

THE CITY OF MARGARET, ALABAMA
GENERAL PURPOSE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

CITY OF MARGARET, ALABAMA
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SEPTEMBER 30, 2016

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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, 2016, 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, business activities, each major fund and the remaining fund information of the City of Margaret, Alabama as of September 30, 2016 and the changes in its net position and cash flows where applicable 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, 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
December 22, 2016

**THE CITY OF MARGARET, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS
SEPTEMBER 30, 2016**

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, 2016. Please read it in conjunction with the City's financial statements, which begin on page 11.

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 11 and 12) 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 13. These statements tell how the City was 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 previous year.

**THE CITY OF MARGARET, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS
SEPTEMBER 30, 2016**

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The fund financial statements begin on page 13 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 14 and 16.

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, 2016

Governmental Type Activities			
	2016	2015	Increase/
	Amount	Amount	(Decrease)
Current assets	\$ 524,237	\$ 588,271	\$ (64,034)
Capital assets	14,093,042	14,156,924	(63,882)
Net pension asset	-	29,614	(29,614)
Total assets	14,617,279	14,774,809	(157,530)
Deferred outflows of resources	22,156	5,099	17,057
	<u>\$ 14,639,435</u>	<u>\$ 14,779,908</u>	<u>\$ (140,473)</u>
Current liabilities	\$ 78,688	\$ 92,638	\$ (13,950)
Non-current liabilities	1,470,023	1,498,858	(28,835)
Total liabilities	1,548,711	1,591,496	(42,785)
Deferred inflows of resources	-	8,605	(8,605)
Net position			
Invested in capital assets	12,593,042	12,581,538	11,504
Restricted	259,367	352,584	(93,217)
Unrestricted	238,315	245,685	(7,370)
	<u>13,090,724</u>	<u>13,179,807</u>	<u>(89,083)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 14,639,435</u>	<u>\$ 14,779,908</u>	<u>\$ (140,473)</u>

Business Type Activities			
	2016	2015	Increase/
	Amount	Amount	(Decrease)
Current assets	\$ 516,164	\$ 412,235	\$ 103,929
Capital assets	1,493,838	1,539,836	(45,998)
Net pension asset	-	18,362	(18,362)
Total assets	2,010,002	1,970,433	39,569
Deferred outflows of resources	10,436	3,162	7,274
	<u>\$ 2,020,438</u>	<u>\$ 1,973,595</u>	<u>\$ 46,843</u>
Current liabilities	\$ 164,802	\$ 154,731	\$ 10,071
Non-current liabilities	689,518	735,428	(45,910)
Total liabilities	854,320	890,159	(35,839)
Deferred inflows of resources	-	5,335	(5,335)
Net position			
Net investment in capital assets	763,838	759,836	4,002
Restricted	91,838	97,386	(5,548)
Unrestricted	310,442	220,879	89,563
	<u>1,166,118</u>	<u>1,078,101</u>	<u>88,017</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,020,438</u>	<u>\$ 1,973,595</u>	<u>\$ 46,843</u>

Current assets decreased because the City's expenses exceeded revenues 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, 2016**

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 18. 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, 2016

THE CITY'S REVENUES

The following schedule presents a comparative summary of government-wide revenues and expenditures for the years ended September 30, 2016 and 2015.

	2016	2015	Increase/ Decrease
	Amount	Amount	
Revenues			
Program revenues	\$ 48,376	\$ 158,892	\$ (110,516)
Taxes and license	757,234	682,682	74,552
Investment earnings	16	20	(4)
Other	32,874	28,990	3,884
	<u>838,500</u>	<u>870,584</u>	<u>(32,084)</u>
Expenditures			
Administrative	480,572	374,860	105,712
Police	251,476	247,769	3,707
Fire	140,960	138,882	2,078
Public works	10,248	10,011	237
Interest	79,627	80,929	(1,302)
Transfers - net	(35,300)	(83,611)	48,311
	<u>927,583</u>	<u>768,840</u>	<u>158,743</u>
Change in net position	<u>\$ (89,083)</u>	<u>\$ 101,744</u>	<u>\$ (190,827)</u>

BUSINESS ACTIVITIES

	2016	2015	Increase/ Decrease
	Amount	Amount	
Revenues			
Charges for services	\$ 654,609	\$ 880,783	(226,174)
	<u>654,609</u>	<u>880,783</u>	<u>(226,174)</u>
Operating expenses			
Cost of water and garbage service	108,153	225,121	(116,968)
Salaries	122,439	117,955	4,484
Depreciation	79,645	74,081	5,564
Insurance	43,276	35,235	8,041
Utilities	14,825	13,214	1,611
Repairs	16,201	27,131	(10,930)
Other operating expenses	107,518	103,570	3,948
	<u>492,057</u>	<u>596,307</u>	<u>(104,250)</u>
Operating income	162,552	284,476	(121,924)
Non-operating income (expenses)	<u>(74,535)</u>	<u>(130,454)</u>	<u>55,919</u>
Change in net position	<u>\$ 88,017</u>	<u>\$ 154,022</u>	<u>\$ (66,005)</u>

THE CITY OF MARGARET, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS
SEPTEMBER 30, 2016

The following schedule presents a summary of governmental fund revenues and expenditures for the year ending September 30, 2016 and 2015.

Revenues	2016 Amount	2015 Amount	Increase/ Decrease
Governmental Revenues			
Taxes	\$ 364,644	\$ 367,939	\$ (3,295)
Licenses and permits	170,478	183,460	(12,982)
Intergovernmental	224,567	236,239	(11,672)
Fines and forfeitures	41,304	47,819	(6,515)
Loan proceeds and other	36,827	51,844	(15,017)
Total governmental revenues	837,820	887,301	(49,481)
 Expenditures			
Governmental Expenditures			
General government	335,314	313,915	21,399
Public safety	332,425	326,173	6,252
Streets, sanitation and parks	104,221	24,786	79,435
Debt service and capital outlays	161,402	161,253	149
Transfers - net	(35,300)	(83,611)	48,311
Total governmental expenditures	898,062	742,516	155,546
Excess revenues	<u>\$ (60,242)</u>	<u>\$ 144,785</u>	<u>~~\$(205,027)~~</u>

**THE CITY OF MARGARET, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS
SEPTEMBER 30, 2016**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2016, the City had \$19,407,024 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 \$121,000 from 2015.

	Government Activities		Business Activities	
	2016	2015	2016	2015
Land	\$ 390,432	\$ 390,432	\$ -	\$ -
Buildings	383,657	274,539	1,878	1,878
Automotive	381,183	347,979	89,429	89,429
Equipment and furniture	463,497	463,497	39,557	39,557
Roads and drainage system	15,051,695	15,051,695	-	-
Water plant	-	-	2,605,696	2,626,863
	<u>\$ 16,670,464</u>	<u>\$ 16,528,142</u>	<u>\$ 2,736,560</u>	<u>\$ 2,757,727</u>
 Total investment for 2016	 <u>\$ 19,407,024</u>			

**THE CITY OF MARGARET, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS
SEPTEMBER 30, 2016**

Debt

As of September 30, 2016, the City had \$1,500,000 in outstanding bonds and notes payable versus \$1,545,000 last year. That is a decrease of \$45,000. As of September 30, 2016, the water department had \$730,000 in outstanding bonds and notes payable versus \$780,000 last year, a decrease of \$50,000.

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 2017.

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

THE CITY OF MARGARET, ALABAMA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	Primary Government		
	Governmental Activities	Business Activities	Total
Assets			
Current Assets:			
Cash and cash equivalents	\$ 228,233	\$ 232,846	\$ 461,079
Receivables (net)	20,575	73,919	94,494
Inventories	-	26,096	26,096
Prepaid expenses	9,629	6,975	16,604
	<u>258,437</u>	<u>339,836</u>	<u>598,273</u>
Restricted Assets:			
Cash and cash equivalents	265,800	176,328	442,128
Total current assets	<u>265,800</u>	<u>176,328</u>	<u>442,128</u>
Capital Assets:			
Non-depreciable	390,432	-	390,432
Depreciable	13,702,610	1,493,838	15,196,448
Total capital assets	<u>14,093,042</u>	<u>1,493,838</u>	<u>15,586,880</u>
Total assets	14,617,279	2,010,002	16,627,281
Deferred outflows of resources	<u>22,156</u>	<u>10,436</u>	<u>32,592</u>
Total assets and deferred outflows of resources	<u>\$ 14,639,435</u>	<u>\$ 2,020,438</u>	<u>\$16,659,873</u>

	Primary Government		
	Governmental	Business	
	Activities	Type	Total
		Activities	
Liabilities			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 24,732	\$ 27,834	\$ 52,566
Internal balances	(2,478)	2,478	-
Current Liabilities Payable from Restricted Assets:			
Customer deposits	-	81,190	81,190
Current maturities of long term debt	50,000	50,000	100,000
Interest payable	6,433	3,300	9,733
Total current liabilities	78,687	164,802	243,489
Non-Current Liabilities:			
Bonds payable	1,500,000	730,000	2,230,000
Net pension liability	7,467	4,090	11,557
Accrued compensated absences	12,557	5,428	17,985
Less current maturities	(50,000)	(50,000)	(100,000)
Total non-current liabilities	1,470,024	689,518	2,159,542
Total liabilities	1,548,711	854,320	2,403,031
Deferred inflows of resources	-	-	-
Net Position			
Invested in capital assets (net of related debt)	12,593,042	763,838	13,356,880
Restricted net position	259,367	91,838	351,205
Unrestricted assets	238,315	310,442	548,757
Total net position	13,090,724	1,166,118	14,256,842
Total liabilities, deferred inflow of resources and net position	\$ 14,639,435	\$ 2,020,438	\$16,659,873

See Independent Accountants' Report and notes to the financial statements

THE CITY OF MARGARET, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities
Function/Program Activities						
Primary Government:						
Governmental Activities:						
General government	\$ 480,572	\$ -	\$ 3,672	\$ -	\$ (476,900)	\$ -
Police and courts	251,476	42,459	-	-	(209,017)	-
Fire	140,960	-	2,245	-	(138,715)	-
Parks and recreation	10,248	-	-	-	(10,248)	-
Interest on long-term debt	79,627	-	-	-	(79,627)	-
Total governmental activities	962,883	42,459	5,917	-	(914,507)	-
Business Type Activities:						
Water Department	-	-	-	-	-	167,377
Interest Expense	-	-	-	-	-	(44,060)
Total business type activities	-	-	-	-	-	123,317
Total primary government	\$ 962,883	\$ 42,459	\$ 5,917	\$ -	(914,507)	123,317
General Revenues:						
Taxes:						
Ad valorem taxes					138,725	-
Sales tax					225,410	-
Gas tax					29,558	-
Other taxes					194,993	-
Licenses and permits					168,548	-
Investment earnings					16	-
Miscellaneous					32,874	-
Transfers (net)					35,300	(35,300)
Total general revenues and transfers					825,424	(35,300)
Change in Net Position from activities					(89,083)	88,017
Net position, beginning of year					13,179,807	1,078,101
Net position, end of year					\$ 13,090,724	\$1,166,118

See Independent Accountants' Report and notes to the financial statements

THE CITY OF MARGARET, ALABAMA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	<u>General</u>	<u>Special Revenue Funds</u>	<u>Total Governmental Funds</u>
Assets and Other Debits			
Assets:			
Cash and cash equivalents	\$ 228,233	\$ -	\$ 228,233
Receivables			
Taxes	19,224	1,351	20,575
Due from other funds	8,913	22,432	31,345
Prepaid expenses	8,867	762	9,629
Restricted assets:			
Cash and cash equivalents	10,638	255,162	265,800
Total assets	<u>\$ 275,875</u>	<u>\$ 279,707</u>	<u>\$ 555,582</u>
 Liabilities and Fund Balance			
Liabilities:			
Accounts payable and accrued liabilities	\$ 24,732	\$ -	\$ 24,732
Due to other funds	5,290	23,577	28,867
Total liabilities	30,022	23,577	53,599
 Fund Balances:			
Non-spendable	8,867	762	9,629
Reserved	19,551	255,368	274,919
Unreserved, undesignated	217,435	-	217,435
Total equity and other credits	<u>245,853</u>	<u>256,130</u>	<u>501,983</u>
 Total liabilities and fund balance	<u>\$ 275,875</u>	<u>\$ 279,707</u>	<u>\$ 555,582</u>

See Independent Accountants' Report and notes to the financial statements

THE CITY OF MARGARET, ALABAMA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION
SEPTEMBER 30, 2016

Fund Balance - Total Government Funds	\$ 501,983
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	14,093,042
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.	(6,433)
Long-Term Liabilities are not due and payable in the current period and therefore, they are not reported in the Governmental Funds Balance Sheet	(1,500,000)
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	(12,557)
Net pension fund liability is not realizable in the current period and therefore this liability is not reported in the governmental funds balance sheet	(7,467)
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	22,156
Net Position of Governmental Activities	<u>\$ 13,090,724</u>

See Independent Accountants' Report and notes to the financial statements

THE CITY OF MARGARET, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>General</u>	<u>Special Revenue Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	\$ 364,644	\$ -	\$ 364,644
Licenses and permits	170,478	-	170,478
Intergovernmental	25,382	199,185	224,567
Fines and forfeitures	36,792	4,512	41,304
Interest	36,814	-	36,814
Other	-	13	13
Total revenues	<u>634,110</u>	<u>203,710</u>	<u>837,820</u>
Expenditures:			
Current operations:			
General government	182,180	153,134	335,314
Public safety	292,521	39,904	332,425
Streets, sanitation and parks	-	104,221	104,221
Total current operations	<u>474,701</u>	<u>297,259</u>	<u>771,960</u>
Capital outlays	36,617	-	36,617
Debt service:			
Principal	45,000	-	45,000
Interest and fiscal charges	79,785	-	79,785
Total expenditures	<u>636,103</u>	<u>297,259</u>	<u>933,362</u>
Excess (deficiency) of revenues over (under) expenditures	(1,993)	(93,549)	(95,542)
Other Financing Sources:			
Operating transfers in	<u>35,300</u>	-	<u>35,300</u>
Total other financing sources	<u>35,300</u>	-	<u>35,300</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	33,307	(93,549)	(60,242)
Fund balances, beginning	<u>212,546</u>	<u>349,679</u>	<u>562,225</u>
Fund balances, ending	<u><u>\$ 245,853</u></u>	<u><u>\$ 256,130</u></u>	<u><u>\$ 501,983</u></u>

See Independent Accountants' Report and 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, 2016

Net change in fund balances - total governmental funds	\$ (60,242)
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.	143,368
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	45,000
Accrued compensated absences is recorded in the government-wide statement of activities and changes in net position, but it does not require the use of current financial resources. Therefore, accrued compensated absences are not recorded as an expenditure in governmental funds.	1,301
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 an expenditure in governmental funds.	(207,250)
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	160
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	(11,420)
Change in net position of governmental activities	<u>\$ (89,083)</u>

See Independent Accountants' Report and notes to the financial statements

THE CITY OF MARGARET, ALABAMA
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2016

Assets

Current Assets:

Cash and cash equivalents	\$ 232,846
Receivables	
Customer accounts (less allowance for doubtful accounts of \$4,000)	73,919
Inventories	26,096
Prepaid expenses	<u>6,975</u>
Total current assets	<u>339,836</u>

Property, Plant and Equipment:

Capital assets net of depreciation	2,736,561
Less accumulated depreciation	<u>1,242,723</u>
	1,493,838

Restricted Assets:

Trust and construction funds	100,007
Customer deposits	<u>76,321</u>
	<u>176,328</u>

Total Assets	2,010,002
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Deferred Outflows of Resources	<u>10,436</u>
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Total Assets and Deferred Outflows of Resources	<u><u>\$ 2,020,438</u></u>
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Liabilities and Net Position**Current Liabilities:**

Accounts payable	\$ 27,834
Internal accounts	<u>2,478</u>
Total current liabilities (payable from current assets)	30,312

Current Liabilities (Payable from Restricted Assets):

Meter deposits	81,190
Current maturities of long-term debt	50,000
Accrued interest	<u>3,300</u>
Total current liabilities (payable from restricted assets)	<u>134,490</u>
Total current liabilities	164,802

Non-Current Liabilities:

Bonds payable	730,000
Net pension liability	4,090
Compensated absences	5,428
Less current maturities	<u>(50,000)</u>
Total non-current liabilities	<u>689,518</u>

Total liabilities	854,320
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Deferred Inflows of Resources

-

Net Position:

Restricted	91,838
Net investments in capital assets	763,838
Unrestricted	<u>310,442</u>
Total net position	<u>1,166,118</u>

Total liabilities, deferred inflow of resources and net position	<u><u>\$ 2,020,438</u></u>
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See Independent Accountants' Report and 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 YEAR ENDED SEPTEMBER 30, 2016

	<u>Amount</u>	<u>% of Revenue</u>
Operating Revenues		
Water sales and services	\$ 659,434	100.0
Total operating revenues	<u>659,434</u>	<u>100.0</u>
Operating Expenses		
Salaries and wages	122,439	18.6
Cost of services	108,153	16.4
Depreciation	79,645	12.1
Insurance	43,276	6.5
Materials and supplies	41,759	6.3
Repairs and maintenance	16,201	2.5
Testing and professional fees	15,347	2.3
Office expense	15,133	2.3
Utilities	14,825	2.2
Retirement	11,367	1.7
Fuel	10,401	1.6
Payroll taxes	9,367	1.4
Other expenses	4,144	0.6
Total operating expenses	<u>492,057</u>	<u>74.5</u>
Operating income	167,377	25.5
Nonoperating Income (Expenses)		
Operating transfers	(35,300)	(5.4)
Interest expense	<u>(44,060)</u>	<u>(6.7)</u>
Total nonoperating income (expenses)	<u>(74,535)</u>	<u>(12.1)</u>
Change in net position	88,017	<u>13.4</u>
Net position, beginning of year	<u>1,078,101</u>	
Net position, end of year	<u>\$1,166,118</u>	

See Independent Accountants' Report and notes to the financial statements

THE CITY OF MARGARET, ALABAMA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
- WATER SYSTEM ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Cash Flows from Operating Activities:	
Cash received from customers	\$ 663,039
Cash paid to suppliers	(273,867)
Cash paid to employees	(122,439)
Net cash provided by operating activities	<u>266,733</u>
Cash Flows from Non-capital Financing Activities:	
Operating transfers	(35,300)
Net cash (used) by non-capital financing activities	<u>(35,300)</u>
Cash Flows for Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(33,647)
Repayment of indebtedness	(50,000)
Interest paid on capital and related financing activities	(44,285)
Net cash used by capital and related financing activities	<u>(127,932)</u>
Cash Flows from Investing Activities:	
Interest received on investments	-
Net cash provided by investing activities	<u>-</u>
Net increase in cash and cash equivalents	103,501
Cash and cash equivalents, beginning of year	<u>305,673</u>
Cash and cash equivalents, end of year	<u><u>\$ 409,174</u></u>
Unrestricted cash	\$ 232,846
Restricted cash	<u>176,328</u>
	<u><u>\$ 409,174</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operations:	
Operating income	\$ 167,377
Adjustments to reconcile operating income to net cash provided by operations:	
Depreciation	79,645
Bad debts	-
Changes in operating assets and liabilities:	
(Increase) in accounts receivable	(2,080)
Decrease in inventories and prepayments	949
Increase in accounts payable and accrued expenses	5,314
Increase in customer deposits	5,685
Increase in pension liabilities	9,843
Net cash provided by operations	<u><u>\$ 266,733</u></u>

See Independent Accountants' Report and notes to the financial statements

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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.

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.

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 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.

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.

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Enterprise Funds

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City is accounted for as a proprietary fund and uses the accrual basis of accounting. During the year ended September 30, 2014, the City adopted GASB 62, *Codifications of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance in FASB pronouncements when they do not conflict or contradict GASB pronouncements. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services in connection with the delivery of water to its customers. Operating expenses also includes depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating 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.

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.

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Pension Plan

The City of Margaret (the City) participates in the Retirement System of Alabama (RSA) and substantially all of the City's full time employees are covered. Funding rates are determined each year actuarially in accordance with an act of the State Legislature and vary according to funding requirements. These rates for employees hired prior to January 1, 2013, required a payment of 5.27% of covered compensation by the employer and 5% from employees except police officers where the contribution rate is 6%. For employees coming into the plan after January 1, 2013, The City contributed .39% of covered compensation and employees contributed 6% except for police officers who contribute 7%.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources which represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The City has deferred pension expense resulting from contributions made after the liability measurement date, for plan earnings which were less than actuarial projections and for difference between actual and expected experiences. The short fall in earnings and experiences are recognized over a five year period.

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources which represent an acquisition of net position that applies to a future period and as such will not be recognized as an inflow of resources until that time. The City has no inflows of resources at year end.

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.

NOTE 2- 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 3 - 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	\$ 16,691	\$ -	\$ 16,691
Telephone tax	1,438	-	1,438
Beer and tobacco tax	594	-	594
Intergovernmental:			
Other	1,852	-	1,852
Accounts:			
Water service	-	77,919	77,919
Gross receivables	20,575	77,919	98,494
Less: allowance for uncollectibles	-	4,000	4,000
Net total receivables	<u>\$ 20,575</u>	<u>\$ 73,919</u>	<u>\$ 94,494</u>

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the City during the year ended September 30, 2016, was as follows:

	<u>Beginning Balance Oct. 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance Sept. 30, 2016</u>
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	274,539	110,164	1,046	383,657
Automotive equipment	347,979	33,204	-	381,183
Equipment and furniture	463,497	-	-	463,497
Streets and roads	15,051,695	-	-	15,051,695
Total capital assets, being depreciated	16,137,710	143,368	1,046	16,280,032
Less accumulated depreciation	2,371,218	207,250	1,046	2,577,422
Net capital assets, being depreciated	13,766,492	(63,882)	-	13,702,610
Governmental activities, net capital assets	<u>\$ 14,156,924</u>	<u>\$ (63,882)</u>	<u>\$ -</u>	<u>\$ 14,093,042</u>
Depreciation was charged to City functions as follows:				
General government				\$ 162,746
Police				14,221
Fire				20,273
Public works				10,010
Total governmental activities depreciation expense				<u>\$ 207,250</u>
Business type activities				
Buildings	\$ 1,878	\$ -	\$ -	\$ 1,878
Vehicles	89,429	-	-	89,429
Utility plant & equipment	2,626,863	33,646	54,813	2,605,696
Heavy equipment	14,218	-	-	14,218
Furniture & office equipment	25,339	-	-	25,339
Total capital assets, business type activities	2,757,727	33,646	54,813	2,736,560
Less accumulated depreciation	1,217,891	79,645	54,813	1,242,723
Net capital assets, business type activities	<u>\$ 1,539,836</u>	<u>\$ (45,999)</u>	<u>\$ -</u>	<u>\$ 1,493,837</u>
Depreciation was charged to functions as follows:				
Water Department				<u>\$ 79,645</u>

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

NOTE 5 - 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, 2016:

	<u>Balance</u> <u>9-30-15</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>9-30-16</u>
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	\$ 80,000	\$ -	\$ 5,000	\$ 75,000
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	680,000	-	40,000	640,000
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 first principal payment due in September 2028	785,000	-	-	785,000
Governmental funds total	<u>1,545,000</u>	<u>-</u>	<u>45,000</u>	<u>1,500,000</u>
Business Type Activities				
6% General obligation warrants - Series 2002	265,000	-	15,000	250,000
4% Water revenue warrants - Series 2007	<u>515,000</u>	<u>-</u>	<u>35,000</u>	<u>480,000</u>
Business type activities total	<u>780,000</u>	<u>-</u>	<u>50,000</u>	<u>730,000</u>
Grand total of long-term debt	<u><u>\$2,325,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 95,000</u></u>	<u><u>\$2,230,000</u></u>

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

NOTE 5 - 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	
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
2022-2026	355,000	300,400	365,000	84,463	1,104,863
2027-2031	435,000	209,100	85,000	4,619	733,719
Remaining	435,000	67,200	-	-	502,200
Total	<u>\$ 1,500,000</u>	<u>\$ 940,900</u>	<u>\$ 730,000</u>	<u>\$ 258,089</u>	<u>\$ 3,428,989</u>

NOTE 6 - 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.

NOTE 7- 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.

General Information about the Pension Plan

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

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

NOTE 7 - PENSION PLAN - continued

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

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

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. Employees who retire after age 60 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. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

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

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

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

NOTE 7 - PENSION PLAN - continued

The ERS services appoximately 846 local participating employers. The participating employers include 287 cities, 65 counties, and 494 other public entities. The ERS membership includes approximately 83,874 participants. As of September 30, 2015, membership from the City of Margaret consisted of:

Retirees and beneficiaries currently receiving benefits	3
Terminated employes entitled to but not yet receiving benefits	1
Terminated employees not entitled to a benefit	3
Active Members	<u>19</u>
Total	<u>26</u>

Contributions. Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute. Certified law enforcement, correctional officers, and firefighters of the ERS contribute 6% of earnable compensation as required by statute.

Tier 2 covered members of the ERS contribute 6% earnable compensation to the ERS as required by statute and tier 2 police employees contribute 7% of earnable compensation.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2016 active employee contribution rate was 5.12% of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 4.78% of covered employee payroll.

The City's contractually required contribution rate for the year ended September 30, 2016 was 5.27% of pensionable pay for Tier 1 employees, and .39% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, 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 memebbers during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan were \$7,371 for the year ended September 30, 2016.

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

NOTE 7 - PENSION PLAN - continued

B. Net Pension Liability

The City's net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014 rolled forward to September 30, 2015 using standard roll-forward techniques as shown in the following table:

	Expected	Actual
Total pension liability, September 30, 2014	(a) 429,207	440,737
Entry Age Normal Cost for October 1, 2013-September 30, 2014	(b) 36,757	36,757
Actual Benefit Payments and Refunds for October 1, 2013 – September 30, 2014	© <u>(36,780)</u>	<u>(36,780)</u>
Total Pension Liability, as of September 30, 2014 (d) = ((a) x (1.08)) + (b) – (© x (1.04))	(d) <u><u>462,049</u></u>	<u><u>474,502</u></u>
Difference between Expected and Actual Experience (Gain)/Loss		<u><u>\$ (12,453)</u></u>

Actuarial assumptions. The total pension liability in the September 30, 2014 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

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

NOTE 7 - PENSION PLAN - continued

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

The actuarial assumptions used in the September 30, 2014 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The beginning of fiscal year 2012.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing 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%

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

NOTE 8 - PENSION 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 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.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance as September 30, 2014	\$ 429,207	\$ 477,183	\$ (47,976)
Changes for the year:			
Service Cost	36,757	-	36,757
Interest	32,865	-	32,865
Changes of assumptions			
Difference between expected and actual experience	12,453	-	12,453
Contributions - employer	-	7,238	(7,238)
Contributions - employee	-	16,130	(16,130)
Net investment income	-	5,544	(5,544)
Benefit payments, including refunds of employee contributions	(36,780)	(36,780)	-
Transfers Among Employers	-	(6,370)	6,370
Net Change	45,295	(14,238)	59,533
Balance at September 30, 2015	<u>\$ 474,502</u>	<u>\$ 462,945</u>	<u>\$ 11,557</u>

Sensitivity of the net pension liability to changes in the discount rate. The following table presents the City's net pension liability calculated using the discount rate of 8%, as well as what the City'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%)	Current Rate (8%)	1% Increases (9%)
Board's net pension liability	\$ 73,932	\$ 11,557	\$ (40,525)

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

NOTE 7 - PENSION PLAN - continued

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. 68 Report for the ERS prepared as of September 30, 2015. The auditor's report on the Schedule of changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov

C. Pension Expense and Deferred Outflows and Inflows of Resources

For the year ended September 30, 2016 the City recognized pension expense of \$27,167. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual experience	10,648	-
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	15,016	-
Employer contributions subsequent to measurement date	<u>6,928</u>	<u>-</u>
Total	<u><u>32,592</u></u>	<u><u>-</u></u>

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

Year ended September 30:

2017	\$ 11,616
2018	4,688
2019	4,688
2020	8,172
2021	1,805
Thereafter	<u>1,623</u>
	<u><u>\$ 32,592</u></u>

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

NOTE 8 - INTER-FUND RECEIVABLES AND PAYABLES

At September 30, 2016, inter-fund receivables and payables consist of the following:

<u>General Fund</u>			
Due from Gas Tax Fund	5,124		
Due from Fire Tax Fund	668		
Due from Water and Public Works	2,478		
Due to Fire Tax Fund		4,586	
<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		5,124	
<u>Fire Tax Fund</u>			
Due from General Fund	4,586		
Due to General Fund		668	
<u>Water and Public Works</u>			
Due to General Fund		2,478	
	<u>\$ 32,534</u>	<u>\$ 32,534</u>	

NOTE 9- 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	\$ 10,638	\$ 91,838
Special revenue accounts	255,343	-	-
Due from other funds	-	\$ 8,913	-
Total restricted assets	<u>\$ 259,367</u>	<u>\$ 19,551</u>	<u>\$ 91,838</u>

THE CITY OF MARGARET, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

NOTE 10 - 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	1,337	\$ 568,198	Minimum Units per 1,000 units - 2,000 \$14.75 4,000 5.50 6,000 7.40 0 6.00
Commercial	20	18,635	Minimum Units per 1,000 units - 2,500 \$26.00 10,000 3.00 12,000 2.50 0 1.95
	<u>1,357</u>	<u>\$ 586,833</u>	

NOTE 11 - MAYOR AND COUNCIL MEMBERS

Mayor and council members of the City of Margaret at September 30, 2016 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

THE CITY OF MARGARET, ALABAMA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
SEPTEMBER 30, 2016

Total Pension Liability	2016	2015
Service Cost	36,757	35,907
Interest	32,865	29,577
Difference between expected and actual experience	12,453	-
Benefit payments including refunds of employee contributions	(36,780)	(11,991)
Net Change In Total Pension Liability	45,295	53,493
Total Pension Liability, Beginning of Year	429,207	375,714
Total Pension Liability, End of Year	474,502	429,207
Plan Fiduciary Net Position		
Contributions - Employer	7,238	21,662
Contributions - Employee	16,130	17,464
Net Investment Income	5,544	52,288
Benefit payments including refunds of employee contributions	(36,780)	(11,991)
Transfers among employers	(6,370)	(48,918)
Net Change in Plan Fiduciary Net Position	(14,238)	30,505
Plan Net Position, Beginning of Year	477,183	446,678
Plan Net Position, End of Year	462,945	477,183
Net Pension Liability (Asset), End of Year	11,557	(47,976)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.6%	111.18%
Covered Employee Payroll	341,873	339,393
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	3.4%	(14.14)%

THE CITY OF MARGARET, ALABAMA
SCHEDULE OF EMPLOYER CONTRIBUTIONS
SEPTEMBER 30, 2016

	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	7,371	8,261
Contributions in relation to the actuarially determined contribution	<u>7,371</u>	<u>8,261</u>
Contribution deficiency (excess)	<u><u>-</u></u>	<u><u>-</u></u>
Covered employee payroll	355,480	341,873
Contributions as a percentage of covered employee payroll	2.07%	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 2016 and 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%
	3.75% to 7.25%, including inflation
Salary increases	
Investment rate of return	8.00%, net of pension plan investment expense, including inflation