

CITY OF CULLMAN, ALABAMA
AUDITED FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2017

CITY OF CULLMAN, ALABAMA
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SEPTEMBER 30, 2017

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cullman, Alabama, (the City) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Cullman, Alabama'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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cullman, Alabama, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-10, the schedule of changes in the net pension liability and the schedule of employer contributions on pages 57-59, budgetary comparison information on pages 60 and 61, and notes to the required supplementary information on page 62 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cullman, Alabama's basic financial statements. The combining and individual fund financial statements and schedules and the statistical data listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules on pages 66-86 are the responsibility of management and were derived from, and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated in all material respects in relation to the financial statements taken as a whole.

The statistical data as listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

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



Cullman, Alabama
March 26, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

CITY OF CULLMAN, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
SEPTEMBER 30, 2017

The City of Cullman, county seat of Cullman County, is located in north central Alabama, north of Birmingham and southwest of Huntsville, Alabama. The City was founded in 1873 by Colonel John G. Cullmann as a colony designed to attract German immigrants. The City of Cullman was incorporated on March 6, 1875, and Cullman County was created by the Alabama Legislature in 1877 from sparsely settled areas more or less separated from the adjacent counties by natural boundaries.

The City of Cullman operates under a Mayor-Council form of government. The City's elected officials consist of a full-time mayor and five part-time council members, each elected by city-wide vote to serve concurrent four-year terms.

Mayor Woody Jacobs is the chief executive officer of the City of Cullman. The Mayor is responsible for the supervision of the daily operations and the officers of the City of Cullman. The Mayor, with assistance from the City Treasurer and the City Clerk, prepares the annual budget for the City of Cullman.

The Council is the legislative body and adopts all policies, procedures, and laws that govern the City of Cullman. The Council is responsible for the financial management and long term planning of the City of Cullman which includes amending and adopting the annual budget. The officers of the Council are the Council President Garlan E. Gudger, Jr. and the President Pro-tem Jenny Folsom. Council members (for terms expiring November 3, 2020) are as follows:

Place No. 1	Andy Page	Place No. 2	Garlan E. Gudger, Jr.
Place No. 3	Johnny Cook	Place No. 4	Clint Hollingsworth
Place No. 5	Jenny Folsom		

The City Clerk, Wesley M. Moore, is appointed by the City Council. The City Clerk is responsible for preparation of the agenda and the recording of the minutes of all City Council Meetings. The City Clerk supervises the collection of revenues for the City of Cullman. The City Clerk serves as custodian of the records and also performs the duties prescribed by law and assigned by the Mayor and Council.

The City Treasurer, Sherry Compton, is appointed by the City Council. The City Treasurer is responsible for management of funds for the City of Cullman and for its financial records. The City Treasurer designates all City depositories and authorizes the issuance of payments for the lawful expenditures of City funds. The City Treasurer also performs the duties prescribed by law and assigned by the Mayor and Council.

The City Council also appoints a Police Chief, a Fire Chief, Supervisors, Superintendents, and Directors of other City Departments and other non-classified personnel. The City employs approximately 459 people (full-time and part-time) in the various departments. The City does not collectively bargain with any union or association representing City employees.

Classified employees are grouped by job title and description in various classifications, each class having the same financial relationship to the classes above and below it, and having a minimum and maximum pay spread over a finite number of steps.

The City of Cullman participates in the State of Alabama Retirement System. Contributions are made to the Retirement System by the employees and the City, with the State acting only in an administrative capacity. The City pays all of the employee's share of health insurance costs and a portion of the family coverage.

The costs of general government, streets and sanitation, public safety, appropriations to various public agencies and non-profit groups, debt service for governmental purposes, and most matching funds for federal and state grants are paid from the General Fund.

CITY OF CULLMAN, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
SEPTEMBER 30, 2017

The Water Department, Wastewater Department, Cullman Regional Airport, and the Cullman City Parks & Recreation Board are accounted for in enterprise funds.

FINANCIAL HIGHLIGHTS

The City's net position increased \$11,341,850 over the course of this year's operation: \$998,086 increase in the net position of the governmental activities, due to an increase in sales tax revenue and business licenses, and \$10,343,764 increase in the business-type activities.

Budgeted revenues in the general fund for fiscal year 2017 were based generally on the previous year's receipts; however, budgeted revenues increased during the year due to the improving local economy. Revenues were \$824,977 more than budgeted, while at the same time general fund expenditures were \$1,347,616 less than budgeted.

As the City of Cullman completed the year, its general fund reported a combined fund balance of \$21,886,483, as compared with the previous year's balance of \$25,987,099. The revenues of the general fund increased by \$900,437 (2.8%) due to an increase in sales tax and business licenses. The expenditures of the general fund increased by \$2,283,513 (8.8%) due to an increase in capital outlay.

The most important source of revenue in the general fund for fiscal year 2017 are taxes, which consist primarily of property and sales taxes. Tax revenues increased by \$691,832, from \$20,780,978 in 2016 to \$21,472,810 in 2017.

The City of Cullman receives varying percentages of four separate gross receipt or sales taxes levied in Cullman County by separate legislative acts adopted from 1963 through 1993. The Alabama Legislature has the continuing power to change the allocation of the taxes, or to repeal any one or all of these taxes. However, the City has authority under the general laws of Alabama to levy within its corporate limits taxes substantially identical to the taxes levied by the 1963, 1975, 1981, and 1993 Acts at any regular meeting of the City Council.

The City levies a five mill ad valorem tax for General Fund purposes, a three mill school tax and a seven and one-half mill school tax. The school taxes are deposited in a special fund (School Tax Fund) and transferred to the City School System. The City Council levies a one-half percent sales tax for educational purposes and the proceeds from this tax are also deposited in the special school tax fund and remitted to the City School System. The City School System also receives a varying percentage of a one-half percent sales tax levied in Cullman County by a legislative act adopted in 2012. The Alabama Legislature has the continuing power to change the allocation of the taxes, or to repeal any one or all of these taxes.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for non-major governmental funds and the water system. Major governmental funds are the general fund, the property and sales tax fund for schools (school tax fund), and debt service fund. The basic financial statements include two kinds of statements that present different financial views of the City.

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

**CITY OF CULLMAN, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
SEPTEMBER 30, 2017**

The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. The governmental fund statements tell how general government services like public safety were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the City's water and sewer systems.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our non-major governmental funds which are added together and presented in single columns in the basic financial statements.

The following summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of the City of Cullman's Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire, and public works	Activities the City operates similar to private businesses: the water and sewer systems
Required financial statements	Statement of net position Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balances	Statement of net position Statement of revenues, expenditures, and changes in net position Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year, or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

**CITY OF CULLMAN, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
SEPTEMBER 30, 2017**

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, deferred outflows, liabilities, and deferred inflows. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how it has changed. Net position, the difference between the City's assets, deferred outflows, liabilities, and deferred inflows is one way to measure the City's financial health.

Increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively. In order to assess the overall financial health of the City, however, additional factors such as changes in property tax base, economic growth, unemployment, new and/or expanded businesses and industries, and the condition of the City's assets and infrastructure must be considered.

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

Governmental activities – Most of the City's basic services are included here, such as police, fire, public works and general administration. Property taxes, sales taxes, fees for certain services, and state-shared revenues finance most of these activities.

Business-type activities – The City charges fees to customers to cover most of the costs of certain services it provides. The City's water and sewer systems are self-sustaining. Fees help cover the costs of operating the airport, parks and recreation activities, and the golf course.

Component units – The City includes the Cullman City Parks and Recreation Board in its report. Although operated by a board appointed by the City Council, this component unit is important because the City is financially accountable for it.

The Utilities Board of the City of Cullman – Water Division (UBWD) is governed by a five-member board appointed by the City Council. By contract, the only customer of the UBWD is the City of Cullman. Therefore, the UBWD is included in the City's report.

Also included in the City's report is the Cullman Regional Airport Board. The Cullman Regional Airport is owned jointly by the City of Cullman and Cullman County and operated by a board appointed by the two governments. The City and County provide local funds for capital improvements, and operating expenses in excess of revenues are paid by the City and County on a 50-50 basis. Fifty percent of the Board's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses are reported under enterprise funds of the City.

CITY OF CULLMAN, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
SEPTEMBER 30, 2017

The following condensed financial statements serve as indicators for management:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 46,143,738	\$ 49,258,127	\$ 9,399,706	\$ 8,806,216	\$ 55,543,444	\$ 58,064,343
Restricted assets	2,835,215	5,783,244	12,411,574	16,570,664	15,246,789	22,353,908
Capital assets, net	61,814,656	51,451,677	229,996,956	219,320,716	291,811,612	270,772,393
Other assets	113,307	398,624	425,282	443,685	538,589	842,309
	<u>110,906,916</u>	<u>106,891,672</u>	<u>252,233,518</u>	<u>245,141,281</u>	<u>363,140,434</u>	<u>352,032,953</u>
Deferred outflows of resources	2,609,120	1,972,877	1,529,594	1,446,394	4,138,714	3,419,271
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 113,516,036</u>	<u>\$ 108,864,549</u>	<u>\$ 253,763,112</u>	<u>\$ 246,587,675</u>	<u>\$ 367,279,148</u>	<u>\$ 355,452,224</u>
Current liabilities	\$ 4,530,784	\$ 2,719,763	\$ 4,278,631	\$ 1,371,754	\$ 8,809,415	\$ 4,091,517
Liabilities payable from restricted assets	17,360	831,360	6,064,674	6,691,537	6,082,034	7,522,897
Long-term liabilities	31,807,085	32,197,045	126,504,109	132,003,881	158,311,194	164,200,926
	<u>36,355,229</u>	<u>35,748,168</u>	<u>136,847,414</u>	<u>140,067,172</u>	<u>173,202,643</u>	<u>175,815,340</u>
Deferred inflows of resources	7,890,871	4,844,531	282,418	230,987	8,173,289	5,075,518
Total liabilities and deferred inflows of resources	44,246,100	40,592,699	137,129,832	140,298,159	181,375,932	180,890,858
Net position:						
Net invested in capital assets	42,950,259	34,814,666	95,379,042	88,757,265	138,329,301	123,571,931
Restricted	2,835,215	3,676,447	8,127,408	4,246,275	10,962,623	7,922,722
Unrestricted	23,484,462	29,780,737	13,126,830	13,285,976	36,611,292	43,066,713
Total net position	<u>69,269,936</u>	<u>68,271,850</u>	<u>116,633,280</u>	<u>106,289,516</u>	<u>185,903,216</u>	<u>174,561,366</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 113,516,036</u>	<u>\$ 108,864,549</u>	<u>\$ 253,763,112</u>	<u>\$ 246,587,675</u>	<u>\$ 367,279,148</u>	<u>\$ 355,452,224</u>

CITY OF CULLMAN, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
SEPTEMBER 30, 2017

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
REVENUES						
Program revenues:						
Charges for services	\$ 8,490,917	\$ 8,720,350	\$ 27,951,320	\$ 26,587,609	\$ 36,442,237	\$ 35,307,959
Operating grants and contributions	232,176	1,084,214	-	-	232,176	1,084,214
Capital grants and contributions	793,764	657,770	390,210	685,884	1,183,974	1,343,654
General revenues:						
Taxes	29,148,190	27,313,248	-	225,275	29,148,190	27,538,523
Unrestricted investment earnings	54,612	74,942	-	63,773	54,612	138,715
Other	550,743	2,111,243	-	(54,441)	550,743	2,056,802
TOTAL REVENUES	39,270,402	39,961,767	28,341,530	27,508,100	67,611,932	67,469,867
EXPENSES						
General government	5,576,612	5,886,870	-	-	5,576,612	5,886,870
Public safety	11,116,047	10,740,135	-	-	11,116,047	10,740,135
Highways and streets	3,252,536	3,520,232	-	-	3,252,536	3,520,232
Sanitation	4,531,761	4,554,001	-	-	4,531,761	4,554,001
Health and social services	939,275	944,247	-	-	939,275	944,247
Culture and recreation	345,151	238,129	-	-	345,151	238,129
Education	7,151,346	6,881,978	-	-	7,151,346	6,881,978
Conservation	66,724	48,635	-	-	66,724	48,635
Interest on long-term debt	293,055	356,011	-	-	293,055	356,011
Sewer	-	-	6,045,771	5,801,863	6,045,771	5,801,863
Water	-	-	7,605,877	7,294,986	7,605,877	7,294,986
Parks and recreation	-	-	8,738,298	8,583,439	8,738,298	8,583,439
Airport	-	-	697,261	650,140	697,261	650,140
TOTAL EXPENSES	33,272,507	33,170,238	23,087,207	22,330,428	56,359,714	55,500,666
Increase in net position before extraordinary item, special item, and transfers	5,997,895	6,791,529	5,254,323	5,177,672	11,252,218	11,969,201
Extraordinary item – impairment loss	-	-	-	(883,107)	-	(883,107)
Special item – flood damage	-	-	-	(500,000)	-	(500,000)
Sale of assets	-	-	(6,977)	-	(6,977)	-
Intergovernmental transfers	-	(723,002)	96,609	(1,909,405)	96,609	(2,632,407)
Transfers	(4,999,809)	(4,739,130)	4,999,809	4,739,130	-	-
CHANGE IN NET POSITION	998,086	1,329,397	10,343,764	6,624,290	11,341,850	7,953,687
NET POSITION AT BEGINNING OF YEAR	68,271,850	66,942,453	106,289,516	99,665,226	174,561,366	166,607,679
NET POSITION AT END OF YEAR	\$ 69,269,936	\$ 68,271,850	\$ 116,633,280	\$ 106,289,516	\$ 185,903,216	\$ 174,561,366

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the City's most significant funds, instead of the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law or by bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

**CITY OF CULLMAN, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
SEPTEMBER 30, 2017**

The City of Cullman has two kinds of funds: governmental funds and business-type funds.

Most of the City's basic services are included in governmental funds which focus on (1) how cash, and other financial assets that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that could be spent in the near future to finance the City's operations. Additional information is furnished in the notes to the financial statements. The City has three major governmental funds – the general fund, school tax fund, and debt service fund, and three major business-type funds – sewer operation, water system, and parks and recreation.

The distribution and sale of water and the collection and disposal of wastewater, for which customers are charged fees, are accounted for and reported as business-type funds, as are the facilities and programs, including various park and recreation activities and the municipal golf course, which are operated by the Cullman City Parks & Recreation Board, and also the Cullman Regional Airport Board.

The Sanitation Department, for which customers are charged fees, has traditionally been included in the governmental funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City Council does not amend the annual budget of the City of Cullman to reflect actual year ending amounts. Over the course of the year the budget was revised several times by the City Council and Treasurer:

- 1) During the year where increases or decreases in the cost of various items made it necessary to adjust the budget, or where the City Council found it necessary or expedient to approve an expenditure which was not contemplated when the budget was adopted.
- 2) Increases in appropriations to prevent budget overruns.

Variances for General Fund revenue and expenditures were favorable by \$824,977 and \$1,347,616, respectively. Transfers out of the General Fund, were \$1,793,680 less than the budgeted amount due to the timing of expenditures for capital outlay.

School tax fund revenues were \$339,645 in excess of the budgeted amount and expenditures were \$328,366 in excess of the budgeted amount. All the revenues in the school tax fund are distributed to the City Board of Education.

CAPITAL ASSETS

The capital assets of the City are reported at actual or estimated historic cost. The capital assets are depreciated on a straight-line basis over the estimated useful life.

Governmental Activities

Capital outlay for governmental activities for the year ended September 30, 2017, was \$12,088,913, which was an increase of \$8,028,299 over the 2016 amount. The increase was primarily due to the following additions: \$2,011,424 for the purchase of land, \$687,331 related to the purchase of equipment, vehicles, and construction for streets, \$1,005,160 for the purchase of equipment, vehicles, and other costs related to public safety, \$869,021 related to the purchase of land and equipment for sanitation, and approximately \$7,706,888 in additions to construction in progress for ongoing development projects.

**CITY OF CULLMAN, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
SEPTEMBER 30, 2017**

Business-Type Activities

Water System

A. Water Fund

Total capital assets, net of accumulated depreciation, increased by \$2,780,358. Significant additions included \$208,129 for an excavator, \$172,924 for a dozer, and \$291,062 for the purchase of vehicles. Construction in progress increased by \$2,793,889, primarily due to the water facility construction project. Depreciation expense for the year ended September 30, 2017 was \$1,008,571.

B. The Utilities Board of the City of Cullman – Water Division (UBWD), a Component Unit of the City

Construction in progress increased by \$6,949,201 related to ongoing construction of the Duck River Dam, and related reservoir, pipelines, and ancillary facilities. UBWD recorded capitalized interest of approximately \$4,000,000 due to the ongoing construction projects.

Sewer Fund

Capital assets, net of accumulated depreciation, for the sewer fund increased by \$1,173,749, from \$52,924,004 at September 30, 2016, to \$54,097,753 at September 30, 2017. Depreciation expense for the year ended September 30, 2017, was \$1,996,128.

SUBSEQUENT EVENTS

Business-Type Activities

The Utilities Board of the City of Cullman – Water Division (UBWD), a Component Unit of the City

In October 2017, the Utilities Board Water Division issued Water Revenue Bond Series 2017-DWSRF-DL loan in the amount of \$24,190,000 for the Duck River Pipeline, Duck River Pump Station, and improvements at the water treatment plant.

In December 2017, the Utilities Board Water Division awarded the bid for improvements to the Cullman Water Treatment Plant to the lowest responsible bidder, in the amount of \$8,177,000.

LONG-TERM DEBT

Normal payments for principal and interest required for the various warrant issues was the only activity in the Long-Term Debt.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability and stewardship of the money it receives. Separate audited financial statements for the Sewer Fund, Water Fund, Cullman Regional Airport Board, and Cullman City Parks & Recreation Board are available upon request. If you have questions about this report, or need additional financial information, contact the City Clerk, Wesley M. Moore, at 204 Second Avenue NE, Cullman, AL 35055. Telephone (256) 775-7110, email address (wmoore@cullmanal.gov)

FINANCIAL STATEMENTS

**CITY OF CULLMAN, ALABAMA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
CURRENT ASSETS			
Cash equivalents	\$ 13,240,657	\$ 16,026,897	\$ 29,267,554
Certificates of deposit	8,712,055	404,022	9,116,077
Interest receivable	6,481	230	6,711
Accounts receivable, net	1,159,978	1,147,245	2,307,223
Assessments receivable, net	255,428	-	255,428
Interfund balances	11,875,325	(11,875,325)	-
Due from other governmental units:			
Grants	-	56,380	56,380
Cullman County	-	110,133	110,133
Cullman Power Board	238,907	1,357,834	1,596,741
Other	10,155,693	1,477,033	11,632,726
Inventories	84,005	448,860	532,865
Prepaid expenses	415,209	246,397	661,606
Total current assets	46,143,738	9,399,706	55,543,444
RESTRICTED ASSETS			
Cash equivalents	1,072,085	10,121,984	11,194,069
State revolving funds receivable	-	2,277,830	2,277,830
OPEB funds held by the Cullman Power Board	-	11,760	11,760
Advances to other governments	1,763,130	-	1,763,130
Total restricted assets	2,835,215	12,411,574	15,246,789
CAPITAL ASSETS			
Land and other assets not being depreciated	9,893,781	14,979,314	24,873,095
Construction in progress	8,318,889	109,904,040	118,222,929
Buildings, improvements, and equipment, net of depreciation	43,601,986	105,113,602	148,715,588
Total capital assets	61,814,656	229,996,956	291,811,612
OTHER ASSETS			
Deposits	-	585	585
Insurance deposit	113,307	-	113,307
Assessments receivable – noncurrent	-	424,697	424,697
Total other assets	113,307	425,282	538,589
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized loss on refunding	-	468,550	468,550
Deferred outflows of resources – pension	2,609,120	1,061,044	3,670,164
Total deferred outflows of resources	2,609,120	1,529,594	4,138,714
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 113,516,036	\$ 253,763,112	\$ 367,279,148

See notes to the financial statements.

**CITY OF CULLMAN, ALABAMA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
CURRENT LIABILITIES			
Accounts payable	\$ 2,590,148	\$ 3,353,147	\$ 5,943,295
Utility tax payable	-	37,098	37,098
Due to other governmental units	308,438	240,197	548,635
Interest payable	-	129,087	129,087
Accrued payroll	445,116	198,789	643,905
Current maturities on long-term debt	979,887	-	979,887
Estimated compensated absences – current portion	207,195	168,674	375,869
Unearned revenue	-	151,639	151,639
Total current liabilities	<u>4,530,784</u>	<u>4,278,631</u>	<u>8,809,415</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS			
Accounts payable	-	257,013	257,013
Accrued interest payable	-	375,192	375,192
Police evidence	17,360	-	17,360
Other postemployment benefits	-	6,559	6,559
Current maturities on long-term debt	-	5,425,910	5,425,910
Total liabilities payable from restricted assets	<u>17,360</u>	<u>6,064,674</u>	<u>6,082,034</u>
NONCURRENT LIABILITIES			
Warrants/bonds payable	18,419,894	120,071,537	138,491,431
Other noncurrent liabilities	35,943	-	35,943
Unamortized debt discount	(29,737)	(653,418)	(683,155)
Unamortized debt premium	474,240	1,340,576	1,814,816
Net pension liability	11,751,420	5,016,169	16,767,589
Estimated compensated absences	1,155,325	550,790	1,706,115
Due to other governmental units	-	178,455	178,455
Total noncurrent liabilities	<u>31,807,085</u>	<u>126,504,109</u>	<u>158,311,194</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property and other taxes	7,120,448	-	7,120,448
Deferred inflows of resources – pension	770,423	282,418	1,052,841
Total deferred inflows of resources	<u>7,890,871</u>	<u>282,418</u>	<u>8,173,289</u>
NET POSITION			
Net investment in capital assets	42,950,259	95,379,042	138,329,301
Restricted for:			
Debt service and capital activity	1,072,085	8,127,408	9,199,493
Other purposes	165,254	-	165,254
Highways and streets	901,971	-	901,971
Jail, correction facilities, and court complex	273,493	-	273,493
Municipal Court	152,883	-	152,883
Industrial development and recreation	168,621	-	168,621
Nonspendable – endowment	100,908	-	100,908
Unrestricted	<u>23,484,462</u>	<u>13,126,830</u>	<u>36,611,292</u>
Total net position	<u>69,269,936</u>	<u>116,633,280</u>	<u>185,903,216</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 113,516,036</u>	<u>\$ 253,763,112</u>	<u>\$ 367,279,148</u>

See notes to the financial statements.

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

					Net (Expense) Revenue and Changes in Net Position		
	Expenses	Program Revenues			Primary Government		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental activities:							
General government:							
Administrative	\$ 4,787,915	\$ 3,169,393	\$ -	\$ -	\$ (1,618,522)	\$ -	\$ (1,618,522)
Building and housing	536,945	334,207	100,000	-	(102,738)	-	(102,738)
Garage	251,752	-	-	-	(251,752)	-	(251,752)
Public safety:							
Police	5,429,249	214,330	-	-	(5,214,919)	-	(5,214,919)
Fire	4,493,733	-	-	-	(4,493,733)	-	(4,493,733)
Traffic maintenance	463,844	10,279	-	-	(453,565)	-	(453,565)
Dispatch and miscellaneous	729,221	229,549	57,321	-	(442,351)	-	(442,351)
Highways and streets	3,252,536	191,505	-	793,764	(2,267,267)	-	(2,267,267)
Sanitation	4,531,761	4,326,209	-	-	(205,552)	-	(205,552)
Health and social services	939,275	-	-	-	(939,275)	-	(939,275)
Culture and recreation	345,151	15,445	-	-	(329,706)	-	(329,706)
Education	7,151,346	-	74,855	-	(7,076,491)	-	(7,076,491)
Conservation	66,724	-	-	-	(66,724)	-	(66,724)
Interest on long-term debt	293,055	-	-	-	(293,055)	-	(293,055)
Total governmental activities	<u>33,272,507</u>	<u>8,490,917</u>	<u>232,176</u>	<u>793,764</u>	<u>(23,755,650)</u>	<u>-</u>	<u>(23,755,650)</u>
Business-type activities:							
Sewer	6,045,771	7,267,806	-	-	-	1,222,035	1,222,035
Water	7,605,877	15,492,036	-	-	-	7,886,159	7,886,159
Parks and recreation	8,738,298	4,803,044	-	-	-	(3,935,254)	(3,935,254)
Airport	697,261	388,434	-	390,210	-	81,383	81,383
Total business-type activities	<u>23,087,207</u>	<u>27,951,320</u>	<u>-</u>	<u>390,210</u>	<u>-</u>	<u>5,254,323</u>	<u>5,254,323</u>
	<u>\$ 56,359,714</u>	<u>\$ 36,442,237</u>	<u>\$ 232,176</u>	<u>\$ 1,183,974</u>	<u>(23,755,650)</u>	<u>5,254,323</u>	<u>(18,501,327)</u>
Taxes:							
Property taxes, levied for general purposes					1,397,367	-	1,397,367
Property taxes, levied for education					3,351,067	-	3,351,067
Sales taxes, levied for general purposes					18,291,659	-	18,291,659
Sales taxes, levied for education					3,665,578	-	3,665,578
Tobacco taxes					129,375	-	129,375
Rent taxes					471,490	-	471,490
Beverage/liquor taxes					924,554	-	924,554
Other taxes					917,100	-	917,100
Unrestricted investment earnings					54,612	-	54,612
Sale of capital assets					75,773	(6,977)	68,796
Miscellaneous					474,970	-	474,970
Intergovernmental revenues					-	96,609	96,609
Transfers – internal activities					(4,999,809)	4,999,809	-
					<u>24,753,736</u>	<u>5,089,441</u>	<u>29,843,177</u>
CHANGE IN NET POSITION					998,086	10,343,764	11,341,850
NET POSITION AT BEGINNING OF YEAR					<u>68,271,850</u>	<u>106,289,516</u>	<u>174,561,366</u>
NET POSITION AT END OF YEAR					<u>\$ 69,269,936</u>	<u>\$ 116,633,280</u>	<u>\$ 185,903,216</u>

See notes to the financial statements.

CITY OF CULLMAN, ALABAMA
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	<u>General</u>	<u>School Tax</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash equivalents	\$ 11,824,895	\$ 18,583	\$ -	\$ 1,397,179	\$ 13,240,657
Certificates of deposit	8,611,147	-	-	100,908	8,712,055
Interest receivable	6,477	-	-	4	6,481
Accounts receivable, net	274,535	-	-	885,443	1,159,978
Assessments receivable, net	255,428	-	-	-	255,428
Interfund receivable	11,274	-	-	-	11,274
Due from other governmental units:					
Cullman Power Board	238,907	-	-	-	238,907
Other	5,494,206	4,037,759	-	623,728	10,155,693
Inventories	84,005	-	-	-	84,005
Prepaid expenses	415,209	-	-	-	415,209
	<u>27,216,083</u>	<u>4,056,342</u>	<u>-</u>	<u>3,007,262</u>	<u>34,279,687</u>
RESTRICTED ASSETS					
Cash equivalents	-	-	1,072,084	-	1,072,084
Advances to other governments	-	-	1,763,130	-	1,763,130
Interfund receivables – long-term	-	-	12,235,443	4,718	12,240,161
	<u>-</u>	<u>-</u>	<u>15,070,657</u>	<u>4,718</u>	<u>15,075,375</u>
OTHER ASSETS					
Insurance deposit	113,307	-	-	-	113,307
	<u>113,307</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,307</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
	<u>\$ 27,329,390</u>	<u>\$ 4,056,342</u>	<u>\$ 15,070,657</u>	<u>\$ 3,011,980</u>	<u>\$ 49,468,369</u>

See notes to the financial statements.

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

	<u>General</u>	<u>School Tax</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
CURRENT LIABILITIES					
Accounts payable	\$ 933,021	\$ 569,159	\$ -	\$ 1,087,968	\$ 2,590,148
Interfund payables	376,110	-	-	-	376,110
Due to other governmental units	308,438	-	-	-	308,438
Accrued payroll	445,116	-	-	-	445,116
Total current liabilities	<u>2,062,685</u>	<u>569,159</u>	<u>-</u>	<u>1,087,968</u>	<u>3,719,812</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS					
Police evidence	17,360	-	-	-	17,360
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue – property and other taxes	3,362,862	3,741,799	-	15,787	7,120,448
FUND BALANCES (DEFICIT)					
Nonspendable:					
Inventory	84,005	-	-	-	84,005
Interfund receivables – long-term	-	-	12,235,443	-	12,235,443
Prepaid expenditures, deposit on equipment, and insurance deposit	528,516	-	-	-	528,516
Advances to other governmental units	-	-	1,763,130	-	1,763,130
Permanent fund principal	-	-	-	100,959	100,959
Restricted for:					
Realty improvements and Ingle Park	-	-	-	15,352	15,352
Highways and streets	-	-	-	517,627	517,627
Capital improvements	-	-	1,072,084	154,006	1,226,090
Jail, correction, and court facilities	-	-	-	273,493	273,493
Municipal Court	-	-	-	152,883	152,883
Industrial development and recreation	-	-	-	168,621	168,621
Assigned:					
Capital projects	-	-	-	525,284	525,284
Unassigned	21,273,962	(254,616)	-	-	21,019,346
Total Fund Balance	<u>21,886,483</u>	<u>(254,616)</u>	<u>15,070,657</u>	<u>1,908,225</u>	<u>38,610,749</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE					
	<u>\$ 27,329,390</u>	<u>\$ 4,056,342</u>	<u>\$ 15,070,657</u>	<u>\$ 3,011,980</u>	<u>\$ 49,468,369</u>

See notes to the financial statements.

**CITY OF CULLMAN, ALABAMA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

Total Fund Balances – Governmental Funds \$ 38,610,749

Amounts reported for governmental activities in the statement of net position are different due to the following:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 61,814,656

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities – both current and long-term – are reported in the statement of net position. In addition, the deferred loss on refunding, the deferred accounts, and the deferred premium are expenditures and revenues at the fund level, but are deferred and amortized in the statement of net position.

Balances at September 30, 2017, were:

General obligation warrants	\$	(19,399,781)	
Other noncurrent liabilities		(35,942)	
Net pension liability		(11,751,420)	
Deferred outflows of resources – pension		2,609,120	
Deferred inflows of resources – pension		(770,423)	
Unamortized debt discount		29,737	
Unamortized debt premium		(474,240)	
Compensated absences		(1,362,520)	
		(31,155,469)	(31,155,469)

Total Net Position – Governmental Activities \$ 69,269,936

See notes to the financial statements.

CITY OF CULLMAN, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>General</u>	<u>School Tax</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 21,472,810	\$ 7,016,645	\$ -	\$ 12,500	\$ 28,501,955
Licenses and permits	3,488,853	-	-	-	3,488,853
Intergovernmental revenues	2,350,992	-	74,855	880,119	3,305,966
Charges for services	5,239,435	-	-	-	5,239,435
Fines and forfeits	174,412	-	-	59,911	234,323
Interest revenue	53,902	-	-	761	54,663
Miscellaneous revenues	95,077	-	-	-	95,077
Total revenues	<u>32,875,481</u>	<u>7,016,645</u>	<u>74,855</u>	<u>953,291</u>	<u>40,920,272</u>
EXPENDITURES					
Current expenditures:					
General government	4,789,756	-	-	531,469	5,321,225
Public safety	10,390,846	-	-	-	10,390,846
Highways and streets	2,127,536	-	-	355,521	2,483,057
Sanitation	4,261,190	-	-	-	4,261,190
Health and social services	939,275	-	-	-	939,275
Culture and recreation	333,803	-	-	-	333,803
Education	145,980	7,005,366	-	-	7,151,346
Conservation	55,130	-	-	-	55,130
Capital outlay	4,976,784	-	-	7,112,129	12,088,913
Debt service:					
Principal retirement	84,044	-	761,250	100,000	945,294
Interest and fiscal charges	8,712	-	284,343	-	293,055
Total expenditures	<u>28,113,056</u>	<u>7,005,366</u>	<u>1,045,593</u>	<u>8,099,119</u>	<u>44,263,134</u>
REVENUES OVER (UNDER) EXPENDITURES	4,762,425	11,279	(970,738)	(7,145,828)	(3,342,862)
OTHER FINANCING SOURCES (USES)					
Capital contributions	7,431	-	-	407,218	414,649
Sale of assets	82,750	-	-	-	82,750
Insurance proceeds	14,148	-	-	-	14,148
Operating transfers in	-	-	986,280	6,463,896	7,450,176
Operating transfers out	(8,967,370)	-	(3,254,615)	(228,000)	(12,449,985)
Total other financing sources (uses)	<u>(8,863,041)</u>	<u>-</u>	<u>(2,268,335)</u>	<u>6,643,114</u>	<u>(4,488,262)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(4,100,616)	11,279	(3,239,073)	(502,714)	(7,831,124)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	<u>25,987,099</u>	<u>(265,895)</u>	<u>18,309,730</u>	<u>2,410,939</u>	<u>46,441,873</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ 21,886,483</u>	<u>\$ (254,616)</u>	<u>\$ 15,070,657</u>	<u>\$ 1,908,225</u>	<u>\$ 38,610,749</u>

See notes to the financial statements.

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

Net Changes in Fund Balances – Governmental Funds	\$ (7,831,124)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$12,088,913) exceeded depreciation (\$1,770,162) in the current period.</p>	
	10,318,751
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments of principal exceeded amortization of debt-related items:</p>	
	945,294
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:</p>	
Change in accrued interest	(68,795)
Change in compensated absences	55,648
Other miscellaneous changes	(63,242)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Revenues reported in the fund level in the current year that were earned and reported in the statement of activities for the year ended September 30, 2016	(2,179,462)
<p>Change in net pension liability and change in pension - related deferred outflows and inflows are not reported in the funds</p>	
	(178,984)
Change in Net Position – Governmental Activities	\$ 998,086

See notes to the financial statements.

CITY OF CULLMAN, ALABAMA
BALANCE SHEET – PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	Major Funds			Nonmajor Fund	Total Business-Type Funds
	Sewer Operation	Water System	Parks and Recreation	Airport	
CURRENT ASSETS					
Cash equivalents	\$ 633,895	\$ 14,320,969	\$ 1,028,395	\$ 43,638	\$ 16,026,897
Certificates of deposit	-	404,022	-	-	404,022
Interest receivable	-	230	-	-	230
Accounts receivable, net:					
City of Cullman	-	97,920	-	-	97,920
Other	258,923	725,456	49,400	15,546	1,049,325
Interfund receivables	9,083	21,834	340,684	-	371,601
Due from other governmental units:					
Grants	-	-	-	56,380	56,380
Cullman County	-	-	-	110,133	110,133
Cullman Power Board	693,026	664,808	-	-	1,357,834
Other	531,610	812,435	132,988	-	1,477,033
Inventories	38,108	338,998	56,051	15,703	448,860
Prepaid expenses	-	-	11,288	-	11,288
Prepaid insurance	39,472	146,027	-	19,610	205,109
Prepaid utility tax	-	30,000	-	-	30,000
Total current assets	2,204,117	17,562,699	1,618,806	261,010	21,646,632
RESTRICTED ASSETS					
Cash equivalents	373,860	9,748,124	-	-	10,121,984
State revolving funds receivable	2,277,830	-	-	-	2,277,830
OPEB funds held by Cullman Power Board	-	11,760	-	-	11,760
Total restricted assets	2,651,690	9,759,884	-	-	12,411,574
CAPITAL ASSETS					
Land and other assets not being depreciated	253,691	11,905,470	1,935,368	884,785	14,979,314
Construction in progress	3,525,108	105,753,132	439,892	185,908	109,904,040
Buildings, improvements, and equipment, net of depreciation	50,318,954	30,712,222	20,983,784	3,098,642	105,113,602
Total capital assets	54,097,753	148,370,824	23,359,044	4,169,335	229,996,956
OTHER ASSETS					
Utility deposits	-	-	585	-	585
Assessments receivable	424,697	-	-	-	424,697
Total other assets	424,697	-	585	-	425,282
DEFERRED OUTFLOWS OF RESOURCES					
Unamortized loss on refunding	245,881	117,464	105,205	-	468,550
Deferred outflows of resources – pension	317,143	345,138	382,362	16,401	1,061,044
Total deferred outflows of resources	563,024	462,602	487,567	16,401	1,529,594
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 59,941,281	\$ 176,156,009	\$ 25,466,002	\$ 4,446,746	\$ 266,010,038

See notes to the financial statements.

CITY OF CULLMAN, ALABAMA
BALANCE SHEET – PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	Major Funds			Nonmajor Fund	Total Business-Type Funds
	Sewer Operation	Water System	Parks and Recreation	Airport	
CURRENT LIABILITIES					
Accounts payable:					
Trade	\$ 1,678,719	\$ 935,880	\$ 598,919	\$ 65,678	\$ 3,279,196
Contractors	-	73,951	-	-	73,951
Utility tax payable	-	37,098	-	-	37,098
Interfund payables	209	-	414,602	-	414,811
Due to other governmental units	29,734	209,376	-	1,087	240,197
Interest payable	-	-	129,087	-	129,087
Accrued payroll	47,458	66,100	81,021	4,210	198,789
Estimated compensated absences – current portion	32,923	80,131	54,141	1,479	168,674
Unearned revenue	12,809	-	127,257	11,573	151,639
Total current liabilities	1,801,852	1,402,536	1,405,027	84,027	4,693,442
LIABILITIES PAYABLE FROM RESTRICTED ASSETS					
Accounts payable:					
Contractors	128,754	128,259	-	-	257,013
Accrued interest payable	22,289	352,903	-	-	375,192
Other postemployment benefits	-	6,559	-	-	6,559
Current maturities on warrants/bonds payable	2,697,009	2,647,495	-	81,406	5,425,910
Total liabilities payable from restricted assets	2,848,052	3,135,216	-	81,406	6,064,674
NONCURRENT LIABILITIES					
Warrants/bonds payable	16,300,092	103,403,386	-	368,059	120,071,537
Unamortized debt discount	-	(578,200)	(75,218)	-	(653,418)
Unamortized debt premium	-	143,535	1,197,041	-	1,340,576
Net pension liability	1,354,124	1,876,228	1,698,129	87,688	5,016,169
Estimated compensated absences	131,065	340,093	71,614	8,018	550,790
Interfund payables	-	-	11,832,115	-	11,832,115
Due to other governmental units	-	-	-	178,455	178,455
Total noncurrent liabilities	17,785,281	105,185,042	14,723,681	642,220	138,336,224
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources – pension	93,424	69,330	114,845	4,819	282,418
Total deferred inflows of resources	93,424	69,330	114,845	4,819	282,418
NET POSITION					
Net invested in capital assets	34,949,609	46,613,854	10,095,709	3,719,870	95,379,042
Restricted for capital activity and debt service	2,651,690	5,444,268	31,450	-	8,127,408
Unrestricted	(188,627)	14,305,763	(904,710)	(85,596)	13,126,830
Total net position	37,412,672	66,363,885	9,222,449	3,634,274	116,633,280
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 59,941,281	\$ 176,156,009	\$ 25,466,002	\$ 4,446,746	\$ 266,010,038

See notes to the financial statements.

CITY OF CULLMAN, ALABAMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Major Funds			Nonmajor Fund	Total
	Sewer Operation	Water System	Parks and Recreation	Airport	Business-Type Funds
REVENUES					
Charges for sales and services	\$ 6,661,743	\$ 15,035,583	\$ 4,570,667	\$ 388,434	\$ 26,656,427
Forfeited discounts and penalties	-	37,277	-	-	37,277
Charges for service connections	67,300	109,824	-	-	177,124
Service charges	71,350	70,375	-	-	141,725
Operating grant	303,704	-	-	-	303,704
Lodging tax	-	-	228,589	-	228,589
Miscellaneous revenues	157,473	180,161	2,495	-	340,129
Total revenues	7,261,570	15,433,220	4,801,751	388,434	27,884,975
OPERATING EXPENSES					
Cost of operating revenues	-	-	259,515	206,772	466,287
Salaries and wages	1,241,112	1,735,332	2,630,009	116,798	5,723,251
Nonemployee compensation	-	-	67,545	-	67,545
Officials and instructors	-	-	178,881	-	178,881
Payroll taxes	93,947	131,320	196,332	8,590	430,189
Employees retirement	149,593	194,872	183,658	7,777	535,900
Employees life and health insurance	217,338	155,652	247,473	14,136	634,599
Employees compensated absences	6,466	-	(33,931)	-	(27,465)
Employees hospital insurance	-	233,897	-	-	233,897
Telephone	16,333	28,773	102,924	5,802	153,832
Utilities	421,599	906,415	763,263	30,227	2,121,504
Billing, accounting, and collection fees	92,769	200,662	-	-	293,431
Office supplies and expense	4,421	37,121	202,342	643	244,527
Professional services	10,770	31,035	63,815	20,623	126,243
Program expenses	-	-	469,234	-	469,234
Engineering services	-	99,750	-	-	99,750
Other contracted services	54,027	102,217	-	-	156,244
Landfill fees	18,298	-	-	-	18,298
Testing fees	10,897	35,681	-	-	46,578
Travel and training	6,343	19,211	130,013	3,091	158,658
Dues and subscriptions	465	2,664	15,784	1,050	19,963
Public relations	-	-	313,934	-	313,934
Automotive repairs and maintenance	5,708	9,892	-	-	15,600
Automotive gasoline and oil	55,402	85,149	41,392	-	181,943
Fuel and lubricants	-	-	-	3,136	3,136
Uniforms	9,035	13,333	-	-	22,368
Small tools and equipment	26,682	32,320	16,235	4,034	79,271
General maintenance	-	5,843	-	-	5,843
Insurance	84,149	148,143	159,201	23,870	415,363
Lab supplies	-	14,901	-	-	14,901
Chemicals and other supplies	593,310	681,410	161,487	2,202	1,438,409
Equipment rental	54,917	20,298	-	3,000	78,215
Permits and licenses	2,715	-	-	692	3,407
Printing and advertising	-	-	130,781	1,124	131,905
Private property damage	1,046	-	-	-	1,046
Miscellaneous	2,801	56,917	166,908	7,306	233,932
Repairs and maintenance	390,610	825,366	461,819	49,329	1,727,124
Director's fees and expenses	-	31,500	-	-	31,500
Depreciation expense	1,996,128	1,378,288	1,343,288	172,134	4,889,838
Total operating expenses	5,566,881	7,217,962	8,271,902	682,336	21,739,081

See notes to the financial statements.

CITY OF CULLMAN, ALABAMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Major Funds</u>			<u>Nonmajor Fund</u>	<u>Total</u>
	<u>Sewer Operation</u>	<u>Water System</u>	<u>Parks and Recreation</u>	<u>Airport</u>	<u>Business-Type Funds</u>
OPERATING INCOME (LOSS)	\$ 1,694,689	\$ 8,215,258	\$ (3,470,151)	\$ (293,902)	\$ 6,145,894
NON-OPERATING REVENUES AND EXPENSES					
Interest earned	6,236	58,816	1,293	-	66,345
Gain (loss) on sale of assets	-	45	(7,022)	-	(6,977)
Interest expense	(478,890)	(379,745)	(466,396)	(14,925)	(1,339,956)
Trustee fees	-	(8,170)	-	-	(8,170)
Total non-operating revenues and expenses	<u>(472,654)</u>	<u>(329,054)</u>	<u>(472,125)</u>	<u>(14,925)</u>	<u>(1,288,758)</u>
Change in net position before intergovernmental revenues and transfers	1,222,035	7,886,204	(3,942,276)	(308,827)	4,857,136
Capital grants	-	-	-	390,210	390,210
Intergovernmental revenues	-	96,609	-	-	96,609
Transfers	609,998	(609,998)	4,613,505	386,304	4,999,809
	<u>609,998</u>	<u>(513,389)</u>	<u>4,613,505</u>	<u>776,514</u>	<u>5,486,628</u>
CHANGE IN NET POSITION	1,832,033	7,372,815	671,229	467,687	10,343,764
NET POSITION AT BEGINNING OF YEAR	<u>35,580,639</u>	<u>58,991,070</u>	<u>8,551,220</u>	<u>3,166,587</u>	<u>106,289,516</u>
NET POSITION AT END OF YEAR	<u>\$ 37,412,672</u>	<u>\$ 66,363,885</u>	<u>\$ 9,222,449</u>	<u>\$ 3,634,274</u>	<u>\$ 116,633,280</u>

See notes to the financial statements.

CITY OF CULLMAN, ALABAMA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Major Funds			Nonmajor Fund	Total Business-Type Funds
	Sewer Operation	Water System	Parks and Recreation	Airport	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 7,801,979	\$ 24,842,692	\$ 4,318,883	\$ 319,606	\$ 37,283,160
Cash received from lodging tax	-	-	228,589	-	228,589
Cash payments for purchased water	-	(9,297,333)	-	-	(9,297,333)
Cash payments for purchased fuel	-	-	-	(3,542)	(3,542)
Cash payments for café food	-	-	-	(9,850)	(9,850)
Cash payments for merchandise sold	-	-	(226,807)	-	(226,807)
Cash payments for operating expenses	(517,005)	(3,666,574)	(3,019,482)	(323,183)	(7,526,244)
Cash payments to employees	(1,674,193)	(2,355,957)	(3,520,486)	(145,938)	(7,696,574)
Net cash provided by (used in) operating activities	5,610,781	9,522,828	(2,219,303)	(162,907)	12,751,399
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Intergovernmental revenues	-	96,909	-	-	96,909
Transfers in	610,000	-	4,613,505	386,304	5,609,809
Transfers out	-	(609,998)	-	-	(609,998)
Net cash provided by (used in) noncapital financing activities	610,000	(513,089)	4,613,505	386,304	5,096,720
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital grants	-	-	-	390,210	390,210
Acquisition and construction – capital assets	(3,169,877)	(11,060,825)	(812,073)	(530,371)	(15,573,146)
Flood damage insurance proceeds	-	518,485	-	-	518,485
Flood damage payments	-	(518,485)	-	-	(518,485)
Interest paid	(408,729)	(330,714)	(453,097)	(14,925)	(1,207,465)
Interfund payables – long-term	-	-	(403,370)	-	(403,370)
Trustee fees	-	(8,170)	-	-	(8,170)
Principal payments of long-term debt	(2,759,398)	(2,782,195)	-	(85,306)	(5,626,899)
Net cash used in capital and related financing activities	(6,338,004)	(14,181,904)	(1,668,540)	(240,392)	(22,428,840)

See notes to the financial statements.

CITY OF CULLMAN, ALABAMA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Major Funds</u>			<u>Nonmajor Fund</u>	<u>Total Business-Type Funds</u>
	<u>Sewer Operation</u>	<u>Water System</u>	<u>Parks and Recreation</u>	<u>Airport</u>	
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	\$ 6,236	\$ 58,606	\$ 1,293	\$ -	\$ 66,135
Net cash provided by investing activities	6,236	58,606	1,293	-	66,135
NET CHANGE IN CASH AND CASH EQUIVALENTS	(110,987)	(5,113,559)	726,955	(16,995)	(4,514,586)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,118,742	29,182,652	301,440	60,633	30,663,467
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,007,755</u>	<u>\$ 24,069,093</u>	<u>\$ 1,028,395</u>	<u>\$ 43,638</u>	<u>\$ 26,148,881</u>
CASH AND CASH EQUIVALENTS CONSISTED OF THE FOLLOWING					
Cash equivalents – current assets	\$ 633,895	\$ 14,320,969	\$ 1,028,395	\$ 43,638	\$ 16,026,897
Cash equivalents – restricted assets	373,860	9,748,124	-	-	10,121,984
	<u>\$ 1,007,755</u>	<u>\$ 24,069,093</u>	<u>\$ 1,028,395</u>	<u>\$ 43,638</u>	<u>\$ 26,148,881</u>

See notes to the financial statements.

CITY OF CULLMAN, ALABAMA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Major Funds			Nonmajor Fund	Total Business-Type Funds
	Sewer Operation	Water System	Parks and Recreation	Airport	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 1,694,687	\$ 8,215,258	\$ (3,470,151)	\$ (293,902)	\$ 6,145,892
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	1,996,128	1,378,288	1,343,288	172,134	4,889,838
Change in:					
Assessments receivable	18,078	-	-	-	18,078
Accounts receivable, net	90,493	8,598	92,510	(5,625)	185,976
Interfund receivables	9,786	(18,760)	-	-	(8,974)
Due from other governmental units	(546,774)	(556,738)	(97,351)	(63,189)	(1,264,052)
Inventories	12,170	36,046	(19,501)	(406)	28,309
Prepaid expenses	-	-	(8,457)	-	(8,457)
Prepaid insurance	1,111	(10,289)	-	2,200	(6,978)
State revolving funds receivable	969,126	-	-	-	969,126
Deferred outflows of resources					
– pension	(77,263)	(33,337)	(88,727)	(5,585)	(204,912)
Accounts payable	1,332,032	291,609	354,400	(30,022)	1,948,019
Utility tax payable	-	(1,308)	-	-	(1,308)
Interfund payables	(2,665)	46,471	(419,679)	-	(375,873)
Due to other governmental units	2,346	46,143	-	54,539	103,028
Accrued payroll	2,332	13,803	(3,716)	486	12,905
Other postemployment benefits	-	1,004	-	-	1,004
Net pension liability	35,135	3,270	43,191	1,813	83,409
Deferred inflows of resources					
– pension	67,593	51,194	83,091	3,487	205,365
Unearned revenue	-	(7,605)	6,298	(988)	(2,295)
Compensated absences	6,466	59,181	(34,499)	2,151	33,299
Net cash provided by (used in) operating activities	<u>\$ 5,610,781</u>	<u>\$ 9,522,828</u>	<u>\$ (2,219,303)</u>	<u>\$ (162,907)</u>	<u>\$ 12,751,399</u>

See notes to the financial statements.

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

1. SUMMARY OF OPERATIONS

Reporting Entity

The City of Cullman (the City) was incorporated under the laws of the State of Alabama in 1875 and operates under an elected Mayor-Council form of government. The accompanying financial statements present the City's primary government and its component units, which are legally separate organizations over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

Component Units

Component units that are so intertwined with the City that they are, in substance, the same as the City are blended and reported as if they were part of the City. The Utilities Board of the City of Cullman – Water Division (UBWD), which gathers, collects, and sells water to the City, is governed by a five-member board appointed by the City Council. By contract, the only customer of the UBWD is the City of Cullman. Separately issued financial statements are available through the City Clerk's office.

The Cullman City Parks and Recreation Board was formed in November 1979 under Section 11-86-1 of the Code of Alabama 1975. The Board is an unincorporated board and cannot legally incur debt. The City provides a substantial amount of the Board's funding each year through payments for payroll and debt service expenditures. Therefore, the Board is reported as part of the City's operations. Separately issued financial statements are available at the Cullman Civic Center or through the City Clerk's office.

The City's 50% interest in the Airport Board, which is a joint venture with Cullman County, is also reported as part of the City's operations. Separately issued financial statements are available through the City Clerk's office.

Excluded Entities

The following related organizations are excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments:

- 1) The City Council appoints all, or a voting majority, of the members of the Utilities Board – Power Division of the City of Cullman and to the Industrial Development Board of the City of Cullman.
- 2) The Mayor appoints the members of the Cullman Housing Authority.
- 3) The City Council appoints directors to the City of Cullman Public Education and Governmental Access Television, Inc., a non-profit organization.
- 4) The City Council also appoints four members to the nine-member Cullman-Jefferson Counties Gas District.
- 5) The City Council appoints the members of the Medical Clinic Board.
- 6) The City Council appoints the members of the Downtown Redevelopment Authority.
- 7) The City Council appoints five of the eleven members of the Cullman County Center for the Developmentally Disabled 310 Board.
- 8) The City Council appoints three members of the North Central Alabama Mental Health Board.
- 9) The Parks and Recreation Foundation Board (PRFB) is a 501(c)(3) not for profit, and its board members are appointed by the Cullman City Parks and Recreation Board. The PRFB solicits contributions that are for the direct benefit of the City of Cullman's Park and Recreation. However, the City of Cullman and the Cullman City Parks and Recreation Board are not corporate members of the PRFB. Therefore, the PRFB has not been included as a component unit.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Government-Wide Statements

The statement of net position and the statement of activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

Fund Name	Description
General Fund	This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
School Tax	This fund accounts for the collections and disbursements of the 3 mill ad valorem tax, 7.5 mill ad valorem tax, and 0.5% sales tax collected for the City School System.
Debt Service	This fund accounts for the resources accumulated and payments made for the principal, interest, and other expenses on general long-term debt associated with the City's governmental activities.

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

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The City reports the following major proprietary funds:

Fund Name	Description
Sewer Operation	This fund accounts for the system maintenance and the sewage disposal service provided to its customers.
Water System	The Water System accounts for the activities of two separate units: the Utilities Board – Water Division of the City of Cullman, Alabama (UBWD) and the Water Department. The UBWD's primary activity is the gathering, collecting, or impounding of water and filtering of said water to sell to the Water Department. The Water Department's primary activity is the system maintenance and distribution of water to wholesale and retail customers.
Parks and Recreation	This fund accounts for four separate activities: 1) the maintenance and operations of the golf course and its facilities for the general public 2) the maintenance and operations of the City's parks and facilities for the general public and the organization of other recreational activities 3) the maintenance and operations of the Cullman Wellness and Aquatic Center for the general public 4) the maintenance and operations of the Cullman Gymnastics and Cheer Academy for the general public

Measurement Focus, Basis of Accounting

Government-Wide and Proprietary Financial Statements

The government-wide and proprietary financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include sales taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within thirty days after year-end. However, all grants earned and charges for services are considered to be available as of year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, claims and judgements, and compensated absences are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. The issuance of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Cash Equivalents and Certificates of Deposit

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents are reported at carrying amount, which reasonably estimates fair value. Certificates of deposit are carried at cost, which approximates market value.

Accounts Receivable and Assessments Receivable

Accounts and assessments receivable are presented net of allowances for doubtful accounts. The allowances for doubtful accounts are presented below:

	<u>General Fund</u>	<u>Sewer Operation</u>	<u>Water System</u>	<u>Parks and Recreation</u>	<u>Airport</u>
Accounts receivable	\$ 157,997	\$ 24,000	\$ 50,668	\$ 122,440	\$ 5,334
Assessments receivable	125,423	126,201	-	-	-
	<u>\$ 283,420</u>	<u>\$ 150,201</u>	<u>\$ 50,668</u>	<u>\$ 122,440</u>	<u>\$ 5,334</u>

Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. In addition, short-term interfund loans are made as necessary from one fund to another.

Interfund Receivables – Long-Term

Long-term interfund loan receivables are reported as "interfund receivables – long-term" and are offset equally by a nonspendable fund balance account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

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

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property Tax Calendar

Cullman County is responsible for the assessment, collection, and apportionment of property taxes for the City of Cullman. The County levies property taxes on October 1 on property values for the previous year ended September 30. Secured property tax payments are due by December 31. As prescribed by Governmental Accounting Standards Board (GASB) Statement 33, a receivable of \$1,722,815 has been accrued as of September 30, 2017, for the bills sent out October 1, 2017, because the City has an enforceable legal claim on these property taxes. However, since these resources were not available for use during the year ended September 30, 2017, an offsetting balance of \$1,722,815 has also been reflected as unavailable revenue – property taxes in the financial statements.

Inventories

Inventories in governmental activities consist of expendable supplies held for consumption stated principally on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Business-type activities inventories are reported at cost on a first-in, first-out basis.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2017, are recorded as prepaid items. Prepaid insurance is charged to expenditures/expenses over the term of the policies. Prepaid senior trip expenses are charged to expense once the senior citizens have gone on the trips. Prepaid utility tax is offset to utility taxes payable once applied to the next month's utility tax report.

Restricted Assets

Certain proceeds of general long-term debt and proprietary fund warrants and bonds, as well as certain resources set aside for their repayment, and other amounts are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants and contractual obligations.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation. The works of art and historical treasures maintained in the Museum have not been capitalized. These are held for public exhibition and are properly cared for. Proceeds from disposals of works of arts and historical treasures are used to acquire additional items for the collection. Therefore, the items are not required to be capitalized under current reporting standards. The City's infrastructure consists of all major infrastructure that was acquired or that has received substantial improvement since October 1, 1980. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	10-75
Improvements other than buildings	10-75
Infrastructure – streets	20-50
Infrastructure – bridges	50
Office equipment	5-10
Computer equipment	5-10
Communication equipment	3-10
Heavy equipment	5-20
Transportation equipment	3-20
Other general equipment	5-15

Capitalized Interest

Interest costs are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Interest capitalized for the year ended September 30, 2017, was as follows:

<u>Proprietary Fund / Component Unit</u>	<u>Total Interest Capitalized</u>	<u>Net Interest Capitalized</u>
Utilities Board – Water Division	\$ 4,250,587	\$ 4,063,004
Sewer Operation	533,794	54,904
	<u>\$ 4,784,381</u>	<u>\$ 4,117,908</u>

Amortization

Unamortized debt discount is amortized on the straight-line method over the life of the bonds/warrants. Unamortized loss on refunding is amortized on the straight-line method over the lesser of the life of the old bonds/warrants refunded or the life of the new bonds/warrants issued. Unamortized debt premium is amortized on the straight-line method over the life of the bonds/warrants.

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

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Payable from Restricted Assets

Certain assets are restricted for debt service and capital improvements. Liabilities payable from restricted assets in the various fund types are as follows:

	Governmental Activities	Business-Type Activities
Accounts payable – contractor	\$ -	\$ 257,013
Accrued interest payable	-	375,192
Police evidence	17,360	-
Advances from other governments	-	-
Other postemployment benefits	-	6,559
Current maturities on long-term liabilities	-	5,425,910
	\$ 17,360	\$ 6,064,674

Of the \$5,425,910 shown as current maturities of long-term debt above in the business-type activities, \$3,946,918 is general obligation debt.

Compensated Absences

City of Cullman

The liability for compensated absences consists of unpaid, accumulated annual, and sick leave balances. The liability has been calculated using only the vested vacation and sick leave amounts available to employees on September 30, 2017. Full-time, permanent employees are granted vacation benefits in varying amounts depending on tenure with the City. Limited vacation benefits may be carried from one year to the next and are paid upon the employee's termination. Sick leave accrues to these employees to specified maximums, and a percentage of sick leave is payable upon termination in accordance with guidelines established in the City's personnel policies. If an employee does not use his sick leave during the year and would otherwise lose any accumulated time, the employee is paid one-half of the hours accumulated in excess of the maximum allowed to be carried over from year to year. The estimated liabilities include required salary-related payments. The liability for compensated absences is paid by the general fund for all governmental funds, and each proprietary fund is responsible for its own liability for compensated absences.

Utilities Board – Water Division (UBWD) (Component Unit Blended with Water System)

The liability for compensated absences consists of unpaid, accumulated annual, and sick leave balances. The liability has been calculated using only the vested vacation and sick leave amounts available to employees on September 30, 2017. Full-time, permanent employees are granted vacation leave benefits in varying amounts, depending on tenure with the UBWD. Limited vacation benefits may be carried from one year to the next and are paid upon the employee's termination. Sick leave accrues to these employees and a percentage of sick leave is payable upon termination in accordance with guidelines established in the UBWD's personnel policies. The estimated liabilities include required salary-related payments.

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

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position

Net position comprises the various net earnings from operating and non-operating revenues and expenses. Net position is classified in the following three components: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation, and reduced by outstanding debt that is attributable to the acquisition, construction, and improvements of those assets; debt related to unspent proceeds and restricted cash equivalents is excluded from the determination. Restricted net position consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted net position consists of all other net position not included in the above categories.

Pension

The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized 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.

Governmental Fund Balances

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

<u>Classification</u>	<u>Description</u>
Nonspendable	Nonspendable fund balances include fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.
Restricted	Restricted fund balances include fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation.
Committed	Committed fund balances include fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority (the City Council) and do not lapse at year end. The City Council is required to adopt an Ordinance in order to establish, modify, or rescind a fund balance commitment.

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

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Classification	Description
Assigned	Assigned fund balances include fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balances may be assigned by the Mayor, City Clerk, or City Treasurer.
Unassigned	Unassigned fund balances include positive fund balances within the General Fund which have not been classified within the above mentioned categories, and negative fund balances in other governmental funds.

The City uses restricted/committed amounts to spend first when both restricted and unrestricted fund balances are available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balances when expenditures are made.

The City does not have a formal minimum fund balance policy.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising

Advertising costs are expensed as incurred. For the year ended September 30, 2017, the City incurred \$48,098 in printing and advertising costs in the governmental funds and \$136,829 in printing and advertising expenses through the proprietary funds.

Recently Issued Accounting Principles

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pension Plans*, was issued to address new accounting and financial reporting for OPEB that is provided to the employees of the state and local government employers. The requirements of this Statement are effective for fiscal year 2018. The City is currently evaluating the impact this standard may have on its financial statements.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, was issued to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*, for pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for fiscal year 2017. This Statement is not applicable to the City.

GASB Statement No. 80, *Blending Requirements for Certain Component Units*, was issued to improve financial reporting by clarifying the financial statement presentation requirements for certain component units, not-for-profit corporations in which the primary government is the sole corporate member, and amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. The requirements of this Statement are effective for fiscal year 2017. The City currently blends the financial information of Coastal Alabama Farmers' and Fishermen's Market, Inc., the only not-for-profit corporation for which one of the City's blended public boards is the sole corporate member.

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

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, was issued to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for fiscal year 2018. The City currently does not have any split-interest agreements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued to establish accounting and financial reporting for certain asset retirement obligations. The requirements of this statement are effective for fiscal year 2019. The City is currently evaluating the impact this standard may have on its financial statements.

GASB Statement No. 84, *Fiduciary Activities*, was issued to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this statement are effective for fiscal year 2020. The City currently does not have any fiduciary activities.

GASB Statement No. 85, *Omnibus 2017*, was issued to address practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this statement are effective for fiscal year 2018. The City is currently evaluating the impact this standard may have on its financial statements.

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

GASB Statement No. 87, *Leases*, was issued to improve accounting and financial reporting for leases by governments. The requirements of this statement are effective for fiscal year 2021. The City is currently evaluating the impact this standard may have on its financial statements.

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – DEFICIT BALANCE

The \$254,616 deficit of the School Tax Fund is a result of expenditures accrued in excess of resources available within the City's 30 day availability period. The deficit is expected to be covered by resources accrued, but not received within the 30 day availability period.

4. CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT

The City's funds are invested in accordance with State statutes which allow investment in: (1) direct obligations of the United States government pledged by its full faith and credit, (2) savings accounts and certificates of deposit at savings and loan associations and federally insured banks when secured by acceptable collateral, (3) pre-funded public obligations, and (4) interests in collective investment funds in accordance with guidelines set out in Section 11-81-21, Code of Alabama, 1975.

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

4. CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT – CONTINUED

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. Except as noted below, the City's deposits were insured by federal depository insurance coverage (FDIC) or the Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program is administered by the State Treasurer according to the State of Alabama statute, and any bank or financial institution in the State of Alabama accepting deposits of public funds is required to insure those funds by pledging eligible collateral to the State Treasurer for the SAFE collateral pool. The entire pool stands behind each deposit.

As of September 30, 2017, the Utilities Board – Water Division of the City of Cullman (UBWD) (component unit blended with the Water System) had \$514,798 invested in the Fidelity Treasury Only "sweep" Money Market Fund (fund) held with Regions Bank. The fund is composed of U.S. Treasury Obligations with a rating of AAAM by Standard and Poor's and Aaa- mf by Moody's. This fund is uninsured and is not collateralized. As of September 30, 2017, UBWD had \$9,195,367 collateralized by securities held by the pledging financial institutions' trust department but not in UBWD's name.

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

5. CAPITAL ASSETS

Capital asset activity for the governmental activities for the year ended September 30, 2017, was as follows:

	Balance at Sept 30, 2016	Additions	(Removals)	Transfers	Balance at Sept 30, 2017
Governmental activities:					
Non-depreciable capital assets:					
Land	\$ 7,488,351	\$ 2,405,430	\$ -	\$ -	\$ 9,893,781
Historical buildings	378,448	-	-	-	378,448
Construction in progress	861,897	7,662,660	-	(205,668)	8,318,889
	8,728,696	10,068,090	-	(205,668)	18,591,118
Depreciable capital assets:					
Buildings	10,368,235	84,645	-	139,814	10,592,694
Improvements other than buildings	2,704,627	31,494	-	109,582	2,845,703
Infrastructure – streets	36,852,298	311,283	-	-	37,163,581
Infrastructure – bridges	607,683	-	-	-	607,683
Office equipment	22,739	-	-	-	22,739
Computer equipment	421,853	-	-	-	421,853
Communication equipment	286,907	145,260	-	500	432,667
Heavy equipment	2,574,667	669,376	(146,457)	-	3,097,586
Transportation equipment	10,178,282	861,227	(199,821)	-	10,839,688
Other general equipment	3,898,970	263,816	-	-	4,162,786
	67,916,261	2,367,101	(346,278)	249,896	70,186,980
Less accumulated depreciation:					
Buildings	(2,176,158)	(191,997)	-	-	(2,368,155)
Improvements other than buildings	(646,109)	(102,858)	-	-	(748,967)
Infrastructure – streets	(11,652,120)	(747,101)	-	-	(12,399,221)
Infrastructure – bridges	(346,380)	-	-	-	(346,380)
Office equipment	(13,421)	(945)	-	-	(14,366)
Computer equipment	(201,340)	(22,993)	-	-	(224,333)
Communication equipment	(226,247)	(25,679)	-	-	(251,926)
Heavy equipment	(1,199,404)	(58,017)	-	-	(1,257,421)
Transportation equipment	(6,158,180)	(438,376)	-	-	(6,596,556)
Other general equipment	(2,573,921)	(182,196)	-	-	(2,756,117)
	(25,193,280)	(1,770,162)	-	-	(26,963,442)
Net depreciable capital assets	42,722,981	596,939	(346,278)	249,896	43,223,538
Total Capital Assets, Net	<u>\$ 51,451,677</u>	<u>\$ 10,665,029</u>	<u>\$ (346,278)</u>	<u>\$ 44,228</u>	<u>\$ 61,814,656</u>

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

5. CAPITAL ASSETS – CONTINUED

Capital asset activity for the business-type activities for the year ended September 30, 2017, was as follows:

	Balance at Sept 30, 2016	Additions	(Removals)	Transfers	Balance at Sept 30, 2017
Business-type activities:					
Non-depreciable capital assets:					
Land	\$ 14,871,388	\$ 107,926	\$ -	\$ -	\$ 14,979,314
Construction in progress	97,335,001	12,990,466	-	(421,427)	109,904,040
	112,206,389	13,098,392	-	(421,427)	124,883,354
Depreciable capital assets:					
Buildings	27,790,636	96,964	-	445,881	28,333,481
Improvements other than buildings	129,789,100	573,318	(184,097)	-	130,178,321
Source of supply	2,434,916	-	-	-	2,434,916
Pumping plant	709,632	-	-	-	709,632
Water treatment plant	18,225,928	29,457	-	49,900	18,305,285
Transmission and distribution system	1,454,061	-	-	-	1,454,061
Office equipment	618,251	16,495	-	-	634,746
Computer equipment	78,909	16,375	-	-	95,284
Communication equipment	3,318	-	-	-	3,318
Heavy equipment	1,317,061	633,265	(61,506)	-	1,888,820
Transportation equipment	2,633,089	354,683	(73,610)	-	2,914,162
Other general equipment	4,902,962	754,197	(22,995)	57,210	5,691,374
	189,957,863	2,474,754	(342,208)	552,991	192,643,400
Less accumulated depreciation:					
Buildings	(12,046,601)	(766,317)	-	-	(12,812,918)
Improvements other than buildings	(52,066,807)	(3,188,304)	58,860	-	(55,196,251)
Source of supply	(1,877,481)	(13,972)	-	-	(1,891,453)
Pumping plant	(661,231)	-	-	-	(661,231)
Water treatment plant	(9,947,184)	(271,920)	-	-	(10,219,104)
Transmission and distribution system	(1,022,624)	(18,021)	-	-	(1,040,645)
Office equipment	(368,285)	(32,107)	-	-	(400,392)
Computer equipment	(23,855)	(5,556)	-	-	(29,411)
Communication equipment	(2,988)	-	-	-	(2,988)
Heavy equipment	(463,718)	(93,197)	55,355	-	(501,560)
Transportation equipment	(1,421,859)	(229,527)	68,666	-	(1,582,720)
Other general equipment	(2,940,903)	(270,917)	20,695	-	(3,191,125)
	(82,843,536)	(4,889,838)	203,576	-	(87,529,798)
Net depreciable capital assets	107,114,327	(2,415,084)	(138,632)	552,991	105,113,602
Total Capital Assets, Net	\$ 219,320,716	\$ 10,683,308	\$ (138,632)	\$ 131,564	\$ 229,996,956

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

5. CAPITAL ASSETS – CONTINUED

Depreciation expense was charged to functions as follows:

Governmental activities:

General government:

Administrative	\$ 162,133
Building and housing	9,819
Garage	20,098

Public safety:

Police	144,980
Fire	313,751
Traffic Maintenance	43,803
Dispatch and EMA	12,586
Highways and streets	769,479
Sanitation	270,571
Culture and recreation	11,348
Conservation	11,594

\$ 1,770,162

Depreciation expense was charged to each business-type activity as follows:

Sewer	\$ 1,996,128
Water System	1,378,288
Parks and Recreation	1,343,288
Airport	172,134

\$ 4,889,838

6. LONG-TERM DEBT

The indentures, with respect to the warrants and bonds payable as detailed in the supplementary schedules of this report, contain pledges of revenues and pledges of the full faith and credit of the City as is applicable to each issue.

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

6. LONG-TERM DEBT – CONTINUED

The restricted assets presented in the financial statements are monies set aside for the payment of the debt or construction of related projects of these entities as required by the respective indentures. Annual principal maturities and debt service requirements of the long-term debt for the governmental activities during the next five years followed by five year increments to maturity are as follows:

Governmental Activities			
Year Ended September 30	Principal	Interest	Service Requirement
2018	\$ 979,887	\$ 806,140	\$ 1,786,027
2019	976,568	776,334	1,752,902
2020	939,269	734,811	1,674,080
2021	802,731	693,350	1,496,081
2022	747,269	652,881	1,400,150
2023-2027	4,325,000	2,677,250	7,002,250
2028-2032	5,495,000	1,503,800	6,998,800
2033-2035	5,170,000	427,050	5,597,050
	<u>\$ 19,435,724</u>	<u>\$ 8,271,616</u>	<u>\$ 27,707,340</u>

Annual principal maturities and debt service requirements of the long-term debt for the business-type activities during the next five years followed by five year increments to maturity are as follows:

Business-Type Activities			
Year Ended September 30	Principal	Interest	Service Requirement
2018	\$ 5,425,910	\$ 4,711,098	\$ 10,137,008
2019	5,963,977	4,590,482	10,554,459
2020	6,114,016	4,423,524	10,537,540
2021	5,465,504	4,278,218	9,743,722
2022	5,043,386	4,120,835	9,164,221
2023-2027	18,032,714	18,628,689	36,661,403
2028-2032	18,690,000	15,491,288	34,181,288
2033-2037	23,154,999	11,144,678	34,299,677
2038-2042	28,000,000	5,270,250	33,270,250
2043-2045	9,606,941	756,562	10,363,503
	<u>\$ 125,497,447</u>	<u>\$ 73,415,624</u>	<u>\$ 198,913,071</u>

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

6. LONG-TERM DEBT – CONTINUED

Changes in long-term debt during the year ended September 30, 2017, were as follows:

Governmental Activities						
	<u>Interest Rates</u>	<u>Balance at Sept. 30, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at Sept. 30, 2017</u>	<u>Due Within One Year</u>
General obligation warrants:						
Series 2010 LRSRF-DL/ARRA	2.00%	\$ 205,000	\$ -	\$ (65,000)	\$ 140,000	\$ 70,000
School Warrants	2.96%	660,000	-	(155,000)	505,000	160,000
Burrow Property	2.95%	461,176	-	(86,395)	374,781	88,944
Series 2016	3.00-5.00%	18,985,000	-	(605,000)	18,380,000	625,000
Long-term debt:						
Computer software	6.00%	69,842	-	(33,899)	35,943	35,943
		<u>\$ 20,381,018</u>	<u>\$ -</u>	<u>\$ (945,294)</u>	<u>\$ 19,435,724</u>	<u>\$ 979,887</u>

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

6. LONG-TERM DEBT – CONTINUED

Changes in long-term debt during the year ended September 30, 2017, were as follows:

Business-Type Activities						
	Interest Rates	Balance at Sept. 30, 2016	Additions	Payments	Balance at Sept. 30, 2017	Due Within One Year
Sewer:						
General obligation warrants:						
Series 2013	1.72%	\$ 5,888,889	\$ -	\$ (1,333,333)	\$ 4,555,556	\$ 1,333,333
Series 2013-A	2.63%	8,727,610	-	(1,121,065)	7,606,545	1,053,676
Series 2015 - CWSRF - DL	2.25%	3,810,000	-	(160,000)	3,650,000	165,000
Series 2015B - CWSRF - DL	2.20%	3,330,000	-	(145,000)	3,185,000	145,000
Water System:						
Utilities Board – Water Division:						
Series 2011	2.75-9.00%	54,675,000	-	(1,105,000)	53,570,000	1,135,000
Series 2015A	2.00-5.00%	41,925,000	-	(195,000)	41,730,000	200,000
Series 2015B	2.195%	6,150,000	-	(625,000)	5,525,000	640,000
Water Fund:						
Series 2012	2.50%	855,000	-	(155,000)	700,000	-
Series 2012 - DWSRF-BL	2.46%	1,015,000	-	(155,000)	860,000	160,000
Series 2013B	2.30%	4,213,076	-	(547,195)	3,665,881	512,495
Cullman Regional Airport Board:						
General obligation warrants:						
Warrant dated September 14, 2011	2.60%	59,855	-	(11,572)	48,283	11,922
Warrant dated October 22, 2012	2.99%	474,916	-	(73,734)	401,182	69,484
		<u>\$ 131,124,346</u>	<u>\$ -</u>	<u>\$ (5,626,899)</u>	<u>\$ 125,497,447</u>	<u>\$ 5,425,910</u>

Proceeds of all General Obligation Warrants shown in the business-type activities were used by proprietary funds and are being repaid by those funds. However, they remain a contingent liability of the City's Governmental Activities.

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

7. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables at September 30, 2017, were as follows:

	Due from Other Funds	Due to Other Funds		
		General	Sewer Operation	Parks and Recreation
General	\$ 11,274	\$ -	\$ -	\$ 11,274
Debt Service	12,235,443	-	-	12,235,443
Water System	21,834	21,625	209	-
Sewer Operation	9,083	9,083	-	-
Parks and Recreation	340,684	340,684	-	-
Nonmajor Governmental	4,718	4,718	-	-
	<u>\$ 12,623,036</u>	<u>\$ 376,110</u>	<u>\$ 209</u>	<u>\$ 12,246,717</u>

Transfers between funds are generally made for the purpose of funding the operations of another, purchasing capital or investment assets, or as debt held by one fund is repaid by another. The amounts of interfund transfers for the year ended September 30, 2017, were as follows:

Transfers in	Transfers Out			
	General	Debt Service	Water System	Nonmajor Governmental
Debt Service	\$ 986,280	\$ -	\$ -	\$ -
Parks and Recreation	4,613,505	-	-	-
Sewer Operation	609,998	-	609,998	-
Nonmajor Proprietary	386,304	-	-	-
Nonmajor Governmental	6,463,896	3,254,615	-	228,000
	<u>\$ 13,059,983</u>	<u>\$ 3,254,615</u>	<u>\$ 609,998</u>	<u>\$ 228,000</u>

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

8. JOINT VENTURE

The Cullman Airport is jointly owned by the City of Cullman, Alabama, and Cullman County, Alabama. The Airport is operated by an appointed Board. Appropriations are made by the City and County to operate the Board. Included in the Proprietary Funds of the City is 50 percent of the Board's assets, liabilities, net position, revenues, and expenses. Separately issued financial statements are available at the Clerk's office at the City of Cullman.

9. CONTINGENT LIABILITIES

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. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; however, the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

10. SPECIAL ITEM AND EXTRAORDINARY ITEM

Special Item – Water System (The Utilities Board of the City of Cullman – Water Division, a Component Unit of the City)

The Utilities Board – Water Division of the City of Cullman has constructed a 650 acre water reservoir (Duck River Reservoir) capable of furnishing 24 million gallons of raw water per day to the Cullman Water Treatment Plant located on U.S. Highway 278 in Cullman. The UBWD awarded a bid in 2017 for the construction of a pipeline from the Duck River Reservoir to the Cullman Water Treatment Plant. The UBWD will receive bids for the construction of the Duck River Pumpstation in fiscal year 2018, which will pump the raw water from the Duck River Reservoir through the pipeline to the Cullman Treatment Plant. The construction of the Duck River Pumpstation is expected to be completed in fiscal year 2019.

In December 2015, contractors began allowing the Duck River Reservoir to fill behind the newly constructed Duck River Dam. On December 25, 2015, a flood caused the Duck River Reservoir to fill more rapidly than originally anticipated. In December 2015, the project engineer discovered excess seepage in the Duck River Dam. The Utilities Board has been in communication with the primary contractor, project engineer, and bonding agent in an effort to identify and resolve the issue of excess seepage in the Duck River Dam. While temporary improvements have been made, the excess seepage still exists, and significant repairs may be required to prevent and/or minimize the excess seepage to a point at which the dam can function as originally intended.

In June 2016, the Board received a claim from the primary contractor for increased cost of construction. As of September 30, 2017, the claim against the Board from the primary contractor exceeded \$4 million. The Board's management does not consider the Board to be at fault for damages related to the claim. On July 28, 2017, the Utilities Board – Water Division filed a complaint in the Circuit Court of Cullman County to recover various types of damages from the primary contractor, project engineer, and bonding agent. The Board intends to use the funds recovered through the complaint to resolve the excess seepage at the Duck River Dam. It is not possible at this time to predict or anticipate the outcome of these matters. The Board continues to maintain a builders' risk insurance policy on the Duck River Dam. At the present time, the Board cannot estimate the total cost to resolve the excess seepage at the Duck River Dam. The Board expects all claims will be combined into the litigation, which is now being transferred to the District Court of the Northern District of Alabama.

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

10. SPECIAL ITEM AND EXTRAORDINARY ITEM – CONTINUED

Extraordinary Item – Sewer Operation

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The City has evaluated events or changes in circumstances that may have affected the Sewer Fund's assets and has determined that impairment of a capital asset did occur in one circumstance. In December 2015, the Sewer Fund's UV Light Treatment System was damaged beyond repair due to flooding at the wastewater treatment plant. The net book value of the asset was \$883,107 and the impairment loss was \$883,107. The loss from impairment has been reported in the year ended September 30, 2016, statement of revenues, expenses and changes in net position as an "extraordinary item impairment loss". The Sewer Fund intends to replace the UV Light Treatment System in the year ended September 30, 2017, and has received a grant from the Federal Emergency Management Agency (FEMA) in the amount of \$867,139, with a matching grant from the State of Alabama in the amount of \$144,523, to assist with the replacement.

11. PENSION PLAN

Plan Description

The Employees' Retirement System of Alabama (ERS), an agent multiple-employer plan, was established on October 1, 1945, under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, state police, and, on an elective basis, to all cities, counties, towns and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

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. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

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

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status, and eligibility for retirement.

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

11. PENSION PLAN – CONTINUED

The ERS serves approximately 875 local participating employers. These participating employers include 294 cities, 65 counties, and 515 other public entities. The ERS membership included approximately 94,890 participants as of September 30, 2016. As of September 30, 2016, the membership for ERS, the City of Cullman, and its blended component unit, the Utilities Board – Water Division of the City of Cullman as a whole consisted of the following:

	ERS' Membership	City's Membership	UBWD's Membership
Retirees and beneficiaries currently receiving benefits	23,242	130	-
Vested inactive members	7,809	3	-
Non-vested inactive members	8,546	12	-
Active members	55,058	338	14
Post-DROP participants still in active service	235	9	-
	<u>94,890</u>	<u>492</u>	<u>14</u>

Contributions

Effective October 1, 2012, covered members of the ERS are required by statute to contribute 5% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 6% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members contribute 6% of earnable compensation to the ERS, whereas Tier 2 certified law enforcement, correctional officers, and firefighters contribute 7% of earnable compensation. 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 ERS. For the year ended September 30, 2017, the active employee contribution rate for the City and its blended component unit, the Utilities Board – Water Division of the City of Cullman, was as follows:

Employer	Tier 1	Tier 2
City of Cullman	10.41%	7.83%
UBWD	11.27%	10.48%

For the year ended September 30, 2017, the average contribution rate for the City and its blended component unit, the UBWD, to fund the normal and accrued liability as a percent of covered employee payroll was as follows:

Employer	Average Contribution Rate
City of Cullman	9.87%
UBWD	10.28%

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

11. PENSION PLAN – CONTINUED

The contractually required contribution rates of pensionable pay for the City and its blended component unit, the UBWD, for the year ended September 30, 2017, were as follows:

Employer	Tier 1	Tier 2
City of Cullman	10.41%	8.67%
UBWD	11.27%	10.48%

These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and are 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 and its blended component unit, the UBWD, for the year ended September 30, 2017, were as follows:

Employer	Employer Contributions
City of Cullman	\$ 1,362,895
UBWD	99,191

Net Pension Liability

The net pension liability for the City and its blended component unit, the UBWD, for the year ended September 30, 2017, was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2015 rolled forward to September 30, 2016, using standard roll-forward techniques.

Actuarial Assumptions

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

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

*Net of pension plan investment expense

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

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

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

11. PENSION PLAN – CONTINUED

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

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.00%	4.40%
Domestic Large Cap Equity	32.00%	8.00%
Domestic Mid Cap Equity	9.00%	10.00%
Domestic Small Cap Equity	4.00%	11.00%
International Developed Equity	12.00%	9.50%
Emerging Market Equity	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
	<u>100.00%</u>	

* Includes assumed rate of inflation of 2.50%.

Discount rate

The discount rate used to measure the total pension liability was the long term rate of return, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Projected future benefit payments for all current plan members were projected for all years. 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, and a municipal bond rate was not used in determining the discount rate.

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

11. PENSION PLAN – CONTINUED

Changes in Net Pension Liability (Asset)

The changes in net pension liability (asset) for the City of Cullman are as follows:

	<u>Increase (Decrease)</u>		<u>Net Pension Liability (Asset) (a) - (b)</u>
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	
Balances at September 30, 2015	\$ 51,523,622	\$ 36,207,950	\$ 15,315,672
Changes for the year:			
Service cost	1,042,024	-	1,042,024
Interest	4,002,270	-	4,002,270
Changes of assumptions	2,133,269	-	2,133,269
Difference between expected and actual experience	(942,085)	-	(942,085)
Contributions – employer	-	1,425,482	(1,425,482)
Contributions – employee	-	771,618	(771,618)
Net investment income	-	3,649,303	(3,649,303)
Benefit payments, including refunds of employee contributions	(2,990,489)	(2,990,489)	-
Transfers among employers	43,967	43,967	-
	<u>3,288,956</u>	<u>2,899,881</u>	<u>389,075</u>
Balances at September 30, 2016	<u>\$ 54,812,578</u>	<u>\$ 39,107,831</u>	<u>\$ 15,704,747</u>

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

11. PENSION PLAN – CONTINUED

The changes in net pension liability for the Utilities Board – Water Division of the City of Cullman, a component unit of the City are as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2015	\$ 3,986,972	\$ 2,822,329	\$ 1,164,643
Changes for the year:			
Service cost	64,088	-	64,088
Interest	309,083	-	309,083
Changes of assumptions	64,642	-	64,642
Difference between expected and actual experience	(22,557)	-	(22,557)
Contributions – employer	-	99,191	(99,191)
Contributions – employee	-	47,046	(47,046)
Net investment income	-	283,132	(283,132)
Benefit payments, including refunds of employee contributions	(234,178)	(234,178)	-
	<u>181,078</u>	<u>195,191</u>	<u>(14,113)</u>
Balances at September 30, 2016	<u>\$ 4,168,050</u>	<u>\$ 3,017,520</u>	<u>\$ 1,150,530</u>

The total changes in net pension liability for the City of Cullman and the UBWD combined are as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at September 30, 2015	\$ 55,510,594	\$ 39,030,279	\$ 16,480,315
Changes for the year:			
Service cost	1,106,112	-	1,106,112
Interest	4,311,353	-	4,311,353
Changes of assumptions	2,197,911	-	2,197,911
Difference between expected and actual experience	(964,642)	-	(964,642)
Contributions – employer	-	1,524,673	(1,524,673)
Contributions – employee	-	818,664	(818,664)
Net investment income	-	3,932,435	(3,932,435)
Benefit payments, including refunds of employee contributions	(3,224,667)	(3,224,667)	-
Transfers among employers	43,967	43,967	-
	<u>3,470,034</u>	<u>3,095,072</u>	<u>374,962</u>
Balances at September 30, 2016	<u>\$ 58,980,628</u>	<u>\$ 42,125,351</u>	<u>\$ 16,855,277</u>

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

11. PENSION PLAN – CONTINUED

The Cullman Regional Airport Board (Airport) is jointly owned by the City of Cullman, Alabama, and Cullman County, Alabama (See Note 8). However, all of the employees of the Airport are employees of the City of Cullman. Only 50 percent of the Airport's net pension liability has been reflected in the financial statements due to the fact that the other 50 percent is expected to be paid by Cullman County, Alabama through the joint venture.

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

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

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
City of Cullman	\$ 21,683,779	\$ 15,704,747	\$ 10,662,235
UBWD	1,569,310	1,150,530	779,218
	\$ 23,253,089	\$ 16,855,277	\$ 11,441,453

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

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

11. PENSION PLAN – CONTINUED

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

For the year ended September 30, 2017, the City recognized pension expense of \$1,107,849, and the UBWD recognized pension expense of \$61,212, which is a combined total pension expense of \$1,169,061. Other than the deferred outflows resulting from contributions subsequent to the measurement date, at September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows	Deferred Inflows
Net difference between projected and actual earnings on plan investments:		
City of Cullman	\$ 327,526	\$ -
UBWD	84,324	-
Net difference between projected and actual experience:		
City of Cullman	-	1,034,548
UBWD	-	23,112
Changes of assumptions:		
City of Cullman	1,814,871	-
UBWD	-	-
Employer contributions subsequent to the measurement date:		
City of Cullman	1,362,894	-
UBWD	96,950	-
Less 50% for Cullman Regional Airport Board to be paid by Cullman County	(16,401)	(4,819)
	\$ 3,670,164	\$ 1,052,841

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

11. PENSION PLAN – CONTINUED

Other than deferred outflows resulting from contributions subsequent to the measurement date, amounts reported as deferred outflows of resources and deferred inflows or resources related to pensions will be recognized in pension expense as follows:

	<u>City of Cullman</u>	<u>UBDW</u>	<u>Airport Board</u>	<u>Total</u>
2018	\$ 200,093	\$ 11,571	\$ 718	\$ 212,382
2019	200,095	11,571	718	212,384
2020	458,317	36,500	1,643	496,460
2021	(31,711)	(6,018)	(114)	(37,843)
2022	156,599	6,899	561	164,059
Thereafter	104,083	689	446	105,218
	<u>\$ 1,107,849</u>	<u>\$ 61,212</u>	<u>\$ 3,972</u>	<u>\$ 1,152,660</u>

12. CONCENTRATIONS OF CREDIT RISK

The City grants unsecured credit for water, sewer, and sanitation charges to various customers who are generally located within Cullman County, Alabama. The unsecured credit amount would be an amount in excess of security deposit and the customer would be subject to discontinuance of service for nonpayment. The City sells water to wholesale customers and of these customers, Cullman County is considered a major customer.

13. TAX ABATEMENTS

As of September 30, 2017, the City provides tax abatements based on two Alabama statutes: the Alabama Tax Incentive Reform Act of 1992 and Amendment 772.

- Under the Alabama Tax Incentive Reform Act of 1992, localities may grant property tax abatements for non-educational city property taxes up to 20 years. Data processing centers may be abated for up to 30 years. The qualifying project must constitute an "industrial, warehousing, or research activity" and meet the capital investment requirements. There is no threshold or limiting investment amount for a new abatement project with the exception of projects owned by utilities producing electricity. Projects owned by utilities which produce electricity from alternative energy resources must have capital costs of at least \$100,000,000. Projects which produce electricity from hydropower production must have capital costs of at least \$5,000,000. The additional capital investment by an industry that is expanding their current facilities in Alabama must be at least 30% of the original cost of the currently existing industrial property or \$2,000,000. Abatements are obtained through application by the property owner and submitted to the local granting authority which the property owner is petitioning for abatement of taxes.
- Under Amendment 772, localities may lend their credit to or grant public funds and things of value in aid of, or to, any individual, firm, corporation, or other business entity, public or private, for the purpose of promoting the economic and industrial development of the municipality. Tax abatements entered into under Amendment 772 are individually negotiated.

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

13. TAX ABATEMENTS – CONTINUED

<u>Tax Abatement</u>	<u>Amount of Taxes Abated</u>
Alabama Tax Incentive Reform Act of 1992 Amendment 772	\$ 220,372
Property Tax	16,030
Sales Tax	378,953

14. RISK MANAGEMENT

The City is exposed to various risks such as losses related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees and other people, and natural disasters. These risks are handled through the purchase of commercial insurance.

15. RELATED PARTIES

The City appoints the directors of the Cullman Power Board (Board). The Board handles the revenue billing and collections for the water, sewer, and sanitation departments of the City. At September 30, 2017, the balance sheet item "Due from other governmental units" includes collections to be received from the Board in the amounts of \$664,808 (Water System), \$693,026 (Sewer System), and \$238,907 (General Fund).

16. POSTEMPLOYMENT BENEFITS

The Utilities Board – Water Division of the City of Cullman, Alabama currently offers any employee retiring with at least 25 years of service, or having reached the age of 60, the option to maintain health insurance after they retire (including subsidized beneficial coverage) until they reach age 65. The retired employee must pay the full amount of the monthly insurance coverage, with the employer paying for any subsidization of that retiree's cost. The number of participants as of July 1, 2014, the effective date of the OPEB valuation, was 14 active employees and no retired employees. There have been no significant changes in the number covered or the type of coverage since that date.

The Utilities Board of the City of Cullman – Power Division (Cullman Power Board) is administering the other postemployment benefits (OPEB).

Currently, the Utilities Board – Water Division of the City of Cullman, Alabama is expensing the health insurance benefits on a pay-as-you-go basis (when premiums and claims are due). The actuarial accrued liability as of July 1, 2016, the most recent measurement date, was \$33,649, and the annual required contribution for the year ended June 30, 2017, was \$3,806. Based on the materiality of the plan, additional disclosure information was not considered necessary.

17. LEASES

The Cullman Regional Airport Board (Airport) leases corporate hangars, T-Hangars, and maintenance hangars under operating leases varying from \$20 to \$2,400 per month. The hangar rental revenue was \$99,286 for the year ended September 30, 2017.

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

17. LEASES – CONTINUED

Minimum future rentals on noncancelable operating leases with original terms of one year or longer are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 20,582
2019	19,394
2020	17,481
2021	15,941
2022	14,400
2023-2027	72,000
2028-2032	72,000
2033-2034	24,000

18. ENVIRONMENTAL REMEDIATION

Greif Brothers Property – Brownfield Remediation

During the year ended September 30, 2009, the City purchased the Greif Brothers property. The property was designated approximately four years ago as a pollution remediation site when the site was accepted in the Alabama Department of Environmental Management Voluntary Cleanup and Assessment Program. The City became a responsible party at the time the property was purchased. The property is a Brownfield Remediation site as recognized by the Alabama Department of Environmental Management and the U.S. Environmental Protection Agency. The City originally estimated the cost of site assessment, the corrective measures feasibility study, and site cleanup to be approximately \$640,000, with an additional \$400,000 for monitoring of groundwater after the site cleanup is finished and for additional work on other minor areas on the property. The estimated costs were determined by Goodwyn, Mills & Cawood, Inc. based on quotes and their knowledge of similar cleanups. The estimated costs are subject to change due to price changes, technology changes, or other changes. The pollution remediation estimated costs do not reflect any recovery of outlays because the City does not anticipate that it will be able to recover remediation costs from other parties.

The property has been split into two parcels – Parcel A and Parcel B. Parcel A consists of approximately 95 percent of the property and Parcel B is the remaining 5 percent. The City has paid the permitting fees for the release of Parcel A from further remediation. The environmental remediation of Parcel B has been put on hold pending the City deciding to build on the property.

19. COMMITMENTS AND CONTINGENCIES

Water System – The Utilities Board of the City of Cullman – Water Division, a Component Unit of the City

In August 2017, the UBWD awarded the bid for Duck River Reservoir Phase III Raw Water Transmission Pipeline to the lowest responsible bidder, Garner Companies, Inc. in the amount of \$9,082,862. As of September 30, 2017, the UBWD had incurred expenses of \$96,188 on this contract.

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

20. SUBSEQUENT EVENTS

The City has evaluated events and transactions that occurred between September 30, 2017, and March 26, 2018, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Water System – The Utilities Board of the City of Cullman – Water Division, a Component Unit of the City
In October 2017, the UBWD issued Water Revenue Bond Series 2017-DWSRF-DL in the amount of \$24,190,000 for the Duck River Pipeline, Duck River Pump Station, and improvements at the Cullman Water Treatment Plant.

In December 2017, the UBWD awarded the bid for improvements to the Cullman Water Treatment Plant to the lowest responsible bidder, Mark Johnson Construction, LLC, in the amount of \$8,177,000.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF CULLMAN, ALABAMA
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	For the Year Ended September 30, 2016		
	City of Cullman	UBWD	Total
TOTAL PENSION LIABILITY			
Service Cost	\$ 1,042,024	\$ 64,088	\$ 1,106,112
Interest	4,002,270	309,083	4,311,353
Differences between expected and actual experience	(942,085)	(22,557)	(964,642)
Changes of assumptions	2,133,269	64,642	2,197,911
Benefit payments, including refunds of employee contributions	(2,990,489)	(234,178)	(3,224,667)
Transfers among employers	43,967	-	43,967
Net change in total pension liability	3,288,956	181,078	3,470,034
Total pension liability – beginning	51,523,622	3,986,972	55,510,594
Total pension liability – ending (a)	<u>\$ 54,812,578</u>	<u>\$ 4,168,050</u>	<u>\$ 58,980,628</u>
PLAN FIDUCIARY NET POSITION			
Contributions – employer	\$ 1,425,482	\$ 99,191	\$ 1,524,673
Contributions – member	771,618	47,046	818,664
Net investment income	3,649,303	283,132	3,932,435
Benefit payments, including refunds of employee contributions	(2,990,489)	(234,178)	(3,224,667)
Transfers among employers	43,967	-	43,967
Net change in plan fiduciary net position	2,899,881	195,191	3,095,072
Plan net position – beginning	36,207,950	2,822,329	39,030,279
Plan net position – ending (b)	<u>39,107,831</u>	<u>3,017,520</u>	<u>42,125,351</u>
NET POSITION LIABILITY (a) - (b)	<u>\$ 15,704,747</u>	<u>\$ 1,150,530</u>	<u>\$ 16,855,277</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION PENSION LIABILITY	71.35%	72.40%	71.42%
COVERED EMPLOYEE PAYROLL	\$ 13,584,634	\$ 964,894	\$ 14,549,528
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	115.61%	119.24%	115.85%

See notes to the required supplementary information.

CITY OF CULLMAN, ALABAMA
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
FOR THE YEAR ENDED SEPTEMBER 30, 2017

For the Year Ended September 30, 2015			For the Year Ended September 30, 2014		
City of Cullman	UBWD	Total	City of Cullman	UBWD	Total
\$ 1,037,206	\$ 64,359	\$ 1,101,565	\$ 1,043,085	\$ 61,056	\$ 1,104,141
3,852,199	306,052	4,158,251	3,654,242	283,382	3,937,624
(339,015)	(6,497)	(345,512)	-	-	-
-	-	-	-	-	-
(2,358,467)	(161,036)	(2,519,503)	(2,087,310)	(205,239)	(2,292,549)
-	-	-	-	-	-
2,191,923	202,878	2,394,801	2,610,017	139,199	2,749,216
49,331,699	3,784,094	53,115,793	46,721,682	3,644,895	50,366,577
<u>\$ 51,523,622</u>	<u>\$ 3,986,972</u>	<u>\$ 55,510,594</u>	<u>\$ 49,331,699</u>	<u>\$ 3,784,094</u>	<u>\$ 53,115,793</u>
\$ 1,368,019	\$ 106,966	\$ 1,474,985	\$ 1,354,385	\$ 103,686	\$ 1,458,071
709,731	44,367	754,098	692,335	43,059	735,394
426,614	34,236	460,850	3,874,230	302,926	4,177,156
(2,358,467)	(161,036)	(2,519,503)	(2,087,310)	(205,239)	(2,292,549)
(75,385)	-	(75,385)	(11,050)	-	(11,050)
70,512	24,533	95,045	3,822,590	244,432	4,067,022
36,137,438	2,797,796	38,935,234	32,314,848	2,553,364	34,868,212
36,207,950	2,822,329	39,030,279	36,137,438	2,797,796	38,935,234
<u>\$ 15,315,672</u>	<u>\$ 1,164,643</u>	<u>\$ 16,480,315</u>	<u>\$ 13,194,261</u>	<u>\$ 986,298</u>	<u>\$ 14,180,559</u>
70.27%	70.79%	70.31%	73.25%	73.94%	73.30%
\$ 13,037,020	\$ 887,076	\$ 13,924,096	\$ 12,819,139	\$ 861,185	\$ 13,680,324
117.48%	131.29%	118.36%	102.93%	114.53%	103.66%

See notes to the required supplementary information.

**CITY OF CULLMAN, ALABAMA
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	For the Year Ended September 30, 2017			For the Year Ended September 30, 2016		
	City of Cullman	UBWD	Total	City of Cullman	UBWD	Total
Actuarially determined contribution	\$ 1,362,894	\$ 96,950	\$ 1,459,844	\$ 1,425,482	\$ 100,199	\$ 1,525,681
Contributions in relation to the actuarially determined contribution *	1,362,894	96,950	1,459,844	1,425,482	100,199	1,525,681
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 14,398,257	\$ 1,039,287	\$ 15,437,544	\$ 13,728,218	\$ 888,119	\$ 14,616,337
Contributions as a percentage of covered-employee payroll	9.47%	9.33%	9.46%	10.38%	11.28%	10.44%

See notes to the required supplementary information.

CITY OF CULLMAN, ALABAMA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Taxes	\$ 20,778,004	\$ 20,778,004	\$ 21,472,810	\$ 694,806
Licenses and permits	3,286,200	3,286,200	3,488,853	202,653
Intergovernmental revenues	2,772,000	2,772,000	2,350,992	(421,008)
Charges for services	4,833,700	4,833,700	5,239,435	405,735
Fines and forfeits	162,500	162,500	174,412	11,912
Miscellaneous revenues	218,100	218,100	148,979	(69,121)
	<u>32,050,504</u>	<u>32,050,504</u>	<u>32,875,481</u>	<u>824,977</u>
EXPENDITURES				
Current expenditures:				
General government	5,375,500	5,461,869	4,789,756	672,113
Public safety	10,639,080	10,682,814	10,390,846	291,968
Highways and streets	2,503,450	2,395,907	2,127,536	268,371
Sanitation	4,530,500	4,353,175	4,261,190	91,985
Health and social services	955,504	955,504	939,275	16,229
Culture and recreation	317,800	317,800	333,803	(16,003)
Education	154,500	154,500	145,980	8,520
Conservation	50,450	50,450	55,130	(4,680)
Capital outlay	2,446,400	4,981,043	4,976,784	4,259
Debt service	107,610	107,610	92,756	14,854
	<u>27,080,794</u>	<u>29,460,672</u>	<u>28,113,056</u>	<u>1,347,616</u>
REVENUES OVER EXPENSES	4,969,710	2,589,832	4,762,425	2,172,593
OTHER FINANCING SOURCES (USES)				
Capital contributions	-	-	7,431	7,431
Sale of assets	53,000	53,000	82,750	29,750
Insurance proceeds	-	-	14,148	14,148
Operating transfers in	100,000	100,000	-	(100,000)
Operating transfers out	(5,761,050)	(10,761,050)	(8,967,370)	1,793,680
	<u>(5,608,050)</u>	<u>(10,608,050)</u>	<u>(8,863,041)</u>	<u>1,745,009</u>
NET CHANGES IN FUND BALANCES	(638,340)	(8,018,218)	(4,100,616)	3,917,602
FUND BALANCE AT BEGINNING OF YEAR	<u>25,987,099</u>	<u>25,987,099</u>	<u>25,987,099</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 25,348,759</u>	<u>\$ 17,968,881</u>	<u>\$ 21,886,483</u>	<u>\$ 3,917,602</u>

See notes to the required supplementary information.

CITY OF CULLMAN, ALABAMA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL – SCHOOL TAX FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes	\$ 6,677,000	\$ 6,677,000	\$ 7,016,645	\$ 339,645
EXPENDITURES				
Current expenditures:				
Education	6,677,000	6,677,000	7,005,366	(328,366)
NET CHANGES IN FUND BALANCES	-	-	11,279	11,279
FUND BALANCE AT BEGINNING OF YEAR	(265,895)	(265,895)	(265,895)	-
FUND BALANCE AT END OF YEAR	<u>\$ (265,895)</u>	<u>\$ (265,895)</u>	<u>\$ (254,616)</u>	<u>\$ 11,279</u>

See notes to the required supplementary information.

CITY OF CULLMAN, ALABAMA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2017

BUDGETARY DATA

Budget Policy and Practice

The City Department Managers submit annual budget requests to the City Council which adopts annual fiscal year appropriated budgets for General and Special Revenue Funds. Once approved, the City Council may amend the legally adopted budgets when unexpected modifications are required in estimated revenues and appropriations.

Budget

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by function. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the City Council. Within these control levels, management may transfer appropriations without Council approval. Revisions to the budget were made throughout the year.

SUPPLEMENTARY INFORMATION

CITY OF CULLMAN, ALABAMA
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	Special Revenue	Capital Projects	Permanent Fund – Roy Ingle	Total Nonmajor Governmental Funds
ASSETS				
Cash equivalents	\$ 1,238,403	\$ 143,377	\$ 15,399	\$ 1,397,179
Certificates of deposit	-	-	100,908	100,908
Interest receivable	-	-	4	4
Interfund receivables	4,718	-	-	4,718
Due from other governmental units	39,296	1,469,875	-	1,509,171
TOTAL ASSETS	\$ 1,282,417	\$ 1,613,252	\$ 116,311	\$ 3,011,980
LIABILITIES				
Accounts payable	\$ -	\$ 1,087,968	\$ -	\$ 1,087,968
Total liabilities	-	1,087,968	-	1,087,968
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	15,787	-	-	15,787
Total deferred inflows of resources	15,787	-	-	15,787
FUND BALANCES				
Nonspendable:				
Permanent fund principal	-	-	100,959	100,959
Restricted for:				
Realty improvements and Ingle Park	-	-	15,352	15,352
Highways and streets	517,627	-	-	517,627
Capital improvements	154,006	-	-	154,006
Jail, correction, and court facilities	273,493	-	-	273,493
Municipal Court	152,883	-	-	152,883
Industrial development and recreation	168,621	-	-	168,621
Assigned for:				
Capital projects	-	525,284	-	525,284
Total fund balances	1,266,630	525,284	116,311	1,908,225
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,282,417	\$ 1,613,252	\$ 116,311	\$ 3,011,980

See independent auditors' report.

**CITY OF CULLMAN, ALABAMA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Special Revenue	Capital Projects	Permanent Fund – Roy Ingle	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 12,500	\$ -	\$ -	\$ 12,500
Intergovernmental revenues	401,004	479,115	-	880,119
Fines and forfeits	59,911	-	-	59,911
Interest revenue	523	187	51	761
Total revenues	<u>473,938</u>	<u>479,302</u>	<u>51</u>	<u>953,291</u>
EXPENDITURES				
Current expenditures:				
General government	354	531,115	-	531,469
Highways and streets	355,521	-	-	355,521
Capital outlay	35,145	7,076,984	-	7,112,129
Debt service	-	100,000	-	100,000
Total expenditures	<u>391,020</u>	<u>7,708,099</u>	<u>-</u>	<u>8,099,119</u>
REVENUES OVER EXPENDITURES	82,918	(7,228,797)	51	(7,145,828)
OTHER FINANCING SOURCES (USES)				
Capital contributions	-	407,218	-	407,218
Operating transfers in	-	6,463,896	-	6,463,896
Operating transfers out	(228,000)	-	-	(228,000)
Total other financing sources (uses)	<u>(228,000)</u>	<u>6,871,114</u>	<u>-</u>	<u>6,643,114</u>
EXPENDITURES AND OTHER USES OVER REVENUES AND OTHER SOURCES	(145,082)	(357,683)	51	(502,714)
FUND BALANCE AT BEGINNING OF YEAR	<u>1,411,712</u>	<u>882,967</u>	<u>116,260</u>	<u>2,410,939</u>
FUND BALANCE AT END OF YEAR	<u>\$ 1,266,630</u>	<u>\$ 525,284</u>	<u>\$ 116,311</u>	<u>\$ 1,908,225</u>

See independent auditors' report.

CITY OF CULLMAN, ALABAMA
COMBINING BALANCE SHEET – SPECIAL REVENUE FUNDS – NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	Four Cent Gasoline Tax	Seven Cent Gasoline Tax	Capital Improvement Fund	Industrial Purpose	Corrections and Court Fund	Court Judicial Admin Fund	Total
ASSETS							
Cash equivalents	\$ 137,500	\$ 356,618	\$ 154,006	\$ 168,621	\$ 271,392	\$ 150,266	\$ 1,238,403
Interfund receivables	-	-	-	-	2,101	2,617	4,718
Due from other governmental units	17,238	22,058	-	-	-	-	39,296
TOTAL ASSETS	\$ 154,738	\$ 378,676	\$ 154,006	\$ 168,621	\$ 273,493	\$ 152,883	\$ 1,282,417
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	\$ 7,854	\$ 7,933	-	-	-	-	\$ 15,787
Total deferred inflows of resources	7,854	7,933	-	-	-	-	15,787
FUND BALANCES							
Restricted for:							
Highways and streets	146,884	370,743	-	-	-	-	517,627
Capital improvements	-	-	154,006	-	-	-	154,006
Jail, correction, and court facilities	-	-	-	-	273,493	-	273,493
Municipal Court	-	-	-	-	-	152,883	152,883
Industrial development and recreation	-	-	-	168,621	-	-	168,621
Total fund balances	146,884	370,743	154,006	168,621	273,493	152,883	1,266,630
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 154,738	\$ 378,676	\$ 154,006	\$ 168,621	\$ 273,493	\$ 152,883	\$ 1,282,417

See independent auditors' report.

CITY OF CULLMAN, ALABAMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – SPECIAL REVENUE
FUNDS – NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Four Cent Gasoline Tax	Seven Cent Gasoline Tax	Capital Improvement Fund	Industrial Purpose	Corrections and Court Fund	Court Judicial Admin Fund	Total
REVENUES							
Taxes	\$ -	\$ -	\$ -	\$ 12,500	\$ -	\$ -	\$ 12,500
Intergovernmental revenues	102,975	170,587	127,442	-	-	-	401,004
Fines and forfeits	-	-	-	-	28,464	31,447	59,911
Interest revenue	-	293	230	-	-	-	523
Total revenues	102,975	170,880	127,672	12,500	28,464	31,447	473,938
EXPENDITURES							
Current expenditures:							
General government	-	-	-	-	-	354	354
Highways and streets	-	355,521	-	-	-	-	355,521
Capital outlay	-	-	-	-	35,145	-	35,145
Total expenditures	-	355,521	-	-	35,145	354	391,020
REVENUES OVER EXPENDITURES	102,975	(184,641)	127,672	12,500	(6,681)	31,093	82,918
OTHER FINANCING USES							
Operating transfers out	-	-	(228,000)	-	-	-	(228,000)
Total other financing sources (uses)	-	-	(228,000)	-	-	-	(228,000)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER USES	102,975	(184,641)	(100,328)	12,500	(6,681)	31,093	(145,082)
FUND BALANCE AT BEGINNING OF YEAR	43,909	555,384	254,334	156,121	280,174	121,790	1,411,712
FUND BALANCE AT END OF YEAR	\$ 146,884	\$ 370,743	\$ 154,006	\$ 168,621	\$ 273,493	\$ 152,883	\$ 1,266,630

See independent auditors' report.

**CITY OF CULLMAN, ALABAMA
 COMBINING BALANCE SHEET – CAPITAL PROJECT FUNDS – NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2017**

	Industrial Park	Industrial Access Road	Parks and Recreation Construction	Transportation Enhancement	Downtown Redevelopment	Building Construction	Brunner Street	Total
ASSETS								
Cash equivalents	\$ 10,168	\$ 10,772	\$ 16,300	\$ 3,134	\$ 57,505	\$ 36,429	\$ 9,069	\$ 143,377
Due from other governmental units	885,443	-	-	407,218	177,214	-	-	1,469,875
TOTAL ASSETS	\$ 895,611	\$ 10,772	\$ 16,300	\$ 410,352	\$ 234,719	\$ 36,429	\$ 9,069	\$ 1,613,252
LIABILITIES								
Accounts payable	\$ 306,466	\$ -	\$ -	\$ 36,780	\$ 23,042	\$ 721,680	\$ -	\$ 1,087,968
Total liabilities	306,466	-	-	36,780	23,042	721,680	-	1,087,968
FUND BALANCES								
Assigned for:								
Capital projects	589,145	10,772	16,300	373,572	211,677	(685,251)	9,069	525,284
Total fund balances	589,145	10,772	16,300	373,572	211,677	(685,251)	9,069	525,284
TOTAL LIABILITIES AND FUND BALANCES	\$ 895,611	\$ 10,772	\$ 16,300	\$ 410,352	\$ 234,719	\$ 36,429	\$ 9,069	\$ 1,613,252

See independent auditors' report.

CITY OF CULLMAN, ALABAMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – CAPITAL PROJECT FUNDS – NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Industrial Park	Industrial Access Road	Parks and Recreation Construction	Transportation Enhancement	Downtown Redevelopment	Building Construction	Brunner Street	Total
REVENUES								
Intergovernmental	\$ 100,000	\$ -	\$ -	\$ -	\$ 379,115	\$ -	\$ -	\$ 479,115
Interest revenue	-	-	38	-	149	-	-	187
Total revenues	100,000	-	38	-	379,264	-	-	479,302
EXPENDITURES								
Current expenditures:								
General government	531,115	-	-	-	-	-	-	531,115
Capital outlay	489,592	-	-	716,090	724,806	5,146,496	-	7,076,984
Debt service	100,000	-	-	-	-	-	-	100,000
Total expenditures	1,120,707	-	-	716,090	724,806	5,146,496	-	7,708,099
REVENUES OVER (UNDER) EXPENDITURES	(1,020,707)	-	38	(716,090)	(345,542)	(5,146,496)	-	(7,228,797)
OTHER FINANCING USES								
Capital contributions				407,218				407,218
Operating transfers in	1,170,000	-	-	678,000	160,000	4,455,896	-	6,463,896
Total other financing sources (uses)	1,170,000	-	-	1,085,218	160,000	4,455,896	-	6,871,114
EXPENDITURES AND OTHER USES OVER REVENUES	149,293	-	38	369,128	(185,542)	(690,600)	-	(357,683)
FUND BALANCE AT BEGINNING OF YEAR	439,852	10,772	16,262	4,444	397,219	5,349	9,069	882,967
FUND BALANCE AT END OF YEAR	\$ 589,145	\$ 10,772	\$ 16,300	\$ 373,572	\$ 211,677	\$ (685,251)	\$ 9,069	\$ 525,284

See independent auditors' report.

CITY OF CULLMAN, ALABAMA
COMBINING BALANCE SHEET – WATER SYSTEM (PROPRIETARY FUND)
SEPTEMBER 30, 2017

	Water Department	Utilities Board – Water Division	Eliminations	Total
CURRENT ASSETS				
Cash equivalents	\$ 13,411,408	\$ 909,561	\$ -	\$ 14,320,969
Certificates of deposit	404,022	-	-	404,022
Interest receivable	230	-	-	230
Accounts receivable:				
City of Cullman	-	205,477	(107,557)	97,920
Other	725,390	66	-	725,456
Interfund receivables	21,834	-	-	21,834
Due from other governmental units:				
Cullman Power Board	664,808	-	-	664,808
Other	609,787	202,648	-	812,435
Inventories	338,998	-	-	338,998
Prepaid insurance	39,096	106,931	-	146,027
Prepaid utility tax	30,000	-	-	30,000
Total current assets	<u>16,245,573</u>	<u>1,424,683</u>	<u>(107,557)</u>	<u>17,562,699</u>
RESTRICTED ASSETS				
Cash equivalents	37,959	9,710,165	-	9,748,124
OPEB funds held by Cullman Power Board	<u>-</u>	<u>11,760</u>	<u>-</u>	<u>11,760</u>
Total restricted assets	<u>37,959</u>	<u>9,721,925</u>	<u>-</u>	<u>9,759,884</u>
CAPITAL ASSETS				
Land and other assets not being depreciated	251,745	11,653,725	-	11,905,470
Construction in progress	2,908,775	102,844,357	-	105,753,132
Buildings, improvements, and equipment, net of depreciation	<u>21,156,489</u>	<u>9,555,733</u>	<u>-</u>	<u>30,712,222</u>
Total capital assets	<u>24,317,009</u>	<u>124,053,815</u>	<u>-</u>	<u>148,370,824</u>
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on refunding	80,912	36,552	-	117,464
Deferred outflows of resources – pension	<u>163,864</u>	<u>181,274</u>	<u>-</u>	<u>345,138</u>
Total deferred outflows of resources	<u>244,776</u>	<u>217,826</u>	<u>-</u>	<u>462,602</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 40,845,317</u></u>	<u><u>\$ 135,418,249</u></u>	<u><u>\$ (107,557)</u></u>	<u><u>\$ 176,156,009</u></u>

See independent auditors' report.

CITY OF CULLMAN, ALABAMA
COMBINING BALANCE SHEET – WATER SYSTEM (PROPRIETARY FUND)
SEPTEMBER 30, 2017

	Water Department	Utilities Board – Water Division	Eliminations	Total
CURRENT LIABILITIES				
Accounts payable:				
Trade	\$ 618,237	\$ 317,643	\$ -	\$ 935,880
Contractors	73,951	-	-	73,951
Utility tax payable	37,098	-	-	37,098
Interfund payables	107,557	-	(107,557)	-
Due to other governmental units	13,856	195,520	-	209,376
Accrued payroll	28,960	37,140	-	66,100
Estimated compensated absences – current portion	22,515	57,616	-	80,131
Total current liabilities	902,174	607,919	(107,557)	1,402,536
LIABILITIES PAYABLE FROM RESTRICTED ASSETS				
Accounts payable:				
Contractors	-	128,259	-	128,259
Accrued interest payable	2,688	350,215	-	352,903
Other postemployment benefits	-	6,559	-	6,559
Current maturities on warrants/bonds payable	672,495	1,975,000	-	2,647,495
Total liabilities payable from restricted assets	675,183	2,460,033	-	3,135,216
NONCURRENT LIABILITIES				
Warrants/bonds payable	4,553,386	98,850,000	-	103,403,386
Unamortized debt discount	-	(578,200)	-	(578,200)
Unamortized debt premium	-	143,535	-	143,535
Net pension liability	725,697	1,150,531	-	1,876,228
Estimated compensated absences	61,169	278,924	-	340,093
Total noncurrent liabilities	5,340,252	99,844,790	-	105,185,042
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources – pension	46,218	23,112	-	69,330
Total deferred inflows of resources	46,218	23,112	-	69,330
NET POSITION				
Net invested in capital assets	19,088,440	27,525,414	-	46,613,854
Restricted for capital activity and debt service	37,959	5,406,309	-	5,444,268
Unrestricted	14,755,091	(449,328)	-	14,305,763
Total net position	33,881,490	32,482,395	-	66,363,885
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
	<u>\$ 40,845,317</u>	<u>\$ 135,418,249</u>	<u>\$ (107,557)</u>	<u>\$ 176,156,009</u>

See independent auditors' report.

CITY OF CULLMAN, ALABAMA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION – WATER SYSTEM (PROPRIETARY FUND)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Water Department	Utilities Board – Water Division	Eliminations	Total
REVENUES				
Charges for sales and services	\$ 15,035,583	\$ 9,963,144	\$ (9,963,144)	\$ 15,035,583
Forfeited discounts and penalties	37,277	-	-	37,277
Charges for service connections	109,824	-	-	109,824
Service charges	70,375	-	-	70,375
Miscellaneous revenues	179,051	1,110	-	180,161
Total revenues	<u>15,432,110</u>	<u>9,964,254</u>	<u>(9,963,144)</u>	<u>15,433,220</u>
OPERATING EXPENSES				
Cost of water purchased	9,963,144	-	(9,963,144)	-
Salaries and wages	696,045	1,039,287	-	1,735,332
Payroll taxes	56,108	75,212	-	131,320
Employees retirement	74,419	120,453	-	194,872
Employees life and health insurance	145,884	9,768	-	155,652
Employees hospital insurance	-	233,897	-	233,897
Telephone	11,125	17,648	-	28,773
Utilities	31,833	874,582	-	906,415
Billing, accounting, and collection fees	200,662	-	-	200,662
Office supplies and expense	5,905	31,216	-	37,121
Professional services	12,275	18,760	-	31,035
Engineering services	99,750	-	-	99,750
Other contracted services	19,916	82,301	-	102,217
Testing fees	24,158	11,523	-	35,681
Travel and training	1,340	17,871	-	19,211
Dues and subscriptions	1,350	1,314	-	2,664
Automotive repairs and maintenance	-	9,892	-	9,892
Automotive gasoline and oil	70,037	15,112	-	85,149
Uniforms	6,433	6,900	-	13,333
Small tools and equipment	21,579	10,741	-	32,320
General maintenance	-	5,843	-	5,843
Insurance	61,114	87,029	-	148,143
Lab supplies	-	14,901	-	14,901
Chemicals and other supplies	2,826	678,584	-	681,410
Equipment rental	20,298	-	-	20,298
Miscellaneous	15,221	41,696	-	56,917
Repairs and maintenance – system	625,319	-	-	625,319
Repairs and maintenance – structures	-	48,834	-	48,834
Repairs and maintenance – machinery	-	141,958	-	141,958
Repairs and maintenance – other equipment	-	9,255	-	9,255
Director's fees and expenses	-	31,500	-	31,500
Depreciation expense	1,008,571	369,717	-	1,378,288
Total operating expenses	<u>13,175,312</u>	<u>4,005,794</u>	<u>(9,963,144)</u>	<u>7,217,962</u>

See independent auditors' report.

CITY OF CULLMAN, ALABAMA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION – WATER SYSTEM (PROPRIETARY FUND)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Water Department	Utilities Board – Water Division	Eliminations	Total
OPERATING INCOME	\$ 2,256,798	\$ 5,958,460	\$ -	\$ 8,215,258
NON-OPERATING REVENUES AND EXPENSES				
Interest earned	21,953	36,863	-	58,816
Gain on sale of assets	-	45	-	45
Interest expense	(155,843)	(223,902)	-	(379,745)
Trustee fees	-	(8,170)	-	(8,170)
Total non-operating revenues and expenses	<u>(133,890)</u>	<u>(195,164)</u>	<u>-</u>	<u>(329,054)</u>
Change in net position before intergovernmental revenues and transfers	2,122,908	5,763,296	-	7,886,204
Intergovernmental revenues	-	96,609	-	96,609
Transfers out	(609,998)	-	-	(609,998)
	<u>(609,998)</u>	<u>96,609</u>	<u>-</u>	<u>(513,389)</u>
CHANGE IN NET POSITION	1,512,910	5,859,905	-	7,372,815
NET POSITION AT BEGINNING OF YEAR	<u>32,368,580</u>	<u>26,622,490</u>	<u>-</u>	<u>58,991,070</u>
NET POSITION AT END OF YEAR	<u><u>\$ 33,881,490</u></u>	<u><u>\$ 32,482,395</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 66,363,885</u></u>

See independent auditors' report.

CITY OF CULLMAN, ALABAMA
COMBINING STATEMENT OF CASH FLOWS – WATER SYSTEM (PROPRIETARY FUND)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Water Department	Utilities Board – Water Division	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 14,999,944	\$ 9,842,748	\$ (9,297,333)	\$ 15,545,359
Cash payments for purchased water	(9,297,333)	-	9,297,333	-
Cash payments for operating expenses	(1,205,388)	(2,461,186)	-	(3,666,574)
Cash payments to employees	(945,627)	(1,410,330)	-	(2,355,957)
Net cash provided by operating activities	3,551,596	5,971,232	-	9,522,828
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intergovernmental revenues	-	96,909	-	96,909
Transfers out	(609,998)	-	-	(609,998)
Net cash provided by (used in) noncapital financing activities	(609,998)	96,909	-	(513,089)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction – capital assets	(3,788,929)	(7,271,896)	-	(11,060,825)
Flood damage insurance proceeds	-	518,485	-	518,485
Flood damage payments	-	(518,485)	-	(518,485)
Interest paid	(137,152)	(193,562)	-	(330,714)
Trustee fees	-	(8,170)	-	(8,170)
Principal payments of long-term debt	(857,195)	(1,925,000)	-	(2,782,195)
Net cash used in capital and related financing activities	(4,783,276)	(9,398,628)	-	(14,181,904)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	21,953	36,653	-	58,606
Net cash provided by investing activities	21,953	36,653	-	58,606
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,819,725)	(3,293,834)	-	(5,113,559)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,269,092	13,913,560	-	29,182,652
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 13,449,367	\$ 10,619,726	\$ -	\$ 24,069,093
CASH AND CASH EQUIVALENTS CONSISTED OF THE FOLLOWING				
Cash equivalents – current assets	\$ 13,411,408	\$ 909,561	-	\$ 14,320,969
Cash equivalents – restricted assets	37,959	9,710,165	-	9,748,124
	\$ 13,449,367	\$ 10,619,726	\$ -	\$ 24,069,093

See independent auditors' report.

CITY OF CULLMAN, ALABAMA
COMBINING STATEMENT OF CASH FLOWS – WATER SYSTEM (PROPRIETARY FUND)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Water Department</u>	<u>Utilities Board – Water Division</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 2,256,798	\$ 5,958,460	\$ 8,215,258
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,008,571	369,717	1,378,288
Change in:			
Accounts receivable, net	48,792	(40,194)	8,598
Interfund receivables	(18,760)	-	(18,760)
Due from other governments	(483,629)	(73,109)	(556,738)
Inventories	36,046	-	36,046
Prepaid insurance	(10,289)	-	(10,289)
Deferred outflows of resources – pension	(49,038)	15,701	(33,337)
Accounts payable	642,069	(350,460)	291,609
Utility tax payable	(1,308)	-	(1,308)
Interfund payables	46,471	-	46,471
Due to other governments	7	46,136	46,143
Accrued payroll	5,270	8,533	13,803
Other postemployment benefits	-	1,004	1,004
Compensated absences	19,775	39,406	59,181
Net pension liability	17,382	(14,112)	3,270
Deferred inflows of resources – pension	33,439	17,755	51,194
Unearned revenue	-	(7,605)	(7,605)
Net cash provided by operating activities	<u>\$ 3,551,596</u>	<u>\$ 5,971,232</u>	<u>\$ 9,522,828</u>

See independent auditors' report.

**CITY OF CULLMAN, ALABAMA
SCHEDULE OF GENERAL OBLIGATION WARRANTS
SEPTEMBER 30, 2017**

General Obligation Warrant Series 2010 LRSRF-DL/ARRA			
<u>Due Date August 15</u>	<u>Interest Rate</u>	<u>Amount of Maturity</u>	<u>Amount of Interest</u>
2018	2.00	\$ 70,000	\$ 3,080
2019	2.00	70,000	1,540
		<u>\$ 140,000</u>	<u>\$ 4,620</u>

General Obligation Warrant Dated 9-29-10			
<u>Due Date September 1</u>	<u>Interest Rate</u>	<u>Amount of Maturity</u>	<u>Amount of Interest</u>
2018	2.96	\$ 160,000	\$ 14,948
2019	2.96	170,000	10,212
2020	2.96	175,000	5,180
		<u>\$ 505,000</u>	<u>\$ 30,340</u>

General Obligation Warrant Dated 10-25-11			
<u>Due Date December 31</u>	<u>Interest Rate</u>	<u>Amount of Maturity</u>	<u>Amount of Interest</u>
2018	2.95	\$ 88,944	\$ 11,056
2019	2.95	91,568	8,432
2020	2.95	94,269	5,731
2021	2.95	100,000	2,269
		<u>\$ 374,781</u>	<u>\$ 27,488</u>

NOTE: All principal debt shown on this schedule is recorded in the Governmental Activities.

See independent auditors' report.

**CITY OF CULLMAN, ALABAMA
SCHEDULE OF GENERAL OBLIGATION WARRANTS
SEPTEMBER 30, 2017**

Series 2016			
Due Date July 1	Interest Rate	Amount of Maturity	Amount of Interest
2018	3.00	\$ 625,000	\$ 774,900
2019	3.00	645,000	756,150
2020	5.00	670,000	723,900
2021	5.00	705,000	690,400
2022	5.00	745,000	655,150
2023	5.00	785,000	617,900
2024	5.00	820,000	578,650
2025	5.00	865,000	537,650
2026	5.00	905,000	494,400
2027	5.00	950,000	449,150
2028	5.00	1,000,000	401,650
2029	5.00	1,045,000	351,650
2030	5.00	1,100,000	299,400
2031	3.25	1,160,000	244,400
2032	3.25	1,190,000	206,700
2033	3.25	1,230,000	168,025
2034	3.25	1,270,000	128,050
2035	3.25	1,310,000	86,775
2036	3.25	1,360,000	44,200
		<u>\$ 18,380,000</u>	<u>\$ 8,209,100</u>

Computer Software Liability			
Due Date October 15	Interest Rate	Amount of Maturity	Amount of Interest
2018	6.00	<u>\$ 35,943</u>	<u>\$ 2,157</u>

NOTE: All principal debt shown on this schedule is recorded in the Governmental Activities.

See independent auditors' report.

**CITY OF CULLMAN, ALABAMA
SCHEDULE OF SEWER GENERAL OBLIGATION WARRANTS
SEPTEMBER 30, 2017**

Series 2013			
Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2018	1.72	\$ 1,333,333	\$ 68,758
2019	1.72	1,333,333	45,506
2020	1.72	1,333,334	22,318
2021	1.72	555,556	2,425
		\$ 4,555,556	\$ 139,007

General Obligation Sewer Warrant Series 2013-A			
Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2018	2.63	\$ 1,053,676	\$ 171,897
2019	2.63	1,178,777	158,211
2020	2.63	1,210,155	126,833
2021	2.63	1,242,369	94,619
2022	2.63	1,275,440	61,548
2023	2.63	1,309,391	27,597
2024	2.63	336,737	1,489
		\$ 7,606,545	\$ 642,194

NOTE: All principal debt shown on this schedule is recorded in the Sewer Fund (a Proprietary Fund).

See independent auditors' report.

**CITY OF CULLMAN, ALABAMA
SCHEDULE OF SEWER GENERAL OBLIGATION WARRANTS
SEPTEMBER 30, 2017**

Series 2015-CWSRF-DL			
Due Date February 15	Interest Rate	Amount of Maturity	Amount of Interest
2018	2.25	\$ 165,000	\$ 80,269
2019	2.25	170,000	76,500
2020	2.25	175,000	72,619
2021	2.25	175,000	68,681
2022	2.25	180,000	64,688
2023	2.25	185,000	60,581
2024	2.25	190,000	56,363
2025	2.25	195,000	52,031
2026	2.25	200,000	47,588
2027	2.25	205,000	43,031
2028	2.25	210,000	38,363
2029	2.25	215,000	33,581
2030	2.25	220,000	28,688
2031	2.25	220,000	23,738
2032	2.25	225,000	18,731
2033	2.25	235,000	13,556
2034	2.25	240,000	8,213
2035	2.25	245,000	2,754
		<u>\$ 3,650,000</u>	<u>\$ 789,975</u>

NOTE: All principal debt shown on this schedule is recorded in the Sewer Fund (a Proprietary Fund).

See independent auditors' report.

**CITY OF CULLMAN, ALABAMA
SCHEDULE OF SEWER GENERAL OBLIGATION WARRANTS
SEPTEMBER 30, 2017**

Series 2015B-CWSRF-DL			
Due Date August 15	Interest Rate	Amount of Maturity	Amount of Interest
2018	2.20	\$ 145,000	\$ 70,070
2019	2.20	150,000	66,880
2020	2.20	150,000	63,580
2021	2.20	155,000	60,280
2022	2.20	160,000	56,870
2023	2.20	165,000	53,350
2024	2.20	165,000	49,720
2025	2.20	170,000	46,090
2026	2.20	175,000	42,350
2027	2.20	180,000	38,500
2028	2.20	180,000	34,540
2029	2.20	185,000	30,580
2030	2.20	190,000	26,510
2031	2.20	195,000	22,330
2032	2.20	200,000	18,040
2033	2.20	205,000	13,640
2034	2.20	205,000	9,130
2035	2.20	210,000	4,620
		<u>\$ 3,185,000</u>	<u>\$ 707,080</u>

NOTE: All principal debt shown on this schedule is recorded in the Sewer Fund (a Proprietary Fund).

See independent auditors' report.

CITY OF CULLMAN, ALABAMA
SCHEDULE OF WATER WARRANT AND GENERAL OBLIGATION WARRANTS
SEPTEMBER 30, 2017

Series 2012-DWSRF-BL

Due Date August 15	Interest Rate	Amount of Maturity	Amount of Interest
2018	2.50	\$ 160,000	\$ 21,500
2019	2.50	165,000	17,500
2020	2.50	170,000	13,375
2021	2.50	180,000	9,125
2022	2.50	185,000	4,625
		<u>\$ 860,000</u>	<u>\$ 66,125</u>

General Obligation Refunding Warrant
Series 2012

Due Date October 1	Interest Rate	Amount of Maturity	Amount of Interest
2018	2.50	\$ -	\$ -
2019	2.50	160,000	13,284
2020	2.50	170,000	9,102
2021	2.50	180,000	4,674
2022	2.50	190,000	-
		<u>\$ 700,000</u>	<u>\$ 27,060</u>

General Obligation Water Warrant
Series 2013B

Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2018	2.30	\$ 512,495	\$ 71,396
2019	2.30	571,535	65,413
2020	2.30	584,820	52,103
2021	2.30	598,414	38,483
2022	2.30	612,323	24,547
2023	2.30	626,556	10,287
2024	2.30	159,738	306
		<u>\$ 3,665,881</u>	<u>\$ 262,535</u>

NOTE: All principal debt shown on this schedule is recorded in the Water Department (a Proprietary Fund).

See independent auditors' report.

**CITY OF CULLMAN, ALABAMA
SCHEDULE OF WATER REVENUE BONDS
SEPTEMBER 30, 2017**

Series 2011			
Due Date September 1	Interest Rate	Amount of Maturity	Amount of Interest
2018	5.00	\$ 1,135,000	\$ 2,521,888
2019	5.00	1,195,000	2,465,137
2020	3.13	1,255,000	2,405,387
2021	5.00	1,290,000	2,366,169
2022	5.00	1,355,000	2,301,669
2023	5.00	1,620,000	2,233,919
2024	4.00	1,700,000	2,152,919
2025	4.13	1,770,000	2,084,918
2026	5.00	1,840,000	2,011,906
2027	4.13	1,935,000	1,919,906
2028	4.25	2,010,000	1,840,087
2029	4.38	2,100,000	1,754,663
2030	4.5-5.00	2,190,000	1,662,787
2031	4.50	2,295,000	1,556,738
2032	4.75	2,400,000	1,453,462
2033	4.75	2,515,000	1,339,463
2034	4.75	2,630,000	1,220,000
2035	4.75	2,755,000	1,095,075
2036	4.75	2,890,000	964,213
2037	4.75	3,025,000	826,938
2038	5.00	3,170,000	683,250
2039	5.00	3,330,000	524,750
2040	5.00	3,495,000	358,250
2041	5.00	3,670,000	183,500
		<u>\$ 53,570,000</u>	<u>\$ 37,926,994</u>

NOTE: All principal debt shown on this schedule is recorded in the Utilities Board – Water Division (part of the Water System – a Proprietary Fund).

See independent auditors' report.

**CITY OF CULLMAN, ALABAMA
SCHEDULE OF WATER REVENUE BONDS
SEPTEMBER 30, 2017**

Series 2015-A			
Due Date September 1	Interest Rate	Amount of Maturity	Amount of Interest
2018	2.00	\$ 200,000	\$ 1,559,419
2019	2.00	210,000	1,555,419
2020	2.00	210,000	1,551,219
2021	3.00	215,000	1,547,019
2022	2.00-3.00	220,000	1,540,569
2023	2.00	225,000	1,535,669
2024	2.25	230,000	1,531,168
2025	3.00	235,000	1,525,994
2026	3.00	1,000,000	1,518,943
2027	3.00	1,030,000	1,488,944
2028	3.00	1,065,000	1,458,043
2029	3.13	1,095,000	1,426,094
2030	3.25	1,130,000	1,391,875
2031	3.25	1,165,000	1,355,150
2032	5.00	1,200,000	1,317,288
2033	5.00	1,260,000	1,257,288
2034	5.00	1,325,000	1,194,288
2035	5.00	1,390,000	1,128,038
2036	3.50	1,460,000	1,058,537
2037	3.75	2,565,000	1,007,438
2038	3.75	2,660,000	911,250
2039	3.75	2,760,000	811,500
2040	3.75	2,865,000	708,000
2041	3.75	2,970,000	600,562
2042	3.75	3,080,000	489,187
2043	3.75	3,200,000	373,687
2044	3.75	3,320,000	253,687
2045	3.75	3,445,000	129,187
		<u>\$ 41,730,000</u>	<u>\$ 32,225,462</u>

NOTE: All principal debt shown on this schedule is recorded in the Utilities Board – Water Division (part of the Water System – a Proprietary Fund).

See independent auditors' report.

**CITY OF CULLMAN, ALABAMA
SCHEDULE OF WATER REVENUE BONDS
SEPTEMBER 30, 2017**

Series 2015-B			
Due Date September 1	Interest Rate	Amount of Maturity	Amount of Interest
2018	2.195	\$ 640,000	\$ 121,274
2019	2.195	650,000	107,226
2020	2.195	670,000	92,958
2021	2.195	685,000	78,251
2022	2.195	695,000	63,216
2023	2.195	715,000	47,961
2024	2.195	725,000	32,266
2025	2.195	745,000	16,353
		\$ 5,525,000	\$ 559,505

NOTE: All principal debt shown on this schedule is recorded in the Utilities Board – Water Division (part of the Water System – a Proprietary Fund).

See independent auditors' report.

CITY OF CULLMAN, ALABAMA
SCHEDULE OF CULLMAN REGIONAL AIRPORT BOARD'S LONG-TERM DEBT
SEPTEMBER 30, 2017

Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2018	2.60	\$ 23,845	\$ 2,315
2019	2.60	24,183	1,682
2020	2.60	24,976	1,036
2021	2.60	23,562	367
		\$ 96,566	\$ 5,400

General Obligation Warrant (Taxable)

Maturing	Interest Rate	Amount of Maturity	Amount of Interest
2018	2.99	\$ 138,967	\$ 22,314
2019	2.99	156,002	17,724
2020	2.99	160,731	12,995
2021	2.99	165,603	8,123
2022	2.99	170,623	3,103
2023	2.99	10,438	27
		\$ 802,364	\$ 64,286

NOTE: All principal debt shown on this schedule is recorded in the
Cullman Regional Airport Board (Airport) (a Proprietary Fund).

The above Warrants are 100% of the debt service maturities for the Airport. However, the Airport is a 50/50 joint venture with Cullman County. Therefore, only 50% of the above debt service is included in the City's financial statements.

See independent auditors' report.

**CITY OF CULLMAN, ALABAMA
SCHEDULE OF SCHOOL TAX TRANSACTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

The City collects sales tax revenues for the purpose of funding the City School System. The following table represents revenues and expenditures related to the taxes for the year ended September, 30, 2017:

	Government- Wide Level
REVENUES	
3 mill ad valorem tax	\$ 957,447
7.5 mill ad valorem tax	2,393,620
0.5 percent sales tax	<u>3,665,578</u>
 Total revenues	 <u><u>\$ 7,016,645</u></u>
 EXPENDITURES	
Transfers to Cullman City Board of Education	<u><u>\$ 7,005,366</u></u>

Note: The difference between revenue and expenditures is due to timing differences between when revenue is recorded and expenditures are paid.

See independent auditors' report.

CITY OF CULLMAN, ALABAMA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES					
Taxes	\$ 21,472,810	\$ 20,780,978	\$ 19,231,065	\$ 17,769,158	\$ 17,113,888
Licenses and permits	3,488,853	3,273,620	3,264,287	2,988,616	2,866,321
Intergovernmental revenues	2,350,992	2,262,249	2,017,055	1,628,986	1,763,074
Charges for services	5,239,435	5,163,048	4,947,839	4,935,605	4,647,636
Fines and forfeits	174,412	193,502	232,692	206,949	259,124
Interest revenue	53,902	56,971	63,759	67,689	78,645
Miscellaneous revenues	95,077	244,676	98,145	79,186	84,989
Total revenues	<u>32,875,481</u>	<u>31,975,044</u>	<u>29,854,842</u>	<u>27,676,189</u>	<u>26,813,677</u>
EXPENDITURES					
Current expenditures:					
General government	4,789,756	5,432,877	5,154,106	6,074,272	4,192,035
Public safety	10,390,846	10,075,947	9,275,834	9,173,959	9,014,036
Highways and streets	2,127,536	1,829,978	2,068,436	1,982,445	2,107,800
Sanitation	4,261,190	4,252,276	4,252,270	3,942,771	3,697,142
Health and social services	939,275	944,247	938,441	885,601	738,772
Culture and recreation	333,803	220,212	225,088	221,029	279,086
Education	145,980	142,799	154,332	250,342	139,825
Conservation	55,130	48,635	56,987	45,707	194,895
Capital outlay	4,976,784	2,773,532	1,661,850	2,142,315	1,410,153
Debt service:					
Principal retirement	84,044	96,990	65,000	60,000	206,358
Interest and fiscal charges	8,712	12,050	7,370	8,690	17,148
Total expenditures	<u>28,113,056</u>	<u>25,829,543</u>	<u>23,859,714</u>	<u>24,787,131</u>	<u>21,997,250</u>
OTHER FINANCING SOURCES					
(USES)					
Capital contributions	7,431	69,061	306,749	667,096	114,079
Sale of assets	82,750	53,692	58,853	64,374	20,638
Insurance proceeds	14,148	69,309	29,184	26,070	25,172
Debt face amount	-	101,832	-	-	900,000
Debt payments received	-	-	-	-	(300,000)
Operating transfers in	-	100,000	-	-	-
Operating transfers out	(8,967,370)	(6,147,153)	(5,217,088)	(5,016,512)	(5,306,575)
Total other financing sources (uses)	<u>(8,863,041)</u>	<u>(5,753,259)</u>	<u>(4,822,302)</u>	<u>(4,258,972)</u>	<u>(4,546,686)</u>
Revenues and other sources over expenditures and other uses	(4,100,616)	392,242	1,172,826	(1,369,914)	269,741
FUND BALANCE AT BEGINNING OF YEAR					
	<u>25,987,099</u>	<u>25,594,857</u>	<u>24,422,031</u>	<u>25,791,945</u>	<u>25,522,204</u>
FUND BALANCE AT END OF YEAR					
	<u>\$ 21,886,483</u>	<u>\$ 25,987,099</u>	<u>\$ 25,594,857</u>	<u>\$ 24,422,031</u>	<u>\$ 25,791,945</u>

See independent auditors' report.

**CITY OF CULLMAN, ALABAMA
STATISTICAL DATA (Unaudited)
SEPTEMBER 30, 2017**

Computation of legal debt margin:

Assessed value of real and personal property located within the city limits (Note A)		\$ 329,826,580
Constitutional debt limit (20% of assessed value) (Note B)		\$ 65,965,316
Amount of debt applicable to debt limit (Note B)		
General long-term debt outstanding – Governmental Activities	19,399,781	
Long-term portion of compensated absences	1,155,325	
Add: General obligation warrants included in the Business-type Activities:		
Airport General Obligation Warrant dated 9-14-11	24,142	
Airport General Obligation Warrant dated 10-22-12	200,591	
Less: portions of warrants not subject to Constitutional debt limit as follows:		
General Obligation Warrants, Series 2016 dated 2-10-16	(1,277,763)	
General Obligation School Warrants dated 9-29-10	(505,000)	
Estimated liability for compensated absences – long-term	<u>(1,155,325)</u>	
	17,841,751	
Accounts payable of the General Fund	<u>933,021</u>	
Debt applicable to constitutional debt limit	18,774,772	
Less: assets available in Debt Service Fund for payment of principal	<u>(1,072,084)</u>	<u>19,846,856</u>
LEGAL DEBT MARGIN		<u>\$ 46,118,461</u>

Note A – Obtained from unaudited records maintained by the County of Cullman, Alabama and excludes exempt property (\$116,341,060).

Note B – Section 225 as amended of the Constitution of Alabama, limits the amount of the City's outstanding debt to 20% of the assessed value of property within the City limits. Excluded from this limitation are school warrants, special assessment warrants, sewer warrants, and water warrants/bonds.

Note C – The computation of legal debt margin above is to disclose the City's compliance with the constitutional limitations on outstanding debt. The amount of legal debt margin at September 30, 2017, has no relationship to the City's financial capacity to repay the amount of debt.

See independent auditors' report.

**CITY OF CULLMAN, ALABAMA
STATISTICAL DATA (Unaudited)
SEPTEMBER 30, 2017**

City ad valorem tax rates:

General purposes (Section 216 of the Constitution)	5 mills
School purposes – general (Section 216 of the Constitution)	3 mills
School bond service (Amendment LVI of the Constitution)	7.5 mills

Population per Federal census:

2010	14,775
2000	13,995
1990	13,367
1980	13,069
1970	12,601
1960	10,866
1950	7,523
1940	5,074
1930	2,886
1920	2,486

Note A – The City of Cullman is currently listed with Dunn and Bradstreet, Inc.

Note B – The Water Revenue Bonds Series 2011 dated June 3, 2011, were rated Aa3 by Moody's Investors Service, Inc. and AA+ by Standard & Poor's Corporation.

Note C – The Water Revenue Bonds Series 2015-A dated March 12, 2015, were rated A2 by Moody's Investors Service, Inc. and AA by Standard & Poor's Corporation.

Note D – The General Obligation Warrants Series 2016 dated February 10, 2016, were rated Aa3 by Moody's Investors Service, Inc. and AA by Standard & Poor's Corporation.

See independent auditors' report.

SINGLE AUDIT REPORT

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

Honorable Mayor and Members of the City Council
City of Cullman, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cullman, Alabama, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Cullman, Alabama's basic financial statements, and have issued our report thereon dated March 26, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Warren Averett, LLC

Cullman, Alabama
March 26, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Honorable Mayor and Members of the City Council
City of Cullman, Alabama

Report on Compliance for Each Major Federal Program

We have audited the City of Cullman, Alabama's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Cullman, Alabama's major federal programs for the year ended September 30, 2017. The City of Cullman, Alabama's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City of Cullman, Alabama complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control over Compliance

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cullman, Alabama as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Cullman, Alabama's basic financial statements. We issued our report thereon dated March 26, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Warren Averett, LLC

Cullman, Alabama
March 26, 2018

**CITY OF CULLMAN, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Federal Grantor / Pass-Through Grantor	Federal CFDA Number	Grant / Contract Identification Number	Pass-Through Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Department of Housing and Urban Development					
Direct					
Hurricane Sandy Community Development Block Disaster Recovery Grant	14.269	LR-ED-PF-09-110			\$ 100,000
Department of Transportation					
Direct					
Airport Improvement Grant	20.106	3-01-0022-021-2014			7,344
Airport Improvement Grant	20.106	3-01-0022-022-2015			367,045
Airport Improvement Grant	20.106	3-01-0022-023-2016			280,325
Airport Improvement Grant	20.106	3-01-0022-024-2017			79,230
					<u>733,944</u>
Recreational Trails Program	20.219	14-RT-54-07			89,004
National Priority Safety Programs	20.616	17-HD-M5-003			11,692
Environmental Protection Agency					
Direct					
Capitalization Grants for Clean Water State Revolving Funds	66.458	Series-2015B-CWSRF-DL			2,495,633
Department of Homeland Security					
Direct					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4251-PA-AL			7,605
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	CCCAG03			349,044
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4251-PA-AL			57,320
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	CCBAG06			89,393
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	CCFAG05			170,925
					<u>674,287</u>
Staffing for Adequate Fire and Emergency Rescue	97.083	EMW-2014-FH-00567			569,364
TOTAL EXPENDITURES OF FEDERAL AWARDS					<u><u>\$ 4,673,924</u></u>

CITY OF CULLMAN, ALABAMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Cullman, Alabama (City) was incorporated under the laws of the State of Alabama in 1875 and operates under an elected Mayor-Council form of government. The accompanying schedule of expenditures of federal awards presents the City's primary government and its component units, a legally separate organization over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

Component units that are so intertwined with the City that they are, in substance, the same as the City are blended and reported as if they were part of the City.

The Utilities Board of the City of Cullman – Water Division (UBWD) is governed by a five-member board appointed by the City Council. By contract, the only customer of the UBWD is the City of Cullman.

The Cullman City Parks and Recreation Board (the Board) was formed in November 1979 under Section 11-86-1 of the Code of Alabama 1975. The Board is unincorporated and cannot legally incur debt. The City provides a substantial amount of the Board's funding each year through payments for payroll and debt service expenditures. Therefore, the Board is reported as part of the City's operations. The Board maintains and establishes their own internal controls over their daily operations and finances.

The City's 50 percent interest in the Cullman Regional Airport Board, which is a joint venture with Cullman County, is also reported as part of the City's operations. The Airport is operated by an appointed Board. Appropriations are made by the City and County to operate the Board. Included in the Proprietary Funds of the City is 50 percent of the Board's assets, liabilities, net position, revenues, and expenses.

Separately issued financial statements are available at the City Clerk's office at the City of Cullman for all the above component units.

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City of Cullman, Alabama under programs of the federal government for the year ended September 30, 2017. The information in this schedule is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Because the schedule presents only a selected portion of the operations of the City of Cullman, Alabama, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Cullman, Alabama.

Basis of Accounting

Expenditures reported on the schedule are reported on the economic resources measurement focus. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

CITY OF CULLMAN, ALABAMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED
SEPTEMBER 30, 2017

NOTE B – FEDERAL AWARDS – MAJOR PROGRAMS

Capitalization Grants for Clean Water State Revolving Funds (CFDA No. 66.458)

The City approved an ordinance to authorize the issuance of \$3,970,000 General Obligation Warrant Series 2015-CWSRF-DL (Partial Principal Forgiveness) dated February 15, 2015, between the City of Cullman, Alabama and the Alabama Department of Environmental Management (ADEM), an agency of the State of Alabama. The Sewer Fund is the fund at the City of Cullman, Alabama responsible for this grant and all recording. The Authority is the Alabama Water Pollution Control Authority, a public corporation under the laws of the State of Alabama. The Authority Loan was in the initial amount of \$4,120,000 (\$150,000 in debt forgiveness) made to the City by the Authority, the repayment of which is evidence by the Series 2015-CWSRF-DL Warrant. The award of the loan to the City will enable the City to take advantage of principal forgiveness initiatives established by the requirements imposed on the Authority respecting the use of funds made available from the current capitalization grant agreement between the Authority and the United States Environmental Protection Agency (the "Capitalization Grant Agreement"). The loan agreement payments end February 15, 2035.

The city also approved an ordinance to authorize the issuance of \$3,470,000 General Obligation Warrant Series 2015B-CWSRF-DL dated as of October 1, 2015, between the City of Cullman, Alabama and the Alabama Department of Environmental Management (ADEM), an agency of the State of Alabama. The Sewer Fund is the fund at the City of Cullman, Alabama responsible for this grant and all recording. The Authority is the Alabama Water Pollution Control Authority, a public corporation under the laws of the State of Alabama. The Authority Loan was in the initial amount of \$3,470,000 made to the City by the Authority, the repayment of which is evidence by the Series 2015-CWSRF-DL Warrant. The award of the loan to the City will enable the City to the use of funds made available from the current capitalization grant agreement between the Authority and the United States Environmental Protection Agency (the "Capitalization Grant Agreement"). The loan agreement payments end August 15, 2035.

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

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statement Section

Type of auditors’ report issued:

	Unmodified
<u>Yes</u>	<u>No</u>

Internal control over financial reporting:

Material weakness(es) identified?

	X
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Significant deficiencies identified that are not considered to be material weaknesses?

	None reported
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Noncompliance material to financial statements noted?

	X
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Federal Awards Section

<u>Yes</u>	<u>No</u>
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Internal control over major programs:

Material weakness(es) identified?

	X
--	----------

Significant deficiencies identified that are not considered to be material weaknesses?

	X
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Type of auditors’ report on compliance for major programs:

	Unmodified
<u>Yes</u>	<u>No</u>

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?

	X
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Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
66.458	Environmental Protection Agency Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to determine Type A programs:

	\$ 750,000
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<u>Yes</u>	<u>No</u>
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Auditee qualified as low-risk auditee?

	X
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**CITY OF CULLMAN, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.