

**WATER WORKS BOARD OF THE
CITY OF CALERA, ALABAMA**

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

YEAR ENDED SEPTEMBER 30, 2007

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Independent Auditors' Report

Water Works Board of The City of Calera
Calera, Alabama

We have audited the accompanying financial statements of the Water Works Board of the City of Calera, Alabama (the "Board"), as listed in the table of contents, as of September 30, 2007, and for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion 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 *Governmental 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Water Works Board and do not purport to, and do not, present fairly the financial position of the City of Calera, Alabama as of September 30, 2007 and the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The supplementary schedule of revenue bonds on page 20, is not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Water Works Board of the City of Calera, Alabama as of September 30, 2007 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Carri Riggs & Ingram, L.L.C.

Birmingham, Alabama
May 21, 2008

Independent Auditors' Report on Bond Compliance

Water Works Board of the City of Calera
City of Calera, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Water Works Board of the City of Calera, Alabama as of and for the year ended September 30, 2007, as listed in the accompanying table of contents, and have issued our report thereon dated May 21, 2008.

In connection with our audit, nothing came to our attention that caused us to believe that the Water Works Board failed to comply with the terms, covenants, provisions or conditions of the authorizing ordinances for the following bond issues insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

Enterprise Funds - Revenue Bonds:

- Water Revenue Bonds - Series 1998
- Water Revenue Bonds - Series 2000
- Water Revenue Bonds - Series 2005
- Water Revenue Bonds - Series 2006
- Sewer Revenue Bonds - Series 2005-A
- Sewer Revenue Bonds - Series 2005-B

Governmental Funds - General Obligation Warrants:

- General Obligation Warrants - Series 1999
- General Obligation Warrants - Series 2002
- General Obligation Warrants - Brentwood Sewer dated 11/27/76
- General Obligation Warrants - Series 2004

This report is intended solely for the information and use of the Water Works Board and management of the City of Calera and is not intended to be and should not be used by anyone other than these specified parties.

Carri Riggs & Ingram, L.L.C.

Birmingham, Alabama
May 21, 2008

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

ASSETS

Current assets

Cash and short term investments	\$	1,439,038
Accounts receivable (net of allowance for doubtful accounts of \$7,000)		466,553
Accrued sales tax		4,972
Accrued interest receivable		31,564
Parts inventory		266,312
Total current assets		<u>2,208,439</u>

Non-current assets

Restricted assets:

Principal and Interest Fund - 1998	235,868
Debt Service Fund - 1998	198,355
Bond Construction Fund - 2000	146
Bond Reserve Fund - 2000	158,835
Bond Reserve Fund - 2005	180,795
Bond Construction Fund - 2005	173,433
Bond Fund - 2006	266,169
Bond Construction Fund - 2006	7,281,161
Bond Reserve Fund - 2006	424,764
Cash reserved for customer deposits	53,655
Total restricted assets	<u>8,973,181</u>

Property and equipment, at cost

Land	136,903
Plant and distribution system	9,749,227
Equipment	1,053,940
Vehicles	272,534
	<u>11,212,604</u>
Accumulated depreciation	(2,864,554)
Construction in progress	1,984,245
Total property and equipment, net	<u>10,332,295</u>

Deferred charges

Deferred amortization	280,594
Bond issuance costs	382,623
Less accumulated amortization	(37,813)
Total deferred charges	<u>625,404</u>

Total non-current assets 19,930,880

TOTAL ASSETS 22,139,319

The accompanying notes to financial statements are an integral part of this statement.

LIABILITIES

Current liabilities

Accounts payable	\$ 1,033,641
Accrued compensated absences	25,652
Accrued payroll	18,800
Current maturities of long-term debt	34,155
Total current liabilities	<u>1,112,248</u>

Other current liabilities (payable from restricted assets)

Revenue bonds - current portion	265,000
Accrued interest - revenue bonds	103,956
Customer meter deposits	53,655
Total other current liabilities	<u>422,611</u>

Total current liabilities

1,534,859

Non-current liabilities

Accrued compensated absences	14,248
Notes payable	479,109
Revenue bonds	15,050,000
Less bonds original issue discount	(115,090)
Total non-current liabilities	<u>15,428,267</u>

TOTAL LIABILITIES

16,963,126

NET ASSETS

Invested in capital assets, net of related debt	2,073,862
Restricted for debt service	1,095,830
Unrestricted	2,006,501

TOTAL NET ASSETS

\$ 5,176,193

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET COMPARED TO ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Utility Receipts			
Residential sales	\$ 1,975,000	\$ 1,949,807	\$ (25,193)
Industrial sales	40,000	40,172	172
Commercial sales	190,000	203,264	13,264
Governmental sales	70,000	60,346	(9,654)
Penalty revenue	50,000	46,618	(3,382)
Total Utility Receipts	2,325,000	2,300,207	(24,793)
Fees			
Administrative fees	20,000	27,510	7,510
Connection fees	30,000	28,965	(1,035)
Tapping fees	135,000	167,203	32,203
Impact fees	550,000	497,907	(52,093)
Total Fees	735,000	721,585	(13,415)
Charges for Services			
Meter reading reimbursement	12,000	12,000	0
Rental - fire hydrants	40,000	38,124	(1,876)
Rental income	1,000	400	(600)
Total Charges for Services	53,000	50,524	(2,476)
Other Revenue Sources			
Insurance reimbursements	5,000	0	(5,000)
Miscellaneous income	5,000	7,208	2,208
Developer reimbursement - system extension	20,000	15,236	(4,764)
Total Other Revenue Sources	30,000	22,444	(7,556)
TOTAL REVENUES	3,143,000	3,094,760	(48,240)

(continued on following page)

The accompanying notes to financial statements are an integral part of this statement.

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET COMPARED TO ACTUAL - (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Expenses			
Personnel Services			
Payroll - regular	\$ 470,000	\$ 457,286	\$ 12,714
Payroll - overtime	105,000	94,874	10,126
Payroll - comp absences	0	4,200	(4,200)
Payroll - Board members	7,000	5,611	1,389
Payroll taxes	45,000	40,940	4,060
Group insurance	90,000	86,407	3,593
Retirement	45,000	42,482	2,518
Workmen's comp insurance	12,000	14,429	(2,429)
Personnel cost allocation	92,000	99,800	(7,800)
Uniform	6,000	3,965	2,035
Training/convention registration	6,000	4,575	1,425
Training/convention travel	15,000	17,882	(2,882)
Medical/drug testing	500	1,133	(633)
Total Personnel Services	<u>893,500</u>	<u>873,584</u>	<u>19,916</u>
Administrative			
Bad debts	20,000	18,467	1,533
Dues and subscriptions	3,000	2,370	630
General insurance	35,000	32,715	2,285
Miscellaneous	1,000	56	944
Mobile communications	4,000	3,910	90
Permits and licenses	1,000	2,350	(1,350)
Technology - hardware	2,000	13,281	(11,281)
Technology - software	0	600	(600)
Technology cost allocation	10,000	8,000	2,000
Telephone service	1,000	1,000	0
Utilities	110,000	128,911	(18,911)
Office expense allocation	14,000	28,200	(14,200)
Total Administrative	<u>201,000</u>	<u>239,860</u>	<u>(38,860)</u>
Supplies			
Fuel usage	33,000	40,024	(7,024)
Office supplies	2,000	2,911	(911)
Operating supplies	80,000	87,293	(7,293)
Small tools and equipment	20,000	8,650	11,350
Supplies expense allocation	11,000	12,700	(1,700)
Total Supplies	<u>146,000</u>	<u>151,578</u>	<u>(5,578)</u>

(continued on following page)

The accompanying notes to financial statements are an integral part of this statement.

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET COMPARED TO ACTUAL - (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Expenses (continued)			
Repairs and Maintenance			
R&M - vehicles	\$ 23,000	\$ 21,505	\$ 1,495
R&M - equipment	30,000	30,644	(644)
R&M - system	150,000	189,948	(39,948)
R&M - water tank	85,000	87,885	(2,885)
Total Repairs and Maintenance	288,000	329,982	(41,982)
Outside Services			
Audit fees	4,000	4,700	(700)
Bond fees	10,000	15,030	(5,030)
Consulting fees	5,000	3,942	1,058
Legal fees	35,000	31,511	3,489
Rental - City Hall	6,000	6,000	0
Rental - City Shop	6,000	6,000	0
Rental - equipment	2,000	4,461	(2,461)
Outside services allocation	26,000	36,600	(10,600)
Water testing	10,000	11,285	(1,285)
Total Outside Services	104,000	119,529	(15,529)
Other			
Depreciation	350,000	354,543	(4,543)
Amortization of bond issuance costs	15,000	13,632	1,368
Total Other	365,000	368,175	(3,175)
Total Operating Expenses	1,997,500	2,082,708	(85,208)
Operating income	1,145,500	1,012,052	(133,448)
Non-operating revenues (expenses)			
Interest income	30,000	47,900	17,900
Interest income (restricted)	550,000	425,610	(124,390)
Interest expense	(800,000)	(661,889)	138,111
Net non-operating revenues (expenses)	(220,000)	(188,379)	31,621
Total Income	925,500	823,673	(101,827)

(continued on following page)

The accompanying notes to financial statements are an integral part of this statement.

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET COMPARED TO ACTUAL - (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Transfers			
Transfers to General Fund	\$ 0	\$ (9,919)	\$ (9,919)
Net Operating Transfers	<u>0</u>	<u>(9,919)</u>	<u>(9,919)</u>
Change in net assets	925,500	813,754	(111,746)
Net assets, beginning, as restated	<u>4,362,439</u>	<u>4,362,439</u>	<u>0</u>
NET ASSETS, ENDING	<u>\$ 5,287,939</u>	<u>\$ 5,176,193</u>	<u>\$ (111,746)</u>

The accompanying notes to financial statements are an integral part of this statement.

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Cash flows from operating activities	
Cash received from customers	\$ 3,012,962
Cash paid to suppliers	(898,815)
Cash paid to employees	(873,584)
Net cash flows provided by operating activities	<u>1,240,563</u>
Cash flows from noncapital and related financing activities	
Transfers out	<u>(9,919)</u>
Net cash flows (used in) noncapital and related financing activities	<u>(9,919)</u>
Cash flows from capital and related financing activities	
Payment of principal	(341,933)
Payment of interest	(615,635)
Amortization of defeased bonds	(56,118)
Purchase of capital assets	<u>(1,547,601)</u>
Net cash flows (used in) capital and related financing activities	<u>(2,561,287)</u>
Cash flows from investing activities	
(Increase) in accrued interest receivable	(23,838)
Decrease in restricted assets	679,075
Increase in customer meter deposits	9,830
Receipt of interest	<u>473,510</u>
Net cash flows provided by investing activities	<u>1,138,577</u>
Net (decrease) in cash	(192,066)
Cash - beginning of year	<u>1,631,104</u>
Cash - end of year	<u>\$ 1,439,038</u>

(continued on following page)

The accompanying notes to financial statements are an integral part of this statement.

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Reconciliation of Operating Income to Net Cash Flows

Operating Activities

Operating income	\$	1,012,052
Adjustments to reconcile operating income to net cash provided in operating activities:		
Depreciation expense		354,543
Amortization expense		13,632
 (Increase) in current assets:		
Accounts receivable		(81,798)
Inventory		(38,103)
 (Decrease) in current liabilities:		
Accounts payable		(12,538)
Accrued payroll taxes		(4,972)
Accrued expenses		<u>(2,253)</u>
 Net cash flows provided by operating activities	\$	<u><u>1,240,563</u></u>

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The Water Works Board of the City of Calera (the "Board") was established to provide water services to businesses and residences of the City of Calera as authorized by its charter and operates under a Board of Directors.

The financial statements of the Board have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local government proprietary funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Fund accounting

The Board is a Proprietary Fund type; more specifically, an Enterprise Fund of the City of Calera. This type of fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water services to the general public on a continuing basis are financed through user charges.

B. Basis of accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into various components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

C. Budgets and budgetary accounting

The Water Revenue Bonds Series 1998 issued in February 1998 requires that the Board adopt budgets each fiscal year. The annual budgets are adopted under a basis consistent with GAAP, except that certain capital expenses are also considered. The budget is presented in the Statement of Revenues, Expenses and Changes in Fund Net Assets - Budget Compared to Actual. All annual appropriations lapse at fiscal year-end.

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

D. Cash and investments

At September 30, 2007, all of the bank balances of the Board's deposits and certificates of deposit were either covered by federal depository insurance or secured by collateral through the Alabama State Treasury's Security of Alabama Funds Enhancement (SAFE) Program. Under the SAFE program, the Board's funds are protected through a collateral pool administered by the Alabama State Treasury. Certain banks holding deposits belonging to the state, counties, cities, or agencies of any of these entities must pledge securities as collateral against these deposits. In the event of the failure of a bank, securities pledged by that bank would be liquidated by the State Treasurer to replace the public deposits. If the securities pledged failed to produce adequate funds for that purpose, every bank participating in the pool would share the liability for the remaining balance. At September 30, 2007, all of the Board's depositories are participating in the SAFE program. For the fiscal year ended September 30, 2007, the Board invested in certificates of deposit and U. S. Treasury Notes. The Board records all interest revenue earned from investment activities in this fund.

E. Accounts receivable

The net accounts receivable balance is considered fully collectible. The allowance method for doubtful accounts is used. The portion of the year-end balance of accounts receivable considered as uncollectible is computed on a sliding scale based on age of the receivable. The current allowance equals approximately 1.5% of the year-end balance.

F. Inventories

Inventories consist primarily of supplies, valued at cost, which approximates market. Cost is determined using a weighted average method. The cost of inventories is recorded as expenditure/expenses when consumed rather than when purchased.

G. Property, plant and equipment

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Additions to the utility plant in service are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation has been calculated on each class of depreciable property using the straight-line method with one-half year's depreciation in the year of acquisition. Estimated useful lives are 40-50 years for plant and distribution system, 5 years for vehicles and 5-7 years for all other equipment.

H. Compensated absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the Board. Employees who are required to work on an observed holiday are granted a work day of leave. Sick leave accrues to full-time, permanent employees to specified maximums. Upon termination, employees are entitled to accrued vacation leave; however, accrued sick leave is cancelled and is not transferable to vacation leave.

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

I. Statement of cash flows

For purposes of the Statement of Cash Flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

J. Management estimates

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

K. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Encumbered appropriations lapse at year-end, but the city intends to honor them by obtaining new appropriations for them in the new year. Any encumbrances outstanding at year-end do not constitute expenditures or liabilities because these commitments will be honored during the subsequent year.

2. Components of restricted assets

The authorizations of the Water Revenue Bonds, Series 1998 and Water Revenue Bonds, Series 2000, Series 2005, and Series 2006 (described in Note 4) require that the Board establish distinct funds to account for activities related to these bond issuances. These funds are reflected on the face of the balance sheet and classified as Restricted Assets. The Board is required to make monthly payments into fund accounts maintained as "Revenue Bond Principal and Interest Fund" in amounts such that the semi-annual requirements for the payment of principal and interest on the bonds are met. At September 30, 2007, the Principal and Interest Fund balances for each issuance are sufficient to satisfy such bond requirements.

The authorizations further require that the proceeds from the sale of the revenue bonds be expended for certain capital improvements to the water system. The proceeds are deposited into the fund account maintained as "Revenue Bond Construction Fund" until such time as needed to fund the water system construction program.

A revenue bond sinking fund has been set up for the retirement of the water bond debts.

The amount of net assets restricted for revenue bond retirement is detailed as follows:

Revenue Bond Sinking and Reserve Fund	\$ 1,464,786
Less:	
Accrued interest, attributable to revenue bonds, payable from restricted assets	(103,956)
Current maturities of revenue bonds, payable from restricted assets	<u>(265,000)</u>
Restricted net assets	<u>\$ 1,095,830</u>

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

NOTES TO FINANCIAL STATEMENTS

3. Cash and short-term investments

The Board invests in various Federal, State, and local obligations either directly or indirectly through mutual funds. Investments are stated at market values, and all investment activities are conducted through the depository bank. Investments are recorded in the Board's proprietary fund along with all interest revenue related to the investment activities.

As of September 30, 2007, the Board had the following investments classified in restricted assets:

Investments	Maturities	Fair Value	S & P Rating	Moody's Rating
Federated US Treasury Cash Reserves	n/a	\$ 947,432	AAAm	Aaa
First American US Treasury Money Market	n/a	7,972,094	AAAm	Aaa
Total Investments		<u>\$ 8,919,526</u>		

Interest rate risk

The Board has a policy in place that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

The Board has a policy that minimizes custodial credit risk by limiting the types of investments that the Board may invest in.

Concentration of credit risk

The Board places no limit on the amount they may invest in any one issuer. Concentrations of more than 5% of the Board's investments are as follows: U.S. Treasury notes 10%, U.S. and First American US Treasury Money Market 90%.

4. Long-term debt

Notes payable are as follows:

Note payable to bank, interest at 3.5%, payments of \$4,548 per month beginning 10/19/03, secured by equipment, maturing 2018	\$ 513,264
Current portion	(34,155)
Total noncurrent portion	<u>\$ 479,109</u>
Maturities	
2008	\$ 34,155
2009	36,082
2010	38,118
2011	40,268
2012	42,539
Thereafter	322,102
Total	<u>\$ 513,264</u>

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

NOTES TO FINANCIAL STATEMENTS

4. Long-term debt (continued)

The following is a summary of bond transactions of the Water Works Board for the fiscal year ended September 30, 2007:

Bonds payable, October 1, 2006	\$ 15,496,278
Current year additions	0
Less payments	(310,000)
Add amortization of bond original issue discount	13,632
Bonds payable, September 30, 2007	\$ <u>15,199,910</u>

Revenue bonds payable at September 30, 2007 are comprised of the following issues:

\$2,725,000 Series 1998 Water Revenue Bonds due in annual installments of \$90,000 to \$185,000 through February 1, 2023; interest rate is variable from 4.00% to 5.45%. The bonds are secured by a pledge of the net revenue remaining after payment of reasonable and necessary expenses of maintaining and operating said system as shall be necessary to pay, at their respective maturities, the principal and interest that will mature on the bonds during each fiscal year.	\$ 2,085,000
Less unamortized original issue discount	(7,505)
1998 Water revenue bonds payable	<u>2,077,495</u>

\$4,580,000 Series 2000 Water Revenue Bonds due in annual installments of \$110,000 to \$150,000 through February 1, 2014; interest rate is variable from 5.00% to 5.50%. The bonds are secured by a pledge of the net revenue remaining after payment of reasonable and necessary expenses of maintaining and operating said system as shall be necessary to pay, at their respective maturities, the principal and interest that will mature on the bonds during each fiscal year.	915,000
Less unamortized original issue discount	(2,172)
2000 Water revenue bonds payable	<u>912,828</u>

\$3,685,000 Series 2005 Water Revenue Bonds due in annual installments of \$25,000 to \$515,000 through January 1, 2026, interest is fixed at 4.125%. The bonds are secured by a pledge of the net revenue remaining after payment of reasonable and necessary expenses of maintaining and operating said system as shall be necessary to pay, at their respective maturities, the principal and interest that will mature on the bonds during each fiscal year.	3,640,000
Less unamortized original issue discount	(35,410)
2005 Water revenue bonds payable	<u>3,604,590</u>

\$8,770,000 Series 2006 Water Revenue Bonds due in annual installments of \$40,000 to \$905,000 through February 1, 2036, interest rate is variable from 3.50% to 4.30%. The bonds are secured by a pledge of the net revenue remaining after payment of reasonable and necessary expenses of maintaining and operating said system as shall be necessary to pay, at their respective maturities, the principal and interest that will mature on the bonds during each fiscal year.	8,675,000
Less unamortized original issue discount	(70,003)
2006 Water revenue bonds payable	<u>8,604,997</u>

Net revenue bonds payable at September 30, 2007	\$ <u>15,199,910</u>
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WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

NOTES TO FINANCIAL STATEMENTS

4. Long-term debt (continued)

The Water Works Board incurred expenses in connection with the issuance of the bonds. These bond issuance costs are being amortized over the life of the bond issuance (25 years).

The following table sets forth the total amounts estimated to be required for debt service on the Board's Revenue Bonds (see supplementary schedule for detailed amounts for specified years):

<u>Year Ending Sept. 30,</u>	<u>Total Annual Retirements</u>	<u>Total Principal</u>	<u>Total Interest</u>
2008	\$ 928,353	\$ 265,000	\$ 663,353
2009	926,267	275,000	651,267
2010	928,571	290,000	638,571
2011	929,973	305,000	624,973
2012	930,351	320,000	610,351
2013	929,819	335,000	594,819
2014	928,506	350,000	578,506
2015	927,446	365,000	562,446
2016	926,581	380,000	546,581
2017	929,816	400,000	529,816
2018	927,058	415,000	512,058
2019	928,258	435,000	493,258
2020	930,346	455,000	475,346
2021	930,145	475,000	455,145
2022	931,143	500,000	431,143
2023	930,262	520,000	410,262
2024	931,953	545,000	386,953
2025	928,781	565,000	363,781
2026	926,103	590,000	336,103
2027	925,923	615,000	310,923
2028	925,195	640,000	285,195
2029	927,503	670,000	257,503
2030	927,705	700,000	227,705
2031	926,603	730,000	196,603
2032	929,086	765,000	164,086
2033	930,048	800,000	130,048
2034	929,486	835,000	94,486
2035	927,620	870,000	57,620
2036	924,457	905,000	19,457
	\$ <u>26,923,358</u> \$	<u>15,315,000</u> \$	<u>11,608,358</u>

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

NOTES TO FINANCIAL STATEMENTS

5. Encumbrances

The Water Works Board has \$191,928 encumbered as of September 30, 2007.

6. Prior year defeasance of debt

In prior years, the Water Works Board defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. On September 30, 2007, \$3,180,000 of water bonds outstanding are considered defeased.

The Water Works Board issued \$3,685,000 of Series 2005 bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purposes of generating resources for all future debt service payments of \$3,180,000 of Series 2000 Water bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying value of the old debt by \$280,594. This amount is being netted against the new debt and being amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The advance refunding was undertaken to reduce total debt service payments over the next 19 years by \$280,000 and resulted in an economic gain of \$200,000.

7. Pension plan

Plan description - The Board's eligible employees participate in a pension plan as part of the City of Calera's ("City") participation in the Employees' Retirement System of Alabama ("Retirement System"), a state-wide agent multiple-employer public employee retirement system covering public employees within the State of Alabama. The Board's participation in the plan represents an undivided portion of the City's involvement in the plan. The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Retirement System. That report may be obtained by writing to "The Retirement System of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150" or by calling 334-832-4140.

Funding policy - Participating employees are required to contribute 5% of their annual covered salary. The Board is required to contribute at an actuarially determined rate; the current rate is 7.61% of annual covered payroll.

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

NOTES TO FINANCIAL STATEMENTS

7. Pension plan (continued)

Annual pension cost - Both the City and the covered employees made the required contributions, amounting to \$503,380 (7.61% of covered salaries) (4.20% normal cost plus 3.41% to amortize the unfunded actuarial liability) for the City and the Enterprise Funds, including the Water Works Board, and \$348,192 (5%) for the employees thereof. The Water Works Board's portion of the total cost was \$42,482. The required contribution was determined as part of the actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 4.61% to 7.75% per year, and (c) no cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2006 was 20 years. Since the previous valuation, there has been no changes in the actuarial cost method and there have been no amendments to the System affecting the valuation. There were no related party transactions.

**City of Calera (including the Water Works Board)
Three-Year Trend Information**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09/30/2004	\$ 301,543	100.0%	\$ 0
09/30/2005	371,971	100.0%	0
09/30/2006	432,150	100.0%	0

**City of Calera (including the Water Works Board)
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
09/30/01	\$ 2,990,376	\$ 3,708,008	\$ 717,632	80.6%	\$ 2,375,553	30.2%
09/30/02	3,370,790	4,459,458	1,088,668	75.6%	3,135,519	34.7%
09/30/03	3,908,635	5,369,907	1,461,272	72.8%	3,824,289	38.2%
09/30/04	4,550,542	6,030,963	1,480,421	75.5%	4,433,460	33.4%
09/30/05	5,364,394	7,191,039	1,826,645	74.6%	5,265,682	34.7%
09/30/06	6,282,539	8,945,539	2,663,000	70.2%	5,961,601	44.7%

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

NOTES TO FINANCIAL STATEMENTS

8. Other post-employment benefits (OPEB)

In June 2004, the GASB issued Statement No. 45 ("GASB 45"), which is entitled "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pension". The Statement establishes standards for the measurement, recognition and presentation of post-employment benefits other than pension benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures and, if applicable required supplemental information in the financial reports of state and local governmental employers. GASB 45 is intended to improve the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB costs (expense) over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

As a Phase II implementer, the City of Calera is required to comply with GASB 45 beginning with fiscal year ending September 30, 2009. The effects of implementing the provisions of GASB 45 are estimated to create an Annual Required Contribution liability of approximately \$200,000 for the City of Calera as a whole.

9. Prior period adjustments

The Water Works Board issued Series 2005 Water Bonds that resulted in an in-substance defeasance of \$3,180,000 of the Series 2000 Water Bonds leaving a portion of the Series 2000 Water Bonds on the books. An in-substance defeasance, the issuer legally remains the primary obligor for the old debt, though for all practical purposes the issuer is only contingently liable for the debt. The assets relating to the old debt are placed in irrevocable escrow to be used solely for the purpose of making principal and interest payments on the debt. The result of an in-substance defeasance is to remove the old debt from the books and the corresponding accrued interest payable, remove the corresponding escrow accounts from the books and the corresponding accrued interest receivable and place the new debt on the books. The difference between the balance of the old debt and the funds in escrow of \$224,476 will be amortized over the life of the debt. The net effect of this transaction on the Water Fund in the statement of net assets is a prior period adjustment to reflect a decrease in net assets of \$9,516.

SUPPLEMENTARY INFORMATION

WATER WORKS BOARD OF THE CITY OF CALERA, ALABAMA

**SUPPLEMENTARY SCHEDULE OF REVENUE BONDS
SEPTEMBER 30, 2007**

Year Ending Sept. 30,	Series 1998		Series 2000		Series 2005	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 90,000	\$ 105,277	\$ 110,000	\$ 42,918	\$ 25,000	\$ 148,423
2009	95,000	100,860	115,000	37,574	25,000	147,498
2010	95,000	96,277	125,000	31,874	25,000	146,573
2011	100,000	91,523	130,000	25,656	30,000	145,555
2012	105,000	86,474	140,000	18,836	30,000	144,445
2013	110,000	81,125	145,000	11,496	30,000	143,335
2014	115,000	75,472	150,000	3,863	30,000	142,225
2015	125,000	69,380	0	0	185,000	138,155
2016	130,000	62,846	0	0	195,000	130,886
2017	135,000	55,988	0	0	205,000	123,135
2018	145,000	48,671	0	0	205,000	115,038
2019	150,000	40,890	0	0	220,000	106,538
2020	160,000	32,635	0	0	225,000	97,581
2021	170,000	23,807	0	0	235,000	88,208
2022	175,000	14,579	0	0	250,000	76,234
2023	185,000	4,949	0	0	260,000	67,883
2024	0	0	0	0	465,000	52,523
2025	0	0	0	0	485,000	32,451
2026	0	0	0	0	515,000	11,073
2027	0	0	0	0	0	0
2028	0	0	0	0	0	0
2029	0	0	0	0	0	0
2030	0	0	0	0	0	0
2031	0	0	0	0	0	0
2032	0	0	0	0	0	0
2033	0	0	0	0	0	0
2034	0	0	0	0	0	0
2035	0	0	0	0	0	0
2036	0	0	0	0	0	0
	<u>\$ 2,085,000</u>	<u>\$ 990,753</u>	<u>\$ 915,000</u>	<u>\$ 172,217</u>	<u>\$ 3,640,000</u>	<u>\$ 2,057,759</u>

The accompanying notes to financial statements are an integral part of this schedule.

Series 2006		Totals		
Principal	Interest	Annual Retirements	Principal	Interest
\$ 40,000	\$ 366,735	\$ 928,353	\$ 265,000	\$ 663,353
40,000	365,335	926,267	275,000	651,267
45,000	363,847	928,571	290,000	638,571
45,000	362,239	929,973	305,000	624,973
45,000	360,596	930,351	320,000	610,351
50,000	358,863	929,819	335,000	594,819
55,000	356,946	928,506	350,000	578,506
55,000	354,911	927,446	365,000	562,446
55,000	352,849	926,581	380,000	546,581
60,000	350,693	929,816	400,000	529,816
65,000	348,349	927,058	415,000	512,058
65,000	345,830	928,258	435,000	493,258
70,000	345,130	930,346	455,000	475,346
70,000	343,130	930,145	475,000	455,145
75,000	340,330	931,143	500,000	431,143
75,000	337,430	930,262	520,000	410,262
80,000	334,430	931,953	545,000	386,953
80,000	331,330	928,781	565,000	363,781
75,000	325,030	926,103	590,000	336,103
615,000	310,923	925,923	615,000	310,923
640,000	285,195	925,195	640,000	285,195
670,000	257,503	927,503	670,000	257,503
700,000	227,705	927,705	700,000	227,705
730,000	196,603	926,603	730,000	196,603
765,000	164,086	929,086	765,000	164,086
800,000	130,048	930,048	800,000	130,048
835,000	94,486	929,486	835,000	94,486
870,000	57,620	927,620	870,000	57,620
905,000	19,457	924,457	905,000	19,457
<u>\$ 8,675,000</u>	<u>\$ 8,387,629</u>	<u>\$ 26,923,358</u>	<u>\$ 15,315,000</u>	<u>\$ 11,608,358</u>