

THE TOWN OF MAGNOLIA SPRINGS, ALABAMA
FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

THE TOWN OF MAGNOLIA SPRINGS, ALABAMA
FINANCIAL REPORT
SEPTEMBER 30, 2016

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GRANT, SANDERS & TAYLOR, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

BERTRAM L. SANDERS, II, CPA
MATTHEW R. TAYLOR, CPA
JASON B. JACKSON, CPA

1530 W. 2ND STREET
POST OFFICE BOX 2109
GULF SHORES, ALABAMA 36547-2109
TELEPHONE 251.968.2727
FACSIMILE 251.968.7430
WWW.GRANTSANDERSTAYLOR.COM

Members
American Institute of Certified
Public Accountants
Alabama Society of Certified
Public Accountants
Florida Institute of
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the Town Council
Magnolia Springs, Alabama

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

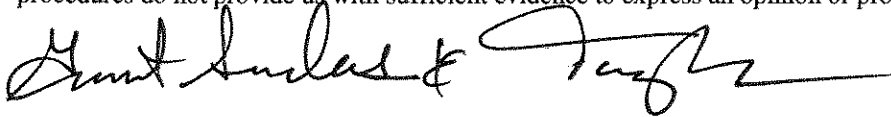
Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Magnolia Springs, Alabama, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7, budgetary comparison information on page 30, schedule of employer contributions on page 31, and schedule of changes in the net pension liability on page 32 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.



Grant, Sanders, & Taylor, P.C.
Gulf Shores, Alabama
December 6, 2016

MANAGEMENT DISCUSSION AND ANALYSIS
(MD&A)

Management's Discussion and Analysis

Overview of the Financial Statements

The Town's basic financial statements are comprised of three components:

- (1) Government-wide Financial Statement
- (2) Fund Financial Statements
- (3) Notes to the Basic Financial Statements

This Analysis also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The Government-wide financial statements provide a broad overview of the Town of Magnolia Springs finances. The presentation is in a manner similar to a private-sector business.

The Statement of Net Position provides information on all of the Town's assets and liabilities. The difference between the two is reported as net position. Over time, changes (increase or decrease) in net position may provide a useful indicator of the Town's overall financial condition.

The Statement of Activities provides information on how the Town's net position changed during the fiscal year.

Fund Financial Statements

A fund is a group of related accounts used to maintain control over resources that have been segregated for specific objectives or activities. The Town of Magnolia Springs uses fund accounts to ensure and demonstrate compliance with legal requirements. Fund Financial Statements report the Town's operations in more detail than the Government-wide Financial Statements.

Governmental Funds

Governmental Funds provide information, which may be useful in evaluating and determining a government's near-term financing requirements. The financial statements focus on near-term inflows and outflows of spendable resources and on fiscal year end available balance of spendable resources. Readers of the financial statements may better understand the long-term impact of the government's near-term financial decisions.

Notes to the Basic Financial Statements

The notes provide additional information and are essential to the full understanding of the data provided in the Government-wide and Fund Financial Statements.

Government-wide Financial Analysis

As previously noted, over time, net position may serve as a useful indicator of a government's financial condition. At the close of Fiscal Year 2016, the Town of Magnolia Springs' assets exceeded its liabilities by \$2,002,225.

Table 1 below represents the Town's Condensed Statement of Net Position as of September 30, 2016 and is derived from the Government-wide Statement of Net Position.

Table 1- Condensed Statement of Net Position

	Governmental Activities 2016	Governmental Activities 2015	Component Units 2016	Component Units 2015
Current assets	\$ 442,264	\$ 442,279	\$ -	\$ 23,407
Property and equipment	1,576,489	1,618,307	-	-
Total Assets	<u>2,018,753</u>	<u>2,060,586</u>	<u>-</u>	<u>23,407</u>
Deferred Outflows of Resources	<u>6,775</u>	<u>2,216</u>	<u>-</u>	<u>-</u>
Current liabilities	17,463	4,600	-	1,222
Long term liabilities	5,097	-	-	-
Total Liabilities	<u>22,560</u>	<u>4,600</u>	<u>-</u>	<u>1,222</u>
Total Deferred Inflows of Resources	<u>743</u>	<u>3,539</u>	<u>-</u>	<u>-</u>
Net Investments in Capital Assets	1,576,489	1,618,308	-	-
Net Position - Restricted	19,276	25,694	-	-
Net Position - Unrestricted	406,460	410,661	-	22,185
Total Net Position	<u>\$ 2,002,225</u>	<u>\$ 2,054,663</u>	<u>\$ -</u>	<u>\$ 22,185</u>

For more detailed information see the Statement of Net Position on page 8.

Table 2 – Condensed Statement of Activities

	Governmental Activities 2016	Governmental Activities 2015	Component Units 2016	Component Units 2015
PRIMARY GOVERNMENT:				
Revenues:				
Capital grants and contributions	\$ 38,649	\$ 156,523	\$ -	\$ -
Operating grants and contributions	-	-	-	36,881
General Revenues:				
Property taxes	54,465	50,856	-	-
Local taxes	187,458	179,835	-	-
State taxes	3,983	3,832	-	-
Franchise agreement	55,121	62,907	-	-
BP proceeds	-	71,628	-	-
Interest	576	378	-	-
License and permits	62,830	65,233	-	-
Miscellaneous other fees	18,926	10,636	-	-
Total revenues	<u>422,008</u>	<u>601,828</u>	<u>-</u>	<u>36,881</u>
Expenses:				
General	422,019	477,669	-	-
Depreciation	41,818	41,818	-	-
Special revenue fund	10,609	-	-	-
Total expenses	<u>474,446</u>	<u>519,487</u>	<u>-</u>	<u>-</u>
COMPONENT UNIT - MAGNOLIA SPRINGS PUBLIC LIBRARY:				
Expenses:	-	-	-	32,755
Increase (decrease) in Net Position	(52,438)	82,341	-	4,126
Net Position - Beginning (restated)	<u>2,054,663</u>	<u>1,972,322</u>	<u>-</u>	<u>18,059</u>
Net Position - Ending	<u>\$ 2,002,225</u>	<u>\$ 2,054,663</u>	<u>\$ -</u>	<u>\$ 22,185</u>

Overall Analysis

Financial highlights of the Town of Magnolia Springs as a whole during the fiscal year ended September 30, 2016 include the following:

The assets of the Town exceed its liabilities (net position) at the close of the fiscal year by \$2,002,225 for Governmental Activities (See Table 1-Condensed Statement of Net Position)

Financial Analysis of the Government's Funds

The Town of Magnolia Springs uses fund accounting to ensure and demonstrate compliance with finance related requirements. Funds that experienced significant changes in Fund Balance during the year are the following:

Governmental Funds

At the close of the fiscal year, the Town's Governmental Funds showed a combined ending fund balance of \$424,801.

Budget Variances in the General Fund

On September 22, 2015, the Town Council approved the General Fund Budget for fiscal year 2015-2016. The revenues and expenditures were estimates according to the previous year. Actual operating revenues were over budget \$65,030 due to unbudgeted grant revenues for emergency watershed protection from the Department of Natural Resources.

The expenditures were over/ under budget because of the following:

1. Public Works – The Town incurred unbudgeted expenses for paving projects.
2. Parks and Recreation – The Town incurred unbudgeted expenses related to the emergency watershed protection grant.

Capital Asset and Long Term Debt Activity

Capital Asset Activity

At September 30, 2016, the Town of Magnolia Springs reported net capital assets of \$1,576,489 from governmental activities. At September 30, 2015, the Town of Magnolia Springs reported net capital assets of \$1,618,308 from governmental activities.

Refer to Note 3 to the financial statement for additional information on capital assets.

Future Events Impacting the Town's Financial Condition

The Town of Magnolia Springs faces a number of factors that will impact the Town's financial condition next year and beyond.

1. The responsibility of maintaining or improving the town infrastructure such as paving dirt roads or resurfacing some of the existing roads.
2. Improve or restore existing drainage within the corporate limits.
3. The possible acquisition of the Old Magnolia School property.
4. The Town has assumed responsibility of the Magnolia Springs Public Library operating expenses.
5. The Magnolia Landing site along with the "Springs" site for further development and maintenance.

BASIC FINANCIAL STATEMENTS

GOVERNMENT – WIDE FINANCIAL STATEMENTS

THE TOWN OF MAGNOLIA SPRINGS, ALABAMA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 302,647
Certificates of deposit	54,245
Accounts receivable- taxes	15,709
Accounts receivable- franchise fee	55,121
Prepaid insurance	2,901
Restricted Assets:	
Cash and cash equivalents	11,641
Capital Assets:	
Land	275,000
Roads and bridges	1,600,000
Leasehold improvements	36,911
(Accumulated depreciation)	<u>(335,422)</u>
 TOTAL ASSETS	 <u>2,018,753</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension outflows - contributions after measurement date	2,431
Deferred pension outflows - differences in expected and actual experience	<u>4,344</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>6,775</u>
 CURRENT LIABILITIES	
Accounts payable	12,885
Accrued payroll withholding	<u>4,578</u>
TOTAL CURRENT LIABILITIES	<u>17,463</u>
 LONG-TERM LIABILITIES	
Net pension liability	<u>5,097</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred pension inflows - differences in investment experience	<u>743</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>743</u>
 NET POSITION	
Net investments in capital assets	1,576,489
Restricted for:	
Gas tax expenditures	11,979
Unrestricted	<u>413,757</u>
 TOTAL NET POSITION	 <u>\$ 2,002,225</u>

TOWN OF MAGNOLIA SPRINGS, ALABAMA
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2016

	Expenses	Capital Grants and Contributions	Total Governmental Activities
PRIMARY GOVERNMENT			
Governmental activities:			
General fund	\$ 422,019	\$ (38,649)	383,370
Depreciation	41,818	-	41,818
Special revenue fund	10,609	-	10,609
 Total governmental activities	 474,446	 (38,649)	 435,797
 General revenues:			
Property taxes			54,465
Local taxes			187,458
State taxes			3,983
Franchise agreement			55,121
Interest			576
License and permits			62,830
Miscellaneous other fees			18,926
Total general revenues:			383,359
 Change in net position			 (52,438)
Net position - beginning			2,054,663
Net position - ending			\$ 2,002,225

FUND FINANCIAL STATEMENTS

TOWN OF MAGNOLIA SPRINGS, ALABAMA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	Governmental Fund Types		
	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
ASSETS			
Current cash and cash equivalents	\$ 302,647	\$ -	\$ 302,647
Restricted cash and cash equivalents	-	11,641	11,641
Certificates of deposits	54,245	-	54,245
Accounts receivable- taxes	15,371	338	15,709
Accounts receivable- franchise fee	55,121	-	55,121
Prepaid insurance	2,901	-	2,901
TOTAL ASSETS	\$ 430,285	\$ 11,979	\$ 442,264
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts payable	\$ 12,885	\$ -	\$ 12,885
Accrued payroll withholding	4,578	-	4,578
TOTAL LIABILITIES	17,463	-	17,463
FUND EQUITY			
Non-spendable	2,901	-	2,901
Restricted	-	11,979	11,979
Unassigned	409,921	-	409,921
TOTAL FUND EQUITY	412,822	11,979	424,801
TOTAL LIABILITIES AND FUND EQUITY	\$ 430,285	\$ 11,979	\$ 442,264

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

Fund balances - total governmental funds \$ 424,801

Amount reported for governmental activities in the statement of
nets position are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the governmental funds.

Governmental capital assets	\$ 1,911,911	
Less accumulated depreciation	<u>(335,422)</u>	1,576,489

Deferred outflows of resources used in governmental activities are not
financial resources and therefore are not reported in the governmental funds.

Deferred pension outflows - contributions after measurement date	\$ 2,431	
Deferred pension outflows - differences in expected and actual experience	<u>4,344</u>	6,775

Long-term liabilities are not due and payable in the current period and therefore
are not reported in the governmental funds.

Net pension liability	<u>(5,097)</u>	(5,097)
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Deferred inflows of resources used in governmental activities are not
financial resources and therefore are not reported in the governmental funds.

Deferred pension inflows - differences in investment experience	<u>(743)</u>	<u>(743)</u>
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Net position of governmental activities \$ 2,002,225

TOWN OF MAGNOLIA SPRINGS, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	Governmental Fund Types		
	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Property taxes	\$ 54,465	\$ -	\$ 54,465
Local taxes	187,458	-	187,458
State taxes	-	3,983	3,983
Franchise agreement	55,121	-	55,121
Grants and contributions	38,649	-	38,649
Interest income	556	20	576
License and permits	62,830	-	62,830
Miscellaneous other fees	18,926	-	18,926
TOTAL REVENUES	<u>418,005</u>	<u>4,003</u>	<u>422,008</u>
EXPENDITURES			
Personnel expense			
Salaries	50,941	-	50,941
Council	9,000	-	9,000
Payroll tax	4,319	-	4,319
Employee benefits	9,252	-	9,252
Total personnel expenses	<u>73,512</u>	<u>-</u>	<u>73,512</u>
Operational Expenses			
Advertising and website	1,046	-	1,046
Bank charges	250	-	250
Contract labor	2,959	-	2,959
Dues and membership	2,201	-	2,201
Election expenses	14,771	-	14,771
Environmental protection	415	-	415
Historical preservation commission	2,835	-	2,835
Insurance	9,289	-	9,289
Library	20,560	-	20,560
Office supplies	5,299	-	5,299
Other	2,240	-	2,240
Parks, recreational, and beautification	55,648	-	55,648
Police protection and public safety	55,200	-	55,200
Professional fees	15,425	-	15,425
Rent- Town hall	7,200	-	7,200
Street, bridge and other public works function	149,034	10,609	159,643
Utilities	5,070	-	5,070
Total operational expenses	<u>349,442</u>	<u>10,609</u>	<u>360,051</u>
TOTAL EXPENDITURES	<u>422,954</u>	<u>10,609</u>	<u>433,563</u>
EXCESS REVENUES OVER EXPENDITURES	<u>(4,949)</u>	<u>(6,606)</u>	<u>(11,555)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>417,771</u>	<u>18,585</u>	<u>436,356</u>
FUND BALANCE - END OF YEAR	<u>\$ 412,822</u>	<u>\$ 11,979</u>	<u>\$ 424,801</u>

THE TOWN OF MAGNOLIA SPRINGS, ALABAMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2016

Net change in fund balances (Excess revenues over (under) expenses and other financing sources (uses))	\$ (11,555)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives:

Less current year depreciation	<u>(41,818)</u>	(41,818)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Increase in deferred outflows of resources - contributions after measurement date	2,431	
Increase in deferred pension outflows - differences in expected and actual experience	4,344	
Increase in deferred pension inflows - differences in investment experience	(743)	
Increase in net pension liability	<u>(5,097)</u>	<u>935</u>

Change in net position of governmental activities	<u>\$ (52,438)</u>
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NOTES TO THE FINANCIAL STATEMENTS

TOWN OF MAGNOLIA SPRINGS, AL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL STATEMENT

The Town of Magnolia Springs, Alabama, (the "Town"), was incorporated under the applicable laws of the State of Alabama on June 29, 2006. The Town operates under a Mayor-Council form of government and provides the following services to its citizens: Public Improvements, Planning and Zoning, and other general administrative services.

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally Accepted Accounting Principles (GAAP) for local governments includes those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the Town has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the Town are described below.

B. FINANCIAL REPORTING ENTITY

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Town holds the corporate powers of the organization
- the Town appoints a voting majority of the organization's board
- the Town is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Town
- there is fiscal dependency by the organization on the Town

C. BASIS OF PRESENTATION

Government-wide

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the Town. 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 program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

TOWN OF MAGNOLIA SPRINGS, AL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. BASIS OF PRESENTATION (continued)

Fund level

The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column. Since governmental fund level statements are presented on a different basis of accounting and measurement focus than governmental activities in the government wide presentation, a summary is presented to explain adjustments necessary to reconcile fund level statements to the government-wide presentation.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The Town has presented the following governmental funds:

General Fund –

The General Fund is the main operating fund of the Town. It is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Special Revenue Fund –

The Special Revenue Fund are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specific purposes.

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, The Town classifies governmental fund balances as follows:

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority (the Town Council) and does not lapse at year end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Council.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Government does not have a formal minimum fund balance policy.

TOWN OF MAGNOLIA SPRINGS, AL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Town does not have an established policy regarding use of unrestricted fund balance when both restricted and unrestricted fund balance are available. However, the Town does consider committed amounts would be reduced first, followed by any assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the Town's unrestricted fund balance classifications are used.

A schedule of fund balances is as follows:

	General Fund	Special Revenue Fund	Total Governmental Funds
Fund Balances:			
Nonspendable			
Prepaid insurance	\$ 2,901	\$ -	\$ 2,901
Restricted for:			
Gas tax expenditures	-	11,979	11,979
Unassigned	409,921	-	409,921
Total Fund Balance	\$ 412,822	\$ 11,979	\$ 424,801

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets, deferred outflows of resources, liabilities, and deferred inflows (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A sixty day availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are taxes, franchise fees and intergovernmental revenues. Taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

E. BUDGETS AND BUDGETARY ACCOUNTING

The budget is adopted annually at the beginning of each fiscal year. The Mayor and members of the Town Council are responsible for the adoption and amendments to the budget. All appropriations lapse at the end of each fiscal year. A budget was not adopted for the special revenue fund.

TOWN OF MAGNOLIA SPRINGS, AL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS

For the purpose of the Statement of Net Position, "cash and cash equivalents" includes all demand deposits, savings accounts, and short term investments with original or remaining maturities of three months or less when purchased. At September 30, 2016 the carrying amount of the Town's deposits were fully insured and collateralized with pledged securities held by the Security for Alabama Funds Enhancement Program (SAFE Program).

Assets whose use is restricted for construction, debt service or by other agreements are segregated on the fund level Balance Sheet and on government wide Statement of Net Position.

G. TAXES RECEIVABLE

Taxes receivable consists, primarily, of sales tax, and other locally imposed taxes. All amounts are considered to be fully collectible by management.

H. CAPITAL ASSETS

In government-wide reporting, all capital assets are reported as capital assets. The Town has not established a minimum capitalization threshold at this time. Depreciation is provided on all capital assets at the government-wide level.

In fund level reporting, capital assets are reported as expenditures by governmental funds. Depreciation is not recorded at the funds level.

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair value on the date donated.

GASB 34 requires the Town to report and depreciate new infrastructure assets. Infrastructure assets include roads, bridges, underground pipes (other than utilities), traffic signals, etc. The reporting of infrastructure was implemented in 2009 as required by GASB 34. The County contributed roads and bridges to the Town on August 7, 2007 in amount totaling \$1,600,000. The Town assessed the condition of the roads, sidewalks, and other infrastructure during the fiscal year end 2010.

Depreciation is allocated as an expense in the Statement of Activities (government-wide level) and accumulated depreciation is reflected in the Statement of Net Position (government-wide level). Leasehold improvements are depreciated over the life of the lease. Infrastructure assets are depreciated over thirty nine years.

I. COMPENSATED ABSENCES

The Town employees are entitled to certain compensated absences based on length of employment. With minor exceptions, compensated absences either vest or accumulate and are accrued when they are earned.

J. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

TOWN OF MAGNOLIA SPRINGS, AL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. NET POSITION

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net invested in capital assets represent the amount of equity net of related debt which consists of capital assets. This amount is net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE 2 - RETIREMENT PLAN

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the 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.

B. GENERAL INFORMATION ABOUT THE PENSION PLAN

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

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

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

TOWN OF MAGNOLIA SPRINGS, AL
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2016

NOTE 2 - RETIREMENT PLAN (continued)

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. 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 serves 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, 2015, the Town's membership consisted of:

Membership as of the Measurement Date of September 30, 2015

Retired Members Or Their Beneficiaries	
Currently Receiving Benefits	-
Vested Inactive Members	-
Non-vested Inactive Members	-
Post-DROP Retired Members Still in Active Service	-
Active Members	1
Total	<u>1</u>

TOWN OF MAGNOLIA SPRINGS, AL
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2016

NOTE 2 - RETIREMENT PLAN (continued)

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 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, 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 (or other year-end if not September), the Town's active employee contribution rate was 5.32 percent of covered employee payroll, and the Town's average contribution rate to fund the normal and accrued liability costs was 4.55 percent of covered employee payroll.

The Town's contractually required contribution rate for the year ended September 30, 2016 was 5.71% of pensionable pay for Tier 1 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 \$2,431 for the year ended September 30, 2016.

Sensitivity of the net pension liability to changes in the discount rate: The following table presents the Town's net pension liability calculated using the discount rate of 8%, as well as what the Town'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:

Sensitivity of the NPL to Changes in the Discount Rate

	1% Decrease (7%)	Current Discount (8%)	1% Increase (9%)
Plan's Net Pension Liability (Asset)	\$ 18,580	\$ 5,097	\$ (6,670)

TOWN OF MAGNOLIA SPRINGS, AL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2 - RETIREMENT PLAN (continued)

C. NET PENSION LIABILITY

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

	Expected	Actual
(a) TPL as of September 30, 2014	\$ 124,423	\$ 123,527
(b) Entry Age Normal Cost for the period October 1, 2014 - September 30, 2015	3,803	3,803
(c) Actual Benefit Payments and Refunds for the period October 1, 2014 - September 30, 2015	-	-
(d) TPL as of September 30, 2015 [(a) x (1.08)] + (b) - [(c) x (1.04)]	\$ 138,180	\$ 137,212
(e) Difference between Expected and Actual Experience (Gain)/Loss		\$ (968)

Actuarial assumptions: The total pension liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

*Net of pension plan investment expense

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

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

TOWN OF MAGNOLIA SPRINGS, AL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2 - 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	<u>100.00%</u>	

*Includes assumed rate of inflation of 2.50%.

Discount rate: The discount rate used to measure the total pension liability was the long term rate of return, 8%. The projection of cash flows used to determine the discount rate assumed that plan 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 pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Schedule of Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at September 30, 2014	\$ 124,423	\$ 126,153	\$ (1,730)
Change for the year:			
Service cost	3,803	-	3,803
Interest	9,954	-	9,954
Changes of assumptions	-	-	-
Difference between expected and actual experience	(968)	-	(968)
Contributions-employer	-	2,297	(2,297)
Contributions - employee	-	2,142	(2,142)
Net investment income	-	1,523	(1,523)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	-	-
Transfers among employers	-	-	-
Net changes	<u>12,789</u>	<u>5,962</u>	<u>6,827</u>
Balance at September 30, 2015	<u>\$ 137,212</u>	<u>\$ 132,115</u>	<u>\$ 5,097</u>

TOWN OF MAGNOLIA SPRINGS, AL
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2016

NOTE 2 - RETIREMENT PLAN (continued)

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2015. The auditor's report dated September 29, 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.

D. PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended September 30, 2016, the Town recognized pension expense of \$1,984. At September 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

Summary of Deferred Inflows and Outflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 743
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	4,344	-
Employer contributions subsequent to the Measurement Date	2,431	-
Total	\$ 6,775	\$ 743

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

Schedule of Amortization of Deferred Inflows and Outflows of Resources

Year Ended September 30		
2017	\$	639
2018		639
2019		340
2020		1,683
2021		-
Thereafter		-

TOWN OF MAGNOLIA SPRINGS, AL
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2016

NOTE 2 - RETIREMENT PLAN (continued)

Details of the deferred inflows and outflows of resources are displayed in the following three tables:

Collective Deferred Outflows and Inflows between Expected and Actual Experience

Year	Beginning Balance				Amounts Recognized			Ending Balance			
	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows	Recognized in Pension Expense / Deferred Outflow	Recognized in Pension Expense / Deferred Inflow	(a) + (c) - (e)	(b) + (d) - (f)
2015	\$ -	\$ 968	4.3	\$ -	\$ -	\$ -	\$ 968	\$ -	\$ 225	\$ -	\$ 743
2014	-	-	-	-	-	-	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 968</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 968</u>	<u>\$ -</u>	<u>\$ 225</u>	<u>\$ -</u>	<u>\$ 743</u>

TOWN OF MAGNOLIA SPRINGS, AL
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2016

NOTE 2 - RETIREMENT PLAN (continued)

Collective Deferred Outflows and Inflows for Differences from Assumption Changes

Year	<u>Beginning Balance</u>				<u>Ending Balance</u>				
	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows	Amounts Recognized in Pension Expense / Deferred Outflows	Amounts Recognized in Pension Expense / Deferred Inflow
	(a)	(b)	(c)	(d)	(e)	(f)	(a) + (c) - (b) + (d) - (e)	(f)	(a) + (c) - (b) + (d) - (f)
2015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2014	-	-	-	-	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF MAGNOLIA SPRINGS, AL
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2016

NOTE 2 - RETIREMENT PLAN (continued)

Collective Deferred Outflows and Inflows for Differences in Investment Experience

Year	<u>Beginning Balance</u>				Amort- ization Period	<u>Ending Balance</u>						
	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Deferred Outflows	Deferred Inflows		Losses / Deferred Outflows	Gains / Deferred Inflows	Amounts Recognized in Pension Expense / Deferred Outflows	Amounts Recognized in Pension Expense / Deferred Inflow	(a) + (c) - (b) + (d) - (e) (f)		
2015	\$ 8,747	\$ -	\$ -	\$ -	5	\$ -	\$ 8,747	\$ -	\$ 1,749	\$ -	\$ 6,998	\$ -
2014	-	4,424	-	3,539	5	-	-	885	-	-	2,654	2,654
Total			<u>\$ -</u>	<u>\$ 3,539</u>		<u>\$ 8,747</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,998</u>	<u>\$ 2,654</u>	<u>\$ 4,344</u>	<u>\$ -</u>
			Net difference between projected and actual earnings on investments								\$ 4,344	\$ -

TOWN OF MAGNOLIA SPRINGS, AL
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2016

NOTE 2 - RETIREMENT PLAN (continued)

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

Amortization Year	Summary of Amortization of Deferred Outflows and Inflows of Resources						
	Actual and Expected Experience		Assumption Changes		Investment Gains/Losses		
	2014	2015	2014	2015	2014	2015	
2017	\$ -	\$ (225)	\$ -	\$ -	\$ (885)	\$ 1,749	\$ 639
2018	-	(225)	-	-	(885)	1,749	639
2019	-	(225)	-	-	(884)	1,749	640
2020	-	(68)	-	-	-	1,751	1,683
2021	-	-	-	-	-	-	-
Thereafter	-	-	-	-	-	-	-
Total	\$ -	\$ (743)	\$ -	\$ -	\$ (2,654)	\$ 6,998	\$ 3,601

TOWN OF MAGNOLIA SPRINGS, AL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2 - RETIREMENT PLAN (continued)

Pension expense for fiscal year ending September 30, 2016 was calculated as follows:

PENSION EXPENSE

Service Cost	\$ 3,803
Interest on the total pension liability	9,954
Current-period benefit changes	-
Expensed portion of current-period difference between expected and actual experience in the total pension liability	(225)
Expensed portion of current-period changes of assumptions	-
Member Contributions	(2,142)
Projected earnings on plan investments	(10,270)
Expensed portion of current-period differences between actual and projected earnings on plan investments	1,749
Transfers among employers	-
Recognition of beginning deferred outflows of resources as pension expense	-
Recognition of beginning deferred inflows of resources as pension expense	<u>(885)</u>
Pension Expense (Income)	<u><u>\$ 1,984</u></u>

TOWN OF MAGNOLIA SPRINGS, AL
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2016

NOTE 3 - CAPITAL ASSETS

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities				
Non-Depreciable Assets:				
Land	\$ 275,000	\$ -	\$ -	\$ 275,000
Depreciable Assets:				
Roads and bridges	1,600,000	-	-	1,600,000
Leasehold Improvements	36,911	-	-	36,911
Less accumulated depreciation	<u>(293,603)</u>	<u>(41,819)</u>	<u>-</u>	<u>(335,422)</u>
Governmental activities capital assets, net	<u>\$ 1,618,308</u>			<u>\$ 1,576,489</u>

NOTE 4 – LINE OF CREDIT – UNITED BANK

The Town has an unused line of credit with United Bank in the amount of \$50,000 as of September 30, 2016. The line of credit bears an interest rate of 5.75%. The line of credit is in place until February 2017.

NOTE 5 – OPERATING LEASE

The Council leases the Town Hall from an entity related by common control. On May 6, 2007, the Town signed a 5 year non-cancelable lease that included two three year extensions. In May 2012, the Town exercised the option to extend the lease an additional three years. In May 2015, the Town exercised the second extension for an additional three years. The lease terms include monthly payments of the following:

<u>Lease Dates</u>	<u>Rent Per Month</u>
May 2015- April 2018	\$ 500

NOTE 6 – COMMITMENTS AND CONTINGENCIES

The Town is exposed to various risk of losses to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The Town obtains coverage from municipal insurance companies and effectively manages risk through various employee education and prevention programs.

NOTE 7 – SUBSEQUENT EVENTS

Subsequent events were evaluated from October 1, 2016 to the financial statement issuance date of December 6, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF MAGNOLIA SPRINGS, ALABAMA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
SEPTEMBER 30, 2016

	Original/Final Budget	Actual	Variance with Final Budget Over/ (Under)
REVENUES			
Property taxes	\$ 55,000	\$ 54,465	\$ (535)
Local taxes	163,350	187,458	24,108
Franchise agreement	63,000	55,121	(7,879)
Grants and contributions	7,000	38,649	31,649
Interest income	300	556	256
License and permits	58,300	62,830	4,530
Miscellaneous other fees	6,025	18,926	12,901
TOTAL REVENUES	<u>352,975</u>	<u>418,005</u>	<u>65,030</u>
EXPENDITURES			
Personnel expense			
Salaries	44,000	50,941	6,941
Council	9,000	9,000	-
Payroll tax	3,500	4,319	819
Employee benefits	8,100	9,252	1,152
Total personnel expenses	<u>64,600</u>	<u>73,512</u>	<u>8,912</u>
Operational Expenses			
Advertising and website	750	1,046	296
Bank charges	250	250	-
Contract labor	4,300	2,959	(1,341)
Dues and membership	1,000	2,201	1,201
Election expenses	-	14,771	14,771
Environmental protection	-	415	415
Historical preservation commission	10,000	2,835	(7,165)
Insurance	9,000	9,289	289
Library	25,000	20,560	(4,440)
Office supplies	5,200	5,299	99
Other	3,000	2,240	(760)
Parks, recreational, and beautification	25,000	55,648	30,648
Police protection and public safety	56,000	55,200	(800)
Professional fees	31,500	15,425	(16,075)
Rent- Town hall	7,200	7,200	-
Street, bridge and other public works function	104,475	149,034	44,559
Utilities	5,700	5,070	(630)
Total operational expenses	<u>288,375</u>	<u>349,442</u>	<u>61,067</u>
TOTAL EXPENDITURES	<u>352,975</u>	<u>422,954</u>	<u>69,979</u>
EXCESS REVENUES OVER EXPENDITURES	<u>-</u>	<u>(4,949)</u>	<u>(4,949)</u>

THE TOWN OF MAGNOLIA SPRINGS, ALABAMA
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 2,431	\$ 2,216
Contributions in relation to the actuarially determined contribution	<u>2,431</u>	<u>2,216</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 45,676	\$ 42,846
Contributions as a percentage of covered-employee payroll	5.32%	5.17%

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:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	10 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75-7.25% including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

THE TOWN OF MAGNOLIA SPRINGS, ALABAMA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	2015	2014
Total pension liability		
Service Cost	\$ 3,803	\$ 3,901
Interest	9,954	8,928
Changes of benefit terms	-	-
Differences between expected and actual experience	(968)	-
Changes of assumptions	-	-
Benefit payments, including refunds of employee contributions	-	-
Net change in total pension liability	12,789	12,829
Total pension liability-beginning	124,423	111,594
Total pension liability-ending (a)	\$ 137,212	\$ 124,423
 Plan fiduciary net position		
Contributions - employer	\$ 2,297	\$ 2,384
Contributions - member	2,142	2,080
Net investment income	1,523	13,276
Benefit payments, including refunds of employee contributions	-	-
Transfers among employers	-	-
Net change in plan fiduciary net position	5,962	17,740
Plan net position - beginning	126,153	108,413
Plan net position - ending (b)	\$ 132,115	\$ 126,153
 Net pension liability (asset) - ending	\$ 5,097	\$ (1,730)
Plan fiduciary net position as a percentage of the total pension liability	96.29%	101.39%
 Covered-employee payroll	\$ 42,846	\$ 41,598
 Net pension liability (asset) as a percentage of covered-employee payroll	11.90%	-4.16%