

TOWN OF ECLECTIC, ALABAMA

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2016

**TOWN OF ECLECTIC, ALABAMA
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2016**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of
the Town Council
Town of Eclectic, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Eclectic, Alabama (the Town), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinions on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and pension comparison information on pages 28-30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Patterson & Duke, P.C.
Tallasse, Alabama
October 31, 2018

PATTERSON & DUKE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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TALLASSEE, ALABAMA 36078

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Patterson & Duke, P.C.
Tallasse, Alabama
October 31, 2018

FINANCIAL STATEMENTS

TOWN OF ELECTIC, ALABAMA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 445,973.49	\$ 1,090,792.52	\$ 1,536,766.01
Receivables, net	105,599.80	107,751.11	213,350.91
Internal balances	83,494.50	(83,494.50)	-
Inventories	-	43,585.67	43,585.67
Prepaid expenses	35,286.45	9,158.56	44,445.01
Net pension asset	-	-	-
Capital assets not being depreciated	376,690.07	159,171.00	535,861.07
Capital assets being depreciated, net	1,157,637.01	2,278,164.27	3,435,801.28
TOTAL ASSETS	2,204,681.32	3,605,128.63	5,809,809.95
DEFERRED OUTFLOWS OF RESOURCES			
Deferred employer retirement contributions	136,005.66	38,303.34	174,309.00
LIABILITES			
Accounts payable	14,194.81	69,949.65	84,144.46
Accrued interest payable	11,503.03	-	11,503.03
Other current liabilities	45,284.03	9,359.46	54,643.49
Customer deposits	-	74,651.05	74,651.05
Line of credit	75,079.16	-	75,079.16
Long-term liabilities:			
Due within one year	180,946.10	3,535.50	184,481.60
Due in more than one year	1,267,016.53	-	1,267,016.53
Other liabilities due in more than one year:			
Net pension liability	66,337.75	11,386.25	77,724.00
TOTAL LIABILITIES	1,660,361.41	168,881.91	1,829,243.32
TOTAL DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	-	754.42	754.42
NET POSITION			
Net investment in capital assets	101,545.60	2,437,335.27	2,538,880.87
Restricted for:			
Public works	24,270.54	-	24,270.54
Municipal court	47,449.98	-	47,449.98
Unrestricted	507,059.45	1,036,460.37	1,543,519.82
TOTAL NET POSITION	\$ 680,325.57	\$ 3,473,795.64	\$ 4,154,121.21

See accompanying notes to financial statements.

TOWN OF ELECTIC, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business -type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 875,385.40	\$ 366,043.66	\$ 309,047.10	\$ -	\$ (200,294.64)	\$ -	\$ (200,294.64)
Public safety	811,153.37	212,493.11	1,052.28	-	(597,607.98)	-	(597,607.98)
Public works	148,873.74	-	22,486.49	-	(126,387.25)	-	(126,387.25)
Public welfare	125,039.49	29,303.27	-	-	(95,736.22)	-	(95,736.22)
Interest and fiscal charges on long-term debt	69,736.42	-	-	-	(69,736.42)	-	(69,736.42)
Total governmental activities	<u>2,030,188.42</u>	<u>607,840.04</u>	<u>332,585.87</u>	<u>-</u>	<u>(1,089,762.51)</u>	<u>-</u>	<u>(1,089,762.51)</u>
Business-type activities:							
Eclectic Water and Sewer Fund	810,950.82	751,575.82	-	38,880.00	-	(20,495.00)	(20,495.00)
Total primary government	<u>2,841,139.24</u>	<u>1,359,415.86</u>	<u>332,585.87</u>	<u>38,880.00</u>	<u>(1,089,762.51)</u>	<u>(20,495.00)</u>	<u>(1,110,257.51)</u>
General Revenues							
Sales taxes					994,894.30	-	994,894.30
Property taxes					77,282.31	-	77,282.31
Alcoholic beverage taxes					29,850.63	-	29,850.63
Franchise fee					19,945.21	-	19,945.21
Other taxes					17,783.86	-	17,783.86
Interest income					191.05	768.14	959.19
Miscellaneous revenue					25,093.72	2,850.00	27,943.72
Total general revenues					<u>1,165,041.08</u>	<u>3,618.14</u>	<u>1,168,659.22</u>
Change in net position					<u>75,278.57</u>	<u>(16,876.86)</u>	<u>58,401.71</u>
Net position - beginning as restated					605,047.00	3,490,672.50	4,095,719.50
Net position - ending					<u>\$ 680,325.57</u>	<u>\$ 3,473,795.64</u>	<u>\$ 4,154,121.21</u>

See accompanying notes to financial statements.

TOWN OF ECLECTIC, ALABAMA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	<u>General Fund</u>	<u>Street Fund</u>	<u>Municipal Court</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 362,681.15	\$ 20,615.41	\$ 62,676.93	\$ 445,973.49
Receivables	104,388.67	1,008.13	203.00	105,599.80
Inventories	-	-	-	-
Prepaid expenses	35,286.45	-	-	35,286.45
Due from other funds	84,494.50	2,647.00	-	87,141.50
TOTAL ASSETS	<u>586,850.77</u>	<u>24,270.54</u>	<u>62,879.93</u>	<u>674,001.24</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	12,204.80	-	1,990.01	14,194.81
Other current liabilities	31,844.09	-	13,439.94	45,284.03
Due to other funds	3,647.00	-	-	3,647.00
Line of credit	75,079.16	-	-	75,079.16
TOTAL LIABILITIES	<u>122,775.05</u>	<u>-</u>	<u>15,429.95</u>	<u>138,205.00</u>
FUND BALANCES				
Nonspendable:				
Inventories	-	-	-	-
Prepaid expenses	35,286.45	-	-	35,286.45
Restricted:				
Public works	2,007.10	24,270.54	-	26,277.64
Municipal court	-	-	47,449.98	47,449.98
Unassigned	426,782.17	-	-	426,782.17
TOTAL FUND BALANCES	<u>464,075.72</u>	<u>24,270.54</u>	<u>47,449.98</u>	<u>535,796.24</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 586,850.77</u>	<u>\$ 24,270.54</u>	<u>\$ 62,879.93</u>	<u>\$ 674,001.24</u>

See accompanying notes to financial statements.

TOWN OF ECLECTIC, ALABAMA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

Differences in amounts reported for governmental activities in the Statement of Net Position:

Total fund balances – governmental funds	\$ 535,796.24
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	1,534,327.08
Net pension asset as a result of the implementation of GASB 68	-
Deferred employer retirement contributions are applicable to future periods and, therefore, are not reported in governmental funds	136,005.66
Long-term liabilities, including bonds payable, and accrued interest are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Balances at September 30, 2016, were:	
Bonds, leases, and notes payable	(1,432,781.48)
Accrued interest	(11,503.03)
Deferred inflows related to pension	-
Compensated absences	(15,181.15)
Total long-term liabilities	(1,459,465.66)
Net pension liability as a result of the implementation of GASB 68	(66,337.75)
Net position of governmental activities	<u>\$ 680,325.57</u>

See accompanying notes to financial statements.

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

	<u>General Fund</u>	<u>Street Fund</u>	<u>Municipal Court</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,139,756.31	\$ 9,749.47	\$ -	\$ 1,149,505.78
Licenses and permits	238,632.18	1,533.06	-	240,165.24
Intergovernmental	321,303.34	-	-	321,303.34
Charges for services	232,686.38	-	-	232,686.38
Fines and forfeitures	21,023.16	-	106,388.32	127,411.48
Miscellaneous revenues	34,203.72	-	-	34,203.72
Interest	184.19	-	6.86	191.05
Total revenues	<u>1,987,789.28</u>	<u>11,282.53</u>	<u>106,395.18</u>	<u>2,105,466.99</u>
EXPENDITURES				
Current operations:				
General government	678,152.68	-	106,824.20	784,976.88
Public safety	705,746.13	-	-	705,746.13
Public works	152,325.61	2,301.99	-	154,627.60
Public welfare	105,074.23	-	-	105,074.23
Debt service:				
Principal retirement	174,158.52	-	-	174,158.52
Interest charges	72,631.39	-	-	72,631.39
Total expenditures	<u>1,888,088.56</u>	<u>2,301.99</u>	<u>106,824.20</u>	<u>1,997,214.75</u>
Excess of revenues over expenditures	<u>99,700.72</u>	<u>8,980.54</u>	<u>(429.02)</u>	<u>108,252.24</u>
OTHER FINANCING SOURCES				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>99,700.72</u>	<u>8,980.54</u>	<u>(429.02)</u>	<u>108,252.24</u>
FUND BALANCES - BEGINNING	<u>364,375.00</u>	<u>15,290.00</u>	<u>47,879.00</u>	<u>427,544.00</u>
FUND BALANCES - ENDING	<u>\$ 464,075.72</u>	<u>\$ 24,270.54</u>	<u>\$ 47,449.98</u>	<u>\$ 535,796.24</u>

See accompanying notes to financial statements.

TOWN OF ECLECTIC, ALABAMA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Differences in amounts reported for governmental activities in the Statement of Activities:

Net change in fund balances - total governmental funds	\$	108,252.24
Capital outlays, reported as expenditures in governmental funds, are shown as capital assets in the Statement of Net Position.		16,040.00
Depreciation expense on governmental capital assets included in the governmental activities in the Statement of Activities.		(147,633.14)
Repayment of long-term debt is reported as an expenditure in the governmental funds, but a reduction of long-term liabilities in the Statement of Net Position:		
Principal payments on long-term liabilities		174,158.52
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Change in accrued interest payable on long-term debt		2,894.97
Change in net pension liability and related deferred amounts		(79,493.87)
Change in the accrual for compensated absences		1,059.85
		<u>1,059.85</u>
		(75,539.05)
Change in net position of governmental activities	\$	<u>75,278.57</u>

See accompanying notes to financial statements.

TOWN OF ECLECTIC, ALABAMA
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2016

ASSETS	
Current assets	
Cash	\$ 1,090,792.52
Accounts receivable, net	94,791.11
Due from other funds	1,000.00
Due from other governments	12,960.00
Prepaid insurance	9,158.56
Inventory	43,585.67
Total current assets	<u>1,252,287.86</u>
Non-current assets	
Capital assets	
Non-depreciable:	
Land	105,291.00
Construction in progress	53,880.00
Depreciable:	
Buildings and improvements	290,865.26
Land improvements	300,000.00
Machinery and equipment	2,073,701.99
Utility system	3,066,230.89
Less: accumulated depreciation	<u>(3,452,633.87)</u>
Total non-current assets	<u>2,437,335.27</u>
TOTAL ASSETS	<u>3,689,623.13</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred employer retirement contributions	<u>38,303.34</u>
LIABILITIES	
Current liabilities	
Accounts payable	69,949.65
Other liabilities	9,359.46
Compensated absences	3,535.50
Due to other funds	84,494.50
Customer deposits	74,651.05
Total current liabilities	<u>241,990.16</u>
Non-current liabilities	
Net pension liability	<u>11,386.25</u>
TOTAL LIABILITIES	<u>253,376.41</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>754.42</u>
NET POSITION	
Net investment in capital assets	2,437,335.27
Unassigned	<u>1,036,460.37</u>
TOTAL NET POSITION	<u><u>\$ 3,473,795.64</u></u>

See accompanying notes to financial statements

TOWN OF ECLECTIC, ALABAMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

OPERATING REVENUES	
Charges for services	\$ 733,762.98
Fee revenues	17,812.84
Total operating revenues	<u>751,575.82</u>
OPERATING EXPENSES	
Water purchases	165,282.01
Personnel	232,672.56
Operation and maintenance	272,043.84
Depreciation	140,952.41
Total operating expenses	<u>810,950.82</u>
OPERATING INCOME (LOSS)	<u>(59,375.00)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	768.14
Settlement income	2,850.00
Interest expense	-
Total non-operating revenues (expenses)	<u>3,618.14</u>
Income (loss) before contributions	(55,756.86)
Capital Contributions	<u>38,880.00</u>
CHANGE IN NET POSITION	(16,876.86)
NET POSITION AT BEGINNING OF YEAR, AS RESTATED	3,490,672.50
NET POSITION AT END OF YEAR	<u>\$ 3,473,795.64</u>

See accompanying notes to financial statements.

TOWN OF ECLECTIC, ALABAMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 761,367.52
Payments to vendors	(405,221.99)
Payments to employees	(203,033.16)
Net cash provided by operating activities	<u>153,112.37</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Receipts on claims receivable	<u>2,850.00</u>
Net cash provided by noncapital financing activities	<u>2,850.00</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of property and equipment	(33,384.43)
Construction in progress - sewer	(38,880.00)
Cash payments to other funds	(1,000.00)
Capital contributions from grant	<u>38,880.00</u>
Net cash used by capital and related financing activities	<u>(34,384.43)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on cash accounts	<u>768.14</u>
Net cash provided by investing activities	<u>768.14</u>

Net Cash Provided

122,346.08

Cash Balances - Beginning of the Year

968,446.44

Cash Balances - End of the Year

\$ 1,090,792.52

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED

BY OPERATING ACTIVITIES

Operating income (loss)	\$ (59,375.00)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	140,952.41
Pension contributions subsequent to the measurement date	26,069.00
Changes in assets and liabilities:	
Accounts receivable	6,881.89
Unbilled revenue	-
Prepaid assets	(1,939.56)
Inventory	(8,643.67)
Accounts and other payables	45,934.28
Accrued expenses	1,557.46
Compensated absences payable	(386.50)
Meter deposits	2,062.06
Net cash provided by operating activities	<u><u>\$ 153,112.37</u></u>

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Town of Eclectic (the Town) was incorporated under the laws of the State of Alabama in 1907 and operates under an elected mayor-council form of government as required by State of Alabama Legislative Act No. 73-618 approved August 28, 1973. The Town provides the following services: public safety (police and fire), highways and streets, sanitation and utilities (water and sewer), health and social services, public improvements, planning and zoning, recreation and general administrative services.

Government-Wide and Fund Financial Statements

The basic financial statements consist of the government-wide financial statements and fund financial statements. Both sets of statements distinguish between governmental and business-type activities. Government-wide financial statements are comprised of the statement of net position and the statement of activities and reports information of all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. The exception to this is inter-fund services provided and used which are eliminated in the consolidation process. Governmental activities which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues are classified into three categories: charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to direct recovery from customers for services rendered. Grants and contributions refer to revenues restricted for specific programs whose use may be restricted further to operational or capital items. The general revenues section displays revenue collected that help support all functions of government and contributes to the change in the net position for the fiscal year.

The fund financial statements follow and report additional and detailed information about operations for major funds individually and nonmajor funds in the aggregate for governmental funds. A reconciliation is provided that converts the results of governmental fund accounting to the governmental-wide presentations.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year received or when an enforceable legal claim exists, whichever comes first. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period, considered to be sixty days for property taxes and ninety days for all other revenue. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town Reports the following major governmental funds:

General Fund – This is the Town’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Street Fund – This is a special revenue fund in which the Town accounts for the gasoline taxes received that are restricted to the maintenance and capital improvements of the Town’s streets.

Municipal Court Fund – This is a special revenue fund in which the Town accounts for court fines and bonds received.

The Town reports the following major enterprise funds:

Eclectic Water and Sewer Fund – Accounts for water and sanitary sewer services provided to the residents of the Town.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Stewardship, Compliance, and Accountability

An annual budget is adopted for the Town’s general fund. Under state law, the Mayor submits the annual budget to the Council for consideration and approval no later than October 1. Such budget is based on expected expenditures by program and estimated resources by source. The budget is prepared using the modified accrual basis of accounting. Revisions to the budget must be approved by Council. All annual appropriations lapse at fiscal year-end.

Management Estimates and Assumptions

The preparation of financial statements in conformity with accounting principle generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from estimates used.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

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 and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of inter-fund loans) or “advances to/from other funds” (i.e., the noncurrent portion of the inter-fund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as “internal balances.”

All receivables are shown net of any applicable allowances for uncollectibles.

Property taxes are assessed on October 1 and levied on the subsequent October 1 for the fiscal year beginning on the levy date, at which time a lien is attached. These taxes are due and payable on October 1 (levy date) and delinquent after December 31 in each year (except with respect to motor vehicles, which have varying due dates), after which a penalty and interest are required to be charged. If real property taxes

TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

are not paid by the June 15 following the due date, a tax sale is required to be held. Revenue is recognized in the year when the taxes are levied and collected. The taxes are collected by the Elmore County tax collector and remitted to the Town.

Inventories and Prepaid Items

Inventories are valued at cost using the average cost method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

Prepaid items reflected in the governmental and proprietary funds relate to insurance premiums paid in the current fiscal year but benefit the subsequent fiscal year.

Capital Assets

Capital assets, purchased or constructed are reported at cost or estimated historical cost. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is an estimate of a price that would be paid to acquire a similar asset in an orderly market transaction at the acquisition date.

Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. The Town did not report infrastructure acquired prior to October 1, 2003.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	30 years
Improvements	20 years
Machinery and equipment	7-20 years
Utility system	50 years
Infrastructure	50 years

Compensated Absences

The Town allows employees to accumulate vacation and sick leave up to certain limits for use in subsequent periods.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Town reports deferred outflow items related to the Town's pension plan which are described further in Note 8.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports deferred inflow items related to the Town's pension plan which are described further in Note 9.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using the effective interest methods. Bonds payable are reported net of the applicable bond premium or discounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, government fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Lease Obligations

Capital lease obligations are stated at the original fair market value of leased assets capitalized, less payments since the inception of the lease discounted at the implicit rate of interest in the lease. Also, in the year an asset is acquired by capital lease, the expenditure for the asset and the offsetting amount of the financing source are reflected in the fund financial statements in the statement of revenues expenditures, and changes in fund balances. Capital lease obligations of proprietary funds and governmental activities in the government-wide financial statements and the cost of assets so acquired are reflected in the accounts of those funds and statements.

Fund Equity

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – This classification includes amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – This classification includes amounts that can be used only for specific purposes determined by a formal action of the Town Council. The Town Council is the highest level of decision making authority for the Town. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Town Council.

Assigned – This classification includes amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Town's adopted policy, only the Town Council may assign amounts for specific purposes.

Unassigned – This classification includes all other spendable amounts.

TOWN OF ECLECTIC, ALABAMA
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When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

2. CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town’s deposit may not be returned to it. The Town does not have a deposit policy for custodial credit risk.

As of September 30, 2016, none of the Town’s bank balance of \$1,536,766.01 was exposed to custodial credit risk. All of the Town’s bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) and the Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program is a multiple financial collateral pool administered by the State Treasurer according to State of Alabama statute.

3. RECEIVABLES

Receivables as of September 30, 2016, for the government’s individual major funds are as follows:

	General Funds	Street Funds	Municipal Court	Eclectic Water and Sewer Fund	Total
Taxes	\$ 97,695.36	\$ 1,008.13	\$ -	\$ -	\$ 98,703.49
Accounts Receivable	<u>5,957.21</u>	<u>-</u>	<u>203.00</u>	<u>74,421.70</u>	<u>80,581.91</u>
Gross receivables	103,652.57	1,008.13	203.00	74,421.70	179,285.40
Less allowance for uncollectable	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,888.18</u>	<u>9,888.18</u>
Total Receivables	<u>\$ 103,652.57</u>	<u>\$ 1,008.13</u>	<u>\$ 203.00</u>	<u>\$ 64,533.52</u>	<u>\$ 169,397.22</u>

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TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

4. CAPITAL ASSETS

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

Primary Government

	Beginning Balance	Increase	Decrease	Ending Balance
<i>Governmental activities:</i>				
Non-depreciable assets:				
Land	\$ 376,690.07	\$ -	\$ -	\$ 376,690.07
Total non-depreciable assets	376,690.07	-	-	376,690.07
Depreciable assets:				
Buildings	903,952.73	-	-	903,952.73
Machinery and equipment	1,572,730.92	16,040.00	54,560.00	1,534,210.92
Land improvements	21,317.88	-	-	21,317.88
Total depreciable assets	2,498,001.53	16,040.00	54,560.00	2,459,481.53
Less accumulated depreciation for:				
Buildings	129,846.21	30,076.60	-	159,922.81
Machinery and equipment	1,069,598.63	116,490.65	54,560.00	1,131,529.28
Land improvements	9,326.54	1,065.89	-	10,392.43
Total accumulated depreciation	1,208,771.38	147,633.14	54,560.00	1,301,844.52
Total depreciable assets, net	1,289,230.15	(131,593.14)	-	1,157,637.01
Governmental activities capital assets, net	\$1,665,920.22	\$ (131,593.14)	\$ -	\$ 1,534,327.08

	Beginning Balance	Increase	Decrease	Ending Balance
<i>Business-type activities:</i>				
Non-depreciable assets:				
Land	\$ 105,291.00	\$ -	\$ -	\$ 105,291.00
Construction in progress	-	53,880.00	-	53,880.00
Total non-depreciable assets	105,291.00	53,880.00	-	159,171.00
Depreciable assets:				
Utility system	3,032,846.00	33,384.43	-	3,066,230.43
Buildings	290,865.00	-	-	290,865.00
Machinery and equipment	2,073,702.00	-	-	2,073,702.00
Land improvements	300,000.00	-	-	300,000.00
Total depreciable assets	5,697,413.00	33,384.43	-	5,730,797.43
Less accumulated depreciation for:				
Utility system	1,388,099.00	111,926.16	-	1,500,025.16
Buildings	134,965.00	5,263.73	-	140,228.73
Machinery and equipment	1,582,784.00	13,596.95	-	1,596,380.95
Land improvements	205,833.00	10,165.57	-	215,998.57
Total accumulated depreciation	3,311,681.00	140,952.41	-	3,452,633.41
Total depreciable assets, net	2,385,732.00	(107,567.98)	-	2,278,164.02
Governmental activities capital assets, net	\$2,491,023.00	\$ (53,687.98)	\$ -	\$ 2,437,335.02

TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 11,974.50
Public safety	105,407.24
Public works	10,286.14
Public welfare	19,965.26
Total depreciation expense-governmental activities	<u>\$ 147,633.14</u>
Business-type activities:	<u>\$ 40,952.41</u>

5. INTERFUND BALANCES

Interfund balances are generally used to meet cash demands necessary to pay operating expenditures. Except for amounts due from Enterprise and Internal Service Funds, these amounts should be repaid during the next fiscal year. The composition of interfund balances as of September 30, 2016, is shown below.

Due to/from other funds:

Receivable Fund	Payable Fund	Total
General	Eclectic Water & Sewer Fund	\$ 84,494.50
Street Fund	General	2,647.00
Eclectic Water & Sewer Fund	General	1,000.00
		<u>\$ 88,141.50</u>

6. SHORT-TERM DEBT

The Town maintains a \$200,000 line of credit to support operations pending collection and receipt of outstanding Town revenue. Interest is paid on outstanding balance at 3.75%. Short-term debt activity for the year ended September 30, 2016, was as follows.

Beginning balance	\$ 89,000.00
Issues	95,000.00
Redemptions	(108,920.84)
Ending balance	<u>\$ 75,079.16</u>

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TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

7. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,030,000.00	\$ -	\$ (110,000.00)	\$ 920,000.00	\$ 110,000.00
Notes payable	510,251.00	-	(48,483.10)	461,767.90	39,411.42
Capital leases	66,889.00	-	(15,675.42)	51,213.58	16,353.53
Compensated absences	12,631.00	2,550.15	-	15,181.15	15,181.15
Governmental activity long-term liabilities	1,619,771.00	2,550.15	(174,158.52)	1,448,162.63	180,946.10
Business-type activities:					
Compensated absences	3,922.00	-	(386.50)	3,535.50	3,535.50
Business-type activity long-term liabilities	3,922.00	-	(386.50)	3,535.50	3,535.50
Total long-term debt	\$ 1,623,693.00	\$ 2,550.15	\$ (174,545.02)	\$ 1,451,698.13	\$ 184,481.60

General Obligation Bonds

The Town issues general obligation bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the Town. The current outstanding balances are as follows:

\$1,200,000 Series 1996 General Obligation Warrants due in annual installments of \$40,000 to \$65,000 through August 15, 2017, with the final payment of \$65,000 due in fiscal year 2017, interest at 4.00%.	\$ 65,000
\$1,210,000 Series 2007 General Obligation Refunding Warrants due in annual installments of \$10,000 to \$80,000 through August 1, 2030, with a maximum principal of \$80,000 due in fiscal year 2030, interest at 4.00% to 4.70%.	<u>855,000</u>
Total general obligation bonds	<u>\$ 920,000</u>

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TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

The following schedule illustrates debt service to maturity for the general obligation bonds at September 30, 2016:

Governmental Activities			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending September 30:			
2017	\$ 110,000.00	\$ 41,700.00	\$ 151,700.00
2018	45,000.00	37,188.00	82,188.00
2019	50,000.00	35,275.00	85,275.00
2020	50,000.00	33,025.00	83,025.00
2021	55,000.00	30,775.00	85,775.00
2022-2026	315,000.00	114,350.00	429,350.00
2027-2030	295,000.00	35,485.00	330,485.00
Totals	<u>\$ 920,000.00</u>	<u>\$ 327,798.00</u>	<u>\$ 1,247,798.00</u>

Notes Payable

The Town has received funding from local banks to provide for the acquisition of capital assets. The current outstanding balances are as follows:

Governmental activities:

Note payable with First Community Bank of Central Alabama used to pay off the original note with Trustmark and to reduce the line of credit. The note is due in monthly payments of \$1,171 through December 4, 2029 and has an interest of 4.2%. The note is secured by the municipal building. \$ 132,475

Note payable with First Community Bank of Central Alabama used to fund costs related to the purchase of two fire trucks. The note is due in annual payments of \$46,631 through July 14, 2025 and has an interest rate of 4.50%. The note is secured by two fire trucks. 329,293

\$ 461,768

The following schedule illustrates debt service to maturity for the notes payable at September 30, 2016:

Governmental Activities			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending September 30:			
2017	39,318	21,364	60,682
2018	41,098	19,583	60,681
2019	42,960	17,722	60,682
2020	44,861	15,821	60,682
2021	46,936	13,746	60,682
2022-2026	214,018	34,287	256,779
2027-2030	32,577	2,679	35,256
Totals	<u>\$ 461,768</u>	<u>\$ 125,202</u>	<u>\$ 595,444</u>

TOWN OF ECLECTIC, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
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Capital Lease

The Town has entered into lease agreements as lessee for financing the acquisition of property and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets through capital leases are as follows.

<u>Asset</u>	<u>Governmental Activities</u>
Machinery and equipment	\$ 91,016
Less accumulated depreciation	<u>45,508</u>
Total	<u>\$ 45,508</u>

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

	<u>Governmental Activities</u>
Year ending September 30:	
2017	\$ 18,569
2018	18,569
2019	<u>17,799</u>
Total minimum lease payments	54,937
Less amount representing interest	<u>3,724</u>
Present value of minimum lease payments	<u>\$ 51,213</u>

8. PENSION PLAN

Plan Description

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

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 who are from the same department of state government nor from any department of which an ex officio trustee is the head.

TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
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- 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 who 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. State employees who retire after 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years of more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

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

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

Employees Covered by Benefit Terms

The following table summarizes the membership of the Authority as of September 30, 2015, the measurement date

	Number
Retired members or their beneficiaries currently receiving benefits	3
Vested inactive members	1
Non-vested inactive members	18
Active members	34
Post-DROP retired members still in active service	0
Total	56

TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
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Contributions

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 20, 2016, the Town's active employee contribution rate was 5% of covered payroll for Tier 1 employees and 6% of covered employee payroll for Tier 2 employees, and the Town's active employee contribution rate for certified law enforcement, correctional officers, and firefighters (FLC) was 6% of covered payroll for Tier 1 FLC and 7% of covered payroll for Tier 2 FLC. The Town's average contribution rate to fund the normal and accrued liability costs was 2.71% of pensionable payroll for Tier 1 employees and .48% of pensionable payroll for Tier 2 employees.

The Town's contractually required contribution rate for the year ended September 30, 2016 was 3.08% of pensionable pay for Tier 1 employees, and .85% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Town were \$18,294.66 for the year ended September 30, 2016.

Net Pension Liability

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

	Expected	Actual
(a) TPL as of September 30, 2014	\$ 866,603	\$ 1,002,119
(b) Entry Age Normal Cost for the period October 1, 2014 – September 30, 2015	56,043	56,043
(c) Actual Benefit Payments and Refunds for the period October 1, 2014 – September 30, 2015	<u>(52,574)</u>	<u>(52,574)</u>
(d) TPL as of September 30, 2015 = [(a) x (1.08)] + (b) – [(c) x (1.04)]	<u>\$ 937,362</u>	<u>\$ 1,083,655</u>
(e) Difference between Expected and Actual Experience Experience (Gain)/Loss		\$ 146,293

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 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.

TOWN OF ECLECTIC, ALABAMA
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 SEPTEMBER 30, 2016

The actuarial assumptions used in the September 20, 2104 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 Board of control accepted and approved these changes on January 27, 2012, which became effective at 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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return of each major asset class are as follows:

	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
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	<u>2.00%</u>	1.50%
Total	<u>100.00%</u>	

*Includes assumed rate of inflation of 2.50%

Discount Rate

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

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TOWN OF ECLECTIC, ALABAMA
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 SEPTEMBER 30, 2016

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Position Liability (Asset) (a) – (b)
Balances at September 30, 2014	\$ 866,663	\$ 1,098,006	\$ (231,343)
Changes for the year:			
Service cost	56,043		56,043
Interest	67,230		67,230
Changes of assumptions			
Differences between expected and actual experience	146,293		146,293
Contributions – employer		9,830	(9,830)
Contributions – employee		33,031	(33,031)
Net investment income		12,407	(12,407)
Benefit payments, including refunds of employee contributions	(52,574)	(52,574)	0
Administrative expense		0	0
Transfers among employers	0	(94,769)	94,769
Net changes	216,992	\$(92,075)	309,067
Balances at September 30, 2015	\$ 1,083,655	\$ 1,005,931	\$ 77,724

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Town’s net pension asset calculated using the discount rate of 8% as well as what the Town’s proportionate share of the net pension asset would be if it were calculated using a discount rate that is one percentage point lower (7%) or one percentage point higher (9%) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
Town’s net pension liability (asset)	\$ <u>217,055</u>	\$ <u>77,724</u>	\$ <u>(38,173)</u>

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, 2014. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2014. The auditor’s reported dated October 17, 2016 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.

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

For the year ended September 30, 2016, the Town recognized pension expense of \$135,168.66. At September 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

TOWN OF ECLECTIC, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2016

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 121,911	\$ 0
Changes of assumptions	0	0
Net difference between projected and actual earnings on plan investments	34,103	0
Employer contributions subsequent to the measurement date	18,295	0
Total	\$ 174,309	\$ 0

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

Year ended September 30:	
2017	\$ 30,999
2018	30,999
2019	31,001
2020	38,632
2021	24,383
Thereafter	-

9. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town has purchased general liability insurance through a commercial insurance carrier. Coverage provides up to \$1,000,000 per claim for a maximum total coverage of \$3,000,000. The Town also purchased commercial insurance for others risks of loss, including property and casualty insurance.

The Town has worker’s compensation insurance through the Municipal Workers Compensation Fund. Coverage is provided up to \$1,000,000 for each injury by accident or disease.

The Town has employee health coverage through the Local Government Health Insurance Plan (LGHIP) administered by the State’s Employees’ Health Insurance Board. LGHIP is self-insured health insurance program funded from the premiums of the participating local government units and their subscribers. LGHIP provides group health insurance for employees of local government units, certain organizations, and associations. Monthly premiums are determined by the plan’s actuary and are based on past claims experience.

10. CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at the time, although the Town expects such amounts, if any, to be immaterial.

The Town is a defendant in various lawsuits whose outcome is not presently determinable. In the opinion of the Town’s counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

11. BOND COVENANT

The Town was in violation of a covenant contained in the Series 1996 General Obligation Warrants for fiscal year 2016. The covenant states that the Town will furnish the Alabama Water Pollution Control Authority (Authority) a copy of its audited financial statements no later than one hundred eighty days following the close of the fiscal year.

The Town contacted the Alabama Department of Environmental Management (ADEM) regarding this violation. ADEM responded stating that although they would not waive this requirement, The Authority does not plan on taking any action on the violation

12. RESTATEMENTS

During the fiscal year, management identified duplication of expenses that affected prior years and overstatement of revenues caused by read errors from meter change outs. The net effect of the errors reduced beginning net position of the business-type activities by \$15,988.

**REQUIRED SUPPLEMENTARY
INFORMATION**

TOWN OF ECLECTIC, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual (Budgetary Basis)	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Taxes	\$ 1,069,281.00	\$ 1,069,281.00	\$ 1,139,756.31	\$ 70,475.31
Licenses and Permits	213,591.00	213,591.00	238,632.18	25,041.18
Fines and Forfeitures	118,000.00	118,000.00	21,023.16	(96,976.84)
Intergovernmental Revenues	50,000.00	50,000.00	321,303.34	271,303.34
Charges for Services	-	-	232,686.38	232,686.38
Miscellaneous	83,121.32	83,121.32	34,203.72	(48,917.60)
Interest	-	-	184.19	184.19
Total Revenues	<u>1,533,993.32</u>	<u>1,533,993.32</u>	<u>1,987,789.28</u>	<u>453,795.96</u>
Expenditures				
Current:				
General Government	740,354.00	740,354.00	678,152.68	62,201.32
Public Safety	376,500.00	376,500.00	705,746.13	(329,246.13)
Public Works	53,050.00	53,050.00	152,325.61	(99,275.61)
Public Welfare	47,885.00	47,885.00	105,074.23	(57,189.23)
Debt Service	240,234.32	240,234.32	246,789.91	(6,555.59)
Total Expenditures	<u>1,458,023.32</u>	<u>1,458,023.32</u>	<u>1,888,088.56</u>	<u>(430,065.24)</u>
Excess of Revenues Over (Under) Expenditures	<u>75,970.00</u>	<u>75,970.00</u>	<u>99,700.72</u>	<u>23,730.72</u>
Other Financing Sources (Uses)				
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ 75,970.00</u>	<u>\$ 75,970.00</u>	<u>\$ 99,700.72</u>	<u>\$ 23,730.72</u>
Fund Balance - Beginning			\$ 364,375.00	
Fund Balance - Ending			<u>\$ 464,075.72</u>	

Note A: Budgetary Information

The budgetary comparison schedule required by GASB Statement No. 34 includes the general fund only. The Town is not legally required to adopt a budget and chooses not to do so for the special revenue funds.

TOWN OF ECLECTIC, ALABAMA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>9/30/2015</u>	<u>9/30/2014</u>
Total Pension Liability		
Service Cost	\$ 56,043	\$ 60,115
Interest	67,230	62,226
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	146,293	-
Changes in Assumptions	-	-
Benefits Payments, Including Refunds of Employee Contributions	<u>(52,574)</u>	<u>(67,010)</u>
Net Change in Total Pension Liability	216,992	55,331
Total Pension Liability - Beginning	<u>866,663</u>	<u>811,332</u>
Total Pension Liability - Ending (a)	<u>\$ 1,083,655</u>	<u>\$ 866,663</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 9,830	\$ 20,087
Contributions - Members	33,031	32,091
Net Investment Income	12,407	114,529
Benefit Payments, Including Refunds of Employee Contributions	(52,574)	(67,010)
Transfers Among Employers	<u>(94,769)</u>	<u>72,749</u>
Net Change in Plan Fiduciary Net Position	\$ (92,075)	\$ 172,446
Plan Net Position - Beginning	<u>1,098,006</u>	<u>925,560</u>
Plan Net Position - Ending (b)	<u>\$ 1,005,931</u>	<u>\$ 1,098,006</u>
Net Pension Liability (Asset) - Ending (a) - (b)	\$ 77,724	\$ (231,343)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.83%	126.69%
Covered Payroll*	\$ 626,354	\$ 626,354
Net Pension Liability (Asset) as a Percentage of Covered Payroll	12.41%	-36.93%

* Employer's covered payroll during the measurement period is the total covered payroll. For FY 2016, the measurement period is October 1, 2014 - September 30, 2015. GASB issued a statement "Pension Issues" in March 2016 to redefine covered payroll for FY 2016.

TOWN OF ECLECTIC, ALABAMA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 18,295	\$ (66,494)
Contributions in relation to the actuarially determined contribution	<u>18,295</u>	<u>9,555</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ 76,049</u>
Covered payroll	\$ 729,167	\$ 626,354
Contributions as a percentage of covered payroll	2.51%	12.14%

Notes to Schedule

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2016 were based on the September 30, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2015 to September 30, 2016:

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