

CITY OF SPANISH FORT, ALABAMA  
GENERAL PURPOSE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED SEPTEMBER 30, 2020

CITY OF SPANISH FORT, ALABAMA  
GENERAL PURPOSE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

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## **FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members  
of the City Council  
City of Spanish Fort, Alabama

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

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

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

### **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. 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, each major fund, and the aggregate remaining fund information of the City of Spanish Fort, Alabama as of September 30, 2020, 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 budgetary comparison information, the Schedule of Changes in the Net Pension Liability and the Schedule of Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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 Reporting Required by Governmental Auditing Standards**

In accordance with *Governmental Auditing Standards*, we have also issued our report dated May 11, 2021, on our consideration of the City of Spanish Fort, Alabama's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Spanish Fort, Alabama's internal control over financial reporting and compliance.

*Avizo Group, Inc.*

Certified Public Accountants

May 11, 2021  
Fairhope, Alabama

## **BASIC FINANCIAL STATEMENTS**

CITY OF SPANISH FORT, ALABAMA

STATEMENT OF NET POSITION

SEPTEMBER 30, 2020

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 15,078,222
Grant receivable	78,599
Receivables, net	409,410
Capital assets, net	<u>28,971,670</u>
Total assets	<u>44,537,901</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Employer retirement contributions and net difference between projected and actual earnings on plan investments	572,231
Loss on defeasance	<u>506,068</u>
Total deferred outflows of resources	<u>1,078,299</u>
Total assets and deferred outflows of resources	<u><u>\$ 45,616,200</u></u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 480,799
Long-term liabilities	
Due within one year	1,694,752
Due in more than one year, net	<u>7,381,725</u>
Total liabilities	<u>9,557,276</u>
<b>NET POSITION</b>	
Net investment in capital assets	21,215,702
Restricted for:	
Construction and road maintenance	791,644
Unrestricted	<u>14,051,578</u>
Total net position	<u>36,058,924</u>
Total liabilities and net position	<u><u>\$ 45,616,200</u></u>

See independent auditors' report and notes to the financial statements.

CITY OF SPANISH FORT, ALABAMA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government</b>					
Governmental activities:					
General	\$ 3,191,605	\$ 1,167,462	\$ 520,425	\$ -	\$ (1,503,718)
Police	2,494,999	34,674	-	-	(2,460,325)
Public works	350,719	-	-	-	(350,719)
Library	167,286	-	-	-	(167,286)
Building	259,822	255,606	-	-	(4,216)
Senior Center	48,837	-	-	-	(48,837)
Interest on long term debt	392,321	-	-	-	(392,321)
Total governmental activities	\$ 6,905,589	\$ 1,457,742	\$ 520,425	\$ -	(4,927,422)
General revenues:					
Taxes					
Sales					5,182,391
Real estate					608,303
Liquor					228,255
Other					99,727
Intergovernmental					241,405
Investment earnings					60,942
Other					282,162
Total general revenues					6,703,185
Change in net position					1,775,763
Net position, beginning					34,283,161
Net position, ending					\$ 36,058,924

See independent auditors' report and notes to the financial statements.



CITY OF SPANISH FORT, ALABAMA

FUND BALANCE SHEETS  
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2020

	Major Fund		Nonmajor Funds	Total Governmental Funds
	General	Capital Projects Athletic Fund	Other Governmental	
ASSETS				
Cash	\$ 14,263,884	\$ 22,299	\$ 792,039	\$ 15,078,222
Grant receivables	78,599	\$ -	-	78,599
Receivables - Intergovernmental	409,410	-	-	409,410
TOTAL ASSETS	<u>\$ 14,751,893</u>	<u>\$ 22,299</u>	<u>\$ 792,039</u>	<u>\$ 15,566,231</u>
LIABILITIES				
Accounts payable	\$ 438,736	\$ -	\$ -	\$ 438,736
TOTAL LIABILITIES	<u>438,736</u>	<u>-</u>	<u>-</u>	<u>438,736</u>
FUND BALANCES				
Restricted				
Construction and road maintenance	-	22,299	769,345	791,644
Assigned	2,054,735	-	-	2,054,735
Unassigned	12,258,422	-	22,694	12,281,116
TOTAL FUND BALANCES	<u>14,313,157</u>	<u>22,299</u>	<u>792,039</u>	<u>15,127,495</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 14,751,893</u>	<u>\$ 22,299</u>	<u>\$ 792,039</u>	<u>\$ 15,566,231</u>

See independent auditors' report and notes to the financial statements.

CITY OF SPANISH FORT, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET POSITION OF  
GOVERNMENTAL ACTIVITIES

SEPTEMBER 30, 2020

<b>Fund balances as reported on page 4</b>	\$ 15,127,495
Net Position reported for governmental activities in the Statement of Net Position (page 2) are different from Fund Balances for governmental activities because:	
Capital assets used in governmental activities are financial resources and are not reported in fund financial statements	35,194,216
Depreciation is provided for the above capital assets in government-wide reporting, but not in fund financial statements	(6,222,546)
Long-term liabilities, including warrants payable, capital lease obligations and notes payable are not due and payable in the current period and are not reported in fund financial statements	
Warrants payable	(8,262,036)
Net pension liability	(814,441)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds	572,231
Deferred loss on the early retirement of debt is not reported in the fund financial statements but is recognized for government wide reporting	506,068
Accrued interest payable is not due and payable in the current period and therefore not reported in fund financial statements	<u>(42,063)</u>
<b>Net Position of Governmental Activities as reported on page 2</b>	<u><u>\$ 36,058,924</u></u>

See independent auditors' report and notes to the financial statements.

CITY OF SPANISH FORT, ALABAMA

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Major Fund		Non Major Funds	Total
	General	Capital Projects Athletic Fund	Other Governmental	Governmental Funds
REVENUES				
Local taxes	\$ 6,093,949	\$ -	\$ 24,728	\$ 6,118,677
Licenses, permits and fees	1,423,068	-	-	1,423,068
Fines	34,674	-	-	34,674
State of Alabama	91,684	-	149,722	241,406
Grants	509,579	-	-	509,579
Other revenues	353,818	121	12	353,951
Total revenues	<u>8,506,772</u>	<u>121</u>	<u>174,462</u>	<u>8,681,355</u>
EXPENDITURES				
General government	2,533,881	-	-	2,533,881
Building department	237,900	-	-	237,900
Police department	2,297,309	-	-	2,297,309
Public works	320,419	-	-	320,419
Library	167,286	-	-	167,286
Senior Center	48,837	-	-	48,837
Capital outlay	2,738,826	-	-	2,738,826
Contributions	134,623	-	-	134,623
Debt service				
Principal	454,742	1,438,768	384,616	2,278,126
Interest	131,575	15,944	76,113	223,632
Total expenditures	<u>9,065,398</u>	<u>1,454,712</u>	<u>460,729</u>	<u>10,980,839</u>
EXCESS OF EXPENDITURES OVER (UNDER) REVENUES BEFORE OTHER FINANCING SOURCES (USES)	<u>(558,626)</u>	<u>(1,454,591)</u>	<u>(286,267)</u>	<u>(2,299,484)</u>
OTHER FINANCING SOURCES (USES)				
Transfers (to) from other funds	<u>(1,021,447)</u>	<u>1,283,555</u>	<u>(262,108)</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,021,447)</u>	<u>1,283,555</u>	<u>(262,108)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(1,580,073)	(171,036)	(548,375)	(2,299,484)
Fund balances, beginning of year	<u>15,893,230</u>	<u>193,335</u>	<u>1,340,414</u>	<u>17,426,979</u>
FUND BALANCES, END OF YEAR	<u>\$ 14,313,157</u>	<u>\$ 22,299</u>	<u>\$ 792,039</u>	<u>\$ 15,127,495</u>

See independent auditors' report and notes to the financial statements.

CITY OF SPANISH FORT, ALABAMA

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2020

**Net change in fund balances - total governmental funds, page 6** \$ (2,299,484)

Amounts reported for governmental activities in the Statement of Activities are different from the Statements of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation and amortization expense to allocate those expenditures over the life of the assets.

Capital outlays for the year	2,738,826
Depreciation expense for the year	(800,885)

Bond and other debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Principal payments on long term debt	2,278,126
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Some expenditures reported in governmental funds are to be paid on a long-term basis and therefore are not reported as expenses in the Statement of Activities

Change in deferred outflows of resources- loss on defeasance	(168,689)
Pension expense	27,869

**Change in Net Position of Governmental Activities, page 3** \$ 1,775,763

**NOTES TO THE FINANCIAL STATEMENTS**

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Spanish Fort, Alabama (the City) was incorporated on July 19, 1993. The City operates under a Mayor - Council form of government and its members are elected by district.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to municipal governments. The following is a summary of the more significant policies.

A. REPORTING ENTITY

The financial statements of the City have been prepared in conformity with the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB). In June 1999, GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement, known as the "Reporting Model" statement, affects the way the City prepares and presents financial information. The Statement was developed to make annual reports easier to understand and more useful to the people who use government financial information to make decisions.

The criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships and/or a significant economic benefit exists, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, this report includes financial statements of the funds and account groups required to account for those financial activities for which the City has the ability to influence and control through its legislative processes and/or with which special financing relationships exist.

**Potential Component Units**

The following entities were considered for inclusion in the City's financial statements as potential component units. However, the City has determined they do not meet all the criteria currently required by Governmental Accounting Standards for inclusion as component units. Thus, the City has chosen not to present the entities within its financial statements. However, separately issued audited financial statements are available for each entity and may be obtained from the City Clerk's office.

The Cooperative District of the City of Spanish Fort- Hwy. 181 Public Facilities is a legally separate, tax exempt entity. The District encompasses a retail area called the "The Eastern Shore Centre", and it collects a fee that is assessed on all retail sales in the District. The fee will repay warrants used to finance the construction of certain public infrastructure in the District. In the event that the debt is satisfied, the fee will be used as directed by the governing body of the City. Under any circumstance, the fee is to be used to support the District and its properties.

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Cooperative District of the City of Spanish Fort- Hwy. 98 Public Facilities is a legally separate, tax exempt entity. The District encompasses a retail area called the “Spanish Fort Town Center” and collects a fee that is assessed on all retail transactions in the District. The fee will repay warrants used to finance the construction of certain public infrastructure in the District. In the event that the debt is satisfied, the fee will be used as directed by the governing body of the City. Under any circumstance, the fee is to be used to support the District and its properties.

The City of Spanish Fort has no legal obligation for debts of the Districts and receives no direct financial benefit from the Districts. Each District issues a separate financial statement available from the City Clerk of the City of Spanish Fort.

B. BASIS OF PRESENTATION – GOVERNMENT-WIDE AND FUND LEVEL

Government-wide

The basic financial statements include government-wide and fund financial statements. The previous reporting model emphasized fund types, while the new model focuses on the City as a whole and major funds. Government-wide and fund financial statements categorize primary activities as governmental or business type. In the Statement of Net Position, governmental and business-type activities (a) are presented on a consolidated basis, and (b) reflect full accrual accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Receivables and payables between activities are eliminated in the government-wide presentation through the caption “Internal Balances” on the Statement of Net Position.

The Statement of Activities reflects both the gross and net cost per functional category (public works, police, etc.) which are otherwise being supported by general government revenues (taxes, licenses and permits, etc.). The Statement of Activities reduces gross expenses, including depreciation, by related program revenues. The program revenues must be directly associated with a function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Fund Level

The governmental fund level financial statements are presented on a current financial resource and modified accrual basis of accounting. Since governmental fund level financial statements are presented on a different basis of accounting and measurement focus than governmental activities in the government-wide presentation, a summary is presented to explain adjustments necessary to reconcile fund level statements to the government-wide presentation.

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into broad fund categories as follows:

**Governmental Funds:**

General Fund – The General Fund is used to account for all revenues and expenditures applicable to the general operations of city government which 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. The general fund will be a major fund.

Capital Projects Athletic Fund- Capital Project Funds are used to account for the financial resources designated to construct major improvements other than those financed by special assessments. This fund will be a major fund.

Special Revenue Fund – The Special Revenue Fund is an operating fund for which the use of revenues is restricted or designated by outside sources.

Capital Projects Fund – Capital Project Funds are used to account for the financial resources designated to construct major improvements other than those financed by special assessments.

C. CAPITAL ASSETS

The accounting treatment over capital assets depends on whether the assets are used by governmental funds or proprietary funds and in fund level or government-wide reporting.

In government-wide reporting, all capital assets are reported as capital assets for governmental-type activities. The City has not established a minimum capitalization threshold at this time. Depreciation is provided on all capital assets at the government-wide level.

In fund level reporting, capital assets are reported as expenditures by governmental funds.

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated acquisition value at the date of donation.



CITY OF SPANISH FORT, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation is allocated as an expense in the Statement of Activities (government-wide level) and accumulated depreciation is reflected in the Statement of Net Position (government-wide level). Depreciation has been provided over the estimated useful lives using the straight line rates as follows:

Buildings	40 years
Streets	40 years
Vehicles	5 years
Other equipment	5 – 10 years

Cost of fixed assets includes interest during the construction period.

D. BASIS OF ACCOUNTING

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

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become susceptible to accrual, when they become both "measurable" and "available" to finance expenditures of the current period. The City uses a 60-day availability period except for FEMA disaster recovery grants which are recognized using a 12-month availability period.

Taxes collected by an intermediary are considered "measurable" when in the hand of the intermediary collecting governments and may be recognized as revenue at that time.

Expenditures other than interest on general long-term debt are recorded at the time liabilities are incurred. Revenues susceptible to accrual are those which are measurable and available to finance expenditures of the current period.

E. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

*Recently Issued Accounting Principles*

GASB Statement No. 87, *Leases*, was issued to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of GASB Statement No. 87 are effective for fiscal year 2022. The City is currently evaluating the impact it may have on its financial statements.

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, was issued to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of GASB Statement No. 89 are effective for the fiscal year 2022. The City is currently evaluating the impact that this statement may have on its financial statements.

GASB Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statement No. 14 and No. 61*, was issued to improve the consistency and comparability of reporting a government's majority interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of GASB Statement No. 90 are effective for fiscal year 2020. The City is currently evaluating the impact that this statement may have on its financial statements.

GASB Statement 92, *Omnibus 2020*, was issued as guidance addressing various accounting and financial reporting issues identified during the implementation and application of GASB Statement No. 87, *Leases*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, as amended, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, GASB Statement No. 84, *Fiduciary Activities*, and the measurement of liabilities and assets, if any, related to asset retirement obligations in a government acquisition. The various requirements of GASB Statement No. 92 are effective as early as the fiscal year 2021. The City is currently evaluating the impact that this statement may have on its financial statements.

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. DEFERRED INFLOWS OF RESOURCES AND DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS

Deferred inflows of resources and deferred outflows of resources related to pensions that are derived from the difference between projected and actual earnings on the respective pension plan investments are amortized to pension expense over a closed five-year period. Deferred inflows of resources and deferred outflows of resources related to pensions that are derived from differences between expected and actual experience with regard to economic or demographic factors (difference between expected and actual experience) in the measurement of the respective pension plan's total pension liability are amortized to pension expense over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the respective pension plan (active and inactive employees) determined as of the beginning of the measurement period. Contributions to the pension plan from the employer subsequent to the measurement date of net pension liability and before the end of the reporting period are reported as a deferred outflow of resources related to pensions and amortized over twelve months. This contribution is included as an increase in the respective pension plan fiduciary net position in the subsequent fiscal year.

G. DEFERRED OUTFLOWS OF RESOURCES FROM CURRENT REFUNDING OR ADVANCE REFUNDING OF DEBT

For the governmental activities, in the government-wide statements, the difference between the reacquisition price (new debt) and the carrying value of the old debt on refunded debt transactions is recorded as a deferred outflow of resources and amortized over the shorter of the remaining life of the old debt or the life of the new debt.

H. PROPERTY TAX

All ad valorem taxes levied by the state, county and any municipality in Baldwin County are assessed and collected by the Revenue Commissioner of Baldwin County. The Baldwin County property tax calendar requires the Revenue Commissioner to assess and attach taxes as enforceable liens on property as of September 30 and taxes are due October 1 through December 31. Property taxes not paid by January 1 are considered delinquent. Tax collections received by the County Revenue Commissioner are remitted to the City on a monthly basis. In accordance with implementation of GASB Statement No. 33, revenue is recorded based upon taxes assessed and considered available.

CITY OF SPANISH FORT, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. 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.

J. NET POSITION AND EQUITY CLASSIFICATIONS

Government-wide Financial Statements

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

- Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) the City's own laws through its enabling legislation and other provisions of its laws and regulations.
- Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

The fund equity of the governmental fund financial statements is classified as fund balance. In March 2009, GASB adopted a standard that establishes a hierarchy based on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds.

Fund balance is classified into one of the following four components:

- Restricted fund balance – Consists of fund balances with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) the City’s own laws through its enabling legislation and other provisions of its laws and regulations.
- Committed fund balance – Consists of fund balances that are useable only for specific purposes by formal action of the government’s highest level of decision making authority. The City’s highest level of decision making lies with the Mayor and the members of the governing body. In order to establish, modify or rescind a fund balance commitment, the Mayor and governing body must pass a law by formal action committing the funds, by passage of a resolution.
- Assigned fund balance – Consists of fund balances that are intended to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by (1) the governing body itself, or (2) a subordinate high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. The Mayor and governing body have the power to assign fund balance amounts to specific purposes. The governing body must vote to grant authorization of assigned fund balances to specific purposes.
- Unassigned fund balances – All other fund balances that do not meet the definition of “restricted, committed or assigned fund balances.”

The City considers unrestricted amounts to have been spent when an expenditure is incurred for the purpose for which restricted or unrestricted fund balance is available. The City considers unassigned amounts to have been spent when an expenditure is incurred for the purpose for which amounts in any of those unrestricted fund balance classifications could be used.

CITY OF SPANISH FORT, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 2 CAPITAL ASSETS

Changes in capital assets, during the fiscal year, were as follows:

Governmental Activities	Balance 10/1/2019	Additions	Reclassifications/ Retirements	Balance 9/30/2020
<b>Capital assets not subject to depreciation</b>				
Land	\$ 4,789,170	\$ -	\$ -	\$ 4,789,170
Construction in progress	4,037,560	2,298,090	(488,259)	5,847,391
	8,826,730	2,298,090	(488,259)	10,636,561
<b>Capital assets subject to depreciation</b>				
Buildings and improvements	12,484,076	6,240	-	12,490,316
Streets and drainage	8,575,020	703,811	-	9,278,831
Equipment and vehicles	2,627,813	218,944	(58,249)	2,788,508
Total	23,686,909	928,995	(58,249)	24,557,655
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	(2,049,634)	(311,160)	-	(2,360,794)
Streets and drainage	(1,503,496)	(206,844)	-	(1,710,340)
Equipment and vehicles	(1,926,780)	(282,881)	58,249	(2,151,412)
Total accumulated depreciation	(5,479,910)	(800,885)	58,249	(6,222,546)
Capital assets subject to depreciation, net	18,206,999	128,110	-	18,335,109
Total capital assets, net	\$ 27,033,729	\$ 2,426,200	\$ (488,259)	\$ 28,971,670
Depreciation was charged to governmental activities as follows:				
General government				\$ 368,613
Capital projects				182,359
Building				21,922
Police				197,691
Public works				30,300
Total				\$ 800,885

CITY OF SPANISH FORT, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2020

NOTE 3 LONG TERM DEBT

The City has the following general obligation debt outstanding at September 30, 2020:

General obligation refunding warrants 2014A dated January 15, 2014, at fixed interest rate of 2.86%, payable monthly, principal payable February 15, 2014 through December 15, 2028.	\$ 4,343,183
General obligation warrant, 2012 dated October 19, 2012, at a fixed interest rate of 2.29%, payable semi-annually, principal payable October 15, 2015 through October 15, 2027.	3,076,923
General obligation warrant, 2015 dated December 21, 2015, at a fixed interest rate of 1.05%, payable monthly, principal payable January 22, 2017 through December 22, 2021.	841,930
	\$ 8,262,036

The changes in general long term debt during the fiscal year were:

	Balance 10/1/2019	Additions	Reductions	Balance 9/30/2020	Due Within One Year
General Obligation					
Warrants	\$ 10,540,162	\$ -	\$ 2,278,126	\$ 8,262,036	\$ 1,694,752
Net pension liability	654,553	159,888	-	814,441	-
Total	\$ 11,194,715	\$ 159,888	\$ 2,278,126	\$ 9,076,477	\$ 1,694,752

The following is a summary of the debt service requirements to maturity as of September 30, 2020, including interest payments:

September 30,	Principal	Interest	Total
2021	\$ 1,694,752	\$ 202,692	\$ 1,897,444
2022	866,390	171,530	1,037,920
2023	880,350	148,639	1,028,989
2024	894,716	125,344	1,020,060
2025	909,497	101,730	1,011,227
2026-2029	3,016,331	163,924	3,180,255
Total	\$ 8,262,036	\$ 913,859	\$ 9,175,895

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 4 PENSION PLAN

Plan Description

The ERS, an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, pursuant to the *Code of Alabama 1975, Title 36, Chapter 27* (Act 515 of the Legislature of 1945). The purpose of the ERS is to provide retirement allowances and other specified benefits for state employees, State Police, and, on an elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control which consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 36, Chapter 27* grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at [www.rsa-al.gov](http://www.rsa-al.gov).

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 the *Code of Alabama 1975, Section 36-27-6*.

*Benefits Provided*

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



CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 4 PENSION PLAN (CONTINUED)

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

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

	<u>Number</u>
Retired members or their beneficiaries currently receiving benefits	5
Vested inactive members	2
Non-vested inactive members	9
Active members	<u>49</u>
Total	<u><u>65</u></u>

*Contributions*

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

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 4 PENSION PLAN (CONTINUED)

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 preretirement death benefit, and administrative expenses of the Plan. For the year ended September 30, 2020 the City's active employee contribution rate was 5% for Tier 1 – Regular, 6% for Tier 1 – FLC, 6% for Tier 2 – Regular and 7% for Tier 2 - FLC of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 5.65% of pensionable payroll.

The City's contractually required contribution rate for the year ended September 30, 2020, was 7.45% of pensionable pay for Tier 1 employees, and 4.58% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation as of September 30, 2017, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City were \$125,667 for the year ended September 30, 2020.

CITY OF SPANISH FORT, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 4 PENSION PLAN (CONTINUED)

*Net Pension Liability*

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

	<u>Expected</u>	<u>Actual</u>
(a) Total Pension Liability as of September 30, 2018	\$4,716,144	\$4,775,844
(b) Discount rate	7.70%	7.70%
(c) Entry Age Normal Cost for the period October 1, 2018 to September 30, 2019	179,680	179,680
(d) Transfers Among Employers:	-	36,384
(e) Actual Benefit Payments and Refunds for the period October 1, 2018 to September 30, 2019	<u>(188,000)</u>	<u>(188,000)</u>
(f) Total Pension Liability as of September 30, 2019 [(a) x (1+(b))] + (c) + (d) + [(e) x (1/.05*(b))]	<u>\$ 5,063,729</u>	<u>\$ 5,164,410</u>
(g) Difference between Expected and Actual		\$ 100,681
(h) Less Liability Transferred for Immediate Recognition:		<u>36,384</u>
(i) Experience (Gain)/Loss = (g) - (h)		<u>\$ 64,297</u>

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 4 PENSION PLAN (CONTINUED)

*Actuarial Assumptions* - The total pension liability in the September 30, 2019, actuarial valuation was determined as part of actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included (a) 7.70% investment rate of return (net of pension plan investment expense), (b) projected salary increases ranging from 3.25% to 5.00% per year, and an inflation component of 2.75%. Mortality rates were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages 78 and older. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

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

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

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.0%	4.4%
U.S. Large Stocks	32.0%	8.0%
U.S. Mid Stocks	9.0%	10.0%
U.S. Small Stocks	4.0%	11.0%
Inter'ntl Developed Mkt Stks	12.0%	9.5%
Inter'ntl Emerging Mkt Stks	3.0%	11.0%
Alternatives	10.0%	10.1%
Real Estate	10.0%	7.5%
Cash	3.0%	1.5%

\*Includes assumed rate of inflation of 2.5%

*Discount Rate* - The discount rate used to measure the total pension liability was the long term rate of return, 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the RSA 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 pan members. Therefore, the long-term expected rate of return on pension

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 4 PENSION PLAN (CONTINUED)

plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in Net Pension Liability**

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at September 30, 2018	\$ 4,716,144	\$ 4,061,591	\$ 654,553
Changes for the year:			
Service cost	179,680	-	179,680
Interest	355,905	-	355,905
Changes of assumptions	-	-	-
Differences between expected and actual experience	64,297	-	64,297
Contributions - employer	-	120,746	(120,746)
Contributions - employee	-	212,621	(212,621)
Net investment income	-	106,627	(106,627)
Benefit payments, including refunds of employee contributions	(188,000)	(188,000)	-
Administrative expense	-	-	-
Transfers among employers	36,384	36,384	-
Net Changes	448,266	288,378	159,888
Balances at September 30, 2019	<u>\$ 5,164,410</u>	<u>\$ 4,349,969</u>	<u>\$ 814,441</u>

*Sensitivity of the net pension liability to changes in the discount rate* - The following table presents the Board's net pension liability calculated using the discount rate of 7.70%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage-point higher (8.70%) than the current rate:

	1% Decrease (6.70%)	Current Rate (7.70%)	1% Increase (8.70%)
Net pension liability	\$ 1,531,613	\$ 814,441	\$ 214,736

*Pension plan fiduciary net position* - Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement No. 68 Report for the RSA prepared as of September 30, 2019. The auditor's report on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 4 PENSION PLAN (CONTINUED)

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

For the year ended September 30, 2020, the City recognized pension expense of \$102,220. At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 233,804	\$ -
Changes of assumptions	147,625	-
Net difference between projected and actual earnings on plan investments	65,135	-
Employer contributions subsequent to measurement date *	125,667	-
Total	<u>\$ 572,231</u>	<u>\$ -</u>

\* \$125,667 reported as deferred outflows of resources related to pensions resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized as an increase (decrease) in pension expense as follows:

Year Ending September 30,	
2021	\$ 54,546
2022	65,828
2023	96,483
2024	107,402
2025	61,033
Thereafter	61,272
	<u>\$ 446,564</u>

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 5 RISK MANAGEMENT AND CONTINGENCIES

Various lawsuits are pending against the City. City management believes that the potential adverse impact of these claims is mitigated by insurance and will not be material to the financial statements of the City.

The City receives 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 under the terms of the grant. City management believes such disallowances, if any, will be immaterial.

NOTE 6 UNCERTAINTIES WITH REGARDS TO COVID-19 AND HURRICANE SALLY

On January 30, 2020, the World Health Organization declared the COVID-19 (Coronavirus) outbreak a “Public Health Emergency of International Concern”. On March 11, 2020, it was declared to be a pandemic. The spread of the virus has caused business disruption. Actions taken to mitigate the spread include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. While it is unknown how long these conditions will last and what complete financial effect this will have on the City, the City has taken action to mitigate this risk and does not expect a significant decline in revenue.

On September 16, 2020, Spanish Fort, Alabama was impacted by Hurricane Sally resulting in wide spread devastation and extensive damage to property. While it is unknown what complete financial effect this will have on the City, the City does not expect a decline in revenue, but does expect significant increase in expenses. As discussed in Note 1, with regard to revenue recognition, the City’s anticipated federal and state reimbursement for hurricane expenses related to costs incurred is included in revenue for fiscal year 2020 in the amount of \$78,599. Expenses incurred in 2021 are expected to be reimbursed at the same rate.

NOTE 7 SUBSEQUENT EVENTS

The City has evaluated subsequent events through May 11, 2021, the date which the financial statements were available to be issued. There were no material subsequent events which require disclosure at September 30, 2020.

**REQUIRED SUPPLEMENTARY INFORMATION**



CITY OF SPANISH FORT, ALABAMA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 SEPTEMBER 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Local taxes	\$ 6,109,000	\$ 6,109,000	\$ 6,093,949	\$ (15,051)
Licenses, permits and fees	1,470,845	1,470,845	1,423,068	(47,777)
Fines	187,000	187,000	34,674	(152,326)
State of Alabama	85,200	85,200	91,684	6,484
Grants	895,000	895,000	509,579	(385,421)
Other revenues	968,300	968,300	353,818	(614,482)
<b>TOTAL REVENUES</b>	<u>9,715,345</u>	<u>9,715,345</u>	<u>8,506,772</u>	<u>(1,208,573)</u>
<b>EXPENDITURES</b>				
General government	3,725,090	3,725,090	2,533,881	(1,191,209)
Building department	289,230	289,230	237,900	(51,330)
Police department	2,638,275	2,638,275	2,297,309	(340,966)
Public works	984,100	984,100	320,419	(663,681)
Library department	220,650	220,650	167,286	(53,364)
Senior Center	-	-	48,837	48,837
Contributions	-	-	134,623	134,623
Capital outlays	3,250,000	3,250,000	2,738,826	(511,174)
Debt service	1,108,000	1,108,000	586,317	(521,683)
<b>TOTAL EXPENDITURES</b>	<u>12,215,345</u>	<u>12,215,345</u>	<u>9,065,398</u>	<u>(3,149,947)</u>
<b>EXCESS OF EXPENDITURES OVER (UNDER) REVENUES BEFORE OTHER FINANCING SOURCES (USES)</b>	<u>(2,500,000)</u>	<u>(2,500,000)</u>	<u>(558,626)</u>	<u>1,941,374</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers to other funds	-	-	(1,021,447)	(1,021,447)
Total other financing sources (uses)	-	-	(1,021,447)	(1,021,447)
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (2,500,000)</u>	<u>\$ (2,500,000)</u>	(1,580,073)	<u>\$ 919,927</u>
Fund Balance, beginning of year			<u>15,893,230</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 14,313,157</u>	

Council approved budget includes \$2,500,000 which relates to operating cash balance at the end of 2019 fiscal year. Council includes this number in the budget as the cash is available funds to use for expenses.

See independent auditors' report and note to budgetary comparison schedule.

CITY OF SPANISH FORT, ALABAMA

NOTE TO BUDGETARY COMPARISON SCHEDULE

SEPTEMBER 30, 2020

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Each September the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year. Line item budgets are used for administrative control. The level of control for the detailed budgets is at the function level.
- (2) Public hearings are conducted to obtain taxpayer comments.
- (3) The budget is legally enacted through passage of a resolution.
- (4) Reports are submitted to the City Council showing approved budget and actual operations.
- (5) The Mayor is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures must be approved by the City Council.
- (6) Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

CITY OF SPANISH FORT, ALABAMA

SCHEDULES OF CHANGES IN THE NET PENSION LIABILITY

LAST 10 FISCAL YEARS ENDING SEPTEMBER 30

<b>Total pension liability</b>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Service cost	\$ 179,680	\$ 181,308	\$ 180,401
Interest	355,905	319,980	281,739
Changes of benefit terms	-	-	-
Differences between expected and actual experience	64,297	71,064	126,451
Changes of assumptions	-	30,170	-
Benefit payments, including refunds of employee contributions	(188,000)	(74,716)	(72,633)
Transfer among employees	36,384	22,209	(21,485)
<b>Net change in total pension liability</b>	<u>448,266</u>	<u>550,015</u>	<u>494,473</u>
<b>Total pension liability- beginning</b>	<u>4,716,144</u>	<u>4,166,129</u>	<u>3,671,656</u>
<b>Total pension liability- ending (a)</b>	<u><u>\$ 5,164,410</u></u>	<u><u>\$ 4,716,144</u></u>	<u><u>\$ 4,166,129</u></u>
<b>Plan fiduciary net position</b>			
Contributions- employer	\$ 120,746	\$ 105,373	\$ 116,650
Contributions- member	212,621	141,459	197,979
Net investment income	106,627	335,818	388,331
Benefit payments, including refunds of employee	(188,000)	(74,716)	(72,633)
Transfers among employers	36,384	22,209	(21,485)
<b>Net change in plan fiduciary net position</b>	<u>288,378</u>	<u>530,143</u>	<u>608,842</u>
<b>Plan net position- beginning</b>	<u>4,061,591</u>	<u>3,531,448</u>	<u>2,922,606</u>
<b>Plan net position- ending (b)</b>	<u><u>\$ 4,349,969</u></u>	<u><u>\$ 4,061,591</u></u>	<u><u>\$ 3,531,448</u></u>
<b>Net pension liability (asset)- ending (a) - (b)</b>	<u>\$ 814,441</u>	<u>\$ 654,553</u>	<u>\$ 634,681</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	84.23%	86.12%	84.77%
<b>Covered-employee payroll *</b>	\$ 1,957,253	\$ 1,892,593	\$ 1,860,752
<b>Net pension liability (asset) as a percentage of covered-employee payroll</b>	41.61%	34.58%	34.11%

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

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

See independent auditors' report.

CITY OF SPANISH FORT, ALABAMA

SCHEDULES OF CHANGES IN THE NET PENSION LIABILITY

LAST 10 FISCAL YEARS ENDING SEPTEMBER 30

2016	2015	2014
\$ 156,891	\$ 138,724	\$ 146,624
242,829	216,441	193,855
-	-	-
30,239	43,112	-
220,075	-	-
(83,882)	(52,971)	(63,336)
28,202		
<u>594,354</u>	<u>345,306</u>	<u>277,143</u>
<u>3,077,302</u>	<u>2,731,996</u>	<u>2,454,853</u>
<u><u>\$ 3,671,656</u></u>	<u><u>\$ 3,077,302</u></u>	<u><u>\$ 2,731,996</u></u>
\$ 106,559	\$ 96,150	\$ 91,797
104,143	88,741	83,111
262,967	28,538	244,167
(83,882)	(52,971)	(63,336)
28,202	9,237	-
<u>417,989</u>	<u>169,695</u>	<u>355,739</u>
<u>2,504,617</u>	<u>2,334,922</u>	<u>1,979,183</u>
<u><u>\$ 2,922,606</u></u>	<u><u>\$ 2,504,617</u></u>	<u><u>\$ 2,334,922</u></u>
\$ 749,050	\$ 572,685	\$ 397,074
79.60%	81.39%	85.47%
\$ 1,824,951	\$ 1,562,554	\$ 1,562,554
41.04%	36.65%	25.41%

CITY OF SPANISH FORT, ALABAMA

SCHEDULES OF EMPLOYER CONTRIBUTIONS

LAST 10 FISCAL YEARS ENDING SEPTEMBER 30

	2020	2019	2018	2017	2016	2015
Actuarially determined contribution*	\$ 125,667	\$ 127,988	\$ 112,375	\$ 114,011	\$ 106,555	\$ 96,055
Contributions in relation to the actuarially determined contribution*	125,667	127,988	112,375	114,011	106,555	96,055
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll**	\$ 2,111,352	\$ 1,957,253	\$ 1,892,593	\$ 1,860,752	\$ 1,824,951	\$ 1,562,554
Contributions as a percentage of covered-employee payroll	5.95%	6.54%	5.94%	6.13%	5.84%	6.15%

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

\*\*Employer's covered payroll for FY2019 is the total covered payroll for the 12-month period of the underlying financial statements.

CITY OF SPANISH FORT, ALABAMA  
SCHEDULES OF EMPLOYER CONTRIBUTIONS  
LAST 10 FISCAL YEARS ENDING SEPTEMBER 30

**NOTES TO SCHEDULE**

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for the fiscal year 2019 were based on the September 30, 2016 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	18.6 years
Asset valuation method	Five year smoothed market
Inflation	2.75%
Salary increases	3.25- 5.00 %, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

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

**COMPLIANCE AND INTERNAL CONTROL SECTION**



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Members  
of the City Council  
City of Spanish Fort, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Spanish Fort, Alabama, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Spanish Fort, Alabama's basic financial statements, and have issued our report thereon dated May 11, 2021.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Spanish Fort, 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 Spanish Fort, Alabama's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Spanish Fort, 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 over financial reporting that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control that we consider to be a significant deficiency and described it in the following paragraph.



### **Segregation of Duties**

Our study and evaluation disclosed that because of the limited size of your accounting staff, your organization has a limited segregation of duties. A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion. While we recognize that your organization is not large enough to permit an adequate segregation of duties in all respects, it is important that you are aware of this condition.

The City's response to the matter noted in our audit was to bring on a revenue officer subsequent to September 30, 2020 to assume various roles within the financial reporting department in order to provide an additional layer of segregation of duties.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Spanish Fort, 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.

*Avizo Group, Inc.*

Certified Public Accountants

May 11, 2021  
Fairhope, Alabama