

CITY OF RAINBOW CITY, ALABAMA
Rainbow City, Alabama

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**
September 30, 2025

City Council and Executive Personnel

City Council

Anita Bedwell	Place 1
Randy Vice	Place 2
Jeff Prince	Place 3
Jameson Jenkins	Place 4
Clark Hopper	Place 5

Executive Personnel

Joe Taylor	Mayor
Beth Lee	City Clerk
Dana L. Rice, Attorney at Law	City Attorney

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT.....	1 - 4
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Position.....	6
Statement of Activities.....	7
FUND FINANCIAL STATEMENTS	
Balance Sheet - Governmental Funds.....	8
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	9
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	10
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	11
NOTES TO THE FINANCIAL STATEMENTS.....	12 - 44
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Net Pension Liability.....	46
Schedule of Changes in the Net Pension Liability.....	47
Schedule of Employer Contributions.....	48

TABLE OF CONTENTS (CONTINUED)

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

Schedule of Pension Investment Returns.....	49
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual - General Fund	50
Notes to Required Supplementary Information	51

SUPPLEMENTARY INFORMATION

Combining Balance Sheet - Nonmajor Governmental Funds.....	53
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds.....	54

OTHER REQUIRED INFORMATION

<u>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 <i>Government Auditing Standards</i></u>	56 - 57
Schedule of Findings and Responses.....	58



**MDA PROFESSIONAL
GROUP, P.C.**
MISSION DRIVEN ADVISORS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Rainbow City, Alabama

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Rainbow City, Alabama, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Rainbow City, Alabama, as of September 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Rainbow City, Alabama and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements referred to above include only the primary government of the City of Rainbow City, Alabama, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity.

Emphasis of Matter (Continued)

These primary government financial statements do not include financial data for the City of Rainbow City, Alabama's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Rainbow City, Alabama, as of September 30, 2025, the changes in its financial position, or, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the reporting entity of the City of Rainbow City, Alabama, as of and for the year ended September 30, 2025, and our report thereon, dated March 9, 2026, expressed unmodified opinions on those financial statements.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Rainbow City, Alabama's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Rainbow City, Alabama's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Rainbow City, Alabama's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and the pension related schedules on pages 46 – 51 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Honorable Mayor and City Council
City of Rainbow City, Alabama

Required Supplementary Information (Continued)

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rainbow City, Alabama's basic financial statements. The accompanying combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2026, on our consideration of the City of Rainbow City, Alabama'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rainbow City, Alabama's internal control over financial reporting and compliance.

MDA Professional Group, P.C.

Gadsden, Alabama
March 9, 2026

BASIC FINANCIAL STATEMENTS

CITY OF RAINBOW CITY, ALABAMA

STATEMENT OF NET POSITION

SEPTEMBER 30, 2025

	Primary Government Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 24,505,858
Certificates of Deposit	3,307,207
Accounts Receivable	2,688,392
Prepaid Expenses	293,880
Deposits	54,549
Capital Assets, Not Being Depreciated	31,386,358
Capital Assets, Net of Accumulated Depreciation/Amortization	27,673,818
Total Assets	89,910,062
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related Deferrals	1,268,264
LIABILITIES	
Accounts Payable	1,388,652
Other Accrued Liabilities	360,724
Accrued Interest	292,407
Noncurrent Liabilities:	
Net Other Postemployment Benefit Obligation	742,679
Net Pension Liability	1,396,191
Due within one year	1,241,393
Due in more than one year	22,419,785
Total Liabilities	27,841,831
DEFERRED INFLOWS OF RESOURCES	
Pension Related Deferrals	1,722,838
Unexpended Grants	228,016
Total Deferred Inflows of Resources	1,950,854
NET POSITION	
Net Investment in Capital Assets	35,627,726
Restricted:	
Street Maintenance and Improvements	510,115
Debt Service	167,939
Fire Protection	454,198
Court-Related Expenses	76,582
Unrestricted	24,549,081
Total Net Position	\$ 61,385,641

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

CITY OF RAINBOW CITY, ALABAMA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2025

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities:					
General Government	\$ 3,474,012	\$ 53,379	\$ 33,650	\$ 500,000	\$ (2,886,983)
Police	3,058,816	26,979	56,715	540,702	(2,434,420)
Animal Control	315,995	50,561	10,471	-	(254,963)
Fire	3,009,274	8,190	1,101	-	(2,999,983)
Library	493,236	6,656	44,986	-	(441,594)
Parks and Recreation	1,376,667	43,718	5,200	-	(1,327,749)
Streets and Sanitation	3,103,123	726,584	-	-	(2,376,539)
Court	161,964	249,616	-	-	87,652
Interest and Fiscal Charges	797,418	-	-	-	(797,418)
Total Governmental Activities	15,790,505	1,165,683	152,123	1,040,702	(13,431,997)
Total Primary Government	\$ 15,790,505	\$ 1,165,683	\$ 152,123	\$ 1,040,702	(13,431,997)
General Revenues:					
Taxes:					
Sales Tax					10,556,818
Wine Tax					5,305
Tobacco Tax					7,830
Occupational Tax					3,234,783
Ad Valorem Tax					699,105
Liquor Tax					17,248
Gasoline Tax					124,610
Licenses and Permits					2,429,711
Intergovernmental					1,065,428
Interest Income					793,143
Miscellaneous					7,074
Other Income					42,870
Loss on Sale of Capital Assets					(346,974)
Total General Revenues					18,636,951
Change in Net Position					5,204,954
Net Position - Beginning of Year					56,180,687
Net Position - End of Year					\$ 61,385,641

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

CITY OF RAINBOW CITY, ALABAMA

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2025

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 23,232,847	\$ 1,273,011	\$ 24,505,858
Certificates of Deposit	3,307,207	-	3,307,207
Accounts Receivable	2,648,555	39,837	2,688,392
Due From Other Funds	128,997	54,015	183,012
Deposits	54,549	-	54,549
Total Assets	<u>\$ 29,372,155</u>	<u>\$ 1,366,863</u>	<u>\$ 30,739,018</u>
LIABILITIES			
Accounts Payable	\$ 1,378,057	\$ 10,595	\$ 1,388,652
Other Accrued Liabilities	359,124	1,600	360,724
Due to Other Funds	37,178	145,834	183,012
Total Liabilities	<u>1,774,359</u>	<u>158,029</u>	<u>1,932,388</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenues - Property Taxes	600,755	-	600,755
Unavailable Revenues - Unexpended Grants	228,016	-	228,016
Total Deferred Inflows of Resources	<u>828,771</u>	<u>-</u>	<u>828,771</u>
Fund Balances			
Nonspendable	54,549	-	54,549
Restricted for:			
Fire Protection Expenses	-	454,198	454,198
Debt Service	-	167,939	167,939
Street Maintenance and Improvements	-	510,115	510,115
Court-Related Expenses	-	76,582	76,582
Unassigned	26,714,476	-	26,714,476
Total Fund Balance	<u>26,769,025</u>	<u>1,208,834</u>	<u>27,977,859</u>
Total Liabilities and Fund Balances	<u>\$ 29,372,155</u>	<u>\$ 1,366,863</u>	<u>\$ 30,739,018</u>

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

CITY OF RAINBOW CITY, ALABAMA

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

SEPTEMBER 30, 2025

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 27,977,859
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Prepaid expenses are reported as expenditures in the governmental funds when paid and, therefore are not reported as assets in the governmental funds balance sheet.	293,880
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Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	59,060,176
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The City's property taxes will be collected after year-end but are not available soon enough to pay for current year expenditures and, therefore, and deferred in the funds.	600,755
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Pension plan related deferred outflows and inflows of resources are not financial resources and, therefore, not reported in the funds.	(454,574)
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Long-term liabilities including compensated absences, notes payable and related accrued interest payable, net pension liabilities, and net other post employment benefit obligations, are not due and payable in the current period, and therefore, not reported in the funds.	<u>(26,092,455)</u>
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NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 61,385,641</u>
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The accompanying Notes to the Financial Statements are an integral part of this financial statement.

CITY OF RAINBOW CITY, ALABAMA

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

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	General Fund	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES			
Sales Tax	\$ 10,556,818	\$ -	\$ 10,556,818
Wine Tax	5,305	-	5,305
Tobacco Tax	7,830	-	7,830
Occupational Tax	3,234,783	-	3,234,783
Ad Valorem Tax	521,361	-	521,361
Liquor Tax	17,248	-	17,248
Gasoline Tax	124,610	218,672	343,282
Licenses and Permits	2,429,711	-	2,429,711
Intergovernmental	1,500,339	491,640	1,991,979
Fines and Forfeitures	203,743	45,874	249,617
Miscellaneous	829,388	18,184	847,572
Charges for Services	916,483	-	916,483
Total Revenues	20,347,619	774,370	21,121,989
EXPENDITURES			
General Government	3,424,008	-	3,424,008
Police	2,937,786	-	2,937,786
Animal Control	379,876	-	379,876
Fire	2,649,226	251,806	2,901,032
Library	452,877	-	452,877
Parks and Recreation	1,242,669	-	1,242,669
Streets and Sanitation	2,043,423	-	2,043,423
Court	186	42,476	42,662
Capital Outlay	17,977,053	20,000	17,997,053
Funding Agreements - Utilities Board	371,860	-	371,860
Debt Service - Principal	-	604,880	604,880
Debt Service - Interest and Fiscal Charges	-	696,349	696,349
Total Expenditures	31,478,964	1,615,511	33,094,475
Excess of Revenues Over (Under) Expenditures	(11,131,345)	(841,141)	(11,972,486)
OTHER FINANCING SOURCES (USES)			
Proceeds From Sale of Capital Assets	259,639	-	259,639
Proceeds From Issuance of Debt	-	7,500,000	7,500,000
Insurance Recoveries	42,870	-	42,870
Transfers To Other Funds	-	(6,554,831)	(6,554,831)
Transfers From Other Funds	6,554,831	-	6,554,831
	6,857,340	945,169	7,802,509
Net Change in Fund Balances	(4,274,005)	104,028	(4,169,977)
FUND BALANCES - Beginning of Year	31,043,030	1,104,806	32,147,836
FUND BALANCES - End of Year	\$ 26,769,025	\$ 1,208,834	\$ 27,977,859

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

CITY OF RAINBOW CITY, 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, 2025

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (4,169,977)

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 capital outlay exceeds depreciation expense during the period.

Capital Outlay	\$ 17,997,053	
Depreciation and Amortization Expense	(1,277,106)	
Loss on Disposal of Capital Assets	<u>(606,613)</u>	16,113,334

The proceeds received from notes payable and other debt provide current financial sources to governmental funds, while the repayment of the principal of notes payable and other debt consumes the current financial resources of governmental funds.

Proceeds from Issuance of Long-Term Debt	\$ (7,500,000)	
Amortization of Bond Premiums	6,840	
Change in Accrued Interest	(107,909)	
Principal Repayments of Debt	<u>604,880</u>	(6,996,189)

In the statement of activities, some expenses are accrued, whereas in the governmental funds, the expenses are not reported until they are paid. Also, some expenses that relate to a future period are recorded as prepaid expense and are expensed in the statement of activities in the period to which these expenses relate, whereas in governmental funds, the expenditure is reported when paid. This is the amount by which accrued expenses and prepaid expenses changed during the year.

Prepaid Expenses	\$ 40,261	
Pension Expense	126,906	
OPEB Expense	(127,236)	
Compensated Absences	<u>40,111</u>	80,042

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	<u>177,744</u>
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CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 5,204,954

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The City of Rainbow City, Alabama (the City) was incorporated under the laws of the State of Alabama in 1950. The City operates under an elected Mayor/Council form of government. The City's major operations include public safety, sanitation, parks and recreation, library, maintenance and improvement of streets and roads, and general administrative services. The Council and Mayor are responsible for adopting legislation, ordinances, and setting policies for the City. The Mayor is responsible for managing day to day operations in conjunction with the Town Clerk. The basic financial statements of the City, with the exception of component unit reporting as described below, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Financial Reporting Entity

Accounting principles generally accepted in the United States of America require that the City report on all entities for which it is considered to be financially accountable. The City's financial reporting entity comprises of the City of Rainbow City as the primary government. In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity", and would have included all component units had one of the following conditions existed: (1) City appointment of a voting majority of the unit's board, (2) City can impose its' will on the unit, and (3) Financial benefit or burden relationship exists.

Under the aforementioned criteria, the Utilities Board of Rainbow City (Board), although a separate legal entity, is considered to be a component unit of the City because of the financial benefit/burden relationship that exists resulting from funding agreements entered into with the Board during the City's fiscal year ended September 30, 2014 (see Note 15 to these financial statements for additional details). These financial statements do not include the financial data of the Board that is necessary for reporting in conformity with accounting principles generally accepted in the United States of America. Separate financial statements issued by the Board can be obtained at their offices located at 1540 Sutton Bridge Road, Rainbow City, Alabama.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government of the City.

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Fund Financial Statements (Continued)

All of the City's activities are considered to be governmental-type activities which are normally supported primarily by taxes and intergovernmental revenues. The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and (2) operating or capital grants and contributions that are restricted to meeting the operation and/or capital requirements of a particular program. Taxes and other items not properly included in program revenues are reported instead as general revenues.

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are normally presented for governmental and proprietary activities. Since all of the City's primary government activities are considered to be governmental in nature, however, only statements from governmental activities are presented herein. These statements present each major fund as a separate column on the fund financial statements with all non-major funds aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty (60) days of the end of the fiscal period. Expenditures generally are recorded when the related fund liability is incurred, as in accrual accounting. However, debt service expenditures are recognized only when payment is due. Certain compensated absences, claims, and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. Proceeds of general long-term debt and acquisitions under finance leases are reported as other financing sources. Property taxes, sales and use taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual. Other taxes and receipts become measurable when cash is received by the City and are recognized as revenue at that time. Shared revenues and entitlements are recorded at the time of receipt or earlier if the accrual criteria are met.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The City reports the following major governmental fund:

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. All general tax revenues and other receipts that are not restricted by law or contractual agreement are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the general fund.

The City also reports nonmajor governmental funds consisting of the Street Improvement Fund, Cash Bond Fund, Debt Service Fund, Court Training Fund, Judicial Administration Fund, Fire Protection Fund, and the Corrections Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Auditing Standards Board (GASB).

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

During the course of normal operations, the City has numerous transactions between funds to provide services, to pay debt, etc. These transactions are generally reflected as operating transfers except for transactions reimbursing a fund for expenditures made by it for the benefit of another fund. These transactions are recorded as expenditures in the reimbursing fund and as reductions of the expenditure in the fund reimbursed. As a general rule, the effects of interfund activity have been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the City's practice to use restricted resources first, then unrestricted resources as they are needed, except in the case of grant monies which are used for their required purpose. When an expenditure could be used, it is the practice of the City that committed amounts would be reduced first, followed by assigned amounts, then unassigned amounts. However, no formal policy regarding the order in which resources are used has been approved by the City.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Cash and Cash Equivalents

Cash and cash equivalents of all funds include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

Investments are made only in fully secured certificates of deposit and in times deposits without risk of loss due to market conditions. Investments are stated at cost which approximates fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Interfund Transactions

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. These transactions are recorded by all funds affected in the period in which the transactions are executed and are classified as "due to and from other funds". Interfund receivables and payables between funds and the resulting effects on revenues and expenses within the governmental activities are eliminated in the statement of net position and the statement of activities.

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets of the City, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed, or estimated historical cost if inadequate records were available to determine the actual cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Buildings	40 years
Leasehold Improvements	15-25 years
Vehicles	10 years
Machinery and Equipment	10-15 years
Furniture and Equipment	10 years
Land improvements	40 years
Library	25 years
Infrastructure	25-40 years
Right-of-use Assets	5-25 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet – governmental funds will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has three items that qualify for reporting in this category. These items are the differences between expected and actual experience, changes of assumptions, and employer contributions subsequent to the measurement date, and all are reported only in the governmental activities statement of net position.

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of net position and/or balance sheet – governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has four types of items which qualify for reporting in this category. One item, which arises only under a modified accrual basis of accounting, is the unavailable property tax revenue and is reported only in the governmental funds balance sheet. Two pension related items are the differences between expected and actual experience and the net difference between projected and actual earnings is reported only in the governmental activities statement of net position. The final item is unexpended grants and is reported on both the governmental funds balance sheet and the governmental activities statement of net position. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Compensated Absences

Employees can earn annual vested vacation leave based on years of service as follows:

	Police Officers and <u>Dispatchers (A)</u>	Fire <u>Department (B)</u>	All Others <u>(Full-Time) (C)</u>
After completion of 1 year	5 days	3 days	5 days
After completion of 2 years	10 days	6 days	10 days
After completion of 5 years	15 days	9 days	15 days
After completion of 10 years	20 days	12 days	20 days
After completion of 15 years	25 days	15 days	25 days

(A) 12 hour days - all except chief, detectives, and school resource officers (1 week = 5 days = 60 hours)

(B) 24 hour days - all except chief (1 week = 3 days = 72 hours)

(C) 8 hour days (1 week = 5 days = 40 hours)

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Continued)

A maximum of 2 weeks unused earned vacation leave may be carried over from year to year, however, no employee may accrue more than 7 weeks of vacation leave at any given time. All eligible employees can “sell” back annual vacation leave. A minimum of one shift can be sold up to a maximum of two weeks. A week for this purpose shall be defined as:

- Fifty-six (56) hours per week for the fire department (except fire chief and fire marshal)
- Forty-two (42) hours per week for the police department (except police chief, detectives, and school resource officers)
- Forty (40) hours per week for all other eligible employees

Sick leave is earned at the rate of one shift for each month in which the employee actually works, to a maximum of 120 “days” (see above). At the option of the employee, unused sick leave may be “sold” in the months of March and October each year in increments of shifts or workdays at a maximum of 1 “week” as defined above regarding “sold” vacation pay. Upon separation from service, any full-time employee who is age 60 or older with at least 10 years service or who has completed 25 years of service regardless of age is eligible to (1) use all accrued sick leave days as membership service in determining the total years of creditable service in the Employees Retirement System of Alabama (RSA), or (2) receive payment for a maximum of 2 “weeks” (80 hours for 40 hour week employees, 120 hours for 42 hour week employees, and 240 hours for 56 hour week employees as defined above regarding “sold” vacation pay) with the option to use 100 percent of any remaining balance toward RSA creditable service as discussed above or receive payment for 50 percent of their remaining balance.

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, as well as gains/losses on refundings, are deferred and amortized ratably over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, long-term debt is not reported as a liability and 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.

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

The Employees' Retirement System of Alabama (the Plan or ERS) 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 in the State's Annual Comprehensive Financial Report.

Equity Classifications

Government-wide statements - Equity is classified as net position and displayed in three components:

- a) Net investment in capital assets - consists of capital assets including restricted capital assets, net of accumulated depreciation and outstanding balances of any bonds, mortgages, notes or other debt attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net position - consists of net position with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
- c) Unrestricted net position - all other net position that do not meet the definition of "restricted" or "net investment in capital assets".

Fund equity is reported in the fund financial statements as fund balance. The following classifications of fund balance are reported in the fund financial statements:

- a) Nonspendable - This classification includes amounts that cannot be spent because they are either (1) not in spendable form; or (2) legally or contractually required to be maintained intact.
- b) Restricted - This classification includes amounts that have constraints placed on the use of resources imposed either (1) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (2) by law through constitutional provisions or enabling legislation.

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

- c) Committed - This classification includes amounts that can only be used for specific purposes. It is the practice of the City to present assets in this classification pursuant to constraints imposed by formal action of the Council before the end of the fiscal year, and require the same level of formal action to remove the constraint. However, no formal policy regarding this action has been approved by the City. No amounts were committed as of September 30, 2025.
- d) Assigned - This classification includes amounts that are intended to be used for specific purposes but are neither restricted nor committed. It is the practice of the City to allow the City Council to make a determination of the assigned amounts of fund balance, and also to allow the City Council to remove the constraints. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. No formal policy regarding the assignment of fund balances to this classification has been approved by the City. No amounts were reported as assigned as of September 30, 2025.
- e) Unassigned - This classification is the residual classification for the general fund, and represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

Use of Estimates in Preparation of Financial Statements

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

Reclassifications

Certain reclassifications have been made to the 2024 financial statements to confirm to the 2025 presentation.

Subsequent Events

Management 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. Subsequent events have been evaluated through March 9, 2026, which is the date the financial statements were available to be issued.

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Formal integration of budgets is used as a management control device during the year for the General Fund and the Special revenue funds. The Mayor and Council approve, by ordinance, total budget appropriations only. The City is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Council. Unused appropriations for all the annually budgeted funds lapse at the end of the fiscal year.

Budgets are prepared by the City of Rainbow City, Alabama on the cash basis. Any differences between budgeted and actual amounts are deemed to be timing differences and immaterial in nature.

Encumbrance amounts are not utilized by the City.

Deficit Fund Equity

The Corrections Fund ended with a deficit fund balance in the amount of \$17,925 as of September 30, 2025.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

The City's deposits were covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program ("SAFE Program"). The SAFE Program was established by the Alabama legislature and is governed by provisions of Alabama law contained in the Code of Alabama 1975, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, which is mandatory, each qualified public depository (QPD) holding deposits of public funds must pledge securities as collateral against those deposits.

In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by FDIC insurance. If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. All deposits of the City are held in a certified QPD.

At September 30, 2025, the carrying amounts of the City's deposits with two financial institution were \$27,481,288.

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Investments

The City had the following investments:

Certificates of deposit held in the General Fund with a balance of \$3,307,207 at September 30, 2025, which were covered by federal depository insurance or the SAFE Plan enacted by the State of Alabama.

At September 30, 2025, the City had the following investments held by a trustee:

Money Market Mutual Funds comprised of US Treasury Instruments in the Debt Service Fund with a balance of \$167,939 and a weighted average maturity of fifty-two days.

Interest rate risk – The City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year.

Credit risk – State statutes limit the City's investment to U.S Treasury obligations, State of Alabama and Alabama County obligations, and obligations of Alabama municipalities. At September 30, 2025, the City's investments consisted solely of Fidelity Investments Money Market Treasury Only Portfolio Class III.

Custodial credit risk – This is the risk that in the event of the failure of the counterparty, the government will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. At September 30, 2025, the City's investment consisted solely of U.S. Treasury Securities held by one financial institution.

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 4 – RECEIVABLES

Receivables reported in the governmental funds balance sheet at September 30, 2025, consisted of the following:

	General Fund	Nonmajor Funds	Total
Taxes -			
Sales	\$ 1,032,457	\$ -	\$ 1,032,457
Ad Valorem	730,770	-	730,770
Occupational	677,365	-	677,365
Gasoline (Local)	10,638	-	10,638
Liquor and Wine	2,511	-	2,511
Intergovernmental -			
Motor Vehicle Licenses	3,992	-	3,992
Sales Tax	8,523	-	8,523
Beverage Tax	1,565	-	1,565
Etowah County Sales Tax	3,219	-	3,219
Financial Institutes Excise Tax	14,079	-	14,079
Fire Protection Tax	-	6,768	6,768
Gasoline Taxes	-	32,998	32,998
Charges for Services -			
Sanitation Fees	121,605	-	121,605
Miscellaneous -			
Library Grant	4,000	-	4,000
Police Department	37,831	-	37,831
Overpayments to Vendors	-	71	71
	<u>\$ 2,648,555</u>	<u>\$ 39,837</u>	<u>\$ 2,688,392</u>

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 5 – CAPITAL ASSETS

The following is a summary of changes in the City's capital asset activity for the year ended September 30, 2025:

	(As Reclassed) Balance October 1, 2024	Additions/ Transfers	Retirements/ Transfers	Balance September 30, 2025
Land	\$ 8,536,763	\$ 632,293	\$ 606,613	\$ 8,562,443
Construction in Progress	7,818,152	16,350,273	1,344,510	22,823,915
Total Capital Assets, not Being Depreciated	16,354,915	16,982,566	1,951,123	31,386,358
Buildings	8,173,452	-	-	8,173,452
Leasehold Improvements	185,796	44,942	-	230,738
Vehicles	4,643,813	277,701	35,812	4,885,702
Machinery and Equipment	8,889,480	158,240	13,200	9,034,520
Furniture and Equipment	122,147	7,812	-	129,959
Land Improvements	784,930	517,292	-	1,302,222
Library	1,308,421	-	-	1,308,421
Infrastructure	19,958,775	1,353,010	-	21,311,785
Right-of-use Assets	1,985,734	-	-	1,985,734
Total Capital Assets Being Depreciated	46,052,548	2,358,997	49,012	48,362,533
Less Accumulated Depreciation and Amortization for:				
Buildings	2,259,738	118,505	-	2,378,243
Leasehold Improvements	62,736	7,510	-	70,246
Vehicles	3,638,212	125,450	35,812	3,727,850
Machinery and Equipment	6,991,154	192,364	13,200	7,170,318
Furniture and Equipment	20,757	12,540	-	33,297
Land Improvements	238,534	20,701	-	259,235
Library	1,282,253	26,168	-	1,308,421
Infrastructure	4,543,746	642,517	-	5,186,263
Right-of-use Assets	423,491	131,351	-	554,842
	19,460,621	1,277,106	49,012	20,688,715
Total Capital Assets Being Depreciated - Net	26,591,927	1,081,891	-	27,673,818
Governmental Activities, Capital Assets - Net	\$ 42,946,842	\$ 18,064,457	\$ 1,951,123	\$ 59,060,176

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 5 – CAPITAL ASSETS (Continued)

Depreciation and amortization expense was charged to functions of the primary government for the year ended September 30, 2025 as follows:

General Government	\$	90,042
Police		194,846
Library		41,686
Parks and Recreation		143,326
Fire		112,332
Street and Sanitation		<u>694,874</u>
Total Depreciation and Amortization - Governmental Activities Expense	\$	<u><u>1,277,106</u></u>

Construction in progress at September 30, 2025, consisted of the following:

	Balance 9/30/24	Additions	Deletions	Balance 9/30/25
Horton Creek Drainage Improvements	\$ 267,844	\$ -	\$ -	\$ 267,844
Vivian Lee Maddox Sports Complex Phase II	-	4,238,928	-	4,238,928
Etowah Co. Mega Sports Complex Property	5,277,062	13,949	-	5,291,011
Lumley Road Widening Project	429,815	8,368	-	438,183
Kinzie Lane Sidewalk and Pedestrian Lighting Project	347,706	996,804	1,344,510	-
US 411/SR-77 Improvements Project	233,540	5,973	-	239,513
Industrial Park Mega Site	500,000	500,000	-	1,000,000
Steel Station Road Widening Project	-	518,085	-	518,085
Rainbow City Recreation Center	<u>762,185</u>	<u>10,068,166</u>	<u>-</u>	<u>10,830,351</u>
	<u>\$ 7,818,152</u>	<u>\$ 16,350,273</u>	<u>\$ 1,344,510</u>	<u>\$ 22,823,915</u>

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 6 – DEFERRED INFLOWS OF RESOURCES

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds are as follows:

Property Taxes Receivable (General Fund)	\$	600,755
Unexpended Grants (General Fund)		<u>228,016</u>
	\$	<u><u>828,771</u></u>

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances for the year ended September 30, 2025, are as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund		
Fire Protection Tax Fund	\$ 96,497	\$ -
Corrections Fund	32,500	-
Judicial Admin Fund		
Corrections Fund	54,015	-
Fire Protection Fund		
General Fund	-	96,497
Corrections Fund		
General Fund	-	32,500
Judicial Admin Fund	-	<u>54,015</u>
	<u>\$ 183,012</u>	<u>\$ 183,012</u>

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

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Interfund transfers (all operating) for the year ended September 30, 2025, consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Debt Service Fund	\$ 6,198,771	\$ -
Fire Protection Tax Fund	356,060	-
Fire Protection Tax Fund		
General Fund	-	356,060
Debt Service Fund		
General Fund	-	6,198,771
	<u>\$ 6,554,831</u>	<u>\$ 6,554,831</u>

Transfers are used to move revenues from the fund that collects them to the fund that expends them (in this case, for payments of principal, interest, and related fees on long-term debt).

NOTE 8 – LONG-TERM DEBT

The following is a summary of changes in the City's long-term liability activity for the year ended September 30, 2025:

<u>Governmental Activities</u>	<u>Interest Rate</u>	<u>9/30/24</u>	<u>Additions</u>	<u>Reductions</u>	<u>9/30/25</u>	<u>Amounts Due Within 1 Year</u>
Warrants and Notes Payable						
Series 2025 GOW	4.52%	\$ -	\$ 7,500,000	\$ -	\$ 7,500,000	\$ 608,326
Series 2023 GOW	5.00%	14,780,000	-	245,000	14,535,000	260,000
		14,780,000	7,500,000	245,000	22,035,000	868,326
Leases						
PNC Bank - Fire Truck	3.72%	215,535	-	105,880	109,655	109,655
PNC Bank - Fire Truck	3.86%	901,124	-	213,355	687,769	216,452
Santander Bank, NA	6.25%	116,196	-	36,408	79,788	38,684
Ricoh USA, Inc.	2.50%	5,673	-	4,237	1,436	1,436
		1,238,528	-	359,880	878,648	366,227
Other						
Bond Premiums		233,235	-	6,840	226,395	6,840
Compensated Absence		561,246	-	40,111	521,135	-
Total Long-Term Debt		<u>\$ 16,813,009</u>	<u>\$ 7,500,000</u>	<u>\$ 651,831</u>	<u>\$ 23,661,178</u>	<u>\$ 1,241,393</u>

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 8 – LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for warrants and notes payable are as follows:

<u>Fiscal Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2026	\$ 868,326	\$ 971,747	\$ 1,840,073
2027	906,132	930,690	1,836,822
2028	950,211	887,736	1,837,947
2029	995,618	842,704	1,838,322
2030	1,042,416	795,533	1,837,949
2031 - 2035	6,002,297	3,187,939	9,190,236
2036 - 2040	2,340,000	2,153,095	4,493,095
2041 - 2045	2,865,000	1,621,713	4,486,713
2046 - 2050	3,540,000	949,002	4,489,002
2051 - 2053	<u>2,525,000</u>	<u>168,984</u>	<u>2,693,984</u>
	<u>\$ 22,035,000</u>	<u>\$ 12,509,143</u>	<u>\$ 34,544,143</u>

NOTE 9 – LEASES

During July 2019, the City entered into a seven-year lease agreement as lessee for the acquisition of equipment. An initial lease liability was recorded in the amount of \$688,723. As of September 30, 2025, the value of the lease liability was \$109,655. The City is required to make annual principal and interest payments of \$113,563. The lease has an interest rate of 3.72%. The equipment has a ten-year estimated useful life. The value of the right-of-use asset as of the end of the current fiscal year was \$264,010 and had accumulated amortization of \$424,712.

During January 2021, the City entered into a five-year lease agreement as lessee for the acquisition of equipment. An initial lease liability was recorded in the amount of \$20,336. As of September 30, 2025, the value of the lease liability was \$1,436. The City is required to make monthly principal and interest payments of \$361. The lease has an interest rate of 2.50%. The equipment has a five-year estimated useful life. The value of the right-of-use asset as of the end of the current fiscal year was \$0 and had accumulated amortization of \$20,336.

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 9 – LEASES (Continued)

During May 2022, the City entered into a six-year lease agreement as lessee for the acquisition of equipment. An initial lease liability was recorded in the amount of \$1,086,504. As of September 30, 2025, the value of the lease liability was \$687,769. The City is required to make annual principal and interest payments of \$242,497. The lease has an interest rate of 3.86%. The equipment has a ten-year estimated useful life. The value of the right-of-use asset as of the end of the current fiscal year was \$1,032,179 and had accumulated amortization of \$54,325.

During November 2022, the City entered into a five-year lease agreement as lessee for the acquisition of equipment. An initial lease liability was recorded in the amount of \$190,171. As of September 30, 2025, the value of the lease liability was \$79,788. The City is required to make annual principal and interest payments of \$43,674. The lease has an interest rate of 6.25%. The equipment has a ten-year estimated useful life. The value of the right-of-use asset as of the end of the current fiscal year was \$134,704 and had accumulated amortization of \$55,467.

The future principal and interest lease payments are as follows:

<u>Fiscal Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2026	\$ 366,227	\$ 35,116	\$ 401,343
2027	265,911	20,261	286,172
2028	<u>246,510</u>	<u>9,013</u>	<u>255,523</u>
	<u>\$ 878,648</u>	<u>\$ 64,390</u>	<u>\$ 943,038</u>

NOTE 10 – PENSION PLAN

Plan Description

The ERS, an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, pursuant to the *Code of Alabama 1975, Title 36, Chapter 27* (Act 515 of the Legislature of 1945). The purpose of the ERS is to provide 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 which consists of 15 trustees. Act 390 of the Legislature of 2021 created two additional representatives to the ERS Board of Control Effective October 1, 2021. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 36, Chapter 27* 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.

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 10 – PENSION PLAN (Continued)

The ERS Board of Control consists of 15 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) Eight members of the ERS who are elected by members from the same category of the 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 the ERS.
 - b. Two vested active state employees.
 - c. One vested active employee of a participating municipality or city in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.
 - d. One vested active employee of a participating county in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.
 - e. One vested active employee or retiree of a participating employer in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.
 - f. One vested active employee of a participating employer other than a municipality, city or county in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.

Benefits Provided

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

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 10 – PENSION PLAN (Continued)

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a formula method. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service up to 80% of their average final compensation. State Police are allowed 2.375% for each year of State Police service in computing the formula method.

Act 351 of the Legislature of 2022 provides that any Tier 2 member who withdraws from service after the completion of at least 30 years of service is entitled to an annual retirement benefit.

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 equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

Act 132 of the Legislature of 2019 allowed employers who participate in the ERS pursuant to *Code of Alabama 1975, Section 36-27-6* to provide Tier 1 retirement benefits to their Tier 2 members. Tier 2 members of employers adopting Act 2019-132 will contribute 7.5% of earnable compensation for regular employees and 8.5% for firefighters and law enforcement officers. A total of 628 employers adopted Act 2019-132 as of September 30, 2024.

Act 2019-132 was amended by Act 348 of the Legislature of 2022. Act 2022-348 amended Act 2019-132 by removing the date limitation for any local participating employer to submit its resolution electing to provide its Tier 2 members with the same retirement benefits provided to its Tier 1 members. Act 2022-348 also amended Act 2019-132 by removing the date limitation for a local participating employer to petition the ERS Board of Control for a reconsideration if the ERS Board of Control denied its election to provide its Tier 2 members with the same retirement benefits provided to its Tier 1 members.

Act 316 of the Legislature of 2019 allows employees at the time of retirement to receive a partial lump sum (PLOP) distribution as a single payment not to exceed the sum of 24 months of the maximum monthly retirement allowance the member could receive. This option may be selected in addition to the election of another retirement allowance option at a reduced amount based upon the amount of partial lump sum distribution selected.

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 10 – PENSION PLAN (Continued)

The ERS serves approximately 890 local participating employers. The ERS membership includes approximately 117,309 participants. As of September 30, 2024, membership consisted of:

Retirees and beneficiaries	
currently receiving benefits	32,477
Terminated employees entitled to	
but not yet receiving benefits	2,425
Terminated employees not	
entitled to a benefit	22,097
Active Members	60,279
Post-DROP participants who	
are still in active service	31
	<u>117,309</u>

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation.

Employers participating in the ERS pursuant to *Code of Alabama 1975, Section 36-27-6* were not required by statute to increase covered member contribution rates but were provided the opportunity to do so through Act 2011-676. By adopting Act 2011-676, Tier 1 regular members' contribution rates increased from 5% to 7.5% of earnable compensation and Tier 1 certified law enforcement, correctional officers', and firefighters' member contribution rates increased from 6% to 8.5% of earnable compensation.

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

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 10 – PENSION PLAN (Continued)

Contributions (Continued)

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year with additional amounts to finance any unfunded accrued liability, the preretirement death benefit, and administrative expenses of the Plan. For the year ended September 30, 2025, the City's active employee contribution rate was 5%/6% of covered employee payroll for Tier 1 Employees (7.5%/8.5%% for Tier 2 Employees), and the City's average contribution rate to fund the normal and accrued liability costs was 4.23% and 3.40%, respectively, of pensionable payroll for Tier 1 Employees [2.22% and 3.40%, respectively, for Tier 2 Employees].

The City's contractually required contribution rate for the year ended September 30, 2025 was 8.00% of pensionable pay for Tier 1 employees, and 5.99% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation as of September 30, 2022, 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 \$369,381 for the year ended September 30, 2025.

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 10 – PENSION PLAN (Continued)Net Pension Liability

The City's net pension liability was measured as of September 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2023, rolled forward to September 30, 2024, using standard roll-forward techniques as shown the following table:

	<u>Expected</u>	<u>Actual Before Plan Changes</u>	<u>Actual After Plan Changes</u>
(a) Total Pension Liability			
as of September 30, 2023	\$ 21,623,214	\$ 21,654,621	\$ 21,654,621
(b) Discount rate	7.45%	7.45%	7.45%
(c) Entry Age Normal Cost for the period			
October 1, 2023 - September 30, 2024	527,840	527,840	527,840
(d) Transfers Among Employers	-	(15,789)	(15,789)
(e) Actual Benefit Payments and Refunds			
October 1, 2023 - September 30, 2024	<u>(1,089,657)</u>	<u>(1,089,657)</u>	<u>(1,089,657)</u>
(f) TPL as of September 30, 2024			
= [(a)x(1+(b))]+(c)+(d)+[(e)x(1+0.5*(b))]	<u>\$ 22,631,737</u>	<u>\$ 22,649,695</u>	<u>\$ 22,649,695</u>
(g) Difference between Expected and Actual:		\$ 17,958	
(h) Less Liability Transferred for Immediate Recognition:		\$ (15,789)	
(i) Difference between Expected and Actual - Experience (Gain)/Loss		\$ 33,747	
(j) Difference between Actual TPL Before - and After Plan Changes - Benefit Change (Gain)/Loss			\$ -

Actuarial Assumptions

The total pension liability as of September 30, 2024 was determined based on the annual actuarial valuation report prepared as of September 30, 2023. The key actuarial assumptions are summarized below:

Inflation	2.50%
Salary increases	3.25 – 6.00% for State and Local Employees and 4.00 – 7.75% for State Police, including inflation
Investment rate of return*	7.45%, including inflation

*Net of pension plan investment expense

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 10 – PENSION PLAN (Continued)Actuarial Assumptions (Continued)

Mortality rates were based on the Pub-2010 Below-Median Tables, projected generationally using the MP-2020 scale, which is adjusted by 66-2/3% beginning with year 2019:

<u>Group</u>	<u>Membership Table</u>	<u>Set Forward (+)/ Setback (-)</u>	<u>Adjustment to Rates</u>
Non-FLC Service Retirees	General Healthy Below Median	Male: +2, Female: +2	Male: 90% ages < 65, 96% ages $\geq$ 65 Female: 96% all ages
FLC/State Police Service Public Safety Healthy Below Retirees	Median	Male: +1, Female: none	None
Beneficiaries	Contingent Survivor Below Median	Male: +2, Female: +2	None
Non-FLC Disabled Retirees	General Disability	Male: +7, Female: +3	None
FLC/State Police Disabled Public Safety Disability Retirees		Male: +7, Female: none	None

The actuarial assumptions used in the September 30, 2022 valuation were based on the results of an actuarial experience study for the period October 1, 2015 – September 30, 2020.

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:

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 10 – PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Fixed Income	15.0%	2.8%
US Large Stocks	32.0%	8.0%
US Mid Stocks	9.0%	10.0%
US Small Stocks	4.0%	11.0%
Int'l Developed Mkt Stocks	12.0%	9.5%
Int'l Emerging Mkt Stocks	3.0%	11.0%
Alternatives	10.0%	9.0%
Real Estate	10.0%	6.5%
Cash	<u>5.0%</u>	1.5%
Total	100.0%	

*Includes assumed rate of inflation of 2.00%

Discount Rate

The discount rate used to measure the total pension liability was the long-term rate of return, 7.45%. 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.

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 10 – PENSION PLAN (Continued)Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at September 30, 2023	\$ 21,623,214	\$ 18,040,029	\$ 3,583,185
Changes for the year:			
Service cost	527,840	-	527,840
Interest	1,570,340	-	1,570,340
Changes of benefit terms	-	-	-
Changes of assumptions	-	-	-
Difference between expected and and actual experience	33,747	-	33,747
Contributions - employer	-	222,060	(222,060)
Contributions - employee	-	344,158	(344,158)
Net investment income	-	3,752,703	(3,752,703)
Benefit payments, including refunds of employee contributions	(1,089,657)	(1,089,657)	-
Administrative expense	-	-	-
Transfers among employers	(15,789)	(15,789)	-
Net changes	1,026,481	3,213,475	(2,186,994)
Balances at September 30, 2024	<u>\$ 22,649,695</u>	<u>\$ 21,253,504</u>	<u>\$ 1,396,191</u>

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 10 – PENSION PLAN (Continued)Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City's net pension liability calculated using the discount rate of 7.45%, 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 (6.45%) or 1-percentage-point higher (8.45%) than the current rate (dollar amounts in thousands):

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
City's Net Pension Liability (Asset)	\$ 4,144,450	\$ 1,396,191	\$ (907,347)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Annual Comprehensive Financial Report for the fiscal year ended September 30, 2024. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2024. The auditor's report 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 <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

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

For the year ended September 30, 2025, the City recognized pension expense of \$224,209. At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 663,144	\$ 318,620
Changes of assumptions	235,739	-
Net difference between projected and actual earnings on plan investments	-	1,404,218
Employer contributions subsequent to Measurement Date	369,381	-
	<u>\$ 1,268,264</u>	<u>\$ 1,722,838</u>

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 10 – PENSION PLAN (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The \$369,381 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended September 30:		
2026	\$	(215,329)
2027		290,595
2028		(477,606)
2029		(426,272)
2030		4,657
Thereafter		-

NOTE 11 - POST EMPLOYMENT BENEFITS

Plan Description

On February 10, 1997, the City adopted a resolution establishing a retiree health insurance reimbursement program under which the City will pay \$100 per month to be applied toward a health insurance plan of their choice, from the date of retirement. Retirees must meet the following eligibility requirements:

1. Must be an active full-time employee on the date of adoption of the aforementioned resolution, having been employed full-time by the City for at least 25 years prior to retirement.
2. Must enroll in the program at the time of retirement, if an active full-time employee at the time of retirement.
3. Must not be eligible for hospitalization insurance coverage from any other source; i.e., through another employer, or as a result of insurance coverage from a spouse, or someone providing support for the retiree.

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 11 – POST EMPLOYMENT BENEFITS (Continued)

Employee membership data related to the City as of the measurement date of September 30, 2025, was as follows:

Retired members currently receiving benefits	16
Active members	105
	<u>121</u>

Discount Rate

The discount rate used to measure the total other post-employment benefit liability was 7.45%. This rate was selected as it is consistent with the rate used to calculate the net pension liability.

Changes in Other Post-Employment Benefit Liability

Changes in the City's other post-employment benefit liability as of September 30, 2025 and 2024, was as follows:

	2025	2024
Balance at beginning of year	\$ 615,443	\$ 634,278
Change in assumptions *	<u>127,236</u>	<u>(18,835)</u>
	<u>\$ 742,679</u>	<u>\$ 615,443</u>

*Assumptions involve estimates of the value of reported amounts about the probability of events far into the future. The valuation for post-employment benefits includes estimates and assumptions regarding (1) turnover rate; (2) retirement rate; (3) mortality rate; (5) discount rate (investment return assumption); and (6) the period to which the costs apply (past, current, or future years of service by employee). Calculated amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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

The following table presents the City's other post-employment benefit liability calculated using the discount rate of 7.45%, as well as what the City's proportionate share of the other post-employment benefit liability would be if it were calculated using a discount rate that is one percentage lower (6.45%) or one percentage point higher (8.45%) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Other post-employment benefit liability	\$ 856,047	\$ 742,679	\$ 679,998

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 12 – DEFERRED COMPENSATION PLANS

Beginning in September 1997, elected officials and employees of the City were given the opportunity to participate in “RSA-1”, a deferred compensation plan created in accordance with Internal Revenue Code (I.R.C.) Section 457 and authorized by 36-27-A, et. seq., *Code of Alabama 1975*, as amended. This plan is administered by the Employees’ Retirement System of Alabama and is open to any public official or employee of the State of Alabama or any political subdivision thereof, regardless of age. Under the plan, employees defer a portion of their salary until future years. Deferred compensation is not available to employees until termination or retirement from employment or the occurrence of certain unforeseeable emergencies.

RSA-1 funds are invested in the same types of investments and are subject to the same guidelines and limitations as applicable to investments made by the Teachers’ and Employees’ Retirement Systems. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts are solely the property and rights of the employees.

In March 2014, the City established a second I.R.C. Section 457 deferred compensation plan administered by Nationwide Retirement Solutions, in which elected officials and employees also have the opportunity to participate.

NOTE 13 – RISK MANAGEMENT

The City is exposed to various risks or losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; inquiries to employees, and natural disasters. In 1983, the City was unable to obtain worker’s compensation insurance at a cost it considered to be economically justifiable. In that year, the City entered into an agreement with what is now called the Municipal Workers Compensation Fund, Inc. (MWCF), a public entity risk pool currently operating as common risk management and workers’ compensation insurance program for most Alabama municipalities and their legal entities. The City pays an annual premium to MWCF for its workers compensation coverage. The City’s agreement with MWCF provides that MWCF will be self-sustaining through member premiums and will maintain with underwriters adequate reinsurance coverage protection of the members.

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 13 – RISK MANAGEMENT (Continued)

In 1990, the City entered into a similar agreement with Alabama Municipal Insurance Corporation (AMIC) for its general liability, commercial automobile and property, inland and public officials, and employee's liability insurance. AMIC is also a public entity risk pool and was established in 1989 to provide property and liability insurance for Alabama towns and cities which are members of the Alabama League of Municipalities. AMIC is qualified and licensed to operate as a mutual insurance company, and its objectives are to formulate, develop, and administer on behalf of the member political subdivisions a program of insurance, to obtain lower costs for coverage, and to develop a comprehensive loss control program. The City was required to make an initial contribution of \$54,549 to AMIC in order to obtain insurance coverage and also pays an annual premium. As with MWCF, the City's agreement with AMIC provides that the company will be self-sustaining through member premiums and will reinsure through commercial companies in adequate amounts for the protection of its members.

NOTE 14 – CONTINGENT LIABILITIES

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. No provision for any liability has been made in the financial statements of possible Federal claims for refunds of these grant monies.

Claims and Judgments – In addition to those suits in which claims for liability are adequately covered by insurance, the City is a defendant in various suits arising in the normal course of business. Management is unable to predict the outcome of the litigation but believes it has strong grounds upon which to defend these proceedings and will vigorously oppose the asserted claims.

NOTE 15 – COMMITMENTS

Tax Abatements/Economic Development Agreements

On June 13, 2016, the City entered into a tax abatement agreement with Choice Fabricators, Inc. (the Company), pursuant to the Alabama Tax Incentive Reform Act of 1992 (the Act), for all state and local non-educational property (ad valorem) taxes and certain construction related transaction taxes regarding a capital improvement project related to a new product line. The Company was required to apply for these abatements through the Alabama Department of Revenue and the amount of the abatements has and will be deducted from the Company's tax bills for the periods in effect. The amount of City property taxes abated was \$4,270 during the fiscal year ending September 30, 2025.

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 15 – COMMITMENTS (Continued)

Tax Abatements/Economic Development Agreements (Continued)

On October 28, 2019, the City entered into a tax abatement agreement with C, G, & J, Inc. (the Company), pursuant to the Alabama Tax Incentive Reform Act of 1992 (the Act), for all state and local non-educational property (ad valorem) taxes and certain construction related transaction taxes regarding a capital improvement project related to private use industrial development property. The Company was required to apply for these abatements through the Alabama Department of Revenue and the amount of these abatements has and will be deducted from the Company's tax bills for the periods in effect. The amount of City property taxes abated was \$1,051 during the fiscal year ending September 30, 2025.

On March 25, 2024, the City entered into a tax abatement agreement with Absolute Respiratory Care (the Company), pursuant to the Alabama Tax Incentive Reform Act of 1992 (the Act). Under this agreement, the City will refund the City sales tax on any materials purchased within the City limits during the construction of the new facility and will rebate one-half of the City's portion of non-educational property taxes for up to two years. Rebate payments have not begun during the fiscal year ended September 30, 2025.

On April 8, 2024 the City entered into a tax abatement agreement with Loading Automation, Inc (the Company), pursuant to the Alabama Tax Incentive Reform Act of 1992 (the Act). Under this agreement, the City will refund the City sales tax on any materials purchased within the City limits during the construction project and for all state and local non-educational property (ad valorem) taxes for four years. The Company was required to apply for these abatements through the Alabama Department of Revenue and the amount of these abatements has and will be deducted from the Company's tax bills for the periods in effect. The amount of City property taxes abated was \$1,196 during the fiscal year ending September 30, 2025.

Funding Agreements with Utilities Board

On December 1, 2012 and February 1, 2013, the City entered into funding agreements with the Utilities Board of Rainbow City to make payments to the Board to be applied by the Board to the debt service payments on Series 2012 and Series 2013 bonds issued by the Board simultaneously with the execution of the funding agreements. The proceeds of both bond issues were used to construct a sewage treatment facility to serve the residents of the City. The obligations of the City to make the payments under these agreements are absolute and unconditional and constitute a general obligation to the City for which the full faith, credit, and taxing power of the City are irrevocably pledged. Neither of these funding agreements may be terminated by either party until the bonds are paid in full. Under both funding agreements, monthly payments began in February 2014 and were to continue through January 25, 2042. Under the provisions of the agreements, the City was to pay a total of \$6,113,039 during the term of the 2012 agreement, and a total of \$6,190,542 during the term of the 2013 agreement.

(Continued)

CITY OF RAINBOW CITY, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

NOTE 15 – COMMITMENTS (Continued)

Funding Agreements with Utilities Board (Continued)

On November 3, 2020 and November 19, 2020, respectively, both the Series 2012 and 2013 bonds were fully defeased and Series 2020-A and Series 2020-B bonds were issued by the Utilities Board. According to the escrow trustee for the bonds, the terms of the original funding agreements between the City and the Utilities Board are still in effect, with only lowered debt service requirements. The City is to pay a total of \$4,240,162 during the term of the Series 2020-A bonds and a total of \$4,047,415 during the term of the Series 2020-B bonds. The total amount paid by the City under these agreements during the year ended September 30, 2025 was \$371,860.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF RAINBOW CITY, ALABAMA

SCHEDULE OF NET PENSION LIABILITY

SEPTEMBER 30, 2025

Actuarial Valuation as of September 30	Total Pension Liability	Plan Net Position	Net Pension (Asset) Liability	Plan Net Position as a % of Total Pension Liability	Covered Employee Payroll	Net Pension Liability as a % of Covered Employee Payroll
2015	\$ 13,821,717	\$ 11,970,399	\$ 1,851,318	86.6%	\$ 3,406,390	54.3%
2016	\$ 15,410,452	\$ 13,073,837	\$ 2,336,615	84.8%	\$ 3,629,560	64.4%
2017	\$ 16,085,122	\$ 14,728,335	\$ 1,356,787	91.6%	\$ 3,788,241	35.8%
2018	\$ 17,079,115	\$ 15,775,550	\$ 1,303,565	92.4%	\$ 3,902,675	33.4%
2019	\$ 17,295,927	\$ 15,426,028	\$ 1,869,899	89.2%	\$ 4,001,589	46.7%
2020	\$ 17,855,537	\$ 15,904,498	\$ 1,951,039	89.1%	\$ 3,936,694	49.6%
2021	\$ 18,643,301	\$ 19,136,378	\$ (493,077)	102.6%	\$ 4,335,004	-11.4%
2022	\$ 19,828,301	\$ 16,270,546	\$ 3,557,755	82.1%	\$ 4,435,495	80.2%
2023	\$ 21,623,214	\$ 18,040,029	\$ 3,583,185	83.4%	\$ 4,677,379	76.6%
2024	\$ 22,649,695	\$ 21,253,504	\$ 1,396,191	93.8%	\$ 4,964,038	28.1%

CITY OF RAINBOW CITY, ALABAMA

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Actuarial Valuation as of September 30,									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability										
Service cost	\$ 527,840	\$ 486,482	\$ 469,744	\$ 380,746	\$ 358,981	\$ 354,056	\$ 350,568	\$ 344,997	\$ 315,016	\$ 310,222
Interest	1,570,340	1,436,511	1,353,664	1,338,819	1,299,595	1,284,736	1,216,397	1,167,819	1,080,414	1,039,221
Change of benefit terms	-	-	13,227	-	141,004	-	-	-	-	-
Difference between expected and actual experience	33,747	724,553	377,917	(884,594)	(383,725)	(181,397)	96,678	(353,640)	92,212	(198,931)
Changes of Assumptions	-	-	-	759,603	-	-	92,056	-	650,661	-
Benefit payments, including refunds of employee contributions	(1,089,657)	(1,092,552)	(946,625)	(936,552)	(836,137)	(788,462)	(779,349)	(683,637)	(633,091)	(638,120)
Transfers among employers	(15,789)	239,919	(82,927)	129,742	(20,108)	(452,121)	17,643	199,131	83,523	-
Net change in total pension liability	1,026,481	1,794,913	1,185,000	787,764	559,610	216,812	993,993	674,670	1,588,735	512,392
Total pension liability - beginning	21,623,214	19,828,301	18,643,301	17,855,537	17,295,927	17,079,115	16,085,122	15,410,452	13,821,717	13,309,325
Total pension liability - ending (a)	22,649,695	21,623,214	19,828,301	18,643,301	17,855,537	17,295,927	17,079,115	16,085,122	15,410,452	13,821,717
Plan fiduciary net position										
Contributions - employer	222,060	213,415	282,715	258,634	234,930	258,475	238,904	253,826	243,014	255,848
Contributions - member	344,158	317,286	299,755	278,192	229,495	237,066	220,820	212,367	196,514	192,187
Net investment income	3,752,703	2,091,415	(2,418,750)	3,501,864	870,290	395,520	1,349,097	1,672,811	1,213,478	141,547
Benefit payments, including refunds of employee contributions	(1,089,657)	(1,092,552)	(946,625)	(936,552)	(836,137)	(788,462)	(779,349)	(683,637)	(633,091)	(638,120)
Transfer among employers	(15,789)	239,919	(82,927)	129,742	(20,108)	(452,121)	17,643	199,131	83,523	(14,287)
Net change in plan fiduciary net position	3,213,475	1,769,483	(2,865,832)	3,231,880	478,470	(349,522)	1,047,215	1,654,498	1,103,438	(62,825)
Plan net position - beginning	18,040,029	16,270,546	19,136,378	15,904,498	15,426,028	15,775,550	14,728,335	13,073,837	11,970,399	12,033,224
Plan net position - ending (b)	21,253,504	18,040,029	16,270,546	19,136,378	15,904,498	15,426,028	15,775,550	14,728,335	13,073,837	11,970,399
Net pension liability - ending (a) - (b)	<u>\$ 1,396,191</u>	<u>\$ 3,583,185</u>	<u>\$ 3,557,755</u>	<u>\$ (493,077)</u>	<u>\$ 1,951,039</u>	<u>\$ 1,869,899</u>	<u>\$ 1,303,565</u>	<u>\$ 1,356,787</u>	<u>\$ 2,336,615</u>	<u>\$ 1,851,318</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>93.84%</u>	<u>83.43%</u>	<u>82.06%</u>	<u>102.64%</u>	<u>89.07%</u>	<u>89.19%</u>	<u>92.37%</u>	<u>91.56%</u>	<u>84.84%</u>	<u>86.61%</u>
Covered-employee payroll*	<u>\$ 4,964,038</u>	<u>\$ 4,677,379</u>	<u>\$ 4,435,495</u>	<u>\$ 4,335,004</u>	<u>\$ 3,936,694</u>	<u>\$ 4,001,589</u>	<u>\$ 3,902,675</u>	<u>\$ 3,788,241</u>	<u>\$ 3,629,560</u>	<u>\$ 3,406,390</u>
Net pension liability as a percentage of covered-employee payroll	<u>28.13%</u>	<u>76.61%</u>	<u>80.21%</u>	<u>-11.37%</u>	<u>49.56%</u>	<u>46.73%</u>	<u>33.40%</u>	<u>35.82%</u>	<u>64.38%</u>	<u>54.35%</u>

* Employer's covered-payroll during the measurement period is the total covered payroll. For FY2025 the measurement period is October 1, 2023 - September 30, 2024.

GASB issued a statement "Pension Issues" in March, 2016 to redefine covered payroll beginning with FY2017.

CITY OF RAINBOW CITY, ALABAMA

SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Actuarial Valuation as of September 30,									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ 222,060	\$ 240,327	\$ 213,415	\$ 282,715	\$ 258,634	\$ 234,930	\$ 258,475	\$ 238,904	\$ 253,826	\$ 243,014
Contributions in relation to the actuarially determined contribution	222,060	240,327	213,415	282,715	258,634	234,930	258,475	238,904	253,826	243,014
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 5,390,345	\$ 4,964,038	\$ 4,677,379	\$ 4,435,495	\$ 4,335,004	\$ 3,936,694	\$ 4,001,589	\$ 3,902,675	\$ 3,788,241	\$ 3,629,560
Contributions as a percentage of covered-employee payroll	4.12%	4.84%	4.56%	6.37%	5.97%	5.97%	6.46%	6.12%	6.70%	6.70%

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 2025 were based on the September 30, 2022 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2024 to September 30, 2025:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	17.8 years
Asset valuation method	Five year smoothed market
Inflation	2.50%
Salary increases	3.25 - 6.00%, including inflation
Investment rate of return	7.45%, net of pension plan investment expense, including inflation

CITY OF RAINBOW CITY, ALABAMA

SCHEDULE OF PENSION INVESTMENT RETURNS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Actuarial Valuation as of September 30,									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Investment rate of return, net of pension plan investment expense, including inflation	7.45%	7.45%	7.70%	7.70%	7.70%	7.75%	7.88%	8.00%	8.00%	8.00%

CITY OF RAINBOW CITY, ALABAMA

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

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 14,991,150	\$ 14,991,150	\$ 14,467,955	\$ (523,195)
Licenses and Permits	2,827,848	2,827,848	2,429,711	(398,137)
Intergovernmental	222,190	222,190	1,500,339	1,278,149
Fines and Forfeitures	-	-	203,743	203,743
Miscellaneous	38,700	38,700	829,388	790,688
Charges for Service	905,421	905,421	916,483	11,062
	<u>18,985,309</u>	<u>18,985,309</u>	<u>20,347,619</u>	<u>1,362,310</u>
EXPENDITURES				
General and Admin	4,378,384	4,378,384	3,424,008	954,376
Police	3,197,056	3,197,056	2,937,786	259,270
Animal Control	410,785	410,785	379,876	30,909
Fire	2,781,760	2,781,760	2,649,226	132,534
Library	482,906	482,906	452,877	30,029
Parks and Recreation	1,297,021	1,297,021	1,242,669	54,352
Street and Sanitation	2,190,332	2,190,332	2,043,423	146,909
Court	-	-	186	(186)
Capital Outlay	1,349,497	1,349,497	17,977,053	(16,627,556)
Funding Agreements Utilities Board	-	-	371,860	(371,860)
	<u>16,087,741</u>	<u>16,087,741</u>	<u>31,478,964</u>	<u>(15,391,223)</u>
Excess of Revenues Over (Under) Expenditures	<u>2,897,568</u>	<u>2,897,568</u>	<u>(11,131,345)</u>	<u>(14,028,913)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	-	-	259,639	259,639
Insurance Recoveries	-	-	42,870	42,870
Transfers To Other Funds	(1,000,000)	(1,000,000)	-	1,000,000
Transfers from Other Funds	-	-	6,554,831	6,554,831
	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>6,857,340</u>	<u>7,857,340</u>
Net Change in Fund Balance	1,897,568	1,897,568	(4,274,005)	(6,171,573)
FUND BALANCES - Beginning of Year	<u>31,043,030</u>	<u>31,043,030</u>	<u>31,043,030</u>	<u>-</u>
FUND BALANCES - End of Year	<u>\$ 32,940,598</u>	<u>\$ 32,940,598</u>	<u>\$ 26,769,025</u>	<u>\$ (6,171,573)</u>

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

CITY OF RAINBOW CITY, ALABAMA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2025

An annual budget is prepared for the City's general fund and adopted on the modified cash basis. All annual appropriations lapse at fiscal year end. Accounting principles generally accepted in the United States of America require that budget comparisons be presented for special revenue funds if a budget is legally adopted. Such a presentation has not been made because the City does not adopt budgets for these funds. The Mayor and City Council approve, by ordinance, total general fund budget appropriations only. The City is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any funds must be approved by the Council.

SUPPLEMENTARY INFORMATION

CITY OF RAINBOW CITY, ALABAMA

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2025

	Street Improvement Fund	Cash Bond Fund	Debt Service Fund	Court Training Fund	Judicial Administration Fund	Fire Protection Fund	Corrections Fund	Total
ASSETS								
Cash and Cash Equivalents	\$ 477,046	\$ 1,600	\$ 167,939	\$ 427	\$ 40,065	\$ 554,522	\$ 31,412	\$ 1,273,011
Accounts Receivable, Net	33,069	-	-	-	-	6,768	-	39,837
Due From Other Funds	-	-	-	-	54,015	-	-	54,015
Total Assets	<u>\$ 510,115</u>	<u>\$ 1,600</u>	<u>\$ 167,939</u>	<u>\$ 427</u>	<u>\$ 94,080</u>	<u>\$ 561,290</u>	<u>\$ 31,412</u>	<u>\$ 1,366,863</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 96,497	\$ 49,337	\$ 145,834
Other Liabilities	-	1,600	-	-	-	10,595	-	12,195
Total Liabilities	<u>-</u>	<u>1,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,092</u>	<u>49,337</u>	<u>158,029</u>
Fund Balances:								
Restricted for:								
Fire Protection Expenses	-	-	-	-	-	454,198	-	454,198
Debt Service	-	-	167,939	-	-	-	-	167,939
Street Maintenance and Improvements	510,115	-	-	-	-	-	-	510,115
Court-Related Expenses	-	-	-	427	94,080	-	(17,925)	76,582
Total Fund Balances	<u>510,115</u>	<u>-</u>	<u>167,939</u>	<u>427</u>	<u>94,080</u>	<u>454,198</u>	<u>(17,925)</u>	<u>1,208,834</u>
Total Liabilities and Fund Balances	<u>\$ 510,115</u>	<u>\$ 1,600</u>	<u>\$ 167,939</u>	<u>\$ 427</u>	<u>\$ 94,080</u>	<u>\$ 561,290</u>	<u>\$ 31,412</u>	<u>\$ 1,366,863</u>

CITY OF RAINBOW CITY, ALABAMA

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

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Street Improvement Fund	Cash Bond Fund	Debt Service Fund	Court Training Fund	Judicial Administration Fund	Fire Protection Fund	Corrections Fund	Total
REVENUES								
Gasoline Tax	\$ 218,672	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 218,672
Fire Tax	-	-	-	-	-	491,640	-	491,640
Fines and Forfeitures	-	-	-	1,719	14,381	-	29,774	45,874
Interest Income	3,090	-	6,716	-	37	8,306	35	18,184
Total Revenues	221,762	-	6,716	1,719	14,418	499,946	29,809	774,370
EXPENDITURES								
Fire	-	-	-	-	-	251,806	-	251,806
Court	-	-	-	1,591	5,287	-	35,598	42,476
Capital Outlay	-	-	-	-	-	20,000	-	20,000
Debt Service - Principal	-	-	604,880	-	-	-	-	604,880
Debt Service - Interest and Fiscal Charges	-	-	696,349	-	-	-	-	696,349
Total Expenditures	-	-	1,301,229	1,591	5,287	271,806	35,598	1,615,511
Excess (Deficiency) of Revenues Over (Under) Expenditures	221,762	-	(1,294,513)	128	9,131	228,140	(5,789)	(841,141)
OTHER FINANCING SOURCES (USES)								
Proceeds From Issuance of Debt	-	-	7,500,000	-	-	-	-	7,500,000
Transfers (To) From Other Funds	-	-	(6,198,771)	-	-	(356,060)	-	(6,554,831)
Net Change in Fund Balance	221,762	-	6,716	128	9,131	(127,920)	(5,789)	104,028
FUND BALANCES - Beginning of Year	288,353	-	161,223	299	84,949	582,118	(12,136)	1,104,806
FUND BALANCES - End of Year	\$ 510,115	\$ -	\$ 167,939	\$ 427	\$ 94,080	\$ 454,198	\$ (17,925)	\$ 1,208,834

OTHER REQUIRED INFORMATION



**MDA PROFESSIONAL
GROUP, P.C.**
MISSION DRIVEN ADVISORS

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

Honorable Mayor and City Council
City of Rainbow City, 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, each major fund, and the aggregate remaining fund information of the City of Rainbow City, Alabama, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise City of Rainbow City, Alabama's basic financial statements, and have issued our reports thereon dated March 9, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Rainbow City, Alabama's internal control over financial reporting (internal control) as a basis for designing 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 City of Rainbow City, Alabama's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Rainbow City, Alabama'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.

Report on Internal Control over Financial Reporting (Continued)

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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rainbow City, Alabama'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 financial statements. 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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MDA Professional Group, P.C.

Gadsden, Alabama
March 9, 2026