

**WATER WORKS BOARD OF THE
CITY OF CALERA, ALABAMA
FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**WATER WORKS BOARD OF THE
CITY OF CALERA, ALABAMA
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MOSES, PHILLIPS, YOUNG, BRANNON AND HENNINGER, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

3535 GRANDVIEW PARKWAY, SUITE 150
BIRMINGHAM, ALABAMA 35243

RICHARD H. PHILLIPS, C.P.A.
G. AUSTON YOUNG, C.P.A.
DANIEL H. BRANNON, C.P.A.
STEPHEN J. HENNINGER, C.P.A.
BARRY W. BROWN, C.P.A.
R. LEE WILLOUGHBY, C.P.A.

(205) 972-1215 / FAX (205) 972-1287
www.mpybh.com

JENNIFER B. GRAY, C.P.A.
CINDY E. BRYAN, C.P.A.
ROBERT T. KEY, C.P.A.
BRI MADISON, C.P.A.

CHARLES H. MOSES, C.P.A. (1890-1970)
CHARLES H. MOSES, JR., C.P.A.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Water Works Board of the City of Calera, Alabama, a component unit of the City of Calera, Alabama, as of and for the year ended September 30, 2011, as listed in the table of contents. 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. 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Works Board of the City of Calera, Alabama, a component unit of the City of Calera, Alabama, as of September 30, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Water Works Board of the City of Calera, Alabama, a component unit of the City of Calera, Alabama, has omitted management discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Moses, Phillips, Young, Brannon, and Henninger LLP

Birmingham, Alabama
January 26, 2012

Water Works Board of the City of Calera, Alabama
Statement of Net Assets
September 30, 2011

Assets

Current:

Cash and cash equivalents	\$	28,975
Certificates of deposit		160,234
Accounts receivable, net		617,056
Accrued interest receivable		20,997
Prepaid expenses		7,266
Receivable from the City of Calera		84,358
Inventory		151,543
Unamortized bond issue cost, current portion		<u>26,685</u>
Total Current Assets		<u><u>1,097,114</u></u>

Noncurrent:

Restricted assets:

Cash and cash equivalents		1,734,318
Non-Depreciable assets		107,944
Depreciable capital assets, net		17,934,416
Unamortized bond issue cost, net of current portion		<u>380,044</u>
Total Noncurrent Assets		<u><u>20,156,722</u></u>

Total Assets	\$	<u><u>21,253,836</u></u>
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Liabilities

Current:

Accounts payable	\$	29,471
Accrued expenses		52,018
Payable to the City of Calera		43,562
Current portion of long-term debt		42,522
Payable from restricted assets:		
Customer deposits		96,600
Accrued interest payable		114,644
Current portion of long-term debt		<u>317,656</u>
Total Current Liabilities		<u><u>696,473</u></u>

Noncurrent:

Long-term debt, net of current portion		<u>15,731,872</u>
Total Liabilities		<u><u>16,428,345</u></u>

Net Assets

Invested in capital, net of related debt		2,209,541
Unrestricted		1,669,763
Restricted for debt service (expendable)		<u>946,187</u>
Total Net Assets		<u><u>4,825,491</u></u>
Total Liabilities and Net Assets	\$	<u><u>21,253,836</u></u>

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

Water Works Board of the City of Calera, Alabama
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2011

Operating Revenues

Utility receipts	\$ 3,094,879
Fees	<u>240,795</u>

Total Operating Revenues	3,335,674
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Operating Expenses

Personnel services	1,097,827
Supplies expense	133,462
Repairs and maintenance	291,465
Depreciation	541,620
Administrative expenses	341,812
Outside services	<u>76,667</u>

Total Operating Expenses	<u>2,482,853</u>
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Operating Income	<u>852,821</u>
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Non Operating Revenues (Expenses)

Interest income	4,184
Interest expense	(727,066)
Amortization expense	(27,775)
Loss on sales of assets	(2,011)
Trustee fees	<u>(15,327)</u>

Total Non Operating Revenues (Expenses)	<u>(767,995)</u>
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Change in Net Assets	<u>84,826</u>
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Net Assets, Beginning of Year	<u>4,740,665</u>
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Net Assets, End of Year	<u><u>\$ 4,825,491</u></u>
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The accompanying notes are an integral part of these financial statements.

Water Works Board of the City of Calera, Alabama
Statement of Cash Flows
For the Year Ended September 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,323,977
Cash paid for personnel services	(1,089,951)
Cash paid to suppliers for goods and services	<u>(956,631)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,277,395</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments received on Receivable from the City of Calera	<u>142,000</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>142,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of property, plant, and equipment	(103,669)
Principal payments on debt	(721,616)
Interest payments on debt	(713,956)
Trustee fees	<u>(15,327)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,554,568)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on cash and investments	<u>21</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>21</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(135,152)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,898,445</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,763,293</u></u>

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

Water Works Board of the City of Calera, Alabama
Statement of Cash Flows - Continued
For the Year Ended September 30, 2011

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS	
Cash and cash equivalents in current assets	\$ 28,975
Restricted cash	<u>1,734,318</u>
 TOTAL CASH AND CASH EQUIVALENTS	 <u><u>\$ 1,763,293</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 852,821
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	541,620
(Increase) decrease in:	
Accounts receivable, net	(23,726)
Inventory	(1,589)
Prepaid expenses	(7,266)
Increase (decrease) in:	
Accounts payable	(4,890)
Accrued expenses	7,289
Payable to the City of Calera	(98,892)
Customer deposits	<u>12,028</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u><u>\$ 1,277,395</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

The Water Works Board of the City of Calera had amortization of bonds issue costs of \$27,775, amortization of bond discounts of \$7,331, and amortization on deferred refunding of bonds of \$20,058.

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

NOTES TO FINANCIAL STATEMENTS

Water Works Board of the
City of Calera, Alabama

September 30, 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES

1. Reporting Entity

The Water Works Board of the City of Calera, Alabama (the Board) was created by the City of Calera, Alabama (the City) to provide water services to the City and surrounding communities. The Board is governed by a five member group appointed by the Calera City Council. For financial reporting purposes, the Board is a component unit of the City of Calera and is included in the financial reporting entity of the City.

The fund is organized as an enterprise fund. The intent of the governing body is that the costs and expenses, including depreciation, of providing services are financed or recovered through user charges. Activities of the fund include administration, operations and maintenance of the Board, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest. The accounting objectives of the fund are determinations of operating income and changes in net assets, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Assets.

The financial statements of the Board have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units. The more significant of the Board's accounting policies are described below.

2. Measurement Focus/Basis of Accounting

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

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

The Board distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Board's principal ongoing operations. Operating expenses for the Board include the cost of personnel and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Board applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board pronouncements, in which case, Governmental Accounting Standards Board prevails.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board of the
City of Calera, Alabama

September 30, 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

3. Cash

The Board's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit with original maturities of three months or less.

4. Restricted Assets

The use of restricted assets is limited by legal requirements or restrictions imposed externally by creditors. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted, as they are needed.

5. Allowance for Uncollectible Accounts

An allowance for uncollectible accounts is provided based on historical evidence (see Note C).

6. Inventory

Inventory consists of supplies and is recorded at the lower of cost or market, determined by first in, first out method. The cost of inventories is recorded as an expenditure/expense when consumed rather than when purchased.

7. Capital Assets

All capital assets are valued at historical costs or estimated historical costs if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Interest expense during construction periods is capitalized as part of the costs of the asset.

Assets capitalized have an original cost of \$3,000 or more and five years or more of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

System and Facilities	40-50 Years
Buildings and Improvements	30-40 Years
Machinery and Equipment	5-10 Years

Depreciation is provided in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board of the
City of Calera, Alabama

September 30, 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

8. Noncurrent Liabilities

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond discounts, issuance costs and deferred amount of refunding are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable are recorded net of the applicable discounts and deferred amount of refunding. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt.

9. Use of Estimates

In preparing these financial statements, management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - DEPOSITS

All of the Board's demand deposits, time deposits, and certificates of deposit are insured and collateralized in accordance with the Security for Alabama Funds Enhancement, or SAFE Program, which is encompassed in Title 41, Chapter 14A, Code of Alabama 1975, as amended, which is a multiple financial institutions collateral pool. The statute provides for assessments against the members of the pool on a pro rata basis in the event that the collateral pool is insufficient to cover the losses of a member financial institution that fails. As such, all deposits covered by this collateral pool are considered to be fully insured.

Debt service funds and bond proceeds held in escrow totaling \$1,637,718 are invested by banks' trust departments in U.S. Government Securities and are not subject to collateralization requirements.

The Board has an investment policy, the objective of which is to minimize credit rate and interest rate risk. The policy addresses risks as follows:

Credit Risk (Custodial Credit Risk and Concentration of Credit Risk)

The Board will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized in Alabama Code section 19-3-120 and qualifying the institutions, brokers/dealers, intermediaries and advisors with which the Board will do business.

The Board will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Board's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from one type of security or issuer will be minimized.

Investment Rate Risk

The Board will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual fund, or similar investment pools and limiting the average maturity schedule in accordance with the Board's cash requirements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board of the
City of Calera, Alabama

September 30, 2011

NOTE B - DEPOSITS - CONTINUED

Foreign Currency Risk

The Board is not authorized to invest in investments which have this type of risk.

State statutes authorize the Board to invest in obligations of the U.S. Treasury, certain U.S. Corporate equities, State of Alabama obligations, county obligations, and other municipal obligations, as well as bank certificates of deposit and bank public funds investment accounts.

NOTE C - RECEIVABLES AND PAYABLES

Receivables at September 30, 2011, consist of the following:

Customers	\$ 622,216
Less: Allowance for Uncollectibles	<u>(5,160)</u>
Net Receivables	<u>\$ 617,056</u>

Payables at September 30, 2011, consist of the following:

Trade payables	\$ <u>29,471</u>
Net Payables	<u>\$ 29,471</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board of the
City of Calera, Alabama

September 30, 2011

NOTE D - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2011 was as follows:

	Balance October 1	Additions/ Completions	Retirements/ Adjustments	Balance September 30
Capital assets not being depreciated				
Land	\$ 11,485	\$ -	\$ -	\$ 11,485
Construction in progress	310,200	-	(213,741)	96,459
Total capital assets not being depreciated	321,685	-	(213,741)	107,944
Capital assets being depreciated				
System and facilities	21,190,940	328,454	-	21,519,394
Buildings and improvements	53,436	-	-	53,436
Vehicles	268,322	-	-	268,322
Equipment	1,111,769	-	(8,067)	1,103,702
Total capital assets being depreciated	22,624,467	328,454	(8,067)	22,944,854
Less accumulated depreciation for				
System and facilities	3,192,983	491,471	-	3,684,454
Buildings and improvements	5,351	1,336	-	6,687
Vehicles	229,544	24,426	-	253,970
Equipment	1,046,996	24,387	(6,056)	1,065,327
Total accumulated depreciation	4,474,874	541,620	(6,056)	5,010,438
Total capital assets being depreciated, net	18,149,593	(213,166)	(2,011)	17,934,416
Total capital assets, net	<u>\$ 18,471,278</u>	<u>\$ (213,166)</u>	<u>\$ (215,752)</u>	<u>\$ 18,042,360</u>

Depreciation for the year ended September 30, 2011 was \$541,620.

NOTE E - LONG-TERM DEBT

Notes payable at September 30, 2011, are comprised of the following:

Note payable to Central State Bank for meter reading software, dated December 19, 2003. Monthly payment of \$5,030, including interest at 5%, using the simple interest method, ballooning in December 2018, secured by equipment.

\$ 370,370

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board of the
City of Calera, Alabama

September 30, 2011

NOTE E - LONG-TERM DEBT - CONTINUED

Water revenue Bonds payable at September 30, 2011, are comprised of the following issues:

2000 Water Revenue Bonds, dated November 15, 2000, due in semi-annual installments through February 1, 2014, bearing interest rates of 4.75% to 5.50%.	\$ 434,626
2005 Water Revenue Bonds, dated August 1, 2005, due in semi-annual installments through February 1, 2026, bearing interest rates of 3.70% to 4.30%.	3,339,251
2006 Water Revenue Bonds, dated September 1, 2006, due in semi-annual installments through February 1, 2036, bearing interest rates of 3.50% to 4.35%.	8,447,825
2009 Water Revenue Bonds, dated July 1, 2009, due in semi-annual installments through February 1, 2038, bearing interest rates of 2.0% to 5.125%.	<u>3,499,978</u>
Total Water Revenue Bonds Payable	<u>\$ 15,721,680</u>

A summary of long-term liability activity for the year ended September 30, 2011 is as follows:

	<u>Balance October 1, 2010</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance September 30, 2011</u>	<u>Due within one year</u>
Revenue Bonds Payable	\$ 16,029,291	\$ -	\$ 307,611	\$ 15,721,680	\$ 317,656
Notes Payable	<u>756,986</u>	<u>-</u>	<u>386,616</u>	<u>370,370</u>	<u>42,522</u>
	<u>\$ 16,786,277</u>	<u>\$ -</u>	<u>\$ 694,227</u>	<u>\$ 16,092,050</u>	<u>\$ 360,178</u>

The total interest incurred for the year ended September 11, 2011 was \$739,261. Of this amount, \$12,195 was capitalized as a component of the cost of capital assets constructed during the year and \$727,066 was charged to expense.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board of the
City of Calera, Alabama

September 30, 2011

NOTE F - LONG-TERM DEBT - CONTINUED

The annual requirements to service the Board's debt obligations at September 30, 2011 are as follows:

Year Ending September 30,	<u>Revenue Bonds Payable</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 345,000	\$ 681,459	\$ 42,522	\$ 17,842
2013	360,000	667,788	44,778	15,585
2014	370,000	652,742	47,102	13,262
2015	390,000	637,411	49,546	10,818
2016	405,000	621,980	52,093	8,270
2017-2021	2,285,000	2,849,228	134,329	8,457
2022-2026	2,745,000	2,323,366	-	-
2027-2031	3,355,000	1,685,365	-	-
2032-2036	4,175,000	873,135	-	-
2037-204 1	1,590,000	82,513	-	-
	<u>\$ 16,020,000</u>	<u>\$ 11,074,987</u>	<u>\$ 370,370</u>	<u>\$ 74,234</u>

NOTE G - TRUST INDENTURE COVENANTS

The Series 2000, Series 2005, Series 2006, and Series 2009 Water Revenue Bonds are secured by a pledge of all operating revenues after the payment of operating expenses. The bond indentures contain various covenants, including a prohibition against providing free service, an agreement to maintain rates adequate to pay all operating expenses and produce at least a specified net income, and to promptly discontinue service for nonpayment. The bond indentures require that the Board charge rates for water and other services provided by the Board sufficient to maintain a Debt Service Ratio (as defined in the agreement) of not less than 1.25 to 1.

NOTE H - RELATED PARTY TRANSACTIONS

The Board issued a note receivable to the City of Calera dated November 18, 2008, totaling \$680,486. Interest accrues at a rate of 1.5%. The note indicates further terms will be agreed upon by the City and the Board. At September 30, 2011, the outstanding balance was \$84,358.

The City of Calera provides employees to the Board, and the Board is responsible for reimbursing the City for the actual expenses incurred for those employees. The Board accrues liabilities for vacation leave, compensatory time, and holiday leave in the amount that will be owed to the City when the accrued benefits are paid to the employees by the City, at which time the Board must reimburse the City for the expenses.

At September 30, 2011, the Board owed the City of Calera \$43,562 resulting from expenses paid for the Board by the City.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board of the
City of Calera, Alabama

September 30, 2011

NOTE I - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation; and natural disaster for which the Board carries commercial insurance.