

CITY OF EAST BREWTON, ALABAMA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

CITY OF EAST BREWTON, ALABAMA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Governing Body	i
FINANCIAL SECTION	
Independent Auditors' Report	1-3
BASIC FINANCIAL STATEMENTS	
Government – Wide Financial Statements	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	6
Reconciliation of Governmental Fund Balances to Net Position of Governmental Activities	7
Statement of Revenues, Expenditures and Changes in Fund Balances	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Notes to the Financial Statements	10 – 25

CITY OF EAST BREWTON, ALABAMA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

TABLE OF CONTENTS (continued)

	<u>Page</u>
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	26
Note to requires supplementary information	27
Schedule of Changes in the Net Pension Liability– Employee Retirement System	28
Schedule of Employer Contributions- Employee Retirement System	29
OTHER SUPPLEMENTARY INFORMATION	
Agency Fund (Cemetery)	30
COMPLIANCE SECTION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31-32

CITY OF EAST BREWTON, ALABAMA

GOVERNING BODY

SEPTEMBER 30, 2016

Name	Title
Terry Clark	Mayor
Ned Sibert	Council Member
Kenneth W. Hultz	Council Member
Ludon Simmons	Council Member
Bob Arrant	Council Member
Byron Palmer	Council Member

SHAREHOLDERS

J. Earl Blackmon, Jr., CPA
B. Vance Kilgore, CPA
Dennis E. Sherrin, CPA
G. Allen Cave, Jr., CPA
Rachel M. Godwin, CPA



Hartmann, Blackmon & Kilgore, P.C.
Certified Public Accountants & Consultants

CITY COUNCIL

Xavier A. Hartmann, III, CPA
Rickett T. Taylor, III, CPA
Sally S. Wagner, CPA
Jerry Gibbons, CPA

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the City Council
City of East Brewton, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of East Brewton, Alabama, as of September 30, 2016, and for the year then ended, and the notes to the financial statements which collectively comprise the City of East Brewton, Alabama's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

City of East Brewton, Alabama's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, each major fund, and the aggregate remaining fund information of City of East Brewton, Alabama 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 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 Schedule- General Fund on page 26, Schedule of Changes in the Net Pension Liability-Employee Retirement System on page 28 and Schedule of Employer Contributions- Employee Retirement System on page 29 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of East Brewton, Alabama's basic financial statements. The supplementary information on page 30 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial

statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Hartmann, Backmon & Kilgore, P.C.

Certified Public Accountants

February 24, 2017
Brewton, Alabama

CITY OF EAST BREWTON, ALABAMA

STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 100,974
Receivables, net	86,919
Other assets	21,379
Non-depreciable capital assets	1,194,179
Depreciable capital assets, net	<u>1,238,263</u>
TOTAL ASSETS	<u>2,641,714</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on defeasance of debt	33,565
Pension expense and deferred outflows of resources related to pensions	<u>124,818</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>158,383</u>
LIABILITIES	
Accounts payable and accrued expenses	109,169
Net pension liability	786,132
Long-term liabilities	
Due within one year:	
Bonds and warrants payable	99,662
Notes payable	161,266
Due in more than one year:	
Bonds and warrants payable	990,731
Notes payable	<u>20,182</u>
TOTAL LIABILITIES	<u>2,167,142</u>
NET POSITION	
Net investment in capital assets	1,214,348
Restricted	18,602
Unrestricted	<u>(599,995)</u>
TOTAL NET POSITION	<u>\$ 632,955</u>

See independent auditors' report and notes to the financial statements.

CITY OF EAST BREWTON, ALABAMA

STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government					
Governmental activities:					
General	\$ 731,897	\$ 162,403	\$ -	\$ -	\$ (569,494)
Public safety	415,946	75,975	-	46,670	(293,301)
Public works	499,446	377,351	-	-	(122,095)
Payment to Water Board	53,229	-	-	-	(53,229)
Interest on long-term debt	35,526	-	-	-	(35,526)
Total governmental activities	<u>\$ 1,736,044</u>	<u>\$ 615,729</u>	<u>\$ -</u>	<u>\$ 46,670</u>	<u>(1,073,645)</u>
General revenues:					
Taxes					931,833
Interest					723
Other					103,697
Total general revenues					<u>1,036,253</u>
Change in net position					(37,392)
Net position, beginning of year					670,347
Net position, ending					<u>\$ 632,955</u>

See independent auditors' report and notes to the financial statements.

CITY OF EAST BREWTON, ALABAMA

FUND BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	<u>Major Fund</u>	<u>Nonmajor Funds</u>	
	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
ASSETS			
Cash	\$ 96,540	\$ 4,434	\$ 100,974
Receivables	86,919	-	86,919
Other	21,379	-	21,379
TOTAL ASSETS	<u>\$ 204,838</u>	<u>\$ 4,434</u>	<u>\$ 209,272</u>
LIABILITIES			
Accounts payable	\$ 105,576	\$ -	\$ 105,576
Total liabilities	<u>105,576</u>	<u>-</u>	<u>105,576</u>
FUND BALANCES			
Restricted			
Street construction and improvements	-	4,434	4,434
Unassigned	99,262	-	99,262
Total fund balances	<u>99,262</u>	<u>4,434</u>	<u>103,696</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 204,838</u>	<u>\$ 4,434</u>	<u>\$ 209,272</u>

See independent auditors' report and notes to the financial statements.

CITY OF EAST BREWTON, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2016

Fund balances as reported on page 6	\$ 103,696
Net Position reported for governmental activities in the Statement of Net Position (page 4) are different from Fund Balances for governmental activities because:	
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements.	5,010,722
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.	(2,578,280)
Long-term liabilities are not due and payable in the current period and therefore are not reported in fund financial statements.	
Bonds and warrants payable	(923,550)
Original issue discount on warrant	9,332
Notes payable	(357,623)
Accrued interest on long-term debt	(3,593)
Deferred outflows of resources related to pensions are applicable to future periods and therefore, are not reported in the governmental funds.	124,818
Net pension liability is not due and payable in the current period and, therefore, is not reported in the fund financial statements.	(786,132)
Deferred loss on debt defeasance is amortized for government-wide reporting but not for fund financial statements.	<u>33,565</u>
Net Position of Governmental Activities as reported on page 4	<u><u>\$ 632,955</u></u>

See independent auditors' report and notes to the financial statements.

CITY OF EAST BREWTON, ALABAMA

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

	<u>Major Fund</u>	<u>Nonmajor Funds Other</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>	
REVENUES			
Taxes	\$ 904,343	\$ 28,072	\$ 932,415
Licenses and permits	146,303	-	146,303
Fines and forfeitures	75,835	-	75,835
Garbage fees	377,351	-	377,351
Rentals	6,800	-	6,800
Interest	725	-	725
Other	159,223	-	159,223
Total revenues	<u>1,670,580</u>	<u>28,072</u>	<u>1,698,652</u>
EXPENDITURES			
General government	498,216	-	498,216
Public safety	612,941	-	612,941
Public works	395,860	25,705	421,565
Payment to Water Board	53,229	-	53,229
Capital outlay	106,513	-	106,513
Debt service payments			
Principal	138,025	-	138,025
Interest	31,236	-	31,236
Total expenditures	<u>1,836,020</u>	<u>25,705</u>	<u>1,861,725</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>(165,440)</u>	<u>2,367</u>	<u>(163,073)</u>
OTHER FINANCIAL SOURCES (USES)			
Proceeds from issuance of long-term debt	150,000	-	150,000
Transfers to other funds	-	(12,016)	(12,016)
Transfers from other funds	12,016	-	12,016
Total other financial sources (uses)	<u>162,016</u>	<u>(12,016)</u>	<u>150,000</u>
Net change in fund balances	(3,424)	(9,649)	(13,073)
Fund balances at beginning of year	<u>102,686</u>	<u>14,083</u>	<u>116,769</u>
FUND BALANCES AT END OF YEAR	<u>\$ 99,262</u>	<u>\$ 4,434</u>	<u>\$ 103,696</u>

See independent auditors' report and notes to the financial statements.

CITY OF EAST BREWTON, ALABAMA

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

Net change in fund balances - total governmental funds, page 8	\$ (13,073)
<p>Amounts reported for governmental activities in the Statement of Activities (Page 5) are different from the Statements of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds because:</p>	
<p>Some expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Pension expense	4,130
Amortization of defeasance of debt	(3,357)
<p>Bond discounts are reported as current financial uses to governmental funds while governmental activities amortize them over the life of the debt.</p>	
Amortization expense for the year	(934)
<p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.</p>	
Capital outlays for the year	106,513
Depreciation expense for the year	(118,696)
<p>Bond and other debts proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.</p>	
Principal payments - long term debt	138,025
Proceeds from issuance of long term debt	<u>(150,000)</u>
Change in Net Position of Governmental Activities, page 5	\$ <u>(37,392)</u>

See independent auditors' report and notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF EAST BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of East Brewton, Alabama (the City) was incorporated under the laws and statutes of the State of Alabama in 1918. The City operates under a Mayor - Council form of government.

A. REPORTING ENTITY

The financial statements of the City have been prepared in conformity with the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB).). In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 61, which are included in the City's reporting entity.

B. BASIS OF PRESENTATION – GOVERNMENT-WIDE AND FUND LEVEL

Government-wide

The basic financial statements include government-wide and fund financial statements. The reporting model focuses on the City as a whole and major funds. Government-wide and fund financial statements categorize primary activities as governmental or business type. In the Statement of Net Position, governmental activities (a) are presented on a consolidated basis, and (b) reflect, full accrual accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. As a general rule, eliminations have been made to minimize the double-counting of internal activities.

The Statement of Activities reflects both the gross and net cost per functional category (public works, police, fire, etc.) which are otherwise being supported by general government revenues (taxes, licenses and permits, etc.). The Statement of Activities reduces gross expenses, including depreciation, by related program revenues. The program revenues must be directly associated with a function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Fund Level

The governmental fund level financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since governmental fund level financial statements are on a different basis of accounting and measurement focus than governmental activities in the government-wide presentation, a summary is presented to explain adjustments necessary to reconcile fund level statements to the government-wide presentation.

The accounts of the City are organized on the basis of funds which are each considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. Government resources are allocated to and accounted for in individual funds based

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CITY OF EAST BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into broad fund categories as follows:

The *General Fund* accounts for all revenues and expenditures of the City except those which must be accounted for by other funds, and it is the largest accounting activity of the City. These resources together with the interfund revenues finance all the current operations of the general governmental units which basically benefit all the taxpayers or citizenry as a whole. In addition, it underwrites any deficits in other funds. The general fund is a major fund.

Special Revenue Funds are used to account for the revenues derived from specific taxes or other earmarked revenue sources. They are usually required by statute or local ordinance to finance particular activities or functions. Special revenue funds used by the City are considered non-major and are as follows:

- Four-cent and Five-cent Gasoline Tax – This fund accounts for tax revenues to be used to pay for the cost of construction, improvement, maintenance and supervision of highways, bridges and streets, including the retirement of bonds for the payment of which such revenues have been or may hereafter be pledged.
- Seven-cent Gasoline Tax – This fund accounts for tax revenues to be used to pay for the cost of electricity for street lights and the cost of operating the concrete and storm sewer maintenance, street sweeping, street repair, ditch cleaning, pipe-laying and heavy equipment departments.

Agency Fund is used to account for assets held by the City as an agent for individuals, private organizations, or governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, that is, when they become *measurable and available*. *Measurable* means the amount of the transaction can be determined and *available* means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers sales taxes and similar taxes collected by an intermediary at year end but not remitted until the following fiscal year to be available and, therefore recognized

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CITY OF EAST BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

as revenues if collected within 60 days of the year end. Revenue which is not both measurable and available includes licenses, permits and fines. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt which is recognized when due.

Impact of Recently Issued and Adopted Accounting Principles

On October 1, 2012, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure. The adoption of GASB Statement No. 62 did not have any impact on the City's financial statements.

On October 1, 2012, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Balance Sheet is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources.

On October 1, 2013, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows of resources, deferred inflows of resources or current period outflows (expenses) and inflows (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, *Elements of Financial Statements*.

Deferred outflows of resources are consumptions of net position by the City that are applicable to a future reporting period.

Deferred inflows of resources are acquisitions of net position by the City that are applicable to a future reporting period.

Outflows of resources are consumptions of net position by the City that are applicable to the reporting period.

Inflows of resources are acquisitions of net position by the City that are applicable to the reporting period.

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CITY OF EAST BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During the year ended September 30, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements create disclosure and reporting requirements that may or may not be consistent with the basis used for funding the plan. As a result, a net position liability equal to the difference between the actuarial present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the pension plan's fiduciary net position was recognized. Additionally, pension expense and deferred outflows of resources and deferred inflows of resources were recognized from changes in the components of the net pension liability. See Note 5 for more information.

During the year ended September 30, 2016, the City implemented 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 Statement No. 67 and 68, was issued 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. The requirements of GASB Statement No. 73 were applied resulting in no significant impact to the financial statements.

During the year ended September 30, 2016, the City implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued to identify the hierarchy of generally accepted accounting principles. The requirements of GASB Statement No. 76 were applied retroactively resulting in no significant impact to the financial statements.

Recently Issued Accounting Principles

GASB Statement No. 77, *Tax Abatement Disclosures*, was issued to improve financial reporting by giving users of the financial statements essential information that is not consistently or comprehensively reported to the public at the present. The requirements of GASB Statement No. 77 are effective for fiscal year 2017. The City is currently evaluating the impact that this statement may have on its financial statements.

GASB Statement No. 82, *Pension Issues- an amendment of GASB Statements No. 67, No. 68, and No. 73*, was issued to address pension issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of GASB Statement No. 82 are effective for fiscal year 2017. The City is currently evaluating the impact that this statement may have on its financial statements.

(continued)

CITY OF EAST BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. CASH AND CASH EQUIVALENTS

The City's policy is to limit the investment of its excess funds to time deposits, money market funds and certificates of deposit. The City considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents.

E. REVENUE RECOGNITION

Ad valorem taxes are assessed on property valuations and statutory liens are attached to such properties as of October 1st each year. These taxes are due October 1st, but do not become delinquent until December 31st, after which penalty fees are levied. If taxes and penalties are not paid by June 30th of the following year, the property is then sold for taxes due and remittance is made at this time by the Escambia County Tax Collector to the City of East Brewton. All tax levies are collected and remitted to the City of East Brewton by the end of the City's fiscal year; consequently, the financial statements do not have accounts receivable or allowance for uncollected tax levies.

Other material revenue which is susceptible to accrual includes gross receipts, interest income and state share revenue. Revenue which is not both available and measurable and is thus not susceptible to accrual includes property and franchise taxes, licenses and permits, and fines and forfeitures.

F. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets tangible in nature, with an initial individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the date of donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed.

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CITY OF EAST BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation of all exhaustible capital assets except infrastructure is charged as an expense against their operations or functions whereas the infrastructure depreciation is unallocated.

Property, plant and equipment of the primary government are depreciated using the straight-line method over the estimated useful lives as follows:

Buildings and improvements	15-40 years
Vehicles and equipment	5-10 years
Furniture and fixtures	5 years

G. NET POSITION AND EQUITY CLASSIFICATIONS

Government-wide Financial Statements

GASB Statement 63 requires the classification of net position (formerly net assets in GASB Statement 34) into three components:

- Net investment in capital assets—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.

If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather that portion of the debt or deferred inflows of resources is included in the same net position component as the unspent proceeds.

- Restricted net position—Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets
- Unrestricted net position—Consists of the net amounts of assets, liabilities, deferred outflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position

(continued)

CITY OF EAST BREWTON, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Fund Financial Statements

The fund equity of the governmental fund financial statements is classified as fund balance. In March 2009, GASB adopted a standard that establishes a hierarchy based on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds.

Fund Balance is classified into one of the following components:

- Restricted fund balance – Consists of fund balances with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; (2) or the City's own laws through its enabling legislation and other provisions of its laws and regulations.
- Committed fund balance – Consists of fund balances that are useable only for specific purposes by formal action of the government's highest level of decision making authority. The City's highest level of decision making lies with the Mayor of the City and the City Council. In order to establish, modify or rescind a fund balance commitment, the Mayor and City Council must pass a law by formal action committing the funds.
- Assigned fund balance – Consists of fund balances that are intended to be used for specific purposes. The Mayor and the City Council have the power to assign fund balance amounts to specific purposes. The governing body must vote to grant authorization of assigned fund balances to specific purposes.
- Unassigned fund balances – All other fund balances that do not meet the definition of "restricted, committed or assigned fund balances."
- Nonspendable fund balance—Consists of amounts that are not in a spendable form or are required to be maintained intact.

The City considers restricted fund balances to have been spent when both restricted and unrestricted fund balances are available. Also, the City considers assigned and committed fund balances to have been spent when unassigned or unrestricted amounts are available.

(continued)

CITY OF EAST BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. INSURANCE

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which it carries commercial insurance. There were no instances of settlements that exceeded insurance coverage in the last three fiscal years.

I. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

NOTE 2 DEPOSITS AND INVESTMENT RISK

At September 30, 2016, the City had investments in U.S. Treasury money market mutual funds through its trustee agreement for debt sinking funds. The fair value was \$18,602. The average maturity portfolio was 21 days.

Investment Risk - The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – State statutes authorize the City's investments. The City is authorized to invest in U.S. Government obligations and its agencies or instrumentalities, direct obligations of the state, and SEC registered mutual funds holding like securities. The City has no investment policy that further limits investment choices. As of September 30, 2016, the City's mutual investments' principal stability rating was AAAM as reported by Standard & Poor's.

Custodial Credit Risk - The City is a participant in the Security for Alabama Funds Enhancement (SAFE) Program, a multiple financial institution collateral pool, administered by the State of Alabama.

The program, by law, provides administration of pledged collateral coverage for all governments and agencies in the state and requires qualified financial institutions to provide collateral to the administrator adequate to secure all deposits of public funds in that financial institution. The State guarantees deposits identified as "public funds" will be adequately secured by insurance or collateral. Any collateral shortages of one financial institution are assessed to other member financial institutions.

CITY OF EAST BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 3 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended September 30, 2016:

	Balance 9/30/15	Additions	Retirements	Balance 9/30/16
<u>Governmental Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 1,194,179	\$ -	\$ -	\$ 1,194,179
Capital assets subject to depreciation				
Buildings and improvements	1,593,347	36,000	-	1,629,347
Machinery and equipment	1,505,863	62,882	-	1,568,745
Office furniture and equipment	76,020	-	-	76,020
Vehicles	534,800	7,631	-	542,431
Total	<u>3,710,030</u>	<u>106,513</u>	<u>-</u>	<u>3,816,543</u>
Less accumulated depreciation				
Buildings and improvements	619,862	43,469	-	663,331
Machinery and equipment	1,427,341	29,880	-	1,457,221
Office furniture and equipment	76,020	-	-	76,020
Vehicles	336,361	45,347	-	381,708
Total Accumulated Depreciation	<u>2,459,584</u>	<u>118,696</u>	<u>-</u>	<u>2,578,280</u>
Net Capital Assets	<u>\$ 2,444,625</u>	<u>\$ (12,183)</u>	<u>\$ -</u>	<u>\$ 2,432,442</u>

Depreciation expense of \$118,696 was charged to general government under governmental activities for the year ended September 30, 2016.

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

NOTE 4 LONG-TERM DEBT

The long-term debt of the City included the following at September 30, 2016:

The principal maturities and related interest requirements for the long-term debt for the next five fiscal years are as follows:

Note payable - bank, monthly installments of \$717, including interest at 4.74%, secured by equipment, maturing in 2017	\$ 12,424
Note payable - bank, monthly installments of \$1,049, including interest at 5.25%, secured by equipment, maturing in 2019	27,543
Note payable - bank, monthly installments of \$664, including interest at 4.250%, secured by equipment, maturing in 2018	6,480
Note payable - bank, two payments of \$68,725, including variable interest, secured by real and personal property, maturing in 2017	135,000
2012 General Obligation Warrants payable in annual installments of \$80,000 to \$105,000 through August 1, 2026 with interest at 1.00% to 2.60% payable February 1 and August 1, maturing in 2024	965,000
2014 General Obligation Warrants payable in annual installments of \$1,159.11 through October 10, 2029 with interest at 3.32% payable monthly, maturing in 2029	<u>134,726</u>
Total long-term debt	<u><u>\$ 1,281,173</u></u>

Fiscal year ending September 30	Principal	Interest	Total
2017	\$ 260,928	\$ 28,551	\$ 289,479
2018	116,201	23,569	139,770
2019	104,353	21,400	125,753
2020	105,673	19,439	125,112
2021	108,530	17,417	125,947
2022-2026	565,849	47,458	613,307
2027-2030	<u>19,639</u>	<u>503</u>	<u>20,142</u>
Total	<u><u>\$ 1,281,173</u></u>	<u><u>\$ 158,337</u></u>	<u><u>\$ 1,439,510</u></u>

(continued)

CITY OF EAST BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 4 LONG-TERM DEBT (continued)

GOVERNMENTAL ACTIVITIES	Balance 9/30/15	Additions	Reductions	Balance 9/30/16	Amounts due within one year
Warrants and notes payable					
General obligation warrants	\$ 1,196,666	\$ -	\$ 96,941	\$ 1,099,725	\$ 99,662
Warrant discount	(10,265)	-	933	(9,332)	-
Notes payable	72,531	150,000	41,083	181,448	161,266
Total warrants and notes payable	<u>\$ 1,258,932</u>	<u>\$ 150,000</u>	<u>\$ 137,091</u>	<u>\$ 1,271,841</u>	<u>\$ 260,928</u>

The various debt indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of moneys through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverage. The City is in compliance with all such significant financial limitations and restrictions.

NOTE 5 EMPLOYEE RETIREMENT SYSTEM

Plan Description

The City's defined benefit pension plan provides retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Employees Retirement System of Alabama (RSA), a cost sharing multiple-employer pension plan. The State of Alabama has the authority to establish and amend the benefit provisions of the plans that participate. RSA issues a publicly available financial report that includes financial statements and required supplementary information of the plan. The report may be obtained by contacting the Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150.

The RSA 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 to all cities, counties, towns and quasi public organizations. The responsibility for general administration and operation of the RSA is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Utilities authority to accept or reject various cost-of-living adjustments granted to retirees.

RSA issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained at www.rsa-al.gov.

(continued)

CITY OF EAST BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 5 EMPLOYEE RETIREMENT SYSTEM (continued)

As established by state statute, all full-time employees of the City must participate in the pension plan from the date they are hired. Contributions made by an employee vest immediately and contributions made by the City vest after 10 years of full-time employment. An employee who leaves the employment of the City is entitled to his or her contributions and the City's contributions if vesting requirements are satisfied. During its 2012 session, the Alabama Legislature passed and the Governor signed into law changes in the pension plan creating a Tier 2 employee. Employees hired prior to January 1, 2013 (Tier 1 employees) must contribute 5% of his or her gross earnings to the pension plan. Employees hired on or after that date (Tier 2 employees) will contribute on gross earnings at rate of 6%.

A Tier 1 employee may retire after 25 years of credited service and receive pension benefits equal to 2.0125% of the employee's average final salary multiplied times years of credited service. A Tier 2 employee may retire after attainment of age 62 and ten years of service years and with benefits equal to 1.65% of the employee's average final salary multiplied times years of credited service. Average final salary for Tier 1 employees is defined as the average of the three highest years' salary out of the last ten years of service. Average final salary for Tier 2 employees is defined as the average of the five highest years' salary out of the last ten years of service. The pension plan also provides death benefits and disability benefits as determined by state statutes.

The City's contractually required contribution rate for the year ended September 30, 2016, was 16.07% for Tier 1 employees, and 13.85% for Tier 2 employees. The contribution requirements of plan members and the City is established and may be amended by RSA. These required contribution rates are based upon the actuarial valuation dated September 30, 2015, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan were \$70,591 and \$66,138 for the years ended September 30, 2016 and 2015, respectively.

Net Pension Liability

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

(continued)

CITY OF EAST BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 5 EMPLOYEE RETIREMENT SYSTEM (continued)

	Expected	Actual
(a) Total Pension Liability as of September 30, 2014	\$ 1,974,638	\$1,991,470
(b) Entry Age Normal Cost for the period October 1, 2014 to September 30, 2015	31400	31,400
(c) Actual Benefit Payments & Refunds for October 1, 2014 to September 30, 2015	<u>(156,458)</u>	<u>(156,458)</u>
(d) Total Pension Liability as of September 30, 2015 [(a) x 1.08] + (b) - [(c) x (1.04)]	<u>\$ 2,001,293</u>	<u>\$2,019,471</u>
(e) Difference between Expected and Actual Experience (Gain)/Loss		<u>\$ 18,178</u>

Actuarial Assumptions - The total pension liability in the September 30, 2013, actuarial valuation was determined as part of actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return (net of pension plan investment expense), (b) projected salary increases ranging from 3.75% to 7.25% per year, and an inflation component of 3%. Mortality rates for RSA were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2013, valuation were based on the results of an investigation of the economic and demographic experience for the RSA 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 for each major asset class are as follows on the chart on the following page.

(continued)

CITY OF EAST BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 5 EMPLOYEE RETIREMENT SYSTEM (continued)

	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return*</u>
Fixed Income	25.0%	5.0%
U.S. Large Stocks	34.0%	9.0%
U.S. Mid Stocks	8.0%	12.0%
U.S. Small Stocks	3.0%	15.0%
Inter'ntl Developed Mkt Stks	15.0%	11.0%
Inter'ntl Emerging Mkt Stks	3.0%	16.0%
Real Estate	10.0%	7.5%
Cash	2.0%	1.5%

*Includes assumed rate of inflation of 2.5%

Discount Rate - The discount rate used to measure the total pension liability was the long term rate of return, 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the RSA 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 pan 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.

(continued)

CITY OF EAST BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 5 EMPLOYEE RETIREMENT SYSTEM (continued)

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at September 30, 2014	\$ 1,974,638	\$ 1,282,861	\$ 691,777
Changes for the year:			
Service cost	31,400	-	31,400
Interest	151,713	-	151,713
Differences between expected and actual experience	18,178	-	18,178
Contributions - employer	-	64,778	(64,778)
Contributions - employee	-	21,870	(21,870)
Net investment income	-	14,838	(14,838)
Benefit payments, including refunds of employee contributions	(156,458)	(156,458)	-
Transfers among employers	-	5,450	(5,450)
Net Changes	44,833	(49,522)	94,355
Balances at September 30, 2015	<u>\$ 2,019,471</u>	<u>\$ 1,233,339</u>	<u>\$ 786,132</u>

Sensitivity of the net pension liability to changes in the discount rate - The following table presents the Board's net pension liability calculated using the discount rate of 8%, as well as what the Utilities' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7.0%)	Current Rate (8.0%)	1% Increase (9.0%)
Net pension liability	\$ 982,917	\$ 786,132	\$ 618,384

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the RSA prepared as of September 30, 2015. The auditor's report dated October 15, 2015 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.

(continued)

CITY OF EAST BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 5 EMPLOYEE RETIREMENT SYSTEM (continued)

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

For the year ended September 30, 2016, the City recognized pension expense of \$70,591. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 14,542
Changes of assumptions	-
Net difference between projected and actual earnings on plan investments	39,476
Employer contributions subsequent to measurement date	70,800
Total	<u>\$ 124,818</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized as an increase (decrease) in pension expense as follows:

<u>Year Ending September 30,</u>	
2017	\$ 81,914
2018	11,114
2019	11,112
2020	20,678
	<u>\$ 124,818</u>

NOTE 6 SUBSEQUENT EVENTS

The City has evaluated subsequent events through February 24, 2017, the date which the financial statements were available to be issued. There were no material subsequent events which require disclosure at September 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EAST BREWTON, ALABAMA
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts	Actual	Variance
REVENUES			
Taxes	\$ 869,265	\$ 904,343	\$ 35,078
Licenses and permits	139,073	146,303	7,230
Fines and forfeitures	74,332	75,835	1,503
Garbage fees	374,215	377,351	3,136
Rentals	4,800	6,800	2,000
Interest	-	725	725
Other	50,207	159,223	109,016
Total revenues	<u>1,511,892</u>	<u>1,670,580</u>	<u>158,688</u>
EXPENDITURES			
General government	543,163	498,216	44,947
Public safety	370,188	612,941	(242,753)
Public works	445,108	395,860	49,248
Payment to Water Board	-	53,229	(53,229)
Capital outlay	-	106,513	(106,513)
Debt service payments			
Principal	153,433	138,025	15,408
Interest	-	31,236	(31,236)
Total expenditures	<u>1,511,892</u>	<u>1,836,020</u>	<u>(324,128)</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>-</u>	<u>(165,440)</u>	<u>(165,440)</u>
OTHER FINANCIAL SOURCES (USES)			
Proceeds from issuance of long-term debt	-	150,000	150,000
Transfers from other funds	-	12,016	12,016
Total other financial sources (uses)	<u>-</u>	<u>162,016</u>	<u>162,016</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>(3,424)</u>	<u>\$ (3,424)</u>
Fund balances at beginning of year		<u>102,686</u>	
FUND BALANCES AT END OF YEAR		<u>\$ 99,262</u>	

See independent auditors' report and note to required supplemental information.

CITY OF EAST BREWTON, ALABAMA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2016

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

Although no legal requirement to establish a budget exists, the City Council follows these procedures in establishing the budgets:

- (1) Each September, the Mayor submits to the City Council a proposed working budget for the fiscal year commencing the following October 1. The budget includes proposed expenditures and the means of financing them for the upcoming year.
- (2) Council meetings are conducted to obtain taxpayer comments.
- (3) The budget is legally enacted through council action.
- (4) Reports are submitted to the City Council showing approved budget and actual operations.
- (5) Formal budgetary integration is employed as a management control device during the year for the General Fund
- (6) Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

CITY OF EAST BREWTON

SCHEDULE OF CHANGES IN THE NET POSITION LIABILITY
LAST 10 FISCAL YEARS ENDING SEPTEMBER 30

	2015	2014
Total pension liability		
Service cost	\$ 31,400	\$ 33,648
Interest	151,713	150,508
Changes of benefit terms	-	-
Differences between expected and actual experience	18,178	-
Benefit payments, including refunds of employee contribu	(156,458)	(181,724)
Net change in total pension liability	<u>44,833</u>	<u>2,432</u>
Total pension liability- beginning	<u>1,974,638</u>	<u>1,972,206</u>
Total pension liability- ending (a)	<u><u>\$ 2,019,471</u></u>	<u><u>\$ 1,974,638</u></u>
Plan fiduciary net position		
Contributions- employer	\$ 64,778	\$ 47,329
Contributions- member	21,870	20,790
Net investment income	14,838	143,519
Benefit payments, including refunds of employee	(156,458)	(181,724)
Transfers among employers	<u>5,450</u>	<u>-</u>
Net change in plan fiduciary net position	(49,522)	29,914
Plan net position- beginning	<u>1,282,861</u>	<u>1,252,947</u>
Plan net position- ending (b)	<u><u>\$ 1,233,339</u></u>	<u><u>\$ 1,282,861</u></u>
Net pension liability (asset)- ending (a) - (b)	\$ 786,132	\$ 691,777
Plan fiduciary net position as a percentage of the total pension liability	61.07%	64.97%
Covered-employee payroll *	440,992	388,674
Net pension liability (asset) as a percentage of covered-employee payroll	94.75%	177.98%

* Employer's covered-payroll during the measurement period is the total covered payroll. For FY2016, 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.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

CITY OF EAST BREWTON, ALABAMA
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST 10 YEARS ENDING SEPTEMBER 30

	2016	2015
Actuarially determined contribution*	\$ 70,800	\$ 61,658
Contributions in relation to the actuarially determined contribution*	<u>70,800</u>	<u>61,658</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll**	440,992	388,674
Contributions as a percentage of covered-employee payroll	16.05%	15.86%

*The amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. The Schedule of Employer Contributions is based on the 12 month period of the underlying financial statement.

** Employer's covered-payroll for FY2016 is the total covered payroll for the 12 month period of the underlying financial statement.

Notes to Schedule

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

Methods and assumption 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

*If the employer's financial reporting period end is other than September 30, 2016, additional assumptions should be reported for the basis of determining the portion of the contribution prior to or subsequent to this period.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

OTHER SUPPLEMENTARY INFORMATION

CITY OF EAST BREWTON, ALABAMA
 AGENCY FUND - CEMETERY
 SEPTEMBER 30, 2016

	<u>Balance October 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2016</u>
ASSETS				
Cash	\$ 2,207	\$ -	\$ -	\$ 2,207
TOTAL ASSETS	<u>\$ 2,207</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,207</u>
LIABILITIES				
Due to agency	\$ 2,207	\$ -	\$ -	\$ 2,207
TOTAL LIABILITIES	<u>\$ 2,207</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,207</u>

COMPLIANCE SECTION

SHAREHOLDERS

J. Earl Blackmon, II, CPA
B. Vance Kilgore, CPA
Dennis E. Sherrin, CPA
G. Allen Cave, Jr., CPA
Rachel M. Godwin, CPA



Hartmann, Blackmon & Kilgore, P.C.

Certified Public Accountants & Consultants

OF COUNSEL

Kasler A. Hartmann, III, CPA
Rucker T. Taylor, III, CPA
Sally S. Wagner, CPA
Jentry Gibbons, CPA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Members
of the City Council
City of East Brewton, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of East Brewton, Alabama (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of East Brewton Alabama's basic financial statements, and have issued our report thereon dated February 24, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of East Brewton Alabama's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting described in the following paragraph that we consider to be a significant deficiency.

Segregation of Duties

Our study and evaluation disclosed that because of the limited size of your accounting staff, your organization has limited segregation of duties. A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion. While we recognize that your organization is not large enough to permit an adequate segregation of duties in all respects, it is important that you be aware of this condition.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hartmann, Blackmon & Kilgore, P.C.

Certified Public Accountants

February 24, 2017
Brewton, Alabama