Wastewater Board of the City of Madison (Madison Utilities) is a public corporation organized under Alabama Code Sections 11-50-310 through 324. Madison Utilities provides water and wastewater services to the residents and businesses in the City. The board of Madison Utilities consists of five members who manage all property and business of this corporation. The City Council of the City of Madison appoints members to the Madison Utilities board. Members of the Madison Utilities board serve staggered six-year terms. Members of the City Council may serve on the board of directors during their term in office. The City issued general obligation warrants, which Madison Utilities used for water and wastewater purposes. The financial statements of Madison Utilities are reported in a separate column to emphasize that they are legally separate from the City. Madison Utilities is reported as a proprietary fund type.

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

Madison City Board of Education

Madison City Board of Education consists of five members appointed by the City Council. Madison City Board of Education is vested with all powers necessary and proper, as authorized by the state law or regulation of the Alabama State Board of Education, for the administration and management of free public schools in the City. The City issued general obligation warrants, which Madison City Board of Education used for school purposes. The financial statements of Madison City Board of Education are reported in a separate column to emphasize that they are legally separate from the City. Madison City Board of Education is reported as a governmental fund type.

Town Madison Cooperative District

Town Madison Cooperative District (the "District") was incorporated in 2014 as a capital improvement district under the provisions of Chapter 99B of Title 11 of the Code of Alabama 1975. The purpose of the District is to acquire, construct, and install capital improvements for public infrastructure within the jurisdiction of the District. The District is governed by a board of directors comprised of 3 persons, 2 of which are appointed by the City Council of the City of Madison.

Complete financial statements of Madison Utilities, Madison City Board of Education, and Town Madison Cooperative District, discretely presented component units, are available at the administrative office of the entity.

Madison Utilities
101 Ray Sanderson Drive
Madison, Alabama 35758

Town Madison Cooperative District
100 Hughes Road
Madison, Alabama 35758

Madison City Board Education
211 Celtic Drive
Madison, Alabama 35758

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the city and its component units

Basic Financial Statements

Government-wide financial statements consist of a statement of net assets and a statement of activities. These statements report all activities of the primary government and its component units. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges from services and are usually intended by management to be financially self-sustaining. The City currently has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function/program are offset by the program revenues. Direct expenses are those that are clearly identifiable with a specific function/program. Program revenues includes (1) charges for services, which are revenues from applicants and/or individuals who purchase, use, or directly benefit from services or privileges provided by a given function/program and (2) operating grant or capital grants and contributions restricted to meeting the operational or capital requirements of a particular function/program. Taxes and other revenues are not properly included in program revenues but reported as general revenues. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances and transfers in the statement of net position have been eliminated except those representing balances or activity between the governmental activities and component units.

CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

Fund Financial Statements

The City segregates transactions related to certain functions/programs or activities in separate funds to support financial management and to demonstrate legal compliance.

Separate statements are presented for governmental funds. These statements present each major fund as a separate column on the fund financial statement; all non-major funds are combined and presented in a single-column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current periods or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Sales taxes, payments in lieu of taxes, property taxes, licenses and permits, courts fines and costs, and interest all associate with the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources. The following information provides a description of the *governmental funds* and the *major funds* of the City:

Governmental Funds:

Governmental funds are those funds which most governmental functions/programs typically finance. The measurement focus of governmental funds is on the sources, uses and balances of current financial resources. Major individual governmental funds are reported as separate columns in the fund financial statements. The following information provides a description of the *governmental funds* and the *major funds* of the City:

General Fund: the general fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. It accounts for all general tax revenues and other receipts that are not restricted by law or contractual agreement or accounted for in another fund. Likewise, it also accounts for general operating expenditures, fixed charges and capital improvements costs not paid through other funds.

Special Revenue Funds: the special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Debt Service Fund: the debt service fund is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of general obligation bond principal and interest from governmental resources.

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Major Funds

The City reports the five (5) following major governmental funds:

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

General Obligation Bond Collection Fund: the general obligation bond collection fund, a special-revenue fund, is used to account for ½ -cent sales tax and the 5 ½ -mill property tax.

School Bonds Fund: the school bonds fund, a special revenue fund is used to account for the accumulation of financial resources for the payment of principal, interest and related cost on general obligation school warrants.

Capital Improvement Fund: the City uses this capital projects fund to account for acquisition, construction and improvements of buildings/facilities, parks, streets, sidewalks, bridges, and drainage facilities. The financing of this capital improvement fund was provided by the issuance of general obligation warrants.

Debt Service Fund: the City uses the debt service fund account to receive transfers from other funds where resources are collected for specific debt service and the payment of principal, interest and related cost on general obligation warrants.

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 fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental funds are eliminated so that only the net amount is included in the governmental 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.

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

Deposits and Investments

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

State statutes authorize the City to invest in obligations of the U.S. Treasury, State of Alabama, Alabama counties, or the general obligations of Alabama municipalities.

Investments for the City, as well as for its components units, are stated at fair value.

Madison Utilities is authorized by its governing board to invest in U.S. governmental securities or investments secured by U.S. government securities as required and defined in the trust indentures.

Madison City of Board of Education is restricted by its governing board and the State of Alabama to not put public funds at risk by investing in investments not insured by the federal government.

CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Receivables and Payables

All outstanding balances between funds are reported as “due to/from other funds”. All trade and property tax receivables are shown net of an allowance for uncollectible accounts.

Property taxes are levied on October 1 for the prior fiscal year beginning October 1, at which time a lien is attached. These taxes are due and payable October 1 and delinquent after December 31 each year, after which a penalty and interest are required to be charged. Revenue is recognized in the year when the taxes are levied and collected at the fund level and in the year for which they are levied at the government-wide level. The City’s property taxes are collected by the Madison County Tax Collector and remitted to the City.

Madison Utilities uses the allowance method. Current earnings are charged with an allowance for doubtful accounts based on a percent of gross revenue, determined from prior year’s bad debt experience and on evaluation of each customer’s capacity to pay for utility services provided to them.

Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased except commodities donated by the federal government, which are expensed when consumed.

Prepaid Items

Prepaid items are for payment made by the City in the current year to provide services occurring in the subsequent fiscal year. Prepaid items are recorded in the fund and government-wide financial statements. Reported prepaid items in the general fund are equally offset by a non-spendable fund balance, which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets.

Interfund Receivables, Payables, and Transfers

Interfund receivables and payables are from interfund transactions and recorded by all funds affected in the period. Transactions that constitute reimbursements to a fund for expenditures or expense initially made from one fund, which are properly applicable to another fund, are recorded as expenditures or expenses in the reimbursing fund as a reduction of expenditures or expenses in the fund reimbursed. The City uses transfers to move revenues from the fund that statute or budget required for collecting them to the fund that statute or budget required for expending them.

Transfers are used to move revenue restricted to debt service from the fund(s) collecting the revenue to the debt service fund as debt service payments become due. In addition, transfers are used to move revenue collected in the federal fund to finance various functions/programs accounted for in another fund in accordance with budgetary operations.

Capital Assets

Capital assets of the City include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), reported in the governmental activities column in the government-wide financial statements. The City defines capital assets as assets having estimated useful lives in excess of one year and exceeding the following threshold amounts: land with cost of \$1 or more, buildings with cost of \$50,000 or more, building improvements/generation equipment/leasehold improvements with cost of \$15,000 or more, roads with cost of \$100,000 or more, computer/other office equipment and residential/office furnishings with cost of \$5,000 or more, and all other assets with cost of \$10,000 or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed, or if inadequate records were available to determine the actual cost. The City records donated capital assets at estimated acquisition value at the date of donation

CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The City does not capitalize the costs of normal maintenance and repairs, which do not add to the value of the asset or materially extend the life of the asset.

The City capitalizes major outlays for capital assets and improvements as projects are constructed. The City does not capitalize interest incurred during the construction phase of capital assets.

Land and construction in progress are not depreciated.

Depreciation of all exhaustible capital assets is charged as an expense against operation or function. Property, plant, equipment and infrastructure of the primary government, as well as the component units, are depreciated using the straight-line method over the estimated useful lives as follows:

Building improvements	10-20 years
Buildings	20-40 years
Sidewalks ,streets, and bridges	20-50 years
Traffic signals	15 years
Utility plants in service	40-50 years
Improvements:	
Pumping stations	50 years
Outfall lines	50 years
Land improvements	12-25 years
Surface lots	15-20 years
Furniture and equipment	3-12 years
Greenways	15 years
Drainage systems	40 years
Motor vehicles	5 years

Net Position Flow Assumption

Sometimes the government 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 financial statements, a flow assumption must be made about the order in which 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.

Annual Leave, Sick Leave and Compensated Absences

Primary Government: It is the City's policy to permit employees to accumulate earned but unused annual and sick leave benefits. Employees can carry a maximum of 200 hours of unused annual leave forward into the next leave year. An employee forfeits any accumulated annual leave that exceeds this amount at the end of the leave year. Upon separation from City service, the City will pay an employee all accrued annual leave for a maximum of 200 hours. Annual leave that is expected to liquidate with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. All unused annual leave is accrued when earned by the employee in the government-wide financial statements. Vacation leave that is expected to be liquidated during the next twelve months is considered a current liability on the government-wide financial statements. There is no liability for unpaid accumulated sick leave. The City does not pay an employee sick leave upon separation from the City's services.

CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Discretely Presently Component Units

Madison Utilities permits employees to earn annual leave with pay based upon a progressive schedule of completed years of continuous service. Normally, employees are expected to take annual leave in the leave year ended. However, an employee may carry a total of 30 days of unused leave forward from one leave year to the next. Any leave that exceeds 30 days at the end of the year is transferred to the employee's sick leave balance. Employees may elect, in writing to donate annual leave to another employee due to serious illness or disability. There is no liability for unpaid accumulated sick leave. Madison Utilities does not pay an employee sick leave upon separation from the Board's services.

Madison City Board of Education states that professional and support personnel are provided 2-5 days of personal leave per year with pay depending on years of service. The State provides funding, at the substitute rate, for up to 2 days of personal leave per employee year. Professional employees are paid, at the Board's substitute rate, for up to 2 days of unused personal leave. Professional and support personnel may covert unused, unreimbursed personal leave to sick leave at the end of the scholastic year. Because an employee cannot carry over unused personal leave to succeeding years, no liability for unpaid leave is reported in the financial statements.

Twelve month employees with 10 years or less in service with Madison City Board of Education are allowed 10 working days. Employees with 11 years or greater in service with Madison City Board of Education are allowed 15 working days. Unused vacation leave can be carried over to succeeding years to a maximum of 20 days for less than 10 years of service and 30 days for greater than 10 years of service.

Professional and support employees earn non-vesting sick leave at the rate of one day per month worked. Employees may accumulate unlimited days of sick leave. Employees may use their accrued sick leave as membership service in determining the total year of creditable service in the Teachers' Retirement System, with no additional cost to Madison City Board of Education. The State provides partial funding for substitutes employed while employees are on sick leave. Most of the salaries paid to employees utilizing sick leave are paid from state and federal funds. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded in the financial statements.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. 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.

CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow or resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category. They are the deferred loss on refunding and the pension related items reported in the government-wide statement of net position. A deferred loss on refunded debt results from the difference in the 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.

In addition to liabilities, the statement of net position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of this item. One item is pension related deferred inflows in the government-wide statement of net position. The other is unavailable revenue, which is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available

Fund Balance Classifications

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). Fund balances are classified as follows on the governmental fund financial statements:

Nonspendable: this classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified prepaid items as being nonspendable.

Restricted: this classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: this classification includes amounts that are used only for specific purposes pursuant to constraints imposed by formal action (ordinance or resolution) of the city council (the city's highest level of decision-making authority). The City cannot use these amounts for any other purposes unless the city council removes or changes the specified use by taking the same type of action employed when the funds were initially committed. In addition, this classification includes contractual obligations to the extent that existing resources has specially committed for use in satisfying those contractual requirements.

Assigned: this classification includes amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. This intent is expressed by the city council or the mayor with the approval of the city council. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

Unassigned: this classification includes all amounts that are not included in other spendable classifications.

When available, the City uses restricted fund balances first, followed by committed resources, assigned resources, then unassigned resources, as appropriate opportunities arise. However, the City reserves the right to spend selectively unassigned resources first to defer the use of the other classified funds.

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position

Net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, plus unspent debt proceeds.

Net position is reported as restricted when there are limitations imposed on the use, through either the enabling legislation adopted by the city, creditors, grantors or law or regulations of other governments.

Pensions

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

E. GASB ACCOUNTING PRONOUNCEMENTS

Pronouncements Effective for the 2017 Financial Statements:

The City adopted GASB No 77, *Tax Abatement Disclosures*, in fiscal 2017. This statement improves financial reporting by providing users essential information regarding tax abatements by requiring more detailed information about the abatements and organizing the information in a consistent and comprehensive manner. The implementation of this statement did not have a significant impact on the City's financial statements.

The City adopted GASB No 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plan*, in fiscal 2017. This statement amends the scope of Statement No. 68 to exclude certain pensions provided to state or local government employees if it includes benefits to non-state or local government beneficiaries. It also includes new disclosure requirements. The implementation of this statement did not have a significant impact on the City's financial statements. This statement is not applicable to the City.

The City adopted GASB No 80, *Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14*, in fiscal 2017. The statement amends blending requirements to include a component unit incorporated as a not-for-profit corporation and the primary government is the sole corporate member. The implementation of this statement did not have a significant impact on the City's financial statements.

CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Pronouncements issued, but not yet effective, which will be adopted by the City in future years:

The City plans to adopt GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the period beginning after June 15, 2017, fiscal 2018. This statement will make financial information more useful for decision making as it requires recognition of the entire OPEB liability and more in depth measure of OPEB expense. New disclosure and supplemental information requirements will also improve the financial reporting surrounding OPEB.

The City plans to adopt GASB No 81, *Irrevocable Split-Interest Agreements*, required for fiscal periods beginning after December 15, 2016, fiscal 2018. This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

The City plans to adopt GASB No 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, required for fiscal periods beginning after June 15, 2016, except for certain provisions effective for fiscal periods beginning after June 15, 2017, in fiscal 2017 and 2018. This Statement improves financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues.

The City plans to adopt GASB No 83, *Certain Asset Retirement Obligation*, in the period beginning after June 15, 2018, fiscal 2019. The Statement will enhance comparability of financial statements among governments by providing uniform criteria to measure and recognize certain asset retirement obligations.

The City plans to adopt GASB No 84, *Fiduciary Activities*, in the period beginning after December 15, 2018, fiscal 2020. The Statement establishes criteria for identifying fiduciary activities of all state and local governments and will enhance comparability of financial statements through this added criteria and clarity of whether and how business-type activities should report fiduciary activities.

GASB Statement No. 85, *Omnibus 2017*, was issued to address practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this statement are effective for fiscal year 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, was issued to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of this statement are effective for fiscal year 2018.

GASB Statement No. 87, *Leases*, was issued to improve accounting and financial reporting for leases by governments. The requirements of this statement are effective for fiscal year 2021.

Management is in the process of determining the effects that the adoption of these statements will have on the City's basic financial statements

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

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

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The governmental fund balance sheet includes a reconciliation between *fund balances – total governmental funds* and *net position –governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$187,480,508 difference are as follows:

Warrants payable	\$ 183,604,761
Accrued interest payable	2,776,889
Compensated absences	690,528
Other post-employment benefits	408,330
	\$ 187,480,508

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

The details of this \$3,968,552 difference are as follows:

Capital outlay	\$ 10,264,469
Depreciation expense	(6,295,917)
	\$ 3,968,552

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

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

Another element of that reconciliation states, "This issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities."

The details of this \$347,736 difference are as follows:

Debt issued or incurred	
General obligation debt	\$ (26,365,000)
Principal repayments:	
General obligation debt	3,705,000
Payment to escrow agent for defeasance of refunded debt	25,115,006
Deferral of premiums	(2,090,759)
Amortization of premium, discounts, and refunding loss	<u>(16,511)</u>
	<u><u>\$ 347,736</u></u>

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$1,982,835 difference are as follows:

Accrued interest	(288,117)
Net pension obligation	(417,314)
Other postemployment expenses	<u>(42,765)</u>
	<u><u>\$ (645,436)</u></u>

NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital improvement fund. All annual appropriations lapse at fiscal year-end.

The budget preparation is coordinated through the mayor's office and the finance department. Each head of the city departments is responsible for preparing and submitting their appropriation requests according the budget schedule. The mayor submits the proposed budget to the city council finance committee. The city council finance committee holds meetings to review and make recommended changes to the proposed budget. After the city council finance committee completes a final review of the proposed budget, the proposed budget document is submitted to the city council for discussion and review at public work sessions. After the city council holds all scheduled work sessions, the proposed budget is presented to the city council at a regular scheduled council meeting for a public hearing and consideration for adoption before October 1.

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY-CONTUNED

The City adopts a line item budget by fund, function, and department. There are two types of budget amendments. The first type causes a net change in the overall budget. This type of amendment may result from an increase or decrease to revenues and/or expenditures. Budget amendments of this nature are legislature and require the approval of the city council.

The second type of budget amendment does not cause any net change in the overall budget. The effect is that it redistributes appropriated funding within a department to different line items without causing an increase or decrease in the budget. The exceptions are amendments within a department in excess of \$1000, funding increase or decrease to the personnel compensation, and funding increase or decrease to the capital outlay line item. These types of amendments require approval of the city council finance committee.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The City maintains a level of control at the department level. The following departments had expenditures exceeding appropriations:

<u>School Bonds</u>	
Interest	\$ 119,657
Capital outlay	\$ 702,122
 <u>Senior Center Donation Fund</u>	
Senior Center	\$ 14,673
 <u>Infrastructure Repair Fund</u>	
Engineering	\$ 409,196

The available (unassigned) fund balance of the general fund provided for expenditures, which exceeded appropriations.

C. DEFICIT FUND BALANCE

There were no funds with a deficit fund balance as of September 30, 2017.

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 4. DETAILED NOTES ON ALL FUNDS-

A. DEPOSITS AND INVESTMENTS

Primary Government

At September 30, 2017, the City's deposits and bank balances were fully covered by federal depository insurance or by collateral held as part of the Security for Alabama Funds Enhancement Act (SAFE). SAFE insures all accounts specified as public funds for the majority of banks located within the State of Alabama.

Restricted cash in the debt service funds consists of investments held by a trustee that are restricted for debt service or other purposes as specifically defined by the City's debt agreements. At September 30, 2017, the City had investments in money market accounts with fair value of \$1,510,019 with weighted average maturity of 37 days rated AAAM by Standard and Poor's and Aaa-mf by Moody's. State statute limits the City's investments to U.S. Treasury obligations, State of Alabama, Alabama County obligations and general obligations of Alabama municipalities.

Ordinance No. 95-119 – Investment Policy of the City of Madison, Alabama, as amended, limits investments of the City to the investments allowed by State law.

Credit Risk: the City's investments are in U.S. Treasury obligations as allowed and limited by State statute.

Custodial Credit Risk: at September 30, 2017, the entire City's deposits and bank balances are insured by federal depository insurance or part of SAFE.

Discretely Presented Component Units

The Water and Wastewater Board

At September 30, 2017, all cash and cash equivalents of The Water and Wastewater Board, a discretely presented component unit, are entirely insured or collateralized as provided by the Security for Alabama Funds Enhancement Act (SAFE) as prescribed in section 41-14-A of the Code of the State of Alabama with a Qualified Public Fund Depository. Funds held for the benefit of The Water and Wastewater Board by the depository banks' trust department or agents are invested in U.S. governmental securities or secured by U.S. government securities as required and defined by the trust indentures.

CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4. DETAILED NOTES ON ALL FUNDS-CONTINUED

Madison City Board of Education

At September 30, 2017, unrestricted deposits on hand at banks and in certificates of deposit of the Madison City Board of Education, a discretely presented component unit, were fully collateralized by banks qualifying under the Security for Alabama Funds Enhancement Act (SAFE) as qualified public depositories. Funds held by the banks' trust departments or agents are invested in U.S. Government securities or secured by U.S. Government securities.

B. CAPITAL ASSETS

The Capital asset activity of the Primary Government for the year ended September 30, 2017 is as follows:

	Balance October 1, 2016	Additions	Deletions and Reclassifications	Balance September 30, 2017
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 34,515,331	\$ 1,466,500	\$ -	\$ 35,981,831
Construction in progress	12,451,620	5,812,815	(1,123,318)	17,141,117
Total capital assets, not being depreciated	46,966,951	7,279,315	(1,123,318)	53,122,948
Capital assets, being depreciated:				
Land improvements	105,535			105,535
Buildings	13,268,546			13,268,546
Building improvements	4,582,730			4,582,730
Improvements - other than buildings	3,006,714			3,006,714
Machinery, equipment and furniture	17,814,916	2,999,267	(650,372)	20,163,811
Infrastructure	177,186,826	4,739,149	1,123,318	183,049,293
Other	13,000		-	13,000
Total capital assets, being depreciated	215,978,267	7,738,416	472,946	224,189,629
Less accumulated depreciation for:				
Land improvements	(17,973)	(5,280)		(23,253)
Buildings	(5,109,000)	(321,388)		(5,430,388)
Building improvements	(1,652,452)	(228,411)		(1,880,863)
Improvements - other than buildings	(1,501,237)	(169,520)		(1,670,757)
Machinery, equipment and furniture	(13,532,198)	(1,237,084)	644,172	(14,125,110)
Infrastructure	(53,973,664)	(4,332,377)		(58,306,041)
Other	(7,738)	(1,857)		(9,595)
Total accumulated depreciation	(75,794,262)	(6,295,917)	644,172	(81,446,007)
Total capital assets, being depreciated, net	140,184,005	1,442,499	1,117,118	142,743,622
Governmental activities capital assets, net	<u>\$ 187,150,956</u>	<u>\$ 8,721,814</u>	<u>\$ (6,200)</u>	<u>\$ 195,866,570</u>

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 4. DETAILED NOTES ON ALL FUNDS-CONTINUED

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

General Administration	\$	326,308
Police		497,985
Public Works		4,069,843
City Clerk		2,259
Recreation		386,693
Fire		510,172
Planning		1,753
Court		2,942
Finance		25,934
Human Resources		802
Engineering		370,021
Senior Center		40,303
Information Technology		41,695
Legal		382
Building		<u>18,825</u>
Total depreciation expense - governmental activities	\$	<u><u>6,295,917</u></u>

CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4. DETAILED NOTES ON ALL FUNDS- CONTINUED

Discretely presented components units

Activity for the discretely presented component unit, The Water and Wastewater Board for the year ended September 30, 2017 was as follows:

	Balance October, 1 2016	Additions and Reclassifications	Deletions and Reclassifications	Balance September, 30 2017
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,262,716	\$ 10,929	\$ -	\$ 3,273,645
Construction in progress	<u>18,313,771</u>	<u>26,654,544</u>	<u>(24,070,629)</u>	<u>20,897,686</u>
Total capital assets, not being depreciated	21,576,487	26,665,473	(24,070,629)	24,171,331
Capital assets, being depreciated:				
Land improvements	5,205,356			5,205,356
Buildings	47,468,293			47,468,293
Building improvements	83,139,580			83,139,580
Machinery, Equipment and Furniture	<u>79,724,424</u>	<u>24,059,701</u>	<u>(576,793)</u>	<u>103,207,332</u>
Total capital assets, being depreciated	215,537,653	24,059,701	(576,793)	239,020,561
Less accumulated depreciation for:				
Land improvements	1,640,096	140,999		1,781,095
Buildings	11,148,424	1,210,395		12,358,819
Building improvements	21,698,168	1,687,894		23,386,062
Machinery, equipment and furniture	<u>22,432,876</u>	<u>2,071,173</u>	<u>(488,784)</u>	<u>24,015,265</u>
Total accumulated depreciation	<u>56,919,564</u>	<u>5,110,461</u>	<u>(488,784)</u>	<u>61,541,241</u>
Total capital assets, being depreciated, net	<u>158,618,089</u>	<u>18,949,240</u>	<u>(88,009)</u>	<u>177,479,320</u>
Governmental activities capital assets, net	<u>\$ 180,194,576</u>	<u>\$ 45,614,713</u>	<u>\$ (24,158,638)</u>	<u>\$ 201,650,651</u>

CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4. DETAILED NOTES ON ALL FUNDS- CONTINUED

Activity for the discretely presented component unit, Madison City Board of Education for the year ended September 30, 2017 was as follows:

	Balance October, 1 2016	Additions and Reclassifications	Deletions and Reclassifications	Balance September, 30 2017
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 8,702,528	\$ -	\$ -	\$ 8,702,528
Construction in progress	-	383,565	-	383,565
Total capital assets, not being depreciated	8,702,528	383,565	-	9,086,093
Capital assets, being depreciated:				
Land improvements	9,077,207		-	9,077,207
Buildings	193,097,182	828,052	-	193,925,234
Equipment	5,318,479	213,719	-	5,532,198
Vehicles	7,721,910	511,897	(52,000)	8,181,807
Total capital assets, being depreciated	215,214,778	1,553,668	(52,000)	216,716,446
Less accumulated depreciation for:				
Land improvements	5,796,380	313,721	-	6,110,101
Buildings	36,367,279	4,050,684	-	40,417,963
Equipment	4,084,079	241,044	-	4,325,123
Vehicles	4,274,533	569,005	(49,400)	4,794,138
Total accumulated depreciation	50,522,271	5,174,454	(49,400)	55,647,325
Total capital assets, being depreciated, net	164,692,507	(3,620,786)	(2,600)	161,069,121
Governmental activities capital assets, net	<u>\$ 173,395,035</u>	<u>\$ (3,237,221)</u>	<u>\$ (2,600)</u>	<u>\$ 170,155,214</u>

During the year ended September 30, 2017, Town Madison Cooperative District had a balance of construction in progress of \$11,626,340 consisting of additions of: \$10,107,135 resulting from the construction of assets with the proceeds of advances on the revenue bonds, \$1,372,207 in accounts payable for construction incurred during 2017 before an advance on revenue bonds subsequent to year end, and \$146,998 in retainage payable on the project. As all of the capital assets at September 30, 2017 were construction in progress, there was no depreciation expense in 2017.

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 4. DETAILED NOTES ON ALL FUNDS- CONTINUED

C. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded and payments are made. The composition of interfund balances as of September 30, 2017, is as follows:

Transfers In/Out

<u>Transfers To:</u>	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Debt Service Fund</u>	<u>Non-major Government</u>	<u>Total Out</u>
Transfers From:					
General fund	\$ -	\$ 12,114	\$ -	\$ 1,675,000	\$ 1,687,114
General obligation bond collection fund	2,958,000	-	5,446,830	242,000	8,646,830
Debt Service Fund	-	3,007,287	-	-	3,007,287
Non-major government	212,071	-	-	1,250,000	1,462,071
Total In	<u>\$ 3,170,071</u>	<u>\$ 3,019,401</u>	<u>\$ 5,446,830</u>	<u>\$ 3,167,000</u>	<u>\$ 14,803,302</u>

Due To/From Primary Government and Component Units:

<u>Due To:</u>	<u>General Fund</u>	<u>General Obligation Bond Collection Fund</u>	<u>Non-major Government</u>	<u>Total Due To</u>
Due From:				
General fund	\$ -	\$ 22,649	\$ 35,999	\$ 58,648
General Obligation Bond Collection Fund	399	-	-	399
Non-major government	33,571	-	-	33,571
Total Due From	<u>\$ 33,970</u>	<u>\$ 22,649</u>	<u>\$ 35,999</u>	<u>\$ 92,618</u>

<u>Due From:</u>	<u>Component Unit - Madison City School Board</u>	<u>Total In</u>
Due To:		
Primary Government - General fund	<u>\$ 520,191</u>	<u>\$ 520,191</u>
	<u>\$ 520,191</u>	<u>\$ 520,191</u>

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 4. DETAILED NOTES ON ALL FUNDS-CONTINUED

The City uses transfers to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. Transfers are used to move revenue restricted to debt service from the fund(s) collecting the revenue to the debt service fund as debt service repayment becomes due. In addition, transfers are used to move revenue collected in the General Fund to finance various functions/programs accounted for in another fund in accordance with budgetary operation

D. LEASES

Capital Leases

Component Unit – Madison City Board of Education

The discretely presented component unit, Madison City Board of Education, has entered into various lease agreements as lessee for financing the acquisition of transportation and computer equipment. These lease agreements are treated as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the basic financial statements.

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

Year Ending September 30	Governmental Activities
2018	\$ 347,473
2019	340,619
2020	333,766
2021	326,912
2022	320,058
2023-2026	670,253
Total minimum lease payments	2,339,081
Less: amount representing interest	(193,314)
Present value of minimum lease payments	\$ 2,145,767

E. LONG-TERM DEBT

Primary Government

General Obligation Warrants

The City issues general obligation warrants providing funds for the acquisition and construction of major capital facilities. General obligation warrants have been issued for general government activities. In addition, general obligation warrants have been issued to refund general obligation warrants. General obligation warrants are direct obligations and pledge the full faith and credit of the government. These warrants are generally issued as 25 or 30-year serial warrants, except for refunding issues.

CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4. DETAILED NOTES ON ALL FUNDS-CONTINUED

Source of Repayment of Long-Term Debt

The repayment of the City's general obligation long-term debt is provided by resources in the special revenue funds and accounted for in the debt service fund. The repayment of the City's general obligation long-term debt, for school purposes, is provided by resources transferred from Madison City Board of Education (discretely presented component unit) and accounted for in the debt service fund (school bonds fund).

Outstanding Debt

General obligation warrants currently outstanding as of September 30, 2017, are as follows:

	<u>Face Amount</u>	<u>Dated</u>	<u>Final Maturity</u>	<u>Interest Rates (%)</u>	<u>Principal Maturities</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Governmental activities:							
G.O. Warrants - general purposes							
Series 2011 - Taxable	\$ 7,300,000	3/1/2011	3/1/2022	1.50% - 5.24%	730,000 - 885,000	\$ 4,015,000	\$ 730,000
Series 2013-A	26,985,000	5/30/2013	4/1/2037	3.00% - 5.00%	625,000 - 1,920,000	26,565,000	625,000
Series 2015-A	23,790,000	5/1/2015	4/1/2037	2.00% - 5.00%	740,000 - 1,390,000	21,740,000	1,165,000
Series 2015-B	12,255,000	5/1/2015	12/1/2036	2.00% - 5.00%	690,000 - 1,085,000	12,255,000	-
Series 2016-C	26,365,000	10/1/2016	12/1/2036	1.00% - 5.00%	135,000 - 2,220,000	25,880,000	135,000
	<u>96,695,000</u>					<u>90,455,000</u>	<u>2,655,000</u>
G.O. Warrants - school purposes							
Series 2008-A	\$ 12,235,000	5/1/2008	3/1/2025	2.40% - 4.75%	285,000 - 3,360,000	575,000	285,000
Series 2009	50,710,000	8/27/2009	2/1/2039	1.25% - 5.25%	100,000 - 5,545,000	10,595,000	100,000
Series 2011-A	6,445,000	8/16/2011	11/1/2026	0.85% - 4.00%	400,000 - 545,000	4,660,000	400,000
Series 2011-B	18,460,000	12/8/2011	2/1/2032	4.00% - 5.00%	785,000 - 1,305,000	15,100,000	785,000
Series 2016-A	9,535,000	3/31/2016	3/1/2029	4.00% - 5.00%	900,000 - 1,490,000	9,535,000	-
Series 2016-B	42,400,000	6/23/2016	2/1/2039	3.00% - 5.00%	1,300,000 - 4,460,000	42,400,000	-
	<u>139,785,000</u>					<u>82,865,000</u>	<u>1,570,000</u>
Total Primary Government	<u>\$ 236,480,000</u>					<u>\$ 173,320,000</u>	<u>\$ 4,225,000</u>

Component Unit

General obligation warrants currently outstanding as of September 30, 2017, for the Madison City Board of Education and the Water and Wastewater Board are as follows:

Madison City Board of Education							
Series 2009-B	\$ 4,178,868	2009	5/1/2019	3.0 - 5.0	471,889 - 499,679	\$ 971,568	\$ 471,889
Series 2010	36,000,000	2011	9/1/2027	3.0 - 5.0	1,604,319	36,000,000	-
Series 2013	13,242,981	2013	6/1/2033	3.0 - 5.0	40,683 - 75,991	11,373,051	512,660
Series 2014-A	3,209,774	2014	2/1/2025	3.0 - 5.0	260,995 - 1,042,896	2,473,846	260,995
	<u>\$ 56,631,623</u>					<u>\$ 50,818,465</u>	<u>\$ 1,245,544</u>

CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4. DETAILED NOTES ON ALL FUNDS-CONTINUED

The Water and Wastewater Board

Water and Sewer Revenue Bonds

Series 2006-B Taxable	\$ 1,195,000	2006	12/1/2018	5.10 - 5.15	260,000	\$ 260,000	\$ 260,000
Series 2013	10,000,000	2013	12/1/2034	2.0 - 4.1	405,000 - 675,000	8,835,000	405,000
Series 2015	20,040,000	2015	12/1/2032	3.5 - 5.0	230,000 - 2,445,000	20,040,000	-
Series 2017	<u>63,360,000</u>	2017	12/1/2047	3.75 - 5.0	1,380,000 - 5,895,000	<u>63,360,000</u>	<u>-</u>
	<u>\$ 94,595,000</u>					<u>\$ 92,495,000</u>	<u>\$ 665,000</u>

Subordinated Water and Sewer Revenue Bonds

Series 1996-SRF	\$ 2,845,000	1996	8/15/2018	3.18	200,000	\$ 200,000	\$ 200,000
Series 2010-SRF	\$ 13,315,000	2010	8/15/2022	2.50	1,210,000 - 1,165,000	\$ 6,300,000	\$ 1,165,000
Series 2013-DWSRF-BL	11,440,000	2013	8/15/2024	1.60	625,000 - 755,000	4,815,000	625,000
Series 2014-SRF	2,955,000	2014	2/15/2035	2.45	120,000 - 185,000	2,720,000	120,000
Series 2016-SRF	<u>16,110,000</u>	2016	2/15/2037	2.20	650,000 - 985,000	<u>16,110,000</u>	<u>650,000</u>
	<u>\$ 46,665,000</u>					<u>\$ 30,145,000</u>	<u>\$ 2,760,000</u>

Total Component Units	<u>197,891,623</u>					<u>173,458,465</u>	<u>4,670,544</u>
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The Water and Wastewater Board is required by a regulatory agency to maintain and amortize the cost of issuance related to long-term debt obtained for construction or purchase of capital items within their financial statements. These amounts totaled \$915,246 at September 30, 2017.

Legal Debt Margin

The government is subject to a debt limit that is 20 percent of the full valuation of taxable real property at September 30, 2017. At September 30, 2017, that amount was \$119,470,188. As of September 30, 2017, the total outstanding debt applicable to the limit was \$88,944,981 which is 74.45 percent of total debt limit.

Advance Refunding

In October 2016, the City issued the 2016-C General Obligation Warrants for the face amount of \$26,365,000 with interest rates ranging from 1.00% to 5.00% for an advanced partial refunding of the remaining outstanding 2006-A General Obligation Warrants, which had interest rates ranging from 3.50% to 4.75%. \$25,115,006 of the net proceeds (which included a premium of \$2,090,759 and a payment of \$44,125 for underwriting and issuance cost) were deposited in an irrevocable trust with an escrow agent to provide funds for future debt service payments on the refunded bonds. As a result, the refunded portion of the 2006-A General Obligation Warrants is considered defeased and the liability for the refunded portion of these bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$798,372. This difference is reported in the accompanying financial statements as deferred outflow of resources and is recognized as a component of interest expense over the remaining life of the refunded debt.

The City completed the advance refunding to reduce its debt service payments over the next 21 years by \$2,029,402 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4,551,502.

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 4. DETAILED NOTES ON ALL FUNDS-CONTINUED

Future Debt Service

Annual debt service requirements to maturity for general obligation warrants, general obligation school warrants, and notes payable are as follows:

Governmental activities:

G.O. Warrants - general purposes	<u>Principal</u>	<u>Interest</u>
2018	\$ 2,655,000	\$ 4,732,035
2019	2,820,000	4,540,333
2020	2,950,000	4,435,733
2021	3,220,000	4,338,982
2022-2026	18,210,000	19,146,822
2027-2031	24,610,000	13,162,353
2032-2036	29,440,000	61,139,679
2037	<u>6,550,000</u>	<u>269,044</u>
	<u>90,455,000</u>	<u>111,764,981</u>
G.O. Warrants - school purposes		
2018	\$ 1,570,000	\$ 5,823,716
2019	1,610,000	5,776,529
2020	2,250,000	5,242,533
2021	2,360,000	5,163,288
2022-2026	13,715,000	22,174,040
2027-2031	21,645,000	9,930,542
2032-2036	23,470,000	5,020,297
2037-2039	<u>16,245,000</u>	<u>849,581</u>
	<u>82,865,000</u>	<u>59,980,526</u>
 Total governmental activities	 <u><u>\$ 173,320,000</u></u>	 <u><u>\$ 171,745,507</u></u>

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 4. DETAILED NOTES ON ALL FUNDS-CONTINUED

Discretely presented components units

The Water and Wastewater Board

2018	\$ 3,425,000	\$ 4,829,264
2019	3,295,000	4,516,433
2020	3,395,000	4,441,104
2021	3,500,000	4,361,810
2022	3,625,000	4,277,315
2023-2027	16,230,000	19,714,484
2028-2032	19,235,000	16,617,568
2033-2037	16,775,000	84,616,628
2038-2042	20,930,000	90,125,463
2043-2047	26,335,000	90,118,642
2048	5,895,000	110,531
	<u>122,640,000</u>	<u>323,729,242</u>

Madison City Board of Education

2018	\$ 2,849,863	\$ 4,829,264
2019	2,914,091	4,516,433
2020	2,454,327	4,441,104
2021	2,496,609	4,361,810
2022	2,542,199	4,277,315
2023 - 2027	32,510,393	4,167,125
2028 - 2032	4,139,092	4,067,263
2033	911,891	3,951,222
	<u>50,818,465</u>	<u>34,611,536</u>

Total governmental activities	<u>\$ 173,458,465</u>	<u>\$ 358,340,778</u>
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CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4. DETAILED NOTES ON ALL FUNDS-CONTINUED

Changes in long-term liabilities

During the year ended September 30, 2017, the following changes occurred in the City's long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
<u>Governmental activities:</u>					
General obligation warrants	\$ 175,215,000	\$ 26,365,000	\$ (28,260,000)	\$ 173,320,000	\$ 4,225,000
Plus (less) amount deferred for:					
Issue discounts & premiums	8,580,684	2,324,045	(619,968)	10,284,761	505,865
Total warrant, bonds, & notes	183,795,684	28,689,045	(28,879,968)	183,604,761	4,730,865
Compensated absences	969,528	780,730	(879,610)	870,648	180,120
Net pension obligation	11,928,288	1,834,306	-	13,762,594	
Other post-employment benefits	365,565	66,280	(23,515)	408,330	
Governmental Activities Long-Term Liabilities	<u>\$ 197,059,065</u>	<u>\$ 31,370,361</u>	<u>\$ (29,783,093)</u>	<u>\$ 198,646,333</u>	<u>\$ 4,910,985</u>

Discretely presented components units

	Balance	Additions	Reductions	Balance	Within One Year
<u>The Water and Wastewater Board</u>					
Revenue warrants	\$ 92,855,000	\$ 63,360,000	\$ (33,575,000)	\$ 122,640,000	\$ 3,425,000
Unamortized bond premium/discount	1,590,349	3,745,881	(7,522)	5,328,708	107,474
Total warrants	94,445,349	67,105,881	(33,582,522)	127,968,708	3,532,474
Customer deposits	1,842,493	352,395	-	2,194,888	-
Compensated absences	212,746	7,914	-	220,660	-
Total Water and Wastewater Board Long-Term Liabilities	<u>96,500,588</u>	<u>67,466,190</u>	<u>(33,582,522)</u>	<u>130,384,256</u>	<u>3,532,474</u>
<u>Madison City Board of Education</u>					
Bonds payable	\$ 52,008,230	\$ -	\$ (1,189,765)	\$ 50,818,465	\$ 1,245,544
Unamortized bond premium/discount	438,637	-	(69,073)	369,564	69,072
Capitalized leases	1,945,930	500,000	(300,163)	2,145,767	300,163
Compensated absences	-	450,010	-	450,010	-
Total Madison City Board of Education Long-Term Liabilities	<u>54,392,797</u>	<u>950,010</u>	<u>(1,559,001)</u>	<u>53,783,806</u>	<u>1,614,779</u>
Total component units	<u>\$ 150,893,385</u>	<u>\$ 68,416,200</u>	<u>\$ (35,141,523)</u>	<u>\$ 184,168,062</u>	<u>\$ 5,147,253</u>

CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4. DETAILED NOTES ON ALL FUNDS-CONTINUED

In 2014, Town Madison Cooperative District issued \$22,000,000 in revenue bonds. The Bonds are special obligations of the District payable solely from revenues derived by the District from remittances from the City of certain sales and property taxes pursuant to the funding agreement between the City and the District dated July 1, 2014. The bond indenture states that the bondholder will make the proceeds of the bond available to the District in advances from time to time, in an aggregate amount not exceeding the \$22,000,000 principal amount of the bond, to finance the capital projects of the District under the funding agreement. The terms of the bond provides for the bondholder of the bonds to make an advance deposit to a trust account when necessary to pay for costs of the capital projects of the District. The funding agreement provides that the City will remit Net Project Tax Proceeds actually received by the City in each calendar quarter to a trust fund to be used by the District to service this debt. As of September 30, 2017, the balance of the revenue bonds was \$9,594,412, which was total advances made to date less principal payments of \$275,000 made to date.

F. FUND BALANCE CONSTRAINTS

The constraints on fund balance as listed in aggregate in the Governmental Funds Balance Sheet are detailed according to balance classification and fund below:

	General Fund	General Obligation Bond Collection Fund	School Bonds Fund	Capital Improvement Fund	Capital Improvement Fund	Other Non-Major Governmental Funds
FUND BALANCES						
Nonspendable						
Prepaid items	\$ 477,052	\$ -	\$ -	\$ -	\$ -	\$ 336
Restricted:						
Debt service	-	-	2,981	-	-	-
Capital Improvements	26,756	-	-	17,244,371	1,507,038	2,504,707
Neighborhood Park Improvement	-	-	-	-	-	-
Bibb Cemetary	3,394	-	-	-	-	-
Fire Donations	21,052	-	-	-	-	-
Public Works	-	-	-	-	-	-
Police Donations	63,778	-	-	-	-	-
Recreation Donation	74,605	-	-	-	-	-
Other	4,685	4,390,327	-	-	-	1,880,126
Assigned	-	-	-	-	-	3,516
Unassigned	13,800,988	-	-	-	-	-
Total fund balance (deficit)	<u>\$ 14,472,310</u>	<u>\$ 4,390,327</u>	<u>\$ 2,981</u>	<u>\$ 17,244,371</u>	<u>\$ 1,507,038</u>	<u>\$ 4,388,685</u>

NOTE 5. OTHER INFORMATION

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; employee injuries; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from the past three fiscal years have not exceeded commercial insurance coverage.

CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 5. OTHER INFORMATION –CONTINUED

Discretely presented components units

The Madison City Board of Education is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. The Madison City Board of Education has insurance for its buildings and contents through the State Insurance Fund (SIF), Alabama Department of Finance, Division of Risk Management, a public entity risk pool, which operates as a common risk management and insurance program for state-owned properties and boards of education. The Madison City Board of Education pays an annual premium based on the amount of coverage. The SIF is self-insured up to \$2 million per occurrence. The SIF purchases commercial insurance for claims that in the aggregate exceed \$2 million. Errors and omissions insurance is purchased from the Alabama School Boards Insurance Trust (ASBIT), a public entity risk pool. The ASBIT collects the premiums and purchases commercial insurance for coverage requested by pool participants. Madison City Board of Education purchases commercial insurance for fidelity bonds and automobile coverage. Settled claims in the past three years have not exceeded the commercial insurance coverage.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board. The plan was established to provide a uniform plan of health insurance for current and retired employees of state education institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are set annually based on the amounts necessary to fund coverage. Madison City Board of Education contributes the specified amount monthly to the PEEHIF for each employee.

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

B. RELATED PARTY TRANSACTIONS

In 1991, the City and The Water and Wastewater Board, a discretely presented component unit, entered into a franchise agreement for the operation of certain utility systems from the City. This franchise agreement was granted for confirming and clarifying the holder of ownership interest in and to water and sewer improvements and fire hydrants previously dedicated to the City, which were transferred to The Water and Wastewater Board by the City. The Water and Wastewater Board pays the City, no later than September 1 of each year, a sum of money equal to three percent of its gross revenues from sales of utility services for the preceding fiscal year (exclusive of impact, administrative and tap fees) whether such sales occur within or outside the corporate limits of the City. The City received \$459,362 from The Water and Wastewater Board for the years ended September 30, 2017 for these related franchise fees.

A Board of Directors composed of five members, two of whom are members of the City Council, governs the North Alabama Gas District. The City receives distributions based on the District's annual income. The City has no significant influence over the management, budget or policies of the District. During the fiscal year ended September 30, 2017, the City received \$445,886 from the North Alabama Gas District.

C. RELATED ORGANIZATIONS

The City's elected officials are responsible for appointing members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The City's elected officials appoint the board members of the Architectural Review Board, Beautification Board, Community Education Committee, Industrial Development Board, Recreation Advisory Board and Madison City Disability Advocacy Board.

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

D. SUBSEQUENT EVENTS

The City evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. The City evaluated subsequent events through March 26, 2018, which is the date the financial statements were available for issuance.

E. COMMITMENTS AND CONTINGENCIES

The City is a defendant in several lawsuits. The outcomes of the lawsuits are not presently determinable. In management's opinion the resolution of these matters will not have a material adverse effect on the financial condition of the City.

F. DEFINED BENEFITS PENSION PLAN

Primary Government:

Plan Description

The City participates in the Employees' Retirement System of Alabama (ERS), which provides pension benefits, deferred allowance, and death and disability benefits to plan members and beneficiaries. The ERS is an agent multiple-employer public employee retirement system which acts as a common investment and administrative agent for government employers in the State of Alabama. All full time employees that are eligible are covered by the System.

The Employees' Retirement System of Alabama (ERS), an agent 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.

Employee membership data related to the Plan, as of September 30, 2017 was as follows:

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

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

Employee membership data related to the City of Madison portion of the Plan, as of September 30, 2017 was as follows:

Retired members or their beneficiaries currently receiving benefits	76
Vested inactive members	3
Non-vested inactive members	42
Active members	322
Post-DROP retired members still in active service	1
Total	444

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 with 10 years or more 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 are allowed to 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 20102 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 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 ERS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service.

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

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 beneficiary on the member's age, service credit, employment status and eligibility for retirement.

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 elect to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS were required by statute to elect to contribute 7.50% of earnable compensation. Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2017, the City's active employee contribution rate was 5% of covered employee payroll for Tier 1 Employees (6% for Tier 2 Employees), and the City's average contribution rate to fund the normal and accrued liability costs was 8.53% and 5.78%, respectively, of covered employee payroll for Tier 1 and Tier 2 Employees.

City's contractually required contribution rate for the year ended September 30, 2017 was 8.53% of pensionable pay for Tier 1 employees, and 5.78% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City were \$1,325,320 for the year ended September 30, 2017.

Net Pension Liability

The City's net pension liability at September 30, 2017 was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2015 rolled forward to September 30, 2016 using standard roll-forward techniques as shown in the following table:

	<u>Expected</u>	<u>Actual - 2015 Valuation Assumptions</u>	<u>Actual - 2016 Valuation Assumptions</u>
Total Pension Liability			
as of September 30, 2015 (a)	\$ 52,101,174	\$ 52,334,712	\$ 54,650,891
Discount Rate (b)			
Entry Age Normal Cost for			
October 1, 2015 - September 30, 2016 (c)	1,322,826	1,322,826	1,335,344
Transfers Among Employers (d)	-	(566,687)	(566,687)
Actual Benefit Payments and Refunds for			
October 1, 2015 - September 30, 2016 (e)	<u>(2,104,335)</u>	<u>(2,104,335)</u>	<u>(2,104,335)</u>
Total Pension Liability			
as of September 30, 2016			
[(a) x (1+(b))] + (c) + (d) + [(e) x (1+0.5*(b))]	<u>\$ 55,403,586</u>	<u>\$ 55,089,120</u>	<u>\$ 57,469,114</u>

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

Actuarial assumptions

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

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

*Net of pension plan investment expense

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

The actuarial assumptions used in the September 30, 2015 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

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

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

*Includes assumed rate of inflation of 2.50%

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

Discount rate

The discount rate used to measure the total pension liability was the long term rate of return, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current 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 plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in Net Pension Liability -
City of Madison**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Position Liability
	(a)	(b)	(a)-(b)
Balances at 09/30/2015	\$ 52,101,174	\$ 40,172,886	\$ 11,928,288
Changes for the year:			
Service cost	1,322,826	-	1,322,826
Interest	4,083,921	-	4,083,921
Changes of assumptions	2,379,994	-	2,379,994
Differences between expected and actual experience	252,221	-	252,221
Contributions - employer	-	1,231,311	(1,231,311)
Contributions - employee	-	909,104	(909,104)
Net investment income	-	4,064,241	(4,064,241)
Benefit payments, including refunds of employee contributions	(2,104,335)	(2,104,335)	-
Administrative expense	-	-	-
Transfers among employers	(566,687)	(566,687)	-
Net Changes	5,367,940	3,533,634	1,834,306
Balances at 09/30/2016	<u>\$ 57,469,114</u>	<u>\$ 43,706,520</u>	<u>\$ 13,762,594</u>

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

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

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increases (8.75%)
City's net pension liability	\$ 21,038,539	\$ 13,762,594	\$ 7,649,532

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2017, the City recognized pension expense of \$1,754,713.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ 236,345	\$ -
Changes of Assumption	2,049,439	-
Net difference between projected and actual earnings on pension plan investments	359,004	-
Employer contributions subsequent to the measurement date	1,305,976	-
Total	\$ 3,950,764	\$ -

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

Year ended September 30:	
2018	\$ 453,192
2019	453,192
2020	734,756
2021	194,944
2022	369,270
Thereafter	439,434

Component Unit – The Water and Wastewater Board

Plan Description

The Water and Wastewater Board is also part of the ERS referenced above. Therefore, all benefits and descriptions of the overall plan are the same as referenced above. Specifics related to the Water and Wastewater Board have been detailed below.

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

Employees covered by benefit terms

At September, 30, 2017, the following employees were covered by the benefit terms:

Inactive members or their beneficiaries currently receiving benefits	19
Inactive members entitled to but not yet receiving benefits	1
Inactive members not entitled to receive benefits	2
Active members	53
	53
Total	75
	75

Contributions

Covered members of the ERS contribute 7.5% of earnable compensation to the ERS as required by statute. Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2017, the Board's average active employee contribution rate was 9.22% of covered employee payroll, and the Board's average contribution rate to fund the normal and accrued liability costs was 9.59% of covered employee payroll.

The Company's contractually required contribution rate for the year ended September 30, 2017, was 9.88% of pensionable pay for Tier 1 employee and 8.48% 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 Board were \$238,044 for the year ended September 30, 2017.

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

Net Pension Liability

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

	<u>Expected</u>	<u>Actual - 2015 Valuation Assumptions</u>	<u>Actual - 2016 Valuation Assumptions</u>
Total Pension Liability			
as of September 30, 2015 (a)	\$ 9,479,661	\$ 9,464,703	\$ 9,117,475
Discount Rate (b)	8.00%	8.00%	7.75%
Entry Age Normal Cost for			
October 1, 2015 - September 30, 2016 (c)	\$ 198,517	\$ 198,517	\$ 192,834
Transfers Among Employers (d)		\$ 15,103	\$ 15,103
Actual Benefit Payments and Refunds for			
October 1, 2015 - September 30, 2016 (e)	\$ (514,371)	\$ (514,371)	\$ (514,371)
Total Pension Liability			
as of September 30, 2016			
[(a) x (1 + (b))] + (c) + (d) + [(e) x (1 + 0.5*(b))]	<u>\$ 9,901,605</u>	<u>\$ 9,900,553</u>	<u>\$ 10,074,772</u>

**Changes in Net Pension Liability -
The Water and Wastewater Board**

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Position Liability (a)-(b)</u>
Balances at 09/30/2015	\$ 9,479,661	\$ 6,137,973	\$ 3,341,688
Changes for the year:			
Service cost	198,517	-	198,517
Interest	737,798	-	737,798
Changes of Assumptions	174,219	-	174,219
Differences between expected and actual experience	(16,155)	-	(16,155)
Contributions - employer	-	212,258	(212,258)
Contributions - employee	-	187,684	(187,684)
Net investment income	-	620,041	(620,041)
Benefit payments, including refunds of employee contributions	(514,371)	(514,371)	-
Administrative expense	-	-	-
Transfers among employers	15,103	15,103	-
Net Changes	<u>595,111</u>	<u>520,715</u>	<u>74,396</u>
Balances at 09/30/2016	<u>\$ 10,074,772</u>	<u>\$ 6,658,688</u>	<u>\$ 3,416,084</u>

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

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

The following table presents the Board's net pension liability calculated using the discount rate of 7.75%, 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 (6.75%) or 1-percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increases (8.75%)
Company's net pension liability	\$ 4,633,507	\$ 3,416,084	\$ 2,394,036

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

For the year ended September 30, 2017, the Board recognized pension expense of \$405,329. At September 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experiences	\$ 440,146	\$ 13,847
Changes of Assumption	149,331	-
Net difference between projected and actual earnings on pension plan investments	54,948	-
Employer contributions subsequent to the measurement date	238,044	-
Total	<u>\$ 882,469</u>	<u>\$ 13,847</u>

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

Year ended September 30:	
2018	\$ 134,673
2019	134,673
2020	180,037
2021	96,017
2022	62,594
Thereafter	22,584

CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 5. OTHER INFORMATION –CONTINUED

Component Unit – Madison City Board of Education

Plan Description

The Teacher's 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 operation of the 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 members 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 offices, 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.

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.

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

Participating employers' contractually required contribution rate for the year ended September 30, 2017 was 12.01% of annual pay for Tier 1 members and 10.82% 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 System were \$6,172,727 for the year ended September 30, 2017.

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

At September 30, 2017 the System reported a liability of \$84,153,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015. The System'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, 2016 the System's proportion was 0.777323%, which was an increase of 0.027173% from its proportion measured as of September 30, 2015.

For the year ended September 30, 2017, the System recognized pension expense of \$6,172,727. At September 30, 2017 the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ -	\$ 2,167,000
Changes of Assumption	5,942,000	-
Net difference between projected and actual earnings on pension plan investments	1,216,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,999,000	
Employer contributions subsequent to the measurement date	6,172,727	-
Total	\$ 17,329,727	\$ 2,167,000

\$6,172,727 reported as deferred outflows of resources related to pensions resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2018	\$ 2,203,000
2019	2,203,000
2020	3,397,000
2021	747,000
2022	440,000
Thereafter	-

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

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

The actuarial assumptions used in the actuarial valuation as of September 30, 2015, 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, in conjunction with the assumptions from the most recent experience study prepared as of September 30, 2015, detailed in a report dated July 1, 2016 and accepted by the Board of Control on September 13, 2016.

Post-Retirement mortality rates for service retirements and dependent beneficiaries were based on the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and 115% for all ages for males and 112% for ages 78 and over for females, as appropriate. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

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

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

*Includes assumed rate of inflation of 2.50%

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made 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.

Sensitivity of the System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the System's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the System'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 (6.75%)	Current Rate (7.75%)	1% Increases (8.75%)
Plan's net pension liability	\$ 112,110,000	\$ 84,153,000	\$ 60,484,000

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2015. The auditor's report dated September 22, 2017 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, 2016 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

G. OTHER POST-EMPLOYMENT BENEFITS

Primary Government

General Information

In fiscal year 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (OPEB). The City recognizes the cost of OPEB during the period of employees' active employment and discloses the accumulated liability from prior years to account accurately for the total future cost of OPEB and the financial impact on the City. The City phases the accumulated liability over 30 years beginning with the liability of fiscal year 2009.

Plan Description

The City's OPEB is a single-employer defined benefit healthcare plan administered by the City. To be eligible an employee must retire with the City of Madison and be eligible for retirement through Employees' Retirement System of Alabama (the System). The System retirement eligibility requirements are described in detail in Note 5 (F). At retirement, the City offers a retiree major medical insurance coverage through the City's group plan. If the retiree elects to participate in the City's group plan and is age 58 ½ with 10 years creditable service with the City, or 25 years of service with the City, regardless of age, the retiree pays 100% of the premium cost. The City allows the retiree to participate in the City's group plan until the retiree becomes

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

eligible for Medicare. The City pays 50% of the premium cost for an employee who retires at age 60 with 25 years of creditable service with the City. The postemployment benefit policy was established by City ordinance and approved by the City Council. The City Council is the governing body, which approves and amends the policy. The Human Resources Department administers the City's OPEB policy.

Funding Policy

The City currently pays 100% of the OPEB benefits on a pay-as-you-go basis. The City's policies stipulate the amount subjected to annual appropriation by the City. The City has the option to establish a trust to accumulate and invest assets necessary to pay the accumulated liability. These financial statements are prepared assuming pay-as-you-go funding will continue. The City's funding policy is not to fund the Annual Required Contribution except to the extent of the current year's retiree costs.

Annual Required Contribution

The City's annual required contribution (ARC) is an amount actuarially determined in accordance with GASB No. 45. The ARC is the sum of the normal cost plus the contribution to amortize the actuarial accrued liability (AAL). A level dollar, closed amortization period of 30 years (the maximum amortization period allowed by GASB No. 45) is used for the OPEB.

The following table shows the components of the annual OPEB cost for the amount actually contributed to the plan, and changes in the net OPEB obligation:

Annual required contribution	\$	59,929
Interest on net OPEB obligation		14,623
Adjustment to annual required contribution		<u>(13,507)</u>
Annual OPEB cost (expense)		61,045
Contributions made		<u>18,279</u>
Increase in net OPEB obligation		42,766
Net OPEB obligation-beginning of year		<u>365,565</u>
Net OPEB obligation-end of year	\$	<u><u>408,331</u></u>

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

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
9/30/2015	\$ 60,739	5.53%	\$ 322,930
9/30/2016	\$ 60,914	30.01%	\$ 365,565
9/30/2017	\$ 61,044	29.94%	\$ 408,331

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

Funding Status and Funding Progress

The funded status of the City's plan as of September 30, 2015 (the latest actuarial valuation date), is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2010	\$ -	\$ 489,174	\$ 489,174	0.00%	\$ 15,305,233	3.20%
9/30/2012	\$ -	\$ 512,337	\$ 512,337	0.00%	\$ 14,478,183	3.54%
9/30/2014	\$ -	\$ 627,906	\$ 627,906	0.00%	\$ 14,749,140	4.26%
9/30/2016	\$ -	\$ 834,615	\$ 834,615	0.00%	\$ 12,984,985	6.43%

As of September 30, 2016, the most recent actuarial valuation date, the City's OPEB plan was 100% unfunded. Actuarial valuations of an ongoing plan involve estimates of the value of the reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include, but are not limited to, future employment, mortality, and healthcare cost trends. 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 compared with past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial liability and the actuarial value of the plan assets, consistent with the long-term perspective of the calculations.

At September 30, 2016, actuarial valuation costs were determined using the Projected Unit Credit Actuarial Cost Method. The actuarial assumptions include (1) 4% investment rate of return with an inflation rate of 3.25%, (2) 7.50%- 5.00% medical cost trend over 5 years, (3) 50% participation by retirees at age 60 with 25 years of local service and 20% participation by all other retirees, and (4) unfunded accrued liability is being amortized over a thirty-year period utilizing a level percentage of projected payroll on an open basis.

Component Unit – Madison City Board of Education

The Board contributes to the Alabama Retired Education Employees' Health Care Trust (the "Trust"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. The Trust provides health care benefits to state and local school system retirees and was established in 2007 under the provisions of Act Number 2007-16 as an irrevocable trust fund. Responsibility for general administration and operations of the Trust is vested with the Public Education Employees' Health Insurance Board (PEEHIB) members. The 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. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees' Health Insurance Plan website, <http://www.rsa-al.gov> under the Employers' Financial Reports section.

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 83-455 to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the PEEHIB. Any Trust fund assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available in the PEEHIF and if excess funds are determined to be available, the PEEHIB authorizes a transfer of funds from the PEEHIF to the Trust. Retirees are required to contribute monthly as follows:

Individual Coverage - Non-Medicare Eligible	\$	166
Individual Coverage - Medicare Eligible Retired Member	\$	25
Family Coverage - Non Medicare Eligible Retired Member and Non-Medicare Eligible Non-Spousal Dependent(s)	\$	421
Family Coverage - Non Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) with Non-Medicare Eligible Spouse	\$	521
Family Coverage - Non Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$	280
Family Coverage - Non Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	\$	310
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - No Spouse	\$	280
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependen(s) - with Non-Medicare Eligible Spouse	\$	380
Family Coverage - Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$	139
Family Coverage - Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	\$	169
Surviving Spouse Non-Medicare Eligible	\$	816
Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$	1,028
Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible	\$	1,067
Surviving Spouse Medicare Eligible	\$	430
Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible	\$	720
Surviving Spouse Medicare Eligible and Dependent Medicare Eligible	\$	759

For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium.

The Board is required to contribute at a rate specified by the State for each active employee. The Board's share of premiums for retired Board employees health insurance is included as part of the premium for active employees.

**CITY OF MADISON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. OTHER INFORMATION –CONTINUED

The following shows the required contributions in dollars and the percentage of that amount contributed for Board retirees:

Fiscal Year Ended September 30,	2017	2016
Active Health Insurance Premiums Paid by the Board	\$ 800.00	\$ 780.00
Amount of Premium Attributable to Retirees	\$ 153.00	\$ 211.00
Percentage of Active Employee Premiums Attributable to Retirees	19.07%	27.08%
Percentage of Required Amount Contributed	100.00%	100.00%
Total Amount Paid Attributable to Retirees	\$ 2,070,897.00	\$ 2,833,779.00

Each year the PEEHIB certifies to the Governor and to the Legislature the contribution rates based on the amount needed to fund coverage for benefits for the following fiscal year and the Legislature sets the premium rate in the annual appropriation bill.

The Board has accounted for payments made by the federal government for retiree drug subsidy (RDS) payments in accordance with GASB Technical Bulletin 2006-1. This bulletin requires the RDS to be recorded as an “on-behalf payment”, resulting in offsetting revenues and expenditures. The amount recognized in the 2017 financial statements for RDS is \$552,746.

H. Tax Abatements

At times the City may negotiate with developers or retailers to abate portions of sales taxes for a variety of economic development purposes, including business relocation, retention, and expansion. The City has not made any commitments as part of the agreements other than to reduce taxes. The City is not subject to any tax abatement agreements entered into by other governmental entities. The City has chosen to disclose information about its significant tax abatement agreements individually. For the year ended September 30, 2017, the City had the following amounts abated related to agreements with retailers:

- A 71% abatement of the 3.5% of sales tax due the City for the grocery store chain to open a store in the City limits. The abatement amounts to \$156,666 for 2017.
- A 71% abatement of the 3.5% of sales tax due the City for the fast food restaurant chain to open a store in the City limits. The abatement amounts to \$18,286 for 2017.
- A 57% abatement of the 3.5% of sales tax due the City for the fast food restaurant chain to open a store in the City limits. The abatement amounts to \$6,525 for 2017.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF MADISON, ALABAMA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – BY ACTIVITY
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes:				
Property and payments in lieu of taxes	\$ 4,631,473	\$ 4,664,473	\$ 5,561,228	\$ 896,755
Sales and use	11,370,000	11,685,000	11,983,553	298,553
Franchise	1,031,372	1,079,380	1,279,739	200,359
Alcoholic beverages	1,089,000	1,096,000	1,292,509	196,509
Rental	440,000	460,000	491,083	31,083
Lodging	1,317,000	1,317,000	1,418,070	101,070
Other	536,216	536,216	159,822	(376,394)
Licenses and permits	4,704,750	4,704,750	5,430,089	725,339
Intergovernmental	31,000	31,000	23,272	(7,728)
Charges for services	1,528,420	1,528,442	1,637,090	108,648
Fines	700,000	700,000	764,236	64,236
Interest income	52,400	54,400	68,693	14,293
Contributions and donations	11,000	11,000	42,526	31,526
Other revenues	568,000	584,569	988,822	404,253
	<u>28,010,631</u>	<u>28,452,230</u>	<u>31,140,732</u>	<u>2,688,502</u>
EXPENDITURES				
Current:				
General Services	2,821,580	2,832,130	2,895,375	(63,245)
Police	7,317,832	7,264,799	6,767,926	496,873
Public Works	2,666,955	2,698,955	2,248,602	450,353
City Clerk	401,673	401,673	363,257	38,416
Parks and Recreation	2,514,677	2,604,247	2,377,695	226,552
Fire	5,878,408	5,263,570	4,951,969	311,601
Planning and Economic Development	598,133	613,847	508,477	105,370
Municipal Court	1,250,692	1,250,692	1,141,296	109,396
City Council	142,185	142,185	130,258	11,927
Finance	604,456	604,456	577,101	27,355
Human resources	4,800,667	4,834,137	4,353,503	480,634
Mayor's Office	295,427	344,252	297,912	46,340
Revenue	305,545	305,545	284,190	21,355
Engineering	1,988,271	2,793,271	1,691,203	1,102,068
Senior center	343,937	345,837	267,267	78,570
Information technology	588,565	615,031	539,939	75,092
Legal	431,127	365,460	355,992	9,468
Building	1,022,952	1,022,952	811,160	211,792
	<u>33,973,082</u>	<u>34,303,039</u>	<u>30,563,122</u>	<u>3,739,917</u>
Excess (deficiency) of revenues over expenditures	<u>(5,962,451)</u>	<u>(5,850,809)</u>	<u>577,610</u>	<u>6,428,419</u>
OTHER FINANCING SOURCES (USES)				
Sales of capital assets	-	18,000	128,557	110,557
Transfers from other funds	3,612,960	3,612,960	3,170,071	(442,889)
Transfers to other funds	(400,000)	(975,000)	(1,687,114)	(2,662,114)
	<u>3,212,960</u>	<u>2,655,960</u>	<u>1,611,514</u>	<u>(2,994,446)</u>
NET CHANGE IN FUND BALANCE	(2,749,491)	(3,194,849)	2,189,124	3,433,973
Fund balance (deficit), beginning	<u>12,283,186</u>	<u>12,283,186</u>	<u>12,283,186</u>	<u>-</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 9,533,695</u>	<u>\$ 9,088,337</u>	<u>\$ 14,472,310</u>	<u>\$ 3,433,973</u>

CITY OF MADISON, ALABAMA
GENERAL OBLIGATION BOND COLLECTION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – BY ACTIVITY
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes:				
Property and payments in lieu of taxes	\$ 3,535,714	\$ 3,535,714	\$ 5,720,440	\$ 2,184,726
Sales and use	5,455,189	5,455,189	6,060,171	604,982
Interest income	2,000	2,000	3,349	1,349
Total revenues	8,992,903	8,992,903	11,783,960	2,791,057
EXPENDITURES				
Current:				
General Services	10,000	10,000	6,680	3,320
Total expenditures	10,000	10,000	6,680	3,320
Excess (deficiency) of revenues over expenditures	8,982,903	8,982,903	11,777,280	2,794,377
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	400,000	400,000	-	(400,000)
Transfers to other funds	(9,087,859)	(9,087,859)	(8,646,830)	441,029
Total other financing sources (uses), net	(8,687,859)	(8,687,859)	(8,646,830)	41,029
NET CHANGE IN FUND BALANCE	295,044	295,044	3,130,450	2,835,406
Fund balance (deficit), beginning	1,259,877	1,259,877	1,259,877	-
FUND BALANCE (DEFICIT), ENDING	\$ 1,554,921	\$ 1,554,921	\$ 4,390,327	\$ 2,835,406

**CITY OF MADISON, ALABAMA
SCHOOL BONDS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – BY ACTIVITY
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes:				
Property and payments in lieu of taxes	\$ 5,361,855	\$ 5,361,855	\$ 6,919,460	\$ 1,557,605
Interest income	-	-	219	219
Total revenues	5,361,855	5,361,855	6,919,679	1,557,824
EXPENDITURES				
Debt service:				
Principal	1,480,000	1,480,000	1,525,000	(45,000)
Interest	3,881,855	3,881,855	5,407,707	(1,525,852)
Capital Outlay	-	-	-	-
Total expenditures	5,361,855	5,361,855	6,932,707	(1,570,852)
Excess (deficiency) of revenues over expenditures	-	-	(13,028)	(13,028)
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	-	-	-	-
Bond issue premium	-	-	-	-
Issuance of refunding bonds	-	-	-	-
Payment to refunding bonds escrow agent	-	-	-	-
Total other financing sources (uses), net	-	-	-	-
NET CHANGE IN FUND BALANCE	-	-	(13,028)	(13,028)
Fund balance (deficit), beginning	16,009	16,009	16,009	-
FUND BALANCE (DEFICIT), ENDING	\$ 16,009	\$ 16,009	\$ 2,981	\$ (13,028)

CITY OF MADISON, ALABAMA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
LAST 10 FISCAL YEARS ENDING SEPTEMBER 30

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Service Cost	\$ 1,322,826	\$ 1,313,993	\$ 1,293,881
Interest	4,083,921	3,830,353	3,588,378
Changes of benefit terms	-	-	-
Differences between expected and actual experience	252,221	26,523	-
Changes of assumptions	2,379,994	-	-
Benefit payments, including refunds of employee contributions	(2,104,335)	(1,898,212)	(1,816,933)
Transfers among employers	(566,687)	-	-
Net change in total pension liability	<u>5,367,940</u>	<u>3,272,657</u>	<u>3,065,326</u>
Total pension liability - beginning	<u>52,101,174</u>	<u>48,828,517</u>	<u>45,763,191</u>
Total pension liability - ending (a)	<u>\$ 57,469,114</u>	<u>\$ 52,101,174</u>	<u>\$ 48,828,517</u>
Plan fiduciary net position			
Contributions - employer	\$ 1,231,311	\$ 1,241,889	\$ 1,187,884
Contributions - member	909,104	842,647	821,163
Net investment income	4,064,241	469,958	4,224,470
Benefit payments, including refunds of employee contributions	(2,104,335)	(1,898,212)	(1,816,933)
Transfers among employers	(566,687)	(6,255)	(11,338)
Net change in plan fiduciary net position	<u>3,533,634</u>	<u>650,027</u>	<u>4,405,246</u>
Plan net position - beginning	<u>40,172,886</u>	<u>39,522,859</u>	<u>35,117,613</u>
Plan net position - ending (b)	<u>\$ 43,706,520</u>	<u>\$ 40,172,886</u>	<u>\$ 39,522,859</u>
Net pension liability (asset) - ending (a)-(b)	\$ 13,762,594	\$ 11,928,288	\$ 9,305,658
Plan fiduciary net position as a percentage of the total pension liability	76.05%	77.11%	80.94%
Covered-employee payroll	\$ 15,858,229	\$ 15,649,404	\$ 14,894,040
Net pension liability (asset) as a percentage of covered-employee payroll	86.79%	76.22%	62.48%

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

**CITY OF MADISON, ALABAMA
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST 10 FISCAL YEARS ENDING SEPTEMBER 30**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 1,325,320	\$ 1,195,974	\$ 1,187,884
Contributions in relation to the actuarially determined contribution	<u>(1,325,320)</u>	<u>(1,195,974)</u>	<u>(1,187,884)</u>
Contribution deficiency (excess)	<u><u> </u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Covered payroll	\$ 15,858,229	\$ 15,649,404	\$ 14,894,040
Contribution as percentage of covered employee-payroll	8.36%	7.64%	7.98%

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

Notes to Schedule

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

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

<i>Actuarial cost method</i>	<i>Entry Age</i>
<i>Amortization method</i>	<i>Level percent closed</i>
<i>Remaining amortization period</i>	<i>22 years</i>
<i>Asset valuation method</i>	<i>Five year smoothed market</i>
<i>Inflation</i>	<i>3.00%</i>
<i>Salary increases</i>	<i>3.75 - 7.25%, including inflation</i>
<i>Investment rate of return</i>	<i>8.00%, net of pension plan investment expense, including inflation</i>

** This schedule is presented to illustrate the requirement to show information for 10 years. However, as 2015 was the implementation year, only data for the current and prior year have been presented. Additional subsequent years' information will be added in subsequent years until a full 10-year trend is compiled.*

**CITY OF MADISON, ALABAMA
WATER AND WASTEWATER BOARD
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
LAST 10 FISCAL YEARS ENDING SEPTEMBER 30**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Service Cost	\$ 198,517	\$ 192,834	\$ 196,052
Interest	737,798	660,435	635,366
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(16,155)	640,212	-
Changes of assumptions	174,219	-	-
Benefit payments, including refunds of employee contributions	(514,371)	(538,506)	(497,602)
Transfers among employers	15,103	-	-
Net change in total pension liability	<u>595,111</u>	<u>954,975</u>	<u>333,816</u>
Total pension liability - beginning	9,479,661	8,524,686	8,190,870
Total pension liability - ending (a)	<u>\$ 10,074,772</u>	<u>\$ 9,479,661</u>	<u>\$ 8,524,686</u>
Plan fiduciary net position			
Contributions - employer	\$ 212,258	\$ 162,502	\$ 140,634
Contributions - member	187,684	168,654	160,406
Net investment income	620,041	73,145	680,589
Benefit payments, including refunds of employee contributions	(514,371)	(538,506)	(497,602)
Transfers among employers	15,103	6,216	22,826
Net change in plan fiduciary net position	<u>520,715</u>	<u>(127,989)</u>	<u>506,853</u>
Plan net position - beginning	6,137,973	6,265,962	5,759,109
Plan net position - ending (b)	<u>\$ 6,658,688</u>	<u>\$ 6,137,973</u>	<u>\$ 6,265,962</u>
Net pension liability (asset) - ending (a)-(b)	\$ 3,416,084	\$ 3,341,688	\$ 2,258,724
Plan fiduciary net position as a percentage of the total pension liability	66.09%	64.75%	73.50%
Covered-employee payroll	\$ 2,419,021	\$ 2,342,196	\$ 2,164,396
Net pension liability (asset) as a percentage of covered-employee payroll	141.22%	142.67%	104.36%

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

**CITY OF MADISON, ALABAMA
WATER AND WASTEWATER BOARD
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST 10 FISCAL YEARS ENDING SEPTEMBER 30**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 238,044	\$ 211,782	\$ 163,092
Contributions in relation to the actuarially determined contribution	<u>(238,044)</u>	<u>(211,782)</u>	<u>(163,092)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	\$ 2,581,792	\$ 2,419,021	\$ 2,342,196
Contribution as percentage of covered payroll	9.22%	8.75%	6.96%

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

Notes to Schedule

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

Methods and assumptions used to determine contribution rates:

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

** This schedule is presented to illustrate the requirement to show information for 10 years. However, as 2015 was the implementation year, only data for the current and prior year have been presented. Additional subsequent years' information will be added in subsequent years until a full 10-year trend is compiled.*

**CITY OF MADISON, ALABAMA
MADISON CITY BOARD OF EDUCATION
SCHEDULE OF SYSTEM'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 FISCAL YEARS ENDING SEPTEMBER 30**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
System's proportion of the collective net pension liability	0.773230%	0.750150%	0.726877%
Systems's proportionate share of the net pension liability	\$ 84,153,000	\$ 78,508,000	\$ 66,034,000
System's covered-employee payroll	\$ 49,443,833	\$ 47,523,599	\$ 46,123,000
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	58.75%	60.53%	69.85%
Plan fiduciary net positon as a percentage of the total pension liability	67.93%	67.51%	71.01%

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

**CITY OF MADISON, ALABAMA
MADISON CITY BOARD OF EDUCATION
BOARD OF EDUCATION SCHEDULE OF SYSTEM CONTRIBUTIONS
LAST 10 FISCAL YEARS ENDING SEPTEMBER 30**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 6,172,727	\$ 5,828,327	\$ 5,529,834
Contributions in relation to the contractually required contribution	<u>(6,172,727)</u>	<u>(5,828,327)</u>	<u>(5,529,834)</u>
Contribution deficiency (excess)	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
System's covered-employee payroll	\$ 52,331,783	\$ 49,443,833	\$ 47,523,599
Contributions as a percentage of covered-employee payroll	11.80%	11.79%	11.64%

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

SUPPLEMENTARY INFORMATION

**CITY OF MADISON, ALABAMA
NON-MAJOR GOVERNMENTAL FUNDS – SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2017**

	Gasoline Taxes and Inspection Fees Fund	TVA Tax Distribution Fund	Senior Center Donation Fund	Library Fund	Correctional Fund	Municipal Government Capital Improvement Fund	Federal Forfeiture Fund	Street Repairs and Maintenance Fund	Storm Water Users Fee Fund	Capital Replacement Fund	Infrastructure Repair Fund	Redevelopment Authority Fund	Total Nonmajor Governmental Special Rev. Funds
ASSETS													
Cash and cash equivalents	\$ 972,692	\$ 11,277	\$ 3,606	\$ 173,706	\$ 312,586	\$ 1,062,854	\$ 4,104	\$ 115,228	\$ 162,516	\$ 260,351	\$ 1,048,821	\$ -	\$ 4,127,741
Receivables (net of allowances):													
Taxes	-	-	-	376,082	-	-	-	-	-	63,559	63,558	-	503,199
Accounts	175,024	11,704	-	-	-	-	-	-	-	-	-	-	186,728
Prepaid items	-	-	-	336	-	-	-	-	-	-	-	-	336
Due from other funds	9,407	-	-	-	20,665	-	-	-	-	5,927	-	-	35,999
Total assets	\$ 1,157,123	\$ 22,981	\$ 3,606	\$ 550,124	\$ 333,251	\$ 1,062,854	\$ 4,104	\$ 115,228	\$ 162,516	\$ 329,837	\$ 1,112,379	\$ -	\$ 4,854,003
DEFERRED OUTFLOWS OF RESOURCES													
	-	-	-	-	-	-	-	-	-	-	-	-	-
LIABILITIES													
Accounts Payable	\$ 68,798	\$ 3,388	\$ -	\$ 3,908	\$ -	\$ -	\$ -	\$ 710	\$ 13,576	\$ 363	\$ -	\$ -	\$ 90,743
Due to other funds	31,656	1,825	90	-	-	-	-	-	-	-	-	-	33,571
Total liabilities	100,454	5,213	90	3,908	-	-	-	710	13,576	363	-	-	124,314
DEFERRED INFLOWS OF RESOURCES													
	-	-	-	341,004	-	-	-	-	-	-	-	-	341,004
FUND BALANCES													
Nonspendable	-	-	-	336	-	-	-	-	-	-	-	-	336
Restricted:													
Capital Improvements	-	-	-	-	-	1,062,854	-	-	-	329,474	1,112,379	-	2,504,707
Other	1,056,669	17,768	-	204,876	333,251	-	4,104	114,518	148,940	-	-	-	1,880,126
Assigned	-	-	3,516	-	-	-	-	-	-	-	-	-	3,516
Total fund balance (deficit)	1,056,669	17,768	3,516	205,212	333,251	1,062,854	4,104	114,518	148,940	329,474	1,112,379	-	4,388,695
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,157,123	\$ 22,981	\$ 3,606	\$ 550,124	\$ 333,251	\$ 1,062,854	\$ 4,104	\$ 115,228	\$ 162,516	\$ 329,837	\$ 1,112,379	\$ -	\$ 4,854,003

**CITY OF MADISON, ALABAMA
NON-MAJOR GOVERNMENTAL FUNDS – SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Gasoline Taxes and Inspection Fees Fund	TVA Tax Distribution Fund	Senior Center Donation Fund	Library Fund	Correctional Fund	Municipal Government Capital Improvement Fund	Federal Forfeiture Fund	Street Repairs and Maintenance Fund	Storm Water Users Fee Fund	Capital Replacement Fund	Infrastructure Repair Fund	Redevelopment Authority Fund	Total Nonmajor Governmental Special Rev. Funds
REVENUES													
Taxes:													
Property and payments in lieu of taxes	\$ 444,360	\$ -	\$ -	\$ 502,836	\$ -	\$ -	\$ -	\$ -	\$ 290,655	\$ 746,645	\$ -	\$ -	1,237,651
Sales and use	-	-	-	-	-	-	-	-	-	-	746,528	-	1,493,173
Intergovernmental	835,111	63,837	-	-	-	-	-	-	-	-	-	-	898,948
Fines	-	-	-	-	229,789	-	-	-	-	-	-	-	229,789
Contributions and donations	-	-	16,636	-	-	-	-	-	-	-	-	-	16,636
Other revenues	28,650	-	4,010	-	107	365,598	-	50,000	254	-	-	-	448,619
Interest income	890	15	8	430	227	1,253	1	129	35	392	825	-	4,205
Total revenues	1,309,011	63,852	20,654	503,266	230,123	366,851	1	50,129	290,944	747,037	747,353	-	4,329,221
EXPENDITURES													
Current:													
General Services	-	37,275	-	666,419	-	-	-	-	-	-	-	3,150	706,844
Police	-	-	-	-	-	-	1,068	-	-	13,392	-	-	14,460
Fire	-	-	-	-	-	-	-	-	-	1,798,087	-	-	1,798,087
Municipal Court	-	-	-	-	-	-	-	-	-	41,491	-	-	41,491
Mayor's Office	-	-	-	-	-	-	-	-	-	36,011	-	-	36,011
Revenue	-	-	-	-	-	-	-	-	-	10,703	-	-	10,703
Public Works	1,202,553	-	-	-	-	-	-	27,216	201,916	-	-	-	1,431,685
Engineering	-	-	-	-	-	-	-	-	-	-	409,196	-	409,196
Senior Center	-	-	25,476	-	-	-	-	-	-	57,904	-	-	83,380
Building	-	-	-	-	-	-	-	-	-	65,992	-	-	65,992
Capital Outlay	-	-	-	-	-	-	-	-	-	892,163	-	-	892,163
Total expenditures	1,202,553	37,275	25,476	666,419	-	-	1,068	27,216	201,916	2,915,743	409,196	3,150	5,490,012
Excess (deficiency) of revenues over expenditures	106,458	26,577	(4,822)	(163,153)	230,123	366,851	(1,067)	22,913	89,028	(2,168,706)	338,157	(3,150)	(1,160,791)
OTHER FINANCING SOURCES (USES)													
Transfers from other funds	-	-	-	400,000	-	700,000	-	-	-	2,067,000	-	-	3,167,000
Transfers to other funds	-	(20,071)	-	-	(192,000)	(1,250,000)	-	-	-	-	-	-	(1,462,071)
Total other financing sources (uses), net	-	(20,071)	-	400,000	(192,000)	(550,000)	-	-	-	2,067,000	-	-	1,704,929
NET CHANGE IN FUND BALANCE	106,458	6,506	(4,822)	236,847	38,123	(183,149)	(1,067)	22,913	89,028	(101,706)	338,157	(3,150)	544,138
Fund balance (deficit), beginning	950,211	11,262	8,338	(31,635)	295,128	1,246,003	5,171	91,605	59,912	431,180	774,222	3,150	3,844,547
FUND BALANCE (DEFICIT), ENDING	\$ 1,056,669	\$ 17,768	\$ 3,516	\$ 205,212	\$ 333,251	\$ 1,062,854	\$ 4,104	\$ 114,518	\$ 148,940	\$ 329,474	\$ 1,112,379	\$ -	\$ 4,388,685

**CITY OF MADISON, ALABAMA
DESCRIPTION OF NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

SPECIAL REVENUE

Special Revenue funds are used to account for specific revenues legally restricted to expenditures for particular purposes.

Gasoline Taxes and Inspection Fees Fund – This fund is used to account for the City's share of the State 7-cent, 5-cent, 4-cent, petroleum inspection fees and the City's 2-cent gasoline taxes. State law requires these gasoline taxes to be used for the operation and maintenance of streets and highways. The state limits the use of the 4-cent gasoline tax to resurfacing, restoring and rehabilitating roads and bridges.

The City uses the 2-cent gasoline tax for operation and maintenance of streets.

TVA Tax Distribution Fund – This fund is used to account for revenues restricted to expenditures for the school system. A total of 65% of the revenues of TVA Tax distribution are restricted for the school system.

Senior Center Donation Fund – This fund is used to account for the operation of the City's senior center. Funds provided to the City for the senior center are used only for that purpose.

Library Fund – This fund is used to account for the operation of the City Public Library.

Correctional Fund – This fund is used to account for revenues generated from fines restricted by the State for operation and maintenance of municipal jail services and court related purposes.

Municipal Government Capital Improvement Fund – This fund is used to account for expenditures of revenues received from the state solely for capital improvements.

Federal Forfeiture Fund – This fund is used to account for sharing funds received from the U.S. Department of Justice and the U.S. Department of the Treasury.

Street Repairs and Maintenance Fund – This fund is used to account for revenues and expenditures for repairs and maintenance work performed on City streets in accordance with agreement with Madison Utilities.

Capital Replacement Fund – This fund is used to account for revenues from 25% of the ½ cent sales tax used for the purchase and replacement of capital outlay items.

Infrastructure Repair Fund – This fund is used to account for revenues from 25% of the ½ cent sales tax used for the repairs and maintenance of neighborhood streets and roads

**CITY OF MADISON, ALABAMA
GASOLINE TAXES AND INSPECTION FEES FUND
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property and payments in lieu of taxes	\$ 375,950	\$ 375,950	\$ 444,360	\$ 68,410
Intergovernmental	767,968	767,968	835,111	67,143
Interest income	-	-	890	890
Other revenues	-	-	28,650	28,650
Total revenues	<u>1,143,918</u>	<u>1,143,918</u>	<u>1,309,011</u>	<u>165,093</u>
EXPENDITURES				
Current:				
General Services	-	-	-	-
Public Works	1,417,250	1,417,250	1,202,553	214,697
Total expenditures	<u>1,417,250</u>	<u>1,417,250</u>	<u>1,202,553</u>	<u>214,697</u>
Excess (deficiency) of revenues over expenditures	<u>(273,332)</u>	<u>(273,332)</u>	<u>106,458</u>	<u>379,790</u>
NET CHANGE IN FUND BALANCE	(273,332)	(273,332)	106,458	379,790
Fund balance (deficit), beginning	<u>950,211</u>	<u>950,211</u>	<u>950,211</u>	<u>-</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 676,879</u>	<u>\$ 676,879</u>	<u>\$ 1,056,669</u>	<u>\$ 379,790</u>

**CITY OF MADISON, ALABAMA
TVA TAX DISTRIBUTION FUND
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 80,000	\$ 80,000	\$ 63,837	\$ (16,163)
Interest income	-	-	15	15
Total revenues	<u>80,000</u>	<u>80,000</u>	<u>63,852</u>	<u>(16,148)</u>
EXPENDITURES				
Current:				
General Services	<u>52,000</u>	<u>52,000</u>	<u>37,275</u>	<u>14,725</u>
Total expenditures	<u>52,000</u>	<u>52,000</u>	<u>37,275</u>	<u>14,725</u>
Excess (deficiency) of revenues over expenditures	<u>28,000</u>	<u>28,000</u>	<u>26,577</u>	<u>(1,423)</u>
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	<u>(28,000)</u>	<u>(28,000)</u>	<u>(20,071)</u>	<u>7,929</u>
Total other financing sources (uses)	<u>(28,000)</u>	<u>(28,000)</u>	<u>(20,071)</u>	<u>7,929</u>
NET CHANGE IN FUND BALANCE	-	-	6,506	6,506
Fund balance (deficit), beginning	<u>11,262</u>	<u>11,262</u>	<u>11,262</u>	<u>-</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 11,262</u>	<u>\$ 11,262</u>	<u>\$ 17,768</u>	<u>\$ 6,506</u>

**CITY OF MADISON, ALABAMA
SENIOR CENTER DONATION FUND
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Contributions and donations	\$ 1,000	\$ 4,300	\$ 16,636	\$ 12,336
Other Revenues	-	-	4,010	4,010
Interest income	-	-	8	8
	<u>1,000</u>	<u>4,300</u>	<u>20,654</u>	<u>16,354</u>
EXPENDITURES				
Current:				
Senior Center	<u>3,500</u>	<u>10,803</u>	<u>25,476</u>	<u>(14,673)</u>
Total expenditures	<u>3,500</u>	<u>10,803</u>	<u>25,476</u>	<u>(14,673)</u>
Excess (deficiency) of revenues over expenditures	<u>(2,500)</u>	<u>(6,503)</u>	<u>(4,822)</u>	<u>1,681</u>
NET CHANGE IN FUND BALANCE	(2,500)	(6,503)	(4,822)	1,681
Fund balance (deficit), beginning	<u>8,338</u>	<u>8,338</u>	<u>8,338</u>	<u>-</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 5,838</u>	<u>\$ 1,835</u>	<u>\$ 3,516</u>	<u>\$ 1,681</u>

**CITY OF MADISON, ALABAMA
LIBRARY FUND
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Prroperty and payment in lieu of taxes	\$ 331,072	\$ 331,072	\$ 502,836	\$ 171,764
Interest Income	-	-	430	430
Total revenues	<u>331,072</u>	<u>331,072</u>	<u>503,266</u>	<u>172,194</u>
EXPENDITURES				
Current:				
General Services	<u>713,430</u>	<u>713,430</u>	<u>666,419</u>	<u>47,011</u>
Total expenditures	<u>713,430</u>	<u>713,430</u>	<u>666,419</u>	<u>47,011</u>
Excess (deficiency) of revenues over expenditures	<u>(382,358)</u>	<u>(382,358)</u>	<u>(163,153)</u>	<u>219,205</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>	<u>-</u>
Total other financing sources (uses)	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	17,642	17,642	236,847	219,205
Fund balance (deficit), beginning	<u>(31,635)</u>	<u>(31,635)</u>	<u>(31,635)</u>	<u>-</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ (13,993)</u>	<u>\$ (13,993)</u>	<u>\$ 205,212</u>	<u>\$ 219,205</u>

**CITY OF MADISON, ALABAMA
CORRECTIONAL FUND
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Fines	\$ 191,400	\$ 191,400	\$ 229,789	\$ 38,389
Other Revenues	-	-	107	107
Interest Income	-	-	227	227
Total revenues	<u>191,400</u>	<u>191,400</u>	<u>230,123</u>	<u>38,723</u>
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	<u>(150,000)</u>	<u>(192,000)</u>	<u>(192,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(150,000)</u>	<u>(192,000)</u>	<u>(192,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	41,400	(600)	38,123	38,723
Fund balance (deficit), beginning	<u>295,128</u>	<u>295,128</u>	<u>295,128</u>	<u>-</u>
FUND BALANCE (DEFICIT), ENDING	<u><u>\$ 336,528</u></u>	<u><u>\$ 294,528</u></u>	<u><u>\$ 333,251</u></u>	<u><u>\$ 38,723</u></u>

**CITY OF MADISON, ALABAMA
MUNICIPAL GOVERNMENT CAPITAL IMPROVEMENT FUND
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other revenues	\$ 500	\$ 500	\$ -	\$ (500)
Interest income	-	-	1	\$ 1
Total revenues	<u>500</u>	<u>500</u>	<u>1</u>	<u>(499)</u>
EXPENDITURES				
Current:				
Police	<u>3,000</u>	<u>3,000</u>	<u>1,068</u>	<u>1,932</u>
Total expenditures	<u>3,000</u>	<u>3,000</u>	<u>1,068</u>	<u>1,932</u>
Excess (deficiency) of revenues over expenditures	<u>(2,500)</u>	<u>(2,500)</u>	<u>(1,067)</u>	<u>1,433</u>
NET CHANGE IN FUND BALANCE	(2,500)	(2,500)	(1,067)	1,433
Fund balance (deficit), beginning	<u>5,171</u>	<u>5,171</u>	<u>5,171</u>	<u>-</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 2,671</u>	<u>\$ 2,671</u>	<u>\$ 4,104</u>	<u>\$ 1,433</u>

**CITY OF MADISON, ALABAMA
FEDERAL FORFEITURE FUND
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other revenues	\$ 500	\$ 500	\$ -	\$ (500)
Interest income	-	-	1	\$ 1
Total revenues	<u>500</u>	<u>500</u>	<u>1</u>	<u>(499)</u>
EXPENDITURES				
Current:				
Police	<u>3,000</u>	<u>3,000</u>	<u>1,068</u>	<u>1,932</u>
Total expenditures	<u>3,000</u>	<u>3,000</u>	<u>1,068</u>	<u>1,932</u>
Excess (deficiency) of revenues over expenditures	<u>(2,500)</u>	<u>(2,500)</u>	<u>(1,067)</u>	<u>1,433</u>
NET CHANGE IN FUND BALANCE	(2,500)	(2,500)	(1,067)	1,433
Fund balance (deficit), beginning	<u>5,171</u>	<u>5,171</u>	<u>5,171</u>	<u>-</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 2,671</u>	<u>\$ 2,671</u>	<u>\$ 4,104</u>	<u>\$ 1,433</u>

**CITY OF MADISON, ALABAMA
STREET REPAIRS AND MAINTENANCE FUND
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other Revenues	\$ -	\$ -	\$ 50,000	\$ 50,000
Interest income	-	-	129	129
Total revenues	-	-	50,129	50,129
EXPENDITURES				
Current:				
Public Works	75,000	75,000	27,216	47,784
Total expenditures	75,000	75,000	27,216	47,784
Excess (deficiency) of revenues over expenditures	(75,000)	(75,000)	22,913	97,913
NET CHANGE IN FUND BALANCE	(75,000)	(75,000)	22,913	97,913
Fund balance (deficit), beginning	91,605	91,605	91,605	-
FUND BALANCE (DEFICIT), ENDING	\$ 16,605	\$ 16,605	\$ 114,518	\$ 97,913

**CITY OF MADISON, ALABAMA
STORM WATER USERS FEE FUND
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property and payments in lieu of taxes	\$ 302,000	\$ 302,000	\$ 290,655	(11,345)
Other Revenues	-	-	254	254
Interest Income	-	-	35	35
	<u>302,000</u>	<u>302,000</u>	<u>290,944</u>	<u>(11,056)</u>
Total revenues				
EXPENDITURES				
Current:				
Public Works	302,000	302,000	201,916	100,084
	<u>302,000</u>	<u>302,000</u>	<u>201,916</u>	<u>100,084</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	-	-	89,028	89,028
NET CHANGE IN FUND BALANCE	-	-	89,028	89,028
Fund balance (deficit), beginning	59,912	59,912	59,912	-
FUND BALANCE (DEFICIT), ENDING	<u>\$ 59,912</u>	<u>\$ 59,912</u>	<u>\$ 148,940</u>	<u>\$ 89,028</u>

**CITY OF MADISON, ALABAMA
CAPITAL REPLACEMENT FUND
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Sales and use	\$ 709,375	\$ 709,375	\$ 746,645	\$ 37,270
Interest income	350	350	392	42
Total revenues	<u>709,725</u>	<u>709,725</u>	<u>747,037</u>	<u>37,312</u>
EXPENDITURES				
Current:				
Police	-	-	13,392	(13,392)
Fire	-	-	1,798,087	(1,798,087)
Municipal Court	-	-	41,491	(41,491)
Mayor's Office	-	-	36,011	(36,011)
Revenue	-	-	10,703	(10,703)
Senior Center	-	-	57,904	(57,904)
Building	-	-	65,992	(65,992)
Capital Outlay	<u>2,133,857</u>	<u>2,133,857</u>	<u>892,163</u>	<u>1,241,694</u>
Total expenditures	<u>2,133,857</u>	<u>2,133,857</u>	<u>2,915,743</u>	<u>(781,886)</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	-	2,067,000	2,067,000
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>2,067,000</u>	<u>2,067,000</u>
Excess (deficiency) of revenues over expenditures	<u>(1,424,132)</u>	<u>(1,424,132)</u>	<u>(101,706)</u>	<u>1,322,426</u>
NET CHANGE IN FUND BALANCE	<u>(1,424,132)</u>	<u>(1,424,132)</u>	<u>(101,706)</u>	<u>1,322,426</u>
Fund balance (deficit), beginning	<u>431,180</u>	<u>431,180</u>	<u>431,180</u>	<u>-</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ (992,952)</u>	<u>\$ (992,952)</u>	<u>\$ 329,474</u>	<u>\$ 1,322,426</u>

**CITY OF MADISON, ALABAMA
INFRASTRUCTURE REPAIR FUND
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Sales and use	\$ 709,375	\$ 709,375	\$ 746,528	\$ 37,153
Interest income	200	200	825	625
Total revenues	<u>709,575</u>	<u>709,575</u>	<u>747,353</u>	<u>37,778</u>
EXPENDITURES				
Current:				
Engineering	-	-	409,196	(409,196)
Capital outlay	600,000	600,000	-	600,000
Total expenditures	<u>600,000</u>	<u>600,000</u>	<u>409,196</u>	<u>190,804</u>
Excess (deficiency) of revenues over expenditures	<u>109,575</u>	<u>109,575</u>	<u>338,157</u>	<u>228,582</u>
NET CHANGE IN FUND BALANCE	<u>109,575</u>	<u>109,575</u>	<u>338,157</u>	<u>228,582</u>
Fund balance (deficit), beginning	<u>774,222</u>	<u>774,222</u>	<u>774,222</u>	<u>-</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 883,797</u>	<u>\$ 883,797</u>	<u>\$ 1,112,379</u>	<u>\$ 228,582</u>

**CITY OF MADISON, ALABAMA
MADISON REDEVELOPMENT AUTHORITY FUND
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other revenues	\$ -	\$ -	\$ -	\$ -
Interest Income	-	-	-	-
Total revenues	-	-	-	-
EXPENDITURES				
Current:				
General Services	-	-	3,150	3,150
Total expenditures	-	-	3,150	3,150
Excess (deficiency) of revenues over expenditures	-	-	(3,150)	(3,150)
NET CHANGE IN FUND BALANCE	-	-	(3,150)	(3,150)
Fund balance (deficit), beginning	3,150	3,150	3,150	-
FUND BALANCE (DEFICIT), ENDING	\$ 3,150	\$ 3,150	\$ -	\$ (3,150)

**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**

The Honorable Mayor and Members of the City Council
City of Madison, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison, Alabama, ("the City") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 26, 2018. Our report includes reference to other auditors who audited the financial statements of the City of The Water and Wastewater Board, which is a component unit of the City, and the Madison City Board of Education, also a component unit of the City, as described in our report on the City's financial statements. This report includes our consideration of the results of other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

Warren Averett, LLC

Warren Averett, LLC
Huntsville, Alabama

March 26, 2018

**CITY OF MADISON, ALABAMA
SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Section I – Financial Statement Findings

None noted

**CITY OF MADISON, ALABAMA
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Financial Statement Findings

16-01 Breach in Employee Compliance

Criteria/Specific Requirement: Improper completion of employee timesheets within the Legal department at the City of Madison.

Condition: During inquiry and substantive procedures performed to gather understanding of internal controls in place, it was discovered that all employees (4 in total), within the Legal department, had not completed their timesheets or received proper department head authorization on said timesheets as noted as being required in the City of Madison's employee handbook.

Effect: As payments were made in accordance with a full pay period but not substantiated by appropriately completed and approved timesheets, it is possible that employees within the legal department could have received payment and related employee benefits without actively attending or performing required job responsibilities.

Cause: Individuals involved were unaware of the prohibitive nature of the lack of required employee compliance.

Recommendation: Ensure proper communication of compliance requirements to all employees and add an additional level of monitoring to ensure proper compliance of employee required timesheet submission and department head authorization.

Management's Response: Once the transaction in question was identified as prohibited and fully evaluated, City management initiated corrective action.