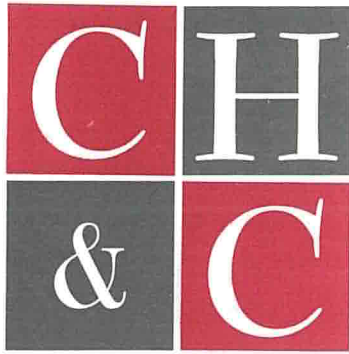


**THE CITY OF MARGARET, ALABAMA**  
**GENERAL PURPOSE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**CITY OF MARGARET, ALABAMA**  
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**SEPTEMBER 30, 2017**

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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, 2017, 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, 2017 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 20, 2017

**THE CITY OF MARGARET, ALABAMA  
MANAGEMENT'S DISCUSSION and ANALYSIS  
SEPTEMBER 30, 2017**

**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, 2017. 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, 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. These financial statements began on page 17 and consist of the statement of net position, statement of revenues, expenses and changes in net position and the statement of cash flows.

**THE CITY OF MARGARET, ALABAMA  
MANAGEMENT'S DISCUSSION and ANALYSIS  
SEPTEMBER 30, 2017**

**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, 2017**

| <b>Governmental Type Activities</b>                               |                      |                      |                   |
|-------------------------------------------------------------------|----------------------|----------------------|-------------------|
|                                                                   | <b>2017</b>          | <b>2016</b>          | <b>Increase/</b>  |
|                                                                   | <b>Amount</b>        | <b>Amount</b>        | <b>(Decrease)</b> |
| Current assets                                                    | \$ 771,905           | \$ 524,237           | \$ 247,668        |
| Capital assets                                                    | 13,958,314           | 14,093,042           | (134,728)         |
| Total assets                                                      | 14,730,219           | 14,617,279           | 112,940           |
| Deferred outflows of resources                                    | 111,592              | 22,156               | 89,436            |
|                                                                   | <u>\$ 14,841,811</u> | <u>\$ 14,639,435</u> | <u>\$ 202,376</u> |
| Current liabilities                                               | \$ 103,219           | \$ 78,688            | \$ 24,532         |
| Non-current liabilities                                           | 1,519,928            | 1,470,023            | 49,904            |
| Total liabilities                                                 | 1,623,147            | 1,548,711            | 74,436            |
| Deferred inflows of resources                                     | -                    | -                    | -                 |
| Net position                                                      |                      |                      |                   |
| Invested in capital assets                                        | 12,508,314           | 12,593,042           | (84,728)          |
| Restricted                                                        | 233,968              | 259,367              | (25,399)          |
| Unrestricted                                                      | 476,382              | 238,315              | 238,067           |
|                                                                   | <u>13,218,664</u>    | <u>13,090,724</u>    | <u>127,940</u>    |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 14,841,811</u> | <u>\$ 14,639,435</u> | <u>\$ 202,376</u> |

| <b>Business Type Activities</b>                                   |                     |                     |                   |
|-------------------------------------------------------------------|---------------------|---------------------|-------------------|
|                                                                   | <b>2017</b>         | <b>2016</b>         | <b>Increase/</b>  |
|                                                                   | <b>Amount</b>       | <b>Amount</b>       | <b>(Decrease)</b> |
| Current assets                                                    | \$ 504,836          | \$ 516,164          | \$ (11,328)       |
| Capital assets                                                    | 1,522,910           | 1,493,838           | 29,072            |
| Total assets                                                      | 2,027,746           | 2,010,002           | 17,744            |
| Deferred outflows of resources                                    | 57,180              | 10,436              | 46,744            |
|                                                                   | <u>\$ 2,084,926</u> | <u>\$ 2,020,438</u> | <u>\$ 64,488</u>  |
| Current liabilities                                               | \$ 185,880          | \$ 164,802          | \$ 21,078         |
| Non-current liabilities                                           | 683,254             | 689,518             | (6,264)           |
| Total liabilities                                                 | 869,134             | 854,320             | 14,814            |
| Deferred inflows of resources                                     | -                   | -                   | -                 |
| Net position                                                      |                     |                     |                   |
| Net investment in capital assets                                  | 842,910             | 763,838             | 79,072            |
| Restricted                                                        | 84,057              | 91,838              | (7,781)           |
| Unrestricted                                                      | 288,825             | 310,442             | (21,617)          |
|                                                                   | <u>1,215,792</u>    | <u>1,166,118</u>    | <u>49,674</u>     |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 2,084,926</u> | <u>\$ 2,020,438</u> | <u>\$ 64,488</u>  |

Current assets increased because the City's revenues exceeded expenditures 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, 2017**

**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 starting 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, 2017**

**THE CITY'S REVENUES**

The following schedule presents a comparative summary of government-wide revenues and expenditures for the years ended September 30, 2017 and 2016.

|                               | <b>2017</b>       | <b>2016</b>        | <b>Increase/<br/>Decrease</b> |
|-------------------------------|-------------------|--------------------|-------------------------------|
|                               | <b>Amount</b>     | <b>Amount</b>      |                               |
| <b>Revenues</b>               |                   |                    |                               |
| Program revenues              | \$ 73,812         | \$ 48,376          | \$ 25,436                     |
| Taxes and license             | 817,453           | 757,234            | 60,219                        |
| Investment earnings           | 156               | 16                 | 140                           |
| Other                         | 65,144            | 32,874             | 32,270                        |
|                               | <u>956,565</u>    | <u>838,500</u>     | <u>118,065</u>                |
| <b>Expenditures</b>           |                   |                    |                               |
| Administrative                | 476,895           | 480,572            | (3,677)                       |
| Police                        | 262,809           | 251,476            | 11,333                        |
| Fire                          | 164,978           | 140,960            | 24,018                        |
| Public works                  | 10,010            | 10,248             | (238)                         |
| Interest                      | 78,187            | 79,627             | (1,440)                       |
| Transfers - net               | (164,254)         | (35,300)           | (128,954)                     |
|                               | <u>828,625</u>    | <u>927,583</u>     | <u>(98,958)</u>               |
| <b>Change in net position</b> | <u>\$ 127,940</u> | <u>\$ (89,083)</u> | <u>\$ 217,023</u>             |

**BUSINESS ACTIVITIES**

|                                        | <b>2017</b>      | <b>2016</b>      | <b>Increase/<br/>Decrease</b> |
|----------------------------------------|------------------|------------------|-------------------------------|
|                                        | <b>Amount</b>    | <b>Amount</b>    |                               |
| <b>Revenues</b>                        |                  |                  |                               |
| Charges for services                   | \$ 737,128       | \$ 654,609       | 82,519                        |
|                                        | <u>737,128</u>   | <u>654,609</u>   | <u>82,519</u>                 |
| <b>Operating expenses</b>              |                  |                  |                               |
| Cost of water and garbage service      | 104,888          | 108,153          | (3,265)                       |
| Salaries                               | 128,025          | 122,439          | 5,586                         |
| Depreciation                           | 73,013           | 79,645           | (6,632)                       |
| Insurance                              | 45,638           | 43,276           | 2,362                         |
| Utilities                              | 11,371           | 14,825           | (3,454)                       |
| Repairs                                | 23,452           | 16,201           | 7,251                         |
| Other operating expenses               | 97,294           | 107,518          | (10,224)                      |
|                                        | <u>483,681</u>   | <u>492,057</u>   | <u>(8,376)</u>                |
| <b>Operating income</b>                | 253,447          | 162,552          | 90,895                        |
| <b>Non-operating income (expenses)</b> | <u>(203,773)</u> | <u>(74,535)</u>  | <u>(129,238)</u>              |
| <b>Change in net position</b>          | <u>\$ 49,674</u> | <u>\$ 88,017</u> | <u>\$ (38,343)</u>            |

**THE CITY OF MARGARET, ALABAMA  
MANAGEMENT'S DISCUSSION and ANALYSIS  
SEPTEMBER 30, 2017**

The following schedule presents a summary of governmental fund revenues and expenditures for the year ending September 30, 2017 and 2016.

| <b>Revenues</b>                     | <b>2017<br/>Amount</b> | <b>2016<br/>Amount</b> | <b>Increase/<br/>Decrease</b> |
|-------------------------------------|------------------------|------------------------|-------------------------------|
| Governmental Revenues               |                        |                        |                               |
| Taxes                               | \$ 444,092             | \$ 364,644             | \$ 79,448                     |
| Licenses and permits                | 227,162                | 170,478                | 56,684                        |
| Intergovernmental                   | 168,501                | 224,567                | (56,066)                      |
| Fines and forfeitures               | 67,757                 | 41,304                 | 26,453                        |
| Loan proceeds and other             | 48,736                 | 36,827                 | 11,909                        |
| <br>Total governmental revenues     | <br>956,248            | <br>837,820            | <br>118,428                   |
| <br><b>Expenditures</b>             |                        |                        |                               |
| Governmental Expenditures           |                        |                        |                               |
| General government                  | 288,689                | 335,314                | (46,625)                      |
| Public safety                       | 377,501                | 332,425                | 45,076                        |
| Streets, sanitation and parks       | 29,495                 | 104,221                | (74,726)                      |
| Debt service and capital outlays    | 201,862                | 161,402                | 40,460                        |
| Transfers - net                     | (164,254)              | (35,300)               | (128,954)                     |
| <br>Total governmental expenditures | <br>733,293            | <br>898,062            | <br>(164,769)                 |
| <br>Excess revenues                 | <br>\$ 222,955         | <br>\$ (60,242)        | <br>\$ 283,197                |

**THE CITY OF MARGARET, ALABAMA  
MANAGEMENT'S DISCUSSION and ANALYSIS  
SEPTEMBER 30, 2017**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of September 30, 2017, the City had \$19,502,905 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 \$95,881 from 2016.

|                               | <b>Government Activities</b> |                      | <b>Business Activities</b> |                     |
|-------------------------------|------------------------------|----------------------|----------------------------|---------------------|
|                               | <b>2017</b>                  | <b>2016</b>          | <b>2017</b>                | <b>2016</b>         |
| Land                          | \$ 390,432                   | \$ 390,432           | \$ -                       | \$ -                |
| Buildings                     | 383,657                      | 383,657              | 1,878                      | 1,878               |
| Automotive                    | 376,511                      | 381,183              | 92,897                     | 89,429              |
| Equipment and furniture       | 488,294                      | 463,497              | 39,557                     | 39,557              |
| Roads and drainage system     | 15,051,695                   | 15,051,695           | -                          | -                   |
| Water plant                   |                              | -                    | 2,677,984                  | 2,605,696           |
|                               | <u>\$ 16,690,589</u>         | <u>\$ 16,670,464</u> | <u>\$ 2,812,316</u>        | <u>\$ 2,736,560</u> |
| <br>Total investment for 2017 | <br><u>\$ 19,502,905</u>     |                      |                            |                     |

**THE CITY OF MARGARET, ALABAMA  
MANAGEMENT'S DISCUSSION and ANALYSIS  
SEPTEMBER 30, 2017**

**Debt**

As of September 30, 2017, the City had \$1,450,000 in outstanding bonds and notes payable versus \$1,500,000 last year. That is a decrease of \$50,000. As of September 30, 2017, the water department had \$680,000 in outstanding bonds and notes payable versus \$730,000 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 2018.

**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, 2017**

|                                                 | <b>Primary Government</b>          |                                |                     |
|-------------------------------------------------|------------------------------------|--------------------------------|---------------------|
|                                                 | <b>Governmental<br/>Activities</b> | <b>Business<br/>Activities</b> | <b>Total</b>        |
| <b>Assets</b>                                   |                                    |                                |                     |
| <b>Current Assets:</b>                          |                                    |                                |                     |
| Cash and cash equivalents                       | \$ 466,283                         | \$ 209,792                     | \$ 676,075          |
| Receivables (net)                               | 25,742                             | 76,469                         | 102,211             |
| Inventories                                     | -                                  | 28,470                         | 28,470              |
| Prepaid expenses                                | 10,724                             | 5,314                          | 16,038              |
|                                                 | <u>502,749</u>                     | <u>320,045</u>                 | <u>822,794</u>      |
| <b>Restricted Assets:</b>                       |                                    |                                |                     |
| Cash and cash equivalents                       | 269,156                            | 184,791                        | 453,947             |
| Total current assets                            | <u>771,905</u>                     | <u>504,836</u>                 | <u>1,276,741</u>    |
| <b>Capital Assets:</b>                          |                                    |                                |                     |
| Non-depreciable                                 | 390,432                            | -                              | 390,432             |
| Depreciable                                     | 13,567,882                         | 1,522,910                      | 15,090,792          |
| Total capital assets                            | <u>13,958,314</u>                  | <u>1,522,910</u>               | <u>15,481,224</u>   |
| Total assets                                    | 14,730,219                         | 2,027,746                      | 16,757,965          |
| Deferred outflows of resources                  | <u>111,592</u>                     | <u>57,180</u>                  | <u>168,772</u>      |
| Total assets and deferred outflows of resources | <u>\$ 14,841,811</u>               | <u>\$ 2,084,926</u>            | <u>\$16,926,737</u> |

|                                                                  | Primary Government |              |              |
|------------------------------------------------------------------|--------------------|--------------|--------------|
|                                                                  | Governmental       | Business     |              |
|                                                                  | Activities         | Type         | Total        |
|                                                                  |                    | Activities   |              |
| <b>Liabilities</b>                                               |                    |              |              |
| <b>Current Liabilities:</b>                                      |                    |              |              |
| Accounts payable and accrued expenses                            | \$ 49,439          | \$ 27,668    | \$ 77,107    |
| Internal balances                                                | (2,478)            | 2,478        | -            |
| <b>Current Liabilities Payable from Restricted Assets:</b>       |                    |              |              |
| Customer deposits                                                | -                  | 97,658       | 97,658       |
| Current maturities of long term debt                             | 50,000             | 55,000       | 105,000      |
| Interest payable                                                 | 6,258              | 3,076        | 9,334        |
| Total current liabilities                                        | 103,219            | 185,880      | 289,099      |
| <b>Non-Current Liabilities:</b>                                  |                    |              |              |
| Bonds payable                                                    | 1,450,000          | 680,000      | 2,130,000    |
| Net pension liability                                            | 103,255            | 52,754       | 156,009      |
| Accrued compensated absences                                     | 16,673             | 5,500        | 22,173       |
| Less current maturities                                          | (50,000)           | (55,000)     | (105,000)    |
| Total non-current liabilities                                    | 1,519,928          | 683,254      | 2,203,182    |
| Total liabilities                                                | 1,623,147          | 869,134      | 2,492,281    |
| Deferred inflows of resources                                    |                    |              |              |
| <b>Net Position</b>                                              |                    |              |              |
| Invested in capital assets                                       | 12,508,314         | 842,910      | 13,351,224   |
| Restricted net position                                          | 233,968            | 109,697      | 343,665      |
| Unrestricted assets                                              | 476,382            | 263,185      | 739,567      |
| Total net position                                               | 13,218,664         | 1,215,792    | 14,434,456   |
| Total liabilities, deferred inflow of resources and net position | \$ 14,841,811      | \$ 2,084,926 | \$16,926,737 |

See Independent Accountants' Report and notes to the financial statements

**THE CITY OF MARGARET, ALABAMA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

|                                         | Program Revenues           |                                          |                                        |      | Net (Expense) Revenue and<br>Changes in Net Position |                                |               |
|-----------------------------------------|----------------------------|------------------------------------------|----------------------------------------|------|------------------------------------------------------|--------------------------------|---------------|
|                                         | Charges<br>for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |      | Governmental<br>Activities                           | Business<br>Type<br>Activities | Total         |
|                                         | Expenses                   |                                          |                                        |      |                                                      |                                |               |
| <b>Function/Program Activities</b>      |                            |                                          |                                        |      |                                                      |                                |               |
| <b>Primary Government:</b>              |                            |                                          |                                        |      |                                                      |                                |               |
| Governmental Activities:                |                            |                                          |                                        |      |                                                      |                                |               |
| General government                      | \$ 476,895                 | \$ -                                     | \$ 1,868                               | \$ - | \$ (475,027)                                         | \$ -                           | \$ (475,027)  |
| Police and courts                       | 262,809                    | 68,947                                   | -                                      | -    | (193,862)                                            | -                              | (193,862)     |
| Fire                                    | 164,978                    | -                                        | 2,997                                  | -    | (161,981)                                            | -                              | (161,981)     |
| Parks and recreation                    | 10,010                     | -                                        | -                                      | -    | (10,010)                                             | -                              | (10,010)      |
| Interest on long-term debt              | 78,187                     | -                                        | -                                      | -    | (78,187)                                             | -                              | (78,187)      |
| Total governmental activities           | 992,879                    | 68,947                                   | 4,865                                  | -    | (919,067)                                            | -                              | (919,067)     |
| Business Type Activities:               |                            |                                          |                                        |      |                                                      |                                |               |
| Water Department                        | -                          | -                                        | -                                      | -    | -                                                    | 253,447                        | 253,447       |
| Interest Expense                        | -                          | -                                        | -                                      | -    | -                                                    | (39,519)                       | (39,519)      |
| Total business type activities          | -                          | -                                        | -                                      | -    | -                                                    | 213,928                        | 213,928       |
| Total primary government                | \$ 992,879                 | \$ 68,947                                | \$ 4,865                               | \$ - | (919,067)                                            | 213,928                        | (705,139)     |
| <b>General Revenues:</b>                |                            |                                          |                                        |      |                                                      |                                |               |
| Taxes:                                  |                            |                                          |                                        |      |                                                      |                                |               |
| Ad valorem taxes                        |                            |                                          |                                        |      | 147,764                                              | -                              | 147,764       |
| Sales tax                               |                            |                                          |                                        |      | 295,270                                              | -                              | 295,270       |
| Gas tax                                 |                            |                                          |                                        |      | 32,489                                               | -                              | 32,489        |
| Other taxes                             |                            |                                          |                                        |      | 136,012                                              | -                              | 136,012       |
| Licenses and permits                    |                            |                                          |                                        |      | 205,918                                              | -                              | 205,918       |
| Investment earnings                     |                            |                                          |                                        |      | 156                                                  | -                              | 156           |
| Miscellaneous                           |                            |                                          |                                        |      | 65,144                                               | -                              | 65,144        |
| Transfers (net)                         |                            |                                          |                                        |      | 164,254                                              | (164,254)                      | -             |
| Total general revenues<br>and transfers |                            |                                          |                                        |      | 1,047,007                                            | (164,254)                      | 882,753       |
| Change in Net Position from activities  |                            |                                          |                                        |      | 127,940                                              | 49,674                         | 177,614       |
| Net position, beginning of year         |                            |                                          |                                        |      | 13,090,724                                           | 1,166,118                      | 14,256,842    |
| Net position, end of year               |                            |                                          |                                        |      | \$ 13,218,664                                        | \$1,215,792                    | \$ 14,434,456 |

See Independent Accountants' Report and notes to the financial statements

**THE CITY OF MARGARET, ALABAMA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2017**

|                                          | <u>General</u>    | <u>Special<br/>Revenue<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|------------------------------------------|-------------------|--------------------------------------|-----------------------------------------|
| <b>Assets and Other Debits</b>           |                   |                                      |                                         |
| <b>Assets:</b>                           |                   |                                      |                                         |
| Cash and cash equivalents                | \$466,283         | \$ -                                 | \$ 466,283                              |
| Receivables                              |                   |                                      |                                         |
| Taxes                                    | 22,995            | 2,747                                | 25,742                                  |
| Due from other funds                     | 8,913             | 22,431                               | 31,344                                  |
| Prepaid expenses                         | 6,892             | 3,832                                | 10,724                                  |
| Restricted assets:                       |                   |                                      |                                         |
| Cash and cash equivalents                | 10,609            | 258,547                              | 269,156                                 |
| Total assets                             | <u>\$ 515,692</u> | <u>\$ 287,557</u>                    | <u>\$ 803,249</u>                       |
| <br><b>Liabilities and Fund Balance</b>  |                   |                                      |                                         |
| <b>Liabilities:</b>                      |                   |                                      |                                         |
| Accounts payable and accrued liabilities | \$ 18,024         | \$ 31,420                            | \$ 49,444                               |
| Due to other funds                       | 6,178             | 22,689                               | 28,867                                  |
| Total liabilities                        | 24,202            | 54,109                               | 78,311                                  |
| <br><b>Fund Balances:</b>                |                   |                                      |                                         |
| Non-spendable                            | 6,892             | 3,832                                | 10,724                                  |
| Reserved                                 | 19,522            | 229,616                              | 249,138                                 |
| Unassigned, undesignated                 | 465,076           | -                                    | 465,076                                 |
| Total equity and other credits           | <u>491,490</u>    | <u>233,448</u>                       | <u>724,938</u>                          |
| <br>Total liabilities and fund balance   | <u>\$ 515,692</u> | <u>\$ 287,557</u>                    | <u>\$ 803,249</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, 2017**

|                                                                                                                                                                                                                                                  |                      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Fund Balance - Total Government Funds                                                                                                                                                                                                            | \$ 724,938           |
| Amounts reported for governmental activities in the Statement of<br>Net Position are different because:                                                                                                                                          |                      |
| Capital Assets used in Governmental Activities are not current<br>financial resources and therefore, are not reported in the<br>Governmental Funds Balance Sheet                                                                                 | 13,958,314           |
| Interest payable on long-term debt does not require current financial resources.<br>Therefore, interest payable is not reported as a liability in the Governmental<br>Funds Balance Sheet.                                                       | (6,258)              |
| Long-Term Liabilities are not due and payable in the current period and therefore,<br>they are not reported in the Governmental Funds Balance Sheet                                                                                              | (1,450,000)          |
| Compensated absences payable do not require current financial resources. Therefore,<br>this liability is not reported in the governmental funds balance sheet. Compensated<br>absences reported in the government wide statement of position are | (16,667)             |
| Net pension fund liability is not realizable in the current period and therefore this<br>liability is not reported in the governmental funds balance sheet                                                                                       | (103,255)            |
| Net deferred inflows of resources and deferred outflows of resources related to the<br>pension plan do not require current financial resources and therefore are not reported<br>in the governmental funds balance sheet                         | 111,592              |
| Net Position of Governmental Activities                                                                                                                                                                                                          | <u>\$ 13,218,664</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, 2017**

|                                                                                                                         | <u>General</u>           | <u>Special<br/>Revenue<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|-------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------------------|-----------------------------------------|
| <b>Revenues:</b>                                                                                                        |                          |                                      |                                         |
| Taxes                                                                                                                   | \$ 444,092               | \$ -                                 | \$ 444,092                              |
| Licenses and permits                                                                                                    | 227,162                  | -                                    | 227,162                                 |
| Intergovernmental                                                                                                       | 35,634                   | 132,867                              | 168,501                                 |
| Fines and forfeitures                                                                                                   | 61,774                   | 5,983                                | 67,757                                  |
| Interest                                                                                                                | 148                      | -                                    | 148                                     |
| Other                                                                                                                   | 47,429                   | 1,159                                | 48,588                                  |
| Total revenues                                                                                                          | <u>816,239</u>           | <u>140,009</u>                       | <u>956,248</u>                          |
| <b>Expenditures:</b>                                                                                                    |                          |                                      |                                         |
| Current operations:                                                                                                     |                          |                                      |                                         |
| General government                                                                                                      | 201,247                  | 87,442                               | 288,689                                 |
| Public safety                                                                                                           | 331,747                  | 45,754                               | 377,501                                 |
| Streets, sanitation and parks                                                                                           | -                        | 29,495                               | 29,495                                  |
| Total current operations                                                                                                | <u>532,994</u>           | <u>162,691</u>                       | <u>695,685</u>                          |
| Capital outlays                                                                                                         | 73,500                   | -                                    | 73,500                                  |
| Debt service:                                                                                                           |                          |                                      |                                         |
| Principal                                                                                                               | 50,000                   | -                                    | 50,000                                  |
| Interest and fiscal charges                                                                                             | 78,362                   | -                                    | 78,362                                  |
| Total expenditures                                                                                                      | <u>734,856</u>           | <u>162,691</u>                       | <u>897,547</u>                          |
| Excess (deficiency) of revenues<br>over (under) expenditures                                                            | 81,383                   | (22,682)                             | 58,701                                  |
| <b>Other Financing Sources:</b>                                                                                         |                          |                                      |                                         |
| Operating transfers in                                                                                                  | 164,254                  | -                                    | 164,254                                 |
| Total other financing sources                                                                                           | <u>164,254</u>           | <u>-</u>                             | <u>164,254</u>                          |
| Excess (deficiency) of revenues<br>and other financing sources<br>over (under) expenditures and<br>other financing uses | 245,637                  | (22,682)                             | 222,955                                 |
| Fund balances, beginning                                                                                                | <u>245,853</u>           | <u>256,130</u>                       | <u>501,983</u>                          |
| Fund balances, ending                                                                                                   | <u><u>\$ 491,490</u></u> | <u><u>\$ 233,448</u></u>             | <u><u>\$ 724,938</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, 2017**

|                                                                                                                                                                                                                                                                                                                                                                        |                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Net change in fund balances - total governmental funds                                                                                                                                                                                                                                                                                                                 | \$ 222,955        |
| 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.                                                    | 76,913            |
| 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                                                                          | 50,000            |
| 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.                                                                                 | (4,112)           |
| 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.                                                                                | (211,640)         |
| 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 | 175               |
| 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                                                                                                                         | (6,351)           |
| Change in net position of governmental activities                                                                                                                                                                                                                                                                                                                      | <u>\$ 127,940</u> |

See Independent Accountants' Report and notes to the financial statements

**THE CITY OF MARGARET, ALABAMA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**SEPTEMBER 30, 2017**

**Assets**

**Current Assets:**

|                                                                        |                |
|------------------------------------------------------------------------|----------------|
| Cash and cash equivalents                                              | \$ 209,792     |
| Receivables                                                            |                |
| Customer accounts (less allowance for doubtful<br>accounts of \$4,000) | 76,469         |
| Inventories                                                            | 28,470         |
| Prepaid expenses                                                       | 5,314          |
| Total current assets                                                   | <u>320,045</u> |

**Property, Plant and Equipment:**

|                                    |                  |
|------------------------------------|------------------|
| Capital assets net of depreciation | 2,812,316        |
| Less accumulated depreciation      | <u>1,289,406</u> |
|                                    | 1,522,910        |

**Restricted Assets:**

|                              |                |
|------------------------------|----------------|
| Trust and construction funds | 99,953         |
| Customer deposits            | 84,838         |
|                              | <u>184,791</u> |

|              |           |
|--------------|-----------|
| Total Assets | 2,027,746 |
|--------------|-----------|

|                                |               |
|--------------------------------|---------------|
| Deferred Outflows of Resources | <u>57,180</u> |
|--------------------------------|---------------|

|                                                 |                            |
|-------------------------------------------------|----------------------------|
| Total Assets and Deferred Outflows of Resources | <u><u>\$ 2,084,926</u></u> |
|-------------------------------------------------|----------------------------|

**Liabilities and Net Position****Current Liabilities:**

|                                                         |               |
|---------------------------------------------------------|---------------|
| Accounts payable                                        | \$ 27,668     |
| Internal accounts                                       | 2,478         |
| Total current liabilities (payable from current assets) | <u>30,146</u> |

**Current Liabilities (Payable from Restricted Assets):**

|                                                            |                |
|------------------------------------------------------------|----------------|
| Meter deposits                                             | 97,658         |
| Current maturities of long-term debt                       | 55,000         |
| Accrued interest                                           | 3,076          |
| Total current liabilities (payable from restricted assets) | <u>155,734</u> |
| Total current liabilities                                  | <u>185,880</u> |

**Non-Current Liabilities:**

|                               |                |
|-------------------------------|----------------|
| Bonds payable                 | 680,000        |
| Net pension liability         | 52,754         |
| Compensated absences          | 5,500          |
| Less current maturities       | (55,000)       |
| Total non-current liabilities | <u>683,254</u> |
| Total liabilities             | 869,134        |

**Deferred Inflows of Resources**

-

**Net Position:**

|                                   |                  |
|-----------------------------------|------------------|
| Restricted                        | 109,697          |
| Net investments in capital assets | 842,910          |
| Unrestricted                      | 263,185          |
| Total net position                | <u>1,215,792</u> |

**Total Liabilities, Deferred Inflow of Resources and Net Position**\$ 2,084,926

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, 2017**

|                                           | <u>Amount</u>              | <u>% of<br/>Revenue</u> |
|-------------------------------------------|----------------------------|-------------------------|
| <b>Operating Revenues</b>                 |                            |                         |
| Water sales                               | \$ 738,934                 | 99.8                    |
| Garbage services                          | <u>1,842</u>               | <u>0.2</u>              |
| Total operating revenues                  | 740,776                    | 100.0                   |
| <br><b>Operating Expenses</b>             |                            |                         |
| Salaries and wages                        | 128,025                    | 17.3                    |
| Cost of services                          | 104,888                    | 14.2                    |
| Depreciation                              | 73,013                     | 9.9                     |
| Insurance                                 | 45,638                     | 6.2                     |
| Materials and supplies                    | 27,913                     | 3.8                     |
| Repairs and maintenance                   | 23,452                     | 3.2                     |
| Testing and professional fees             | 17,493                     | 2.4                     |
| Office expense                            | 17,472                     | 2.4                     |
| Utilities                                 | 16,940                     | 2.3                     |
| Fuel                                      | 11,371                     | 1.5                     |
| Payroll taxes                             | 9,389                      | 1.3                     |
| Retirement                                | 4,561                      | 0.6                     |
| Other expenses                            | 2,240                      | 0.3                     |
| Uniforms                                  | 1,096                      | 0.1                     |
| Training                                  | <u>190</u>                 | <u>0.0</u>              |
| Total operating expenses                  | <u>483,681</u>             | <u>65.3</u>             |
| <br>Operating income                      | 257,095                    | 34.7                    |
| <br><b>Nonoperating Income (Expenses)</b> |                            |                         |
| Operating transfers                       | (164,254)                  | (22.2)                  |
| Interest expense                          | <u>(43,167)</u>            | <u>(5.8)</u>            |
| Total nonoperating income (expenses)      | <u>(207,421)</u>           | <u>(28.0)</u>           |
| <br>Change in net position                | 49,674                     | <u><u>6.7</u></u>       |
| <br>Net position, beginning of year       | <u>1,166,118</u>           |                         |
| <br>Net position, end of year             | <u><u>\$ 1,215,792</u></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, 2017**

|                                                                               |                          |
|-------------------------------------------------------------------------------|--------------------------|
| <b>Cash Flows from Operating Activities:</b>                                  |                          |
| Cash received from customers                                                  | \$ 751,694               |
| Cash paid to suppliers                                                        | (277,654)                |
| Cash paid to employees                                                        | (128,902)                |
| Net cash provided by operating activities                                     | <u>345,138</u>           |
| <b>Cash Flows from Non-capital Financing Activities:</b>                      |                          |
| Operating transfers                                                           | (164,254)                |
| Net cash (used) by non-capital financing activities                           | <u>(164,254)</u>         |
| <b>Cash Flows for Capital and Related Financing Activities:</b>               |                          |
| Acquisition and construction of capital assets                                | (102,084)                |
| Repayment of indebtedness                                                     | (50,000)                 |
| Interest paid on capital and related financing activities                     | (43,391)                 |
| Net cash used by capital and related financing activities                     | <u>(195,475)</u>         |
| <b>Cash Flows from Investing Activities:</b>                                  |                          |
| Interest received on investments                                              | <u>-</u>                 |
| Net cash provided by investing activities                                     | <u>-</u>                 |
| <b>Net (decrease) in cash and cash equivalents</b>                            | (14,591)                 |
| <b>Cash and cash equivalents, beginning of year</b>                           | <u>409,174</u>           |
| <b>Cash and cash equivalents, end of year</b>                                 | <u><u>\$ 394,583</u></u> |
| Unrestricted cash                                                             | \$ 209,792               |
| Restricted cash                                                               | <u>184,791</u>           |
|                                                                               | <u><u>\$ 394,583</u></u> |
| <b>Reconciliation of Operating Income to Net Cash Provided by Operations:</b> |                          |
| Operating income                                                              | \$ 257,095               |
| Adjustments to reconcile operating income to net cash provided by operations: |                          |
| Depreciation                                                                  | 73,012                   |
| Bad debts                                                                     | 3,000                    |
| Changes in operating assets and liabilities:                                  |                          |
| (Increase) decrease in accounts receivable                                    | (5,550)                  |
| (Increase) decrease in inventories and prepayments                            | (712)                    |
| Increase (decrease) in accounts payable and accrued expenses                  | 1,825                    |
| Increase (decrease) in customer deposits                                      | 16,468                   |
| Increase in pension liabilities                                               | <u>-</u>                 |
| Net cash provided by operations                                               | <u><u>\$ 345,138</u></u> |

See Independent Accountants' Report and notes to the financial statements

**THE CITY OF MARGARET, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017**

**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 may appoint the members of 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 Accounting, Measurement Focus and Financial Statement Presentation**

The general purpose financial statements include government-wide (based on the city as a whole), proprietary and fund financial statements. In the government wide-statements, all funds are combined and reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Both government-wide and fund financial statements provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the financial information. In the fund financial statements, major funds are presented separately and non-major funds combined. 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 three generic for financial statement presentation purposes. Governmental funds include the general and special revenue 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 financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The statement of activities presents a comparison between revenue and expenses with a net revenue or expense for each governmental department. Each segment of the business-type activities of the City are presented separately.

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

In the statement of activities direct expenses are those that are specifically associated with a department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by recipients for goods or services received and grants and contributions that are restricted to meeting the operational or capital requirements of a particular department. 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 is reported in three parts, net investment in capital assets; restricted net position and unrestricted net position. Net position is restricted when constraints placed on the use of net position 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.

**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. 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. Because of the differences in accounting methods used for entity-wide financial statements and fund financial statements, each fund financial statement is followed by a reconciliation with a brief explanations to identify the relationship between the entity wide statements and the governmental funds statement. The City reports the following major funds:

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of revenue sources that are legally restricted to expenditures for specified purposes.

**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.

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**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**

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's water operations are 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 resources set aside for general obligation warrant repayment and special revenue funds 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.

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**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 accounted for as 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 and a life exceeding one year 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  |

**Capitalized Interest**

The City does not capitalize interest expense as a part of the cost of construction projects unless the capital assets being constructed are for enterprise funds or business-type activities.

**Long-Term Obligations**

Long-term debt and other long-term obligations are reported in the governmental activities on the statement of net position in the government-wide financial statements.

**Accumulated Compensated Absences**

The liability for compensated absences reported in the government-wide financial statements consists of accumulated vacation and unpaid, accumulated sick leave balances.

**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. Rates for employees hired prior to January 1, 2013, required a payment of 5.83% of covered compensation by the employer and 5% from employees except police officers where the

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Pension Plan**

employee contribution rate is 6%. For employees coming into the plan after January 1, 2013, The City contributed .2.82% 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, for difference between actual and expected experiences and for changes in actuarial assumptions. The short fall in earnings, experience and change of assumptions are recognized over periods ranging from 5 to 9.1 years.

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 deferred inflows of resources at year end.

**Interfund Receivables/Payables**

During the normal course of operations, the City has numerous transactions between funds to provide services, construct assets, service debt, etc. These receivables and payables are classified as “due to/from other funds” if short-term in nature and as “advances to/from other funds” if they are considered noncurrent. These amounts have been eliminated on the government-wide financial statement.

**Fund Balance**

Fund balance classifications are based primarily on the extent to which the City is bound to honor constraints on the use of the resources reported in each governmental fund. In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances:

**Non-spendable Fund Balance** – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories and prepaid amounts.

**Restricted Fund Balance** – includes amounts that are restricted for specific purposes stipulated by external resources providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

**Committed Fund Balance** – includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, the City Council of the City of Margaret. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Assigned Fund Balance** – includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. The City Council and Mayor have the authority to assign amounts to be used for specific purposes. Assigned amounts also include all remaining amounts (except negative amounts) in governmental funds, other than the General Fund, that are not classified as non-spendable, restricted or committed.

**Unassigned Fund Balance** – the residual classification for the General Fund and to report negative fund balances in the other governmental funds.

**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.

**Adoption Of New Accounting Pronouncements – GASB Pronouncements that have been issued and were effective for the City's year ended September 30, 2017**

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement replaces GASB Statement No. 43, as amended and GASB Statement No. 57. It includes requirements for defined contribution OPEB plans that replace the requirement for those OPEB plans in GASB Statement No. 25, as amended, GASB Statement No. 43, and GASB Statement No. 50. and is effective for fiscal years beginning after June 15, 2016. This Statement has no impact on the financial statements of the City.

GASB Statement No. 77. . *Tax Abatement Disclosures*, issued in August 2015, was effective for years beginning after December 15, 2015. This Statement requires governments to disclose certain information about tax abatement agreements they enter into. This statement has no impact on the financial statements of the City.

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, issued in December 2015 was effective for years beginning after December 15, 2015. This statement amends the scope and applicability of GASB Statement NO. 68 and establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities, note disclosures, and required supplementary information for pensions provided to employees of state or local governmental employers through certain multiple-employer defined benefit pension plans. This statement has no impact on the financial statements of the City.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, issued in December 2015, was effective for years beginning after June 15, 2015. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants, including establishing criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This statement has no impact on the financial statements of the City.

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Future Adoption of New Accounting Pronouncements – GASB Pronouncements that have been issued but are not yet effective at September 30, 2017**

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. This Statement clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. This Statement is effective for years beginning after June 15, 2016. The City is currently evaluating the impact, if any, that GASB 80 will have on its financial statements

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of a split-interest agreement. This Statement is effective for years beginning after December 15, 2016. The City is currently evaluating the impact, if any, that GASB 81 will have on its financial statements.

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, 68 and No. 73*. This Statement addresses pension-related issues regarding (1) the presentation of payroll-related measures in required supplementary information (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement is effective for years beginning after June 15, 2016. The City is currently evaluating the impact, if any, that GASB 82 will have on its financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement is effective for years beginning after June 15, 2018. The City is currently evaluating the impact, if any, that GASB 83 will have on its financial statements.

GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement is effective for years beginning after December 15, 2018. The City is currently evaluating the impact, if any, that GASB 84 will have on its financial statements.

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Future Adoption of New Accounting Pronouncements – GASB Pronouncements that have been issued but are not yet effective at September 30, 2017 - continued**

GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). This Statement is effective for years beginning after June 15, 2017. The City is currently evaluating the impact, if any, that GASB 85 will have on its financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is effective for years beginning after June 15, 2017. The City is currently evaluating the impact, if any, that GASB 86 will have on its financial statements.

GASB Statement No. 87, *Leases* – The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for years beginning after December 15, 2019. The City is currently evaluating the impact, if any, that GASB 87 will have on its financial statements.

The City will implement the new GASB pronouncements in the year no later than the required effective date. The Board has not yet determined if the above listed new GASB pronouncements will have a significant financial impact to the Board or in issuing its financial statements.

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**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:

|                                   | <b>Governmental<br/>Funds</b> | <b>Enterprise<br/>Fund</b> | <b>Total</b>      |
|-----------------------------------|-------------------------------|----------------------------|-------------------|
| Receivables:                      |                               |                            |                   |
| Taxes:                            |                               |                            |                   |
| Sales and use tax                 | \$ 16,667                     | \$ -                       | \$ 16,667         |
| Telephone tax                     | 2,778                         | -                          | 2,778             |
| Beer and tobacco tax              | 622                           | -                          | 622               |
| Intergovernmental:                |                               |                            |                   |
| Advalorem                         | 3,947                         | -                          | 3,947             |
| Other                             | 1,728                         | -                          | 1,728             |
| Accounts:                         |                               |                            |                   |
| Water service                     | -                             | 83,469                     | 83,469            |
| Gross receivables                 | 25,742                        | 83,469                     | 109,211           |
| Less: allowance for uncollectible | --                            | 7,000                      | 7,000             |
| Net total receivables             | <u>\$ 25,742</u>              | <u>\$ 76,469</u>           | <u>\$ 102,211</u> |

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the City during the year ended September 30, 2017, was as follows:

|                                                        | <u>Beginning<br/>Balance<br/>Oct. 1, 2016</u> | <u>Additions</u>   | <u>Retirements</u> | <u>Ending<br/>Balance<br/>Sept. 30, 2017</u> |
|--------------------------------------------------------|-----------------------------------------------|--------------------|--------------------|----------------------------------------------|
| <b>Governmental activities</b>                         |                                               |                    |                    |                                              |
| 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                                              | 383,657                                       | -                  | -                  | 383,657                                      |
| Automotive equipment                                   | 381,183                                       | -                  | 4,672              | 376,511                                      |
| Equipment and furniture                                | 463,497                                       | 76,913             | 52,116             | 488,294                                      |
| Streets and roads                                      | 15,051,695                                    | -                  | -                  | 15,051,695                                   |
| Total capital assets, being depreciated                | 16,280,032                                    | 76,913             | 56,788             | 16,300,157                                   |
| Less accumulated depreciation                          | 2,577,422                                     | 211,640            | 56,788             | 2,732,274                                    |
| Net capital assets, being depreciated                  | 13,702,610                                    | (134,727)          | -                  | 13,567,883                                   |
| Governmental activities, net capital assets            | <u>\$14,093,042</u>                           | <u>\$(134,727)</u> | <u>\$</u>          | <u>\$13,958,314</u>                          |
| Depreciation was charged to City functions as follows: |                                               |                    |                    |                                              |
| General government                                     |                                               |                    |                    | \$ 162,977                                   |
| Police                                                 |                                               |                    |                    | 15,881                                       |
| Fire                                                   |                                               |                    |                    | 22,772                                       |
| Public works                                           |                                               |                    |                    | 10,010                                       |
| Total governmental activities depreciation expense     |                                               |                    |                    | <u>\$ 211,640</u>                            |
| <b>Business type activities</b>                        |                                               |                    |                    |                                              |
| Buildings                                              | \$ 1,878                                      | \$ -               | \$ -               | \$ 1,878                                     |
| Vehicles                                               | 89,429                                        | 29,797             | 26,329             | 92,897                                       |
| Utility plant & equipment                              | 2,605,696                                     | 72,288             | -                  | 2,677,984                                    |
| Heavy equipment                                        | 14,218                                        | -                  | -                  | 14,218                                       |
| Furniture & office equipment                           | 25,339                                        | -                  | -                  | 25,339                                       |
| Total capital assets, business type activities         | 2,736,560                                     | 102,085            | 26,329             | 2,812,316                                    |
| Less accumulated depreciation                          | 1,242,723                                     | 73,013             | 26,329             | 1,289,407                                    |
| Net capital assets, business type activities           | <u>\$ 1,493,837</u>                           | <u>\$ 29,072</u>   | <u>\$ -</u>        | <u>\$ 1,522,910</u>                          |
| Depreciation was charged to functions as follows:      |                                               |                    |                    |                                              |
| Water Department                                       |                                               |                    |                    | <u>\$ 73,013</u>                             |

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**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, 2017:

|                                                                                                                                                                                                                | <b>Balance<br/>9-30-16</b> | <b>Issued</b>      | <b>Retired</b>          | <b>Balance<br/>9-30-17</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|--------------------|-------------------------|----------------------------|
| <b>Governmental Activities</b>                                                                                                                                                                                 |                            |                    |                         |                            |
| 6% general obligation warrants - Series 2002 issued<br>9-01-02 in the amount of \$125,000, maturing 9-01-27<br>Interest payment date March and September with<br>Principal due in September until maturity     | \$ 75,000                  | \$ -               | \$ 5,000                | \$ 70,000                  |
| 4% general obligation warrants - Series 2007 issued<br>10-25-07 in the amount of \$945,000, maturing 9-01-27<br>Interest payment date March and September with<br>Principal due in September until maturity    | 640,000                    | -                  | 45,000                  | 595,000                    |
| 6% general obligation warrants - Series 2009 issued<br>2-27-09 in the amount of \$785,000, maturing 9-01-35<br>interest payment date March and September with first<br>principal payment due in September 2028 | 785,000                    | -                  | -                       | 785,000                    |
| Governmental funds total                                                                                                                                                                                       | <u>1,500,000</u>           | <u>-</u>           | <u>50,000</u>           | <u>1,450,000</u>           |
| <b>Business Type Activities</b>                                                                                                                                                                                |                            |                    |                         |                            |
| 6% General obligation warrants - Series 2002                                                                                                                                                                   | 250,000                    | -                  | 15,000                  | 235,000                    |
| 4% Water revenue warrants - Series 2007                                                                                                                                                                        | <u>480,000</u>             | <u>-</u>           | <u>35,000</u>           | <u>445,000</u>             |
| Business type activities total                                                                                                                                                                                 | <u>730,000</u>             | <u>-</u>           | <u>50,000</u>           | <u>680,000</u>             |
| Grand total of long-term debt                                                                                                                                                                                  | <u><u>\$2,230,000</u></u>  | <u><u>\$ -</u></u> | <u><u>\$100,000</u></u> | <u><u>\$2,130,000</u></u>  |

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**NOTE 5 - LONG-TERM DEBT - continued**

**Long-Term Debt Maturities**

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

| Year ending<br>September 30, | General Long-Term Debt |                   | Business Type Activities |                   | Total               |
|------------------------------|------------------------|-------------------|--------------------------|-------------------|---------------------|
|                              | Principal              | Interest          | Principal                | Interest          |                     |
| 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             |
| 2023-2027                    | 375,000                | 285,400           | 385,000                  | 64,663            | 1,110,063           |
| 2028-2032                    | 450,000                | 184,500           | -                        | -                 | 634,500             |
| Remaining                    | 335,000                | 41,100            | -                        | -                 | 376,100             |
| Total                        | <u>\$ 1,450,000</u>    | <u>\$ 863,700</u> | <u>\$ 680,000</u>        | <u>\$ 218,489</u> | <u>\$ 3,212,189</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](http://www.rsa-al.gov).

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**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, 2017**

**NOTE 7- PENSION PLAN - continued**

The ERS services approximately 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 employees entitled to but not yet receiving benefits | 0                |
| Non-vested inactive members                                     | 6                |
| Active Members                                                  | <u>14</u>        |
| <b>Total</b>                                                    | <b><u>23</u></b> |

*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, 2017 active employee contribution rate was 5.83% of covered employee payroll for tier 1 employees and 2.82% for tier 2 employees. The City's average contribution rate to fund the normal and accrued liability costs was 3.66% of covered employee payroll.

The City's contractually required contribution rate for the year ended September 30, 2017 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 members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan were \$12,976 for the year ended September 30, 2017.

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**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:

|                                                                                                                 |     | <b>Expected</b> | <b>Actual 2015<br/>Valuation<br/>Assumptions</b> | <b>Actual 2016<br/>Valuation<br/>Assumptions</b> |
|-----------------------------------------------------------------------------------------------------------------|-----|-----------------|--------------------------------------------------|--------------------------------------------------|
| Total pension liability, September 30, 2015                                                                     | (a) | 474,502         | 574,520                                          | 619,096                                          |
| Discount Rate                                                                                                   | (b) | 8.00%           | 8.00%                                            | 7.75%                                            |
| Entry Age Normal Cost for the period<br>October 1, 2015                                                         | (c) | 28,883          | 28,883                                           | 37,209                                           |
| Transfers among employers                                                                                       | (d) | -               | 257,885                                          | 257,885                                          |
| Actual Benefit Payments and Refunds<br>for October 1, 2015 – September 30, 2016                                 | (e) | <u>(34,667)</u> | <u>(34,667)</u>                                  | <u>(34,667)</u>                                  |
| Total Pension Liability, as of September 30, 2016<br>= [(a) x (1 + (b))] + (c) + (d) + [(e) x 1 + .5 x (b)]     | (f) | <u>505,291</u>  | <u>871,196</u>                                   | <u>926,160</u>                                   |
| Difference between Expected and Actual                                                                          | (g) |                 | 365,905                                          |                                                  |
| Less liability transferred for immediate recognition                                                            | (h) |                 | <u>257,885</u>                                   |                                                  |
| Experience (Gain)/Loss                                                                                          | (i) |                 | <u>108,020</u>                                   |                                                  |
| Difference between Actual (2015 Assumptions) and<br>Actual (2016 Assumptions):<br>Assumption Change (Gain)/Loss | (j) |                 |                                                  | <u>54,964</u>                                    |

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**NOTE 7 - PENSION PLAN - continued**

*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

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:

|                                       | <b>Target<br/>Allocation</b> | <b>Long-Term<br/>Expected Rate<br/>of Return*</b> |
|---------------------------------------|------------------------------|---------------------------------------------------|
| 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%                                             |
| <b>Total</b>                          | <b>100.00%</b>               |                                                   |

\*Includes assumed rate of inflation of 2.50%

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**NOTE 7 - 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**

|                                                               | <b>Increase (Decrease)</b>     |                                    |                                      |
|---------------------------------------------------------------|--------------------------------|------------------------------------|--------------------------------------|
|                                                               | <b>Total Pension Liability</b> | <b>Plan Fiduciary Net Position</b> | <b>Net Pension Liability (Asset)</b> |
| Balance as September 30, 2015                                 | \$ 474,502                     | \$ 462,945                         | \$ 11,557                            |
| Changes for the year:                                         |                                |                                    |                                      |
| Service Cost                                                  | 28,883                         | -                                  | 28,883                               |
| Interest                                                      | 36,573                         | -                                  | 36,573                               |
| Changes of assumptions                                        | 54,964                         |                                    | 54,964                               |
| Difference between expected and actual experience             | 108,020                        | -                                  | 108,020                              |
| Contributions - employer                                      | -                              | 6,338                              | (6,338)                              |
| Contributions - employee                                      | -                              | 18,187                             | (18,187)                             |
| Net investment income                                         | -                              | 59,763                             | (59,763)                             |
| Benefit payments, including refunds of employee contributions | (34,667)                       | (34,667)                           | -                                    |
| Transfers Among Employers                                     | 257,885                        | 257,885                            | -                                    |
| Net Change                                                    | 451,658                        | 307,506                            | 144,152                              |
| Balance at September 30, 2016                                 | <u>\$ 926,160</u>              | <u>\$ 770,451</u>                  | <u>\$ 155,709</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 7.75%, 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 (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

|                              | <b>1% Decrease<br/>(6.75%)</b> | <b>Current Rate<br/>(7.75%)</b> | <b>1% Increases<br/>(8.75%)</b> |
|------------------------------|--------------------------------|---------------------------------|---------------------------------|
| City's net pension liability | \$ 216,958                     | \$ 155,709                      | \$ 103,859                      |

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**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](http://www.rsa-al.gov)

**C. Pension Expense and Deferred Outflows and Inflows of Resources**

For the year ended September 30, 2017 the City recognized pension expense of \$20,358. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

|                                                                          | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|--------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Net difference between projected and actual experience                   | \$ 104,993                                | \$ -                                     |
| Changes of assumptions                                                   | 48,924                                    | -                                        |
| Net difference between projected and actual earnings on plan investments | 1,879                                     | -                                        |
| Employer contributions subsequent to measurement date                    | <u>12,976</u>                             | <u>-</u>                                 |
| Total                                                                    | <u><u>\$ 168,772</u></u>                  | <u><u>\$ -</u></u>                       |

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

**Year ended September 30:**

|            |                          |
|------------|--------------------------|
| 2018       | \$ 20,034                |
| 2019       | 20,034                   |
| 2020       | 23,518                   |
| 2021       | 17,153                   |
| 2022       | 19,533                   |
| Thereafter | <u>55,524</u>            |
|            | <u><u>\$ 155,796</u></u> |

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**NOTE 8 - INTER-FUND RECEIVABLES AND PAYABLES**

At September 30, 2017, 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 | \$ 4,352          | \$ 10,609        | \$ 96,877              |
| Special revenue accounts | 229,616           | -                | -                      |
| Customer deposits        | -                 | -                | 12,820                 |
| Due from other funds     | -                 | 8,913            | -                      |
| Total restricted assets  | <u>\$ 233,968</u> | <u>\$ 19,522</u> | <u>\$ 109,697</u>      |

**THE CITY OF MARGARET, ALABAMA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2017**

**NOTE 10 - WATER CUSTOMER INFORMATION (UNAUDITED)**

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

| <b>Customer Class</b> | <b>Number of Customers</b> | <b>Gross Revenue</b> | <b>Rate Schedule</b>                                                           |
|-----------------------|----------------------------|----------------------|--------------------------------------------------------------------------------|
| Residential           | 1,368                      | \$ 719,429           | Minimum Units per 1,000 units -<br>2,000 \$14.75<br>4,000 5.50<br>6,000 7.40   |
| Commercial            | 21                         | 19,505               | Minimum Units per 1,000 units -<br>2,500 \$26.00<br>10,000 3.00<br>12,000 2.50 |
|                       | <u>1,389</u>               | <u>\$ 738,934</u>    |                                                                                |

**NOTE 11 - MAYOR AND COUNCIL MEMBERS**

Mayor and council members of the City of Margaret at September 30, 2017 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, 2017**

| <b>Total Pension Liability</b>                                                 | <b>2016</b> | <b>2015</b> | <b>2014</b>  |
|--------------------------------------------------------------------------------|-------------|-------------|--------------|
| Service Cost                                                                   | 28,883      | 36,757      | 35,907       |
| Interest                                                                       | 36,573      | 32,865      | 29,577       |
| Difference between expected and actual experience                              | 108,020     | 12,453      | -            |
| Change of assumptions                                                          | 54,964      | -           | -            |
| Benefit payments including refunds of employee contributions                   | (34,667)    | (36,780)    | (11,991)     |
| Transfers among employers                                                      | 257,885     | -           | -            |
| Net Change In Total Pension Liability                                          | 451,658     | 45,295      | 53,493       |
| Total Pension Liability, Beginning of Year                                     | 474,502     | 429,207     | 375,714      |
| <br>Total Pension Liability, End of Year                                       | <br>926,160 | <br>474,502 | <br>429,207  |
| <br><b>Plan Fiduciary Net Position</b>                                         |             |             |              |
| Contributions - Employer                                                       | 6,338       | 7,238       | 21,662       |
| Contributions - Employee                                                       | 18,187      | 16,130      | 17,464       |
| Net Investment Income                                                          | 59,763      | 5,544       | 52,288       |
| Benefit payments including refunds of employee contributions                   | (34,667)    | (36,780)    | (11,991)     |
| Transfers among employers                                                      | 257,885     | (6,370)     | (48,918)     |
| Net Change in Plan Fiduciary Net Position                                      | 307,506     | (14,238)    | 30,505       |
| Plan Net Position, Beginning of Year                                           | 462,945     | 477,183     | 446,678      |
| <br>Plan Net Position, End of Year                                             | <br>770,451 | <br>462,945 | <br>477,183  |
| <br>Net Pension Liability (Asset), End of Year                                 | <br>155,709 | <br>11,557  | <br>(47,976) |
| <br>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | <br>83.19%  | <br>97.56%  | <br>111.18%  |
| <br>Covered Employee Payroll                                                   | <br>355,480 | <br>341,873 | <br>339,393  |
| <br>Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll  | <br>43.80%  | <br>3.38%   | <br>(14.14)% |

**THE CITY OF MARGARET, ALABAMA**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**SEPTEMBER 30, 2017**

|                                                                      | <u>2017</u>   | <u>2016</u>  | <u>2015</u>  |
|----------------------------------------------------------------------|---------------|--------------|--------------|
| Actuarially Determined Contribution                                  | 13,021        | 7,371        | 8,261        |
| Contributions in relation to the actuarially determined contribution | <u>13,021</u> | <u>7,371</u> | <u>8,261</u> |
| Contribution deficiency (excess)                                     | <u>-</u>      | <u>-</u>     | <u>-</u>     |
| Covered employee payroll                                             | 335,563       | 355,480      | 341,873      |
| Contributions as a percentage of covered employee payroll            | 3.88%         | 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 | 26 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 |