

City of Leeds, Alabama
Financial Statements

September 30, 2015



City of Leeds, Alabama
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September 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Leeds, Alabama

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Leeds, Alabama as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Leeds, Alabama, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability, schedule of employer changes, and budgetary comparison information be presented to supplement the basic financial statements. Such



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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require supplementing the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Leeds, Alabama's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Change in Accounting Principle

As discussed in Note 13 to the financial statements, in 2015 the City adopted new accounting guidance, GASB Statement No. 68. Our opinion is not modified with respect to this matter.

Carr, Riggs & Ingram, L.L.C.

Oneonta, Alabama
February 10, 2016

City of Leeds, Alabama
Statement of Net Position

September 30, 2015

	Primary Government	Component Unit
	Governmental Activities	Public Educational Building Authority
Assets		
Cash and cash equivalents	\$ 8,870,350	\$ -
Receivables	1,365,232	-
Restricted cash and cash equivalents	13,676,653	1,017,298
Land and construction in progress	11,659,176	2,459,408
Buildings, equipment and other depreciable property	31,101,210	37,238,901
Accumulated depreciation	(10,471,091)	(4,625,899)
Total assets	56,201,530	36,089,708
Deferred Outflows of Resources		
Employer pension contributions	552,332	-
Total assets and deferred outflows of resources	56,753,862	36,089,708
Liabilities		
Accounts payable	394,976	-
Accrued expenses	766,429	1,011,728
Long-term liabilities		
Current:		
Long-term debt	45,000	1,065,000
Bonds payable, net of discount and funding agreement	346,707	-
Noncurrent:		
Long-term debt	135,000	-
Bonds payable, net of discount and funding agreement	15,273,182	40,760,000
Net pension liability	4,968,050	-
Compensated absences	281,491	-
Total liabilities	22,210,835	42,836,728
Deferred inflows of resources		
Difference in projected and actual earnings on pension investments	307,098	-
Total liabilities and deferred outflows of resources	22,517,933	-
Net position		
Net investment in capital assets	9,521,906	(7,764,318)
Restricted for:		
Highways and streets	599,086	-
Debt service	2,251,552	1,017,298
School construction	10,497,127	-
911 and court amounts	764,950	-
Unrestricted	10,601,308	-
Total net position	\$ 34,235,929	\$ (6,747,020)

**City of Leeds, Alabama
Statement of Activities**

For the year ended September 30, 2015

Program Activities	Program Revenues				
	Expenses	Fees, Fines &	Operating Grants	Capital Grants	
		Charges for Services	and Contributions	and Contributions	
Primary government					
Governmental activities	\$ 1,700,301	\$ 201,788	\$ -	\$ -	-
Street and infrastructure	1,548,144	-	435,428		101,978
Inspections and permits	252,916	-	-		-
Sanitation	859,156	703,038	-		-
Public safety	5,735,200	689,658	219,497		-
Library	419,103	26,055	-		-
Parks and recreation	522,234	-	-		-
Interest , fees and pledged revenues	4,040,317	-	-		-
Total governmental activities	15,077,371	1,620,539	654,925		101,978
Component Unit:					
Public Educational Building Authority	2,815,516	-	-		-
Total component unit	2,815,516	-	-		-
Total	\$ 17,892,887	\$ 1,620,539	\$ 654,925		\$ 101,978

General revenues:

General sales and lodging taxes

Property taxes

Licenses and permits

Interest

Transfers

Other revenues

Sale of capital assets

Total general revenues

Change in net position

Net position - beginning of year as originally stated

Restatement

Net position - beginning of year as restated

Net position- end of year

See accompanying notes to basic financial statements.

**City of Leeds, Alabama
Statement of Activities**

Net (Expense) Revenue and Changes in Net Position		
Primary Government Activities	Component Unit Public Educational Building Authority	
\$ (1,498,513)	\$ -	
(1,010,738)	-	
(252,916)	-	
(156,118)	-	
(4,826,045)	-	
(393,048)	-	
(522,234)	-	
<u>(4,040,317)</u>	<u>-</u>	
 <u>(12,699,929)</u>	<u>-</u>	
 <u>-</u>	<u>(2,815,516)</u>	
 <u>-</u>	<u>(2,815,516)</u>	
 <u>\$ (12,699,929)</u>	<u>\$ (2,815,516)</u>	

13,398,270	-
1,050,669	-
2,419,923	-
41,784	94
(4,697,224)	3,074,967
249,544	-
128,938	-
<u>12,591,904</u>	<u>3,075,061</u>
 <u>(108,025)</u>	<u>259,545</u>
 30,047,430	(5,772,748)
4,296,524	(1,233,817)
34,343,954	(7,006,565)
 <u>\$ 34,235,929</u>	<u>\$ (6,747,020)</u>

See accompanying notes to basic financial statements.

**City of Leeds, Alabama
Balance Sheet—Governmental Funds**

	General Fund	Debt Service Fund	School Construction Fund	Other Governmental Funds	Total Governmental Funds
<i>September 30, 2015</i>					
Assets					
Cash and cash equivalents	\$ 8,231,618	\$ -	\$ -	\$ 638,732	\$ 8,870,350
Accounts receivable	1,341,918	-	-	23,314	1,365,232
Cash and cash equivalents - restricted	1,363,384	2,251,552	10,050,302	11,415	13,676,653
Total assets	10,936,920	2,251,552	10,050,302	673,461	23,912,235
Liabilities					
Accounts payable	231,205	-	151,609	12,162	394,976
Accrued payroll and related items	235,443	-	-	-	235,443
Due to other funds	11,415	-	-	-	11,415
Other accrued liabilities	307,813	-	-	-	307,813
Total Liabilities	785,876	-	151,609	12,162	949,647
Fund Balance					
Assigned for:					
Capital projects	127,820	-	-	-	127,820
Commercial development	-	-	-	62,213	62,213
Restricted for:					
Warrant requirement	598,434	-	9,898,693	-	10,497,127
Debt service	-	2,251,552	-	-	2,251,552
Street and road maintenance	-	-	-	243,459	243,459
Road maintenance and construction	-	-	-	355,627	355,627
Emergency 911 service	475,415	-	-	-	475,415
Courts	289,535	-	-	-	289,535
Unassigned	8,659,840	-	-	-	8,659,840
Total fund balance	10,151,044	2,251,552	9,898,693	661,299	22,962,588
Total liabilities and fund balance	\$ 10,936,920	\$ 2,251,552	\$ 10,050,302	\$ 673,461	\$ 23,912,235

See accompanying notes to basic financial statements.

City of Leeds, Alabama
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position

September 30, 2015

Total Fund Balances for Governmental Funds	\$ 22,962,588
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Governmental capital assets	42,760,386
Less accumulated depreciation	<u>(10,471,091)</u>
	32,289,295

Long-term assets and 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. Other related amounts include deferred debt issuance expenses and unamortized debt discount. All liabilities, both current and long term, are reported in the statement of net assets.

Difference between actual and expected pension investment income	(307,098)
Current year pension remittances	552,332
Unamortized discount	162,611
Accrued interest on warrants payable	(295,203)
Accrued interest receivable on funding agreement	83,445
Governmental bonds payable	(22,750,000)
Funding agreement	6,967,500
Long-term debt	(180,000)
Net pension liability	(4,968,050)
Compensated absences	<u>(281,491)</u> <u>(21,015,954)</u>
 Net position of governmental activities	\$ 34,235,929

City of Leeds, Alabama
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

<i>Year ended September 30, 2015</i>	General	Debt	School	Other	Total
	Fund	Service Fund	Construction Fund	Governmental Funds	Governmental Funds
Revenues					
Taxes	\$ 13,322,410	\$ 1,122,925	\$ -	\$ 435,428	\$ 14,880,763
Licenses and permits	2,419,923	-	-	-	2,419,923
Intergovernmental	325,079	-	-	-	325,079
Fines	689,658	-	-	-	689,658
Charges for services	930,881	-	-	-	930,881
Other revenues	231,204	-	-	-	231,204
Grant funds	18,340	-	-	-	18,340
Interest	26,162	11,754	3,459	409	41,784
Total Revenue	17,963,657	1,134,679	3,459	435,837	19,537,632
Expenditures					
General government	1,455,573	-	-	-	1,455,573
Street and infrastructure	793,075	-	-	490,499	1,283,574
Inspections and permits	250,654	-	-	-	250,654
Sanitation and sewer	859,156	-	-	-	859,156
Public safety	5,263,575	-	-	-	5,263,575
Library	413,118	-	-	-	413,118
Parks and recreation	365,860	-	-	-	365,860
Capital outlay	850,245	-	-	-	850,245
Grant expenses	13,200	-	-	-	13,200
Debt service					
Pledged revenues of limited obligations	3,162,170	-	-	-	3,162,170
Principal	45,000	476,053	-	-	521,053
Interest and fees	-	812,257	-	-	812,257
Total Expenditures	13,471,626	1,288,310	-	490,499	15,250,435
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	4,492,031	(153,631)	3,459	(54,662)	4,287,197
Other financing sources (uses)					
Sale of assets	128,938	-	-	-	128,938
Transfers to LCBOE for construction	-	-	(1,622,257)	-	(1,622,257)
Transfer to component unit	-	(3,074,967)	-	-	(3,074,967)
Transfer to other funds	(14,891,116)	-	-	(16,814)	(14,907,930)
Transfer from other funds	-	3,390,439	11,517,491	-	14,907,930
Total other financing sources (uses)	(14,762,178)	315,472	9,895,234	(16,814)	(4,568,286)
Excess (Deficiency) of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	(10,270,147)	161,841	9,898,693	(71,476)	(281,089)
FUND BALANCES - Beginning	20,421,190	2,089,711	-	732,775	23,243,676
FUND BALANCES - Ending	\$ 10,151,043	\$ 2,251,552	\$ 9,898,693	\$ 661,299	\$ 13,063,894

See accompanying notes to basic financial statements.

City of Leeds, Alabama
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Government-Wide
Statement of Activities

Year ended September 30, 2015

Net change in fund balances - total governmental funds	\$ (281,089)
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The change in Net Assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Expenditures for capital assets	850,245
Less current year depreciation and amortization	<u>(1,028,757)</u>
	(178,512)

The costs of issuing debt reduces current financial resources to governmental funds, but these costs are deferred outflows in the statement of net position.

Amortization of original issue discount	(5,793)
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The issuance of long-term debt provides current financial resources to governmental funds while the repayment of long-term debt consumes the current financial resources of governmental funds. These transactions, however, do not have any effect on net assets. This is the amount by which the repayment of the principal long-term debt exceeded the issuance of long-term debt.

Payment of principal- general obligation warrants	476,053
Payment of principal- long-term debt	<u>45,000</u>
	521,053

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. The change in net assets differs from the change in the following balances:

Net pension liability	167,448
Accrued interest, net of funding agreement from BOE	(65,890)
Compensated absences	68,793
Pension expense, contributions, and pension investment income	<u>(334,035)</u>
	(163,684)
Change in net position of governmental activities	\$ (108,025)

See accompanying notes to basic financial statements.

City of Leeds, Alabama
Notes to Financial Statements Index

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City of Leeds, Alabama Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Leeds (City) was incorporated in 1887 under the laws of the State of Alabama. The City operates under a Mayor-Council form of government as provided by Act No. 425 of the 1955 Alabama Legislature (The Mayor-Council Act).

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The City's reporting entity applies all relevant Government Accounting Standards Board (GASB) pronouncements. The more significant of these accounting policies are described below.

Financial Reporting Entity

As required by GAAP, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and data from these units is combined with the data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government.

Blended Component Units - There is one blended component unit of the City of Leeds: the Leeds Commercial Development Authority (CDA). The financial information of the CDA has been blended with that of the City, because the CDA provides services entirely for the primary government.

Leeds Commercial Development Authority

The Leeds Commercial Development Authority was formed for the purpose of promoting commercial development in the City. The members of the CDA are appointed by the Leeds City Council. The CDA is presented as a governmental fund. Separate financial statements are not issued by the CDA.

Discretely Presented Component Unit - The City has one discretely presented component unit:

Leeds Public Education Building Authority

The Leeds Public Education Building Authority (PEBA) was formed for the purpose of managing the assets and revenue bonds used to build new schools for the City of Leeds Board of Education (Leeds BOE). The members of the board of directors of PEBA are appointed by the City of Leeds and a portion of the debt service on the 2008 Education Facilities Revenue Bonds is to be repaid by PEBA with certain pledged tax revenues it receives from the City of Leeds. Remittance by Leeds of such tax revenues was initially anticipated to begin in 2012 and end in 2038. However, this obligation did not begin until the City's General Obligation Warrants Series 2000 A & B and Series 2002 A & B were repaid in full. The City's obligation is limited to providing a portion of the City's supplemental sales and use tax revenues (with a general rate of one cent) and occupational tax (with a rate of one percent) to PEBA as a credit against the lease payments required to be paid to PEBA by the Leeds BOE. The lease payments required to be paid to PEBA by the Leeds BOE are equal to the debt service each year on the 2008 Educational Facilities Revenue Bonds. Leeds BOE is required to pay the difference in lease payments if the City's pledged tax revenues are insufficient to cover the debt service on those bonds.

**City of Leeds, Alabama
Notes to Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basic Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements categorize primary activities as either governmental or business type. The City does not have any business type activities and all activities are classified as governmental.

In the government-wide statement of net assets, the governmental activities column is presented using the full accrual accounting basis and economic resources measurement focus, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide statement of activities reflects both the gross and net cost per functional category which is otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, etc.). The statement of activities reduces gross expenses, including depreciation, by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. The operating grants include operating-specific and discretionary grants. The net costs are normally covered by general revenues. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. The City does not employ an indirect cost allocation system.

The government-wide statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements focus on the major funds in governmental categories. Non-major funds (by category or fund type) are summarized into a single column called non-major governmental funds.

The governmental fund statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental column of the government-wide presentation.

Basis of Presentation - Fund-Level Financial Statements

Generally accepted accounting principles set forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining section.

**City of Leeds, Alabama
Notes to Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City reports the following major governmental funds:

Governmental Funds

General Fund - To account for all revenues and expenditures applicable to the general operations of government that are not properly accounted for in another fund. All general operating revenues, which are not restricted or designated as to use by outside sources, are recorded in the General Fund.

School Construction Fund – To account for all expenditures of warrant restricted proceeds for transfer to Leeds City Board of Education for school construction.

Debt Service Fund - To account for the accumulation of resources for and the payment of interest and principal on general long-term debt. Debt service revenues are generally transfers from other governmental funds and interest income and are derived from the pledged on cent sales tax and the 1 percent occupational tax.

Additionally, the City reports the following fund types as other governmental funds:

Special Revenue Funds – Gasoline Tax Fund - The State Gasoline Tax Funds receive revenues from the State 4-cent, 5-cent, 7-cent gasoline tax, 2-cent Inspection Fee on motor fuels, the State Motor Vehicle licenses, and the additional excise tax. This fund also holds the Jefferson County Road Tax revenues. These funds are restricted for the repair and maintenance of the City's streets and street lights.

Interfund balances and transfers have been eliminated from the government-wide financial statements.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are presented on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

The governmental funds in the fund financial statements are presented on a modified accrual basis. Under the modified accrual basis, revenues are recognized when they become both measurable and available to finance expenditures of the current period. Revenues are considered available to finance expenditures of the current period if collected within 60 days after the end of the period. Expenditures are recognized when the related liability is incurred, with the exception of principal and interest on general obligation long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured.

**City of Leeds, Alabama
Notes to Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Cash and Cash Equivalents

As of September 30, 2015, the City's bank deposits were insured through the Federal Depository Insurance Corporation (FDIC) or were covered by the State of Alabama's Security of Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the Code of Alabama 1975, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits.

The City's investments, which are all in restricted bond accounts, are direct obligations of the United States government, its agencies or instrumentalities to the payment of which the full faith and credit of the government of the United States is pledged.

Interest Rate Risk – In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to eighteen months.

Credit Risk – The City's investment policy is to apply the “prudent investor” standard. “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.” The City's investments are invested in U.S. government issues or U.S. guaranteed obligations.

Concentration of Credit Risk – The City places no limit on the amount the City may invest in any one issuer. However, the City's investment policy calls for portfolio diversification by avoiding over-concentration in a specific maturity sector or specific instruments.

Cash and Cash Equivalents Held on Deposit with Trustee

Restricted assets include cash and cash equivalents restricted either for repairs and maintenance of roads and highways, school construction, public safety, or for debt service. Funds held in escrow and construction accounts deposited with a trustee totaled \$10,821,595 at September 30, 2015. Restricted funds, other than these, are held on deposit in segregated bank accounts.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Donated or contributed capital assets are recorded at their estimated fair value on the date received.

**City of Leeds, Alabama
Notes to Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements that materially extend the useful life of an asset are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of capital assets is computed using the straight-line method over the following estimated useful lives: buildings, 25 to 60 years; streets and infrastructure, 15 to 60 years; and furnishings and equipment, 10 to 15 years.

Long-Term Obligations

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

In the fund-level financial statements, governmental fund types recognize bond premiums, discounts and issuance costs during the current period. The face amount of debt issued is reported as other financing sources, while premiums and discounts are reported as other financing sources and uses, respectively. Issuance costs are reported as debt service expenditures.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. An unlimited amount of sick time may be carried forward, but the maximum that may be paid out upon retirement or termination is one-half of sixty days' pay. A maximum of 320 vacation hours may be carried forward each year. Compensated absences are not recorded as a liability in the governmental funds because expenditures related to compensated absences are recorded only when payment is due.

Net Position

Beginning in the fiscal year 2010, the City implemented GASB Statement "Fund Balance Reporting and Governmental Fund Type Definitions". This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance – amounts that are not in a spendable form or are required to be maintained intact.

Restricted Fund Balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed Fund Balance – amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

**City of Leeds, Alabama
Notes to Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Assigned Fund Balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned Fund Balance – amounts that are available for any purpose; positive amounts are reported only in the General Fund.

City Council establishes, modifies, or rescinds fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund.

Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for a specific purpose.

Pensions

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

Reclassifications

Certain reclassifications have been made in the prior year amounts to conform to the classifications used in the current year. These reclassifications had no effect on fund balances.

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.

Encumbrances

In the Fund Financial Statements, the City does not utilize encumbrance accounting techniques which means that fund balances are not reserved upon the issuance of purchase orders. Expenditures are not recorded upon the impairment of an asset.

City of Leeds, Alabama
Notes to Financial Statements

NOTE 2 - PROPERTY TAX CALENDAR

Property taxes are collected and remitted to the City by the Jefferson, St. Clair and Shelby County governments. Taxes are levied annually on October 1 and are due December 31 of each year. Major tax payments are received October through January and are recognized as revenue in the year received. Property taxes are assessed for property as of October 1 of the preceding year based on millage rates established by the County Commission.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts Receivable at September 30, 2015, consists of the following:

Governmental Activities:	Special		
	General Fund	Revenue Fund	Total
Taxes, costs, and surcharges, net of allowance			
Sales tax	\$ 871,447	\$ -	\$ 871,447
Tobacco tax	2,929	-	2,929
Gasoline tax	-	23,314	23,314
Wine and beer tax	12,623	-	12,623
Court fines and costs	25,386	-	25,386
Sanitation fees	192,192	-	192,192
Occupational tax	93,577	-	93,577
Ad valorem tax	15,104	-	15,104
Motor vehicle tax	2,774	-	2,774
Franchise tax	11,519	-	11,519
Surcharge	18,191	-	18,191
Lodging tax	16,150	-	16,150
Rental tax	11,823	-	11,823
Use tax	65,907	-	65,907
Other	2,296	-	2,296
Total	\$ 1,341,918	\$ 23,314	\$ 1,365,232

City of Leeds, Alabama
Notes to Financial Statements

NOTE 4 - ESCROWED ASSETS

In accordance with the provisions of the General Obligation Warrant issues, the City is required to make monthly installments to escrow accounts for semi-annual interest and principal maturities. The escrow accounts are comprised of money market accounts. Additionally, some of the monies received from the issuance of the General Obligations Warrants are held in escrow and construction accounts. As of September 30, 2015, \$10,821,595 had been accumulated in the escrow accounts for these purposes and is included in restricted assets on the Statement of Net Position.

The City had the following cash and cash equivalents and maturities at September 30, 2015:

Security	Amount	Maturity
Cash and cash equivalents held with trustee		
Trust money market deposit fund	\$ 175,470	Less than 1 year
Federal treasury money market funds	10,646,125	Less than 1 year
Total	\$ 10,821,595	

City of Leeds, Alabama
Notes to Financial Statements

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2015, was as follows:

Governmental Activities:	Beginning Balances	Increases	Disposals or Reclassess	Ending Balances
Capital assets not being depreciated:				
Land	\$ 10,128,998	\$ -	\$ 25,567	\$ 10,103,431
Construction in progress	1,073,983	481,762	-	1,555,745
Total capital assets not being depreciated:	11,202,981	481,762	25,567	11,659,176
Capital assets being depreciated:				
Buildings and improvements	5,516,082	-	-	5,516,082
Streets and infrastructure	17,885,937	258,714	-	18,144,651
Furnishings and equipment	7,330,708	109,769	-	7,440,477
Total capital assets being depreciated:	30,732,727	368,483	-	31,101,210
Less accumulated depreciation for:				
Buildings and improvements	1,287,408	135,217	-	1,422,625
Streets and infrastructure	3,824,438	379,527	-	4,203,965
Furnishings and equipment	4,330,488	514,013	-	4,844,501
Total accumulated depreciation	9,442,334	1,028,757	-	10,471,091
Total capital assets being depreciated, net	21,290,393	(660,274)	-	20,630,119
Governmental activity capital assets, net	\$ 32,493,374	\$ (178,512)	\$ 25,567	\$ 32,289,295

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

Governmental activities	
General government	\$ 216,658
Public safety	401,064
Streets department	256,688
Parks and recreation	154,347
Total	\$ 1,028,757

**City of Leeds, Alabama
Notes to Financial Statements**

NOTE 6 - PENSIONS

The City of Leeds, Alabama contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the state agencies, departments and local government entities. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130.

Plan Description and Provisions

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

The ERS Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to § 36-27-6.

**City of Leeds, Alabama
Notes to Financial Statements**

NOTE 6 – PENSIONS - Continued

Benefits Provided

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

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

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

The ERS serves approximately 846 local participating employers. These participating employers include 287 cities, 65 counties, and 494 other public entities. The ERS membership includes approximately 83,874 participants. As of September 30, 2014, membership consisted of:

Retirees and beneficiaries currently receiving benefits	21,691
Terminated employees entitled to but not yet receiving benefits	1,252
Terminated employees not entitled to a benefit	5,048
Active members	55,883
	83,874

**City of Leeds, Alabama
Notes to Financial Statements**

NOTE 6 – PENSIONS - Continued

Contributions

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

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended June 30, 2015, the Plan's active employee contribution rate was 18.8% percent of covered employee payroll, and the Plan's average contribution rate to fund the normal and accrued liability costs was 5.50% percent of covered employee payroll.

The Plan's contractually required contribution rate for the year ended September 30, 2015, was 13.48 % of pensionable pay for Tier 1 employees and 10.24 % of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$551,071 for the year ended September 30, 2015.

City of Leeds, Alabama
Notes to Financial Statements

NOTE 6 – PENSIONS - Continued

Net Pension Liability

The Plan's net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2013, rolled forward to September 30, 2014, using standard roll-forward techniques as shown in the following table:

Total pension liability as of September 30, 2013 (a)	\$ 15,040,120
Entry age normal cost for October 1, 2013 - September 30, 2014 (b)	381,946
Actual benefit payments and refunds for October 1, 2013 - September 30, 2014 (b)	(1,162,956)
Total pension liability as of September 30, 2014	\$ 15,415,801
[(a) x (1.08)] + (b) [(c) x (1.04)]	

Actuarial assumptions

The total pension liability in the September 30, 2013, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

*Net of pension plan investment expense

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

The actuarial assumptions used in the September 30, 2013, valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

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

City of Leeds, Alabama
Notes to Financial Statements

NOTE 6 – PENSIONS - Continued

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

Discount Rate

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

City of Leeds, Alabama
Notes to Financial Statements

NOTE 6 – PENSIONS - Continued

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Increase (Decrease) Net Pension Liability (a) – (b)
Balances at 09/30/2013	\$ 15,040,120	\$ 9,904,622	\$ 5,135,498
Changes for the year:			
Service cost	381,946	-	381,946
Interest	1,156,691	-	1,156,691
Differences between expected and actual experience	-	-	-
Contributions – employer	-	439,609	(439,609)
Contributions – employee	-	237,993	(237,993)
Net investment income	-	1,151,891	(1,151,891)
Benefit payments, including refunds of employee contributions	(1,162,956)	(1,162,956)	-
Administrative expense	-	-	-
Transfers among employers	-	(123,408)	123,408
Net Changes	375,681	543,129	(167,448)
Balances at 09/30/2014	\$ 15,415,801	\$ 10,447,751	\$ 4,968,050

Sensitivity of the net pension liability to changes in the discount rate

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

	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increases (9.00%)
Plan's net pension liability (asset)	\$ 6,631,861	\$ 4,968,050	\$ 3,560,100

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2014. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2014. The auditor's report dated June 3, 2015, on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

City of Leeds, Alabama
Notes to Financial Statements

NOTE 6 – PENSIONS - Continued

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

For the year ended September 30, 2015, the City recognized pension income of \$7,390. At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows from Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	307,098
Employer contributions subsequent to the measurement date	552,332	-
Total	\$ 552,332	\$ 307,098

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

Year ending September 30,	\$	76,774
2016	\$ 76,774	76,774
2017	76,774	76,774
2018	76,774	76,774
2019	76,776	307,098

City of Leeds, Alabama
Notes to Financial Statements

NOTE 7 - WARRANTS PAYABLE

The bonds payable consisted of the following at September 30, 2015:

Bonds payable consist of the following at September 30, 2015	Amounts
2.00% to 4.25% General Obligation Warrants Series 2011A dated November 1, 2011, maturing November 1, 2031	\$ 5,930,000
1.10% to 4.25% General Obligation Warrants Series 2011B dated November 1, 2011, maturing November 1, 2031	2,885,000
1.65% to 4.625% General Obligation Warrants Series 2013 dated December 1, 2013, maturing December 1, 2043	8,615,000
1.25% to 4.25% General Obligation Warrants Series 2014 dated March 1, 2014, maturing December 1, 2043	5,320,000
	22,750,000
Less current portion	510,000
Total	\$ 22,240,000

Principal and interest requirements of the general obligation warrants, excluding the funding agreement, for the years ending September 30 are as follows:

	Principal	Interest
2016	\$ 510,000	\$ 810,408
2017	510,000	800,353
2018	635,000	788,614
2019	645,000	774,639
2020	665,000	760,803
2021-2025	3,545,000	3,546,398
2026-2030	4,120,000	2,950,873
2031-2035	4,975,000	2,100,915
2036-2040	4,190,000	1,059,686
2041-2045	2,955,000	272,686
Total	\$ 22,750,000	\$ 13,865,375

City of Leeds, Alabama
Notes to Financial Statements

NOTE 7 - WARRANTS PAYABLE - Continued

A summary of changes in bonds payable for the year ended September 30, 2015, is as follows:

	September 30, 2014	Additions	Retirements	September 30, 2015	Due within one year
General Obligation Warrants:					
Series 2006B	\$ 275,000	\$ -	\$ 275,000	\$ -	\$ -
Series 2011A	6,030,000	-	100,000	5,930,000	100,000
Series 2011B	2,975,000	-	90,000	2,885,000	95,000
Series 2013	8,615,000	-	-	8,615,000	190,000
Series 2014	5,320,000	-	-	5,320,000	125,000
General obligation warrants sub-total	23,215,000	-	465,000	22,750,000	510,000
Unamortized discount	(168,404)	-	(5,793)	(162,611)	(5,793)
Total warrants payable, net of discount	23,046,596	-	459,207	22,587,389	504,207
Funding agreement:					
Leeds Board of Education Series 2013	(4,307,500)	-	-	(4,307,500)	(95,000)
Leeds Board of Education Series 2014	(2,660,000)	-	-	(2,660,000)	(62,500)
Funding agreement warrants sub-total	(6,967,500)	-	-	(6,967,500)	(157,500)
Warrants payable, net	\$ 16,079,096	\$ -	\$ 459,207	\$ 15,619,889	\$ 346,707

Interest expense on all debt for the year ended September 30, 2015, were as follows:

Governmental

Funds

For the year ending September 30, 2015	
Interest paid	\$ 544,796
Increase (decrease) in accrued interest	(6,771)
Amortization of discount	5,793
Total	\$ 543,818

Discount and related amortization are as follows at September 30, 2015

Discount

Original amounts	\$ 174,196
Amortization	(5,793)
Total	\$ 168,403

City of Leeds, Alabama
Notes to Financial Statements

NOTE 7 - WARRANTS PAYABLE - Continued

Funding Agreement

The City issued the Series 2013 and Series 2014 General Obligation School Warrants while simultaneously entering into a funding agreement with the Leeds City Board of Education (Board). The funding agreement sets forth that the Board agrees to pay the City such amount as shall be required so that, for each calendar year during the term, the City's net debt service payments equal the lesser of 50% of all principal and interest maturities on the Warrants or \$450,000. However, the Board is not liable for payments on the funding agreement as long as the capitalized interest funds remain funded as set up in the trust indenture. The total funding in the Series 2013 and Series 2014 capitalized interest accounts totaled \$252,578 at September 30, 2015, and is reflected as restricted cash and cash equivalents. The capitalized interest is projected to cover the year ended September 30, 2016, interest only maturities of the warrants.

NOTE 8 - OTHER LONG-TERM OBLIGATIONS

A summary of changes in other long-term debt for the year ended September 30, 2015, is as follows:

Other long-term debt	Balance at September 30,		Retirements and Cancellation		Balance at September 30, 2015	
	2014	Additions				
Compensated absences	\$ 350,284	\$ -	\$ 68,793	\$ 281,491		
Leeds Water Works	225,000	-	45,000	180,000		
Governmental activity capital assets, net	\$ 575,284	\$ -	\$ 113,793	\$ 461,491		

NOTE 9 – CONTINGENCIES

Legal contingencies:

The City is involved in various claims and lawsuits, both for and against the City, arising in the normal course of business.

Other contingencies:

The City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed or not incurred in a timely manner under the terms of the grant.

**City of Leeds, Alabama
Notes to Financial Statements**

NOTE 10 – LEEDS PUBLIC EDUCATION BUILDING AUTHORITY (PEBA)

The Leeds Public Educational Building Authority (PEBA) was formed for the purpose of managing the assets and revenue bonds used to build new schools for the City of Leeds Board of Education (Leeds BOE). The members of the board of directors of PEBA are appointed by the City of Leeds and a portion of the debt service on the 2008 Educational Facilities Revenue Bonds is to be repaid by PEBA with certain pledged tax revenues it receives from the City of Leeds. Remittance by the City of Leeds of such tax revenues was initially anticipated to begin in 2012 and end in 2038. However, this obligation did not begin until the City's General Obligation Warrants Series 2000A & B and Series 2002A & B were repaid in full. The City's obligation is limited to providing a portion of the City's supplemental sales and use tax revenues (with a general rate of one cent) and occupational tax (with a rate of one cent) to PEBA as a credit against the lease payments required to be paid to PEBA by the Leeds BOE. The lease payments required to be paid to PEBA by the Leeds BOE are equal to the debt service each year on the 2008 Educational Facilities Revenue Bonds. Leeds BOE is required to pay the difference in lease payments if the City's pledged tax revenues are insufficient to cover the debt service on those bonds.

Restricted Cash and Cash Equivalents

Restricted assets include cash and cash equivalents restricted for debt service. The debt service escrow account for the Educational Facilities Revenue Bonds Series 2008 was established under the trust indenture. PEBA is required to fund the escrow account at least two days prior to the principal and interest maturities. The PEBA had \$1,017,298 on deposit with the Trustee at September 30, 2015.

City of Leeds, Alabama
Notes to Financial Statements

NOTE 10 – LEEDS PUBLIC EDUCATION BUILDING AUTHORITY (PEBA) - Continued

Capital Assets

Capital Assets are accounted for by PEBA in the same manner as capital assets are accounted for by the City. Capital asset activity for the year ended September 30, 2015, was as follows:

PEBA:	Balance at September 30, 2014		Increases	Disposals or Reclasses	Balance at September 30, 2015	
	\$				\$	
Capital assets not being depreciated:						
Land	\$ 2,459,408		\$ -	\$ -	\$ 2,459,408	
Total capital assets not being depreciated:	2,459,408		-	-	2,459,408	
Capital assets being depreciated:						
Buildings and improvements	32,699,982		-	-	32,699,982	
Streets and infrastructure	1,743,452		-	-	1,743,452	
Furnishings and equipment	2,795,467		-	-	2,795,467	
Total capital assets being depreciated:	37,238,901		-	-	37,238,901	
Less accumulated depreciation for:						
Buildings and improvements	2,770,415		545,000	-	3,315,415	
Streets and infrastructure	147,709		29,058	-	176,767	
Furnishings and equipment	947,353		186,364	-	1,133,717	
Total accumulated depreciation	3,865,477		760,422	-	4,625,899	
Total capital assets being depreciated, net	33,373,424		(760,422)	-	32,613,002	
PEBA capital assets, net	\$ 35,832,832		\$ (760,422)	\$ -	\$ 35,072,410	

Accrued Interest

Accrued expenses at September 30, 2015, included accrued interest which totaled \$1,011,728.

**City of Leeds, Alabama
Notes to Financial Statements**

NOTE 10 – LEEDS PUBLIC EDUCATION BUILDING AUTHORITY (PEBA) - Continued

Bonds Payable

The PEBA bonds payable consisted of Educational Facilities Revenue Bonds Series 2008 which bear interest rates from 4.00% to 5.13%. The bonds were issued April 1, 2008, and will mature April 1, 2038. The principal amount outstanding at September 30, 2015, totaled 41,825,000. Principal and interest requirements for the years ending September 30 are as follows:

	Principal	Interest
2016	\$ 1,065,000	\$ 2,594,171
2017	1,105,000	2,544,666
2018	1,150,000	2,491,927
2019	1,195,000	2,435,227
2020	1,250,000	2,370,534
2021-2025	7,145,000	10,752,193
2026-2030	8,995,000	8,447,047
2031-2035	11,505,000	5,992,754
2036-2040	8,415,000	1,431,704
Total	\$ 41,825,000	\$ 39,060,223

NOTE 11 - GRAND RIVER LIMITED OBLIGATION WARRANTS

In an Indenture of Trust dated October 30, 2009, the now dissolved Cooperative District authorized the issuance, execution, and delivery of the Limited Obligation taxable warrants, Series 2009 in the amount of \$23,000,000. These 2009 Warrants are a limited obligation of the City and will be repaid solely from pledged sales tax revenues generated by retail sales at Grand River. The 2009 issue bears an interest rate of 8.5% and are payable each January 15, April 15, July 15, and October 15. The 2009 Warrants mature on August 1, 2031. Variable payments will be made based on the amount of pledged taxes collected each quarter. Payments will continue until all principal has been returned and any accrued interest has been paid.

The funding agreement states that Grand River will reduce the amount of the municipal service reduction provided for in the Bass Pro Funding agreement. The reduction of the municipal service reduction is to be reimbursed to the City of Leeds at such time as pledged revenues from Grand River are sufficient to pay the debt service of the limited obligation debt. If there are insufficient revenues to cover the debt service the City accrues the amount of the municipal service reduction by Grand River with no interest. The amount due to the City of Leeds from Grand River at September 30, 2015, is \$1,047,099. This amount is not payable to the City until the debt obligation is satisfied.

**City of Leeds, Alabama
Notes to Financial Statements**

NOTE 12 - RESTRUCTURED SERIES 2006-A LIMITED OBLIGATION WARRANTS

In an Indenture of Trust dated August 1, 2011, the City restructured the 2006-A Series warrants from general obligation of the City to taxable limited obligation warrants. The remarketed Series A Warrants are limited obligations of the City payable solely from the City's sales and use taxes generated from the sales at the Bass Pro store and certain nearby property, the Series A Letter of Credit, and a standby letter of credit issued by JP Morgan Chase Bank, N.A. The net effect of the reissuance of the Remarketed Series A Warrants as a limited obligation of the City is that the City's general fund can no longer be called upon by either Bass Pro Alabama or Regions Bank, either as a credit obligor or as trustee, to pay debt service on the Remarketed Series A Warrants.

NOTE 13 – RESTATEMENT OF PRIOR YEAR NET POSITION

The City recorded a retroactive restatement as a result of implementing Governmental Accounting Standards Board Statement 65, Items Previously Reported as Assets and Liabilities, as well as Governmental Accounting Standards Board Statement 68, Accounting and Financial Reporting for Pensions. Furthermore, the City entered into a funding agreement with the Board of Education described in note 7 in 2014. These accounting changes adopted to conform to these restatements are applied retroactively. As a result, the cumulative effect of applying these changes has been reported as a restatement of beginning net position. The net effect of this restatement resulted in a change of beginning net position by \$4,296,524 for the City and \$1,223,817 for the component unit.

NOTE 14 - SUBSEQUENT EVENTS

Financial Statements

Subsequent events related to the City have been evaluated through February 10, 2016, which is also the date of the auditors' report and the date the financial results were available to be issued.

Required Supplementary Information

City of Leeds, Alabama
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget to Actual

<i>Year ended September 30, 2015</i>	General Fund	Original Budget	Final Budget	Variance
Revenues				
Taxes	\$ 13,322,410	\$ 13,138,570	\$ 13,138,570	183,840
Licenses and permits	2,419,923	2,197,010	2,197,010	222,913
Intergovernmental	325,079	286,500	286,500	38,579
Fines	689,658	802,500	802,500	(112,842)
Charges for services	930,881	854,960	854,960	75,921
Other revenues	231,204	787,080	787,080	(555,876)
Grant funds	18,340	-	-	18,340
Interest	26,162	38,150	38,150	(11,988)
Total Revenue	17,963,657	18,104,770	17,963,657	(141,113)
Expenditures				
General government	1,455,573	2,401,531	1,455,573	-
Street and infrastructure	793,075	755,570	793,075	-
Inspections and permits	250,654	239,036	250,654	-
Sanitation and sewer	859,156	697,319	859,156	-
Public safety	5,263,575	5,919,899	5,263,575	-
Library	413,118	451,280	413,118	-
Parks and recreation	365,860	441,026	365,860	-
Capital outlay	850,245	756,428	850,245	-
Grant expenses	13,200	14,400	13,200	-
Debt service				
Pledged revenues of limited obligations	3,162,170	3,200,000	3,162,170	-
Principal	45,000	45,000	45,000	-
Total Expenditures	13,471,626	14,921,489	13,471,626	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,492,031	3,183,281	4,492,031	-
Other financing sources (uses)				
Sale of assets	128,938	-	-	128,938
Transfer to debt service	(3,373,625)	(3,183,200)	(3,373,625)	-
Transfer to school construction fund	(11,517,491)		(11,517,491)	-
Total other financing sources (uses)	(14,762,178)	(3,183,200)	(14,762,178)	-
Excess (Deficiency) of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	\$ (10,270,147)	\$ 81	\$ (10,270,147)	-

See accompanying notes to required supplementary information.

City of Leeds, Alabama
Schedule of Changes in Net Pension Liability

Year ending September 30,	2014
Total pension liability	
Service cost	\$ 381,946
Interest	1,156,691
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(1,162,956)</u>
Net change in total pension liability	375,681
Total pension liability, beginning	15,040,120
Total pension liability, ending (a)	<u>\$ 15,415,801</u>
Plan fiduciary net position	
Contributions - employer	\$ 439,609
Contributions - member	237,993
Net investment income	1,151,891
Benefit payments, including refunds of employee contributions	<u>(1,162,956)</u>
Transfers among employers	<u>(123,408)</u>
Net change in plan fiduciary net position	543,129
Plan net position, beginning	9,904,622
Plan net position, ending (b)	<u>\$ 10,447,751</u>
Net pension liability (asset) - ending (a) - (b)	4,968,050
Plan fiduciary net position as a percentage of the total pension liability	67.77%
Covered-employee payroll	4,146,559
Net pension liability (asset) as a percentage of covered-employee payroll	119.81%

See accompanying notes to required supplementary information.

City of Leeds, Alabama
Schedule of Employer Contributions

<u>Year ending September 30,</u>	<u>2015</u>
Actuarily determined contribution	\$ 572,958
Contributions in relation to the actuarily determined contribution	\$ 572,958
Contribution deficiency (excess)	-
Covered-employee payroll	\$ 4,146,559
Contributions as a percent of covered-employee payroll	13.82%

See accompanying notes to required supplementary information.

City of Leeds, Alabama
Notes to Required Supplementary Information

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Budgets and budgetary accounting

The City adopts annual budgets for the general fund and such budgets are prepared on a basis consistent with generally accepted accounting principles. Any revisions that alter the total expenditures must be approved by the City Council. The budget of the governmental funds is presented in the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual.

Budget information presented in the required supplementary information is based on the final ratified budget as adopted by the City Council on January 7, 2016.

The City funded a Capital Projects Fund to hold restricted cash related to school construction in 2015. The amount of \$11,517,491 was transferred out of the general fund in creation of that fund, which was originally unbudgeted.

b. Actuarial inputs

Actuarially determined contributions rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2015 were based on the September 30, 2012 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry Age
Amortization method:	Level percent closed
Remaining amortization period:	28 years
Asset valuation method:	Five year smoothed market
Inflation:	3.00%
Salary increases:	3.75 – 7.25%, including inflation
Investment rate of return:	8.00%, net of pension plan investment expense, including inflation

Supplementary Information

City of Leeds, Alabama
Combining Balance Sheet—Other Governmental Funds

<i>Year ended September 30, 2015</i>	Commercial Development Authority	\$.04 and \$.05 Gasoline Tax Fund	\$.07 Gasoline Tax Fund	Total
Assets				
Cash and cash equivalents	\$ 62,213	\$ 346,628	\$ 229,891	\$ 638,732
Accounts receivable	-	8,999	14,315	23,314
Due from other funds	-	-	11,415	11,415
Total assets	62,213	355,627	255,621	673,461
Liabilities				
Accounts payable	-	-	12,162	12,162
Total Liabilities	-	-	12,162	12,162
Fund Balance				
Restricted for:				
Road maintenance and construction	-	355,627	243,459	599,086
Assigned for:				
Commerical development	62,213	-	-	62,213
Total fund balance	62,213	355,627	243,459	661,299
Total liabilities and fund balance	\$ 62,213	\$ 355,627	\$ 255,621	\$ 673,461

City of Leeds, Alabama
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances – Other Governmental Funds

<i>Year ended September 30, 2015</i>	Commercial Development Authority	\$.04 and \$.05 Gasoline Tax Fund	\$.07 Gasoline Tax Fund	Total
Revenues				
Taxes	\$ -	\$ 108,026	\$ 327,402	\$ 435,428
Interest	56	216	137	409
Total Revenue	56	108,242	327,539	435,837
Expenditures				
Street and infrastructure maintenance	-	29,466	282,134	311,600
Street repairs	-	178,899	-	178,899
Total Expenditures	-	208,365	282,134	490,499
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	56	(100,123)	45,405	(54,662)
Other financing sources (uses)				
Transfer to other funds	-	(588)	(16,226)	(16,814)
Transfer from other funds	-	-	-	-
Total other financing sources (uses)	-	(588)	(16,226)	(16,814)
Excess (Deficiency) of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses				
	56	(100,711)	29,179	(71,476)
FUND BALANCES - Beginning	62,157	456,338	214,280	732,775
FUND BALANCES - Ending	\$ 62,213	\$ 355,627	\$ 243,459	\$ 661,299