

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

Financial Report September 30, 2015

Including Report of
Independent Accountants



DENTMOSES

**WATER WORKS BOARD OF THE
CITY OF CALERA, ALABAMA
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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, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The Water Works Board of the City of Calera, Alabama, a component unit of the City of Calera, Alabama, has not presented management discussion and analysis that government 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.

Dent Moses LLP

Birmingham, Alabama
January 25, 2016

Water Works Board of the City of Calera, Alabama
Statement of Net Position
September 30, 2015

Assets

Current:

Cash and cash equivalents	\$ 730,562
Certificates of deposit	425,692
Accounts receivable, net	703,742
Inventory	110,392
	<u>1,970,388</u>
Total Current Assets	1,970,388

Noncurrent:

Restricted assets:

Cash and cash equivalents	1,713,142
Nondepreciable assets	104,628
Depreciable capital assets, net	16,631,669
	<u>18,449,439</u>
Total Noncurrent Assets	18,449,439

Total Assets	<u>20,419,827</u>
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Deferred Outflows of Resources

Deferred charges on refunding	<u>787,990</u>
Total Deferred Outflows of Resources	<u>787,990</u>

Liabilities

Current:

Accounts payable	42,033
Accrued expenses	62,157
Payable to the City of Calera	137,339
Current portion of long-term debt	53,336
Payable from restricted assets:	
Customer deposits	127,837
Accrued interest payable	82,708
Current portion of long-term debt	475,000
	<u>980,410</u>
Total Current Liabilities	980,410

Noncurrent:

Long-term debt, net of current portion	<u>14,652,408</u>
Total Liabilities	<u>15,632,818</u>

Net Position

Net investment in capital assets	2,540,101
Unrestricted	1,728,859
Restricted for debt service (expendable)	1,306,039
	<u>5,574,999</u>
Total Net Position	\$ 5,574,999

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 Net Position
For the Year Ended September 30, 2015

Operating Revenues

Utility receipts	\$ 3,224,078
Fees	286,830
Miscellaneous	<u>11,719</u>

Total Operating Revenues 3,522,627

Operating Expenses

Personnel services	1,127,560
Supplies expense	197,823
Repairs and maintenance	152,296
Depreciation	547,727
Administrative expenses	380,861
Outside services	<u>61,833</u>

Total Operating Expenses 2,468,100

Operating Income 1,054,527

Non Operating Revenues (Expenses)

Interest income	1,828
Interest expense	(586,273)
Trustee fees	<u>(9,768)</u>

Total Non Operating Revenues (Expenses) (594,213)

Change in Net Position 460,314

Net Position, Beginning of Year 5,114,685

Net Position, End of Year \$ 5,574,999

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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,497,126
Cash paid for personnel services	(1,130,752)
Cash paid to suppliers for goods and services	<u>(738,826)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,627,548</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of property, plant, and equipment	(137,912)
Principal payments on debt	(516,787)
Interest payments on debt	(506,941)
Trustee fees	<u>(9,768)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,171,408)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	456,140
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,987,564</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 2,443,704</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, 2015

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION

Cash and cash equivalents in current assets	\$ 730,562
Restricted cash	<u>1,713,142</u>

TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 2,443,704</u></u>
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RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 1,054,527
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	547,727
(Increase) decrease in:	
Accounts receivable, net	(36,729)
Inventory	7,007
Increase (decrease) in:	
Accounts payable	961
Accrued expenses	(1,692)
Payable to the City of Calera	44,519
Customer deposits	<u>11,228</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,627,548</u></u>
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NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

The Water Works Board of the City of Calera, Alabama had amortization of bond discounts of \$9,969 and amortization of deferred charges on refunding of \$70,886.

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, 2015

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 position, financial position, and cash flow.

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 transactions and events that affect the total economic resources during the period are reported. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred, regardless of the timing of related cash inflows and outflows.

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, 2015

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 cost 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.

8. Deferred Outflows of Resources

In addition to assets, the statement of financial 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(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Board currently reports deferred outflows of resources related to deferred charges on refunding, which result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board of the
City of Calera, Alabama

September 30, 2015

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

9. Noncurrent Liabilities

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond discounts are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable are recorded net of the applicable discounts.

10. 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 \$1,585,306 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board of the
City of Calera, Alabama

September 30, 2015

NOTE B - DEPOSITS - CONTINUED

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.

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, 2015, consist of the following:

Customers	\$ 707,942
Less: Allowance for uncollectibles	<u>(4,200)</u>
Net Receivables	<u>\$ 703,742</u>

Payables at September 30, 2015, consist of the following:

Trade payables	\$ 42,033
Capital assets payables	<u>0</u>
Net Payables	<u>\$ 42,033</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board of the
City of Calera, Alabama

September 30, 2015

NOTE D - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2015, 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	49,718	43,425	-	93,143
Total capital assets not being depreciated	<u>61,203</u>	<u>43,425</u>	<u>-</u>	<u>104,628</u>
Capital assets being depreciated				
System and facilities	22,103,168	79,044	-	22,182,212
Buildings and improvements	61,492	-	-	61,492
Vehicles	310,036	-	-	310,036
Equipment	1,195,064	15,443	-	1,210,507
Total capital assets being depreciated	<u>23,669,760</u>	<u>94,487</u>	<u>-</u>	<u>23,764,247</u>
Less accumulated depreciation for				
System and facilities	5,196,258	512,361	-	5,708,619
Buildings and improvements	11,017	1,537	-	12,554
Vehicles	250,078	16,004	-	266,082
Equipment	1,127,498	17,825	-	1,145,323
Total accumulated depreciation	<u>6,584,851</u>	<u>547,727</u>	<u>-</u>	<u>7,132,578</u>
Total capital assets being depreciated, net	<u>17,084,909</u>	<u>(453,240)</u>	<u>-</u>	<u>16,631,669</u>
Total capital assets, net	<u>\$ 17,146,112</u>	<u>\$ (409,815)</u>	<u>-</u>	<u>\$ 16,736,297</u>

Depreciation for the year ended September 30, 2015, was \$547,727.

NOTE E - LONG-TERM DEBT

Notes payable at September 30, 2015, are comprised of the following:

Note payable to Central State Bank for meter reading software, dated December 3, 2013. Monthly payment of \$4,826, including interest at 2.95%, using the simple interest method, maturing in December 2018, secured by equipment.

\$ 179,136

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board of the
City of Calera, Alabama

September 30, 2015

NOTE E - LONG-TERM DEBT - CONTINUED

Water Revenue Bonds payable at September 30, 2015, are comprised of the following issues:

2009 Water Revenue Bonds, dated July 1, 2009, due in semi-annual installments through February 1, 2038, bearing interest rates of 2.00% to 5.125%. (less: unamortized discounts of \$21,520.)	\$ 2,973,480
2012 Water Revenue Bonds, dated July 1, 2012, due in semi-annual installments through February 1, 2036, bearing interest rates of 2.00% to 3.75%. (less: unamortized discounts of \$113,429.)	8,751,571
2012-A Water Revenue Bonds, dated November 1, 2012, due in semi-annual installments through February 1, 2026, bearing interest rates of 1.70% to 2.40% (less: unamortized discounts of \$3,443.)	<u>3,276,557</u>
Total Water Revenue Bonds Payable	<u>\$ 15,001,608</u>

A summary of long-term liability activity for the year ended September 30, 2015, is as follows:

	<u>Balance October 1, 2014</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance September 30, 2015</u>	<u>Due within one year</u>
Revenue Warrants Payable	\$ 15,605,000	\$ -	\$ (465,000)	\$ 15,140,000	\$ 475,000
Less Deferred Amounts:					
Issuance Premium (Discount)	<u>(148,361)</u>	<u>-</u>	<u>9,969</u>	<u>(138,392)</u>	
Total Revenue Warrants	15,456,639	-	(455,031)	15,001,608	475,000
Notes Payable	<u>230,923</u>	<u>-</u>	<u>(51,787)</u>	<u>179,136</u>	<u>53,336</u>
Long-term liabilities	<u>\$ 15,687,562</u>	<u>\$ -</u>	<u>\$ (506,818)</u>	<u>\$ 15,180,744</u>	<u>\$ 528,336</u>

The total interest incurred for the year ended September 30, 2015, was \$586,273. Of this amount, \$0 was capitalized as a component of the cost of capital assets constructed during the year and \$586,273 was charged to expense.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board of the
City of Calera, Alabama

September 30, 2015

NOTE E - LONG-TERM DEBT - CONTINUED

The annual requirements to service the Board's debt obligations at September 30, 2015, are as follows:

Year Ending September 30,	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2016	475,000	490,449	53,336	4,570
2017	485,000	478,511	54,931	2,976
2018	495,000	465,966	56,573	1,333
2019	510,000	452,589	14,296	71
2020	530,000	438,601	-	-
2021-2025	2,830,000	1,958,484	-	-
2026-2030	3,345,000	1,538,906	-	-
2031-2035	3,995,000	938,359	-	-
2036-2038	2,475,000	180,594	-	-
	<u>\$ 15,140,000</u>	<u>\$ 6,942,459</u>	<u>\$ 179,136</u>	<u>\$ 8,950</u>

NOTE F - TRUST INDENTURE COVENANTS

The Series 2009, Series 2012, and Series 2012-A 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 G - RELATED PARTY TRANSACTIONS

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, 2015, the Board owed the City of Calera \$137,339 resulting from expenses paid for the Board by the City.

The Board leases space at City Hall and the City Shop Building from the City of Calera. Rent charged during the year ended September 30, 2015, was \$14,000.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board of the
City of Calera, Alabama

September 30, 2015

NOTE H - 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.

NOTE I - SUBSEQUENT EVENTS

On January 19, 2016, the Board adopted a resolution authorizing the issuance of Series 2016-A and Series 2016-B Water Revenue Bonds with principal amounts of \$1,795,000 and \$1,400,000, respectively, for the purpose of refunding the currently outstanding Series 2009 Water Revenue Bonds.