

**City of Rainbow City, Alabama**  
Rainbow City, Alabama

AUDITED FINANCIAL STATEMENTS  
September 30, 2020

**MDA PROFESSIONAL GROUP, P.C.**  
*Certified Public Accountants and Business Consultants*  
Albertville, Anniston, Fort Payne, Gadsden, and Roanoke, Alabama

**Administration  
City of Rainbow City, Alabama  
Year Ended September 30, 2020**

**Mayor:**

**Terry John Calhoun, Jr.**

**City Council:**

**Anita Bedwell  
*Place 1***

**Robert “Bobby” McCartney, Jr.  
*Place 2***

**Rodney Prickett  
*Place 3***

**Larry Keenum  
*Place 4***

**Rick Hill  
Mayor Pro Tem  
*Place 5***

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# MDA PROFESSIONAL GROUP, P.C.

*Certified Public Accountants and Business Consultants*

125 NORTH THIRD STREET, GADSDEN, ALABAMA 35901 • PHONE 256.546.3371 • FAX 256.546.3373

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Rainbow City, Alabama  
Rainbow City, Alabama

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Rainbow City, Alabama, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

Honorable Mayor and City Council  
City of Rainbow City, Alabama

## Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Government Activities	Unmodified
Aggregate Discretely Presented Component Units	Adverse
General	Unmodified
Street Improvement	Unmodified
Fire Protection Tax	Unmodified
Debt Service	Unmodified
Aggregate Remaining Fund Information	Unmodified

## Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component unit. Accounting principles generally accepted in the United States of America require financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the aggregate discretely presented component units has not been determined.

## Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City of Rainbow City, Alabama, as of September 30, 2020, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Rainbow City, Alabama, as of September 30, 2020, and the respective changes in financial position in accordance with accounting principles generally accepted in the United States of America.

Honorable Mayor and City Council  
City of Rainbow City, Alabama

## **Other Matters**

### *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 42 – 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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.

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.

### *Other 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 administration officials section is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

**MDA Professional Group, P.C.**

Gadsden, Alabama  
February 24, 2022

# **Basic Financial Statements**

**CITY OF RAINBOW CITY, ALABAMA  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2020**

	<u>Governmental Activities</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	
Assets	
Cash and cash equivalents .....	\$ 7,029,941
Investments .....	1,090,958
Receivables, net .....	2,083,668
Prepaid expenses .....	251,927
Deposit - Alabama Municipal Insurance Corporation .....	54,549
Capital assets:	
Land, land improvements, and construction in progress .....	11,149,338
Other capital assets, net of depreciation and amortization .....	22,350,755
Total capital assets .....	<u>33,500,093</u>
Total assets .....	<u>44,011,136</u>
Deferred outflows of resources	
Employee pension plan .....	<u>800,199</u>
Total assets and deferred outflows of resources	<u><u>\$44,811,335</u></u>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	
Liabilities	
Accounts payable and accrued expenses .....	\$ 624,024
Other liabilities .....	61,573
Net pension liability .....	1,869,899
OPEB liability .....	413,003
Long-term liabilities:	
Due within one year .....	897,347
Due in more than one year .....	2,122,176
Total liabilities .....	<u>5,988,022</u>
Deferred inflows of resources	
Employee pension plan .....	<u>378,033</u>
Net position	
Net Investment in capital assets .....	31,140,427
Restricted - for street maintenance and improvements .....	356,905
- for court-related expenses.....	40,151
Unrestricted .....	6,907,797
Total net position .....	<u>38,445,280</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$44,811,335</u></u>

*The accompanying Notes to the Financial Statements are an integral part of these financial statements.*

**CITY OF RAINBOW CITY, ALABAMA  
STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2020**

	Total	Administration and General Government	Public Safety	Culture and Recreation	Library	Streets, Roads, and Sanitation	Debt Service
<b>Expenses:</b>							
Salaries, wages, and benefits .....	\$ 6,157,718	\$ 862,990	\$4,136,293	\$ 445,678	\$296,360	\$ 416,397	\$ -
Materials, supplies, and non-capitalized equipment .....	514,635	119,498	280,800	30,799	18,438	65,100	-
Repairs and maintenance .....	663,218	156,595	121,457	78,275	23,705	283,186	-
Building and grounds improvements (non-capital) .....	27,159	-	-	24,709	-	2,450	-
Other program expenses .....	2,915,333	1,255,546	434,698	154,380	25,627	1,045,082	-
Depreciation .....	1,416,881	126,871	550,886	55,000	70,330	613,794	-
Interest on debt .....	84,062	-	-	-	-	-	84,062
<b>Total expenses</b>	<b>11,779,006</b>	<b>2,521,500</b>	<b>5,524,134</b>	<b>788,841</b>	<b>434,460</b>	<b>2,426,009</b>	<b>84,062</b>
<b>Program revenues:</b>							
Charges for services .....	2,310,878	1,530,807	353,294	22,022	6,435	398,320	-
Operating grants and contributions ...	506,645	-	316,205	3,998	21,231	165,211	-
Capital grants and contributions .....	10,084,360	-	262,034	2,968,184	17,476	6,836,666	-
<b>Net program (revenue) expense</b>	<b>( 1,122,877)</b>	<b>990,693</b>	<b>4,592,601</b>	<b>( 2,205,363)</b>	<b>389,318</b>	<b>( 4,974,188)</b>	<b>84,062</b>
<b>General revenues:</b>							
Taxes .....	9,506,198						
Intergovernmental revenues .....	164,784						
Unrestricted investment earnings .....	112,054						
<b>Total general revenues</b>	<b>9,783,036</b>						
<b>Change in net position</b>	<b>10,905,913</b>						
Net position – beginning .....	27,932,410						
Prior Period Adjustment .....	(393,043)						
<b>Net position - ending</b>	<b>\$38,445,280</b>						

*The accompanying Notes to the Financial Statements are an integral part of these financial statements.*

**CITY OF RAINBOW CITY, ALABAMA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2020**

	General	Street Improvement	Fire Protection Tax	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents .....	\$6,344,400	\$334,884	\$307,437	\$ -	\$43,220	\$ 7,029,941
Investments .....	1,090,958	-	-	-	-	1,090,958
Receivables, net .....	2,052,034	27,096	4,403	-	135	2,083,668
Prepaid wages (held by bank) .....	48,189	-	-	-	-	48,189
Due from other funds .....	191,997	-	175	-	1,795	193,967
Deposit – Alabama Municipal Insurance Corporation .....	54,549	-	-	-	-	54,549
Total assets	<u>\$9,782,127</u>	<u>\$361,980</u>	<u>\$312,015</u>	<u>\$ -</u>	<u>\$45,150</u>	<u>\$10,501,272</u>
<b>Liabilities, deferred inflows of resources, and fund balances</b>						
<b>Liabilities:</b>						
Accounts payable .....	\$ 297,550	\$ -	\$ 1,979	\$ -	\$ 1,626	\$ 301,155
Accrued expenses .....	306,044	-	-	-	-	306,044
Due to other funds .....	1,597	-	191,997	-	373	193,967
Other liabilities .....	58,573	-	-	-	3,000	61,573
Total liabilities	<u>663,764</u>	<u>-</u>	<u>193,976</u>	<u>-</u>	<u>4,999</u>	<u>862,739</u>
<b>Deferred inflows of resources:</b>						
Unavailable revenues.....	<u>459,279</u>	<u>5,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>464,354</u>
<b>Fund balances:</b>						
<b>Nonspendable:</b>						
Prepaid Wages.....	54,549	-	-	-	-	54,549
<b>Restricted for:</b>						
Street maintenance and improvements ....	-	356,905	-	-	-	356,905
Fire protection expenses.....	-	-	118,039	-	-	118,039
Court-related expenses .....	-	-	-	-	40,151	40,151
Assigned for sewer system improvements ...	324,894	-	-	-	-	324,894
Unassigned .....	8,279,641	-	-	-	-	8,279,641
Total fund balances	<u>8,659,084</u>	<u>356,905</u>	<u>118,039</u>	<u>-</u>	<u>40,151</u>	<u>9,174,179</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$9,782,127</u>	<u>\$361,980</u>	<u>\$312,015</u>	<u>\$ -</u>	<u>\$45,150</u>	<u>\$10,501,272</u>

*The accompanying Notes to the Financial Statements are an integral part of these financial statements.*

**CITY OF RAINBOW CITY, ALABAMA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2020**

Total fund balance - total governmental funds		\$ 9,174,179
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.		33,500,093
Interest payable on long-term debt does not require current financial resources, therefore, interest payable is not reported as a liability in the governmental funds balance sheet.	(	8,329)
Revenues receivable that do not meet the availability test are reported as deferred inflows of resources in the governmental funds balance sheet.		464,354
Third-party collection fees payable on the aforementioned deferred inflows of resources are not reported as liabilities in the governmental funds balance sheet.	(	8,496)
Prepaid expenses (except for prepaid wages) are reported as expenditures in the governmental funds when paid and, therefore, are not reported as assets in the governmental funds balance sheet.		203,738
Net pension liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet.	(	1,869,899)
OPEB liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet.	(	413,003)
Deferred outflows of resources related to the employee pension plan (employer contributions subsequent to the September 30, 2019 measurement date, differences between expected and actual experience, changes of assumptions, and the net difference between projected and actual earnings on plan investments) are not reported as such in the governmental funds balance sheet.		800,199
Deferred inflows of resources (differences between expected and actual experience) are not reported as such in the governmental funds balance sheet.	(	378,033)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.		
Due within one year .....	\$	897,347
Due in more than one year .....		2,122,176
		( 3,019,523)
Net position of governmental activities		\$38,445,280

*The accompanying Notes to the Financial Statements are an integral part of these financial statements.*

**CITY OF RAINBOW CITY, ALABAMA**  
**STATEMENT OF REVENUES EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2020**

	General	Street Improvement	Fire Protection Tax	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes .....	\$ 9,512,415	\$ -	\$ -	\$ -	\$ -	\$ 9,512,415
Licenses and permits .....	1,517,473	-	-	-	-	1,517,473
Intergovernmental .....	487,837	156,971	365,752	-	-	1,010,560
Charges for services .....	502,677	-	-	-	-	502,677
Fines and forfeits .....	243,316	-	-	-	53,975	297,291
Miscellaneous .....	121,845	123	243	-	39	122,250
<b>Total revenues</b>	<u>12,385,563</u>	<u>157,094</u>	<u>365,995</u>	<u>-</u>	<u>54,014</u>	<u>12,962,666</u>
<b>Expenditures</b>						
<b>Current:</b>						
Administrative and general government..	2,327,059	-	-	-	-	2,327,059
Police .....	2,342,816	-	-	-	-	2,342,816
Animal control .....	221,760	-	-	-	-	221,760
Fire .....	2,022,995	-	103,718	-	-	2,126,713
Library .....	359,716	-	-	-	-	359,716
Park and recreation .....	718,303	-	-	-	-	718,303
Street and sanitation.....	1,397,736	-	-	-	-	1,397,736
Court .....	-	-	-	-	43,126	43,126
<b>Debt service:</b>						
Principal .....	-	-	-	674,206	-	674,206
Interest and other charges .....	-	-	-	87,005	-	87,005
<b>Capital outlay .....</b>	<u>704,263</u>	<u>-</u>	<u>5,800</u>	<u>-</u>	<u>-</u>	<u>710,063</u>
<b>Total expenditures</b>	<u>10,094,648</u>	<u>-</u>	<u>109,518</u>	<u>761,211</u>	<u>43,126</u>	<u>11,008,503</u>
<b>Excess (deficiency) of revenues     over expenditures</b>	<u>2,290,915</u>	<u>157,094</u>	<u>256,477</u>	<u>( 761,211)</u>	<u>10,888</u>	<u>1,954,163</u>
<b>Other financing sources (uses)</b>						
Transfers in .....	-	-	-	761,211	-	761,211
<b>Transfers out:</b>						
Debt service .....	( 624,049)	-	( 137,162)	-	-	( 761,211)
Funding agreements - Utilities Board.....	( 428,857)	-	-	-	-	( 428,857)
Proceeds from disposition of assets.....	37,016	-	-	-	-	37,016
Insurance recoveries - property damage....	18,563	-	-	-	-	18,563
<b>Total other financing sources (uses)</b>	<u>( 997,327)</u>	<u>-</u>	<u>( 137,162)</u>	<u>761,211</u>	<u>-</u>	<u>( 373,278)</u>
<b>Net changes in fund balances</b>	1,293,588	157,094	119,315	-	10,888	1,580,885
Fund balances – beginning .....	7,365,496	199,811	( 1,276)	-	29,263	7,593,294
Fund balances – ending .....	<u>\$ 8,659,084</u>	<u>\$356,905</u>	<u>\$118,039</u>	<u>\$ -</u>	<u>\$40,151</u>	<u>\$ 9,174,179</u>

**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  
SEPTEMBER 30, 2020**

Net change in fund balances - total governmental funds	\$1,580,885
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	710,063
The net effect of sales and other dispositions of capital assets is to decrease net position.	( 26,992)
Depreciation and amortization expense on capital assets is reported in the government-wide statement of activities and changes in net position, but it does not require the use of current financial resources. Depreciation and amortization expense, therefore, is not reported as an expenditure in the governmental funds.	( 1,416,881)
The repayment of the principal of long-term debt (e.g. promissory notes, capital leases, and general obligation warrant) consumes the current financial resources of governmental funds, but does not have any effect on net position. This amount is the long-term debt principal retirement recorded in the current period.	674,205
The expense for accrued compensated absences is reported in the statement of activities but does not require the use of current financial resources, therefore, it is not included in expenditures in the governmental funds. This is the net increase in accrued compensated absences from the beginning to end of the current period.	( 202,287)
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources. Accrued interest expense, therefore, is not reported as an expenditure in the governmental funds. This is the net decrease in accrued interest expense on long-term debt from the beginning to the end of the current period.	2,943
Revenues that do not meet the availability test are not recorded in the governmental funds. This is the net decrease in these revenues from the beginning to the end of the current period, net of third-party collection fees.	( 6,221)
Prepaid expenses (except for prepaid wages) are reported as expenditures in the governmental funds when paid, however, they are not reported in the government-wide statement of activities and changes in net position. This is the net increase in prepaid expenses from the beginning to the end of the current period.	5,987
Deferred outflows of resources representing certain employer contributions to the employee pension plan subsequent to the September 30, 2019 measurement date are included in expenditures in the governmental funds. This is the net decrease in these deferred outflows from the beginning to the end of the current period.	( 20,286)
Increase in employee pension expense resulting from changes in the net pension liability is not reported in the governmental funds.	( 85,573)
Increase in employee pension expense resulting from changes in the net pension liability is not reported in the governmental funds.	( 19,960)
Contribution revenues for general capital assets (e.g., streets and roads, land improvements) are not reported in the governmental funds.	<u>9,710,030</u>
Change in net position of governmental activities	<u>\$10,905,913</u>

*The accompanying Notes to the Financial Statements are an integral part of these financial statements.*

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

A. General Statement

The City of Rainbow City operates under an elected Mayor/Council form of government. The City's major operations include public safety, sanitation, culture and recreation, library, maintenance and improvement of streets and roads, and general administrative services.

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.

B. Financial Reporting Entity

The reporting entity is comprised of the primary government, a component units (the Utilities Board of Rainbow City and the Commercial Development Authority of Rainbow City) and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City.

Under criteria established by GASB Statement No. 14, as amended by Statement No. 39, and Statement No. 61, the Commercial Development Authority of Rainbow City, Alabama (Authority), although a separate legal entity, is considered to be a component unit of the City because of its close relation to and financial integration with the City. These financial statements include the financial data of the Authority that is necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

Also 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 13 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 generally accepted accounting principles. Separate financial statements issued by the Board can be obtained at their offices located at 1540 Sutton Bridge Road in Rainbow City.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the primary government of the City. All of the City's activities are considered to be governmental-type activities which are normally supported primarily by taxes and intergovernmental revenues.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

C. Basis of Presentation (continued)

Government-wide Financial Statements (continued):

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

Fund Financial Statements:

The City segregates transactions related to certain 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; all non-major funds are 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. The City has presented the following major governmental funds:

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 to some other fund 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.

Street Improvement Special Revenue Fund -

The street improvement fund is used to account for funds received and expended for the maintenance and improvement of City streets and roads.

Fire Protection Tax Special Revenue Fund -

The fire protection tax fund is used to account for funds received and expended for the furtherance of fire protection within the City.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

C. Basis of Presentation (continued)

Fund Financial Statements (continued):

Debt Service Fund -

The debt service fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both 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 be used to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences and arbitrage, are recorded only when payment has matured and will be payable shortly after year-end.

The revenues susceptible to accrual are various taxes, charges for service, fines, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

E. Budgets

The City Council adopts an annual budget of the general fund, special revenue funds, and debt service funds. Amendments to the actual budget require City Council approval. All annual appropriations lapse at fiscal year end.

The schedules of revenues, expenditures, and changes in fund balance - budget and actual for the general fund, street improvement special revenue fund, and fire protection tax special revenue fund present a comparison of budgetary data to actual results. All three of these funds utilize the same basis of accounting for both budgeting purposes and actual results.

F. 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 U.S. Treasury securities, fully secured certificates of deposit and in time 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.

G. 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.

H. Capital Assets

Capital assets, which include property and equipment, are reported in the activities columns in the government-wide financial statements. General government infrastructure capital assets include only those assets acquired or constructed since October 1, 2003. The City qualified as a Phase 3 implementer of GASB Statement No. 34, and elected under that standard to not report infrastructure assets in existence prior to that date. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

H. Capital Assets (continued):

Assets capitalized have an original cost of \$5,000 or more and over one year of useful life. Depreciation or amortization has been calculated on each class of depreciable and amortizable property using the straight-line method. Estimated useful lives are as follows:

Buildings	40 years
Leasehold improvements	25 years
Recreation department equipment and park improvements	15 years
Automotive equipment	10 years
Other equipment	10 years
Library books, video, and audio	10 years
Infrastructure	20-75 years

I. Compensated Absences

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

	Police Officers & Dispatchers <sup>(A)</sup>	Fire Dept. <sup>(B)</sup>	All Others (Full-Time) <sup>(C)</sup>
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

<sup>(A)</sup> 12 hr. days - all except chief, detectives, and school resource officers (1 week = 5 days = 60 hrs.)

<sup>(B)</sup> 24 hr. days - all except chief (1 week = 3 days = 72 hrs.)

<sup>(C)</sup> 8 hr. days (1 week = 5 days = 40 hrs.)

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

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

I. Compensated Absences (continued):

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 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 of accrued and unused sick leave.

J. Employee Pensions

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

K. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that period. The City has four items that qualify for reporting in this category in the statement of net position, all related to the employee pension plan; those items are differences between expected and actual experience, changes in assumptions, the net difference between projected and actual earnings on plan investments, and employer contributions to the employee pension plan subsequent to the September 30, 2019 measurement date, as described in Note 9 to these financial statements.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

K. Deferred Outflows and Inflows of Resources (continued):

In addition to liabilities, the statement of net position and balance sheet – governmental funds reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow or resources (revenue) until that time. The City has one item that qualifies for reporting in this category in the statement of net position; that item is the difference between expected and actual experience for the employee pension plan, also as described in Note 9 to these financial statements. Deferred inflows reported in the governmental funds balance sheet consist of amounts recognized as receivables but not revenues in the governmental funds because the revenue recognition criteria (availability) has not been met.

L. Equity Classifications

Government-wide Statements:

Equity is classified as net position and displayed in three components:

*Net Investment in Capital Assets* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net position* - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

*Unrestricted net position* - all other net position that does not meet the definition of “restricted” or “Net investment in Capital Assets.”

Fund Statements:

Governmental fund equity is classified as fund balance. In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

L. Equity Classifications (continued)

Fund Statements (continued):

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

*Restricted fund balance* - This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance* - These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the city council - the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the city council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned fund balance* - This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The city council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed.

*Unassigned fund balance* - This fund balance is the residual classification for the general fund. It is also used to report negative fund balances in other governmental funds

When both restricted and unrestricted resources are available for use, is it the City's policy to use externally restricted resources first, then unrestricted resources - committed, assigned, and unassigned - in order as needed.

M. Use of Estimates

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

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

N. Post-employment Health Care Benefits

COBRA

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City provides health care benefits to eligible former employees and eligible dependents. Certain requirements are outlined by the Federal government for this coverage. Generally, COBRA allows former employees to continue coverage for themselves and their dependents for 18 months beyond their termination of employment (except for reasons of gross misconduct) or reduction in hours, and allows former dependents to continue their coverage for 36 months beyond the death of the employee, divorce from the employee, loss of dependent status, or the employee's entitlement to Medicare. There is no associated cost to the City under this program, and there were no participants in the program as of September 30, 2020.

Retiree Health Insurance Reimbursement Program

On February 10, 1997, the City adopted a resolution establishing a retiree health insurance reimbursement program, in which the City will pay \$100 per month towards 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 the result of insurance coverage from a spouse, or someone providing support for the retiree.

There were 10 active participants in the program as of September 30, 2020, with current year expenditures totaling \$12,200 for the year then ended. There were an additional 10 active full-time employees who are eligible for the program, who have not retired.

The alternative measurement method was used to determine the City's OPEB liability as of September 30, 2020. In using the alternative measurement method to determine the liability, a discount rate of 4.25% was used to calculate the net present value of future payments. The estimated liability for these benefits for the year ended September 30, 2020 is \$413,003.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(2) DEPOSITS AND INVESTMENTS:**

A. Deposits

The City maintains cash and certificates of deposit as deposits with banks located within the State of Alabama. At September 30, 2020, the carrying amount of the City's deposits was \$8,439,500 of which all was covered by the Federal Deposit Insurance Corporation or the SAFE Plan enacted by the State of Alabama.

B. Investments

Types of investments authorized by law include obligations of the United States, other obligations, the principal of and interest on which are unconditionally guaranteed by the United States, insured or collateralized certificates of deposit, and fully collateralized repurchase agreements secured by obligations of the United States or its agencies. Investments held at September 30, 2020 were certificates of deposit held in the general fund at a total cost of \$1,090,958 which were covered by the SAFE Plan enacted by the State of Alabama. The cost of all investments held at September 30, 2020 approximates fair value.

**(3) RECEIVABLES:**

Receivables reported in the statement of net position at September 30, 2020, consisted of the following:

	General Fund	Special Revenue Funds	Total
Taxes -			
Sales.....	\$ 703,068	\$ -	\$ 703,068
Ad valorem.....	545,556	-	545,556
Occupational.....	455,224	-	455,224
Gasoline (local).....	11,217	-	11,217
Liquor and wine.....	1,650	-	1,650
Intergovernmental -			
Motor vehicle licenses and registration fees .....	3,296	-	3,296
Sales tax - ABC stores.....	3,844	-	3,844
Beverage tax.....	4,854	-	4,854
Etowah Co. sales tax.....	2,607	-	2,607
FEMA disaster funding.....	3,741	-	3,741
Financial institutes excise tax .....	36,522	-	36,522
Coronavirus Relief Fund .....	14,840	-	14,840
Fire protection tax.....	-	3,803	3,803
Gasoline taxes .....	-	27,038	27,038
Charges for services -			
Sanitation fees.....	59,290	-	59,220
Fines.....	26,077	-	26,077
Miscellaneous -			
Reimbursements -			
Alabama Dept. of Transportation .....	149,921	-	149,921
Sale of chert - Etowah Co. M.S.C.A. ....	22,845	-	22,845
Overpayments to vendors .....	7,482	793	8275
	\$2,052,034	\$31,634	\$2,083,668

**CITY OF RAINBOW CITY, ALABAMA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR YEAR ENDED SEPTEMBER 30, 2020**

**(4) CAPITAL ASSETS:**

Capital asset activity for the year ended September 30, 2020 (all reported under governmental activities), was as follows:

	Balance October 1	Additions/ Completions	Retirements/ Adjustments	Balance September 30
Capital assets not being depreciated -				
Land and land improvements....	\$ 5,741,982	\$ -	(\$ -)	\$ 5,741,982
Right-of-way .....	-	2,001,857	-	2,001,864
Construction in progress.....	3,839,776	3,007,864	( 3,442,141)	3,839,776
Total capital assets not being depreciated	<u>9,581,758</u>	<u>5,009,721</u>	<u>( 3,442,141)</u>	<u>11,149,338</u>
Capital assets being depreciated or amortized -				
Buildings.....	6,874,805	70,152	( -)	6,944,957
Recreation department equipment and park improvements.....	3,770,169	45,135	( 28,857)	3,786,447
Automotive equipment.....	3,927,173	731,838	( -)	4,659,011
Other equipment.....	4,497,054	383,511	( 70,000)	4,810,565
Library books, video, & audio...	1,211,872	54,973	( 8,400)	1,258,445
Infrastructure .....	9,689,679	7,566,904	-	17,256,583
Total capital assets being depreciated or amortized	<u>29,970,752</u>	<u>8,852,513</u>	<u>( 107,257)</u>	<u>38,716,008</u>
Less accumulated depreciation and amortization for:				
Buildings.....	( 1,855,003)	( 88,185)	-	( 1,943,188)
Recreation department equipment and park improvements.....	( 3,016,135)	( 18,794)	5,771	( 3,029,158)
Automotive equipment.....	( 3,534,456)	( 419,311)	-	( 3,953,767)
Other equipment.....	( 3,597,643)	( 264,809)	14,000	( 3,848,452)
Library books and videos.....	( 1,090,685)	( 42,755)	840	( 1,132,600)
Infrastructure .....	( 1,934,715)	( 523,373)	-	( 2,458,088)
Total accumulated depreciation and amortization	<u>( 15,028,637)</u>	<u>( 1,357,227)</u>	<u>20,611</u>	<u>( 16,365,253)</u>
Total capital assets being depreciated and amortized, net	<u>14,942,115</u>	<u>7,495,286</u>	<u>( 86,646)</u>	<u>22,350,755</u>
Capital assets, net	<u>\$24,523,873</u>	<u>\$12,505,007</u>	<u>(\$3,528,787)</u>	<u>\$33,500,093</u>

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(4) CAPITAL ASSETS (continued):**

The total amount of capital assets recorded under capital leases as of September 30, 2020, and included above (other equipment – public safety and streets, roads, and sanitation) was \$572,628. Accumulated amortization on those assets at that date was \$323,010.

Total depreciation and amortization expense was charged as direct expense to programs of the City as follows:

Administration and general government.....	\$ 126,871
Public safety.....	550,886
Culture and recreation.....	55,000
Library.....	70,330
Streets, roads, and sanitation.....	613,794
	\$1,416,881

Construction in progress at September 30, 2020, consisted of the following:

Lindsey Street extension .....	\$ 150,720
Vivian Lee Maddox Sports Complex trailhead project (architect fees).....	8,797
Horton Creek drainage improvements (engineering and related fees, legal fees, advertising) .....	267,844
Electrical wiring on property for proposed additional fire station .....	9,954
Ground work - Etowah Co. Mega Sports Complex property .....	2,968,184
	\$3,839,776

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(5) INTERFUND BALANCES AND TRANSFERS:**

Interfund balances at September 30, 2020, consisted of the following:

	Due From	Due To
General Fund:		
Due from Fire Protection Tax Fund.....	\$191,997	-
Due to Fire Protection Tax Fund .....	-	175
Due to Corrections Fund.....	-	1,422
Fire Protection Tax Fund:		
Due from General Fund .....	175	
Due to General Fund.....	-	191,997
Municipal Court Training Fund		
Due from Corrections Fund .....	-	373
Corrections Fund:		
Due from General Fund.....	1,422	-
Due from Municipal Court Training Fund .....	373	-
	\$193,967	\$193,967

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

Interfund transfers (all operating) for the year ended September 30, 2020, consisted of the following:

	Transfers In	Transfers Out
General Fund:		
To Debt Service Fund.....	\$ -	\$624,049
Fire Protection Tax Fund:		
To Debt Service Fund.....	-	137,162
Debt Service Fund:		
From General Fund.....	624,049	-
From Fire Protection Tax Fund.....	137,162	-
	\$761,211	\$761,211

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).

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(6) ACCOUNTS PAYABLE AND ACCRUED EXPENSES:**

Accounts payable and accrued expenses reported in the statement of net position at September 30, 2020, consisted of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
Vendors.....	\$306,046	\$3,605	\$ -	\$309,651
Employee wages, benefits and miscellaneous withholdings.....	306,044	-	-	306,044
Accrued interest.....	-	-	8,329	8,329
	<u>\$612,090</u>	<u>\$3,605</u>	<u>\$8,329</u>	<u>\$624,024</u>

**(7) OTHER LIABILITIES:**

Other liabilities reported in the statement of net position at September 30, 2020, consisted of the following:

	General Fund	Special Revenue Funds	Totals
Cash bonds.....	\$15,500	\$3,000	\$ 18,500
Restitution .....	250	-	250
Tax abatements .....	31,246	-	31,246
Reimbursements due to Utilities Board .....	10,133	-	10,133
Due to employees .....	1,444	-	1,444
	<u>\$58,573</u>	<u>\$3,000</u>	<u>\$61,573</u>

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(8) LONG-TERM DEBT:**

As of September 30, 2020, the City's long-term debt (all to be repaid from governmental activities) consisted of the following:

	Due in One Year	Due in More than One Year
<u>Note Payable (to Exchange Bank) -</u> \$1,925,510, dated December 15, 2016, payable in 108 monthly installments of \$21,125, including interest at 3.85%, final payment due December 15, 2025.....	\$210,858	\$990,574
<u>Note Payable (to Etowah County Mega Sports Complex Authority) -</u> \$590,750, dated April 18, 2019, payable in 4 annual installments of \$147,688, 0.0% interest, final payment due April 1, 2023.....	147,876	295,374
<u>General Obligation Warrant -</u> \$439,370, dated March 12, 2018, payable in approximately 93 monthly payments of \$5,705, including interest at 4.89%, final payment due January 5, 2026.....	64,302	49,903
<u>Capital Lease (PNC Equipment Finance, LLC, lessor) -</u> \$688,722, dated July 8, 2019, payable in 7 annual installments of \$113,563, including interest at 3.72%, final payment due July 8, 2026 .....	91,214	509,565
<u>Accrued Compensated Absences -</u>		
Vacation pay.....	237,245	-
Sick pay.....	145,852	276,760
Total long-term debt	\$897,347	\$2,122,176

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(8) LONG-TERM DEBT (continued):**

The following is a summary of changes in long-term debt for the year ended September 30, 2020:

Type of Debt	Balance October 1	Additions	Reductions	Balance September 30
Note payable to bank (2016).....	\$1,403,937	\$ -	(\$202,505)	\$1,201,432
Note payable (2019).....	590,750	-	( 147,500)	443,250
General obligation warrant (2018).....	265,817	-	( 151,612)	114,205
Capital lease (2016).....	22,724	-	( 22,724)	-
Capital lease (2017).....	61,921	-	( 61,921)	-
Capital lease (2019).....	688,722	-	( 87,943)	600,779
Accrued compensated absences.....	457,570	202,287	( -)	659,857
Total long-term debt	<u>\$3,491,441</u>	<u>\$202,287</u>	<u>(\$674,205)</u>	<u>\$3,019,523</u>

The annual debt service requirements to maturity for the 2016 note payable, including principal and interest, for the remaining fiscal years are as follows:

Year Ending September 30	Principal	Interest	Total
2021	\$ 210,858	\$ 42,645	\$ 253,503
2022	219,124	34,379	253,503
2023	227,714	25,789	253,503
2024	236,641	16,862	253,503
2025	245,917	7,586	253,503
2026	61,178	2,198	63,379
	<u>\$1,201,432</u>	<u>\$129,459</u>	<u>\$1,330,891</u>

The above note is a general obligation indebtedness of the City and the full faith and credit of the City are pledged to the full payment of principal and interest. The net revenues derived by the City are pledged for the payment of the indebtedness.

In the event of default, the unpaid principal balance and any accrued interest is immediately due and payable.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(8) LONG-TERM DEBT (continued):**

The annual debt service requirements to maturity for the 2019 note payable (principal only since the interest rate is 0.0% per annum) are as follows:

<u>Year Ending September 30</u>	<u>Amount</u>
2021	\$147,876
2022	147,688
2023	147,686
	<u>\$443,250</u>

The above promissory note was executed in consideration for approximately 139 acres which was conveyed to the City by deed on the same date. According to the terms of the note, a lease agreement between the City as lessor and the Etowah County Mega Sports Complex Authority as lessee for this real property (for the development of sports or other recreational facilities and related improvements) was executed contemporaneously as part of the consideration for the property.

In the event of default, the unpaid principal balance and any accrued interest is immediately due and payable at the option of the Authority.

The annual debt service requirements to maturity for the general obligation warrant, including principal and interest, for the remaining fiscal years are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 64,302	\$4,156	\$ 68,458
2022	49,903	1,016	50,919
	<u>\$114,205</u>	<u>\$5,172</u>	<u>\$119,377</u>

Exchange Bank of Alabama was the only warrant holder of the above warrant, which was a general obligation indebtedness of the City. The full faith and credit of the City were pledged to the full payment of principal and interest. During the fiscal year ended September 30, 2020, the City paid \$94,893 in extra principal payments in addition to the regular monthly payments. *On June 4, 2021, the City exercised its option to redeem the warrant at a redemption price equal to 100% of the principal amount redeemed, plus unpaid accrued interest through the date of redemption.*

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(8) LONG-TERM DEBT (continued):**

The annual minimum lease payments to maturity for the 2019 capital lease obligation, including principal and interest, for the remaining fiscal years thereafter are as follows:

Year Ending September 30	Principal	Interest	Total
2021	\$ 91,214	\$22,349	113,563
2022	94,608	18,955	113,563
2023	98,127	15,436	113,563
2024	101,777	11,786	113,563
2025	105,563	8,000	113,563
2026	109,490	4,073	113,563
	\$600,779	\$80,599	\$681,378

The above capital lease obligation is secured by the equipment financed.

The primary provisions of this lease related to an event of default are (1) outstanding amounts become immediately due, (2) the lessor may require the City to return all equipment to the lessor, (3) the lessor may terminate the lease, and (4) the lessor may require the City to pay all out-of-pocket costs incurred by the lessor related to the default.

**(9) EMPLOYEE PENSION PLAN:**

General Information about the Pension Plan

*Plan description.* The Employees' Retirement System of Alabama (ERS), an agency multiple-employer plan, was established October 1, 1945 pursuant to the *Code of Alabama 1975, Title 36, Chapter 27* (Act 515 of the Legislature of 1945). The purpose of 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 13 trustees. 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](http://www.rsa-al.gov).

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(9) EMPLOYEE PENSION PLAN (continued):**

General Information about the Pension Plan (continued)

*Plan description* (continued). The ERS Board of Control consists of 13 trustees as follows:

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

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

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(9) EMPLOYEE PENSION PLAN (continued):**

General Information about the Pension Plan (continued)

*Benefits provided* (continued). Members are eligible for disability retirement if they have 10 years of creditable 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.

The ERS serves approximately 907 local participating employers. The ERS membership includes approximately 93,986 participants. As of September 30, 2019, membership consisted of:

Retirees and beneficiaries currently receiving benefits	25,871
Terminated employees entitled to but not yet receiving benefits	1,794
Terminated employees not entitled to a benefit	11,001
Active members	55,222
Post-DROP participants who are still in active service	98
Total	93,986

The City's number of covered employees as of September 30, 2019 consisted of the following:

Retirees and beneficiaries currently receiving benefits	34
Vested inactive members	5
Non-vested inactive members	11
Active members	99
Post-DROP retired members still in active service	-
Total	149

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

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(9) EMPLOYEE PENSION PLAN (continued):**

General Information about the Pension Plan (continued)

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit, and administrative expenses of the Plan. For the year ended September 30, 2020, the City's active employee contribution rate was 6.40% of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 6.03% of covered employee payroll.

The City's contractually required contribution rate for the year ended September 30, 2020 was 7.49% of pensionable pay for Tier 1 employees, and 4.09% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation as of September 30, 2017, 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 \$232,969 for the year ended September 30, 2020.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(9) EMPLOYEE PENSION PLAN (continued):**

Net Pension Liability

The City's net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018 rolled forward to September 30, 2019 using standard roll-forward techniques as shown in the following table:

	<u>Expected</u>	<u>Actual</u>
(a) <i>Total Pension Liability (TPL)</i> as of September 30, 2018	\$17,079,115	\$16,174,846
(b) <i>Discount Rate</i>	7.70%	7.75%
(c) <i>Entry Age Normal Cost</i> for October 1, 2018 – September 30, 2019	\$354,056	\$350,568
(d) <i>Transfers Among Employers</i>	0	\$17,643
(e) <i>Actual Benefit Payments and Refunds</i> for October 1, 2018 – September 30, 2019	(\$788,462)	(\$779,349)
(f) <i>Total Pension Liability</i> as of September 30, 2019 [(a) x (1 + (b))] + (c) + (d) + [(e) x (1 + 0.5*(b))]	<u>\$17,929,445</u>	<u>\$16,987,059</u>
(g) <i>Difference between Expected and Actual</i>		(\$633,518)
(h) <i>Less Liability Transferred for Immediate Recognition</i>		<u>( 452,121)</u>
(i) <i>Experience (Gain) / Loss = (g) - (h)</i>		<u>(\$181,397)</u>
(j) <i>Difference between Actual at 7.70% and Actual at 7.75%</i> [assumption change (gain)/loss] =		

*Actuarial assumptions.* The total pension liability as of September 30, 2019 was determined based on the actuarial funding valuation report prepared as of September 30, 2018. The key actuarial assumptions are summarized below:

Inflation	2.75%
Salary increases	3.25% - 5.00%
Investment rate of return*	7.70%

\*Net of pension plan investment expense

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(9) EMPLOYEE PENSION PLAN (continued):**

Net Pension Liability (continued)

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

The actuarial assumptions used in the September 30, 2017 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

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 or return for each major asset class are as follows:

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

\*Includes assumed rate of inflation of 2.50%.

*Discount rate.* The discount rate used to measure the total pension liability was the long-term rate of return, 7.70%. 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.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(9) EMPLOYEE PENSION PLAN (continued):**

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balances at September 30, 2018	\$17,079,115	\$15,775,550	\$1,303,565
Changes for the year:			
Service cost	354,056		354,056
Interest	1,284,736		1,284,736
Changes of assumptions	0		0
Differences between expected and actual experience	( 181,397)		( 181,397)
Contributions – employer		258,475	( 258,475)
Contributions – employee		237,066	( 237,066)
Net investment income		395,520	( 359,520)
Benefit payments, including refunds of employee contributions	( 788,462)	( 788,462)	0
Administrative expense	0	0	0
Transfers among employers	( 452,121)	( 452,121)	0
Net changes	216,812	( 349,522)	566,334
Balances at September 30, 2019	\$17,295,927	\$15,426,028	\$1,869,899

*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 7.70%, 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 (6.70%) or 1 percentage point higher (8.70%) than the current rate:

	1% Decrease (6.70%)	Current Rate (7.70%)	1% Increase (8.70%)
City's net pension liability (asset)	\$3,940,393	\$1,869,899	\$126,826

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2019. The auditor's report on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes present in detail by employer and in aggregate the additional information that is needed to comply with GASB 68. The additional financial and actuarial information is available at <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(9) EMPLOYEE PENSION PLAN (continued):**

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

For the year ended September 30, 2020, the City recognized net pension expense of \$353,914. At September 30, 2020, 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	\$ 96,724	\$378,033
Changes of assumptions	285,871	0
Net difference between projected and actual earnings on pension plan investments	184,635	0
Employer contributions subsequent to the measurement date	232,969	0
Total	\$800,199	\$378,033

\$232,969 reported above as deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	Amount
2021	(\$ 34,231)
2022	\$ 43,490
2023	\$ 72,356
2024	\$137,200
2025	(\$ 26,643)
Thereafter	(\$ 2,975)

Payable to the Pension Plan

At September 30, 2020, there were no outstanding legally required contributions payable to the pension plan for the year ended September 30, 2020.

Election Related to the Pension Plan

On January 13, 2020, the City Council adopted a resolution to provide Tier I retirement benefits to current and future Tier II members under the provisions of Act 2019-132 of the Alabama Legislature. Those Tier II members will pay member contribution rates of 7.5% for regular employees and 8.5% for firefighters and law enforcement officers. The City will pay an increased employer contribution rate, as calculated by RSA's actuaries. The effective date of this irrevocable election was October 1, 2020.

**CITY OF RAINBOW CITY, ALABAMA  
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**(10) 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 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.

**(11) 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; injuries 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 for protection of the members.

In 1990, the City entered into a similar agreement with Alabama Municipal Insurance Corporation (AMIC) for its general liability, commercial automobile and property, inland marine 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.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(12) 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.

**(13) COMMITMENTS:**

A. Leases

Leases for copier equipment –

The City entered into non-cancelable 60-month, 48-month, and 39-month operating leases for 8 copiers and accessory equipment in the fiscal years ended September 30, 2016 through September 30, 2020. Minimum lease payments under these leases at September 30, 2020 are as follows:

<u>Year Ending September 30</u>	<u>Amount</u>
2021	\$13,434
2022	3,045
2023	1,465
2024	1,465
2025	732
	<u>\$20,141</u>

The related lease expense for the above leases for the fiscal year ended September 30, 2019 was \$17,745.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(13) COMMITMENTS (continued):**

**B. Tax abatements / economic development agreements**

On October 2, 2014, the City entered into an economic development agreement with Inland Rainbow City, LLC, the developer of the 14-acre "Shoppes at Rainbow Landing" project. Under this agreement, the City will refund one-half of the City sales tax revenue generated from new businesses located on the development property for a period of five years from the stabilization date or until the total reimbursable payments reach \$1,650,000, whichever occurs first. The stabilization date is the earlier of (1) when more than 75% of the gross leasable square footage of the buildings is completed and those businesses that comprise that 75% are officially open and doing business or (2) 24 months after the full execution of this agreement. The criteria was met for establishing the aforementioned stabilization date on January 11, 2016. The final \$448,890 due under the agreement was paid during the fiscal year ended September 30, 2020.

On September 14, 2015, the City entered into an economic development agreement with Hyundai of Gadsden, Inc. and Rainbow City Auto Acquisitions, Inc., the developers of property at and adjacent to 937 West Grand Avenue. Under this agreement, the City will refund one-half of City sales tax revenue generated from sales of products at the businesses to be located on the development property, for a period of five years from the stabilization date. The stabilization date is the date that the new building and remodeled building located on the development property are officially open and doing business by the sale of products and automobiles. The criteria was met for establishing the aforementioned stabilization dates on October 17 and November 21, 2016. Total payments due under this agreement for the fiscal year ended September 30, 2020 were \$123,295 with \$31,246 of that amount still payable at year-end.

On June 13, 2011, 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 project had an estimated completion date of June 1, 2012. 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 state and local property taxes expected to be abated is estimated to be approximately \$16,920 per year for a period of ten years; the amount of construction related transaction taxes that was abated through the date the project was placed in service was approximately \$104,005. The cumulative amount of city taxes abated under this agreement through September 30, 2020 has not been determined.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(13) COMMITMENTS (continued):**

B. Tax abatements / economic development agreements (continued)

On June 13, 2016, the City entered into an additional 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 project has an estimated completion date of July 1, 2018. 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 state and local property taxes expected to be abated is estimated to be approximately \$20,700 per year for a period of ten years, and the amount of construction related transaction taxes expected to be abated is estimated to be approximately \$39,375, which shall not extend beyond the date the project is placed in service. The cumulative amount of city taxes abated under this agreement through September 30, 2020 has not been determined.

On October 11, 2017, the City entered into an economic development agreement with American Diversified Development, the developer of a portion of the property located in the Rainbow Plaza Shopping Center. Under the agreement, the City will refund one-half of the City sales tax revenue generated from sales of products at the business located on the development property, for a period of two years from the stabilization date or until total reimbursable payments reach \$160,000, whichever occurs first. The stabilization date is the first day of business of the new tenant, Big Lots, which was April 26, 2018. The final \$47,559 due under the agreement was paid during the fiscal year ended September 30, 2020.

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 the abatements has and will be deducted from the Company's tax bills for the periods in effect. The amount of state and local property taxes expected to be abated is estimated to be approximately \$10,526 per year for a period of ten years beginning with the October 1 lien date next proceeding the acquisition date of the abated property; the amount of construction related transaction taxes to be abated was expected to be approximately \$51,297. The cumulative amount of city taxes abated under this agreement through September 30, 2020 has not been determined.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**(13) COMMITMENTS (continued):**

B. Tax abatements / economic development agreements (continued)

On August 19, 2020, the City entered into an economic development agreement with GECO, LLC, the developer of the Bobcat of Gadsden project. Under this agreement, the City will refund one-half of the City sales tax revenue generated from the new businesses on the development property for a period of two years from the stabilization date or until the total reimbursable payments reach \$100,000, whichever occurs first. The stabilization date is the date that the new and remodeled buildings are officially open and doing business. The criteria was met for establishing the aforementioned stabilization date on July 13, 2020. Total payments due under this agreement for the fiscal year ended September 30, 2020 were \$375, all of which was payable at year-end.

C. Other

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 of 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. The total amount paid by the City under these agreements during the year ended September 30, 2020 was \$428,857.

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.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(13) COMMITMENTS (continued):**

Horton Creek drainage improvement grant -

In September 2014, the City was notified that they had been approved for grant funding in the amount of \$155,625 under the Federal Emergency Management Agency (FEMA) Pre-Disaster Mitigation Program (LPDM). This is a 75\25 matching grant for Phase I of drainage improvements in the Horton Creek area of the City. Based on the amount of approved grant funding, the City's matching share under Phase I of the program would be \$51,875. \$267,845 (for engineering and related fees, legal fees, advertising, and easement acquisition costs) had been expended on the project at September 30, 2020, some of which may be subject to reimbursement with grant funds. Phase II of the project was approved on September 14, 2020, with additional funds to be obligated upon completion of Phase I.

**(14) RELATED PARTY TRANSACTIONS:**

During the year ended September 30, 2020, the City incurred \$15,751 in expenditures with Rainbow Pipe and Metal, LLC which is owned by City Council member Anita Bedwell. During the same period, \$16,130 in expenditures were incurred with Bedwell & Whorton Excavating, LLC, a company which is co-owned by Jeff Bedwell, her spouse.

**(15) AD VALOREM TAX:**

On March 25, 2013, the City Council adopted Ordinance No. 494, which levies a 5 mil ad valorem tax on all real estate, personal property, and intangibles situated within the corporate limits of the City, first effective for the municipal tax year beginning October 1, 2013. The following dates are applicable to the City's tax year ended September 30, 2019:

Assessment date	October 1, 2019
Lien date	October 1, 2019
Due dates	October 1 through December 31, 2020
Delinquent date	January 1, 2021

The Etowah County Revenue Commissioner assesses, collects, and remits the tax to the City. The allowance for uncollectible taxes has been estimated at 5% of the tax assessment. The entire tax assessment for the tax year ended September 30, 2020, net of the allowance for uncollectible taxes, has been included as a receivable and as revenue in the government-wide financial statements. The entire proceeds to be derived from this tax has been assigned by the City Council to be used toward the construction of a sewage treatment facility (see Note 13 B. to these financial statements above) and future sewer system improvements. At September 30, 2020, \$761,000 of unrestricted net position reported on the statement of net position was assigned for this purpose.

**CITY OF RAINBOW CITY, ALABAMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2020**

**(16) UNCERTAINTIES RELATED TO EFFECTS OF COVID-19 PANDEMIC:**

In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state, and local authorities resulting in an overall decline in economic activity. Management considers the effects of this pandemic to not be material to the financial statements for the fiscal year ended September 30, 2020. At the current time, however, City officials are unable to quantify the potential effects of this pandemic on the City's future financial statements.

**(17) IMPLEMENTATION OF NEW GASB PRONOUNCEMENT:**

Effective September 1, 2019, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. There was no impact on the City's financial statements as a result of the implementation of Statement No. 88.

**(18) PRIOR PERIOD ADJUSTMENT:**

In June 2015, GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", and Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". GASB Statement No. 75 provides guidance for recording an Other Post Employment Benefit (OPEB) liability in the statement of net position.

During the current year, the City of Rainbow City, Alabama determined that an Other Post Employment Benefit liability should have been included in the governmental activities statement of net position as of September 30, 2019. The inclusion of the OPEB liability results in the restatement of beginning net position as of September 30, 2019, as follows:

Statement of Net Position

Net Position at September 30, 2019, as Previously Reported	\$27,932,410
Change in Reporting for OPEB Liability	<u>(393,043)</u>
Net Position at September 30, 2019, as Restated	<u><u>\$27,539,367</u></u>

The City has elected not to restate the September 30, 2019 financials.

## **Required Supplementary Information**

**CITY OF RAINBOW CITY, ALABAMA**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**BUDGET AND ACTUAL – GENERAL FUND**  
**YEAR ENDED SEPTEMBER 30, 2020**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Over (Under)
	Original	Final		
<b>Revenues</b>				
Taxes .....	\$ 9,038,350	\$ 9,038,350	\$ 9,512,415	\$474,065
Licenses and permits .....	1,477,200	1,477,200	1,517,473	40,273
Intergovernmental .....	240,993	269,180	487,837	218,657
Charges for services .....	471,590	471,590	502,677	31,087
Fines and forfeits .....	320,000	320,000	243,316	( 76,684)
Miscellaneous .....	21,000	26,379	121,845	95,466
Total revenues	<u>11,569,133</u>	<u>11,602,699</u>	<u>12,385,563</u>	<u>782,864</u>
<b>Expenditures</b>				
Current:				
Administrative and general government .....	1,944,045	1,974,045	2,327,059	353,014
Police .....	2,287,545	2,308,076	2,342,816	34,740
Animal control .....	258,538	258,538	221,760	( 36,778)
Fire .....	2,026,267	2,026,267	2,022,995	( 3,272)
Library .....	396,130	407,415	359,716	( 47,699)
Park and recreation .....	797,700	799,804	718,303	( 81,501)
Street and sanitation .....	1,400,320	1,407,770	1,397,736	( 10,034)
Capital outlay .....	226,000	232,375	704,263	471,888
Total expenditures	<u>9,336,545</u>	<u>9,414,290</u>	<u>10,094,648</u>	<u>680,358</u>
Excess (deficiency) of revenues over expenditures	2,232,588	2,188,409	2,290,915	100,506
<b>Other financing sources (uses)</b>				
Transfers out:				
Debt service .....	( 378,706)	( 378,706)	( 624,049)	( 245,343)
Utilities Board .....	( 428,570)	( 428,570)	( 428,857)	( 287)
Proceeds from disposition of assets .....	40,000	52,075	37,016	( 15,059)
Insurance recoveries .....	-	-	18,563	18,563
Total other financing sources (uses)	<u>( 767,276)</u>	<u>1,433,208</u>	<u>( 997,327)</u>	<u>( 242,126)</u>
Net change in fund balance	1,465,312	1,433,208	1,293,588	( 139,620)
Fund balance – beginning .....	<u>7,365,496</u>	<u>7,365,496</u>	<u>7,365,496</u>	<u>-</u>
Fund balance – ending .....	<u>\$ 8,830,808</u>	<u>\$ 8,798,704</u>	<u>\$ 8,659,084</u>	<u>(\$139,620)</u>

**CITY OF RAINBOW CITY, ALABAMA**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**BUDGET AND ACTUAL – STREET IMPROVEMENT FUND**  
**YEAR ENDED SEPTEMBER 30, 2020**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Intergovernmental .....	\$165,300	\$165,300	\$156,971	(\$ 8,329)
Miscellaneous .....	250	250	123	( 127)
Total revenues	<u>165,550</u>	<u>165,500</u>	<u>157,094</u>	<u>( 8,456)</u>
Expenditures				
Current:				
Street .....	<u>165,550</u>	<u>165,550</u>	<u>-</u>	<u>( 165,550)</u>
Excess (deficiency) of revenues over expenditures / net change in fund balance	-	-	157,094	157,094
Fund balance – beginning .....	<u>199,811</u>	<u>199,811</u>	<u>199,811</u>	<u>-</u>
Fund balance – ending .....	<u>\$199,811</u>	<u>\$199,811</u>	<u>\$356,905</u>	<u>\$157,094</u>

**CITY OF RAINBOW CITY, ALABAMA**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**BUDGET AND ACTUAL – FIRE PROTECTION TAX SPECIAL REVENUE FUND**  
**YEAR ENDED SEPTEMBER 30, 2020**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Intergovernmental .....	\$349,000	\$349,000	\$365,752	\$ 16,752
Miscellaneous .....	400	400	243	( 157)
Total revenues	<u>349,400</u>	<u>349,400</u>	<u>365,995</u>	<u>16,595</u>
Expenditures				
Current:				
Fire .....	127,500	127,500	103,718	( 23,782)
Capital outlay .....	788,723	788,723	5,800	( 782,923)
Total expenditures	<u>916,223</u>	<u>916,223</u>	<u>109,518</u>	<u>( 806,705)</u>
Excess (deficiency) of revenues over expenditures	( 566,823)	( 566,823)	256,477	823,300
Other financing sources (uses)				
Transfers out - debt service .....	( 137,162)	( 137,162)	( 137,162)	-
Proceeds from long-term debt...	688,723	688,723	-	( 688,723)
Total other financing sources (uses)	<u>551,561</u>	<u>551,561</u>	<u>( 137,162)</u>	<u>( 688,723)</u>
Net change in fund balance	( 15,262)	( 15,262)	119,315	134,577
Fund balance – beginning .....	<u>( 1,276)</u>	<u>( 1,276)</u>	<u>( 1,276)</u>	<u>-</u>
Fund balance – ending .....	<u>(\$ 16,538)</u>	<u>(\$ 16,538)</u>	<u>(\$118,039)</u>	<u>\$137,577</u>

**CITY OF RAINBOW CITY, ALABAMA**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY – EMPLOYEE PENSION PLAN**  
**LAST 6 FISCAL YEARS ENDED SEPTEMBER 30 (MEASUREMENT DATE)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>TOTAL PENSION LIABILITY</b>						
Service cost .....	\$ 354,056	\$ 350,568	\$ 344,997	\$ 315,016	\$ 310,222	\$ 314,204
Interest .....	1,284,736	1,216,397	1,167,819	1,080,414	1,039,221	986,547
Changes of benefit terms .....	-	-	-	-	-	-
Differences between expected and actual experience .....	( 181,397)	96,678	( 353,640)	92,212	( 198,931)	-
Changes of assumptions .....	-	92,056	-	650,661	-	-
Benefit payments, including refunds of employee contributions .....	( 788,462)	( 779,349)	( 683,637)	( 633,091)	( 638,120)	( 646,539)
Transfers among employers .....	( 452,111)	17,643	199,131	83,523	-	-
<b>Net change in total pension liability</b>	<b>216,812</b>	<b>993,993</b>	<b>674,670</b>	<b>1,588,735</b>	<b>512,392</b>	<b>654,212</b>
<b>Total pension liability – beginning</b>	<b>17,079,115</b>	<b>16,085,122</b>	<b>15,410,452</b>	<b>13,821,717</b>	<b>13,309,325</b>	<b>12,655,113</b>
<b>Total pension liability – ending (a)</b>	<b><u>\$17,295,927</u></b>	<b><u>\$17,079,115</u></b>	<b><u>\$16,085,122</u></b>	<b><u>\$15,410,452</u></b>	<b><u>\$13,821,717</u></b>	<b><u>\$13,309,325</u></b>
<b>PLAN FIDUCIARY NET POSITION</b>						
Contributions – employer .....	258,475	\$ 238,904	\$ 253,826	\$ 243,014	\$ 255,848	\$ 234,559
Contributions – member .....	237,066	220,820	212,367	196,514	192,187	185,532
Net investment income .....	395,520	1,349,097	1,672,811	1,213,478	141,547	1,296,617
Benefit payments, including refunds of employee contributions .....	( 788,462)	( 779,349)	( 683,637)	( 633,091)	( 638,120)	( 646,539)
Transfers among employers .....	( 452,121)	17,643	199,131	83,523	( 14,287)	86,834
<b>Net change in plan fiduciary net position</b>	<b>( 349,522)</b>	<b>1,047,215</b>	<b>1,654,498</b>	<b>1,103,438</b>	<b>( 62,825)</b>	<b>1,157,003</b>
<b>Plan net position – beginning</b>	<b>15,775,550</b>	<b>14,728,335</b>	<b>13,073,837</b>	<b>11,970,399</b>	<b>12,033,224</b>	<b>10,876,221</b>
<b>Plan net position – ending (b)</b>	<b><u>\$15,426,028</u></b>	<b><u>\$15,775,550</u></b>	<b><u>\$14,728,335</u></b>	<b><u>\$13,073,837</u></b>	<b><u>\$11,970,399</u></b>	<b><u>\$12,033,224</u></b>
<b>Net pension liability (asset) – ending (a) - (b)</b>	<b>\$ 1,869,899</b>	<b>\$1,303,565</b>	<b>\$1,356,787</b>	<b>\$2,336,615</b>	<b>\$1,851,318</b>	<b>\$1,276,101</b>
<b>Plan fiduciary net position as a % of the total pension liability</b>	<b>89.19%</b>	<b>92.37%</b>	<b>91.56%</b>	<b>84.84%</b>	<b>86.61%</b>	<b>90.41%</b>
<b>Covered employee payroll*</b>	<b>\$ 4,008,637</b>	<b>\$3,864,824</b>	<b>\$3,742,572</b>	<b>\$3,478,343</b>	<b>\$3,415,719</b>	<b>\$3,416,168</b>
<b>Net pension liability (asset) as a % of covered-employee payroll</b>	<b>46.65%</b>	<b>33.73%</b>	<b>36.25%</b>	<b>67.18%</b>	<b>54.20%</b>	<b>37.35%</b>

\*Employer's covered payroll during the measurement period is the total covered payroll. For FY 2020 the measurement period is October 1, 2018 – September 30, 2019. GASB issued a statement, "Pension Issues", in March 2016 to redefine covered payroll for FY 2017.

**CITY OF RAINBOW CITY, ALABAMA**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS – EMPLOYEE PENSION PLAN**  
**LAST 6 FISCAL YEARS ENDED SEPTEMBER 30**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution*	\$232,969	\$253,255	\$238,904	\$240,546	\$243,014	\$242,115
Contributions in relation to the actuarially determined contribution*	<u>232,969</u>	<u>253,255</u>	<u>238,904</u>	<u>240,546</u>	<u>243,014</u>	<u>242,115</u>
Contribution deficiency (excess)	<u>\$ -</u>					
Covered employee payroll**	\$3,865,704	\$4,008,963	\$3,864,824	\$3,742,572	\$3,478,343	\$3,415,719
Contributions as a percentage of covered employee payroll	6.03%	6.32%	6.18%	6.43%	6.99%	6.91%

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

\*\*Employer's covered payroll for FY 2020 is the total covered payroll for the 12 month period of the underlying financial statement.

**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 2020 were based on the September 30, 2017 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2019 to September 30, 2020:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	22.3 years
Asset valuation method	Five year smoothed market
Inflation	2.75%
Salary increases	3.25 – 5.00%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation