City of Daleville

FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

City of Daleville
Table of Contents
September 30, 2016

TAB: REPORT

Independent Auditors' Report 1

TAB: FINANCIAL STATEMENTS

Statement of Net Position 5

Statement of Activities 6

Balance Sheet – Governmental Funds 7

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 8

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds 9

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities 10

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund 11

Statement of Net Position – Proprietary Funds 12

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds 13

Statement of Cash Flows – Proprietary Funds 14

Notes to Financial Statements 16

REQUIRED SUPPLEMENTAL INFORMATION

Schedule of Changes in Net Pension Liability 42

Schedule of Employer Contributions 43

SUPPLEMENTAL INFORMATION

Schedule of Receipts and Expenditures of Funds Related to the Water and Sewer Revenue Bonds Series 2011 44

Bond Covenant Information Required by Bond Trustee 45

Description of Non-Major Governmental Funds 47

Combining Balance Sheet – Nonmajor Governmental Funds 48

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds 49

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 50

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the City Council
City of Daleville, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Daleville, 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'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 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 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.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
Business-Type Activities	Qualified
General Fund	Unmodified
Debt Service Fund	Unmodified
Water and Sewer Fund	Unmodified
Nonmajor Fund – Rescue Squad	Qualified

Basis for Qualified Opinion on Business-Type Activities and Nonmajor Fund – Rescue Squad

Because of the inadequacy of accounting records, we were unable to obtain sufficient appropriate audit evidence for certain charges for services reported as business-type activities and nonmajor fund – rescue squad accounted for in the City's rescue squad fund. The supporting documentation for particular charges was not maintained by the rescue squad's personnel and could not be regenerated to provide sufficient appropriate audit evidence for the reported balance as of year-end. The total net amount reported as charges for services as of September 30, 2016 was $225,197.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the "Basis for Qualified Opinion on Business-Type Activities and Nonmajor Fund – Rescue Squad" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position and cash flows of the business-type activities and nonmajor fund – rescue squad of the City as of September 30, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City as of September 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund 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 the Management Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 the 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 also require that the Schedule of Changes in Net Pension Liability on page 42 and Schedule of Employer Contributions on page 43 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 the City's basic financial statements. The Schedule of Receipts and Expenditures of Funds Related to the Water and Sewer Revenue Bonds Series 2011 and Bond Covenant Information Required by Bond Trustee and the combining nonmajor governmental fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Receipts and Expenditures of Funds Related to the Water and Sewer Revenue Bonds Series 2011 and Bond Covenant Information Required by Bond Trustee and combining nonmajor governmental fund financial statements are the responsibility of management and were derived from and relate 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 Schedule of Receipts and Expenditures of Funds Related to the Water and Sewer Revenue Bonds Series 2011 and Bond Covenant Information Required by Bond Trustee and the combining nonmajor governmental fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants
Enterprise, Alabama

June 29, 2017

City of Daleville
Statement of Net Position
September 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 3,744,210	$ 1,712,811	$ 5,457,021
Receivables, net	393,705	180,160	573,865
Unbilled revenue	-	18,720	18,720
Internal balances	39,852	(39,852)	-
Prepaid expenses	69,017	-	69,017
Net pension asset	353,390	58,587	411,977
Restricted cash and cash equivalents	235,617	-	235,617
Land and other nondepreciable assets	975,038	84,791	1,059,829
Capital assets, net of depreciation	4,782,140	7,295,027	12,077,167
Total assets	10,592,969	9,310,244	19,903,213
Deferred Outflows of Resources			
Deferred loss on refunding	300,745	-	300,745
Deferred outflows related to pension	141,293	46,058	187,351
Total deferred outflows of resources	442,038	46,058	488,096
Liabilities			
Accounts payable	232,461	42,385	274,846
Accrued expenses	83,613	18,118	101,731
Cash bonds payable	32,217	-	32,217
Due to other governments	-	222	222
Accrued interest	91,418	7,274	98,692
Compensated absences	46,799	6,684	53,483
Bonds payable			
Due within one year	150,000	85,000	235,000
Due in more than one year, net of unamortized loss on refunding	6,923,212	2,209,938	9,133,150
Total liabilities	7,559,720	2,369,621	9,929,341
Deferred Inflows of Resources			
Deferred inflows related to pension	250,601	64,924	315,525
Unearned revenue - property taxes	228,773	-	228,773
Total deferred inflows of resources	479,374	64,924	544,298
Net Position			
Net investment in capital assets	(1,015,289)	5,084,880	4,069,591
Restricted	440,319	-	440,319
Unrestricted	3,570,883	1,836,879	5,407,762
Total net position	$ 2,995,913	$ 6,921,759	$ 9,917,672

The accompanying footnotes are an integral part of these financial statements.

City of Daleville
Statement of Activities
For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General government	$ 1,174,035	$ 431,255	$ -	$ 468,212
Public safety	1,701,598	333,459	-	13,164
Health and sanitation	-	415,526	-	-
Culture and recreation	556,628	-	11,160	-
Streets and roads	724,703	-	-	-
Interest	266,988	-	-	-
Total governmental activities	4,423,952	1,180,240	11,160	481,376
Business-type Activities:				
Water works	1,053,897	1,171,247	-	-
Rescue squad	120,366	181,526	-	-
Total business-type activities	1,174,263	1,352,773	-	-
Total primary government	$ 5,598,215	$ 2,533,013	$ 11,160	$ 481,376

General Revenues	
Taxes:	
Property taxes	
Sales taxes	
Gasoline taxes	
Other taxes	
Rental income	
Investment earnings	
Miscellaneous	
Transfers	
Total general revenues and transfers	
Change in Net Position	
Net Position - beginning	
Net Position - ending	

The accompanying footnotes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (274,568)	$ -	$ (274,568)
(1,354,975)	-	(1,354,975)
415,526	-	415,526
(545,468)	-	(545,468)
(724,703)	-	(724,703)
(266,988)	-	(266,988)
(2,751,176)	-	(2,751,176)
-	117,350	117,350
-	61,160	61,160
-	178,510	178,510
(2,751,176)	178,510	(2,572,666)
244,374	-	244,374
2,358,873	-	2,358,873
141,860	-	141,860
333,775	-	333,775
107,093	-	107,093
15	221	236
537,577	-	537,577
320,848	(320,848)	-
4,044,415	(320,627)	3,723,788
1,293,239	(142,117)	1,151,122
1,702,674	7,063,876	8,766,550
$ 2,995,913	$ 6,921,759	$ 9,917,672

City of Daleville
Balance Sheet – Governmental Funds
September 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	$ 2,714,149	$ 1,030,061	$ 3,744,210
Receivables, net	386,106	7,599	393,705
Due from other funds	39,852	-	39,852
Restricted cash and cash equivalents	-	235,617	235,617
Total assets	$ 3,140,107	$ 1,273,277	$ 4,413,384
Liabilities			
Accounts payable	$ 223,915	$ 8,547	$ 232,462
Cash bonds payable	32,217	-	32,217
Accrued expenses	83,613	-	83,613
Total liabilities	339,745	8,547	348,292
Deferred Inflows of Resources			
Unearned revenue - property taxes	228,773	-	228,773
Fund Balances			
Restricted	-	675,936	675,936
Assigned	-	301,793	301,793
Unassigned	2,571,589	287,001	2,858,590
Total fund balances	2,571,589	1,264,730	3,836,319
Total liabilities, deferred inflows of resources and fund balances	$ 3,140,107	$ 1,273,277	$ 4,413,384

The accompanying footnotes are an integral part of these financial statements.

City of Daleville
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2016

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

Total fund balance - governmental funds	$	3,836,319
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.		5,757,178
Prepaid expenses are recorded as expenditures in governmental funds when paid rather than as assets.		69,017
Employer contributions to defined benefit pension plan are recorded as expenditures in governmental funds when paid. Net employer contributions in excess of the acturially determined total pension liability are reported as an asset in the Statement of Net Pension.		353,391
Deferred inflows and outflows related to pension represent an acquisition or consumption of net position, respectively, that applies to a future period and, therefore, are not reported as liabilities or assets in the governmental funds.		
Deferred outflows related to pension		141,293
Deferred inflows related to pension		(250,601)
Long-term liabilities and related deferred items are not due and payable in the current period and therefore are not reported in the governmental fund financial statements, but are reported in the governmental activities of the Statement of Net Position.		
Deferred loss on refunding		300,745
Compensated absences		(46,799)
Bonds payable		(7,073,212)
Accrued interest		(91,418)
Net position of governmental activities in the Statement of Net Position	$	2,995,913

The accompanying footnotes are an integral part of these financial statements.

City of Daleville
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
September 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	$ 2,881,120	$ 197,762	$ 3,078,882
Fines and forfeitures	309,969	23,490	333,459
Licenses and permits	431,255	-	431,255
Charges for services	415,526	-	415,526
Intergovernmental	24,324	468,212	492,536
Investment earnings	-	15	15
Miscellaneous	248,863	32,429	281,292
Total revenues	4,311,057	721,908	5,032,965
Expenditures			
Current			
General government	1,277,935	-	1,277,935
Public safety	1,446,935	118,507	1,565,442
Culture and recreation	498,006	-	498,006
Streets and roads	644,252	4,799	649,051
Debt service			
Principal	-	115,000	115,000
Interest	-	273,800	273,800
Dues, fees and issuance costs	-	750	750
Capital outlay	178,911	321,808	500,719
Total expenditures	4,046,039	834,664	4,880,703
Excess (deficiency) of revenues over expenditures	265,018	(112,756)	152,262
Other Financing Sources (Uses)			
Transfers in	320,848	572,007	892,855
Transfers out	(572,007)	-	(572,007)
Sales of capital assets	305,712	-	305,712
Total other financing sources	54,553	572,007	626,560
Net change in fund balances	319,571	459,251	778,822
Fund Balances - beginning	2,252,018	805,479	3,057,497
Fund Balances - ending	$ 2,571,589	$ 1,264,730	$ 3,836,319

The accompanying footnotes are an integral part of these financial statements.

City of Daleville
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2016

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

Net change in fund balances - total governmental funds:	$	778,822
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		654,758
Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Net Position.		(340,227)
Repayment of debt is reported as an expenditure in governmental funds, but as a reduction in long-term liabilities in the Statement of Net Position.		115,000
Certain items reported as expenditures in governmental funds are allocable to future accounting periods and therefore are not reported as expenses in the Statement of Activities. These items include:		
Current year decrease in accrued interest expense		(30,038)
Current year decrease in pension expense		131,023
Amortization of bond discounts and deferred gain on refunding		(18,902)
Current year increase in prepaid insurance		2,803
Change in net position of governmental activities	$	1,293,239

The accompanying footnotes are an integral part of these financial statements.

City of Daleville
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund
For the Year Ended September 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	$ 2,014,950	$ 2,014,950	$ 2,881,120	$ 866,170
Fines and forfeitures	336,000	336,000	309,969	(26,031)
Licenses and permits	427,900	427,900	431,255	3,355
Charges for services	417,000	417,000	415,526	(1,474)
Intergovernmental	25,523	25,523	24,324	(1,199)
Miscellaneous	156,000	156,000	248,863	92,863
Total revenues	3,377,373	3,377,373	4,311,057	933,684
Expenditures				
Current				
General government	906,747	906,747	1,277,935	(371,188)
Public safety	1,405,971	1,405,971	1,446,935	(40,964)
Culture and recreation	432,975	432,975	498,006	(65,031)
Streets and roads	583,785	583,785	644,252	(60,467)
Capital outlay	145,450	145,450	178,911	(33,461)
Total expenditures	3,474,928	3,474,928	4,046,039	(571,111)
Excess (deficiency) of revenues over expenditures	(97,555)	(97,555)	265,018	362,573
Other Financing Sources (Uses)				
Transfers in	255,837	255,837	320,848	65,011
Transfers out	(451,557)	(451,557)	(572,007)	(120,450)
Sales of capital assets	-	-	305,712	305,712
Total other financing sources (uses)	(195,720)	(195,720)	54,553	250,273
Net change in fund balance	(293,275)	(293,275)	319,571	612,846
Fund Balance - beginning	2,252,019	2,252,019	2,252,019	-
Fund Balance - ending	$ 1,958,744	$ 1,958,744	$ 2,571,590	$ 612,846

The accompanying footnotes are an integral part of these financial statements.

City of Daleville
Statement of Net Position – Proprietary Funds
For the Year Ended September 30, 2016

	Business-Type Activities		
	Water and Sewer	Non-Major Fund Rescue Squad	Total
Assets			
Current assets			
Cash and cash equivalents	$ 1,610,116	$ 102,695	$ 1,712,811
Accounts receivable, net	139,476	40,684	180,160
Unbilled revenue	18,720	-	18,720
Total current assets	1,768,312	143,379	1,911,691
Noncurrent assets			
Capital assets			
Land	84,791	-	84,791
Other capital assets, net of depreciation	7,078,659	216,368	7,295,027
Net pension asset	58,587	-	58,587
Total noncurrent assets	7,222,037	216,368	7,438,405
Total assets	8,990,349	359,747	9,350,096
Deferred Outflows of Resources			
Deferred outflows related to pension	46,058	-	46,058
Liabilities			
Current liabilities			
Current maturities of bonds payable	85,000	-	85,000
Accounts payable	38,582	3,803	42,385
Payable to other governments	222	-	222
Other accrued expenses	12,068	6,050	18,118
Accrued interest	7,274	-	7,274
Compensated absences	6,684	-	6,684
Total current liabilities	149,830	9,853	159,683
Long-term liabilities			
Due to other funds	39,852	-	39,852
Revenue bonds	2,209,938	-	2,209,938
Total liabilities	2,399,620	9,853	2,409,473
Deferred Inflows of Resources			
Deferred inflows related to pension	64,924	-	64,924
Net Position			
Net investment in capital assets	4,868,512	216,368	5,084,880
Unrestricted	1,703,351	133,528	1,836,879
Total net position	$ 6,571,863	$ 349,896	$ 6,921,759

The accompanying footnotes are an integral part of these financial statements.

City of Daleville
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
For the Year Ended September 30, 2016

	Business-Type Activities		
	Water and Sewer Fund	Non-Major Fund Rescue Squad	Total
Operating Revenues			
Charges for services, net	$ 1,039,924	$ 167,484	$ 1,207,408
Miscellaneous	131,323	14,042	145,365
Total operating revenues	1,171,247	181,526	1,352,773
Operating Expenses			
Advertising	1,229	-	1,229
Depreciation and amortization	281,525	25,794	307,319
Dues and subscriptions	1,621	-	1,621
Gas and oil	9,780	16,251	26,031
Insurance claims and expenses	44,068	10,147	54,215
Lab fees	32,616	-	32,616
Miscellaneous	31,815	821	32,636
Office supplies	23,795	1,961	25,756
Payroll taxes	16,661	3,923	20,584
Professional services	34,446	-	34,446
Regulatory fees	11,665	-	11,665
Rent	810	-	810
Repairs and maintenance	55,308	2,902	58,210
Retirement	454	-	454
Salaries	213,913	44,475	258,388
System supplies	55,264	12,740	68,004
Training	2,785	-	2,785
Utilities	147,683	1,352	149,035
Total operating expenses	965,438	120,366	1,085,804
Operating Income	205,809	61,160	266,969
Non-Operating Revenues (Expenses)			
Interest income	3	218	221
Interest expense	(88,459)	-	(88,459)
Total non-operating revenues (expenses)	(88,456)	218	(88,238)
Net Income Before Transfers	117,353	61,378	178,731
Transfers out	(320,848)	-	(320,848)
Change in Net Position	(203,495)	61,378	(142,117)
Total Net Position - beginning	6,775,358	288,518	7,063,876
Total Net Position - ending	$ 6,571,863	$ 349,896	$ 6,921,759

The accompanying footnotes are an integral part of these financial statements.

City of Daleville
Statement of Cash Flows – Proprietary Funds
For the Year Ended September 30, 2016

	Business-Type Activities		
	Water and Sewer	Non-Major Fund Rescue Squad	Total
Cash Flows From Operating Activities			
Receipts from customers and users	$ 1,033,934	$ 144,031	$ 1,177,965
Other operating receipts	158,061	14,042	172,103
Payments to suppliers	(461,394)	(49,766)	(511,160)
Payments to and on behalf of employees	(221,934)	(44,651)	(266,585)
Payments to other funds	613	-	613
Net cash provided by operating activities	509,280	63,656	572,936
Cash Flows From Non-Capital and Related Financing Activities			
Transfers to other funds	(320,848)	-	(320,848)
Cash Flows From Capital and Related Financing Activities			
Principal payments on long-term debt	(85,000)	-	(85,000)
Interest paid on debt	(88,438)	-	(88,438)
Acquisition of fixed assets	(3,891)	(104,663)	(108,554)
Other payments	(20)	-	(20)
Net cash used in capital and related financing activities	(177,349)	(104,663)	(282,012)
Cash Flows From Investing Activities			
Interest received	3	216	219
Net increase (decrease) in cash and cash equivalents	11,086	(40,791)	(29,705)
Cash and Cash Equivalents -beginning	1,599,030	143,486	1,742,516
Cash and Cash Equivalents - ending	$ 1,610,116	$ 102,695	$ 1,712,811

-Continued-

The accompanying footnotes are an integral part of these financial statements.

City of Daleville
Statement of Cash Flows – Proprietary Funds (Continued)
For the Year Ended September 30, 2016

	Business-Type Activities		
	Water and Sewer	Non-Major Fund Rescue Squad	Total
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating income	$ 205,809	$ 61,160	$ 266,969
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	281,525	25,794	307,319
Changes in operating assets and liabilities:			
Increase in accounts receivable	(5,990)	(23,453)	(29,443)
Decrease in unbilled revenue	26,738	-	26,738
Incease in deferred outflows related to pension	(42,432)	-	(42,432)
(Increase) in net pension asset	(9,915)	-	(9,915)
Increase in accounts payable	7,553	331	7,884
(Decrease) increase in accrued expenses	946	(176)	770
Decrease in due to other funds	(613)	-	(613)
Decrease in compensated absences	(1,447)	-	(1,447)
Increase in deferred inflows related to pension	47,126	-	47,126
Decrease in due to other governments	(20)	-	(20)
Net cash provided by operating activities	$ 509,280	$ 63,656	$ 572,936

The accompanying footnotes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Daleville, Alabama (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the City's basic financial statements.

Reporting Entity

The City is an incorporated municipality of the State of Alabama. As required by GAAP, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government.

Blended Component Units

The Water and Sewer Fund and the Rescue Squad serve all citizens of the government and are governed by boards appointed by the City Council. The rates for user charges and bond issuance authorizations are approved by the City Council and the legal liability for the general obligation portion of any debt remains with the City. These component units are reported as business-type activities. Each blended component unit has a September 30 year end.

Government-Wide and Fund Financial Statements

The basic financial statements consist of the government-wide financial statements and fund financial statements. Government-wide financial statements are comprised of the statement of net position and the statement of activities which reports information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Fiduciary funds of the government are eliminated from this presentation since these resources are not available for general government funding purposes. 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 include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and fiduciary funds. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentations.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary 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 for which they are levied. 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, 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. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

In applying the susceptibility-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e., revocable only for failure to comply with prescribed compliance requirements, such as with equal employment opportunity. These resources are reflected as revenues at the time of receipt or earlier if they meet the availability criterion.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the City.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 are charges to customers for sales and services.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The following are reported as major governmental funds:

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

The City reports the following major proprietary funds:

Water and Sewer Fund accounts for all of the activity related to providing water and sewer services to the citizens of Daleville.

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The proprietary funds consider all short-term investments purchased with a maturity date of three months or less to be cash equivalents.

Investments

The City has not formally adopted an investment policy buy historically has limited its investments to certificates of deposits and money market accounts held at federally insured banks, reported at fair value. The City held no investments at year end.

Receivables and Unbilled Revenue

The City considers all governmental fund receivables at year end to be collectible and as such, no allowance for uncollectibles is recorded. The City reports proprietary fund receivables at gross amounts due from customers and where appropriate, reduces these amounts by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the Water and Sewer Fund are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billings during the month following the close of the fiscal year. The City grants credit to customers who use its various services, substantially all of whom are local residents or businesses. A contractual and uncollectible allowance has been recorded based on contractual and historical experience.

Federal and other financial assistance due to the City as reimbursement for expenditures incurred as of September 30 are accrued and reported as revenue in the year the expenditures are made.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Items

Payment for goods and services applicable to future periods are recorded as prepaid items in the government-wide financial statements. Prepaids are recorded as expenses when consumed rather than when purchased.

Interfund Loans and Transfers

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Restricted Assets

Certain resources set aside for the repayment of bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by bond covenants.

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 City as assets with an initial, individual cost of more than $5,000. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The City 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 asset lives are not capitalized.

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

Buildings	20 – 50 years
Improvements and infrastructure	7 – 40 years
Water and sewer system	10 – 50 years
Equipment	5 – 20 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

The City allows employees to accumulate vacation and sick leave up to certain limits for use in subsequent periods. Upon termination of employment, an employee receives payment of accumulated vacation hours up to certain limits at current wage rates. All leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example as a result of employee resignations and retirements.

Long-term Debt

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 are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category, the deferred loss on refunding and deferred outflows related to pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow related to pension results from pension contributions related to normal and accrued employer liability (net of any refunds or error service payments) subsequent to the measurement date.

In addition to liabilities, the statement of net 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 and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category deferred inflows related to pension and unearned property taxes. A deferred inflow related to pension results from the net difference between projected and actual earnings on plan investments, and is amortized over five years beginning with the year in which the difference occurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unamortized Bond Insurance

Unamortized debt expense related to bond insurance is amortized by using the outstanding principal method over the life of the related debt and is reported as unamortized bond insurance on the statement of net position. Other bond issuance costs are expensed as incurred.

Net Position and Fund Balance

Net position is reported on the government-wide financial statements and is required to be classified for accounting and reporting purposes into the following net position categories:

Net Investment in Capital Assets – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Any significant unspent proceeds at year-end related to capital assets are reported as restricted funds.

Restricted – Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

Unrestricted – Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the City Council.

The government-wide statement of net position reports $440,319 of restricted net position, of which $440,319 is restricted by enabling legislation.

Fund balance is reported in the fund financial statements in two major categories: nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. The City has advances due from other funds that are considered nonspendable.

In addition to the nonspendable fund balance, spendable fund balances are reported based on a hierarchy of spending constraints:

Restricted – Fund balances that are constrained by external parties, constitutional provisions or enabling legislation. The City's restricted fund balance primarily includes federal, state, and local grant funds that are for a stated purpose per the grant agreements, taxes for road and bridge maintenance and repairs, and cash and investments set aside for debt service.

Committed – Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The City has no fund balances classified as committed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned – Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The City's assigned fund balances classified as assigned are for the operations of the City's jail and fire department.

Unassigned – Fund balances that are not constrained for any particular purpose.

The City's reported governmental fund balance at September 30, 2016 is comprised of the following:

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	General Fund	Nonmajor Funds	Total
Restricted	$ -	$ 675,936	$ 675,936
Assigned	-	301,793	301,793
Unassigned	2,571,589	287,001	2,858,590
	$ 2,571,589	$ 1,264,730	$ 3,836,319

Restricted fund balances include debt service principal, interest, and paying agent fees of $235,617, judicial administrative fees of $59,738, gas taxes of $275,523, and E-911 fees of $105,057.

The authority to establish, modify or rescind a committed or assigned fund balance rests with the City Council, the City's highest level of decision-making authority, and these actions are accomplished through an adopted ordinance.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the City's policy to use committed funds then assigned, and finally unassigned.

Property Tax Calendar

In Alabama, City property taxes are levied by the County Commission at its first regular meeting in February of each year based on the property on record as of the preceding October 1. The taxes are due the following October 1 and delinquent after December 31st. Taxes levied in fiscal year 2016 for the 2017 budget year have been recorded as receivables and deferred inflows of resources.

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, deferred outflows of resources, liabilities, deferred inflows of

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

resources, 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 differ from those estimates.

Impact of Recently Issued Accounting Pronouncements

Recently Issued and Adopted

The accounting policies of the Board are based upon GAAP as prescribed by the GASB. Effective October 1, 2015, the Board adopted four (4) new statements issued by GASB as follows:

- GASB Statement No. 72, *Fair Value Measurement and Application*
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

GASB Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"), addresses accounting and financial reporting issues related to fair value measurements. GASB 72 will be effective for the City beginning with its year ending September 30, 2016. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and the related disclosures. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. This Statement also requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"), extends the approach to accounting and financial reporting established in Statement 68 to all pensions. It establishes requirements for defined contribution pensions that are not within the scope of Statement 68. Requirements of this Statement for pension plans that are within the scopes of Statement No. 67 or Statement 68, are effective for fiscal years beginning after June 15, 2015. Thus, these requirements of GASB 73 will be effective for the City beginning with its year ending September 30, 2016. GASB 73 clarifies the application of certain provisions of Statements 67 and 68 with regard to: (1) Information that is required to be presented as notes, (2) Accounting and financial reporting for separately financed specific liabilities, and (3) Timing of employer recognition of revenue.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"), supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* GASB 76 will be effective for the City beginning with its year ending September 30, 2016.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* ("GASB 79"), addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. GASB 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized costs for financial reporting purposes and for governments that participate in those pools. GASB 79 will be effective for fiscal years beginning after June 15, 2015.

Other accounting standards that the City is currently reviewing for applicability and potential impact on the financial statements include:

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* ("GASB 74"), replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, and GASB Statement No. 57, *OPEB (Other Postemployment Benefits) Measurement by Agent Employers and Agent Multiple-Employer Plans.* GASB 74 will be effective for fiscal years beginning after June 15, 2016. Included are requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures.* GASB 74 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. GASB 75 will be effective for fiscal years beginning after June 15, 2017. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

GASB Statement No. 77, *Tax Abatement Disclosures* ("GASB 77"), requires governments that enter into tax abatement agreements to disclose: (1) Brief descriptive information concerning the agreement; (2) The gross dollar amount of taxes abated during the period; and 3) Commitments made by government, other than to abate taxes, that are part of the tax abatement agreement. GASB 77 will be effective for fiscal years beginning after December 15, 2015.

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* ("GASB 78"), amends the scope and applicability of GASB Statement No. 68. It excludes pensions provided to employees of state or local governmental employers through a cost-

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

sharing multiple-employer defined benefit pension plan that (1) is not a state or local government pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local government employers, and (3) has no predominate state or local government employer. This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosure; and required supplementary information for pensions that have the characteristics described above. GASB 78 will be effective for fiscal years beginning after December 15, 2015.

GASB Statement No. 80, *Blending Requirements for Certain Component Units*, an amendment of GASB Statement No. 14 ("GASB 80"), amends the blending requirements for the financial statement presentation of component units of all state and local governments. GASB 80 will be effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* ("GASB 81"), requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. GASB 81 will be effective for the fiscal years beginning after December 15, 2016.

GASB Statement No. 82, *Pension Issues*, an amendment of GASB Statements No. 67, No. 68, and No. 73 ("GASB 82"), addresses 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. GASB 82 will be effective for fiscal years beginning after June 15, 2016.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Each year formal budgets are legally adopted and amended as required by the City Council for all funds. Management can approve transfers within government function categories only. Transfers of appropriations or revisions between government function categories require the approval of the City Council. The level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the government function category level. Budgets for the governmental funds are adopted on a basis consistent with GAAP.

Excess Expenditures Over Appropriations

The general fund actual expenditures exceeded budgeted expenditures by $571,111. The excess was funded with additional revenue.

NOTE 3 - CASH AND CASH EQUIVALENTS

At September 30, 2016, the City has elected to place its cash and cash equivalents in demand deposits, savings, and money market funds. Except as noted below, demand and time deposits are fully insured and collateralized by the Federal Deposit Insurance Corporation (FDIC) and the Security for Alabama Funds Enhancement (SAFE) Program operated by the office of the Treasurer of the State of Alabama as authorized by Section 41-14A of the Code of Alabama 1975, as amended. A total of $39,023 held by the Rescue Squad is not covered under the SAFE Program but is covered under the National Credit Union Association (NCUA) Program.

Except as noted in the previous paragraphs, the City maintains deposits only with "Qualified Public Depositories" as defined by Section 41-14A-2 Code of Alabama 1975. In the event of default by a "Qualified Public Depository", public deposits in excess of FDIC insurance limits will be repaid by liquidating collateral pledged to the SAFE Program by the bank in default. The liability for any remaining public deposits will be shared by all other "Qualified Public Depositories" participating in the SAFE Program.

NOTE 4 - RECEIVABLES

Receivables at September 30, 2016 consist of the following:

	Governmental Funds		Proprietary Funds	
	General Fund	Nonmajor Governmental Funds	Water and Sewer Fund	Rescue Squad Fund
Taxes	$ 386,106	$ 7,599	$ -	$ -
Customer Accounts	-	-	240,068	-
Patient transport accounts:				
Medicare	-	-	-	7,722
Medicaid	-	-	-	5,286
Insurance providers	-	-	-	14,414
Patients	-	-	-	28,203
Other	-	-	-	107
Less: allowance	-	-	(100,592)	(15,048)
Receivables, net	$ 386,106	$ 7,599	$ 139,476	$ 40,684

NOTE 5 - INTERFUND ACTIVITY

Interfund balances are generally used to meet cash demands necessary to pay operating expenses. Amounts are generally repaid during the next fiscal year. Balances at September 30, 2016 were as follows:

Receivable Fund	Payable Fund	Amount
General	Water and Sewer	$ 39,852

NOTE 5 - INTERFUND ACTIVITY (Continued)

Interfund Transfers:

Interfund transfers are for debt service and to meet the operational needs of the City.

NOTE 6 - RESTRICTED ASSETS

Restricted assets of the City are those required to be set aside for future debt service. At September 30, 2016, restricted assets were comprised of cash and cash equivalents totaling $235,617.

NOTE 7 - CAPITAL ASSETS

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

Governmental Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 968,008	$ -	$ 10,000	$ 958,008
Parks	7,880	9,150	-	17,030
Total capital assets, not being depreciated	$ 975,888	$ 9,150	$ 10,000	$ 975,038
Capital assets, being depreciated:				
Buildings	$ 4,212,035	$ -	$ -	$ 4,212,035
Ball park improvements	411,346	154,039	-	565,385
Furniture and fixtures	188,830	1,816	-	190,646
Machinery and equipment	3,274,222	205,138	82,248	3,397,112
Infrastructure	1,416,496	284,615	-	1,701,111
Total capital assets being depreciated	9,502,929	645,608	82,248	10,066,289
Less accumulated depreciation for:				
Buildings	1,817,586	105,451	-	1,923,037
Ball park improvements	210,885	6,187	-	217,072
Furniture and fixtures	186,765	479	-	187,244
Machinery and equipment	2,757,989	194,159	125,748	2,826,400
Infrastructure	96,445	33,951	-	130,396
Total accumualted depreciation	5,069,670	340,227	125,748	5,284,149
Total capital assets, being depreciated, net	$ 4,433,259	$ 305,381	$ (43,500)	$ 4,782,140

NOTE 7 - CAPITAL ASSETS (Continued)

Business-Type Activities:
Water and Sewer

Water and Sewer	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 84,791	$ -	$ -	$ 84,791
Capital assets, being depreciated:				
Water system	$ 3,427,867	$ -	$ -	$ 3,427,867
Sewer system	5,564,008	-	-	5,564,008
Extensions	1,591,293	-	-	1,591,293
Sanitary sewer outfall	24,114	-	-	24,114
Vehicles	302,538	-	-	302,538
Equipment	1,227,135	3,891	-	1,231,026
Total capital assets being	12,136,955	3,891	-	12,140,846
Less accumulated depreciation for:				
Water system	1,309,949	77,999	-	1,387,948
Sewer system	2,371,874	112,293	-	2,484,167
Extensions	391,493	29,121	-	420,614
Sanitary sewer outfall	21,102	482	-	21,584
Vehicles	275,933	5,509	-	281,442
Equipment	412,323	54,109	-	466,432
Total accumulated depreciation	4,782,674	279,513	-	5,062,187
Total capital assets, being depreciated, net	$ 7,354,281	$ (275,622)	$ -	$ 7,078,659
Rescue Squad				
Capital assets being depreciated:				
Vehicles	$ 223,401	$ 104,663	$ -	$ 328,064
Equipment	78,554	-	-	78,554
Furniture and fixtures	2,946	-	-	2,946
Buildings	113,988	-	-	113,988
Total capital assets being depreciated	418,889	104,663	-	523,552
Less accumulated depreciation	281,390	25,794	-	307,184
Total capital assets being depreciated, net	$ 137,499	$ 78,869	$ -	$ 216,368
Business-type Activites				
Land and other nondepreciable assets	$ 84,791	$ -	$ -	$ 84,791
Capital assets, net of depreciation	$ 7,491,780	$ (196,753)	$ -	$ 7,295,027

NOTE 7 - CAPITAL ASSETS (Continued)

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

Governmental Activities:	
General government	$ 65,391
Culture and recreation	58,622
Public safety	140,562
Street	75,652
Total	$ 340,227
Business-Type Activities:	
Water and sewer	$ 279,513
Rescue squad	25,794
Total	$ 305,307

NOTE 8 - DEFERRED OUTFLOWS OF RESOURCES

A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Amounts being deferred are as follows:

General Obligation Bonds	
Series 2008 original issue discount	$ 17,413
Series 2011 original issue discount	18,484
Series 2015 original issue discount	45,891
Total deferred charge on refunding	$ 81,788

NOTE 9 - LONG-TERM DEBT

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General Obligation Bonds:					
Series 2008	$ 1,470,000	$ -	$ -	$ 1,470,000	$ -
Series 2011	2,505,000	-	115,000	2,390,000	115,000
Series 2015	3,320,000	-	25,000	3,295,000	35,000
Unamortized discount	81,788	-	-	81,788	-
	$ 7,213,212	$ -	$ 140,000	$ 7,236,788	$ 150,000

NOTE 9 - LONG-TERM DEBT (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities:					
Series 2011	$ 2,420,000	$ -	$ 85,000	$ 2,335,000	$ 85,000
Unamortized discount	(42,074)	-	(2,012)	(40,062)	-
	$ 2,377,926	$ -	$ 82,988	$ 2,294,938	$ 85,000

Governmental Activities

Debt service requirements on long-term debt at September 30, 2016 are as follows:

General Obligation Bonds

General Obligation Bonds, Series 2008 – On March 1, 2008, the City issued $4,140,000 of Series 2008 General Obligation Bonds. The City used a portion of the bonds to advance refund the outstanding Series 2001 General Obligation Bonds with an interest rate of 6%. As a result, the 2001 series bonds are considered defeased and the City has removed the liability from its accounts.

The carrying difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt is carried as deferred loss on refunding and will be amortized over the remaining life of the old bond on the straight line basis. The amount deferred on the reacquisition was $58,782; the total amount amortized for the year ended September 30, 2016 was $1,270 and was reported as part of interest expense. The unamortized balance of the deferred loss on refunding at September 30, 2016 was $-0-.

On May 5, 2015, the City issued an advance refunding of a portion of these bonds through the General Obligation Bonds, Series 2015.

The Series 2008 bonds are reported net of original issue discount. Original issue discount in the amount of $77,849 is also being amortized over the life of the bonds and is reported as part of interest expense. Of the remaining original issue discount, a reduction in the amount of $32,216 was recorded through the advance refunding of the issuance of the General Obligation Bonds, Series 2015. The total amount expensed related to the Series 2008 bonds for the year ended September 30, 2016 is $782. Remaining original issue discount to be amortized in future periods and reported as a decrease in bonds payable is $17,413.

Principal payments are due in 2028, 2033, and 2037 with interest payments due semiannually and interest rates varying from 4.8% to 5.0%.

NOTE 9 - LONG-TERM DEBT (Continued)

Fiscal Year Ending September 30,	General Obligation Bonds – 2008 Principal	Interest
2017	$ -	$ 72,503
2018	-	72,503
2019	-	72,503
2020	-	72,503
2021	-	72,503
2022-2026	-	362,513
2027-2031	360,000	319,313
2032-2036	555,000	207,431
2037-2038	555,000	41,625
	$ 1,470,000	$ 1,293,397

General Obligation Bonds, Series 2011 – On July 1, 2011, the City issued its Series 2011 General Obligation Refunding Warrants in the amount of $2,955,000. Proceeds of the bond were used to redeem $2,660,000 of outstanding Series 2003 bonds and to provide $162,361 in funds for the construction of capital improvements. The net proceeds of $2,830,664 were used to repay bondholders on September 30, 2011. As a result, the 2003 Series bonds are considered to be defeased and the liability for those bonds has been removed from the City's outstanding general obligations warrants.

The Series 2011 bonds are reported net of original issue discount. Original issue discount in the amount of $27,464 is also being amortized over the life of the bonds and is reported as part of interest expense. The total amount expensed related to the Series 2011 bonds for the year ended September 30, 2016 is $2,113. Remaining original issue discount to be amortized in future periods and reported as a decrease in bonds payable is $18,484.

Principal payments are due annually in increasing amounts and interest is due semi-annually with rates varying from 2.0% to 3.5%.

Fiscal Year Ending September 30,	General Obligation Bonds – 2011 Principal	Interest
2017	$ 115,000	$ 68,692
2018	300,000	64,386
2019	305,000	57,273
2020	310,000	49,043
2021	325,000	39,571
2022-2024	1,035,000	54,020
	$ 2,390,000	$ 332,985

NOTE 9 - LONG-TERM DEBT (Continued)

General Obligation Bonds, Series 2015 – On Mary 5, 2015, the City issued its Series 2015 General Obligation Refunding Warrants in the amount of $3,320,000. Proceeds of the bond were used to advance refund a portion of the outstanding Series 2008 Warrants and to provide $212,367 in funds for the construction of capital improvements. The net proceeds of $2,958,579 will be used to repay bondholders.

The Series 2015 bonds are reported net of original issue discount. Original issue discount in the amount of $46,754 is also being amortized over the life of the bonds and is reported as part of interest expense. The total amount expensed related to the Series 2011 bonds for the year ended September 30, 2016 is $2,033. Remaining original issue discount to be amortized in future periods and reported as a decrease in bonds payable is $45,891.

The carrying difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt is carried as deferred loss on refunding and will be amortized over the remaining life of the old bond issue on the straight line basis. The amount deferred on the reacquisition was $320,795. The total amount amortized for the year ended September 30, 2016 was $14,153 and was reported as part of interest expense. The unamortized balance of the deferred loss on refunding at September 30, 2016 is $300,745.

Principal payments are due annually in increasing amounts and interest is due semi-annually with rates varying from 4.8% to 5.0%.

Fiscal Year Ending September 30,	General Obligation Bonds – 2015	
	Principal	Interest
2017	$ 35,000	$ 97,204
2018	35,000	97,204
2019	35,000	97,204
2020	35,000	97,204
2021	35,000	97,204
2022-2026	350,000	467,063
2027-2031	1,035,000	365,866
2032-2036	1,195,000	196,788
2037-2038	540,000	19,591
	$ 3,295,000	$ 1,535,328

Business-Type Activities

On September 1, 2011, the City issued its Series 2011 Water and Sewer Revenue Bonds in the amount of $2,735,000. Proceeds of the bonds were used to finance the costs of certain capital improvements to the City's water distribution system, including radio meter-reading equipment.

NOTE 9 - LONG-TERM DEBT (Continued)

The Series 2011 bonds are reported net of original issue discount. Original issue discount in the amount of $50,287 is also being amortized over the life of the bonds and is reported as part of interest expense. The total amount expensed related to the Series 2011 bonds for the year ended September 30, 2016 is $2,012. Remaining original issue discount to be amortized in future periods and reported as a decrease in bonds payable is $40,062.

Principal payments are due annually in increasing amounts and interest is due semi-annually with rates varying from 1.50% to 4.25%.

Fiscal Year Ending September 30,	Revenue Bonds Bonds – 2011 Principal	Interest
2017	$ 85,000	$ 87,290
2018	85,000	84,995
2019	90,000	82,700
2020	90,000	80,270
2021	95,000	77,840
2022-2026	510,000	341,900
2027-2031	625,000	239,125
2032-2036	755,000	98,813
	$ 2,335,000	$ 1,092,933

NOTE 10 - REVENUES PLEDGED

The Series 2008, Series 2011 and Series 2015 bonds are general obligations of the City for the payment of which the full faith and credit of the City are irrevocably pledged. The Series 2008, Series 2011 and Series 2015 bonds are additionally secured by a pledge of the proceeds or revenues from the special privilege license tax (the "Gross Receipts Tax Revenues") levied by the City on those engaged in the business of selling tangible personal property at retail in the corporate limits of the City with any deficit funded by other general fund revenues. However, the pledge of the proceeds of the Gross Receipts Tax Revenues for the benefit of the these bonds is subject to the law-imposed requirement that the City must first pay the said reasonable and necessary expenses of operating the City before the principal of or the interest on the Series 2008, 2011 and 2015 Warrants is paid therefrom. The total principal and interest remaining to be paid on the Series 2008, 2011, and 2015 bonds is $2,763,397, $2,722,985, and $4,830,328, respectively. Principal and interest paid for the current year were $140,000 and $271,886, respectively. For the current year, total Gross Receipts Tax Revenues were $2,364,656.

The City has pledged future water customer revenues, net of specific operating expenses, to repay $2,735,000 in water system revenue bonds issued in September 2011. Proceeds from the bonds provided financing for the costs of certain capital improvements to the City's water distribution system, including radio meter-reading equipment. The bonds are payable solely from water

NOTE 10 - REVENUES PLEDGED (Continued)

customer net revenues, distribution system and its sanitary sewer system and are payable through 2036. Annual principal and interest payments on the bonds are expected to require less than 87 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $3,427,933. Principal and interest paid for the current year and total customer net revenues were $172,928 and $1,039,924, respectively.

NOTE 11 - DEFERRED INFLOWS OF RESOURCES

Governmental Activities:	General Fund	Governmental Activities
Property Taxes – Property taxes are levied by the County Commission in February of each year based on property on record as of the preceding October 1. The enforceable legal claim exists as of October 1 preceding the February meeting of the County Commission. The actual billing and collection of these taxes will occur subsequent to year-end.	$ 228,773	$ 228,773
Pensions – Net difference between projected and actual earnings on pension plan investments.	-	250,601
	$ 228,773	$ 479,374

Business-type Activites:	Water and Sewer	Business-type Activities
Pensions – Net difference between projected and actual earnings on pension plan investments	$ 64,924	$ 64,924

NOTE 12 - EMPLOYEE RETIREMENT PLAN

Summary of Significant Accounting Policies

Pensions. The Employees' Retirement System of Alabama (the "Plan") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to Plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

NOTE 12 - EMPLOYEE RETIREMENT PLAN (Continued)

General Information about the Pension Plan

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

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

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

Benefits provided. State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for state police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except state police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State police are allowed 2.875% for each year of state police service in computing the formula method.

NOTE 12 - EMPLOYEE RETIREMENT PLAN (Continued)

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

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

The ERS services approximately 846 local participating employers. These participating employers include 287 cities, 65 counties, and 494 other public entities. The ERS membership includes approximately 83,874 participants. As of September 30, 2014, membership consisted of:

Retirees and beneficiaries currently receiving benefits	22,211
Terminated employees entitled to but not yet receiving benefits	1,353
Terminated employees not entitled to a benefit	5,451
Active members	55,378
Total	84,393

As of September 30, 2016, the City's membership consisted of:

Retirees and beneficiaries currently receiving benefits	19
Terminated employees entitled to but not yet receiving benefits	2
Terminated employees not entitled to a benefit	5
Active members	64
Total	90

Contributions. Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the ERS were required by a statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement,

NOTE 12 - EMPLOYEE RETIREMENT PLAN (Continued)

correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 state police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2016, the City's active employee contribution rate was 5% of covered employee payroll for normal Tier 1 employees and 6% of covered employee payroll for normal Tier 2 employees, and the City's average contribution rate to fund the normal and accrued liability costs was 1.74% of covered employee payroll for Tier 1 employees and 0% for Tier 2 employees.

The City's contractually required contribution rate for the year ended September 30, 2016 was 2.09% of pensionable pay for Tier 1 employees, and 0.35% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were $40,128 for the year ended September 30, 2016.

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 September 30, 2014 rolled forward to September 30, 2015 using standard roll-forward techniques as shown in the following table:

NOTE 12 - EMPLOYEE RETIREMENT PLAN (Continued)

	Expected	Actual
Total pension liability		
As of September 30, 2014 (a)	$ 4,304,334	$ 3,963,489
Entry age normal cost for		
October 1, 2014 – September 30, 2015 (b)	154,539	154,539
Actual benefit payments and refunds for		
October 1, 2014 – September 30, 2015 (c)	(290,542)	(290,542)
Total pension liability as of September 30, 2015		
[(a) x (1.08)] + (b) – [(c) x (1.04)]	$ 4,501,056	$ 4,132,943
Difference between expected and actual		
experience (gain)/loss		$ (368,113)

Actuarial assumptions. The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75% - 7.25%
Investment rate of return*	8.00%

* Net of pension plan investment expense

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

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

NOTE 12 - EMPLOYEE RETIREMENT PLAN (Continued)

	Target Allocation	Long-term Expected Rate of Return*
Fixed income	25.00%	5.00%
U.S. large stocks	34.00%	9.00%
U.S. mid stocks	8.00%	12.00%
U.S. small stocks	3.00%	15.00%
International developed market stocks	15.00%	11.00%
International emerging market stocks	3.00%	16.00%
Real estate	10.00%	7.50%
Cash	2.00%	1.50%
Total	100.00%	

*Includes assumed rate of inflation of 2.50%.

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 ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Schedule of Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2014	$ 4,304,334	$ 4,678,732	$ (374,398)
Changes for the year:			
Service costs	154,539	-	154,539
Interest	332,725	-	332,725
Difference between expected and actual experience	(368,113)	-	(368,113)
Contributions - employer	-	22,498	(22,498)
Contributions - employee	-	90,904	(90,904)
Net investment income	-	54,391	(54,391)
Benefit payments, including refunds of employee contributions	(290,542)	(290,542)	-
Transfers among employers	-	(11,063)	11,063
Net changes	(171,391)	(133,812)	(37,579)
Balances at September 30, 2015	$ 4,132,943	$ 4,544,920	$ (411,977)

NOTE 12 - EMPLOYEE RETIREMENT PLAN (Continued)

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

	1% Decrease -7.00%	Current Rate -8.00%	1% Increase -9.00%
City's net pension liability (asset)	$ 62,277	$ (411,977)	$ (813,501)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2015. The auditor's report dated October 17, 2016 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

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

For the year ended September 30, 2016, the City recognized pension expense of $16,315. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 315,525
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	147,223	-
Employer contributions subsequent to the measurement date	40,128	-
Total	$ 187,351	$ 315,525

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

NOTE 12 - EMPLOYEE RETIREMENT PLAN (Continued)

Year Ended September 30:	
2017	$ (24,338)
2018	(24,338)
2019	(24,340)
2020	(9,887)
2021	(52,588)
Thereafter	(52,585)

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and natural disasters. The City has insurance for its buildings, contents, and automobiles through the Alabama Municipal Insurance Corporation. Workers compensation coverage is provided by the Municipal Workers Compensation Fund, Inc., a public entity risk pool with third party insurance provided by Millennium Risk Managers. This insurance coverage effectively transfers most of the risk of loss from the City.

NOTE 14 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 29, 2017, the date these financial statement were available to be issued, and no event was deemed to warrant disclosure.

September 30,	2015(1)	2014(1)
Total Pension Liability		
Service cost	$ 154,539	$ 154,411
Interest	332,725	315,996
Changes of benefit terms	-	-
Differences between expected and actual experience	(368,113)	-
Changes of assumptions	-	-
Benefit payments, including refunds of employee contributions	(290,542)	(232,041)
Net change in total pension liability	(171,391)	238,366
Total pension liability - beginning	4,304,334	4,065,968
Total pension liability - ending (a)	$ 4,132,943	$ 4,304,334
Plan Fiduciary Net Position		
Contributions - employer	$ 22,498	$ 25,418
Contributions - member	90,904	90,321
Net investment income	54,391	513,517
Benefit payments, including refunds of employee contributions	(290,542)	(232,041)
Transfers among employers	(11,063)	(112,884)
Net change in plan fiduciary net position	(133,812)	284,331
Plan net position - beginning	4,678,732	4,394,402
Plan net position - ending (b)	$ 4,544,920	$ 4,678,733
Net pension liability (asset) - ending (a) - (b)	$ (411,977)	$ (374,399)
Plan fiduciary net position as a percentage of the total pension liability	109.97%	108.70%
Covered-employee payroll*	$ 1,442,641	$ 1,464,969
Net pension liability (asset) as a percentage of covered-employee payroll	28.56%	25.56%

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

(1) Information is not available for years prior to 2015. This schedule is intended to show information for 10 years and additional years will be presented as it becomes available.

September 30,	**2016(1)**	**2015(1)**
Actuarially determined contribution*	$ 40,128	$ 27,890
Contributions in relation to the actuarially determined contribution*	40,128	27,890
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll**	$ 1,620,542	$ 1,442,641
Contributions as a percentage of covered-employee payroll	2.48%	1.93%

*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 statements.

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

Notes to Schedule

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

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

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization periood	31 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increase	3.75 - 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense including

(1) Information is not available for years prior to 2015. This schedule is intended to show information for 10 years and additional years will be presented as it becomes available.

City of Daleville
Bond Covenant Information Required by Bond Trustee
Schedule of Receipts and Expenditures of Funds Related to the Water and Sewer Revenue Bonds Series 2011

		Water & Sewer Revenue Bonds Series 2011 Bond Fund
Balance as of September 30, 2015	$	14,464
Cash received by the City		144,640
Principal paid		(85,000)
Interest paid		(59,637)
Balance as of September 30, 2016	$	14,467

1. The Board is in compliance with the rate covenant required by the bond agreement.
2. The number of properties connected with and served by the Board is 3,209.
3. Officers of the Board at September 30, 2016 were:

   Robert Slagle – Chairman
   Marvin Wise – Vice Chairman
   Angelia Filmore – Secretary

The 2016 water and sewer rates for the residents and businesses of the City of Daleville were as follows:

Residential Water
$14.04 minimum rate (up to 3,000 gallons)

After 3,000 gallons, the charge is $2.13 per 1,000 gallons for all else

Small Business/Professional
$15.51 minimum rate (up to 3,000 gallons)

After 3,000 gallons, the charge is $2.24 per 1,000 gallons for all else

Commercial/Industrial
$22.18 minimum rate (up to 3,000 gallons)

After 3,000 gallons, the charge is $2.31 per 1,000 for all else

Sewer - Residential
$10.17 minimum rate (up to 3,000 gallons)

After 3,000 gallons, the sewer charge will be $1.62 per 1,000 gallons

Sewer - Business
$12.74 minimum rate (up to 3,000 gallons)

After 3,000 gallons, the sewer charge will be $1.70 per 1,000 gallons

Sewer – Commercial
$16.10 minimum rate (up to 3,000 gallons)

After 3,000 gallons, the sewer charge will be $1.76 per 1,000 gallons

Qualified Elderly Sewer*
$10.17 Flat Rate

*To quality for this rate, you must be 65 years of age; head of household and your **only** source of income must be Social Security.

-Continued-

As of September 30,			**2016**
Company and Policy Number	**Coverage**	**Limit of Insurance**	**Expiration Date**
Alabama Municipal Insurance Corporation			
90126058191			3/12/2017
	Commercial General Liability:		
	Each Occurrence	$3,000,000	
	Fire Damage	$100,000	
	Medical Expense	$5,000	
	Property Coverage:		
	All Premises	$11,120,432 Blanket Limit	
	Crime Coverage:		
	Employee Dishonesty	$50,000	
	Automobile Liability:		
	Combined Single Limit for bodily injury & property damage	$3,000,000	

Description of Non-major Governmental Funds

Special Revenue Funds include operating funds which are restricted as to use by the federal or state governments and special purpose funds established by authority of the City Council.

Four Cent State Gasoline Tax Fund and Seven Cent State Gasoline Tax Fund accounts for proceeds from a state gasoline tax. The use of this funding is restricted to expenditures related to construction, improvement and maintenance of highways, bridges, and streets.

Corrections Fund accounts for the operations of the City's jail.

Fire Department Fund accounts for the operations of the City's fire department.

E-911 Fund accounts for the proceeds from the E-911 tax collections.

Judicial Administrative Fund accounts for the municipal court fees fixed by law and are restricted for the enforcement of municipal court ordinances.

Capital Improvement Fund accounts for revenues and expenditures reserved for capital improvement projects.

Debt Service Funds include funds which are used to service the debt of the City.

Debt Service Fund accounts for the resources used to service the principal and debt of the City’s general obligation debt.

City of Daleville
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2016

	Four Cent State Gasoline Tax	Seven Cent State Gasoline Tax	Corrections
Assets			
Cash and cash equivalents	$ 186,354	$ 85,580	$ 212,373
Receivables, net	1,793	2,217	1,394
Restricted cash and cash equivalents	-	-	-
Total assets	$ 188,147	$ 87,797	$ 213,767
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ -	$ 421	$ 162
Fund balances			
Restricted	188,147	87,376	-
Assigned	-	-	213,605
Unassigned	-	-	-
Total liabilities and fund balances	$ 188,147	$ 87,797	$ 213,767

Fire Department	E-911	Judicial Administrative	Capital Improvement	Debt Service	Total Nonmajor Governmental Funds
$ 88,546	$ 111,263	$ 58,944	$ 287,001	$ -	$ 1,030,061
-	1,401	794	-	-	7,599
-	-	-	-	235,617	235,617
$ 88,546	$ 112,664	$ 59,738	$ 287,001	$ 235,617	$ 1,273,277
$ 358	$ 7,606	$ -	$ -	$ -	$ 8,547
-	105,058	59,738	-	235,617	675,936
88,188	-	-	-	-	301,793
-	-	-	287,001	-	287,001
$ 88,546	$ 112,664	$ 59,738	$ 287,001	$ 235,617	$ 1,273,277

City of Daleville
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2016

	Four Cent State Gasoline Tax	Seven Cent State Gasoline Tax	Corrections
Revenues			
Taxes	$ 19,724	$ 45,588	$ -
Fines and forfeitures	-	-	23,490
Intergovernmental	-	-	-
Investment earnings	-	-	-
Miscellaneous	-	-	-
Total revenues	19,724	45,588	23,490
Expenditures			
Current			
Public safety	-	-	16,975
Street and roads	-	4,799	-
Debt Service			
Principal	-	-	-
Interest	-	-	-
Dues, fees and issuance costs	-	-	-
Capital outlay	-	-	-
Total expenditures	-	4,799	16,975
Excess (deficiency) of revenues over expenditures	19,724	40,789	6,515
Other Financing Sources (Uses)			
Transfers in	-	-	-
Net Change in Fund Balances	19,724	40,789	6,515
Fund Balances (Deficit) - beginning	168,423	46,587	207,090
Fund Balances - ending	$ 188,147	$ 87,376	$ 213,605

Fire Department	E-911	Judicial Adminstrative	Capital Improvement	Debt Service	Total Nonmajor Governmental Funds
$ 14,424	$ 118,026	$ -	$ -	$ -	$ 197,762
-	-	-	-	-	23,490
-	-	-	468,212	-	468,212
12	-	-	-	3	15
19,503	-	12,926	-	-	32,429
33,939	118,026	12,926	468,212	3	721,908
13,512	83,614	-	-	4,406	118,507
-	-	-	-	-	4,799
-	-	-	-	115,000	115,000
-	-	-	-	273,800	273,800
-	-	-	-	750	750
7,022	47,678	-	267,108	-	321,808
20,534	131,292	-	267,108	393,956	834,664
13,405	(13,266)	12,926	201,104	(393,953)	(112,756)
-	-	-	179,710	392,297	572,007
13,405	(13,266)	12,926	380,814	(1,656)	459,251
74,783	118,324	46,812	(93,813)	237,273	805,479
$ 88,188	$ 105,058	$ 59,738	$ 287,001	$ 235,617	$ 1,264,730

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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 Daleville, 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, the business-type activities, each major fund, and the aggregate remaining fund information of City of Daleville, 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's basic financial statements and have issued our report thereon dated June 29, 2017. The report on the financial position, changes in financial position, and cash flows of the nonmajor fund – rescue squad information and business-type activities were qualified because the City failed to maintain adequate supporting documentation for charges for services reported by the rescue squad.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a deficiency in internal control that we consider to be a material weakness.

2013-01 Accounting for Rescue Squad Revenue (Repeat)

Condition – During our testing of the revenue reported by the rescue squad for services rendered, we noted that sufficient supporting documentation could not be provided for charges reported that would allow the application of auditing procedures sufficient to support an opinion on the fairness of the presentation of these accounts in the City's financial statements.

Criteria – Sound accounting practices require that supporting documentation be maintained for revenue reported sufficient to allow accounting personnel to correctly account for the transactions in the City's general ledger.

Cause of the Condition – A change in personnel over the rescue squad activities created a lack of knowledge related to prior charges and no detail of transactions reported.

Effect of Condition – Failure to provide supporting documentation for customer charges increases the risk that revenue is not properly authorized, executed and recorded consistent with the assertions of management.

Recommendation – We recommend that personnel charged with oversight control of rescue squad revenue follow the City's internal control procedures for maintaining adequate supporting documentation for all transactions and providing an accurate accounting to facilitate the recording of that activity in the City's general ledger.

Management Response – The City's management acknowledges the finding and will require personnel charged with administering the procedures over revenue to properly document each run.

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.*

We noted certain other matters that we reported to management of the City in a separate letter dated June 29, 2017.

The City's Response to Findings

The City's response to the findings identified in our audit is described above. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants
Enterprise, Alabama

June 29, 2017