CITY OF BESSEMER, ALABAMA
ELECTRIC SERVICE DEPARTMENT
COMPARATIVE
FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

CITY OF BESSEMER, ALABAMA
ELECTRIC SERVICE DEPARTMENT

JUNE 30, 2016 AND 2015

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The PRINCIPAL & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
"Moving Forward All The Time"

INDEPENDENT AUDITORS' REPORT

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

We were engaged to audit the accompanying financial statements of the business-type activities the City of Bessemer, Alabama Electric Service Department ("the Electric Service"), as of June 30, 2016 and 2015 and the related statements of changes in net position, revenues and expenses, and cash flows for the years then ended.

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.

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Emphasis of matter

As discussed in Note 12 and Note 17 to the basic financial statements, during 2015 the Board adopted Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions and Governmental Accounting Standards Board Statements No. 71, Pension Transactions for Contributions Subsequent to the Measurement Date. As a result of the adoption, the Board has restated its net position as of October 1, 2014 to comply with the pronouncements. Our opinion is not modified with respect to this matter.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bessemer Electric Service as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3–10 and the Schedule of the Utility's Proportionate Share of Net Pension Liability and the Schedule of Utility Contributions on pages 45 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with **Government Auditing Standards**, we have also issued our report dated September 30, 2016 on our consideration of the Bessemer Electric's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering Bessemer Electric's internal control over financial reporting and compliance.

The Principal & Associates

The Principal & Associates, Inc.
Certified Public Accountants
2100 South Bridge Parkway, Suite 650
P.O. Box 360973
Birmingham, Alabama 35236

September 30, 2016

CITY OF BESSEMER, ALABAMA
BESSEMER ELECTRIC SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) of the City of Bessemer Alabama, Bessemer Electric Service ("the Electric Service") activities and financial performance provides the reader with an introduction and overview to the financial statements of the Electric Service for the fiscal year ended June 30, 2016 and 2015.

Bessemer Electric Service is respectfully an enterprise fund of the municipality, City of Bessemer. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and net income is necessary for adequate managerial accountability.

Following this MD&A are the basic financial statements of the Electric Service together with the notes thereto which are essential to a full understanding of the data contained in the financial statements.

ELECTRIC SERVICE ACTIVITIES AND HIGHLIGHTS

The following is a schedule of the number of customers and respective kilowatt-hours used in each class.

	2016	2015
Residential		
Number of customers	9319	9268
Kilowatt-hours sold	111,852,104	118,245,739
General Power - <50kW		
Number of customers	1520	1515
Kilowatt-hours sold	40,380,039	43,567,904
General Power - >50kW		
Number of customers	245	252
Kilowatt-hours sold	153,801,482	155,663,957
Street and Athletic		
Number of customers	3	3
Kilowatt-hours sold	2,268,935	2,328,180
Outdoor lighting		
Number of customers	1196	1182
Kilowatt-hours sold	1,047,608	1,055,167

The Electric System has approximately 180 miles of distribution and transmission lines serving its residential, small commercial, large commercial and industrial consumers. Large consumers are defined as those consumers which have at least 50kW demand. During Fiscal year 2016, management of Bessemer Electric continued plans to strengthen its infrastructure for the upcoming years. Bessemer Utilities will continue to monitor changes in rate structure philosophies, consumer energy savings, technological changes, anticipated and unanticipated cost contingencies.

CITY OF BESSEMER, ALABAMA
BESSEMER ELECTRIC SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL OPERATIONS HIGHLIGHTS

The net position for 2016 was $275,890 as compared to $1,949,696 in 2015.

- Operating Revenues decreased by 5.9% from $35.8 million in 2015 to $33.7 million in 2016. Residential and Domestic sales decreased by 4.1%, Small Commercial Electric sales increased by 0.4%, Large Commercial Electric sales decreased by 4.9%, and Public, Street & Highway lighting sales decreased by 1.7% . Revenues from rents received from property increased by 37.2%, and forfeited discounts also increased by 10.9 %.

- Operating Expenses increased by 1.8% from $32.6 million in 2015 and $33.1 million in 2016. Maintenance and distributions increased by 36.3%, Purchased power decreased by 2.6%, & Operations and distributions decreased by 74.0%, as we completed pending maintenance projects from prior years.

- The net result of the above was operating income before depreciation was $2.6 million in 2015 and $649 thousand in 2016.

- Depreciation increased from $887,536 in 2015 to $882,668 in 2016.

- Operating income before other non-operating revenues and expenses decreases from $2,321,115 in 2015 to 649,493 in 2016, mostly due to the expected decrease in other revenue, and KWh efficiency decreases, and scheduled maintenance projects.

- Non-Operating Revenues/ (Expenses) decreased from a net (expense) of $371,419 in 2015 to a net (expense) of $373,603 in 2016.

SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION

	2016		2015	
Operating Revenues	$	33,673,616	$	35,768,064
Operating Expenses		32,141,455		32,559,413
Excess before depreciation and other non-operating revenues and expenses		1,532,161		3,208,651
Depreciation		882,668		887,536
Income before other non-operating revenues and expenses		649,493		2,321,115
Other non-operating revenues and expenses, net		(373,603)		(371,419)
Increase, (Decrease) in Net Position	$	275,890	$	1,949,696
Net Position, beginning of the year		18,072,380		19,316,428
Prior Period Adjustment	$	(30,710)		
Restatement				(3,193,744)
Net Position, end of the year	$	18,317,560	$	18,072,380

CITY OF BESSEMER, ALABAMA
BESSEMER ELECTRIC SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL POSITION SUMMARY

The following Management Discussion and Analysis is presented collectively with Bessemer Electric's financial information for the fiscal years ending June 30, 2016 and 2015, as a means to further the understanding of our financial performance.

A condensed summary of the Electric Service's net position at June 30th is shown below:

	2016	2015
ASSETS		
Current assets	18,123,657	19,271,328
Other assets and non-current assets	25,419,536	25,896,391
Total assets	43,543,193	45,167,719
LIABILITIES		
Current liabilities	11,686,616	13,342,681
Long-term debt and non-current liabilities	14,720,562	14,423,329
Total liabilities	26,407,178	27,766,010
NET POSITION		
Invested in capital assets, net of related debt	12,444,515	12,407,402
Restricted: Debt Service	790,075	790,075
Restricted: Electric System Contigencies	1,452,611	1,452,611
Customer Deposits	54,189	54,189
Unrestricted	3,576,170	3,368,103
TOTAL NET POSITION	18,317,560	18,072,380

The largest portion of the Electric Service's net assets each year represents Capital Assets which are not restricted to bond reserve funds that are subject to external restrictions on how they can be used under bond resolutions.

Another portion of the Electric Service's net assets represents its investment in capital assets (e.g., land, structure improvements, transportation and plant equipment), less the related indebtedness outstanding used to acquire those capital assets. The Electric Service uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending.

Although, the Electric Service's investment in its capital assets is reported net of related debt, it is noted the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay liabilities.

Additionally, management has continued its incorporation of its minimum cash reserve policy. This policy was incorporated in a prior fiscal year in an effort to help maintain financial flexibility and smooth rate adjustments in view of compounded impacts of turbulent storms, sluggish economy, changing energy prices, customer efficiency decreases in kWh and kW usage, and anticipated/unanticipated capital improvements. As such, the intended "management restricted" reserves were set aside for; an annual debt service expenditure, and electric system contingencies, if necessary. The electric system contingency reserves may be updated and reviewed by management and the Mayor annually. The remaining unrestricted net assets may be used to meet Electric Service's ongoing obligations.

In retrospect, Bessemer Electric's continued goal, despite economic obstacles and its history of turbulent storms; is to help our customer base continue in its move toward a stronger, energy efficient, and better prepared electric customer. However, as we advance through the 2017 fiscal year, we will continue to remain cautious for conditions that will either confirm, or alternatively oppose our assessments.

ELECTRIC RATES AND CHARGES

The following is the latest retail rate schedule enacted during the current year:

Residential (ELR)	
Availability Charge	$12.66 per month
Energy Charge per kilowatt hour	$.09525
General Power (‹50kW) (EL1)	
Availability Charge	$26.80 per month
Energy Charge per kilowatt hour	$.10546
General Power (51-1,000 kW) (EL2)	
Availability Charge	$29.55 per month
First 15,000 kilowatt hour	$.11082
Additional kilowatt hour	$.06347
51-1000 Kilowatts	$14.93
General Power (1,001-5,000 kW) (EL3)	
Availability Charge	$65.21 per month
All kilowatts	$.05880
0 –1000 kilowatts	$14.17
1001-5000 kilowatts	$14.56
Manufacturer (5001 kW & above) (EL4) SDE	
Availability Charge	$1,500.00 per month
Surcharge	$ 350.00 per month
Summer Season on Peak kW	$9.52
Summer Season Max kW	$2.14
Summer Season off Peak Excess of Contract kW	$9.52
Summer Season on Peak kWh	$0.07150
Summer Season off Peak kWh-1st 200HUD	$0.04827
Summer Season off Peak kWh next 200 HUD	$0.02069
Summer Season off Peak kWh additional HUD	$0.01831
Outdoor Lighting (LS)	
Energy Charge	$.07226 per kWh per month
Customer charge for Traffic Signal System or Athletic Field lighting	$2.50 per month
- Pole charge	$2.30 per month
- Metal pole charge	$4.63 per month

Outdoor Lighting	Watts	Rated kWh	Facility Charge	Total Cost/Mo
Mercury Vapor	** 175	70	$2.71	$ 7.77
	400	155	$4.06	$15.26
Metal Halide	1000	378	$6.98	$34.29
High Pressure Sodium	100	42	$4.12	$ 7.15
	* 250	105	$4.87	$12.46
	400	165	$5.78	$17.70
	1000	385	$9.24	$37.06

* (250 not available after 01/01/07)
**(175 Mercury Vapor no longer available)

The revenues realized from Electric sales are shown below:

	2016	2015
Residential and domestic	$ 11,998,188	$ 12,514,544
Small commercial	5,048,485	5,027,880
Large commercial	14,636,765	15,396,341
Public street and highway lightning	817,468	831,430
	$ 32,500,906	$ 33,770,195

CITY OF BESSEMER, ALABAMA
BESSEMER ELECTRIC SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

REVENUES

A summary of revenues for the year ended June 30, 2016, and the amount and percentage of change in relations to prior year amounts is as follows:

	2016 Amount	Percent of Total	Increase (Decrease) 2015	Percent Increase (Decrease)
Operating:				
Residential and domestic	$ 11,998,188	32.3%	$ (516,356)	-4.1%
Small Commercial	5,048,485	13.6%	20,605	0.4%
Large Commercial	14,636,765	39.4%	(759,576)	-4.9%
Public street and highway lightning	817,468	2.2%	(13,962)	-1.7%
Rents received from property	290,510	0.8%	78,770	37.2%
Customers' forfeited discount	375,845	1.0%	36,992	10.9%
Other Revenue	506,355	1.4%	(940,921)	-65.0%
Total Operating	33,673,616	90.6%	(2,094,448)	-5.9%
Non-Operating				
Interest Income	32,713	0.1%	(12,218)	0.0%
Total Non-Operating	32,713	0.1%	(12,218)	0.0%
TOTAL REVENUES	$ 33,706,329	90.7%	$ (2,106,666)	-5.9%

A summary of revenues for the year ended June 30, 2015, and the amount and percentage of change in relations to prior year amounts is as follows:

	2015 Amount	Percent of Total	Increase (Decrease) 2014	Percent Increase (Decrease)
Operating:				
Residential and domestic	$ 12,514,544	33.7%	$ (66,473)	-0.5%
Small Commercial	5,027,880	13.5%	9,054	0.2%
Large Commercial	15,396,341	41.4%	351,640	2.3%
Public street and highway lightning	831,430	2.2%	32,619	4.1%
Rents received from property	211,740	0.6%	(89,744)	-29.8%
Customers' forfeited discount	338,853	0.9%	(40,791)	-10.7%
Other Revenue	1,447,276	3.9%	1,250,900	637.0%
Total Operating	35,768,064	96.3%	1,447,205	4.2%
Non-Operating				
Interest Income	44,931	0.1%	12,094	0.0%
Total Non-Operating	44,931	0.1%	12,094	0.0%
TOTAL REVENUES	$ 35,812,995	96.4%	$ 1,459,299	4.2%

EXPENSES

A summary of expenses for the year ended June 30, 2016, and the amount and percentage of change in relation to prior year amounts is as follows:

	2016 Amount	Percent of Total	Increase (Decrease) 2015	Percent Increase (Decrease)
Operating:				
Purchased Power	$ 26,097,920	75.5%	$ (697,969)	-2.6%
Distribution - Operations	99,088	0.3%	(281,999)	-74.0%
Distribution - Maintenance	3,060,728	8.9%	815,006	36.3%
Customer accounting and collections	1,146,408	3.3%	218,460	23.5%
Bad Debt Expense	158,464	0.5%	158,464	100.0%
Administrative and general	1,385,176	4.0%	328,045	31.0%
Tax equivalents	999,996	2.9%	-	0.0%
Payroll taxes	193,675	0.6%	42,035	27.7%
Total Operating	33,141,455	95.9%	582,042	1.8%
Depreciation	882,668	2.6%	(4,868)	-0.5%
Non-Operating				
Interest expense	363,017	1.1%	(10,034)	-2.7%
Amortization of Bond Issuance expense	43,299	0.1%	-	0.0%
Total Non-Operating	406,316	1.2%	(10,034)	-2.7%
TOTAL EXPENSES	$ 34,430,439	99.7%	$ 567,140	1.7%

A summary of expenses for the year ended June 30, 2015, and the amount and percentage of change in relation to prior year amounts is as follows:

	2015 Amount	Percent of Total	Increase (Decrease) 2014	Percent Increase (Decrease)
Operating:				
Purchased Power	$ 26,795,889	77.6%	$ 649,333	2.5%
Distribution - Operations	381,087	1.1%	79,346	26.3%
Distribution - Maintenance	2,245,722	6.5%	56,954	2.6%
Customer accounting and collections	927,948	2.7%	245,995	36.1%
Bad Debt Expense	-	0.0%	(136,852)	-100.0%
Administrative and general	1,057,131	3.1%	(24,740)	-2.3%
Tax equivalents	999,996	2.9%	-	0.0%
Payroll taxes	151,640	0.4%	(10,953)	-6.7%
Total Operating	32,559,413	94.2%	859,083	2.7%
Depreciation	887,536	2.6%	4,734	0.5%
Non-Operating				
Interest expense	373,051	1.1%	(8,663)	-2.3%
Amortization of Bond Issuance expense	43,299	0.1%	(227,432)	-84.0%
Total Non-Operating	416,350	1.2%	(236,095)	-86.3%
TOTAL EXPENSES	$ 33,863,299	98.0%	$ 627,722	1.9%

SUMMARY OF CASH FLOW ACTIVITIES

The following shows a summary of the major sources and uses of cash and cash equivalents for the past two years. Cash equivalents are considered cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less:

		2016		2015
Cash flow from Operating Activities		2,525,069		3,003,779
Cash flow from Investment Activities		(2,322,850)		(674,067)
Cash flow from Capital and Related Financing Activities		(801,567)		(808,102)
Net Increase(Decrease) in Cash on Deposit:		(599,348)		1,521,610
Cash on Deposit: Beginning of the Year		13,005,167		11,483,557
Cash on Deposit: End of the Year	$	12,405,819	$	13,005,167
Cash on Deposit Consistent of the Following				
Current assets	$	10,163,133	$	10,762,481
Restricted assets		2,242,686		2,242,686
	$	12,405,819	$	13,005,167

The Electric Service's available cash and cash equivalents decreased from $13.0 million at the end of 2015 to $12.4 million at the end of 2016.

FINANCIAL STATEMENTS

The Statement of Net assets presents information on all of the Electric Service's assets and liabilities, with the difference between the two reported as net assets. Ultimately, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Electric Service is improving or deteriorating. The statement of revenues, expenses and changes in net position shows the business-type activity of the Electric Service and provides information regarding income and expenses, both operating and non-operating, that affect net assets.

The Electric Service's financial statements are prepared on an accrual basis in accordance with U. S. Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB). The Electric Service is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land and construction in progress) depreciated over their useful lives. Amounts are restricted for debt service, and where applicable, for construction activities. *(See the notes to the financial statements for a summary of the Electric Service's significant accounting policies).*

CITY OF BESSEMER, ALABAMA
BESSEMER ELECTRIC SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

During 2016, the Electric Service investment in capital assets before depreciation, increased by $ 483,473 thousand.

LONG-TERM DEBT OUTSTANDING

In 2011, the City issued $11,985,000 of Electric Revenue Warrants *(refunding series 1998, 1999, and 2003 revenue warrants)*, dated September 1, 2011, maturing annually from 2012 through 2033, with interest coupons ranging from 2.00 percent to 4.42 percent. This advance refunding was undertaken to reduce total debt service payment over the next 22.5 years by $17,233 and resulted in an economic gain.

Balance outstanding June 30, 2015 - $ 10,010,000

The total Electric Service bond debt outstanding at June 30, 2016, totals $10,010,000 compared to June 30, 2015, totals $10,420,000.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Electric Service's finances for all those interested. Questions or additional information pertaining to this should be addressed in writing to the Chief Accountant, 1600 1st Avenue North, Bessemer, Alabama 35020.

Respectfully submitted,

Ida Taylor
Chief Accountant

BASIC FINANCIAL STATEMENTS

CITY OF BESSEMER, ALABAMA
ELECTRIC SERVICE DEPARTMENT
STATEMENT OF NET POSITION
JUNE 30, 2016 AND 2015

	2016	2015
Assets		
Current Assets:		
Cash on Deposit	$ 10,163,133	$ 10,762,481
Customer accounts receivable, less allowance for doubtful accounts of $2,567,136 and $7,709,768 for 2016 and 2015, repectively	3,590,705	7,220,202
Merchandising, jobbing and other receivables	-	387,841
Rents receivable	-	-
Materials and supplies	381,548	628,306
Prepaid insurance and taxes	218,601	272,498
Due from Bessemer Water Service	3,769,670	
Total current assets	18,123,657	19,271,328
Restricted Assets		
Cash on Deposit	2,242,686	2,242,686
Certificate of Deposits	54,189	54,189
Total Restricted Assets	2,296,875	2,296,875
Utility Plant in Service		
Electric plant in service	43,700,584	43,217,111
Less: accumulated depreciation	(21,190,353)	(20,307,685)
	22,510,231	22,909,426
Construction work in progress	198,634	270,000
Land held for future use	291,359	291,359
Net plant and equipment	23,000,224	23,470,785
Other Assets:		
Customers' home insulation loans	122,437	128,731
Accrued leave reserve	-	-
Total other assets	122,437	128,731
Total Assets	43,543,193	45,167,719
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on pension	684,860	288,603
Deferred amount on refunding	496,685	524,669
	1,181,545	813,272
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 44,724,738	$ 45,980,991

See independent auditors' report and notes to financial statements.

CITY OF BESSEMER, ALABAMA
ELECTRIC SERVICE DEPARTMENT
STATEMENT OF NET POSITION
JUNE 30, 2016 AND 2015

	2016	2015
LIABILITIES AND EQUITY		
Current liabilities:		
Trade accounts payable	$ 545,656	$ 474,007
Accounts payable-TVA	4,475,875	4,845,008
Accrued payroll	106,193	55,739
Accrued interest	29,985	32,197
Accrued Tax Equivalent	749,996	333,332
Compensated absences	80,453	89,969
Capital Lease Obligation, net of long-term portion	27,328	26,308
Current maturities of revenue warrants	420,000	410,000
Due to Bessemer Water Service	5,251,130	7,076,121
Total current liabilities	11,686,616	13,342,681
Long-term debt:		
Revenue warrants, less current portion and bond discount	9,322,924	9,727,609
Capital Lease Obligation, less current portion	28,388	55,716
Compensated absences, less current portion	422,380	472,340
Total long-term debt	9,773,692	10,255,665
Other liabilities:		
Customer deposits	937,578	699,187
TVA advances for home insulation loans	122,437	128,731
Net pension liability	3,886,855	3,339,746
Total other liabilities	4,946,870	4,167,664
Total liabilities	26,407,178	27,766,010
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on pension	-	142,601
Net Position		
Investment in capital assets, net of related debt	12,444,515	12,407,402
Restricted:		
Debt service	790,075	790,075
Electric system contingency	1,452,611	1,452,611
Customer deposits	54,189	54,189
Unrestricted (deficit)	3,576,170	3,368,103
Total net position	18,317,560	18,072,380
Total Liabilities,Net Position, and Deferred Inflows	$ 44,724,738	$ 45,980,991

See independent auditors' report and notes to financial statements.

CITY OF BESSEMER, ALABAMA
ELECTRIC SERVICE DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Operating revenue:		
Residential and domestic	$ 11,998,188	$ 12,514,544
Small commercial	5,048,485	5,027,880
Large commercial	14,636,765	15,396,341
Public street and highway lighting	817,468	831,430
Rents received from property	290,510	211,740
Customers' forfeited discounts and penalties	375,845	338,853
Other revenue	506,355	1,447,276
Total operating revenues	33,673,616	35,768,064
Operating expenses:		
Purchased power	25,097,920	26,795,889
Distribution:		
Operations	99,088	381,087
Maintenance	3,060,728	2,245,722
Customer accounting and collection	1,146,408	927,948
Bad Debt Expense	158,464	
Administrative and general	1,385,176	1,057,131
Depreciation	882,668	887,536
Tax equivalents	999,996	999,996
Payroll taxes	193,675	151,640
Total operating expenses	33,024,123	33,446,949
Operating income	649,493	2,321,115
Nonoperating income (expense):		
Interest income	32,713	44,931
Interest expense	(363,017)	(373,051)
Amortization of bond cost	(43,299)	(43,299)
Total nonoperating income (expense)	(373,603)	(371,419)
Change in Net Position	275,890	1,949,696
Net Position, beginning of the year	18,072,380	19,316,428
Prior Period Correction	(30,710)	
Restatement	-	(3,193,744)
Net Position, end of the year	$ 18,317,560	$ 18,072,380

See independent auditors' report and notes to financial statements.

CITY OF BESSEMER, ALABAMA
ELECTRIC SERVICE DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
INCREASE (DECREASE) IN CASH ON DEPOSIT		
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	$ 34,550,344	$ 35,762,420
Payments to employees for services	(2,796,796)	(2,463,949)
Payment to suppliers for goods and services	(29,228,479)	(30,294,692)
Net cash provided by operating activities	2,525,069	3,003,779
CASH FLOWS FROM CAPITAL AND RELATED		
FINANCING ACTIVITIES		
Principal payment on revenue warrants	(410,000)	(405,000)
Principal payment on capital leases	(26,338)	(25,326)
Interest paid on debt	(365,229)	(377,776)
Net cash used by capital and related financing activities	(801,567)	(808,102)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of/reduction in property, plant and equipment	(2,355,563)	(718,998)
Interest received on investments	32,713	44,931
Net cash provided (used) by investing activities	(2,322,850)	(674,067)
NET INCREASE (DECREASE) IN CASH ON DEPOSIT	(599,348)	1,521,610
CASH ON DEPOSIT AT BEGINNING OF THE YEAR	13,005,167	11,483,557
CASH ON DEPOSIT AT END OF THE YEAR	$ 12,405,819	$ 13,005,167
CASH ON DEPOSIT CONSISTED OF THE FOLLOWING:		
Current assets	$ 10,163,133	$ 10,762,481
Restricted assets	2,242,686	2,242,686
Total	$ 12,405,819	$ 13,005,167

See independent auditors' report and notes to financial statements.

CITY OF BESSEMER, ALABAMA
ELECTRIC SERVICE DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME	$ 649,493	$ 2,321,115
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	882,668	887,536
Bad Debt Expense	158,464	-
Changes in assets and liabilities:		
Accounts receivable	3,772,129	4,830,115
Prepaid expenses	53,897	(23,943)
Due From Bessemer Water Service	(2,870,451)	11,910,361
Other receivables	394,135	(361,689)
Inventories	246,758	283,132
Deferred outflows of pension resources	396,257	288,603
Accrued tax equivalents payable	416,664	
Accrued interest payable	(2,212)	(4,725)
Accounts payable	(297,484)	(199,228)
Salaries & wages payable	50,454	(73,285)
Due to Bessemer Water Service	(2,104,909)	(20,375,773)
TVA advances for home insulations	(6,294)	65,521
Customer deposits	238,391	(26,308)
Net pension liability	547,109	3,339,746
Deferred inflows of pension resources	-	142,601
Total adjustments	1,875,576	682,664
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,525,069	$ 3,003,779
SUPPLEMENTAL DISCLOSURE OF NONCASH AND RELATED FINANCING ACTIVITIES		
Decrease in original issue discount	15,315	15,315
Decrease in refunded debt expense	27,984	27,984

See independent auditors' report and notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

The accounting policies of the Electric Service (Utility) conform to generally accepted accounting principles as they apply to governments. The following is a summary of the more significant accounting policies:

Reporting Entity

Because the Electric Service is a department of the City of Bessemer, the Electric Service's financial data is incorporated into the Annual Financial Report of the City of Bessemer. Theses financial statements are intended to present the financial position, changes in financial position and cash flows attributable only to the Electric Service. The management of the Electric Service is selected by the Mayor and City Council.

Basis of Accounting and Measurement Focus

The Utility reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Utility is that the costs of delivering utility service to its service area on a continuing basis be financed or recovered primarily through user charges, capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting.

Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues and expenses result from exchange transactions associated with the principal activity of the Utility. Exchange transactions are those in which each party receives and gives up essentially equal values. The principal operating revenues of the Utility is electric sales to its customers. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

Financial Reporting

The Utility's basic financial statements are prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

Financial Reporting (Continued)

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- The invested in capital assets component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets for which constraints are imposed thereon by external parties, such as creditors' binding debt covenants, grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

Purchase Power

Electric power for re-sale is purchased by the Electric Service from the Tennessee Valley Authority (TVA). Purchased power is expensed as TVA bills the Electric Service for power consumed.

Pensions

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

Electric Plant in Service

The utility plant in service is stated at cost less accumulated depreciation. Capital assets of the utility plant are defined by the Electric Service as assets with an initial individual cost of $5,000 or more and an estimated life in excess of one year. Additions and significant improvements that extend the useful life of a capital asset are capitalized. Ordinary maintenance and repairs are charged to expense as incurred. Capital assets are depreciated over their estimated useful lives by using the straight-line method:

Buildings	50 years
Power Distribution	50 years
Transportation Equipment	10 years
Other Equipment	10 years
Furniture	10 years
Office Equipment	5 years

When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost and the related accumulated provision for depreciation are removed from the accounts, and the gain or loss on such disposition is reflected in income.

Land has an indefinite life and is not depreciated.

Trusteed Funds

Indenture agreements with financial institutions related to the Electric Service Revenue Warrants Series 2011 require certain funds to be established and controlled by a trustee. The accounts of the trusteed funds are maintained on the cash receipts and disbursement basis and are adjusted for financial statement purposes to reflect accrued receivables and payables and certain inter-fund monthly transfers of cash to restricted investment accounts representing debt service, debt service reserve, and improvement funds. These funds provide for payment of principal and interest on the warrants, establish a reserve in the event that revenues of the Electric Service are insufficient to service the debt, and provide for payment of reasonable cost of capital improvements to the system.

The trusteed funds assets include investments that are uninsured and unregistered, with the securities held by the trustee, but not in the Utility's name.

Investments

Investments consist of money market funds and U.S. government and agency obligations. All investment income is reported in the statement of revenues, expenses, and changes in net position.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

Cash Equivalents

For the purposes of the statements of cash flows, the Electric Service considers investments with original maturity of three (3) months or less to be cash equivalents.

Accounts Receivable

The Electric Service reports trade receivables at net realizable value. Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they are written off through a charge against earnings.

Inventories

Material and supply inventories are stated at the lower of cost or market.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Debt Deferred Charge and Warrant Discount Cost

Debt deferred charge on refunding and warrant discount cost is capitalized and amortized over the term of the bonds using the straight-line method.

Risk Management

The Electric Service is exposed to various risks of losses related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, torts, and natural disasters. The Electric Service manages these risks through the purchase of commercial insurance.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

Financial Instruments

The carrying amounts of the Electric Service's cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair value because of the immediate or short-term maturity of these financial instruments. The carrying amounts of long-term obligations approximate fair value because the stated interest rates on the indebtedness approximate current borrowing rates.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budget

The Electric Service prepares an internal operations budget for management purposes which is approved by the Mayor.

Reclassifications

Certain prior year's data presented in the financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on total assets, change in net position, or cash flows.

Effects of Rate Regulation

The Bessemer Electric Service is rate-regulated by the Tennessee Valley Authority ("TVA"). The Electric Service follows the accounting and reporting requirements of Statement of Financial Accounting Standards Statement No. 71, Accounting for the Effects of Certain Types of Regulation ("SFAS No. 71"). SFAS No. 71 provides that rate-regulated entities account for and report assets and liabilities consistent with the economic effect of the way in which regulators establish rates, if the rates established are designed to recover the costs of providing the regulated service and it is probable that such rates can be charged and collected. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the statement of net position and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers.

Unbilled Electric Revenue

Bessemer Electric Utility is regulated by the Tennessee Valley Authority (TVA) which does not require Bessemer Utility to record or not record at year end unbilled estimated utility electric sales. Accordingly, Bessemer Utilities has option not to record unbilled estimated utility electric sale in accordance with the regulatory standards of TVA.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

Compensated absences

Compensated absences have been accounted for in accordance with GASB Statement No. 16, Accounting for Compensated Absences. Vacation leave is earned on graduated rates based on the employee's length of service (one day per month of service, initially) and up to forty days of unused leave may be carried over to the following year. After one year of service, an employee is eligible to receive up to 40 days of accrued vacation leave upon separation of service if they leave the City in good standing. Vacation pay is accrued when incurred in the financial statements. Sick leave is earned at a rate of one day per month of service. After five years of service, an employee is eligible to receive up to 75 days of accrued sick leave (100% of the first 60 days of accrued sick leave and 50% of the next 30 days of accrued sick leave) upon separation of service if they leave the City in good standing. Sick leave is accrued when incurred in the financial statements for those employees that meet the longevity requirements and is limited to the maximum days eligible for payment upon separation of service. It is necessary for the Utility Department to operate on a 24-hour basis regardless of weather or holidays. It has been the City's policy to allow those employees that work in those departments to accrue hours of holiday leave time and miscellaneous overtime leave with no cap. At various times, the City has approved lump sum payments of this accrued compensation, but this is on a discretionary basis. Upon separation of service from the City, employees are entitled to receive payment for any accrued compensation related to holiday leave or miscellaneous overtime leave. The record keeping for compensated absences is handled by the payroll clerk and the value of compensated absences is based on the reported hours accrued at the current hourly rate for each employee. It is reasonably possible that the actual amount paid for compensated absences will be different than the estimated value of accrued compensated absences.

Deferred outflows/inflows of resources

Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time. A deferred charge on refunding arises from advance refunding of debt. The difference between the cost of the securities placed in trust for future payment of refunded debt and the net carrying value of that debt is deferred and amortized as a component of interest expense over the shorter of the term of the refunding issue or the original term of the refunded debt. The unamortized amount is reported as a deferred outflow of resources in the statements of net position.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

NOTE 2 CUSTOMER ACCOUNTS RECEIVABLE

The Electric Service bills and collects from customers for services provided by the Electric Service and the Water Service Department, which is another department of the City. At June 30, 2016 and 2015, the Electric Service customer receivables totaled approximately $6,157,841 and $14,929,970 and the allowance for doubtful accounts was $2,567,136 and $7,709,768, respectively.

NOTE 3 CASH AND CASH EQUIVALENTS

The Mayor approves all banks or other institutions as depositories for the Utility funds. The Mayor requires all funds on deposit to be collateralized by a pledge of unencumbered securities.

The carrying amount of cash bank balances at June 30, 2016 totaled $12,460,008 and the bank balance was $12,310,196. Of this total, $1,421,412 was insured by federal depository insurance, $10,888,783 was collateralized with securities held by banks in their trust departments and $-0- was uncollateralized.

Investments

Assumptions

The Utility's Bond Indentures limits trusteed investments to "eligible investments." The Utility has not adopted a formal investment policy for trusteed investments or other Utility investments. Eligible investments include any of the following: federal obligations and eligible bank obligations.

Disclosures

As of June 30, 2016, the Utility had the following investments and maturities:

Investment Type	Market Value	Less Than 1 year
Federal US Treasury Obligations	$ -	$ -
Certificate of Deposits	54,189	54,189
	$ 54,189	$ 54,189

As of June 30, 2015, the Utility had the following investments and maturities:

Investment Type	Market Value	Less Than 1 year
Federal US Treasury Obligations	$ -	$ -
Certificate of Deposits	54,189	54,189
	$ 54,189	$ 54,189

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

Investments (continued)

Interest Rate Risk. The Utility does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Utility has no investment policy that would further limit its choices.

Interest revenues of $32,713 are included in revenues for 2016.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Balances are held in securities that are allowed by the Indenture, which require no collateralization. The accounts are in the name of the Trustee for the benefit of the holder.

Deposits

As of June 30, 2016 and 2015, the Utility's deposits were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the ***Code of Alabama 1975,*** Sections 41-14A-l 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. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

At June 30, 2016 and 2015, the Utility investment balances were as follows:

Investment Type	2016 Carrying Amount	2016 Fair Value	2015 Carrying Amount	2015 Fair Value
Federal US Treasury Obligations	$ -	$ -	$ -	$ -
Certificate of Deposits	54,189	54,189	54,189	54,189
	$ 54,189	$ 54,189	$ 54,189	$ 54,189

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

TRUSTEED FUNDS SURETY BOND

The Indenture agreement with a financial institution related to the Electric Service Revenue Warrants Series 2011 require the Utility to deposit in a Reserve Fund a surety bond in an amount equal to the required reserve to pay the principal and interest on the Warrants in the event that the moneys on deposit in the Warrant Fund not be sufficient for such purpose. As of June 30, 2016, the face amount of the surety bond (assured guaranty bond insurance) named to the Trustee as sole beneficiary was $790,075 which equals the maximum debt service requirement of the Electric Service Revenue Warrants Series 2011.

NOTE 4 CUSTOMER HOME INSULATION LOANS

The Electric Service finances the cost of insulation and, electric cooling and heating systems through a program provided by TVA. Under the program, TVA makes advances to the Electric Service as customers are approved for financial assistance through authorized dealers of insulation and electric cooling and heating systems. Loan liability balances at June 30, 2016 and 2015, under the program, totaled $122,437and $128,731, respectively.

NOTE 5 ELECTRIC REVENUE WARRANTS

Electric Revenue Warrants, Series 2011

On September 9, 2011, the City of Bessemer issued $11,958,500 in Electric Revenue Refunding Warrants Series 2011 (secured by revenues of the Electric Service). The Series 2011 Warrants were issued to, a) refund all the outstanding Electric Revenue Warrants Series 1998, Series 1999 Warrants, and Series 2003 Warrants b) pay for the cost of Reserve Fund Surety Bond, and c) pay the cost of issuing the Series 2011 Warrants. The debt service requirements of the Series 2011 Warrants to maturity are as follows:

	2016	2015
Series 2011 Utility revenue refunding warrants, rates varying from 2.00% to 4.25%, maturing December 1, 2033	$ 10,010,000	$ 10,420,000
Less current maturities of loan payable	420,000	410,000
Noncurrent maturities of loan payable	$ 9,590,000	$ 10,010,000

Maturities of the loan payable are as follows:

	Principal	Interest	Total
2016	$ 420,000	$ 357,763	$ 777,763
2017	430,000	347,263	777,263
2018	445,000	338,663	783,663
2019	450,000	327,983	777,983
2020	465,000	316,283	781,283
2026-2030	3,075,000	847,335	3,922,335
2031-2033	2,175,000	187,425	2,362,425
	$ 10,010,000	$ 4,078,204	$ 14,088,204

Indenture agreements with a Bank related to the Electric Service Revenue Warrants Series 2011 contains various covenants including a provision which requires the Electric Service to produce revenues sufficient in each fiscal year to (i), operate, maintain and repair the Electric System in accordance with sound business practice (ii), produce an amount equal to 1.35 times the maximum Debt Service Requirement as defined by the Indentures. The Electric Service has complied with these requirements of the Indenture.

NOTE 5 ELECTRIC REVENUE WARRANTS (CONTINUED)

Activity during 2016 related to long-term debt principal obligations is as follows:

	Balance at June 30, 2015	Additions	Reductions	Balance at June 30, 2016	Due Within One Year
Electric Revenue Warrants					
Series 2011	$ 10,420,000	$ -	$ 410,000	$ 10,010,000	$ 420,000
Less unamortized amounts:					
For warrant issuance	-		-	-	
For warrant discount	(282,391)		15,315	(267,076)	
Deferred outflow on refunding	(524,668)		27,984	(496,684)	
	9,612,941	-	453,299	9,246,240	420,000
Capital Lease					
Kansas State Bank due January 15, 2018	82,054	-	26,338	55,716	27,328
	82,054	-	26,338	55,716	27,328
Accumulated Compensated Absences	562,309		59,476	502,833	80,453
	562,309	-	59,476	502,833	80,453
Total Long-Term Debt	$ 10,257,304	$ -	$ 539,113	$ 9,804,789	$ 527,781

NOTE 5 ELECTRIC REVENUE WARRANTS (CONTINUED)

Defeased Debt

On December 1, 2011, the Bessemer Electric Utility issued $11,985,000 in Electric Revenue Refunding Warrants ("Series 2011 Warrants") with interest rates ranging from 2.00% - 4.42% to advance refund (a) $820,000 of Electric Revenue Warrants, Series 1998 with interest rates ranging from 3.20% to 4.75%, (b) $2,830,000 in Electric Revenue Warrants, Series 1999 with interest rates ranging from 5.45% to 5.70%, and (c) $6,860,000 in Electric Revenue Warrants, Series 2003 with interest rates ranging from 1.25% to 4.90%. The net proceeds of $11,426,440 (the face amount less an issue discount of $336,930, payment of issue cost $244,804 plus accrued interest income $23,174) plus an additional $1,121,913 and $320,928 from the Series 2003 construction fund and debt service fund monies, respectively, were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded Series 1998, 1999, and 2003 warrants. As of a result, the Series 1998, 1999, and 2003 warrants are considered to be defeased. Accordingly, the trust account assets and the liability for the refunded warrants are not included in the Utility's financial statements. The advance refunding resulted in a loss of $(629,607) which is the difference between the reacquisition price and the net carrying amount of the old debt of which was deferred and is being amortized over the life of the new debt. This advance refunding was undertaken to reduce total debt service payments over the next 22.5 years by $17,233 and resulted in an economic gain $1,964,440.

NOTE 6 CUSTOMER DEPOSITS

The Electric Service customer deposits include customer deposits for the Water Service Department. A liability to the Water Service Department for such deposits has been recognized. Certain Electric Service customers have elected to make electric service deposits, through the purchase of certificates of deposit which name the customer and the Electric Service as joint owners. These certificates of deposit are included in the Electric Service balance sheet and are not subject to use by the Electric Service.

NOTE 7 LEASES/CAPITAL ASSETS

Operating Lease Agreement -Utility Poles

The Electric Service leases utility poles in service to a telephone utility and a cable television utility. During 2016, utility poles were leased to the telephone utility at an average rate of $29.50 per pole and to the cable television utility at a rate of $21.60 per pole. The annual number of poles to be leased is determined every three years by mutual agreement.

NOTE 7 LEASES/CAPITAL ASSETS (CONTINUED)

Operating Lease Agreement -Warehouse Space

The Electric Service leases warehouse/garage space to the Water Service Department. The lease requires annual lease payments of $25,616.

Capital Lease Obligation

The Electric Service entered into a capital lease in fiscal year 2013 to finance the acquisition of a Utility Truck for $161,220 @ 3.88 percent interest, due January 15, 2018. The lease agreement qualifies as a capital lease for accounting purposes. The truck was capitalized at a cost of $161,220.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016 are as follows:

Capital Lease-Kansas State Bank

Year Ending June 30	Principal	Interest	Total
2017	$ 27,328	$ 2,161	$ 29,489
2018	28,388	1,101	29,489
Total Minimum Lease Payments	$ 55,716	$ 3,262	58,978
Less: Amount Representing Interest			(3,262)
Present Value of Minimum Lease Payments			$ 55,716

Assets that have outstanding debt:

Utility Truck	$ 161,220
Less Accumulated depreciation	(55,083)
Net Total	$ 106,137

NOTE 7 LEASES/CAPITAL ASSETS (CONTINUED)

Capital Assets

Balances of major classes of utility capital assets and accumulated depreciation at June 30, 2016 and changes therein for the year then ended are as follows:

Capital assets activity for the year ended June 30, 2016, was as follows:

	6/30/15 Beginning Balance	Increases	Decreases	6/30/16 Ending Balance
Capital Assets not being depreciated				
Land	$ 291,359	$ -	$ -	$ 291,359
Construction in Progress	270,000		71,366	198,634
Total Capital Assets, not being depreciated	561,359	-	71,366	489,993
Capital Assets				
Building and capital facilities	699,479	-	-	699,479
Plant equipment	37,838,723	362,066	-	38,200,789
Furniture and other equipment	4,678,909	121,407	-	4,800,316
Total Capital Assets, being depreciated	43,217,111	483,473	-	43,700,584
Less accumulated depreciation				
Building and capital facilities	562,080	24,431	-	586,511
Plant equipment	12,605,066	547,876	-	13,152,942
Furniture and other equipment	7,140,539	310,362	-	7,450,901
Total accumulated depreciation	20,307,685	882,668	-	21,190,353
Total Capital Assets being depreciated, net	22,909,426	(399,195)	-	22,510,231
Net capital assets	$ 23,470,785	$ (399,195)	$71,366	$ 23,000,224

NOTE 7 LEASES/CAPITAL ASSETS (CONTINUED)

Changes in Amounts Invested in Capital Assets, Net of Related Debt

The changes in amounts invested in capital assets, net of related debt are summarized as follows for the years ended June 30:

	2016	2015
Balance at beginning of year	$ 12,407,402	$ 12,145,614
Change in net capital assets	(399,195)	(168,538)
Change in related warrants	410,000	405,000
Change in related capital lease	26,308	25,326
Balance at end of year	$ 12,444,515	$ 12,407,402

NOTE 8 CONCENTRATION OF CREDIT RISK

Power Supply/Concentration by Geographic Location

Under a wholesale power contract, the Electric Service purchases all of its electric power from TVA for resale to its customers, which are limited to residential, industrial, and commercial business within the City of Bessemer.

NOTE 9 CONTINGENCIES

The Electric Service is involved in various lawsuits. The lawsuits are in the early stages of litigation, and no gain or loss contingency can be estimated. Consequently, no financial statement accruals have been recorded. In opinion of the Electric Services' management, the potential adverse impact of these lawsuits would not have a material effect on the financial statements.

NOTE 10 INTERCOMPANY RECEIVALBE/PAYABLE

The Electric Service pays certain expense incurred by the Water Service and subsequently, records an intercompany receivable due from the Water Service. The amount due the Electric Service as June 30, 2016 and 2015 was $3,769,670 and $-0-, respectively.

The Electric Service bills and collects from customers for services rendered by the Electric Service and the Water Service. Each month, the Electric Service recognized an intercompany liability for the amount due to the Water Service. At June 30, 2016 and 2015, the Electric Service owed the Water Service $5,251,130 and $7,076,121, respectively.

NOTE 11 IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

For the year ended June 30, 2015, the Utility implemented the following Governmental Accounting Standards Board pronouncements:

Governmental Accounting Standards Board Statement (GASB) No. 68

In June 2012, the GASB issued Statement 68, Accounting and Financial Reporting for Pensions. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for the fiscal year ending June 30, 2015.

GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date

An Amendment of GASB Statement No. 68, issued November 2013. This Statement amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The implementation of the above statements did not have a material impact to the Utility's financial statements except for GASB Statement No. 68 and No. 71 which required the Utility to change the accounting and reporting of pension expense, net pension liability, and the related deferred inflows of resources and deferred outflows of resources. As a result, the Utility's financial statements required a restatement as stated in Note 17. In addition, the new standards required new required supplementary information schedules.

Future Accounting Pronouncements

The Governmental Accounting Standards Board has issued statements that will become effective in subsequent fiscal years. The statements address:

- Accounting and financial reporting for pensions;
- Mergers, acquisitions and transfers of operations; and
- Financial guarantees.

The Utility Service is currently evaluating the effects that these statements will have on its financial statements for subsequent fiscal years.

NOTE 12 EMPLOYEE RETIREMENT PLAN

The City of Bessemer (including the employees of the Utilities Service Department) contributes to the Employees' Retirement System of Alabama (RSA), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the various state agencies and departments.

Plan description. The Employees' Retirement System of Alabama (ERS), 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.

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

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

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.

NOTE 12 EMPLOYEE RETIREMENT PLAN- (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, 2016, the Utility's active employee contribution rate was 5.00 % of covered employee payroll, and the Utility's average contribution rate to fund the normal and accrued liability costs was 18.58 % of covered employee payroll.

Utility's contractually required contribution rate for the year ended June 30, 2016 was 14.65 % of pensionable pay for Tier 1 employees, and 11.52% 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 Utility were $365,238 for the year ended June 30, 2016.

NOTE 12 EMPLOYEE RETIREMENT PLAN- (CONTINUED)

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

The actuarial pension data for GASB Statement No. 68 was prepared September 30, 2015. The following date of June 30 has been substituted for September 30 for presentation purposes only to be consistent with the Utility's fiscal year end. The date substitution has no effect on the net position pension liability and related disclosures which have been presented based on the September 30, 2015 pension data.

At June 30, 2016 the Utility Department reported a liability of $3,886,855 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The Utility Department's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating ERS employers. At June 30, 2016 the Utility Department's proportion was 7.31%, which was an increase (decrease) of .04% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2016, the Utility Department recognized pension expense of $362,097. At June 30, 2016 the Utility Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	$158,410	
Changes in assumptions	-	
Net differences between projected and actual earnings on plan investments	161,211	
Employer contributions subsequent to the Measurement Date	365,239	
	$684,860	$ -

NOTE 12 EMPLOYEE RETIREMENT PLAN- (CONTINUED)

June 30, 2016 Employer Contributions applied to pension liability $365,239 reported as deferred outflows of resources related to pensions resulting from the Utility Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

	2017	$ 62,239
	2018	62,239
	2019	62,239
	2020	62,239
	2021	3,106
Thereafter		3,106
		$ 255,168

Actuarial assumptions. The total pension liability in the June 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 2016 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 June 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 June 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.

NOTE 12 EMPLOYEE RETIREMENT PLAN- (CONTINUED)

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

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	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%**	

*Includes assumed rate of inflation of 2.50%.

NOTE 12 EMPLOYEE RETIREMENT PLAN- (continued)

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 pan 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.

Sensitivity of the Utility Department's proportionate share of the net pension liability to changes in the discount rate

The following table presents the Utility Department's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the Utility Department'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%)
Utility Department's proportionate share of collective net pension liability	$4,885,789	$3,886,855	$3,038,657

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, 2015. The supporting actuarial information is included in the GASB Statement No. 67 Report for the ERS prepared as of September 30, 2015. The auditor's report dated April 5, 2016 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2015 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

NOTE 13 DEFERRED COMPENSATION PLAN

The Utility offers its employees a deferred compensation plan (RSA-1) created in accordance with Internal Revenue Code Section 457. The plan is available to all employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the participating employees. In accordance with GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, the deferred compensation assets and liabilities are not recorded in the accompanying enterprise fund statements of net position.

NOTE 14 AGENCY AGREEMENTS

The Utility, in an agreement with Jefferson County, Alabama (the County) and as provided by State of Alabama law, collects service charges for use of the County sewer disposal system from the Utility's water customers as a separate item on the Utility's combined water and electric service bill. The Utility remits monthly to the County all sewer service charges collected, and it bills the County for the cost of collecting such charges which, under the agreement with the County, includes a portion of the Utility's general overhead expense. Sewer service charges have been collected for the County by the Utility since 1962. The liability for unremitted collections under these agency agreements is included in accounts payable in the accompanying statements of net position. The Utility bills its utility customers of the Cities of Brighton, Midfield, and Lipscomb a charge for sanitation services based on fees authorized by those Cities. The funds collected are remitted to the Cities monthly. The liability for unremitted collections to the Cities is included in general accounts payable in the accompanying statements of net position. The Utility also bills its customers a State of Alabama utility tax based on a percentage of revenues. The funds collected are remitted to the State monthly. The liability for unremitted collections to the State is included in general taxes payable in the accompanying statements of net position. The amounts charged under these agency agreements are reflected as reductions in operating expenses in the accompanying statements of revenues, expenses and changes in net position.

NOTE 15 PRIOR PERIOD ADJUSTMENT TO NET POSITION

The prior period net position for June 30, 2015 has been adjusted to properly account for capital asset corrections. In order to properly account for these corrections, the beginning net position of $18,072,380 as originally reported has been corrected to $18,041,670.

NOTE 16 SUBSEQUENT EVENTS

Events occurring after June 30, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of September 30, 2016, which is the date the financial statements were available to be issued. The Utility is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

NOTE 17 RESTATEMENT

The Utility recorded a retroactive restatement as a result of implementing Governmental Accounting Standards Board Statement 68, Accounting and Financial Reporting for Pensions. GASB Statement No. 68 establishes the accounting requirements for government employers who provide pension benefits to their employees through a trust.

Accounting changes adopted to conform to this Statement should be applied retroactively. The Utility elected not to restate previously issued financial statements. As a result, the cumulative effect of applying this Statement has been reported as a restatement of pension cost in the statement of net position. The amount of the adjustment was ($3,193,744) for the fiscal year ending June 30, 2015.

The PRINCIPAL & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
"Moving Forward All The Time"

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
Bessemer, 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 City of Bessemer, Alabama Electric Service Department ("the Electric Service") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Electric Service's basic financial statements, and have issued our report thereon dated September 30, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Electric Service's internal control over financial reporting (internal control) to determine the auditing 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 Electric Service's internal control. Accordingly, we do not express an opinion on the effectiveness of the Electric Service'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 preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be a material weakness. 2016-001 and 2016-002.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Electric Service's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement, 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.

The Principal & Associates

The Principal & Associates, Inc.
Certified Public Accountants
2100 South Bridge Parkway, Suite 650
P.O. Box 360973
Birmingham, Alabama 35236

September 30, 2016

Bessemer Electric
Service Schedule of Findings
June 30, 2016

2016-001 General Ledger

Condition: The general ledger lacks balance sheet integrity due to the failure of internal accounting practices that allow for the timely and accurate general ledger account reconciliations that are critical to recording accurate general ledger account balances. The general ledger contained significant misstated account balances as follows:

Description	General Ledger Booked Balance	Misstatement Over (Under)	Corrected General Ledger Balance
Contraction in Progress	$ 2,827,826	$ 2,629,192	$ 198,634
Customer Accounts Receivable	9,058,536	5,769,000	3,289,536
Customer A/R - Aged Accounts	6,429,152	6,429,152	-
Other Deferred Credits	25,000	25,000	-
Due From Bessemer Water Service	19,796,259	16,026,588	3,769,671
Due to Bessemer Water Service	15,382,089	12,418,932	2,963,157
Jefferson County Sewer	11,417,521	10,104,591	1,312,930
Accounts Payable Bess Water	$ 6,792,958	$ 6,721,193	$ 71,765

Criteria: Since the advent of the Sarbanes-Oxley Act, the Utility can no longer rely on the external auditors as an internal control. It is required that the Utility report most errors that the auditors find as material misstatements and material weakness unless the Utility can prove that its own internal controls would have found the error in a timely manner prior to the close out of the general ledger for the reporting period in order to ensure that the financial statements are free of material misstatements.

Cause: Management relied on their external auditor as an internal control over the general ledger account reconciliation process which is prohibited by the Sarbanes-Oxley Act. Under staffing in the accounting department resulted in one accountant doing the work for both Utility Departments which caused a break down in the general ledger accounting process that was compounded by the lack of a secondary review of the general ledger by accounting supervisory personnel prior to the closing of the general ledger.

Effect: Some general ledger account balances are significantly misstated as of result, the general ledger cannot be relied upon to produce an accurate statement of net position. The current general ledger accounting controls operate after the general ledger is closed which relegate the control to a corrective after-the-fact control. After-the-fact accounting controls are only effective in identifying misstatements for correction after the general ledger has been closed, which indicates the lack of the proper preventative accounting controls over the general closing ledger process that would detect and correct misstatements prior to the closing of the general ledger.

Recommendation

We recommend that the Utility reconcile all accounts that could contain a significant or material misstatement and post all necessary adjustments to the general ledger in a timely manner. Necessary adjustments include all identified general ledger entries that, either individually or in the aggregate, are significant or material to the financial statements. The Utility should analyze all non-reconciled accounts in the general ledger to determine their effect for potential financial misstatement.

It's impracticable for the Utility accounting departments to reconcile all accounts on a monthly basis given the shortened Tennessee Valley Authority (TVA) filing deadlines and other factors. We recommend a risk rating -reviewing all balance sheet accounts and rating them on quantitative and qualitative criteria such as

Quantitative risk factors.
- Volume of transactions.
- Dollar value of transactions.
- Normal account dollar balance.

Qualitative risk factors.
- Complexity of transactions.
- Volatility, complexity and subjectivity of accounting rules.
- Fraud susceptibility of transactions.
- Level of automation vs. manual intervention.
- Regulatory oversight.
- Quality of internal control over transactions.

Regardless of the risk-rating process the Utility decides to use, it should use

• *High* , for accounts where there is a reasonable potential for the account to be misstated by a material amount.

• *Medium* , for accounts where there is a reasonable potential for the account to be misstated by a significant amount up to a material amount.

• *Low* , for accounts where there is no reasonable potential for the account to be misstated by a significant or material amount.

All high- and medium-risk accounts should be reconciled and all necessary general ledger reconciling adjustments recorded before the Utility's post-closing adjustment review process. For low-risk accounts, management should perform an analytical review of the account balance to ensure it is within reasonable limits that would provide adequate evidence upon which to base a conclusion that the account does not contain a significant or material misstatement. If such a conclusion is not reasonable based on the results of the review, then the account should be timely reconciled before the Utility's post-closing adjustment review process.

In this recommendation, any of the items listed above that are left out of the Utility's post-closing adjustment process generally will result in a control deficiency, since they must be identified and included in the normal post-closing adjustment process.

Management Response

Management disagrees in partial to the account reconciliation process as stated by our auditor. Management understands the nature of customer account balances as booked from prior management of the Utilities. However, in order to properly correct account balances, General Management was charged with the task of updating its utility "Service Practice Policies", contracts with third party collection agencies, and other outside agency contacts. During the fiscal period, management obtained a new principal staff accountant to replace the vacant key position. It is management hope, through training and due diligence, the accounting work-loads will be back to normal levels, which would include its internal controls as established.

2016-001 Electric Service Revenue

Condition: During the reconciliation of electric service revenue reported in the general ledger to the subsidiary electric sales by class summary report, it was revealed that the actual electric service sales was \$480,133 greater than the sales reported in the general ledger, which resulted in an under-statement of revenues reported in the system generated income statement.

Criteria: Electric service revenues should be recorded in a timely manner commensurate with the delivery of electric service to the Utility customers in order to reflect complete revenue in the proper accounting period.

Cause: There are timing and interface difference between when revenue is earned, reported in the subsidiary electric sales by class summary report, billed to the customers, and posted to the general ledger.

Effect: Electric service revenue is understated.

Recommendation

We recommend that the Utility subsidiary electric sales by class summary report, billing system, and general ledger all be synchronized electronically. Until such time that the synchronization of the revenue reporting system is complete, the reconciliation of electric service revenue reported in the general ledger to the subsidiary electric sales by class summary report should be done manually, and the resulting difference should be posted to the general ledger in order to account for complete electric service revenue in the proper accounting period.

Management Response

Management is currently reviewing with TVA, and contracted engineers, the possible issues pertaining to the Utility revenue system in order to properly align and report revenue and the associated wholesale power cost in a timely manner. Management also has advised its General management of the necessity to update its accounting software to allow for one complete software package to handle all pertinent aspects of the Utility and its infrastructure.

SUPPLEMENTARY INFORMATION

Bessemer Electric Service
Schedule of Bessemer Electric Service Contributions
Retirement Plan of Alabama

	* Last Fiscal Year
	2016
Contractually required contribution	$ 410,981
Contributions in relation to the contractually required contribution	410,981
Contribution deficiency (excess)	$ -
System' covered-employee payroll	$ 2,211,555
Contributions as a percentage of covered-employee payroll	18.58%

*The amounts presented for each fiscal year were determined as of prior fiscal ending June 30.

See independent auditors' report and notes to financial statements.

Bessemer Electric Service
Schedule of Proportionate Share of the Net Pension Liability
Retirement Plan of Alabama

	* Last Fiscal Year 2016
System's proportion of the net pension liability	0.073
System's proportionate share of net pension liability	$ 3,886,855
System' covered-employee payroll	$ 2,211,555
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	175.75%
Plan fiduciary net position as a percentage of the total pension liability	56.05%

*The amounts presented for each fiscal year were determined as of prior fiscal ending September 30.

See independent auditors' report and notes to financial statements.