

TOWN OF ECLECTIC, ALABAMA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

TOWN OF ECLECTIC, ALABAMA
SEPTEMBER 30, 2014

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Independent Auditors' Report

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

Report on the Financial Statements

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 September 30, 2014 and for the year then ended, 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 of 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, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 15 to the financial statements, the Town adopted new accounting guidance, Governmental Accounting Standards Board's Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 opinion 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 schedules of pension funding progress on pages 34 and 35 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.

Warren Averett, LLC

Montgomery, Alabama
August 1, 2016

FINANCIAL STATEMENTS

TOWN OF ECLECTIC, ALABAMA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

| | Governmental Activities | Business-type Activities | Total |
|---|------------------------------------|-------------------------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 206,803 | \$ 702,462 | \$ 909,265 |
| Receivables, net | 98,031 | 112,075 | 210,106 |
| Internal balances | 30,574 | (30,574) | - |
| Inventories | 4,656 | 38,135 | 42,791 |
| Prepaid expenses | 21,536 | 8,423 | 29,959 |
| Claims receivable | - | 254,730 | 254,730 |
| Note receivable | - | 3,281 | 3,281 |
| Capital assets not being depreciated: | | | |
| Land | 376,690 | 105,291 | 481,981 |
| Capital assets net of accumulated depreciation: | | | |
| Buildings | 748,965 | 173,275 | 922,240 |
| Machinery and equipment | 443,708 | 531,953 | 975,661 |
| Utility system | - | 1,654,532 | 1,654,532 |
| Land improvements | 13,057 | 104,167 | 117,224 |
| TOTAL ASSETS | \$ 1,944,020 | \$ 3,657,750 | \$ 5,601,770 |
| LIABILITIES AND NET POSITION | | | |
| LIABILITIES | | | |
| Accounts payable | \$ 3,184 | \$ 24,377 | \$ 27,561 |
| Accrued interest payable | 16,564 | - | 16,564 |
| Other current liabilities | 30,624 | 6,687 | 37,311 |
| Customer deposits | - | 71,222 | 71,222 |
| Line of credit | 124,607 | - | 124,607 |
| Noncurrent liabilities: | | | |
| Due within one year | 239,949 | 38,600 | 278,549 |
| Due in more than one year | 1,462,260 | 127,769 | 1,590,029 |
| TOTAL LIABILITIES | 1,877,188 | 268,655 | 2,145,843 |
| NET POSITION | | | |
| Net investment in capital assets | - | 2,406,771 | 2,406,771 |
| Restricted for: | | | |
| Public works | 7,189 | - | 7,189 |
| Municipal court | 30,979 | - | 30,979 |
| Unrestricted | 28,664 | 982,324 | 1,010,988 |
| TOTAL NET POSITION | 66,832 | 3,389,095 | 3,455,927 |
| TOTAL LIABILITIES AND NET POSITION | \$ 1,944,020 | \$ 3,657,750 | \$ 5,601,770 |

See accompanying notes to financial statements.

TOWN OF ECLECTIC, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

| <u>Function/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | |
|---|---------------------|-----------------------------|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Primary Government | | | | |
| Governmental activities: | | | | |
| General government | \$ 449,980 | \$ 232,586 | \$ - | \$ - |
| Public safety | 771,364 | 273,368 | - | - |
| Public works | 205,982 | 35,314 | 12,140 | 2,000 |
| Public welfare | 121,057 | 32,850 | - | - |
| Interest and fiscal charges on long-term debt | 82,695 | - | - | - |
| Total governmental activities | <u>1,631,078</u> | <u>574,118</u> | <u>12,140</u> | <u>2,000</u> |
| Business-type activities: | | | | |
| Eclectic Water and Sewer Fund | <u>627,053</u> | <u>699,008</u> | <u>-</u> | <u>-</u> |
| Total primary government | <u>\$ 2,258,131</u> | <u>\$ 1,273,126</u> | <u>\$ 12,140</u> | <u>\$ 2,000</u> |

General Revenues

Property taxes
Sales taxes
Other taxes
Alcoholic beverage taxes
Interest income
Miscellaneous revenue

Transfers

Total general revenues and transfers
Change in net position
Net position - beginning, as originally stated
Cumulative effect of change in accounting principle
Net position - beginning as restated
Net position - ending

**Net (Expense) Revenue and
Changes in Net Position**

| Governmental Activities | Business-type Activities | Total |
|------------------------------------|-------------------------------------|---------------------|
| \$ (217,394) | \$ - | \$ (217,394) |
| (497,996) | - | (497,996) |
| (156,528) | - | (156,528) |
| (88,207) | - | (88,207) |
| (82,695) | - | (82,695) |
| <u>(1,042,820)</u> | <u>-</u> | <u>(1,042,820)</u> |
| - | 71,955 | 71,955 |
| <u>(1,042,820)</u> | <u>71,955</u> | <u>(970,865)</u> |
| 72,919 | - | 72,919 |
| 929,708 | - | 929,708 |
| 24,768 | - | 24,768 |
| 28,198 | - | 28,198 |
| 60 | 300 | 360 |
| 143,085 | - | 143,085 |
| (684,263) | 684,263 | - |
| <u>514,475</u> | <u>684,563</u> | <u>1,199,038</u> |
| <u>(528,345)</u> | <u>756,518</u> | <u>228,173</u> |
| 654,849 | 2,632,577 | 3,287,426 |
| <u>(59,672)</u> | <u>-</u> | <u>(59,672)</u> |
| <u>595,177</u> | <u>2,632,577</u> | <u>3,227,754</u> |
| <u>\$ 66,832</u> | <u>\$ 3,389,095</u> | <u>\$ 3,455,927</u> |

See accompanying notes to financial statements.

TOWN OF ECLECTIC, ALABAMA

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2014

| | <u>General Fund</u> | <u>Street Fund</u> | <u>Municipal Court</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|------------------------|----------------------------|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 161,325 | \$ 6,254 | \$ 39,224 | \$ 206,803 |
| Receivables | 95,252 | 935 | 1,844 | 98,031 |
| Inventories | 4,656 | - | - | 4,656 |
| Prepaid expenses | 21,536 | - | - | 21,536 |
| Due from other funds | 32,379 | - | - | 32,379 |
| TOTAL ASSETS | <u>\$ 315,148</u> | <u>\$ 7,189</u> | <u>\$ 41,068</u> | <u>\$ 363,405</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ - | \$ - | \$ 3,184 | \$ 3,184 |
| Other current liabilities | 25,524 | - | 5,100 | 30,624 |
| Due to other funds | - | - | 1,805 | 1,805 |
| Line of credit | 124,607 | - | - | 124,607 |
| TOTAL LIABILITIES | <u>150,131</u> | <u>-</u> | <u>10,089</u> | <u>160,220</u> |
| FUND BALANCES | | | | |
| Nonspendable: | | | | |
| Inventories | 4,656 | - | - | 4,656 |
| Prepaid expenses | 21,536 | - | - | 21,536 |
| Restricted: | | | | |
| Public works | - | 7,189 | - | 7,189 |
| Municipal court | - | - | 30,979 | 30,979 |
| Unassigned | 138,825 | - | - | 138,825 |
| TOTAL FUND BALANCES | <u>165,017</u> | <u>7,189</u> | <u>30,979</u> | <u>203,185</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 315,148</u> | <u>\$ 7,189</u> | <u>\$ 41,068</u> | <u>\$ 363,405</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, 2014

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

| | | |
|---|----|--------------------|
| Total fund balances - governmental funds | \$ | 203,185 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | | 1,582,420 |
| 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, 2014, were: | | |
| Bonds, leases and notes payable | \$ | (1,685,968) |
| Accrued interest | | (16,564) |
| Compensated absences | | (16,241) |
| Total long-term liabilities | | <u>(1,718,773)</u> |
| Net position of governmental activities | \$ | <u>66,832</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, 2014

| | <u>General Fund</u> | <u>Street Funds</u> | <u>Municipal Court</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|-------------------------|----------------------------|---|
| REVENUES | | | | |
| Taxes | \$ 1,046,418 | \$ 9,175 | \$ - | \$ 1,055,593 |
| Licenses and permits | 230,806 | 1,164 | - | 231,970 |
| Intergovernmental | 17,703 | - | - | 17,703 |
| Charges for services | 266,410 | - | - | 266,410 |
| Fines and forfeitures | 42,805 | - | 32,316 | 75,121 |
| Miscellaneous revenues | 86,083 | - | - | 86,083 |
| Interest | 66 | - | - | 66 |
| Total revenues | <u>1,690,291</u> | <u>10,339</u> | <u>32,316</u> | <u>1,732,946</u> |
| EXPENDITURES | | | | |
| Current operations: | | | | |
| General government | 396,419 | 9,947 | 32,546 | 438,912 |
| Public safety | 810,879 | - | - | 810,879 |
| Public works | 175,486 | - | - | 175,486 |
| Public welfare | 82,945 | - | - | 82,945 |
| Debt service: | | | | |
| Principal retirement | 127,044 | - | - | 127,044 |
| Interest charges | 82,565 | - | - | 82,565 |
| Total expenditures | <u>1,675,338</u> | <u>9,947</u> | <u>32,546</u> | <u>1,717,831</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>14,953</u> | <u>392</u> | <u>(230)</u> | <u>15,115</u> |
| OTHER FINANCING SOURCES | | | | |
| Proceeds from capital leases | 81,914 | - | - | 81,914 |
| Transfers in | 6,810 | - | - | 6,810 |
| Total other financing sources | <u>88,724</u> | <u>-</u> | <u>-</u> | <u>88,724</u> |
| Net change in fund balances | <u>103,677</u> | <u>392</u> | <u>(230)</u> | <u>103,839</u> |
| FUND BALANCES - BEGINNING | <u>61,340</u> | <u>6,797</u> | <u>31,209</u> | <u>99,346</u> |
| FUND BALANCES - ENDING | <u>\$ 165,017</u> | <u>\$ 7,189</u> | <u>\$ 30,979</u> | <u>\$ 203,185</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, 2014

Differences in amounts reported for Governmental Activities in the Statement of Activities.

| | | | |
|---|----|----------------|---------------------|
| Net change in fund balances - total governmental funds | | \$ | 103,839 |
| Capital outlays, reported as expenditures in governmental funds, is shown as capital assets in the Statement of Net Position. | | | 121,006 |
| Depreciation expense on governmental capital assets included in the governmental activities in the Statement of Activities. | | | (157,173) |
| Donations of capital assets increase net assets in Statement of Net Position but do not appear in the governmental funds because they are not financial resources. | | | 57,170 |
| The net effect of transactions involving the sale, disposal and transfer of capital assets is to decrease net position in the Statement of Net Position. | | | (694,192) |
| Loan proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Position: | | | |
| Capital lease financing | | | (81,914) |
| Repayment of long-term debt is reported as an expenditure in governmental funds, but a reduction of long-term liabilities in the Statement of Net Position. | | | |
| General obligation bonds | \$ | 100,000 | |
| Notes payable | | 27,044 | |
| Total repayments | | <u>127,044</u> | 127,044 |
| 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 governmental funds. | | | |
| Compensated absences | | (3,995) | |
| Accrued interest | | <u>(130)</u> | |
| Additional expenses | | | <u>(4,125)</u> |
| Change in net position of governmental activities | | | <u>\$ (528,345)</u> |

See accompanying notes to financial statements.

TOWN OF ECLECTIC, ALABAMA
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2014

| | Eclectic Water and Sewer Fund |
|---|--|
| ASSETS | |
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 702,462 |
| Receivables, net | 112,075 |
| Inventories | 38,135 |
| Prepaid expenses | 8,423 |
| Claims receivable | 254,730 |
| Note receivable | 3,281 |
| Total current assets | <u>1,119,106</u> |
| CAPITAL ASSETS | |
| Land | 105,291 |
| Land improvements | 300,000 |
| Buildings | 290,865 |
| Machinery and equipment | 2,064,202 |
| Utility system | 2,982,532 |
| Less accumulated depreciation | <u>(3,173,672)</u> |
| Total capital assets, net of accumulated depreciation | <u>2,569,218</u> |
| TOTAL ASSETS | <u>3,688,324</u> |
| LIABILITIES | |
| CURRENT LIABILITIES | |
| Accounts payable | 24,377 |
| Other liabilities | 6,687 |
| Compensated absences | 3,922 |
| Notes payable | 34,678 |
| Due to other funds | 30,574 |
| Customer deposits | 71,222 |
| Total current liabilities | <u>171,460</u> |
| NONCURRENT LIABILITIES | |
| Notes payable | <u>127,769</u> |
| TOTAL LIABILITIES | <u>299,229</u> |
| NET POSITION | |
| Net investment in capital assets | 2,406,771 |
| Unassigned | 982,324 |
| TOTAL NET POSITION | <u>\$ 3,389,095</u> |

See accompanying notes to financial statements.

TOWN OF ECLECTIC, ALABAMASTATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

| | <u>Eclectic Water and Sewer Fund</u> |
|---|---|
| OPERATING REVENUES | |
| Charges for services: | |
| Water revenues | \$ 687,497 |
| Fee revenues | 11,511 |
| Total operating revenues | <u>699,008</u> |
| OPERATING EXPENSES | |
| Personnel, operations and maintenance, and utilities: | |
| Operations and maintenance | 240,135 |
| Salaries and wages | 127,859 |
| Water purchases | 139,759 |
| Depreciation | 108,274 |
| Total operating expenses | <u>616,027</u> |
| OPERATING INCOME | 82,981 |
| NONOPERATING REVENUES (EXPENSE) | |
| Interest income | 300 |
| Interest expense | (11,026) |
| Income before capital contributions and transfers | <u>72,255</u> |
| Capital contributions | 691,073 |
| Transfer out | (6,810) |
| Change in net position | <u>756,518</u> |
| TOTAL NET POSITION - BEGINNING | <u>2,632,577</u> |
| TOTAL NET POSITION - ENDING | <u><u>\$ 3,389,095</u></u> |

See accompanying notes to financial statements.

TOWN OF ECLECTIC, ALABAMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

| | <u>Eclectic Water and Sewer Fund</u> |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers | \$ 695,521 |
| Payments to suppliers for goods and services | (384,854) |
| Payments to employees for services | (127,230) |
| | <u>183,437</u> |
| Net cash provided by operating activities | <u>183,437</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Cash receipts from other funds | 40,458 |
| Receipts on claims receivable | 8,044 |
| | <u>48,502</u> |
| Net cash provided by noncapital financing activities | <u>48,502</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Purchase of property and equipment | (35,671) |
| Principal payments on capital debt | (32,400) |
| Interest paid on capital debt | (11,026) |
| | <u>(79,097)</u> |
| Net cash used in capital and related financing activities | <u>(79,097)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest income | <u>300</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 153,142 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>549,320</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u><u>\$ 702,462</u></u> |

See accompanying notes to financial statements.

TOWN OF ECLECTIC, ALABAMA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

| | Eclectic Water and Sewer Fund |
|--|--|
| Operating income | \$ 82,981 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 108,274 |
| Increase in accounts receivable | (5,849) |
| Decrease in note receivable | 1,192 |
| Decrease in prepaid expenses | 560 |
| Increase in inventory | (1,927) |
| Decrease in accounts payable | (2,964) |
| Increase in customer deposits | 1,170 |
| Net cash provided by operating activities | <u>\$ 183,437</u> |

See accompanying notes to financial statements.

TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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 on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of inter-fund activity has been removed from these statements. The exception to this is interfund 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 contribute 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 government-wide presentations.

TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 fund:

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 of the internal service funds are charges to customers for sales and services. Operating expenses for 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.

TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the Council. All annual appropriations lapse at fiscal year-end.

Management Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles 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 inter-fund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of any applicable allowance 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 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.

TOWN OF ECLECTIC, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Equity (Continued)

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.

Inventories are summarized as follows:

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|------------------------|------------------------------------|-------------------------------------|------------------|
| Fuel | \$ 4,656 | \$ - | \$ 4,656 |
| Materials and supplies | - | 38,135 | 38,135 |
| | <u>\$ 4,656</u> | <u>\$ 38,135</u> | <u>\$ 42,791</u> |

Capital Assets

Capital assets, purchased or constructed, are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

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 two years. 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 assets' 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 |

TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Equity (Continued)

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 did not have any items that qualified for reporting in this category.

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 did not have any items that qualified for reporting in this category.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the 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 bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Equity (Continued)

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
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Equity (Continued)

Fund Equity (Continued)

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 deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk.

As of September 30, 2014, none of the Town’s bank balance of \$981,628 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, 2014, for the government’s individual major funds are as follows:

| | <u>General Fund</u> | <u>Street Fund</u> | <u>Municipal Court</u> | <u>Eclectic Water and Sewer Fund</u> | <u>Total</u> |
|----------------------------------|-------------------------|------------------------|----------------------------|--|-------------------|
| Taxes | \$ 81,670 | \$ 853 | \$ - | \$ - | \$ 82,523 |
| Accounts | 5,582 | - | 1,844 | 118,332 | 125,758 |
| Intergovernmental | 8,000 | 82 | - | - | 8,082 |
| Gross receivables | 95,252 | 935 | 1,844 | 118,332 | 216,363 |
| Less allowance for uncollectable | - | - | - | 6,257 | 6,257 |
| Total receivables | <u>\$ 95,252</u> | <u>\$ 935</u> | <u>\$ 1,844</u> | <u>\$ 112,075</u> | <u>\$ 210,106</u> |

TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014, was as follows:

Primary Government

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Transfers</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|-------------------|---------------------|---------------------------|
| Governmental activities: | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 465,590 | \$ - | \$ - | \$ (88,900) | \$ 376,690 |
| Total capital assets, not being depreciated | <u>465,590</u> | <u>-</u> | <u>-</u> | <u>(88,900)</u> | <u>376,690</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings | 799,207 | 57,170 | - | - | 856,377 |
| Machinery and equipment | 3,080,642 | 121,006 | (57,889) | (1,744,038) | 1,399,721 |
| Land improvements | 321,318 | - | - | (300,000) | 21,318 |
| Total capital assets, being depreciated | <u>4,201,167</u> | <u>178,176</u> | <u>(57,889)</u> | <u>(2,044,038)</u> | <u>2,277,416</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings | 80,866 | 26,546 | - | - | 107,412 |
| Machinery and equipment | 2,137,254 | 123,727 | (54,770) | (1,250,198) | 956,013 |
| Land improvements | 193,029 | 6,899 | - | (191,667) | 8,261 |
| Total accumulated depreciation | <u>2,411,149</u> | <u>157,172</u> | <u>(54,770)</u> | <u>(1,441,865)</u> | <u>1,071,686</u> |
| Total capital assets, being depreciated, net | <u>1,790,018</u> | <u>21,004</u> | <u>(3,119)</u> | <u>(602,173)</u> | <u>1,205,730</u> |
| Governmental activities capital assets, net | <u>\$ 2,255,608</u> | <u>\$ 21,004</u> | <u>\$ (3,119)</u> | <u>\$ (691,073)</u> | <u>\$ 1,582,420</u> |

TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

4. CAPITAL ASSETS (Continued)

Primary Government (Continued)

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Transfers</u> | <u>Ending Balance</u> |
|--|------------------------------|--------------------|------------------|-------------------|---------------------------|
| Business-type activities: | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 16,391 | \$ - | \$ - | \$ 88,900 | \$ 105,291 |
| Total capital assets, not being depreciated | <u>16,391</u> | <u>-</u> | <u>-</u> | <u>88,900</u> | <u>105,291</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings | 290,865 | - | - | - | 290,865 |
| Machinery and equipment | 319,469 | 35,670 | (34,975) | 1,744,038 | 2,064,202 |
| Land improvements | - | - | - | 300,000 | 300,000 |
| Utility system | 2,982,532 | - | - | - | 2,982,532 |
| Total capital assets, being depreciated | <u>3,592,866</u> | <u>35,670</u> | <u>(34,975)</u> | <u>2,044,038</u> | <u>5,637,599</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings | 100,215 | 17,375 | - | - | 117,590 |
| Machinery and equipment | 290,393 | 26,633 | (34,975) | 1,250,198 | 1,532,249 |
| Land improvements | - | 4,166 | - | 191,667 | 195,833 |
| Utility system | 1,267,901 | 60,099 | - | - | 1,328,000 |
| Total accumulated depreciation | <u>1,658,509</u> | <u>108,273</u> | <u>(34,975)</u> | <u>1,441,865</u> | <u>3,173,672</u> |
| Total capital assets, being depreciated, net | <u>1,934,357</u> | <u>(72,603)</u> | <u>-</u> | <u>602,173</u> | <u>2,463,927</u> |
| Business-type activities capital assets, net | <u>\$ 1,950,748</u> | <u>\$ (72,603)</u> | <u>\$ -</u> | <u>\$ 691,073</u> | <u>\$ 2,569,218</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

| | |
|-------------------------|---------------|
| General government | \$ 7,074 |
| Public safety | 81,491 |
| Public works | 30,496 |
| Cultural and recreation | <u>38,112</u> |

Total depreciation expense – governmental activities \$ 157,173

Business-type activities \$ 108,274

TOWN OF ECLECTIC, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2014

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, 2014, is shown below.

Due to/from other funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Total</u> |
|------------------------|-------------------------------|------------------|
| General | Municipal Court | \$ 1,805 |
| General | Eclectic Water and Sewer Fund | 30,574 |
| | | <u>\$ 32,379</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 balances at 3.85%. Short-term debt activity for the year ended September 30, 2014, was as follows:

| | |
|-------------------|-------------------|
| Beginning balance | \$ 111,307 |
| Issues | 225,000 |
| Redemptions | <u>(211,700)</u> |
| Ending Balance | <u>\$ 124,607</u> |

TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

7. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2014, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|------------------------------|------------------|---------------------|---------------------------|--------------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 1,235,000 | \$ - | \$ (100,000) | \$ 1,135,000 | \$ 105,000 |
| Notes payable | 496,098 | - | (27,044) | 469,054 | 103,683 |
| Capital leases | - | 81,914 | - | 81,914 | 15,025 |
| Compensated absences | 12,247 | 16,241 | (12,247) | 16,241 | 16,241 |
| Governmental activity long-term liabilities | <u>1,743,345</u> | <u>98,155</u> | <u>(139,291)</u> | <u>1,702,209</u> | <u>239,949</u> |
| Business-type activities: | | | | | |
| Notes payable | 194,847 | - | (32,400) | 162,447 | 34,678 |
| Compensated absences | 3,922 | - | - | 3,922 | 3,922 |
| Business-type activity long-term liabilities | <u>198,769</u> | <u>-</u> | <u>(32,400)</u> | <u>166,369</u> | <u>38,600</u> |
| Total long-term debt | <u>\$ 1,942,114</u> | <u>\$ 98,155</u> | <u>\$ (171,691)</u> | <u>\$ 1,868,578</u> | <u>\$ 278,549</u> |

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 \$85,000 through August 15, 2017, with a maximum principal of \$85,000 due in fiscal year 2017, interest at 4.00%. | \$ 190,000 |
| \$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>945,000</u> |
| Total general obligation bonds | <u>\$ 1,135,000</u> |

TOWN OF ECLECTIC, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2014

7. LONG-TERM DEBT (Continued)

General Obligation Bonds (Continued)

The following schedule illustrates debt service to maturity for the general obligation bonds at September 30, 2014:

| | Governmental Activities | | |
|---------------------------|--------------------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| Year ending September 30: | | | |
| 2015 | \$ 105,000 | \$ 50,525 | \$ 155,525 |
| 2016 | 110,000 | 46,213 | 156,213 |
| 2017 | 110,000 | 41,700 | 151,700 |
| 2018 | 45,000 | 37,188 | 82,188 |
| 2019-2023 | 270,000 | 153,200 | 423,200 |
| 2024-2028 | 340,000 | 84,665 | 424,665 |
| 2029-2030 | 155,000 | 11,045 | 166,045 |
| Totals | <u>\$ 1,135,000</u> | <u>\$ 424,536</u> | <u>\$ 1,559,536</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 Trustmark used to fund costs related to the purchase of the municipal building. The note is due in monthly payments of \$854 through December 4, 2014 and has an interest rate of 5.95%. The note is secured by the municipal building. \$ 76,322

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. 392,732

\$ 469,054

Business-type activities:

Note payable with Trustmark in the amount of \$275,000. The note is due in monthly payments of \$3,619 through December 9, 2015 and has an interest rate of 5.95%. The note is secured by the pledge of revenues derived from the operations of the system. \$ 162,447

TOWN OF ECLECTIC, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2014

7. LONG-TERM DEBT (Continued)

Notes Payable (Continued)

The following schedule illustrates debt service to maturity for the notes payable at September 30, 2014:

| | Governmental Activities | | |
|---------------------------|--------------------------------|-------------------|-------------------|
| | Principal | Interest | Total |
| Year ending September 30: | | | |
| 2015 | \$ 103,682 | \$ 19,271 | \$ 122,953 |
| 2016 | 30,144 | 16,487 | 46,631 |
| 2017 | 31,546 | 15,085 | 46,631 |
| 2018 | 32,966 | 13,666 | 46,632 |
| 2019-2023 | 188,427 | 44,729 | 233,156 |
| 2024-2025 | 82,289 | 5,485 | 87,774 |
| Totals | <u>\$ 469,054</u> | <u>\$ 114,723</u> | <u>\$ 583,777</u> |

| | Business-type Activities | | |
|---------------------------|---------------------------------|------------------|-------------------|
| | Principal | Interest | Total |
| Year ending September 30: | | | |
| 2015 | \$ 34,678 | \$ 8,730 | \$ 43,408 |
| 2016 | 127,769 | 1,851 | 129,620 |
| Totals | <u>\$ 162,447</u> | <u>\$ 10,581</u> | <u>\$ 173,028</u> |

Capital Lease

The City 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 acquired through capital leases are as follows:

| <u>Asset</u> | Governmental Activities |
|-------------------------------|------------------------------------|
| Machinery and equipment | \$ 91,016 |
| Less accumulated depreciation | <u>9,102</u> |
| Total | <u>\$ 81,914</u> |

TOWN OF ECLECTIC, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2014

7. LONG-TERM DEBT (Continued)

Capital Lease (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2014, were as follows:

| | <u>Governmental Activities</u> |
|---|---|
| Year ending September 30: | |
| 2015 | \$ 18,569 |
| 2016 | 18,569 |
| 2017 | 18,569 |
| 2018 | 18,569 |
| 2019 | <u>18,569</u> |
| Total minimum lease payments | 92,845 |
| Less amount representing interest | <u>10,931</u> |
| Present value of minimum lease payments | <u>\$ 81,914</u> |

8. OPERATING LEASES

The Town is obligated under an operating lease agreement for copiers through August 30, 2015. The future minimum lease payments under these lease agreements are:

| | |
|---------------------------|-----------------|
| Year ending September 30: | |
| 2015 | <u>\$ 6,592</u> |

Total rental expense for the above mentioned lease is \$7,191 for the year ended September 30, 2014.

9. EMPLOYEES' RETIREMENT PLAN

Employee Pension Plan

The Town has a defined benefit pension plan covering substantially all employees. The pension plan is funded as required by applicable statutes, ordinances, or as a percentage of eligible salaries and/or based upon actuarial valuations. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. The plan is an agent multiple-employer retirement plan. The agent for the plan is the Employees' Retirement System of Alabama.

Plan Description

The Employees' Retirement System of Alabama (ERS) is an agent multiple-employer public employee retirement system. The ERS was established on October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for state employees, state police, and, on an elective basis, all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operations of the ERS is vested in the ERS Board of Control. Authority to amend the plan rests with the Legislature of Alabama.

Substantially all employees are members of the ERS. Membership is mandatory for covered or eligible employees of the Town. The ERS provides retirement benefits as well as death and disability benefits as established by state law. The retirement benefits are established by Title 36, Chapter 27 of Alabama State Law and must be amended by statute. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service, regardless of age (30 years of service for those units that have not elected 25 years retirement). Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The two methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under the formula method, upon service retirement, a member receives a retirement allowance equal to 2.0125% of the member's average final compensation (best three of last ten years) multiplied by the number of years of creditable service. At retirement, a member receives one additional year of creditable service in determining the retirement allowance for each five years of service as a full-time certified firefighter, police officer, or correctional officer. Disability benefits are calculated in the same manner as regular retirement benefits. A pre-retirement death benefit in the amount of the annual salary for the fiscal year preceding death is provided to plan members.

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

TOWN OF ECLECTIC, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2014

9. EMPLOYEES' RETIREMENT PLAN (Continued)

Contributions Required and Contributions Made

The actuary has computed, as of the date of the latest actuarial valuation (September 30, 2013), the estimated present value of benefits payable to retired members, beneficiaries, and active members. The actuarial valuation is prepared using the entry age method. The present value of all expected benefits payable to the present group of members and beneficiaries is calculated by adding the present value of the expected benefits payable to the active members to the present value of the expected future payments to retired members and beneficiaries.

As required by statute, the ERS funding policy provides for employer contributions at actuarially determined rates, expressed as a percent of annual covered payroll, in amounts sufficient to accumulate assets to pay benefits when due. The employer contributions required to support the benefits of each system are determined following a level funding approach and consist of a normal contribution, an accrued liability contribution, a pre-retirement death benefit contribution, and a portion to finance administrative costs.

The required contribution rate is 5% for regular members and 6% for certified law enforcement, correctional officers, and firefighters. For the fiscal year ended September 30, 2013, the required employer contribution rate was 3.16% of annual covered compensation.

Annual Pension Cost

1. Current-Year Contribution Information

For the year ended September 30, 2014, the Town's annual pension cost contributed by employees was \$32,091 and the Town contributed \$20,087, or a total of \$52,178. Contributions were made in accordance with actuarially determined contribution requirements through an actuarial valuation performed at September 30, 2013.

2. Actuarial Assumptions and Methods

| | |
|--|-------------------------|
| Valuation date | September 30, 2013 |
| Actuarial cost method | Entry Age |
| Asset valuation method | 5-Year Smoothed Market* |
| Amortization method | Level Percent closed |
| Remaining amortization period | 30 years |
| Period closed/open | Open |
| Actuarial assumptions: | |
| Ultimate Investment rate of return (discount rate) | 8%* |
| Projected salary increases | 3.75% - 7.25%* |
| Cost of living increases | None |

*Includes inflation at 3.00%.

TOWN OF ECLECTIC, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2014

9. EMPLOYEES' RETIREMENT PLAN (Continued)

Annual Pension Cost (Continued)

2. Actuarial Assumptions and Methods (Continued)

In accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, a pension liability of \$0 was calculated at the transition date. Trend information for the most current valuation year and the two preceding years is as follows:

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation (NPO)</u> |
|---------------------------|----------------------------------|--------------------------------------|-------------------------------------|
| 9/30/2011 | \$ 20,480 | 100.0% | \$ - |
| 9/30/2012 | 24,388 | 100.0% | - |
| 9/30/2013 | 31,208 | 100.0% | - |

3. Funding Status

The funding status of the plan as of the most recent actuarial valuation is as follows:

| <u>Actuarial Valuation Date</u> | <u>(a) Actuarial Value of Assets</u> | <u>(b) Entry Age Actuarial Accrued Liability</u> | <u>(b-a) Unfunded Accrued Liability (UAL)</u> | <u>(a/b) Funded Ratio</u> | <u>(c) Annual Covered Payroll</u> | <u>(b-a)/c UAL as a Percentage of Payroll</u> |
|---------------------------------|--------------------------------------|--|---|---------------------------|-----------------------------------|---|
| 9/30/13 ^{1,2} | \$ 884,132 | \$ 788,701 | \$ (95,461) | 112.1% | \$ 635,635 | (15.0%) |

¹ Reflects the impact of Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.

² Reflects changes to interest smoothing technology.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

10. 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 other 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 a 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.

11. 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 this 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.

12. BOND COVENANT

The Town was in violation of a covenant contained in the Series 1996 General Obligation Warrants for fiscal year 2014. 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 this violation.

TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

13. CLAIMS RECEIVABLE

Beginning in fiscal year 2014, the Eclectic Water and Sewer Fund received settlement payments related to the case against Harold Whatley and Donald Strickland. These payments began on September 4, 2014 and continued through June 4, 2015. A claims receivable was recorded in the amount of \$262,774 as of September 30, 2013, which represents the total settlement received net of estimated legal expenses. During fiscal year 2014, the Town received payments totaling \$8,044, which reduced the claims receivable balance to \$254,730 as of September 30, 2014. The remaining balance was received in fiscal year 2015.

14. SUBSEQUENT EVENTS

On December 1, 2014, the Town purchased property adjacent to Town Hall in the amount of \$49,000. The purchase was financed through the Town's line of credit.

On December 4, 2014, the Town borrowed \$155,000 from First Community Bank of Central Alabama. The note is due in monthly payments of \$1,171 through December 4, 2029, and has an interest rate of 4.25%. The proceeds of the note were used to pay off the original note with Trustmark and to reduce the line of credit. The note is secured by the municipal building.

15. ACCOUNTING CHANGES AND RESTATEMENTS

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues).

The implementation of GASB 65 resulted in the write-off of bond issuance costs, which resulted in the reduction of beginning net positions for governmental activities at September 30, 2013, by \$59,672.

16. SEWER DEPARTMENT

On April 7, 2014, the Town Council passed a Resolution to transfer the operations of the Sewer Department to the Eclectic Water and Sewer Fund. As a result, capital assets totaling \$691,073, net of accumulated depreciation, were transferred to the Eclectic Water and Sewer Fund. This amount is reported as a capital contribution on the Eclectic Water and Sewer Fund Statement of Revenue, Expenses, and Changes in Net Position.

17. EFFECT OF NEW PRONOUNCEMENTS

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Town.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this Statement is to improve accounting and financial reporting of government pensions. Also, it improves information provided by government employers about financial support for pensions that is provided by other entities. Requirements of this Statement are effective for financial statements whose fiscal year begins after June 15, 2014.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement will improve accounting for mergers and acquisitions among state and local governments by providing guidance specific to the situations and circumstances encountered within the governmental environment. Requirements of this Statement are effective for financial statements whose fiscal year begins after December 15, 2013.

GASB Statement No. 71, *Pension Transition of Contributions Made Subsequent to Measurement Date*. The objective of this Statement is to address an issue regarding application of transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Requirements of this Statement are effective for financial statements whose fiscal year begins after June 15, 2014.

GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.

TOWN OF ECLECTIC, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

17. EFFECT OF NEW PRONOUNCEMENTS (Continued)

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

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, 2014

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|--------------------|--------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 938,200 | \$ 938,200 | \$ 1,046,418 | \$ 108,218 |
| Licenses and permits | 212,000 | 212,000 | 230,806 | 18,806 |
| Intergovernmental | - | - | 17,703 | 17,703 |
| Charges for services | 178,500 | 178,500 | 266,410 | 87,910 |
| Fines and forfeitures | 28,000 | 28,000 | 42,805 | 14,805 |
| Miscellaneous revenues | 36,000 | 36,000 | 86,083 | 50,083 |
| Interest | - | - | 66 | 66 |
| Total revenues | <u>1,392,700</u> | <u>1,392,700</u> | <u>1,690,291</u> | <u>297,591</u> |
| EXPENDITURES | | | | |
| Current operations: | | | | |
| General government | 988,750 | 988,750 | 396,419 | 592,331 |
| Public safety | 280,706 | 280,706 | 810,879 | (530,173) |
| Public works | 46,400 | 46,400 | 175,486 | (129,086) |
| Public welfare | 43,700 | 43,700 | 82,945 | (39,245) |
| Debt service: | | | | |
| Principal retirement | 110,500 | 110,500 | 127,044 | (16,544) |
| Interest charges | - | - | 82,565 | (82,565) |
| Total expenditures | <u>1,470,056</u> | <u>1,470,056</u> | <u>1,675,338</u> | <u>(205,282)</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(77,356)</u> | <u>(77,356)</u> | <u>14,953</u> | <u>92,309</u> |
| OTHER FINANCING SOURCES | | | | |
| Proceeds from capital leases | - | - | 81,914 | 81,914 |
| Transfers in | - | - | 6,810 | 6,810 |
| Total other financing sources | <u>-</u> | <u>-</u> | <u>88,724</u> | <u>88,724</u> |
| Net change in fund balances | <u>(77,356)</u> | <u>(77,356)</u> | <u>103,677</u> | <u>181,033</u> |
| FUND BALANCES - BEGINNING | <u>61,340</u> | <u>61,340</u> | <u>61,340</u> | <u>-</u> |
| FUND BALANCES - ENDING | <u>\$ (16,016)</u> | <u>\$ (16,016)</u> | <u>\$ 165,017</u> | <u>\$ 181,033</u> |

TOWN OF ECLECTIC, ALABAMA
EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA
SCHEDULE OF FUNDING PROGRESS

SCHEDULE OF FUNDING PROGRESS

| Actuarial Valuation Date January 1 | Actuarial Value of Assets (a) | Actuarial Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|---|--|--|--|---------------------------------|----------------------------------|--|
| 09/30/08 | \$ 693,368 | \$ 678,399 | \$ (14,969) | 102.2% | \$ 499,285 | -3.0% |
| 09/30/09 | 677,710 | 691,247 | 13,537 | 98.0% | 631,598 | 2.1% |
| 09/30/10 ¹ | 669,935 | 784,998 | 115,063 | 85.3% | 576,530 | 20.0% |
| 09/30/11 ⁴ | 635,315 | 582,089 | (53,226) | 109.1% | 466,654 | -11.4% |
| 09/30/12 ² | 783,440 | 611,847 | (171,593) | 128.0% | 551,880 | -31.1% |
| 09/30/12 ^{2,3} | 783,440 | 617,735 | (165,705) | 126.8% | 551,880 | -30.0% |
| 09/30/13 ⁵ | 884,132 | 780,591 | (103,541) | 113.3% | 635,635 | -16.3% |
| 09/30/13 ^{3,5} | 884,132 | 788,701 | (95,431) | 112.1% | 635,635 | -15.0% |

¹ Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

² Reflects changes in interest smoothing technology.

³ Reflects the impact of Act 2011-27 as well as Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.

⁴ Reflects changes in actuarial assumptions.

⁵ Reflects implementation of Board Funding Policy.