

FINANCIAL STATEMENTS
With Other Supplementary Information
CULLMAN COUNTY WATER DEPARTMENT
CULLMAN, ALABAMA
Year ended September 30, 2015

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FINANCIAL SECTION

Independent Auditor's Report

Board of Commissioners
Cullman County Commission
Cullman, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the Cullman County Water Department, a component unit of the Cullman County Commission, as of and for the year ended September 30, 2015, and the related notes to the financial statements.

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 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 *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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cullman County Water Department, as of September 30, 2015, and the respective changes in financial position and, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information


The Cullman County Water Department's Management's Discussion and Analysis and other required supplementary information is presented within the Consolidated Cullman County Commission 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. Our opinion on the basic financial statements is not affected by this information being presented within the Consolidated Cullman County Commission Financial Statements rather than herein.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Cullman County Water Department's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 15, 2016, on our consideration of Cullman County Water Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Cullman County Water Department's internal control over financial reporting and compliance.


CERTIFIED PUBLIC ACCOUNTANTS
Decatur, Alabama

January 15, 2016

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION
CULLMAN COUNTY WATER DEPARTMENT
September 30, 2015

<u>ASSETS</u>	
Current assets:	
Cash and temporary investments	\$ 2,777,235
Accounts receivable - customers	807,655
Unbilled receivables - customers	534,396
Materials and supplies inventory	450,017
Other current assets	88,899
TOTAL CURRENT ASSETS	4,658,202
Restricted assets:	
Cash and cash equivalents	11,665,919
Non-current assets:	
Capital assets	
Non-depreciable assets	1,253,757
Depreciable capital assets - net	27,070,319
TOTAL CAPITAL ASSETS	28,324,076
Other non-current assets	28,510
TOTAL NON-CURRENT ASSETS	28,352,586
TOTAL ASSETS	44,676,707
<u>DEFERRED OUTFLOWS</u>	
Employer pension contributions	97,888
Deferred amount from debt refunding	348,775
TOTAL DEFERRED OUTFLOWS	446,663
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	371,595
Accrued payroll and leave	135,694
Other current liabilities	54,517
TOTAL CURRENT LIABILITIES	561,806
Liabilities payable from restricted assets:	
Current portion long-term debt	1,245,000
Accrued interest on long-term debt	350,688
TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS	1,595,688
Non-current liabilities:	
Net pension liability	745,840
Water Revenue Warrants	23,808,636
TOTAL NON-CURRENT LIABILITIES	24,554,476
TOTAL LIABILITIES	26,711,970
<u>DEFERRED INFLOWS</u>	
Net difference between projected and actual earning on plan investments	75,737
<u>NET POSITION</u>	
Invested in capital assets - net of related debt	3,192,790
Restricted for bond retirement	9,849,743
Restricted for debt service	923,704
Restricted for additions to utility plant	892,472
Unrestricted	3,476,954
TOTAL NET POSITION	\$ 18,335,663

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
CULLMAN COUNTY WATER DEPARTMENT
Year ended September 30, 2015

Operating revenues:		
Water sales revenue		\$ 8,320,507
Forfeited discounts and late charges		162,780
Connection and service fees		329,980
Other		<u>11,884</u>
	TOTAL OPERATING REVENUES	8,825,151
Operating expenses:		
Water purchased for resale		3,355,805
Depreciation		1,672,018
Other operating expenses		<u>3,370,468</u>
	TOTAL OPERATING EXPENSES	<u>8,398,291</u>
	OPERATING INCOME	426,860
Non-operating revenues (expenses):		
Interest and other income		23,382
Refund of construction work in progress - Note 11		144,065
Forgiveness of debt - Note 10		83,059
Bond administration/issuance fees		(171,428)
Interest on long-term debt		(762,153)
Amortization of debt discount		<u>(5,779)</u>
	NET NON-OPERATING EXPENSES	<u>(688,854)</u>
	DECREASE IN FUND NET POSITION	(261,994)
Net position, beginning of year		19,341,613
Prior period adjustment		<u>(743,956)</u>
	NET POSITION, END OF YEAR	<u>\$ 18,335,663</u>

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

STATEMENT OF CASH FLOWS
CULLMAN COUNTY WATER DEPARTMENT
Year ended September 30, 2015

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
Cash flows from operating activities:	
Cash received from customers	\$ 8,810,535
Cash payments to employees for services	(1,101,085)
Cash payments to suppliers for goods and services	<u>(5,692,487)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,016,963
Cash flows from capital and related financing activities:	
Acquisition and construction of utility plant	(1,545,212)
Refund of construction work in progress	144,065
State revolving fund proceeds	83,059
Increase in restricted liabilities	(7,716)
Payment of bond administration fees	(171,428)
Issuance cost of debt	28,643
Proceeds from issuance of debt	8,320,000
Payment of principal on long-term debt	(805,000)
Payment of interest on long-term debt	<u>(700,178)</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	5,346,233
Cash flows from investing activities:	
Proceeds from interest and other income on investments	<u>23,382</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	23,382
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>7,386,578</u>
Cash and cash equivalents, beginning of year	<u>7,056,576</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 14,443,154</u></u>
Reconciliation of operating income to net cash provided	
by operating activities:	
Operating income	\$ 426,860
Adjustments to reconcile operating income to net cash	
provided by operating activities:	
Depreciation	1,672,018
Changes in assets and liabilities:	
Accounts receivable	126,293
Unbilled receivables	(140,909)
Materials and supplies inventory	(38,366)
Other current assets	(4,419)
Accounts payable and accrued expenses	(4,250)
Net pension liability	<u>(20,264)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 2,016,963</u></u>

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

NOTES TO FINANCIAL STATEMENTS
CULLMAN COUNTY WATER DEPARTMENT
Year ended September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Cullman County Water Department, a component unit of and is administered by the Cullman County Commission for the purpose of furnishing water service within Cullman County, Alabama. The accompanying financial statements include only the accounts of the Cullman County Water Department. The other various funds and departments administered by the Cullman County Commission are outside the scope of this audit.

Basis of Accounting – The Department's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Department has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board Codification.

The Department implemented the following two GASB statements in fiscal year 2015:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires the recognition of a net pension liability. The implementation of GASB 68 resulted in a prior period adjustment of \$833,358 to recognize the net pension liability as of September 30, 2013.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, requires the recognition of a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The implementation of GASB 71 resulted in a prior period adjustment of \$89,402 to recognize employer pension contributions made during the year ending September 30, 2014.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that could affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and cash equivalents – For purposes of the statement of cash flows, the Department considers cash and certificates of deposits and all highly liquid investments (including restricted assets), to be cash and cash equivalents.

Inventories – Inventories of materials and supplies are generally valued at the lower of cost or market on a first-in, first-out basis.

Capital assets – Generally, assets costing \$1,000 or more are capitalized. Capital assets (utility plant) are stated at cost less accumulated depreciation. Depreciation is computed on the composite-rate method at rates deemed adequate. Retirements of units of property from service have been charged to the accumulated depreciation accounts at the original cost of the units plus cost of removal. The costs of maintenance, repairs and replacing minor items are charged principally to expense as incurred.

Revenue recognition and classification – The Department records revenue when billed to its customers according to the Department's normal billing cycles. Revenue for water delivered from the most recent meter reading date to the end of the month is recorded as unbilled revenue.

Operating revenues and expenses generally result from providing services and delivering goods in

NOTES TO FINANCIAL STATEMENTS
CULLMAN COUNTY WATER DEPARTMENT
Year ended September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

connection with a proprietary fund's ongoing operations. The principal operating revenues of the Department are charges for water service. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

Debt discounts and premium – Debt discounts and premium are being amortized over the life of the respective bonds on a straight-line basis.

Accounts Receivable – Historically, the Department has experienced minimal losses resulting from uncollectible accounts receivable. Therefore management does not deem it necessary to establish an allowance for uncollectible accounts receivable.

Defeasance of Debt – The accounting loss, on the advance refunding of the Water Revenue Bonds, is reported as deferred outflows and is being amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. In accordance with GASB 65, amortization of \$61,976, related to the advanced refunding of the 2000 and 2003 Series Bonds, is included as a component of interest expense.

Pension – The Department participates in the Employees' Retirement System of Alabama (the Plan), whose financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

Unbilled Revenue – During the year, customer water meters are read and bills are rendered throughout the month on a cycle basis. Because not every meter is read at year end, revenue for water services rendered but not yet billed is accrued at fiscal year-end to match revenues with related expenses.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents included the following at September 30, 2015:

Cash and temporary investments:

Cash on demand deposit	\$ 2,774,935
Working funds	2,300
TOTAL CASH AND TEMPORARY INVESTMENTS	2,777,235
Restricted cash and cash equivalents (See Notes 4 and 13)	11,665,919
TOTAL CASH AND CASH EQUIVALENTS AT SEPTEMBER 30, 2015	14,443,154
Less: restricted for bond retirement (See Note 13)	9,849,743
Total cash and cash equivalents post subsequent event	<u><u>\$ 4,593,411</u></u>

NOTES TO FINANCIAL STATEMENTS
CULLMAN COUNTY WATER DEPARTMENT
Year ended September 30, 2015

NOTE 2 – CASH AND CASH EQUIVALENTS - CONTINUED

The Department maintains all cash and temporary cash investments in institutions where the funds are insured up to \$250,000 by an agency of the federal government. All institutions have provided evidence that the deposits are collateralized in accordance with participation in the “SAFE” program, or Security for Alabama Funds Enhancement program encompassed in Title 41, Chapter 14A, Code of Alabama 1975 as amended. The restricted assets held by The Bank of New York Mellon Trust Company, N.A. are covered by the trust agreements between the County and the financial institution.

NOTE 3 – CAPITAL ASSETS

A schedule of changes in capital assets for the year ended September 30, 2015 is listed below:

	Balance 9/30/2014	Increases	Decreases	Balance 9/30/2015
Non-depreciable assets:				
Land	\$ 534,029	\$ -	\$ -	\$ 534,029
Construction work in progress	3,460,420	1,372,127	4,112,819	719,728
TOTAL NON-DEPRECIABLE ASSETS	<u>\$ 3,994,449</u>	<u>\$ 1,372,127</u>	<u>\$ 4,112,819</u>	<u>\$ 1,253,757</u>
Depreciable capital assets:				
Buildings	\$ 3,458,418	\$ -	\$ -	\$ 3,458,418
Improvements to system	45,017,296	4,112,819	-	49,130,115
General plant	5,798,810	173,087	-	5,971,897
TOTAL DEPRECIABLE CAPITAL ASSETS	<u>54,274,524</u>	<u>4,285,906</u>	<u>-</u>	<u>58,560,430</u>
Accumulated depreciation:				
Buildings	858,227	91,108	-	949,335
Improvements to system	24,264,905	1,259,741	-	25,524,646
General plant	4,694,961	321,169	-	5,016,130
TOTAL ACCUMULATED DEPRECIATION	<u>29,818,093</u>	<u>1,672,018</u>	<u>-</u>	<u>31,490,111</u>
DEPRECIABLE CAPITAL ASSETS - NET	<u>\$ 24,456,431</u>	<u>\$ 2,613,888</u>	<u>\$ -</u>	<u>\$ 27,070,319</u>

During the year ended September 30, 2015, the Department began capitalizing payroll expenses related to construction work in progress. Approximately \$170,000 of payroll expenses is included in construction work in progress.

Depreciation expense totaled \$1,672,018 for the year ended September 30, 2015, and was charged to operating expenses.

Depreciation expense is computed on the composite rate method as outlined below:

	Range	
	From	To
Buildings	2.50%	20.00%
Improvements to system	2.50%	20.00%
General plant	5.00%	33.33%

NOTES TO FINANCIAL STATEMENTS
CULLMAN COUNTY WATER DEPARTMENT
Year ended September 30, 2015

NOTE 4 – RESTRICTED ASSETS

The following is a schedule of Restricted Assets:

US Treasury Funds (yield rate 0.00% at September 30, 2015):

Bond and Interest Funds:	
Series 2005	\$ -
Series 2007	-
Series 2010A	130,082
Series 2015	68,065
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TOTAL BOND AND INTEREST FUNDS	198,147
 Reserve Funds:	
Series 2005	-
Series 2007	-
Series 2010A	725,557
Series 2015	-
	<hr/>
TOTAL RESERVE FUNDS	725,557
 Escrowed Funds:	
Retirement Escrow: Series 2005 and 2007	9,849,743
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TOTAL RESTRICTED FOR DEBT SERVICE	10,773,447
 Construction Funds:	
Construction Fund - Series 2010A	888,472
COI Fund - Series 2015	4,000
	<hr/>
TOTAL CONSTRUCTION FUNDS	892,472
	<hr/>
TOTAL RESTRICTED ASSETS	11,665,919
 Less: restricted for bond retirement (See Note 13)	9,849,743
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Total restricted assets post subsequent event	\$ 1,816,176
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The investments shown above are stated at cost which approximates market.

NOTES TO FINANCIAL STATEMENTS
CULLMAN COUNTY WATER DEPARTMENT
Year ended September 30, 2015

NOTE 5 – REFUNDED BONDS AND ESCROW ARRANGEMENTS

Series 2003

The Department has heretofore issued its Water Revenue Bonds, Series 2003, dated February 1, 2003.

The Department has entered into a Refunding Escrow Agreement dated, December 27, 2007 and January 10, 2008, with The Bank of New York Mellon Trust Company as trustee, and has deposited with the trustee, funds sufficient to pay the advance refunded portion of principal and interest on the Series 2003 Bonds, up to the call date of May 1, 2016. An analysis of the Escrow Fund for the year ended September 30, 2015 is as follows:

	Series 2003 Bonds
Balance, beginning of year	\$ 586,932
Interest earned	11,492
TOTAL AVAILABLE FUNDS	<u>598,424</u>
Disbursements:	
Interest paid	24,280
Principal paid	290,000
TOTAL DISBURSEMENTS	<u>314,280</u>
BALANCE, END OF YEAR	<u>\$ 284,144</u>

Escrowed Water Revenue Bonds, Series 2003 amounted to \$284,144 at September 30, 2015.

The defeased bonds listed above and the related trust account assets are not included in the Department's financial statements.

NOTE 6 – ACCRUED PAYROLL AND LEAVE

The Cullman County Water Department permits employees to accrue vacation at various rates depending on time of service. Employees may accumulate up to 480 hours of annual leave. Employees are paid for any accrued annual leave upon separation. Full-time regular employees accrue sick leave at the rate of four hours per pay period. There is no limitation as to the maximum sick leave an employee can accumulate. At September 30, 2015, no liability for unpaid sick leave is accrued in the financial statements since employees do not receive payments for sick leave upon termination. The balance of accrued payroll and leave was \$135,694 at September 30, 2015.

NOTES TO FINANCIAL STATEMENTS
CULLMAN COUNTY WATER DEPARTMENT
Year ended September 30, 2015

NOTE 7 – WATER REVENUE WARRANTS

The Department issued the Series 2005 Bonds to refinance the Series 2000 Bonds, and to finance the expansion of the water system. The Department issued the Series 2007 Bonds to refinance the Series 2003 Bonds, and to finance a new building. The Department also issued the Series 2008 Bonds to finance a new building. The Department issued the Series 2010-A Bonds to finance additional expansion of the water system. The Department issued the Series 2015 Bonds to refinance the Series 2005 and 2007 Bonds (See Note 13). The balance of each bond issue at the year-end is as follows:

	Balance 9/30/2014	Increases	Decreases	Balance 9/30/2015
<u>Water Revenue Warrants</u>				
Water Revenue Refunding Warrants				
Series 2005, bearing interest at rates from 2.70% to 5.00% per annum, maturing May 2025.	\$ 4,265,000	\$ -	\$ 310,000	\$ 3,955,000
Water Revenue Warrants				
Series 2007, bearing interest at rates from 3.50% to 4.125% per annum, maturing May 2025.	6,170,000	-	465,000	5,705,000
Water Revenue Warrants				
Series 2010-A, bearing interest at rates from 3.80% to 6.25% per annum, maturing May 2030.	7,120,000	-	30,000	7,090,000
Water Revenue Warrants				
Series 2015, bearing interest at rates from 2.125% to 3.00% per annum, maturing May 2025.	-	8,320,000	-	8,320,000
Total Bonds Outstanding	17,555,000	8,320,000	805,000	25,070,000
Unamortized premium	-	57,155	-	57,155
Unamortized discount	(79,298)	-	(5,779)	(73,519)
	17,475,702	\$ 8,377,155	\$ 799,221	25,053,636
Less current amounts due	805,000			1,245,000
TOTAL NON-CURRENT WATER REVENUE WARRANTS	<u>\$ 16,670,702</u>			23,808,636
SEE NOTE 13				
Current amounts due (above)				1,245,000
Revised current amounts due				(440,000)
Unamortized discount				20,618
Retired Series 2005 and 2007				
Water Revenue Warrants				(9,660,000)
Total non-current water revenue warrants post subsequent event				<u>\$ 14,974,254</u>

NOTES TO FINANCIAL STATEMENTS
CULLMAN COUNTY WATER DEPARTMENT
Year ended September 30, 2015

NOTE 7 – WATER REVENUE WARRANTS – CONTINUED

Remaining debt service payments at September 30, 2015, are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	1,245,000	965,804	2,210,804
2017	1,645,000	1,009,168	2,654,168
2018	1,710,000	952,604	2,662,604
2019	1,770,000	893,171	2,663,171
2020	1,825,000	827,721	2,652,721
2021-2025	10,145,000	3,141,613	13,286,613
2026-2029	6,730,000	1,285,125	8,015,125
	<u>\$ 25,070,000</u>	<u>\$ 9,075,206</u>	<u>\$ 34,145,206</u>

Remaining debt service payments post subsequent event (See Note 13):

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	440,000	568,668	1,008,668
2017	815,000	642,431	1,457,431
2018	845,000	617,211	1,462,211
2019	870,000	591,091	1,461,091
2020	890,000	564,222	1,454,222
2021-2025	4,820,000	2,458,219	7,278,219
2026-2029	6,730,000	1,285,125	8,015,125
	<u>\$ 15,410,000</u>	<u>\$ 6,726,967</u>	<u>\$ 22,136,967</u>

Substantially all assets of the Department have been pledged as collateral in favor of the Bond Holders.

NOTE 8 – RETIREMENT

Plan description – The Employees’ Retirement System of Alabama, an agency multiple-employer, cost-sharing 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, and on an elective basis, to all cities, counties, towns and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

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. 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

NOTES TO FINANCIAL STATEMENTS
CULLMAN COUNTY WATER DEPARTMENT
Year ended September 30, 2015

NOTE 8 – RETIREMENT – CONTINUED

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 are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

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 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.

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.

Contributions – Covered members of the ERS contribute 5% of earnable compensation to the ERS as required by statute. Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. ERS local participating employers are not required by statute to increase contribution rates for their members.

The Department's contractually required contribution rate for the year ended September 30, 2015 was 8.5% of pensionable pay for Tier 1 employees, and 6.2% of pensionable pay for Tier 2 employees,. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$97,888 for the year ended September 30, 2015.

Net Pension Liability

The Department's net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2013 rolled forward to September 30, 2014 using standard roll-forward techniques as shown in the following table:

Total Pension Liability	
as of September 30, 2013	\$ 3,213,679
Entry Age Normal Cost for	
October 1, 2013 - September 30, 2014	\$ 94,331
Actual Benefit Payments and Refunds for	
October 1, 2013 - September 30, 2014	\$ (175,401)
Total Pension Liability	
as of September 30, 2014	\$ 3,382,687

NOTES TO FINANCIAL STATEMENTS
CULLMAN COUNTY WATER DEPARTMENT
Year ended September 30, 2015

NOTE 8 – RETIREMENT – CONTINUED

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 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 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:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	25.00%	5.00%
U.S. Large Stocks	34.00%	9.00%
U.S. Mid Stocks	8.00%	12.00%
U.S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
Total	<u>100.00%</u>	

*Includes assumed rate of inflation of 2.50%.

Discount rate – The discount rate used to measure the total pension liability was the long term rate of return, 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected

NOTES TO FINANCIAL STATEMENTS
CULLMAN COUNTY WATER DEPARTMENT
Year ended September 30, 2015

NOTE 8 – RETIREMENT – CONTINUED

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 Department's net pension liability calculated using the discount rate of 8%, as well as what the Department'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:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Commission's Proportionate Share of Net Pension Liability	\$ 1,145,350	\$ 745,840	\$ 409,191

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the Department reported a liability of \$745,840 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's proportion of the net pension liability was based on the Department's contributions for the year ending September 30, 2014 to the pension plan relative to the County's contributions for the same period. At September 30, 2014, the Department's proportion was 7.17%.

For the year ended September 30, 2015, the Department recognized pension expense of \$104,386. At September 30, 2015, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	-	75,737
Employer contributions subsequent to the Measurement Date	97,888	-
	<u>\$ 97,888</u>	<u>\$ 75,737</u>

NOTES TO FINANCIAL STATEMENTS
CULLMAN COUNTY WATER DEPARTMENT
Year ended September 30, 2015

NOTE 8 – RETIREMENT – CONTINUED

The \$97,888 of deferred outflows of resources resulting from the Department's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ended September 30:

2016	\$	18,934
2017		18,934
2018		18,934
2019		18,935
		<u>\$ 75,737</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, 2014. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2014. The auditor's report dated June 3, 2015 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.

NOTE 9 – CONCENTRATIONS

Accounts receivable and Revenue – The Department generated all its revenue and the related customer accounts and unbilled receivables from businesses and individuals in Cullman County and surrounding areas. As of September 30, 2015, the Department's accounts and unbilled receivables balance was \$1,342,051.

Water Supply – The Department has entered into a contract to purchase its water supply from the City of Cullman. The contract with the City of Cullman expires November 1, 2048. The purchase price is in accordance with the rates adopted from time to time by the City of Cullman city council.

NOTE 10 – FORGIVENESS OF DEBT

The Department is a recipient of a loan being disbursed under an agreement with Cullman County, the Alabama Drinking Water Finance Authority and the Alabama Department of Environmental Management. The agreement allows a maximum borrowing amount of \$3,253,184 to be used for water system improvements. The agreement provides repayment forgiveness of the principal, as disbursed to the county. As of September 30, 2015, the Department had received a total of \$3,253,184 of the allowable amount, of which \$83,059 has been recognized as non-operating revenues in the current year financial statements.

NOTES TO FINANCIAL STATEMENTS
CULLMAN COUNTY WATER DEPARTMENT
Year ended September 30, 2015

NOTE 11 – REFUND OF CONSTRUCTION WORK IN PROGRESS

The Department and the Bethel Gum Pond Volunteer Fire Department (VFD) entered into an agreement whereas the Water Department would supply and install a new waterline. The VFD would reimburse the Department for all materials. The phase 1 and 2 of the project, recorded in depreciable capital assets, totaled approximately \$179,000. The VFD reimbursed the Department \$144,065, which is shown in non-operating revenues.

NOTE 12 – RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; and natural disasters. These risks are covered by commercial insurance coverage. There was no significant reduction in insurance coverage during the fiscal year ended September 30, 2015.

NOTE 13 – SUBSEQUENT EVENTS

The Department has evaluated events through January 15, 2016, the date which the financial statements were available to be issued.

The Cullman County Commission redeemed and retired the 2005 and 2007 Water Revenue Warrants on October 23, 2015. This transaction effectively removed the 2005 and 2007 Water Revenue Warrants from the Balance Sheet as well as the related portion of restricted assets. Debt service obligations also changed. The financial statement disclosures include information reflecting the changes.

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF OTHER OPERATING EXPENSES
CULLMAN COUNTY WATER DEPARTMENT
Year ended September 30, 2015

Salaries and wages	\$ 1,101,085
Payroll taxes	101,500
Retirement	104,386
Other employee benefits	267,443
Materials and supplies	620,258
Insurance expense	133,725
Repairs and maintenance	115,662
Gas, fuel, and oil	97,004
Utilities	149,925
Equipment rental	20,086
Telephone and communications	93,012
Postage	2,761
Professional fees	113,561
Bank service charges	29,067
Office supplies	32,611
Water testing fees	10,331
Meter reading	104,306
Account billing	164,206
Bad debt expense	50,499
Other expenses	59,040
TOTAL OTHER OPERATING EXPENSES	<u>\$ 3,370,468</u>

See independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Board of Commissioners
Cullman County Commission
Cullman, Alabama

We have audited, in accordance with the 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, the financial statements of Cullman County Water Department, a component unit of the Cullman County Commission, as of and for the year ended September 30, 2015, and the related notes to the financial statements and have issued our report thereon dated January 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cullman County Water Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cullman County Water Department's internal control. Accordingly, we do not express an opinion on the effectiveness of Cullman County Water Department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cullman County Water Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


CERTIFIED PUBLIC ACCOUNTANTS
Decatur, Alabama

January 15, 2016