

CITY OF TUSKEGEE
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
September 30, 2016

CITY OF TUSKEGEE, ALABAMA

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, City Manager and City Council
City of Tuskegee, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining governmental fund information of the City of Tuskegee, 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.

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 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 of material misstatement.

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



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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining governmental fund information of the City as of and for the year ended September 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund and Head Start fund 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 (MD&A) on pages 4-10, schedule of changes in net pension liability, and schedule of employer contributions on pages 44-45 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 State 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 an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A- 133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.



The combining nonmajor fund financial statements and the schedule of expenditures of federal awards 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 combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards* we have also issued a report dated June 15, 2017 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the City's internal control over financial reporting and compliance.

June 15, 2017

Banks, Finley White & Co.

CITY OF TUSKEGEE, ALABAMA MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Tuskegee, Alabama's (the "City") management discussion and analysis presents an overview of the City's financial activities for the two fiscal years ended September 30, 2016 and September 30, 2015. It is designed to (a) assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns. Please read it in conjunction with the City's financial statements beginning on page 11.

Financial Highlights

The liabilities and deferred inflows of resources for the City exceeded its assets at September 30, 2016 by \$692,641 (net position—deficit) and by \$1,143,483 (net position—deficit) in 2015. The net investment in capital assets reported a **surplus** of \$1,289,973 in 2016 compared to \$1,277,721 in 2015. The City had an unrestricted **deficit** of \$1,982,614 in 2016, compared to \$3,084,856 in 2015.

The City's total net position **increased** by \$1,114,494 during the year ended September 30, 2016.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements:

The government-wide financial statements, which consist of the Statement of Net Position and the Statement of Activities, are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. The Statement of Net Position presents information on all of the City's assets, and deferred outflows of resources, less liabilities, and deferred inflows of resources with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the fiscal year. It focuses on the gross and net costs of various activities, which are provided by general taxes and other revenues. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (such as uncollected taxes or earned but not used vacation leave).

CITY OF TUSKEGEE, ALABAMA MANAGEMENT'S DISCUSSION AND ANALYSIS

The governmental activities of the City include general government, public safety, public works, health and welfare, culture and recreation, and education.

The government-wide financial statements can be found beginning on page 11 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are classified as governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on near-term inflow and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is similar to the manner in which the budget is developed. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Head Start, and Occupational Tax Fund which are considered to be major funds. Data from the other 14 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the supplementary information section of this report.

The City adopts an annual appropriated budget for its General Fund. The Head Start budget is prepared by the City and approved by the federal grantor agency. A budgetary comparison statement has been provided for the General Fund and Head Start fund to demonstrate budgetary compliance.

The basic governmental funds financial statements and the budgetary comparison statements can be found beginning on page 13 of this report.

CITY OF TUSKEGEE, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 20 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows of resources exceeded assets by \$692,641 and \$1,807,135 at September 30, 2016 and 2015, respectively. This is calculated as follows:

NET POSITION GOVERNMENTAL ACTIVITIES September 30, 2016 and 2015		
	<u>2016</u>	<u>2015</u>
ASSETS		
Current and other assets	\$ 4,997,114	\$ 6,802,986
Capital assets	<u>6,705,477</u>	<u>7,162,747</u>
Total assets	<u>11,702,591</u>	<u>13,965,733</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension liability	<u>806,288</u>	<u>18,550</u>
LIABILITIES		
Long-term liabilities outstanding	10,866,717	11,749,666
Other liabilities	<u>2,007,668</u>	<u>2,301,285</u>
Total liabilities	<u>12,874,385</u>	<u>14,050,951</u>
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue	327,135	418,430
Deferred inflows related to pension liability	<u>-</u>	<u>1,322,037</u>
Total deferred inflows	<u>327,135</u>	<u>1,740,467</u>
NET POSITION		
Net investment in capital assets	1,289,973	1,277,721
Unrestricted	<u>(1,982,614)</u>	<u>(3,084,856)</u>
Total net position	<u>\$ (692,641)</u>	<u>\$ (1,807,135)</u>

**CITY OF TUSKEGEE, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Governmental Activities

Governmental activities **increased** net position in 2016 by \$1,114,494 and net position **decreased** during fiscal year 2015 by \$492,660. The following schedule compares the revenue to expenses for the current year to the prior year.

**CHANGES IN NET POSITION
GOVERNMENTAL ACTIVITIES
September 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
REVENUES		
Program revenues:		
Charges for services	\$ 1,337,686	\$ 1,302,149
Operating grants and contributions	2,985,338	2,907,293
Capital grants and contributions	-	250,263
General revenues:		
Sales taxes	2,406,519	2,255,635
Property taxes	296,409	297,886
Other taxes	3,686,357	4,509,872
Other	<u>2,384,185</u>	<u>1,561,570</u>
Total revenues	<u>13,096,494</u>	<u>13,084,668</u>
EXPENSES		
General government	3,305,841	3,764,809
Public works	1,461,623	2,012,034
Public safety	3,413,107	3,842,909
Culture and recreation	218,548	294,399
Education	3,130,299	3,197,315
Interest on long-term debt	<u>452,582</u>	<u>465,862</u>
Total expenses	<u>11,982,000</u>	<u>13,577,328</u>
Change in net position	<u>1,114,494</u>	<u>(492,660)</u>
Net position (deficit)	(1,807,135)	(4,792,656)
Prior period adjustments	<u>-</u>	<u>3,478,181</u>
Net position (deficit) - Beginning, as restated	<u>(1,807,135)</u>	<u>(1,314,475)</u>
Net position (deficit) - Ending	<u>\$ (692,641)</u>	<u>\$ (1,807,135)</u>

Financial Analysis of the City's Funds

This section provides an analysis of the balances and transactions of individual funds. As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

CITY OF TUSKEGEE, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, spendable fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At September 30, 2016, the City's governmental funds reported combined ending fund balances of \$311,111. Of this amount, \$301,680 was reported as a deficit in the General Fund, \$19,576 was reported as a deficit in Head Start, \$18,609 is a surplus in the Occupational Tax Fund, and a surplus of \$613,758 in the combined nonmajor governmental funds.

General Fund Budgetary Highlights

Actual General Fund revenues were short of budgeted revenues by \$242,330 and General Fund expenditures were below budgeted expenditures by \$1,020,826.

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental activities as of September 30, 2016 amounted to \$6,705,477 and at September 30, 2015 amounted to \$7,024,312 (net of accumulated depreciation).

This investment in capital assets includes land, buildings, improvement, vehicles and equipment, furniture and office equipment, heavy equipment and infrastructure. Capital asset additions for the year ended September 30, 2016 included \$- for vehicles and equipment, \$- for furniture and small equipment, \$- for buildings and improvements.

Capital Assets (Net of Depreciation)

	<u>2016</u>	<u>2015</u>
Land	\$ 702,625	\$ 702,625
Buildings	4,205,115	4,232,438
Improvements	959,695	1,084,502
Vehicles and equipment	332,596	435,988
Furniture and office equipment	66,519	66,519
Heavy equipment	115,503	168,773
Infrastructure	<u>323,424</u>	<u>333,467</u>
Total	<u><u>\$ 6,705,477</u></u>	<u><u>\$ 7,024,312</u></u>

Additional information on the City's capital assets can be found in Note 8 on page 33.

**CITY OF TUSKEGEE, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Long-Term Debt

At September 30, long-term debt consisted of the following:

	<u>2016</u>	<u>2015</u>
General Obligation Bonds, net	\$10,562,312	\$10,881,301
Capital Lease Obligations	113,851	137,762
Notes Payable	<u>255,778</u>	<u>512,235</u>
 Total	 <u>\$10,931,941</u>	 <u>\$11,531,298</u>

Additional information on the City's long-term debt can be found in Note 10 beginning on page 34.

Economic Factors and Next Year's Budget and Rates

- The general ad valorem tax rate for fiscal year 2016 was 10 mills and remains unchanged for fiscal year 2017.
- The Tuskegee Airmen Museum brought a moderate increase in revenue to the City's economy and continues to attract visitors.
- Exit 38 development is in process and should begin initial ground-breaking in early summer 2017. Current plans include an 80 room major hotel, 24/7 convenient store, gas station, bus terminal as well as a huddle house and Burger King Restaurant as tenants. According to the Macon County Economic Development Authority Director, as many as fifteen retailers have expressed serious interest in locating at this location.
- The City's Commerce Park is another site generating interest. A number of Auto Industry suppliers are looking into the site for manufacturing or distribution operations as well as a number of Robotic related enterprises. It is expected that suppliers to the Potential Leonardo Fighter Plane Opportunity will also locate in this Park.
- Downtown Development activity has started and will accelerate in late 2017 to early 2018. Repairs and rehab of dilapidated buildings, and beautification efforts are in place. The City is working towards becoming an Alabama Main Street Certified City in 2018.
- Economic Development plans include specific initiatives to increase Tourism Traffic and revenue, as well as efforts to grow the current population base.
- There are a number of recent developments that positively affect the Downtown area and City Revenue. American Deli Sandwich Shop replaced the KFC/Taco Bell operation and should replace jobs and revenue losses created by KFC/Taco Bell departure.

CITY OF TUSKEGEE, ALABAMA MANAGEMENT'S DISCUSSION AND ANALYSIS

- Plans are underway for a new 'LiL Caesar's Pizza restaurant to locate downtown. Franchisee has corporate support and is planning to opening in June 2017.
- The ongoing Cox court case resulted in reduced franchise fee revenue for budget year 2016 and 2017. Attorneys are working towards the return of the full 5% franchise fee opportunity verses 3% determined by the court. This will have a positive impact on the revenues for budget 2017.
- There are a number of significant opportunities being addressed at the City's Municipal Airport (Moton Field). Leonardo, RSA a large Italian Aircraft manufacturing plant selected Moton Field as the operating site if awarded the U.S. Air Force Contract to build Trainer Planes. This project has City, County, Tuskegee University and the State of Alabama's strong support. If Leonardo receives the award, over 700 jobs with average pay of \$24 per hour will be created over the first 2 to 4 years. The Air Force is expected to award in late fall of 2017.
- A new Terminal building Grant was received. Design direction was finalized April, 2017. Construction is expected to begin August 2017 and opening June 2018.
- As a result of major cost cutting initiatives employed in 2016, the City was able to reduce payables and significantly improve financial status.

Request for Information

This financial report is designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions concerning any of the information provided in this report or need additional financial information, contact the City's Finance Director at 101 Fonville Street, Tuskegee, Alabama 36083. Additional information can be found on the City's web site at <http://www.tuskegeealabama.org>.

CITY OF TUSKEGEE
STATEMENT OF NET POSITION
September 30, 2016

ASSETS

Cash and cash equivalents	\$ 402,126
Receivables	185,713
Due from other governments	578,808
Money market accounts - restricted	583,122
Net pension asset	3,129,233
Other assets	118,112
Land and other nondepreciable assets	702,625
Capital assets, net of depreciation	<u>6,002,852</u>
Total assets	<u>\$11,702,591</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pension	<u>\$ 806,288</u>
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LIABILITIES

Accounts payable	\$ 811,542
Accrued payroll and payroll liabilities	415,493
Accrued interest payable	122,135
Due to other governments	2,600
Noncurrent liabilities	
Due within one year:	
Notes payable	112,594
Bonds payable outstanding	330,000
Capital lease obligations	23,551
Compensated absences	189,753
Due in more than one year:	
Notes payable	143,184
Bonds payable	10,232,312
Capital lease obligations	90,300
Compensated absences	<u>400,921</u>
Total liabilities	<u>12,874,385</u>

DEFERRED INFLOWS OF RESOURCES

Unearned revenue - property taxes	<u>327,135</u>
Total deferred inflows of resources	<u>327,135</u>

NET POSITION (DEFICIT)

Net investment in capital assets	1,289,973
Unrestricted	<u>(1,982,614)</u>
Total net position (deficit)	<u>\$ (692,641)</u>

CITY OF TUSKEGEE
STATEMENT OF ACTIVITIES
September 30, 2016

Functions/Programs	Expenses	Program	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
General government	\$ 3,305,841	\$ 229,761	\$ 190,970
Public works	1,461,623	1,107,925	-
Public safety	3,413,107	-	36,305
Health and welfare	-	-	37,291
Culture and recreation	218,548	-	3,999
Education	3,130,299	-	2,716,773
Interest	<u>452,582</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 11,982,000</u>	<u>\$ 1,337,686</u>	<u>\$ 2,985,338</u>

General Revenues

Taxes:

Sales taxes

Property taxes

Gasoline taxes

Other taxes

Miscellaneous

Investment earnings

Total general revenues

Change in net position

Net position - beginning, as stated

Net position (deficit) - ending

Revenues	
Capital Grants and Contributions	Net (Expenses) Revenues and Expenses in Net Position
\$ -	\$ (2,885,110)
-	(353,698)
-	(3,376,802)
-	37,291
-	(214,549)
-	(413,526)
-	(452,582)
<u>\$ -</u>	<u>(7,658,976)</u>

2,406,519
 296,409
 111,255
 3,575,102
 2,383,921
264

8,773,470

1,114,494

(1,807,135)

\$ (692,641)

CITY OF TUSKEGEE
BALANCE SHEET
September 30, 2016

	General Fund	Head Start
ASSETS		
Cash and cash equivalents	\$ 236,149	\$ 62,436
Receivables	184,550	-
Due from other governments	576,084	2,723
Due from other funds	614,850	-
Other assets	118,112	-
Money market accounts - restricted	<u>-</u>	<u>-</u>
Total assets	<u><u>\$ 1,729,745</u></u>	<u><u>\$ 65,159</u></u>
LIABILITIES		
Accounts payable	\$ 801,486	\$ 10,058
Accrued payroll and payroll liabilities	340,816	74,677
Due to other funds	561,988	-
Due to other governments	<u>-</u>	<u>-</u>
Total liabilities	1,704,290	84,735
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue - property taxes	<u>327,135</u>	<u>-</u>
Total deferred inflows of resources	<u>327,135</u>	<u>-</u>
FUND BALANCES (DEFICIT)		
Restricted	-	-
Assigned	-	-
Unassigned (deficit)	<u>(301,680)</u>	<u>(19,576)</u>
Total fund balances (deficit)	<u>(301,680)</u>	<u>(19,576)</u>
Total liabilities, deferred inflows of resources and fund balances (deficit)	<u><u>\$ 1,729,745</u></u>	<u><u>\$ 65,159</u></u>

Occupational Tax	Other Governmental Funds	Total Governmental Funds
\$ 17,445	\$ 86,099	\$ 402,129
1,164	-	185,714
-	-	578,807
-	-	614,850
-	-	118,112
-	583,121	583,121
<u>\$ 18,609</u>	<u>\$ 669,220</u>	<u>\$ 2,482,733</u>
\$ -	\$ -	\$ 811,544
-	-	415,493
-	52,862	614,850
-	2,600	2,600
-	55,462	1,844,487
-	-	327,135
-	-	327,135
-	583,392	583,392
18,609	4,499	23,108
-	25,867	(295,389)
<u>18,609</u>	<u>613,758</u>	<u>311,111</u>
<u>\$ 18,609</u>	<u>\$ 669,220</u>	<u>\$ 2,482,733</u>

CITY OF TUSKEGEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
September 30, 2016

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

Total fund balances (deficit) - governmental funds	\$ 311,111
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the governmental funds.	6,705,477
Employer contributions to defined benefit pension plan are recorded as expenditures in governmental funds when paid. Net employer contributions in excess of the actuarially determined total pension liability are reported as an asset in the Statement of Net Pension.	3,129,233
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	806,288
Certain liabilities will not require current financial resources, and therefore, are not reported as expenditures in the governmental funds: Accrued interest payable	(122,135)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the governmental funds.	<u>(11,522,615)</u>
Change in net position of governmental activities	<u><u>\$ (692,641)</u></u>

CITY OF TUSKEGEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the year ended September 30, 2016

	General Fund	Head Start
REVENUES		
Taxes	\$ 4,227,508	\$ -
Licenses and permits	638,933	-
Intergovernmental	274,572	2,716,974
Charges for services	1,337,686	-
Fines and forfeitures	243,458	-
Interest	232	-
Donated services and space	-	435,287
Miscellaneous	<u>426,281</u>	<u>5,295</u>
Total revenues	<u>7,148,670</u>	<u>3,157,556</u>
EXPENDITURES		
General government	3,081,295	-
Public works	1,450,507	-
Public safety	3,326,238	-
Culture and recreation	209,277	-
Education	-	3,130,299
Debt service:		
Principal	-	-
Interest	<u>-</u>	<u>-</u>
Total expenditures	8,067,317	3,130,299
Excess (Deficiency) of Revenues over (under) Expenditures	(918,647)	27,257
OTHER FINANCING SOURCES (USES)		
Transfers in (out)	<u>1,722,202</u>	<u>-</u>
Total other financing sources (uses)	<u>1,722,202</u>	<u>-</u>
Net change in fund balances	803,555	27,257
Fund Balances (Deficit) - beginning, as restated	<u>(1,105,235)</u>	<u>(46,833)</u>
Fund Balances (Deficit) - ending	<u><u>\$ (301,680)</u></u>	<u><u>\$ (19,576)</u></u>

Occupational Tax	Other Governmental Funds	Total Governmental Funds
\$ 2,010,106	\$ 151,805	\$ 6,389,419
-	-	638,933
-	282,466	3,274,012
-	-	1,337,686
-	-	243,458
-	34	266
-	-	435,287
-	77,769	509,345
<u>2,010,106</u>	<u>512,074</u>	<u>12,828,406</u>
-	-	3,081,295
-	12,210	1,462,717
-	-	3,326,238
-	-	209,277
-	-	3,130,299
-	325,000	325,000
-	403,284	403,284
-	740,494	11,938,110
2,010,106	(228,420)	890,296
<u>(1,992,522)</u>	<u>270,320</u>	<u>-</u>
<u>(1,992,522)</u>	<u>270,320</u>	<u>-</u>
17,584	41,900	890,296
<u>1,025</u>	<u>571,858</u>	<u>(579,185)</u>
<u>\$ 18,609</u>	<u>\$ 613,758</u>	<u>\$ 311,111</u>

CITY OF TUSKEGEE
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	\$ 890,296
Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Activities.	(457,269)
Amortization expense on bond discount costs are included in the Statement of Activities; however, these charges are not included in the governmental funds.	(49,298)
Decreases and increases in accrued interest affect expenditures in the Statement of Activities; however these are not included in the governmental funds.	13,519
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 pension expense	270,433
Repayment of short-term debt and long-term debt is reported as an expenditure in governmental funds, but as a reduction in short-term liabilities and long-term liabilities in the Statement of Net Position.	325,000
Compensated absences reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds.	<u>121,813</u>
Net position (deficit) of governmental activities	<u><u>\$ 1,114,494</u></u>

CITY OF TUSKEGEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the year ended September 30, 2016

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
REVENUES				
Taxes	\$ 4,775,800	\$ 4,775,800	\$ 4,227,508	\$ (548,292)
Licenses and permits	639,000	639,000	638,933	(67)
Intergovernmental	88,000	88,000	274,572	186,572
Charges for services	1,273,000	1,273,000	1,337,686	64,686
Fines and forfeitures	310,000	310,000	243,458	(66,542)
Interest	-	-	232	232
Miscellaneous	<u>305,200</u>	<u>305,200</u>	<u>426,281</u>	<u>121,081</u>
Total revenues	<u>7,391,000</u>	<u>7,391,000</u>	<u>7,148,670</u>	<u>(242,330)</u>
EXPENDITURES				
General government	3,437,990	3,437,990	3,081,295	356,695
Public works	1,733,687	1,733,687	1,450,507	283,180
Public safety	3,619,255	3,619,255	3,326,238	293,017
Culture and recreation	297,211	297,211	209,277	87,934
Debt service:				
Principle	-	-	-	-
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	9,088,143	9,088,143	8,067,317	1,020,826
Excess revenues under expenditures	(1,697,143)	(1,697,143)	(918,647)	778,496
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>1,697,143</u>	<u>1,697,143</u>	<u>1,722,202</u>	<u>25,059</u>
Total other financing sources (uses)	<u>3,394,286</u>	<u>3,394,286</u>	<u>3,444,404</u>	<u>25,059</u>
Net change in fund balance	1,697,143	1,697,143	2,525,757	803,555
Fund Balance (Deficit) - beginning	<u>-</u>	<u>-</u>	<u>(1,105,235)</u>	<u>(1,105,235)</u>
Fund Balance (Deficit) - ending	<u>\$ 1,697,143</u>	<u>\$ 1,697,143</u>	<u>\$ 1,420,522</u>	<u>\$ (301,680)</u>

CITY OF TUSKEGEE
HEAD START
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
(Contract Period November 1, 2015 - October 31, 2016
For the year ended September 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis PY Actual</u>	<u>Budgetary Basis Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
REVENUES					
Intergovernmental	\$ 2,299,707	\$ 2,716,975	\$ 2,053,009	\$ 2,716,974	\$ (1)
Donated services and space	<u>574,927</u>	<u>574,927</u>	<u>415,846</u>	<u>435,287</u>	<u>(139,640)</u>
Total revenues	<u>2,874,634</u>	<u>3,291,902</u>	<u>2,468,855</u>	<u>3,152,261</u>	<u>(139,641)</u>
EXPENDITURES					
Education					
Personnel	1,528,454	1,528,454	1,203,439	1,506,286	(22,168)
Fringe	315,662	315,662	288,184	378,665	63,003
Travel	14,850	14,850	18,402	21,962	7,112
Supplies	39,475	39,475	43,622	77,468	37,993
Contractual	34,800	34,800	35,203	39,561	4,761
Other	366,466	783,734	464,159	693,032	(90,702)
Grantee's share	<u>574,927</u>	<u>574,927</u>	<u>415,846</u>	<u>435,287</u>	<u>(139,640)</u>
Total expenditures	<u>2,874,634</u>	<u>3,291,902</u>	<u>2,468,855</u>	<u>3,152,261</u>	<u>(139,641)</u>
Net change in fund balance	-	-	-	-	-
Fund Balance - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF TUSKEGEE
HEAD START
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
(Contract Period November 1, 2014 - October 31, 2015)
For the year ended September 30, 2016

			Budgetary Basis	Variance With Final Budget- Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Intergovernmental	\$ 1,149,853	\$ 2,307,849	\$ 2,053,009	\$ (254,840)
Donated services and space	<u>287,463</u>	<u>415,846</u>	<u>415,846</u>	<u>-</u>
Total revenues	<u>1,437,316</u>	<u>2,723,695</u>	<u>2,468,855</u>	<u>(254,840)</u>
EXPENDITURES				
Education				
Personnel	757,688	1,515,375	1,203,439	311,936
Fringe	162,178	324,356	288,184	36,172
Travel	7,425	14,850	18,402	(3,552)
Supplies	21,164	50,471	43,622	6,849
Contractual	16,650	33,300	35,203	(1,903)
Other	184,748	369,497	464,159	(94,662)
Grantee's share	<u>287,463</u>	<u>415,846</u>	<u>415,846</u>	<u>-</u>
Total expenditures	1,437,316	2,723,695	2,468,855	254,840
Net change in fund balance	-	-	-	-
Fund Balance - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Tuskegee, Alabama (the “City”), was incorporated in 1843. The City operates under a Council-Manager form of government lead by a four-member Council, a Mayor and an appointed City Manager. The council-manager form is the system of local government that combines the political leadership of elected officials in the form of a council and mayor, with the managerial experience of an appointed local government manager. The form establishes a representative system where all power is concentrated in the elected council and where the council hires a professionally trained manager to oversee the delivery of public services.

The City's major operations include police and fire protection, parks, library and recreation, public works and general administrative services. In addition, the City owns and operates a water and sewer system.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. Because one of the objectives of financial reporting is to provide users of financial statements with a basis for assessing the accountability of those elected officials, the definition of the financial reporting entity should be based on accountability.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The nucleus of a financial reporting entity usually is a primary government.

A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency, component unit, if its officials appoint a voting majority of that agency's governing body and it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government.

The City has no component units that are required to be reported in these financial statements.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

B. Related Organization

The Utility Board of the City of Tuskegee (UBT) is a related organizations to which the City appoints a voting majority of board members but for which the City has no significant financial accountability. For the year 2016, three (3) of the five (5) board members are elected governing officials of the City (Mayor and 2 Councilors) and the remaining members are elected at large. All transactions with UBT are conducted in the ordinary course of business. Further financial information is available from UBT at P.O. Box 831050, 101 Fonville Street, Tuskegee, AL 36083

C. Basic Financial Statements - Government-Wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and fire protection, parks, library and recreation, public works, and general administrative services are classified as governmental activities.

In the government-wide Statement of Net Position, governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions (police, fire, parks, library and recreation, public works, and general administrative services). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police and fire protection, parks and recreation, public works, and general administrative services). Operating grants include operating-specific and discretionary grants while the capital grants column reports capital-specific grants.

The net costs (by function) are normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc).

The City does not allocate indirect costs. An administrative service fee is not charged by the General Fund to the other operating funds to recover the direct costs of General Fund services provided (finance, personnel, purchasing, legal, technology management, etc.).

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

D. Basic Financial Statements - Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses.

The emphasis in fund financial statements is on the major funds. Nonmajor funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City electively added funds, as major funds, which either had debt outstanding or specific community focus. The nonmajor funds are combined in a column in the fund financial statements.

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The City reports these major governmental funds and fund types:

General Fund – This 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.

Head Start – This fund accounts for the activities of the City's Head Start Program.

Occupational Tax – This fund accounts for tax revenue generated by a locally imposed tax used to fund debt service and general government operations.

The activities reported in these funds are reported as governmental activities in the government-wide financial statements.

E. 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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

F. Financial Statement Amounts

1. Cash and Cash Equivalents

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

2. Investments

The City's investments are limited to money market funds. These investments are reported at amortized cost, which approximates fair value.

3. Receivables and Due from Other Governments

The City considers all governmental fund receivables at year end to be collectible and as such, no allowance for doubtful accounts is recorded.

4. Inventories

Purchases of inventories for governmental funds are reported as expenditures in the period purchased. Inventories for governmental funds are not deemed material and are not reported on the balance sheet.

5. 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 either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6. Restricted Cash and Cash Equivalents

The assets restricted by bond agreement as shown in the Statement of Net Position are to be used strictly to retire the long-term debt. The assets were accumulated according to the bond indenture of the various issues. It is the City's policy to use restricted assets before unrestricted assets when both are available to fund specific expenditures.

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column 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 and capital assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The City does not report infrastructure acquired prior to October 1, 1999.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	30-50 years
Improvements	15-30 years
Furniture and office equipment	5-15 years
Vehicles and equipment	5-10 years
Heavy equipment	5-10 years
Infrastructure	30-50 years

8. 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. The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual leave balances.

9. Long-term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums, discounts and bond insurance 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.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

10. 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 one item reported in this category, deferred outflows related to pension. 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 accordance with the implementation of GASB Statement No. 71. Refer to the "Impact of Recently Issued Accounting Pronouncements" section of Note 1 for additional information.

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 three items that qualify for reporting in this category deferred inflows related to pension, unearned property taxes, and unearned grant revenue. A deferred inflow related to pension results from the net difference between projected and actual earnings on plan investments, in accordance with the implementation of GASB Statement No. 71, and is amortized over five years beginning with the year in which the difference occurred. Refer to the "Impact of Recently Issued Accounting Pronouncements" section of Note 1 for additional information.

11. Net Position/Fund Equity

Net positions are reported on the government-wide financial statements and are 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.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

Fund equity 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.

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 money market funds restricted 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.

Assigned – Fund balances that contain self-imposed constraints of the government to be used for a particular purpose.

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

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 needed to fund specific expenditures.

12. Donated Services and Space

Significant services, materials and facilities are donated to the City's Head Start program by various individuals and organizations. Donated materials, professional services and facilities were recorded at fair market value at the date of donation, and have been included in revenue and expenditures for the year.

13. 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. In accordance with the non-exchange transaction provision of GASB Statement No. 33, taxes levied in fiscal year 2016 for the 2016 budget year have been recorded as a receivable and deferred inflows of resources. Accounts receivable are carried at their estimated collectible amounts. They are periodically evaluated for collectability based on past credit history.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

14. Management Estimates and Assumptions

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

Impact of Recently Issued Accounting Pronouncements

Recently Issued and Adopted

In fiscal year 2016, the City adopted three new statements of financial accounting standards issued by the GASB:

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 requires the City to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements.

In June 2015, GASB issued 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*. The requirements of this statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities. The provisions of Statement No. 73 that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2015, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of Statement No. 73 for pension plans that are within the scope of Statement No. 67 or for pensions that are within the scope of Statement No. 68 are effective for fiscal years beginning after June 15, 2015.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The scope of this statement includes defined benefit and defined contribution other postemployment benefit (“OPEB”) plans administered through trusts that meet specified criteria. This statement establishes financial reporting standards for state and local governmental OPEB plans. The Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Statement No. 74 is effective for financial statements for fiscal years beginning after June 15, 2015.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employees. This Statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB plans this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures and required supplementary information are also addressed by the statement. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 75 is effective for fiscal years beginning after June 15, 2017. The implementation of Statement No. 75 did not impact the financial statements of the City.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. It also amends Statement No. 62, *Codification of accounting and financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraph 64, 74, and 82. The provisions of Statement No. 76 are effective for financial statements for periods beginning after June 15, 2015.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. For financial reporting purposes, this statement defines tax abatement and contains required disclosures about a reporting government’s own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government’s tax revenues. The requirements of GASB Statement No. 77 are effective for financial statements for periods beginning after December 15, 2016.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Recently Issued Pronouncements

In December 2015, the GASB issued Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*". This statement will address a practice issue regarding the scope and applicability of Statement No. 68. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In December 2015, the GASB issued Statement No. 79, "*Certain External Investment Pools and Pool Participants*". This statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In January 2016, the GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*". This statement will enhance the comparability of financial statements among governments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 81, "*Irrevocable Split-Interest Agreements*". This statement will enhance the comparability of financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 82, "*Pension Issues*". This statement will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Each year formal budgets are legally adopted and amended as required by the City Council for the General Fund and Head Start Fund. 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. The actual results of operations in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Head Start are presented on a budgetary basis for budgetary accounting purposes. Adjustments to convert the results of operation of Head Start at the end of the year from the budgetary basis of accounting to the GAAP basis of accounting are as follows:

	<u>Expenditures</u>	<u>Total Revenue</u>
Budget basis	\$ -	\$ -
Non-budgeted revenues, expenditures, and other sources:		
Operating expenditures	-	-
Intergovernmental - grants	-	-
GAAP basis	<u>\$ -</u>	<u>\$ -</u>

Deficit Fund Equity

The General Fund receives transfers from other funds to cover anticipated excesses in expenditures over revenues. General Fund expenditures have exceeded revenues in prior years resulting in deficits. Management has increased certain taxes, implemented cost reduction measures and promoted economic development which should eventually result in the reduction or reversal of these deficits.

The Head Start Fund receives funding from federal and state grant sources as well as local donations. Management believes the fund deficit is temporary and will be resolved in the next fiscal year.

NOTE 3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance sheet and the Statement of Net Position

Deferred inflows of resources, long-term liabilities, and deferred outflows of resources applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities or deferred inflows of resources or deferred

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONT'D)

outflows of resources. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities—both current and long-term—are reported in the statement of net position. Recognition of pension expense on the accrual basis also includes recognition of deferred inflows of resources, deferred outflows of resources, and the net pension liability in the government-wide statements, but the governmental funds recognize these amounts on the modified accrual basis.

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

Repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position.

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due rather than as it accrues. This adjustment is a combination of five items.

NOTE 4 - DEPOSITS AND INVESTMENTS

The City has elected to place its cash and cash equivalents in demand deposits, savings and certificates of deposit accounts. 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. The City maintains deposits only with “Qualified Public Depositories” as defined by Section 41-14A2 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.

Money Market Accounts - Restricted

In accordance with provisions of bond issues, the City maintains money market accounts which are restricted for debt service. Total funds invested in money market accounts at September 30, 2016 are \$583,122.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - DEPOSITS AND INVESTMENTS (CONT'D)

Custodial Risk

The custodial risk for deposits with financial institutions is the risk that in the event of a bank's failure, the City's deposits may not be returned to it. By making deposits with Qualified Public Depository mitigates the City's risk.

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the City will not be able to recover the value of its investments that are in possession of an outside party.

NOTE 5 - RECEIVABLES

At September 30, 2016, receivables of \$185,713 were comprised primarily funds due from the settlement of franchise fee litigation.

NOTE 6 - DUE FROM OTHER GOVERNMENTS

Balances due from other governments as of year-end are as follows:

	<u>General</u>	<u>Head Start</u>	<u>Total</u>
Due from:			
Utility Board of Tuskegee	\$ 233,960	\$ -	\$ 233,960
Macon County	342,124	-	342,124
Grantors	<u>-</u>	<u>2,723</u>	<u>2,723</u>
	<u>\$ 576,084</u>	<u>\$ 2,723</u>	<u>\$ 578,807</u>

NOTE 7 – INTERFUND ACTIVITY

Interfund transfers are generally used to meet cash demands necessary to pay operating expenses. The composition of interfund transfers at September 30, 2016 is as follows:

Interfund Transfers	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net</u>
General Fund	\$ (2,852,829)	\$ 1,130,625	\$ (1,722,204)
Occupational Tax Fund	-	1,992,524	1,992,524
Other Governmental Funds	<u>(613,059)</u>	<u>342,739</u>	<u>(270,320)</u>
	<u>\$ (3,465,888)</u>	<u>\$ 3,465,888</u>	<u>\$ -</u>

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	<u>\$ 702,625</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 702,625</u>
Capital assets, being depreciated:				
Buildings	\$ 5,461,006	\$ -	\$ -	\$ 5,461,006
Improvements	2,294,044	-	-	2,294,044
Vehicles and equipment	2,116,069	-	-	2,116,069
Furniture and office equipment	201,072	-	-	201,072
Heavy equipment	1,388,971	-	-	1,388,971
Infrastructure	<u>2,643,123</u>	<u>-</u>	<u>-</u>	<u>2,643,123</u>
Total capital assets, being depreciated	<u>4,104,285</u>	<u>-</u>	<u>-</u>	<u>4,104,285</u>
Less accumulated depreciation for:				
Buildings	1,090,133	165,758	-	1,255,891
Improvements	1,209,542	124,807	-	1,334,349
Vehicles and equipment	1,680,081	103,392	-	1,783,473
Furniture and office equipment	134,553	-	-	134,553
Heavy equipment	1,220,198	53,270	-	1,273,468
Infrastructure	<u>2,309,656</u>	<u>10,043</u>	<u>-</u>	<u>2,319,699</u>
Total accumulated depreciation	<u>7,644,163</u>	<u>457,270</u>	<u>-</u>	<u>8,101,433</u>
Total capital assets, being depreciated, net	<u>\$ 6,460,122</u>	<u>\$ (457,270)</u>	<u>\$ -</u>	<u>\$ 6,002,852</u>
Depreciation expense was charged to functions of governmental activities as follows:				
General government				\$ 361,130
Public safety				86,869
Public works				<u>9,271</u>
Total depreciation expense - governmental activities				<u>\$ 457,270</u>

NOTE 9 - ACCRUED PAYROLL AND PAYROLL LIABILITIES

At September 30, 2016, accrued payroll is comprised of the following:

Salaries payable	\$ 118,377
Federal withholding taxes payable	61,620
Retirement payable	10,695
Occupational tax payable - City	173,194
Miscellaneous payable	<u>51,607</u>
Total accrued payroll and payroll liabilities	<u>\$ 415,493</u>

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 - 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 warrants	\$ 11,010,000	\$ -	\$ 325,000	\$ 10,685,000	\$ 330,000
Bond discounts	(128,699)	-	(6,012)	(122,687)	(6,012)
Notes payable	374,473	-	118,695	255,778	112,594
Capital leases	137,762	-	23,911	113,851	23,551
Compensated absences	666,424	-	75,750	590,674	189,753
	<u>\$ 12,059,960</u>	<u>\$ -</u>	<u>\$ 537,344</u>	<u>\$ 11,522,616</u>	<u>\$ 649,886</u>

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

	Governmental Activities General Obligation Warrants	
Fiscal Year Ending September 30,	Principal	Interest
2017	\$ 466,144	\$ 456,153
2018	437,162	441,143
2019	447,768	429,137
2020	393,395	411,237
2021	390,160	397,148
2022-2026	2,530,000	1,720,851
2027-2031	2,825,000	1,126,124
2032-2036	3,005,000	466,673
2037	<u>560,000</u>	<u>13,160</u>
	<u>\$ 11,054,629</u>	<u>\$ 5,461,626</u>

2007 General Obligation Warrants

On or about February 1, 2007, the City issued \$8,220,000 of General Obligation Warrants Series 2007 bonds. The proceeds were used to retire all outstanding long-term debt of the City and fund certain capital improvements. The warrants mature at various times throughout the life of the bonds and pay interest at rates ranging from 4.00% to 4.70%.

The City has pledged a portion of future occupational tax revenues to repay \$8,220,000 of General Obligation Warrant Series 2007 bonds. The bonds are payable solely from the occupational tax revenues. Occupational tax revenues were projected to produce in excess of 100% of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is \$11,399,627 payable through January 2037. For the current year, principal and interest paid and total occupational tax revenues were \$472,829 and \$2,009,975, respectively.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 - LONG-TERM DEBT (CONT'D)

2013 Limited Obligation Gas Tax Warrants

On or about January 24, 2013, the City issued \$1,185,000 of Limited Obligation Gas Tax Warrants Series 2013 bonds. The proceeds were used to retire the Limited Obligation Gas Tax Warrants Series 2007 bonds and fund certain street improvements. The warrants mature at various times throughout the life of the bonds and pay interest at rates ranging from 1.00% to 2.65%.

The City has pledged a portion of future gas tax revenues to repay \$1,185,000 of Limited Obligation Gas Tax Warrants Series 2013 bonds. The bonds are payable solely from gas tax revenues. Gas tax revenues were projected to produce in excess of 100% of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is \$955,000 payable through September 2027. For the current year, principal and interest paid and total gas tax revenues were \$100,790 and \$146,493, respectively.

2013 Tuskegee - UBT Cooperative District Revenue Bonds

On or about November 27, 2013, the City issued \$2,790,000 of 2013 Tuskegee - UBT Cooperative District Revenue bonds. The proceeds were used to retire a debt owed to the IRS and make certain capital improvements. The warrants mature at various times throughout the life of the bonds and pay interest at rates ranging from 3.00% to 4.40%.

The City has pledged a portion of future special gas tax revenues, special lodging tax revenues and special sales tax revenues to repay \$2,790,000 of bonds. The bonds are payable solely from special gas tax revenues, special lodging tax revenues and special sales tax revenues. These revenues were projected to produce in excess of 100% of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is \$3,633,047 payable through September 2027. For the current year, principal and interest paid and total special tax revenues were \$154,665 and \$137,432, respectively.

Fiscal Year Ending September 30,	Governmental Activities	
	Notes Payable	
	Principal	Interest
2017	\$ 112,594	\$ 5,970
2018	72,095	3,085
2019	71,089	4,092
	<u>\$ 255,778</u>	<u>\$ 13,147</u>

Note Payable – Kansas State Bank

In September 2015, the City entered into an agreement to purchase a garbage truck in the amount of \$168,489. Payments are made in monthly installments of \$3,064 with an annual interest rate of 3.610%, maturing August 2019. Note is secured by equipment.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 - LONG-TERM DEBT (CONT'D)

Note Payable – BB&T Governmental Finance

In September 2015, the City entered into an agreement to purchase police vehicles in the amount of \$182,300. Payments are made in monthly installments of \$3,201 with an annual interest rate of 2.07%, maturing August 2019. Note is secured by vehicles.

Note Payable – Tuskegee Federal Credit Union

In June 2016, the City entered into a note payable agreement in the amount of \$110,025. Payments are made in monthly installments of \$4,820 with an annual interest rate of 5.00%, maturing June 2017. Note is secured by a certificate of deposit.

Capital Lease Obligation – Police Headquarters Building

In June 2009, the City entered into an agreement to purchase land and building to serve as headquarters for the City's police department in the amount of \$232,000. Payments are made in monthly installments of \$2,500 with an annual interest rate of 6.25%.

Fiscal Year Ending September 30,	Governmental Activities	
	Capital Lease Obligation	
	Principal	Interest
2017	\$ 23,551	\$ 6,449
2018	25,066	4,935
2019	26,679	3,321
2020	28,395	1,605
2021	10,160	4,092
	<u>\$ 113,851</u>	<u>\$ 20,402</u>

Other Long-Term Debt

Compensated absences are generally liquidated by the City's general fund.

Operating Leases

The City is a party to multiple leases for buildings and equipment used in their Head Start program, all of which are classified as operating leases. Total rent for these leases totaled \$70,035 for the fiscal year ended September 30, 2016.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 - LONG-TERM DEBT (CONT'D)

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms of one year or more are as follows for the fiscal years ending September 30:

2017	\$79,033
2018	\$78,238
2019	\$56,668
2020	\$35,098

NOTE 11 – EMPLOYEE RETIREMENT PLAN

Summary of Significant Accounting Policies for the Pension Plan

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 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 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.

General Information about the Pension Plan

Plan description. The Employees' Retirement System of Alabama ("ERS"), an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns and quasi-public organizations. The responsibility for the general administration and 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 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.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE RETIREMENT PLAN (CONT'D)

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.

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.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE RETIREMENT PLAN (CONT'D)

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

Retirees and beneficiaries currently receiving benefits	87
Vested inactive employees	3
Non-vested inactive employees	16
Post-drop Retired Members Still- Active	1
Active members	<u>175</u>
	<u>282</u>

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, 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 0% 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 0.35% of pensionable pay for Tier 1 employees, and 0.35% of pensionable pay for Tier 2 employees.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE RETIREMENT PLAN (CONT'D)

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 City were \$18,550 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:

	<u>Expected</u>	<u>Actual</u>
Total Pension Liability		
As of September 30, 2014 (a)	\$17,623,286	\$18,528,693
Entry Age Normal Cost for		
October 1, 2014 - September 30, 2015 (b)	406,304	406,304
Actual Benefit Payments and Refunds for		
October 1, 2014 - September 30, 2015 (c)	(1,281,202)	(1,281,202)
Total Pension Liability		
As of September 30, 2015		
[(a) x (1.08)] + (b) - [(c) x (1.04)]	\$20,771,903	\$21,749,743
Difference between Expected and Actual		
Experience (Gain) Loss	\$ -	\$ 977,840

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 2016 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.

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE RETIREMENT PLAN (CONT'D)

The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an investigation of the economic and demographic experience for the 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:

	Long-Term Target Allocation	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

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.

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:

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE RETIREMENT PLAN (CONT'D)

	<u>1% Decrease (7.00%)</u>	<u>Current Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
City's net pension liability (asset)	\$ <u>(1,203,472)</u>	\$ <u>(3,129,233)</u>	\$ <u>(4,765,034)</u>

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 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 June 3, 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 income of \$270,434. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 806,288	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	722,264	-
Employer contributions subsequent to the measurement date	722,264	-
Total	<u>\$ 1,528,552</u>	<u>\$ -</u>

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 171,551	\$ -
2018	171,551	-
2019	171,551	-
2020	171,551	-
2021	120,084	-

CITY OF TUSKEGEE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - RISK MANAGEMENT AND LITIGATION

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has obtained coverage from insurance companies, effectively transferring any risk of loss above the City's deductible of \$25,000. The City is a defendant in several litigations and claims arising in the ordinary course of operations. In the opinion of legal counsel, the range of potential recoveries or liabilities in excess of insurance coverage, if any is not reasonably determinable. No accruals for loss contingency have been made in the financial statements.

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

NOTE 13 - PRIOR PERIOD ADJUSTMENT

The City prior year financial statements have been adjusted to reflect additional capital assets that were not reported in the amount of \$3,864,886 (net of accumulated depreciation, understated accounts payable liabilities of \$392,424, and understated deferred inflows of assets related to pension cost of \$663,352. The cumulative effect of the adjusted reduced the net position deficit by \$3,478,181.

NOTE 14 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the issuance date of these financial statements, and no events were deemed to warrant disclosure.

CITY OF TUSKEGEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
September 30, 2015

Total Pension Liability	
Service cost	\$ 406,304
Interest	1,358,615
Changes of benefit terms	-
Differences between expected and actual experience	977,839
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(1,281,202)</u>
Net change in total pension liability	1,461,556
Total pension liability - beginning	<u>17,623,286</u>
Total pension liability - ending (a)	<u><u>\$19,084,842</u></u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 11
Contributions - member	293,762
Net investment income	264,671
Benefit payments, including refunds of employee contributions	(1,281,202)
Transfers among employers	<u>267,821</u>
Net change in plan fiduciary net position	(454,937)
Plan net position - beginning	<u>22,669,012</u>
Plan net position - ending (b)	<u><u>\$22,214,075</u></u>
Net Pension Liability (Asset)	
Net pension liability (asset) - ending (a) - (b)	\$ (3,129,233)
Plan fiduciary net position as a percentage of the total pension liability	116.40%
Covered-employee payroll*	\$ 5,482,274
Net pension liability (asset) as a percentage of covered-employee payroll	(84.26%)

*Employer's covered-payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For FY 2015, the measurement period is October 1, 2014 - September 2015.

CITY OF TUSKEGEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
September 30, 2015

Actuarially determined contribution*	\$ -
Contributions in relation to the actuarially determined contribution*	<u>-</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
Covered-employee payroll**	\$ -
Contributions as a percentage of covered-employee payroll	-

*Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. For FY 2016, the fiscal year is the twelve month period beginning 10/1/2015 and ending 9/30/2016.

**Employer's covered-payroll during fiscal year is the total payroll paid to covered employees (not just pensionable payroll). For FY 2016, the fiscal year is the twelve month period beginning 10/1/2015 and ending 9/30/2016.

Notes to Schedule

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2016 were based on the September 30, 2012 actuarial valuation.

Methods and assumptions used to determine contribution rates:

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

NONMAJOR GOVERNMENTAL FUNDS

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

Local Law Enforcement Block Grant accounts for activities associated with grant funds from the federal government to assist with the funding of specific needs of local law enforcement.

\$0.04 and \$0.05 State Gas Tax accounts for proceeds from a local gasoline tax. The use of this funding is restricted to expenditures related to construction, improvement and maintenance of highways, bridges, and streets.

\$0.07 Gas Tax 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.

Senior Citizen accounts for programs providing services primarily to senior citizens.

Debt Service Funds are established to account for activity specifically related to the retirement of outstanding long-term debt. The City has the following bond issues accounted for in the following funds:

2013 Tuskegee – UBT Cooperative Clearing Fund and 2013 Tuskegee – UBT Cooperative District Bond Fund

2013 Gas Tax Warrants Debt Service

2007 G.O. Warrants Debt Service

Capital Project Funds account for the acquisition and construction of major capital facilities, equipment and vehicles.

City Airport Project accounts for grant revenue and expenditures related to improvements at Moton Field.

CDBG Project LR-SF-SP 01-008 and CDBG Project LR-CM-CP 11-015 account for grant revenue and expenditures related to community revitalization and infrastructure improvements.

Special Projects accounts for various capital projects undertaken at the discretion of City management.

2007 G.O. Warrants Improvements accounts for revenue and expenditures related to capital improvements funded by the 2007 G.O. Warrants.

2013 Tuskegee – UBT Cooperative Reserve Fund accounts for revenue and expenditures related to capital improvements funded by the 2013 Tuskegee – UBT Cooperative District Bond.

**CITY OF TUSKEGEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2016**

		<u>Special Revenue</u>	
	<u>Local Law Enforcement Block Grant</u>	<u>\$0.04 & \$0.05 State Gas Tax</u>	<u>\$0.07 Gas Tax</u>
ASSETS			
Cash and cash equivalents	\$ 1,070	\$ 23	\$ 179
Money market accounts - restricted	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 1,070</u>	<u>\$ 23</u>	<u>\$ 179</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Due to other governments	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	-	-	-
Fund Balance:			
Restricted	-	-	-
Assigned	1,070	23	179
Unassigned (deficit)	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance (deficit)	<u>1,070</u>	<u>23</u>	<u>179</u>
Total liabilities and fund balance (deficit)	<u>\$ 1,070</u>	<u>\$ 23</u>	<u>\$ 179</u>

Funds		Special Revenue		
Senior Citizen	2013 Tuskegee UBT Cooperative Clearing Fund	2013 Tuskegee UBT Cooperative District Bond Fund	2013 Gas Tax Warrants	2007 G.O. Warrants Debt Service
\$ 1,848	\$ -	\$ -	\$ -	\$ 271
<u>-</u>	<u>-</u>	<u>120,432</u>	<u>66,394</u>	<u>191,816</u>
<u>\$ 1,848</u>	<u>\$ -</u>	<u>\$ 120,432</u>	<u>\$ 66,394</u>	<u>\$ 192,087</u>
2,600	-	-	-	-
2,600	-	-	-	-
-	-	120,432	66,394	192,087
-	-	-	-	-
<u>(752)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(752)</u>	<u>-</u>	<u>120,432</u>	<u>66,394</u>	<u>192,087</u>
<u>\$ 1,848</u>	<u>\$ -</u>	<u>\$ 120,432</u>	<u>\$ 66,394</u>	<u>\$ 192,087</u>

CITY OF TUSKEGEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (CONT'D)
September 30, 2016

	Capital Projects	
	City Airport Project	CDBG Project LRSFPF 01008
ASSETS		
Cash and cash equivalents	\$ 2,309	\$ -
Money market accounts - restricted	<u>-</u>	<u>-</u>
Total assets	<u><u>\$ 2,309</u></u>	<u><u>\$ -</u></u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Due to other funds	-	-
Due to other governments	<u>-</u>	<u>-</u>
Total liabilities	-	-
Fund Balance (Deficit):		
Restricted	-	-
Assigned	2,309	-
Unassigned (deficit)	<u>-</u>	<u>-</u>
Total fund balance (deficit)	<u>2,309</u>	<u>-</u>
Total liabilities and fund balance (deficit)	<u><u>\$ 2,309</u></u>	<u><u>\$ -</u></u>

Funds				Total
Special Projects	CDBG Project LRCMCP 11015	2007 G.O. Warrant Improvements	2013 Tuskegee UBT Cooperative Reserve Fund	Nonmajor Governmental Funds
\$ 893	\$ 79,481	\$ 25	\$ -	\$ 86,099
<u>-</u>	<u>-</u>	<u>-</u>	<u>204,479</u>	<u>583,121</u>
<u>\$ 893</u>	<u>\$ 79,481</u>	<u>\$ 25</u>	<u>\$ 204,479</u>	<u>\$ 669,220</u>
-	52,862	-	-	52,862
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,600</u>
-	52,862	-	-	55,462
-	-	-	204,479	583,392
893	-	25	-	4,499
<u>-</u>	<u>26,619</u>	<u>-</u>	<u>-</u>	<u>25,867</u>
<u>893</u>	<u>26,619</u>	<u>25</u>	<u>204,479</u>	<u>613,758</u>
<u>\$ 893</u>	<u>\$ 79,481</u>	<u>\$ 25</u>	<u>\$ 204,479</u>	<u>\$ 669,220</u>

CITY OF TUSKEGEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
For the year ended September 30, 2016

		Special Revenue	
	Local Law Enforcement Block Grant	\$0.04 & \$0.05 State Gas Tax	\$0.07 Gas Tax
REVENUES			
Taxes	\$ -	\$ 25,516	\$ 24,675
Intergovernmental	625	-	-
Interest	-	-	-
Miscellaneous	-	2	-
	<u>625</u>	<u>25,518</u>	<u>24,675</u>
Total revenues			
	<u>625</u>	<u>25,518</u>	<u>24,675</u>
EXPENDITURES			
Public works	-	-	-
Debt service:			
Principle	-	-	-
Interest	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	-	-	-
Excess Revenues over (under) Expenditures	625	25,518	24,675
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>(600)</u>	<u>(25,501)</u>	<u>(24,501)</u>
Net change in fund balances	25	17	174
Fund Balance (Deficit) - beginning	<u>1,045</u>	<u>6</u>	<u>5</u>
Fund Balance (Deficit) - ending	<u>\$ 1,070</u>	<u>\$ 23</u>	<u>\$ 179</u>

Funds		Special Revenue		
Senior Citizens	2013 Tuskegee UBT Cooperative Clearing Fund	2013 Tuskegee UBT Cooperative District Bond Fund	2013 Gas Tax Warrants	2007 G.O. Warrants Debt Service
\$ -	\$ -	\$ -	\$ 101,614	\$ -
-	-	-	-	-
-	1	13	5	15
<u>1,116</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>1,116</u>	<u>1</u>	<u>13</u>	<u>101,619</u>	<u>15</u>
-	-	-	-	-
-	-	105,000	80,000	140,000
<u>-</u>	<u>-</u>	<u>49,665</u>	<u>20,790</u>	<u>332,829</u>
-	-	154,665	100,790	472,829
1,116	1	(154,652)	829	(472,814)
<u>-</u>	<u>(9,337)</u>	<u>137,432</u>	<u>(4,389)</u>	<u>475,626</u>
1,116	(9,336)	(17,220)	(3,560)	2,812
<u>(1,868)</u>	<u>9,336</u>	<u>137,652</u>	<u>69,954</u>	<u>189,275</u>
<u>\$ (752)</u>	<u>\$ -</u>	<u>\$ 120,432</u>	<u>\$ 66,394</u>	<u>\$ 192,087</u>

CITY OF TUSKEGEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (CONT'D)
For the year ended September 30, 2016

	Capital Projects	
	City Airport Project	CDBG Project LRSFPF 01008
REVENUES		
Taxes	\$ -	\$ -
Intergovernmental	190,970	-
Interest	-	-
Miscellaneous	-	-
	<hr/>	<hr/>
Total revenues	<u>190,970</u>	<u>-</u>
EXPENDITURES		
Public works	12,210	-
Debt service:		
Principle	-	-
Interest	-	-
	<hr/>	<hr/>
Total expenditures	<u>12,210</u>	<u>-</u>
Excess Revenues over (under) Expenditures	178,760	-
OTHER FINANCING SOURCES (USES)		
Transfers in (out)	<u>(191,348)</u>	<u>-</u>
Net change in fund balances	(12,588)	-
Fund Balance (Deficit) - beginning	<u>14,897</u>	<u>-</u>
Fund Balance (Deficit) - ending	<u><u>\$ 2,309</u></u>	<u><u>\$ -</u></u>

Funds				Total
Special Projects	CDBG Project LRCMCP 11015	2007 G.O. Warrant Improvements	2013 Tuskegee UBT Cooperative District Bond Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 151,805
87,871	3,000	-	-	282,466
-	-	-	-	34
<u>-</u>	<u>76,618</u>	<u>-</u>	<u>33</u>	<u>77,769</u>
87,871	79,618	-	33	512,074
-	-	-	-	12,210
-	-	-	-	325,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>403,284</u>
-	-	-	-	740,494
87,871	79,618	-	33	(228,420)
(87,000)	-	-	(62)	270,320
871	79,618	-	(29)	41,900
<u>22</u>	<u>(52,999)</u>	<u>25</u>	<u>204,508</u>	<u>571,858</u>
<u>\$ 893</u>	<u>\$ 26,619</u>	<u>\$ 25</u>	<u>\$ 204,479</u>	<u>\$ 613,758</u>