

THE CITY OF MARGARET, ALABAMA
GENERAL PURPOSE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

CITY OF MARGARET, ALABAMA
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Cork, Hill & Company, L.L.C.

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council of
The City of Margaret, Alabama

We have audited the accompanying general purpose financial statements of the City of Margaret, Alabama (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements of the governmental activities, each major fund and the remaining funds information which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 judgement, 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Certified Public Accountants

2100 Southbridge Parkway
Suite 530
Birmingham, AL 35209

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities, each major fund and the remaining fund information of the City of Margaret, Alabama as of September 30, 2015 and the changes in its net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, and the schedule of changes in net pension liability and the schedule of employer contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United State of America, which consisted of inquiries of management about the method 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.

Cork, Hill & Company, L.L.C.

Birmingham, Alabama
January 7, 2016

**THE CITY OF MARGARET, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS
SEPTEMBER 30, 2015**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Margaret's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2015. Please read it in conjunction with the City's financial statements, which begin on page 10.

USING THIS ANNUAL REPORT

This report consists of a series of financial statements. The statements of Net Position and the Statement of Activities (on pages 10 and 11) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 12. These statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

REPORTING THE CITY AS A WHOLE

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and change in it. You can think of the City's Net Position (the differences between assets and liabilities) as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position is one indicator of whether its financial health is improving or deteriorating. You will also need to consider non-financial factors in order to assess the *overall health* of the City.

The Statement of Net Position and the Statement of Activities separate the City's governmental activities and its business type activities.

- Governmental activities - The City's basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Sales taxes, business licenses, and other taxes finance most of these activities.
- Business type activities - The City of Margaret operates a water system which is reported under this caption. In prior years the City also operated a garbage pick-up service but this was turned over to a private company during the current year.

**THE CITY OF MARGARET, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS
SEPTEMBER 30, 2015**

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The fund financial statements begin on page 12 and provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's governmental funds use the following accounting approach.

- The City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation on pages 13 and 15.

THE CITY AS A WHOLE

The following schedules present a comparison of current and prior year statements of net position for government and business type activities.

THE CITY OF MARGARET, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS
SEPTEMBER 30, 2015

Governmental Type Activities			
	2015	2014	Increase/
	Amount	Amount	(Decrease)
Non capital asset	\$ 588,271	\$ 440,129	\$ 148,142
Capital assets	14,156,924	14,212,250	(55,326)
Net pension asset	29,614	-	29,614
Total assets	14,774,809	14,652,379	122,430
Deferred outflows of resources	5,099	-	5,099
	<u>\$4,779,908</u>	<u>\$14,652,379</u>	<u>\$ 127,529</u>
Liabilities	\$ 1,591,496	\$ 1,631,492	\$ (39,996)
Deferred inflows of resources	8,605	-	8,605
Net position	13,179,807	13,020,887	158,920
	<u>\$4,779,908</u>	<u>\$14,652,379</u>	<u>\$ 127,529</u>

Business Type Activities			
	2015	2014	Increase/
	Amount	Amount	(Decrease)
Non capital asset	\$ 412,235	\$ 298,511	\$ 113,724
Capital assets	1,539,836	1,572,687	(32,851)
Net pension assets	18,362	-	18,362
Total assets	1,973,595	1,871,198	99,235
Deferred outflows of resources	3,162	-	3,162
	<u>\$1,973,595</u>	<u>\$ 1,871,198</u>	<u>\$ 102,397</u>
Liabilities	\$ 890,159	\$ 982,569	\$ (92,410)
Deferred inflows of resources	5,335	-	5,335
Net position	1,078,101	888,629	189,472
	<u>\$1,973,595</u>	<u>\$ 1,871,198</u>	<u>\$ 102,397</u>

Non-capital assets increased because the City operated at a surplus for the current year. The public works department also operated with a surplus and reinvested current operations into the water plant and other assets.

**THE CITY OF MARGARET, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS
SEPTEMBER 30, 2015**

STATEMENT OF ACTIVITIES

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in net position. You will notice that governmental expenses are listed in the first column with revenues from that particular department reported to the right. The result is a Net (Expense)/Revenue for each department. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Business activities are adjusted on one line as income or (loss). Details of business type revenues and expenses can be found on page 17. Some of the individual line item revenues reported for each function are:

Police	Corrections fees and fines.
Fire	Donations
Park and Recreation	Donations

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

THE CITY OF MARGARET, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS
SEPTEMBER 30, 2015

THE CITY'S REVENUES

The following schedule presents a comparative summary of government-wide revenues and expenditures for the years ended September 30, 2015 and 2014.

	2015	2014	Increase/
	Amount	Amount	Decrease
Revenues			
Program revenues	\$ 158,892	\$ 116,637	\$ 42,255
Taxes and license	682,682	659,261	23,421
Investment earnings	20	116	(96)
Other	28,990	73,027	(44,037)
	<u>870,584</u>	<u>849,041</u>	<u>21,543</u>
Expenditures			
Administrative	374,860	341,539	33,321
Police	247,769	264,315	(16,546)
Fire	138,882	127,605	11,277
Public works	10,011	14,055	(4,044)
Interest	80,929	84,983	(4,054)
Transfers - net	(83,611)	(34,800)	(48,811)
	<u>768,840</u>	<u>797,697</u>	<u>(28,857)</u>
Change in net position	<u>\$ 101,744</u>	<u>\$ 51,344</u>	<u>\$ 50,400</u>

BUSINESS ACTIVITIES

	2015	2014	Increase/
	Amount	Amount	Decrease
Revenues			
Charges for services	\$ 880,783	\$ 863,493	17,290
	<u>880,783</u>	<u>863,493</u>	<u>17,290</u>
Operating expenses			
Cost of water and garbage service	225,121	336,873	(111,752)
Salaries	117,955	169,047	(51,092)
Depreciation	74,081	74,419	(338)
Insurance	35,235	46,324	(11,089)
Utilities	13,214	15,137	(1,923)
Repairs	27,131	7,228	19,903
Other operating expenses	103,570	93,308	10,262
	<u>596,307</u>	<u>742,336</u>	<u>(146,029)</u>
Operating income	284,476	121,157	163,319
Non-operating income (expenses)	<u>(130,454)</u>	<u>(73,877)</u>	<u>(56,577)</u>
Change in net position	<u>\$ 154,022</u>	<u>\$ 47,280</u>	<u>\$ 106,742</u>

THE CITY OF MARGARET, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS
SEPTEMBER 30, 2015

The following schedule presents a summary of governmental fund revenues and expenditures for the year ending September 30, 2015 and 2014.

Revenues	2015 Amount	2014 Amount	Increase/ Decrease
Governmental Revenues			
Taxes	\$ 367,939	\$ 324,595	\$ 43,344
Licenses and permits	183,460	193,538	(10,078)
Intergovernmental	236,239	207,636	28,603
Fines and forfeitures	47,819	60,730	(12,911)
Loan proceeds and other	51,844	62,543	(10,699)
 Total governmental revenues	 887,301	 849,042	 38,259
 Expenditures			
Governmental Expenditures			
General government	313,915	197,134	116,781
Public safety	326,173	315,600	10,573
Streets, sanitation and parks	24,786	40,212	(15,426)
Debt service and capital outlays	161,253	142,642	18,611
Transfers - net	(83,611)	(35,349)	(48,262)
 Total governmental expenditures	 742,516	 660,239	 82,277
 Excess revenues	 \$ 144,785	 \$ 188,803	 \$ (44,018)

**THE CITY OF MARGARET, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS
SEPTEMBER 30, 2015**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2015, the City had \$19,285,869 invested in a broad range of governmental and business type capital assets, including police and fire equipment, buildings, park facilities, roads, drainage systems, water system, and land. (See Table Below). This amount represents a net increase (including additions and deductions) of just over \$34,000.

	Government Activities		Business Activities	
	2015	2014	2015	2014
Land	\$ 390,432	\$ 390,432	\$ -	\$ -
Buildings	274,539	148,996	1,878	1,878
Automotive	347,979	457,810	89,429	89,429
Equipment and furniture	463,497	486,392	39,557	36,072
Roads and drainage system	15,051,695	15,051,695	-	-
Water plant	-	-	2,626,863	2,589,118
	<u>\$ 16,528,142</u>	<u>\$ 16,535,325</u>	<u>\$ 2,757,727</u>	<u>\$ 2,716,497</u>
 Total investment for 2015	 <u>\$ 19,285,869</u>			

**THE CITY OF MARGARET, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS
SEPTEMBER 30, 2015**

Debt

As of September 30, 2015, the City had \$1,545,000 in outstanding bonds and notes payable versus \$1,599,674 last year. That is a decrease of \$54,674. As of September 30, 2015, the water department had \$780,000 in outstanding bonds and notes payable versus \$825,000 last year, a decrease of \$45,000.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

The City's elected and appointed officials consider many factors concerning the City of Margaret's finances, including building permits, tax rates and fees. One of these factors is the economy. A major increase in sales tax and property taxes are expected to lead this increase.

If these estimates are realized, the City budgetary General Fund balance is expected to increase modestly by the end of fiscal year 2016.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact:

TeJa McIntyre, City Clerk/Treasurer
City of Margaret
P. O. Box 309
125 School Street
Margaret, AL 35112
(205) 629-5742

CITY OF MARGARET, ALABAMA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	Primary Government		
	Governmental Activities	Business Activities	Total
Assets			
Current Assets:			
Cash and cash equivalents	\$ 188,818	\$ 129,257	\$ 318,075
Receivables (net)	27,673	72,542	100,215
Inventories	-	28,215	28,215
Prepaid	12,604	5,805	18,409
	<u>229,095</u>	<u>235,819</u>	<u>464,914</u>
Restricted Assets:			
Cash and cash equivalents	359,176	176,416	535,592
Total current assets	<u>588,271</u>	<u>412,235</u>	<u>1,000,506</u>
Capital Assets:			
Non-depreciable	390,432	-	390,432
Depreciable	13,766,492	1,539,836	15,306,328
Total capital assets	<u>14,156,924</u>	<u>1,539,836</u>	<u>15,696,760</u>
Net Pension Asset	29,614	18,362	47,976
Total assets	<u>14,774,809</u>	<u>1,970,433</u>	<u>16,745,242</u>
Deferred outflows of resources	<u>5,099</u>	<u>3,162</u>	<u>8,261</u>
 Total assets and deferred outflows of resources	 <u>\$ 14,779,908</u>	 <u>\$ 1,973,595</u>	 <u>\$16,753,503</u>

	Primary Government		
	Governmental	Business	
	Type	Type	
	Activities	Activities	Total
Liabilities			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 26,046	\$ 25,701	\$ 51,747
Current Liabilities Payable from Restricted Assets:			
Customer deposits	-	75,505	75,505
Current maturities of long term debt	60,000	50,000	110,000
Interest payable	6,592	3,525	10,117
Total current liabilities	92,638	154,731	247,369
Non-Current Liabilities:			
Bonds payable	1,545,000	780,000	2,325,000
Accrued compensated absences	13,858	5,428	19,286
Less current maturities	(60,000)	(50,000)	(110,000)
Total non-current liabilities	1,498,858	735,428	2,234,286
Total liabilities	1,591,496	890,159	2,481,655
Deferred inflows of resources	8,605	5,335	13,940
Net Position			
Invested in capital assets (net of related debt)	12,611,924	759,836	13,371,760
Restricted net position	352,584	97,386	449,970
Unrestricted assets	215,299	220,879	436,178
Total net position	13,179,807	1,078,101	14,257,908
Total liabilities, deferred inflow of resources and net position	\$ 14,779,908	\$ 1,973,595	\$16,739,563

See notes to the financial statements

THE CITY OF MARGARET, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Charges for	Operating Grants and	Capital Grants and		Governmental	Business Type	
Expenses	Services	Contributions	Contributions		Activities	Activities	Total
Function/Program Activities							
Primary Government:							
Governmental Activities:							
General government	\$ 374,860	\$ 3,878	\$ 101,811	\$ -	\$ (269,171)	\$ -	\$ (269,171)
Police and courts	247,769	47,387	-	-	(200,382)	-	(200,382)
Fire	138,882	3,316	-	-	(135,566)	-	(135,566)
Parks and recreation	10,011	2,500	-	-	(7,511)	-	(7,511)
Interest on long-term debt	80,929	-	-	-	(80,929)	-	(80,929)
Total governmental activities	852,451	57,081	101,811	-	(693,559)	-	(693,559)
Business Type Activities:							
Water Department	-	-	-	-	-	286,876	286,876
Interest Expense	-	-	-	-	-	(49,243)	(49,243)
Total business type activities	-	-	-	-	-	237,633	237,633
Total primary government	<u>\$ 852,451</u>	<u>\$ 57,081</u>	<u>\$ 101,811</u>	<u>\$ -</u>	(693,559)	237,633	(455,926)
General Revenues:							
Taxes:							
Ad valorem taxes					137,980	-	137,980
Sales tax					229,741	-	229,741
Gas tax					79,878	-	29,878
Other taxes					113,755	-	113,755
Licenses and permits					171,328	-	171,328
Investment earnings					20	-	20
Miscellaneous					28,990	-	28,990
Transfers (net)					83,611	(83,611)	-
Total general revenues and transfers					795,303	(83,611)	711,692
Change in Net Position from activities					101,744	154,022	255,766
Net position, beginning of year					13,020,887	888,629	13,909,516
Change in accounting principles					57,176	35,450	92,626
Net position, beginning of year as corrected					13,078,063	924,079	14,002,142
Net position, end of year					<u>\$ 13,179,807</u>	<u>\$1,078,101</u>	<u>\$ 14,257,908</u>

See notes to the financial statements

THE CITY OF MARGARET, ALABAMA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	<u>General</u>	<u>Special Revenue Funds</u>	<u>Total Government al Funds</u>
Assets and Other Debits			
Assets:			
Cash and cash equivalents	\$ 188,818	\$ 348,560	\$ 537,378
Receivables			
Taxes	24,997	2,676	27,673
Due from other funds	5,357	19,010	24,367
Prepaid expenses	9,969	2,635	12,604
Restricted assets:	-	-	-
Cash and cash equivalents	10,615	-	10,615
Total assets and other debits	<u>\$ 239,756</u>	<u>\$ 372,881</u>	<u>\$ 612,637</u>
 Liabilities, Equity and Other Credits			
Liabilities:			
Accounts payable and accrued liabilities	\$ 26,045	\$ -	\$ 26,045
Due to other funds	1,165	23,202	24,367
Total liabilities	<u>27,210</u>	<u>23,202</u>	<u>50,412</u>
 Equity and Other Credits:			
Fund Balances:			
Non-spendable	9,969	2,635	12,604
Reserved	15,972	347,044	363,016
Unreserved, undesignated	186,605	-	186,605
Total equity and other credits	<u>212,546</u>	<u>349,679</u>	<u>562,225</u>
 Total liabilities, equity and other credits	<u>\$ 239,756</u>	<u>\$ 372,881</u>	<u>\$ 612,637</u>

See notes to the financial statements

THE CITY OF MARGARET, ALABAMA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION
SEPTEMBER 30, 2015

Total Fund Balance - Total Government Funds	\$ 562,225
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital Assets used in Governmental Activities are not current financial resources and therefore, are not reported in the Governmental Funds Balance Sheet	14,156,924
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet.	(6,592)
Long-Term Liabilities are not due and payable in the current period and therefore, they are not reported in the Governmental Funds Balance Sheet	(1,545,000)
Compensated absences payable do not require current financial resources. Therefore, this liability is not reported in the governmental funds balance sheet. Compensated absences reported in the government wide statement of position are	(13,858)
Net pension fund asset is not realizable in the current period and therefore this asset is not reported in the governmental funds balance sheet	29,614
Net deferred inflows of resources and deferred outflows of resources related to the pension plan do not require current financial resources and therefore are not reported in the governmental funds balance sheet	(3,506)
Net Position of Governmental Activities	<u>\$ 13,179,807</u>

See notes to the financial statements

THE CITY OF MARGARET, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

	<u>General</u>	<u>Special Revenue Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	\$ 367,939	\$ -	\$ 367,939
Licenses and permits	183,460	-	183,460
Intergovernmental	116,197	120,042	236,239
Fines and forfeitures	47,147	672	47,819
Interest	-	20	20
Other	43,039	8,785	51,824
Total revenues	<u>757,782</u>	<u>129,519</u>	<u>887,301</u>
Expenditures:			
Current operations:			
General government	175,347	138,568	313,915
Public safety	324,617	1,556	326,173
Streets, sanitation and parks	10,046	14,740	24,786
Total current operations	<u>510,010</u>	<u>154,864</u>	<u>664,874</u>
Capital outlays	35,093	-	35,093
Debt service:			
Principal	45,000	-	45,000
Interest and fiscal charges	81,160	-	81,160
Total expenditures	<u>671,263</u>	<u>154,864</u>	<u>826,127</u>
Excess (deficiency) of revenues over (under) expenditures	86,519	(25,345)	61,174
Other Financing Sources (Uses):			
Operating transfers in	69,751	143,413	213,164
Operating transfers out	(91,438)	(35,115)	(129,553)
Total other financing sources (uses)	<u>(21,687)</u>	<u>105,298</u>	<u>83,611</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	64,832	79,953	144,785
Fund balances, beginning	<u>147,714</u>	<u>269,726</u>	<u>417,440</u>
Fund balances, ending	<u><u>\$ 212,546</u></u>	<u><u>\$ 349,679</u></u>	<u><u>\$ 562,225</u></u>

See notes to the financial statements

THE CITY OF MARGARET, ALABAMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Net change in fund balances - total governmental funds	\$ 144,785
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of these assets are allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	160,637
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This amount is the amount of payments on long-term debt in the current year	54,673
Accrued compensated absences is recorded in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, accrued compensated absences are not recorded as an expenditure in governmental funds.	(11,552)
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.	(200,119)
Accrued interest expense on long-term debt is recorded in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources. Therefore, accrued interest expense is not recorded as an expenditure in governmental funds. This is the change in accrued interest from the prior to the current year	231
Pension expense is recorded in the government-wide statement of activities on the accrual basis and on the modified accrual basis for governmental funds statements. This is the difference in pension expense recognized on the accrual basis	(31,067)
Difference in gain on sale of assets due to cost of property carried as an asset on government-wide statements but not on government funds statement.	<u>(15,844)</u>
Change in net position of governmental activities	<u><u>\$ 101,744</u></u>

See notes to the financial statements

THE CITY OF MARGARET, ALABAMA
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2015

Assets

Current Assets:

Cash and cash equivalents \$ 129,257

Receivables

Customer accounts (less allowance for doubtful
accounts of \$1,200) 72,542

Inventories

28,215

Prepaid expenses

5,805

Total current assets

235,819

Property, Plant and Equipment:

Capital assets net of depreciation 2,757,727

Less accumulated depreciation 1,217,891

1,539,836

Restricted Assets:

Trust and construction funds 99,994

Customer deposits 76,422

176,416

Other Assets:

Net pension asset

18,362

Total Assets

1,970,433

Deferred Outflows of Resources

3,162

Total Assets and Deferred Outflows of Resources

\$ 1,973,595

Liabilities and Net Position**Current Liabilities:**

Accounts payable	\$ 25,701
Total current liabilities (payable from current assets)	<u>25,701</u>

Current Liabilities (Payable from Restricted Assets):

Meter deposits	75,505
Current maturities of long-term debt	50,000
Accrued interest	<u>3,525</u>
Total current liabilities (payable from restricted assets)	<u>129,030</u>
Total current liabilities	154,731

Non-Current Liabilities:

Bonds payable	780,000
Compensated absences	5,428
Less current maturities	<u>(50,000)</u>
Total non-current liabilities	<u>735,428</u>

Total liabilities 890,159

Deferred Inflows of Resources

5,335

Net Position:

Restricted	97,386
Net investments in capital assets	759,836
Unrestricted	<u>220,879</u>
Total Net Position	<u>1,078,101</u>

Total liabilities, deferred inflow of resources and net position

\$ 1,973,595

See notes to the financial statements

THE CITY OF MARGARET, ALABAMA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND - WATER SYSTEM ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

	<u>Amount</u>	<u>% of Revenue</u>
Operating Revenues		
Water sales	\$ 714,938	81.2
Garbage service	<u>165,845</u>	<u>18.8</u>
Total operating revenues	880,783	100.0
 Operating Expenses		
Cost of services	225,121	25.6
Salaries and wages	117,955	13.4
Depreciation and amortization	74,081	8.4
Insurance	35,235	4.0
Repairs and maintenance	27,131	3.1
Retirement	22,424	2.5
Materials and supplies	21,170	2.4
Office expense	16,778	1.9
Testing and professional fees	16,480	1.9
Fuel	13,630	1.5
Utilities	13,214	1.5
Payroll taxes	9,436	1.1
Other expenses	2,154	0.2
Training	<u>1,498</u>	<u>0.2</u>
Total operating expenses	<u>596,307</u>	<u>67.7</u>
 Operating income	284,476	32.3
 Nonoperating Income (Expenses)		
Interest income	2,400	0.3
Operating transfers net	(83,611)	(9.5)
Interest expense	<u>(49,243)</u>	<u>(5.6)</u>
Total nonoperating income (expenses)	<u>(130,454)</u>	<u>(14.8)</u>
 Change in net position	154,022	<u>17.5</u>
 Net position, beginning of year	888,629	
 Change in accounting principles	<u>35,450</u>	
 Net position, beginning of year as corrected	924,079	
 Net position, end of year	<u>\$ 1,078,101</u>	

See notes to the financial statements

THE CITY OF MARGARET, ALABAMA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
- WATER SYSTEM ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

Cash Flows from Operating Activities:	
Cash received from customers	\$ 883,068
Cash paid to suppliers	(401,388)
Cash paid to employees	(126,159)
Net cash provided by operating activities	<u>355,521</u>
Cash Flows from Non-capital Financing Activities:	
Operating transfers	(83,611)
Net cash provided (used) by non-capital financing activities	<u>(83,611)</u>
Cash Flows for Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(41,230)
Repayment of indebtedness	(45,000)
Interest paid on capital and related financing activities	(49,446)
Net cash provided by capital and related financing activities	<u>(135,676)</u>
Cash Flows from Investing Activities:	
Interest received on investments	<u>-</u>
Net cash provided by investing activities	<u>-</u>
Net increase (decrease) in cash and cash equivalents	136,234
Cash and cash equivalents, beginning of year	<u>169,439</u>
Cash and cash equivalents, end of year	<u><u>\$ 305,673</u></u>
Unrestricted cash	\$ 129,257
Restricted cash	<u>176,416</u>
	<u><u>\$ 305,673</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operations:	
Operating income	\$ 284,476
Adjustments to reconcile operating income to net cash provided by operations:	
Depreciation and amortization	74,081
Bad debts	-
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	22,215
(Increase) decrease in inventories and prepayments	295
Increase (decrease) in accounts payable and accrued expenses	(3,216)
Increase (decrease) in customer deposits	<u>(22,330)</u>
Net cash provided by operations	<u><u>\$ 355,521</u></u>

See notes to the financial statements

**THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The financial statements of the City of Margaret, Alabama (the City) are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Reporting Entity

The City of Margaret, Alabama (the City) is a municipal corporation governed by an elected Mayor and a five member City Council. As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City has no component units which are required to be included in these financial statements.

Other Boards. The City Council also appoints the members of several other local boards. These boards do not possess corporate powers that distinguish them as being legally separate from the City, and are, for financial reporting purposes, considered to be parts of the City's primary government.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The City's funds are grouped into two broad fund categories and five generic fund types for financial statement presentation purposes. Governmental funds include the general, special revenue and capital projects funds. Proprietary funds only have an enterprise fund.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities display information about the City as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal activity between funds is considered immaterial and is not eliminated.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared.

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The government-wide statement of activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues.

The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City. Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes result from special revenue funds and the restrictions on their use.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

GOVERNMENTAL FUNDS

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this approach, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, taxes and investment earnings are deemed both measurable and available if collected within the current year or within 60 days of year-end. Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made. When received in advance, these revenues are deferred until expenditures are made.

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds because purchases of capital assets are treated as expenditures.

Enterprise Funds

Enterprise funds (business-type activities) are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position.

Enterprise funds distinguish operating revenues and expenses from nonoperating items, operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise funds' principal ongoing operations. The principal operating revenues of the City's enterprise fund are water and garbage pick-up services. Operating expenses for enterprise funds include the administrative costs of providing the services and maintenance of the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables

All receivables, are shown net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is based on the City's historical bad debt experience and management's judgement. Property values are assessed and taxes are collected by St. Clair County. Property values are assessed annually and taxes are due and payable on October 1 of the subsequent fiscal year. Property taxes are an enforceable lien on property and are considered delinquent if paid after January 1.

Inventories

Inventories are valued at cost using the first-in/first out (FIFO) method.

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Restricted Assets

Certain proceeds of the City's general obligation warrants, as well as certain resources set aside for general obligation warrant repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants. In addition, the City maintains a "water warrants" account to segregate resources accumulated for debt service payments over the next twelve months. Also, certain special revenue funds are restricted in their use.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Fund accounting reports capital outlays as expenditures and does not recognize capital assets and depreciation. Under the government-wide accrual basis of reporting, general capital assets are long-lived assets of the City as a whole. When purchased, such assets are capitalized. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation basis for general capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. The City capitalizes all capital assets with a value of \$1,000 or greater when acquired. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Buildings	40 years
Improvements and infrastructure	5-100 years
Equipment	5-15 years

Restricted Funds

It is the City's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and non-restricted assets are available.

Use of Estimates

In preparing these financial statements, management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

NOTE 2 – ACCOUNTING FOR PENSIONS – GASB 68

In June 2012 the Governmental Accounting Standards Board (GASB) adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions*. GASB 68 is effective for years beginning after June 15, 2014 with earlier application encouraged. City of Margaret implemented GASB 68 for the year ended September 30, 2015. The effect of this implementation was to recognize the net pension asset and deferred outflows and inflows of resources in the Statement of Net Position as follows:

	City	Business
Prior period adjustment to recognize the net pension asset at October 1, 2014	\$ 43,804	\$ 27,160
Recognition of the net pension asset at September 30, 2015 in the statement of net position	\$ 29,614	\$ 18,362
Deferred outflow of resources for the amount of payments made to the pension trust subsequent to the measurement date of the net pension liability	\$ 5,099	\$ 3,162
Deferred inflow of resources for the difference between projected and actual investment earnings	\$ 8,605	\$ 5,335

NOTE 3- DEPOSITS AND INVESTMENTS

The State of Alabama requires all financial institutions accepting deposits of public funds to be a member of The Security for Alabama Funds Enhancement (SAFE) program. This is a state-wide collateral pool for all public funds and is administered through the Alabama Treasurers Office. All of the City's deposits are collateralized by FDIC insurance and this collateral pool except for debt service funds which are invested in U.S. government securities and are not required to be collateralized.

NOTE 4 - RECEIVABLES

Receivables as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds	Enterprise Fund	Total
Receivables:			
Taxes:			
Sales and use tax	\$ 16,390	\$ -	\$ 16,390
Telephone tax	2,505	-	2,505
Beer and tobacco tax	1,131	-	1,131
Intergovernmental:			
Ad valorem	2,566	-	2,566
Other	5,081	-	5,081
Accounts:			
Water and garbage service	-	76,542	76,542
Gross receivables	27,673	76,542	104,215
Less: allowance for uncollectibles	-	4,000	4,000
Net total receivables	\$ 27,673	\$ 72,542	\$ 100,215

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance Oct. 1, 2014	Additions	Retirements	Ending Balance Sept. 30, 2015
Governmental activities				
Capital assets, not being depreciated:				
Land	390,432	-	-	390,432
Total capital assets, not being depreciated	390,432	-	-	390,432
Capital assets, being depreciated:				
Buildings	148,996	125,543	-	274,539
Automotive equipment	457,810	35,093	144,924	347,979
Equipment and furniture	486,392	-	22,895	463,497
Streets and roads	15,051,695	-	-	15,051,695
Total capital assets, being depreciated	16,144,893	160,636	167,819	16,137,710
Less accumulated depreciation	2,323,075	200,119	151,976	2,371,218
Net capital assets, being depreciated	13,821,818	(39,483)	15,843	13,766,492
Governmental activities, net capital assets	<u>\$ 14,212,250</u>	<u>\$ (39,483)</u>	<u>\$ 15,843</u>	<u>\$ 14,156,924</u>
Depreciation was charged to City functions as follows:				
General government				\$ 155,970
Police				5,731
Fire				28,407
Public works				10,011
Total governmental activities depreciation expense				<u>\$ 200,119</u>
Business type activities				
Buildings	\$ 1,878	\$ -	\$ -	\$ 1,878
Vehicles	89,429	-	-	89,429
Utility plant & equipment	2,589,118	37,745	-	2,626,863
Heavy equipment	13,061	1,157	-	14,218
Furniture & office equipment	23,011	2,328	-	25,339
Total capital assets, business type activities	2,716,497	41,230	-	2,757,727
Less accumulated depreciation	1,143,810	74,081	-	1,217,891
Net capital assets, business type activities	<u>\$ 1,572,687</u>	<u>\$ (32,851)</u>	<u>\$ -</u>	<u>\$ 1,539,836</u>
Depreciation was charged to functions as follows:				
Water Department				<u>\$ 74,081</u>

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

NOTE 6 - LONG-TERM DEBT

General Obligation Warrants. The City issues general obligation warrants to provide funds for the acquisition and construction of major capital facilities. General obligation warrants have been issued for general government financing and revenue bonds have been issued by the proprietary fund. These warrants are reported in the proprietary fund since they are to be repaid from proprietary fund revenues. In addition, general obligation warrants have been issued to refund other general obligation warrants. General obligation warrants are direct obligations and pledge the full faith and credit of the City.

There are certain restrictions and covenants in the water revenue bond indentures that the water department is not in compliance with. The bond holder has been notified of these exceptions.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 2015:

	Balance 9-30-14	Issued	Retired	Balance 9-30-15
Governmental Activities				
6% general obligation warrants - Series 2002 issued 9-01-02 in the amount of \$125,000, maturing 9-01-27 Interest payment date March and September with Principal due in September until maturity	\$ 85,000	\$ -	\$ 5,000	\$ 80,000
4% general obligation warrants - Series 2007 issued 10-25-07 in the amount of \$945,000, maturing 9-01-27 Interest payment date March and September with Principal due in September until maturity	720,000	-	40,000	680,000
6% general obligation warrants - Series 2009 issued 2-27-09 in the amount of \$785,000, maturing 9-01-35 Interest payment date March and September with principals beginning 9-01-28 until maturity	785,000	-	-	785,000
Installment bank loan	-	-	-	-
Metro Bank 4.5% installment loan - police car	-	-	-	-
Metro Bank 4.5% installment loan	-	-	-	-
Metro Bank 4.5% installment loan	9,674	-	9,674	-
Governmental funds total	1,599,674	-	54,674	1,545,000
Business Type Activities				
6% General obligation warrants - Series 2002	280,000	-	15,000	265,000
4% Water revenue warrants - Series 2007	545,000	-	30,000	515,000
Business type activities total	825,000	-	45,000	780,000
Grand total of long-term debt	<u>\$2,424,674</u>	<u>\$ -</u>	<u>\$ 99,674</u>	<u>\$2,325,000</u>

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

NOTE 6 - LONG-TERM DEBT - CONTINUED

Long-Term Debt Maturities

Long-term debt maturities, including principal and interest, are as follows:

Year ending September 30,	General Long-Term Debt		Business Type Activities		Total
	Principal	Interest	Principal	Interest	
2016	45,000	79,100	50,000	42,294	216,394
2017	50,000	77,200	50,000	39,600	216,800
2018	50,000	75,100	55,000	36,906	217,006
2019	55,000	73,000	55,000	33,913	216,913
2020	60,000	70,700	60,000	30,919	221,619
2021	60,000	68,200	60,000	27,669	215,869
2022	65,000	65,700	65,000	24,419	220,119
2023	65,000	63,000	70,000	20,913	218,913
2024	70,000	60,300	75,000	17,106	222,406
2025	75,000	57,300	75,000	13,044	220,344
2026	80,000	54,100	80,000	8,981	223,081
2027	85,000	50,700	85,000	4,619	225,319
2028	80,000	47,100			127,100
2029	85,000	42,300			127,300
2030	90,000	37,200			127,200
2031	95,000	31,800			126,800
2032	100,000	26,100			126,100
2033	105,000	20,100			125,100
2034	110,000	13,800			123,800
2035	120,000	7,200			127,200
Total	<u>\$ 1,545,000</u>	<u>\$ 1,020,000</u>	<u>\$ 780,000</u>	<u>\$ 300,383</u>	<u>\$ 3,645,383</u>

NOTE 7 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; employee medical benefits; workers' compensation; and natural disasters for which the City carries commercial insurance. Management believes the amount of insurance maintained is adequate to protect the City from significant loss.

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

NOTE 8- PENSION PLAN

Plan Description

The City of Margaret 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.

Substantially all employees are members of the Employees' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the City of Margaret. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 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 general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 236-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150 or online at www.rsa-al.gov.

In accordance with state statutes, City employees, other than police officers, are required to contribute 5 percent of their annual compensation to the Retirement System. Effective January 1, 2001, certified full time police officers contributed 6% of eligible wages. The City is required to contribute the remaining amounts necessary to fund RSA, using the "entry age" actuarial method as specified by state statutes, currently 10.87% of covered wages. For employees hired after January 1, 2013, the City contributes 8.57% of covered wages and employees contribute 6% except for police officers where the contribution rate is 7%.

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

NOTE 8 - PENSION PLAN - continued

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

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

*Includes assumed rate of inflation of 2.50%

Discount Rate

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

The auditor's report dated June 3, 2015 on the Schedule of Changes in Fiduciary Net Position by Employer and accompany notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

For the year ended September 30, 2015, the City of Margaret recognized pension expense of \$58,590 and deferred outflows and inflows of resources related to pensions which were calculated as follows:

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

NOTE 8 - PENSION PLAN - continued

Pension Expense Calculation

Service Cost	\$ 35,907
Interest on the total pension liability	29,577
Member contributions	(17,464)
Projected earnings on plan investments	(34,863)
Expensed portion of current-period differences between actual and projected earnings on plan investments	(3,485)
Transfers among employers	<u>48,918</u>
Pension Expense	<u><u>\$ 58,590</u></u>

Deferred Inflows and Outflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on plan investments		13,940
Employer contributions subsequent to measurement date	<u>8,261</u>	<u> </u>
Total	<u><u>8,261</u></u>	<u><u>13,940</u></u>

The Plan experienced earnings in excess of the assumed rate in the amount of \$17,425 for the year ended September 30, 2014 and these excess earnings are being amortized over a five year period beginning in the year ended September 30, 2015 at the rate of \$3,485 per year.

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

NOTE 9 - INTER-FUND RECEIVABLES AND PAYABLES

At September 30, 2015, inter-fund receivables and payables consist of the following:

<u>General Fund</u>		
Due from Gas Tax Fund	4,689	
Due to Fire Tax Fund	668	1,165
<u>Capital Improvements</u>		
Due from Street Fund	19,678	
<u>Street Fund</u>		
Due to Capital Improvements		19,678
<u>Gas Tax Fund</u>		
Due to General Fund		4,689
<u>Fire Tax Fund</u>		
Due from General Fund	1,165	
Due to General Fund		668
	<u>\$ 26,200</u>	<u>\$ 26,200</u>

NOTE 10- RESERVED NET POSITION AND RESTRICTED ASSET ACCOUNTS

The City's general obligation water warrants covenants do not require reservations of the water system's retained earnings.

The City's assets are restricted as follows:

	City Wide Basis	General Fund	Business Type Activity
Debt service investments	\$ 4,024	\$ 10,615	\$ 96,469
Special revenue accounts	348,560	-	-
Due from other funds	-	\$ 5,357	-
Customer deposits	-	-	917
Total restricted assets	<u>\$ 352,584</u>	<u>\$ 15,972</u>	<u>\$ 97,386</u>

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

NOTE 11 - WATER CUSTOMER INFORMATION (UNAUDITED)

Water customers are classified as either residential or commercial depending on the meter size. There are no unmetered customers. Customer revenue and rates by class of customers are as follows:

Customer Class	Number of Customer s	Gross Revenue	Rate Schedule
Residential	1,224	\$ 545,293	Minimum Units per 1,000 units -
			2,000 \$14.75
			4,000 5.50
			6,000 7.40
			0 6.00
Commercial	18	17,884	Minimum Units per 1,000 units -
			2,500 \$26.00
			10,000 3.00
			12,000 2.50
			0 1.95
	<u>1,242</u>	<u>\$ 563,177</u>	

NOTE 12 - MAYOR AND COUNCIL MEMBERS

Mayor and council members of the City of Margaret at September 30, 2015 were as follows:

Mr. Isaac Howard III, Mayor
Mr. James Chapman, Council Member
Mr. Charles Hicks, Council Member
Mr. Daryl McIntyre, Council Member
Mr. Stephen Perry, Council Member
Mrs. Bonnie Voss, Council Member

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF MARGARET, ALABAMA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
SEPTEMBER 30, 2015

Total Pension Liability	
Service Cost	35,907
Interest	29,577
Benefit payments including refunds of employee contributions	<u>(11,991)</u>
Net Change In Total Pension Liability	53,493
Total Pension Liability, Beginning of Year	<u>375,714</u>
Total Pension Liability, End of Year	<u>429,207</u>
 Plan Fiduciary Net Position	
Contributions - Employer	21,662
Contributions - Employee	17,464
Net Investment Income	52,288
Benefit payments including refunds of employee contributions	<u>(11,991)</u>
Transfers among employers	<u>(48,918)</u>
Net Change in Plan Fiduciary Net Position	30,505
Plan Net Position, Beginning of Year	<u>446,678</u>
Plan Net Position, End of Year	<u>477,183</u>
Net Pension Liability (Asset), End of Year	(47,976)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	111.18%
Covered Employee Payroll	341,873
Net Pension Liability as a Percentage of Covered Employee Payroll	(14.03)%

CITY OF MARGARET, ALABAMA
SCHEDULE OF EMPLOYER CONTRIBUTIONS
SEPTEMBER 30, 2015

Actuarially Determined Contribution	8,261
Contributions in relation to the actuarially determined contribution	<u>8,261</u>
Contribution deficiency (excess)	<u><u>-</u></u>
Covered employee payroll	341,873
Contributions as a percentage of covered employee payroll	2.42%

Notes to Schedule

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

Methods and assumptions used to
determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	30 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75% to 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation