

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA**

**AUDITED FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**SEPTEMBER 30, 2016**

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## ***INTRODUCTORY SECTION***

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
BOARD OF DIRECTORS**

Matt Benefield	Chairman
Jason Headrick	Superintendent
Cynthia Harris	Secretary/Treasurer
Joseph Appleby	Board Member
Kenny Cleveland	Board Member

## ***FINANCIAL SECTION***

*Edgar and Associates, LLC*  
*Certified Public Accountants*

218 East 12th Street, Anniston, AL 36207  
256.237.1773

**INDEPENDENT AUDITORS' REPORT**

To Members of the Board  
The Waterworks and Sewer Board of the City of Lineville  
Lineville, Alabama

We have audited the accompanying financial statements of the business-type activities of the Water Works and Sewer Board of the City of Lineville, Alabama, a component unit of the City of Lineville, Alabama, as of and for the year ended September 30, 2016, 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

## **INDEPENDENT AUDITORS' REPORT -- Continued**

considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Water Works and Sewer Board of the City of Lineville, Alabama, as of September 30, 2016, 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**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Board's budgetary comparison information on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance

## INDEPENDENT AUDITORS' REPORT – Continued

on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Works and Sewer Board of the City of Lineville, Alabama's basic financial statements as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section 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.

*Edgar and Associates, LLC*

Anniston, Alabama  
February 18, 2017



THE WATERWORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2016

**ASSETS**

	<u>2016</u>
<b>Current Assets</b>	
Cash and cash equivalents	\$ 350,474
Investments	65,365
Accounts receivable (Net of allowance for doubtful accounts of \$8,722)	51,119
Unbilled revenue	25,500
Prepaid assets	2,800
Inventory	19,809
<b>Total Current Assets</b>	<u>515,067</u>
<b>Deferred Outflows of Resources</b>	
Deferred refunding of debt	42,922
Loss on bond refunding	69,877
Deferred outflow of resources	56,647
<b>Total Deferred Outflows of Resources</b>	<u>169,446</u>
<b>Restricted Assets</b>	
Cash and cash equivalents	11,167
Investments	50,486
Restricted Bond Assets	369,096
<b>Total Restricted Assets</b>	<u>430,749</u>
<b>Utility Property and Equipment</b>	
Building and improvements	26,541
Water and sewer systems	7,203,314
Equipment	359,719
Vehicles	137,184
Construction in progress	10,263
<b>Total Utility Property and Equipment</b>	<u>7,737,021</u>
Less: Accumulated depreciation	<u>(4,820,519)</u>
<b>Net Utility Property and Equipment</b>	<u>2,916,502</u>
<b>Total Assets</b>	<u><u>\$ 4,031,764</u></u>

THE WATERWORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE  
STATEMENT OF NET POSITION - CONTINUED  
SEPTEMBER 30, 2016

**Liabilities and Net Position**

2016

**Current Liabilities**

Accounts payable and accrued expenses	\$ 96,719
Accrued interest payable	29,723
Current portion of long-term bond debt	<u>59,407</u>

**Total Current Liabilities** 185,849

**Long-Term Liabilities**

Customer deposits	76,322
Long-term debt	<u>2,010,000</u>
<b>Total Long-Term Liabilities</b>	2,086,322

**Other Liabilities**

Net pension liability	<u>246,142</u>
<b>Total Other Liabilities</b>	246,142

**Total Liabilities** 2,518,313

**Net Position**

Net assets invested in capital assets, net of related debt	847,095
Restricted	430,749
Unrestricted	<u>235,607</u>
<b>Total Net Position</b>	<u>1,513,451</u>

**Total Liabilities and Net Position** 4,031,764

**THE WATERWORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>2016</u>
<b>Operating Revenues</b>	
Charges for water sales and service	500,897
Charges for sewer and service	183,180
Charges for garbage service	177,200
Late charges	23,168
Installation fees	5,980
Other income	18,318
<b>Total Operating Revenues</b>	<u>908,743</u>
<b>Operating Expenses</b>	<u>1,024,984</u>
<b>Operations Income (Loss)</b>	(116,241)
<b>Non-operating Revenues (Expenses)</b>	
Interest income	1,791
Interest expense	(63,533)
Bond issuance costs	(34,500)
Trustee fees	(50,856)
<b>Net Non-operation Revenues (Expenses)</b>	<u>(147,098)</u>
<b>Increase (decrease) in Net Position</b>	(263,339)
<b>Total Net Position, beginning of year</b>	<u>1,800,783</u>
<b>Prior Period Adjustment</b>	(23,993)
<b>Total Net Position, end of year</b>	<u><u>1,513,451</u></u>

**THE WATERWORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>2016</u>
<b>Cash Flows from Operation Activities</b>	
Cash receipts from customers	914,678
Cash payments to employees for services	(179,400)
Cash payments for goods and services	(529,602)
<b>Net Cash Provided By Operation Activities</b>	<u>205,676</u>
<b>Cash Flows from Investing Activities</b>	
Interest income received	1,791
<b>Net Cash Provided by Investing Activities</b>	<u>1,791</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Principal payments on debt	(1,045,593)
Interest payments on debt	(63,533)
Deferred loss on refunding	58,680
Loan proceeds	1,435,000
Additions to property, plant and equipment	(25,479)
Bond issuance costs	(34,500)
Payments of trustee fees	(51,129)
Restricted assets utilized (invested)	(430,749)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<u>(157,303)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	50,164
<b>Cash and Cash Equivalents, beginning of year</b>	<u>300,310</u>
<b>Cash and Cash Equivalents, end of year</b>	<u><u>350,474</u></u>

**THE WATERWORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE  
STATEMENT OF CASH FLOWS - CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<b>2016</b>
<b>Cash Flow from Operation Activities</b>	
Operating income (loss)	(116,241)
Adjustments to reconcile operation income (loss) to net cash provided by operation activities:	
Depreciation and amortization expense	284,353
Decrease (increase) in accounts receivable	11,382
Decrease (increase) in prepaid assets	1,390
Decrease (increase) in inventory	1
Increase (decrease) in accounts payable	3,150
Increase (decrease) in accrued liabilities	19,883
Increase (decrease) in customer deposits	1,758
	<hr/>
<b>Net Cash Provided By Operation Activities</b>	<u><u>205,676</u></u>

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE A – REPORTING ENTITY**

The Water Works and Sewer Board of the City of Lineville, Alabama, ("the Board") is a component unit of the City of Lineville, Alabama. It is legally separate from the City of Lineville, Alabama. The Board was incorporated October 1952 under the provisions of Article 9 Chapter 50 of Title 11 of the Code of Alabama. The law authorizes the Board to acquire, purchase, construct, operate, maintain, enlarge, extend and improve its water works plant and distribution system; and to refund its outstanding bonds and issue interest bearing bonds payable solely from the revenues derived from the operation of such system.

The Board provides services for customers in Lineville, Alabama and surrounding areas including Clay County, Alabama and a small area of Randolph County, Alabama. All water is purchased from the Clay Water Authority. Pursuant to the terms of the agreement, Clay County Water Authority agrees to furnish the Board all of its potable water requirements up to 15,000,000 gallons per month at a current rate of \$1.40 per 1000 gallons.

The Board is composed of three members appointed by the Lineville City Council. However, the Lineville City Council is not able to impose its will on the operations of the Board nor are there any financial benefits each to the other or financial burdens imposed on each other. Therefore, the Board is not considered a component unit of the City of Lineville.

The Board is subject to various forms of regulation under federal, state and local laws and is subject to various Federal Energy Regulatory Commission (FERC) regulations. Laws and regulations are subject to change and may have a direct impact on the operations of the Board.

The accounting and reporting policies of the Board conform to generally accepted accounting principles applicable to the state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Government Accounting Standards Board (GASB), The American Institute of Certified Public Accountants in the publication entitled, *Audits of State and Local Governmental Units*, and by the Financial Accounting Standards Board (when applicable and not superseded by GASB opinions and interpretations). The more significant accounting policies are described below.

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Method of Accounting**

The Board is accounted for as a proprietary fund type. The accounting under a proprietary fund is similar to that found in the private sector. The measurement focus is upon determination of net income, financial position, contributed capital and cash flows using the accrual basis of accounting.

The Board maintains its accounting records in accordance with accounting principles generally accepted in the United States of America. The Board has elected to apply all applicable GASB pronouncements, as well as 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 GASB pronouncements. As allowed under GASB No. 20, the Board has elected to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operation revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the Board are charges for water and related services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Board's financial statements are reported in accordance with GASB Statement Number 34, Basic Financial Statements – for State and Local Governments, and follow the accrual basis of accounting. Net assets are classified and reported in three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there is significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the same net assets component as the unspent proceeds.

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Method of Accounting - continued**

- Restricted net assets – This component of net assets includes assets subject to external constraints imposed by creditors (such as debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets- This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The Board's policy is first to apply restricted resources and then unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Budgetary Control**

The Secretary of Treasurer for the Water Board looks at revenue and expenses from prior year and prepares a draft budget for the upcoming year with the Water Superintendent and Board chairman. It is then submitted to the Board of Directors in accordance with the Board's policy and State law for approval. The budget is effective for the fiscal year beginning each October 1.

**Cash and Cash Equivalents, Restricted Assets**

Cash consists of checking and savings. Cash equivalents consist of certificates of deposit and securities that mature within three months. All are considered cash equivalents for these financial statements. Restricted assets are cash and cash equivalents which represent amounts held by fiscal agents as required by debt covenants and loan restrictions. They represent amounts for annual debt service, replacement reserve, operating reserve, and amounts restricted for completion of water and sewer improvement projects. State statutes authorize the Board to invest only in financial instruments backed by the full faith and credit of the United States government. Cash equivalents are valued at fair market value.



**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Income and Other Taxes**

The Board is exempt from all federal, state, local income and property taxes except for state utility tax which is collected from the users of the system and social security taxes paid for employees. The Board pays for unemployment tax coverage by the reimbursement method.

**Inventories**

Inventories of unused supplies and pipe are physically counted at the end of each fiscal year and recorded at cost. The cost of inventories expended for repairs are recorded as expenditures when consumed.

**Accounts Receivable and Unbilled Revenue**

Accounts receivable represents usage fees for services rendered in September and billed prior to the end of the month and outstanding at September 30, 2016. The receivables are reduced by an allowance for doubtful accounts. Unbilled revenue represents usage fees for services rendered in September, but billed in October.

**Deferred Outflows of Resources**

The costs associated with the outstanding bond issues and pension expenditures is recorded as other assets, net of amortization calculated over the life of the bond issue or adjusted for pension activity.

**Utility Plant and Equipment**

Utility Plant in Service is recorded at cost when purchased, constructed or contributed. Repairs and maintenance are recorded as expenses, and renewals and betterments are capitalized. Interest has not been capitalized during the construction of assets. Contributed assets are recorded at the contributor's basis. Depreciation is recorded using the straight-line method over estimated service lives of the assets as follows:

Plants and systems	5 to 50 years
Buildings and improvements	7 to 25 years
Tools and equipment	5 to 10 years
Vehicles	5 years

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Compensated Absences**

The Board follows Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, which requires that accrued liabilities for future vacations and sick leave be recorded to the extent the future leaves (1) relate to the rights attributable to employee services already rendered, (2) relate to rights that vest or accumulate, (3) where payment is probable and (4) where amounts can be reasonably estimated. The liability for these compensated absences is recorded as long-term debt. The current portion of this debt is estimated based on historical trends. Amounts that would normally be paid with expendable available financial resources are recorded in current liabilities, and the remaining amounts are considered non-current. Amounts paid or payable within sixty days are deemed to be payable from expendable financial resources.

Vacation pay is earned based on length of service. Employees earn 40 hours (5 days) of vacation time per year for the first 3 years of service, 80 hours (10 days) of vacation time for service between 3 years and 10 years, and 120 hours (15 days) of vacation time per year for 10 or more years of service. One-half of unused sick time, up to 520 hours, is paid upon termination.

**Operating Revenues and Expenses**

The Board's Statements of Revenues, Expenses and Changes in Net Assets distinguish between operating and non-operating revenues and expenses. Operating revenues result from transactions associated with water and sewer service – the Board's principal activity. Non-operating revenues include interest income and gain or loss on the sale of plant, property or equipment.

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Subsequent Events**

Management has evaluated subsequent events and their potential effects on these financial statements through March 10, 2017, which is the date these financial statements were available to be issued.

**NOTE C – CASH AND CASH EQUIVALENTS, INVESTMENTS, AND RESTRICTED ASSETS**

In the 2000 Regular Session, the Alabama State Legislature enacted the Security for Alabama Funds Enhancement (SAFE) Program (Title 41, Chapter 14A, Code of Alabama 1975, as amended) that changes the way all Alabama public deposits are collateralized. Public deposits include the funds of any covered public entity or covered public official with funds on deposit in a qualified depository, including time and demand deposit accounts and certificates of deposit but excluding bonds, notes, money market mutual funds, repurchase agreements and similar investment instruments. Covered public entities include the state and its political subdivisions, including water boards. In the past, the bank pledged collateral directly to each public entity. Under SAFE, which is mandatory, each qualified public depository (QPD) is required to hold collateral for all of its public deposits on a pooled basis in a custody account (SAFE Custody Account) established for the State Treasurer as a SAFE administrator. In the unlikely event that a public entity should suffer a deposit loss due to QPD insolvency or default, a claim form would be filed with the State Treasurer, who would use the SAFE pool collateral or other means to reimburse the loss. All deposits of the Board as of September 30, 2016, are held in a certified qualified public depository.

Cash consists of cash on hand and in checking accounts. The carrying amount of cash deposits is separately displayed on the balance sheet as "cash and cash equivalents". Cash and cash equivalents at September 30, 2016 was \$350,474. Investments consists of amounts held in CDs with a maturity date more than 90 days after year end. Investments at September 30 2016 was \$65,365.

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE C – CASH AND CASH EQUIVALENTS, INVESTMENTS, AND RESTRICTED ASSETS – continued**

Restricted assets as of September 30, 2016 are as follows:

<b>Account</b>	<b>Amount</b>
<b>First State Bank</b>	<b>11,167</b>
<b>First State Bank</b>	<b>50,486</b>

**NOTE D – ACCOUNTS RECEIVABLE**

The Board billed customers for September water and sewer usage as follows:

	<u><b>2016</b></u>
Accounts receivable	\$ 59,841
Less: allowance for doubtful accounts	<u>(8,722)</u>
Accounts receivable, net	<u>\$ 51,119</u>

Unbilled revenues receivable at September 30, 2016 was \$25,500.

**NOTE E – INVENTORY OF SUPPLIES**

The Board maintains an inventory of water pipe, fittings, meters and other materials that will be used to repair or improve the existing water, and sewer system. The items are valued at cost. Inventory of supplies at September 30, 2016 was \$19,809.

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE F – UTILITY PLANT IN SERVICE**

The following is a summary of additions and retirements to utility plant and equipment during the year ended September 30, 2016:

<u>Account</u>	<u>Balance September 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2016</u>
<u>Non-depreciable Assets</u>				
Construction in process	\$ 6,884	\$ 3,379	\$ -	\$ 10,263
Total non-depreciable assets	6,884	3,379	-	10,263
<u>Depreciable Assets</u>				
Buildings and improvements	26,541	-	-	26,541
Plants and systems	7,181,214	22,100	-	7,203,314
Equipment	359,719	-	-	359,719
Vehicles	137,184	-	-	137,184
Total depreciable assets	7,704,658	22,100	-	7,726,758
Less: accumulated depreciation	(4,539,486)	(281,033)	-	(4,820,519)
Net depreciable assets	3,165,172	(258,933)	-	2,906,239
Utility Plant in Svc, Net	\$ 3,172,056	\$ (255,554)	\$ -	\$ 2,916,502

Depreciation expense at September 30, 2016 was \$281,033.

**NOTE H – BOND INSURANCE COST AND BOND DISCOUNT**

The Board amortizes the cost of bond insurance related to each revenue bond over the life of the bond. The unamortized bond insurance costs at September 30, 2016 was \$15,339. The unamortized bond discounts at September 30, 2016 was \$27,586; and amortization expenses were \$3,319.

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE I – ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consisted of the following at September 30:

	<u>2016</u>
Accounts payable	\$ 43,504
Payroll liabilities	8,692
Accrued salaries and wages	<u>44,523</u>
Total	<u>\$ 96,719</u>

**NOTE J – CUSTOMER METER DEPOSITS**

The Board requires customers to pay a deposit for water service when opening a new account which are refundable when the customer terminates service. The Board recognizes this as a long-term liability. The balances of the liability at September 30, 2016 was \$76,322.

**NOTE K – LONG-TERM DEBT**

Long-term debt consists of Water, Sewer and Gas Revenue bonds issued as special obligations of the Board secured by a lien on and pledge of the net revenues of the water, gas and sewer system. This debt is not a general obligation bond of the City. The bond principal and interest is paid by revenue earned by the system and trust restricted assets.

This schedule summarizes the changes in Revenue Bonds for the year ended September 30, 2016:

<u>Description</u>	<u>Balance September 30, 2015</u>	<u>Add Loan Proceeds</u>	<u>Less Principal Paid</u>	<u>Balance September 30, 2016</u>	<u>Interest Paid</u>	<u>Due in one year</u>
2004 Bond	\$ 110,000	\$ -	\$ (105,000)	\$ 5,000	\$ -	\$ 5,000
2008 Bonds	100,000	-	(20,000)	80,000	-	20,000
2011 Bonds	605,000	-	(605,000)	-	-	-
2012 Bonds	990,000	-	(375,000)	615,000	-	-
2016 Bonds	-	1,335,000	-	1,335,000	-	-
Total	<u>\$ 1,805,000</u>	<u>\$ 1,335,000</u>	<u>\$ (1,105,000)</u>	<u>\$ 2,035,000</u>	<u>\$ -</u>	<u>\$ 25,000</u>

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE K – LONG-TERM DEBT – Continued**

Revenue Bonds at September 30, 2016 consist of the following:

**A. 2004 Revenue Bonds**

On November 1, 2004, the Board issues Water and Sewer Revenue Bonds, Series 2004, in the aggregate principal amount of \$1,305,000 ("Series 2004 Bonds"). The Series 2004 Bonds were issued to currently refund the outstanding principal amount of the Board's Water and Sewer Revenue Refunding Bonds, Series 1997 (\$425,000); construct and acquire various capital improvements for the Board; and pay costs incurred in connection with the issuance of the Series 2004 Bonds.

The bond covenant requires the maintenance of rates to ensure that annual net income is at least 1.25 times the net debt service requirement, as defined in the Trust Indenture.

**B. 2008 AMFUND Bonds**

On April 22, 2010 the City obtained, on behalf of the Board, the Alabama Municipal Funding Corporation (AMFUND) Series 2008, in the amount of \$175,000. Interest rate on the bond is 2.0% over the life of the bond. The bond was issued to provide funding for capital improvements to the Board. Interest is payable each month and principal is payable in semi-annual payments each April 20<sup>th</sup> and October 20<sup>th</sup>, until fully repaid.

**C. Series 2011 Bonds**

On August 1, 2011, the Board issued Water and Sewer Revenue Bonds, Series 2011, in the aggregate principal amount of \$1,155,000 ("Series 2011 Bonds"). The Series 2011 Bonds were issued to currently refund certain of the outstanding principal amount of the Board's Water and Sewer Revenue Refunding Bonds, Series 2004 (\$1,305,000); construct and acquire various capital improvements for the Board; and pay costs incurred in connection with the issuance of the Series 2011 bonds.

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
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SEPTEMBER 30, 2016**

**NOTE K – LONG-TERM DEBT – Continued**

The bond covenant requires maintenance of rates to ensure that annual net income is at least 1.25 times the net debt service requirement, as defined in the Trust indenture.

**D. 2012 Revenue Bonds**

On September 13, 2012, the Board issued Water and Sewer Revenue Bonds, Series 2012, in the aggregate principal amount of \$990,000 ("Series 2012 Bonds"). The Series 2012 Bonds were issued to currently refund certain of the outstanding principal amount of the Board's Water and Sewer Revenue Refunding Bonds, Series 2011 \$(1,155,000); construct and acquire various capital improvements for the Board; and pay costs incurred in connection with the issuance of the Series 2012 Bonds.

The bond covenant requires maintenance of rates to ensure that annual net income is at least 1.25 times the net debt service requirements, as defined in the Trust Indenture.

**E. 2016 Revenue Bond**

On September 15, 2016, the Board issued Water and Sewer Revenue Bonds series 2016 in the aggregate principal amount of \$1,335,000. The Series 2016 Bonds were issued to refund \$433,100 of the Series 2012 Bonds, to refund \$601,775 of the Series 2011 Bonds and to fund capital improvements.

The bond covenant requires rates and charges for water and service supplied by the System to produce revenues sufficient to pay all operating expenses when due and to produce annual net income at least 1.20 times the amount required to be paid into the bond fund during the fiscal year.



**THE WATER WORKS AND SEWER BOARD  
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SEPTEMBER 30, 2016**

**NOTE K – LONG-TERM DEBT – Continued**

The principal maturities and related interest requirements for the bonds and warrants for the next five fiscal years and thereafter are as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	25,000	47,267	72,267
2018	40,000	59,547	99,547
2019	40,000	58,821	98,821
2020	55,000	57,975	112,975
2021	40,000	57,232	97,232
2022-2026	235,000	274,131	509,131
2027-2031	285,000	242,631	527,631
2032-2036	330,000	197,835	527,835
2037-2041	395,000	132,394	527,394
2042-2046	485,000	55,659	540,659
2047	105,000	1,641	106,641
Total	\$ <u>2,035,000</u>	\$ <u>1,185,135</u>	\$ <u>3,220,135</u>

In addition to the above debt, the Board has \$34,407 outstanding on a three year note with Regions Bank associated with the refunding of the 2004 Series Bond. The current portion is \$34,407.

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE L – REVENUE BOND DEBT COVENANTS**

Terms of the 2004 and 2012 Revenue Bond Series indenture call for the Board to maintain a 1.25 ratio of Annual Net Income as defined in the indenture to annual debt service.

The ratio of Annual Net Income to Annual Debt Service for the year ended September 30, 2016.

Operating Revenues	
Water revenue	\$ 500,897
Sewer revenue	183,180
Garbage revenue	177,200
Installations	5,980
Miscellaneous Income	<u>41,486</u>
Total Operating Revenues	908,743
Less: Operating Expenses Excluding Depreciation and Amortization	
Total Operating Expenses	<u>740,631</u>
Net Income from Operations	\$ <u>168,112</u>
Net Revenue Available for Debt Service	170,296
Annual Debt Service	\$ 123,533
Ratio	1.38

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE M – RETIREMENT**

**Plan Description.** The Employees' Retirement System of Alabama, an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns and quasi-public organizations. The responsibility for the general administration and 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 Board of Control. The Plan issues a publicly available financial report that can be obtained at [www.rsa-al.gov](http://www.rsa-al.gov).

The ERS Board of Control consists of 13 trustees as follows:

1. The Governor, ex officio.
2. The State Treasurer, ex officio.
3. The State Personnel Director, ex officio.
4. The State Director of Finance, ex officio.
5. Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
6. Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
  - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
  - b. Two vested active state employees.
  - c. Two vested active employees of an employer participating in ERS pursuant to section 36-27-6.

**Benefits provided.** State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit.

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE M – RETIREMENT – Continued**

payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in –service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service, credit, employment status and eligibility for retirement.

The ERS serves approximately 846 local participating employers. These participating employers include 287 cities, 65 counties, and 494 other public entities. The ERS membership includes approximately 83,874 participants. As of September 30, 2015 the City's membership consisted of:

Retired members or their beneficiaries currently receiving benefits	3
Vested inactive members	1
Non-vested inactive members	0
Active members	6
Post-DROP retired members still in active service	0
Total	<u>10</u>

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE M – RETIREMENT – Continued**

**Contributions.** Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

The Board elected not to increase the employee contribution rate as provided by Act 2011-676. Covered members continue to contribute 5% of earnable compensation.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2016 the City's active employee contribution rate was 10.25 percent of covered payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 9.88 percent of covered employee payroll.

The Board's contractually required contribution rate for the year ended September 30, 2016 was 10.25% of pensionable pay for Tier 1 employees, and 7.90% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2015, 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

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE M – RETIREMENT – Continued**

contributions to the pension plan from the System were \$29,425 for the year ended September 30, 2016.

***Net Pension Liability.***

The City's net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2014 rolled forward to September 30, 2015 using standard roll-forward techniques as shown in the following table:

	<u>Expected</u>	<u>Actual</u>
( a ) <b>Total Pension Liability</b> as of September 30, 2014	\$ 631,918	\$ 661,083
( b ) <b>Entry Age Normal Cost for</b> October 1, 2014-September 30, 2015	12,488	12,488
( c ) <b>Actual Benefit Payments and Refunds</b> October 1, 2014-September 30, 2015	<u>(47,844)</u>	<u>(47,844)</u>
( d ) <b>Total Pension Liability</b> as of September 30, 2015 $= ((a) \times (1.08)) + (b) - ((c) \times (1.04))$	<u>\$ 645,202</u>	<u>\$ 676,700</u>
( e ) <b>Difference between Expected and Actual Experience (Gain)/Loss</b>		\$ 31,498

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE M – 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, including inflation

Mortality rate 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:

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE M – RETIREMENT – Continued**

	<b>Target</b>	<b>Long-Term Expected Rate of Return*</b>
	<b>Allocation</b>	
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%
<b>Total</b>	<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 benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE M – RETIREMENT – Continued**

***Changes in Net Pension Liability***

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
<b>Balances at 9/30/2014</b>	\$ 631,918	\$ 450,399	\$ 181,519
Changes for the year:			
Service Cost	12,488	-	12,488
Interest	48,640	-	48,640
Differences between expected and actual experience	31,498	-	31,498
Contributions - employer	-	14,669	(14,669)
Contributions - employee	-	8,139	(8,139)
Net investment income	-	5,195	(5,195)
Benefit payments, includes refunds of employee contributions	(47,844)	(47,844)	-
Administrative expense	-	-	-
Transfers among Employers	-	-	-
Net changes	44,782	(19,841)	64,623
<b>Balances at 9/30/2015</b>	\$ 676,700	\$ 430,558	\$ 246,142

***Sensitivity of the net pension liability to changes in the discount rate.*** The following table presents the Board's net pension liability calculated using the discount rate of 8%, as well as what the Board'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 Rate (8.00%)	1% Increase (9.00%)
Board's net pension liability (asset)	\$ 316,223	\$ 246,142	\$ 187,520

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE M – RETIREMENT – Continued**

***Pension plan fiduciary net position.*** Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2015. The auditor's report dated April 5, 2016 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

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

For the year ended September 30, 2016, the Board recognized pension expense of \$44,817. At September 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 26,498	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	14,099	-
Employer contributions subsequent to the measurement date	16,050	-
Total	<u>\$ 56,647</u>	<u>\$ -</u>

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE M – RETIREMENT – Continued**

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

2017	\$ 7,710
2018	7,710
2019	7,712
2020	10,967
2021	5,000
Thereafter	1,498

<b>Collective Deferred Outflows and Inflows between Expected and Actual Experience</b>									
<b>Beginning Balance</b>					<b>Ending Balance</b>				
Initial	Initial				Amounts	Amounts			
Balance	Balance		Losses/	Gains/	Recognized	Recognized			
of Losses/	of Gains/	Amorti-	Deferred	Deferred	In Pension	In Pension			
Deferred	Deferred	zation	Deferred	Deferred	Deferred	Deferred	Deferred	Deferred	Deferred
Outflow	Inflow	Period	Outflows	Inflows	Inflow	Inflow	Outflows	Inflows	
							(a) + (c) -	(b) + (d) -	
Year	(a)	(b)	(c)	(d)	(e)	(f)	(e)	(f)	
2015	\$ 31,498	\$ -	6.3	\$ -	\$ -	\$ 5,000	\$ -	\$ 26,498	\$ -
2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total	\$ -	\$ -	\$ 31,498	\$ -	\$ -	\$ -	\$ 26,498	\$ -	\$ -

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE M – RETIREMENT – Continued**

<b>Collective Deferred Outflows and Inflows for Differences in Investment Experience</b>											
<b>Beginning Balance</b>						<b>Ending Balance</b>					
Initial	Initial					Amounts	Amounts				
Balance	Balance					Recognized	Recognized				
of Losses/	of Gains/	Amorti-				in Pension	in Pension				
Deferred	Deferred	zation	Deferred	Deferred	Deferred	Deferred	Deferred	Deferred	Deferred	Deferred	Deferred
Outflow	Inflow	Period	Outflows	Inflows	Outflows	Inflow	Inflow	Outflows	Inflows	Outflows	Inflows
								(a) + (c) -	(b) + (d) -		
Year			(a)	(b)	(c)	(d)	(e)	(f)	(e)	(f)	
2015	\$ 29,835	\$ -	5	\$ -	\$ -	\$ 29,835	\$ -	\$ 5,967	\$ -	\$ 23,868	\$ -
2014	\$ -	\$ 16,283	5	\$ -	\$ 13,026	\$ -	\$ -	\$ 3,257	\$ -	\$ -	\$ 9,769
Total			\$ -	\$ 13,026	\$ 29,835	\$ -			\$ 23,868	\$ 9,769	
Net difference between projected and actual earnings on investments									\$ 14,099	0	

<b>Summary of Amortization of Deferred Outflows and Inflows of Resources</b>							
Amorti-	<b>Actual &amp; Expected Experien</b>		<b>Assumption Changes</b>		<b>Investment Gains/Losses</b>		
zation	2014	2015	2014	2015	2014	2015	Total
Year							
2017	\$ -	\$ 5,000	\$ -	\$ -	\$ (3,257)	\$ 5,967	\$ 7,710
2018	\$ -	\$ 5,000	\$ -	\$ -	\$ (3,257)	\$ 5,967	\$ 7,710
2019	\$ -	\$ 5,000	\$ -	\$ -	\$ (3,255)	\$ 5,967	\$ 7,712
2020	\$ -	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,967	\$ 10,967
2021	\$ -	\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ 5,000
Thereafter	\$ -	\$ 1498	\$ -	\$ -	\$ -	\$ -	\$ 1498
Total	\$ -	\$ 26,498	\$ -	\$ -	\$ (9,769)	\$ 23,868	\$ 40,597

**THE WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE N – RISK MANAGEMENT**

The Board is exposed to various risks of loss related to torts; theft of, damage of, and destruction of assets; errors and omissions, injuries to employees and natural disasters. The Board has entered into an agreement with other municipalities and governmental units to pool their liabilities in a fund for the purpose of self-insuring worker's compensation risk. This fund has satisfied the Alabama Department of Industrial Relations of its financial ability to pay compensation direct and in the manner due, as provided by law, and has filed with the Department an acceptable bond or made deposit of security as required. The Board has no joint or several liabilities with other members of the fund, except that the total sum of premiums over and above fixed costs paid by all members are available for payment of worker's compensation claims of all members. Settled claims resulting from the above mentioned risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE O – PRIOR PERIOD ADJUSTMENT**

Prior period adjustments were needed to comply with GAAP and GASB Statement 65 requirements. GAAP requires unbilled amounts to be reported as accounts receivable at year-end. The unbilled amount not recorded in 2015 was \$18,688.40. Statement 65 requires the expensing of bond issuance costs with the exception of costs associated with insurance covering the bond issue. Debt refunding – 2004 and 2011 warrants was over stated by \$42,674.89. The two prior period adjustments resulted in a decrease in net position of \$23,993.30.

**REQUIRED SUPPLEMENTAL INFORMATION**

**THE WATERWORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, AL  
SCHEDULE OF OPERATING EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>2016</u>
<b>Operating Expenses</b>	
Depreciation and amortization	\$ 284,353
Bad Debt Expense	8,722
Purchased water	149,945
Garbage contract	170,588
Salaries and wages	177,395
System maintenance	26,374
Utilities	44,379
Insurance	33,901
Engineering services	11,722
Contract billing	5,442
Building maintenance and expense	863
Payroll taxes	11,050
Vehicle expense	10,061
Postage and office supplies	7,577
Retirement contribution	29,425
Lab tests	15,341
Telephone	2,711
Directors fee	7,500
Legal and accounting	7,256
Travel	1,550
Dues and subscriptions	8,686
Miscellaneous	10,143
	<hr/>
<b>Total Operating Expense</b>	<b>\$ 1,024,984</b>
	<hr/>

**WATER WORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, ALABAMA  
SCHEDULE OF REVENUES, EXPENSES AND  
CHANGE IN FUND NET ASSETS - BUDGET AND ACTUAL  
SEPTEMBER 30, 2016**

	Original Budget	Actual	Favorable (Unfavorable) Variance
Operating Revenues			
Charges for water sales and service	\$ 500,600	\$ 500,897	\$ 297
Charges for sewer and service	200,000	183,180	(16,820)
Charges for garbage service	-	177,200	177,200
Late charges	32,000	23,168	(8,832)
Installation fees	7,000	5,980	(1,020)
Other income	16,000	18,318	2,318
Total Operating Revenues	755,600	908,743	153,143
Operating Expenses			
Depreciation and amortization	282,000	284,353	(2,353)
Unemployment Expense	800	-	800
Bad Debt Expense	1,300	8,722	(7,422)
Purchased water	150,000	149,945	55
Garbage contract	-	170,588	(170,588)
Salaries and wages	174,500	177,395	(2,895)
System maintenance	28,100	26,374	1,726
Utilities	43,000	44,379	(1,379)
Insurance	40,000	33,901	6,099
Engineering services	6,500	11,722	(5,222)
Contract billing	11,350	5,442	5,908
Building maintenance and expense	2,800	863	1,937
Payroll taxes	10,700	11,050	(350)
Vehicle expense	19,000	10,061	8,939
Postage and office supplies	8,300	7,577	723
Retirement contribution	16,000	29,425	(13,425)
Lab tests	12,200	15,341	(3,141)
Telephone	3,450	2,711	739
Directors fee	7,500	7,500	-
Legal and accounting	13,000	7,256	5,744
Travel	4,000	1,550	2,450
Dues and subscriptions	7,500	8,686	(1,186)
Miscellaneous	26,282	10,143	16,139
Total Operating Expenses	868,282	1,024,984	(156,702)
Net Operating Income (Loss)	(112,682)	(116,241)	(3,559)
Non-operating Revenues (Expenses)			
Interest income	2,000	1,791	(209)
Interest expense	(11,000)	(63,533)	(52,533)
Bond issuance costs	-	(34,500)	(34,500)
Trustee fees	(1,100)	(50,856)	(49,756)
Total Non Operating Income and Expense	(10,100)	(147,098)	(136,998)
Total Operating and Non-Operating Expenses	858,182	877,886	(293,700)
Change in Net Assets	\$ (122,782)	\$ (263,339)	\$ (140,557)



**THE WATERWORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, AL  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY  
LAST 10 FISCAL YEARS ENDING SEPTEMBER 30  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>		
Service Cost	\$ 12,488	\$ 13,907
Interest	48,640	47,118
Changes of benefit terms	-	-
Differences between expected and actual experience	31,498	-
Changes of assumption	-	-
Benefit payments, including refunds of employee contributions	(47,844)	(36,171)
<b>Net change in total pension liability</b>	44,782	24,854
<b>Total pension liability-beginning</b>	631,918	607,064
<b>Total pension liability-ending (a)</b>	<u>\$ 676,700</u>	<u>\$ 631,918</u>
 <b>Plan fiduciary net position</b>		
Contributions-employer	\$ 14,669	\$ 16,232
Contributions-member	8,139	8,542
Net investment income	5,195	48,862
Benefit payments, including refunds of employee contributions	(47,844)	(36,171)
Transfers among employees	-	-
<b>Net change in plan fiduciary net position</b>	(19,841)	37,465
<b>Plan net position-beginning</b>	450,399	412,934
<b>Plan net position-ending (b)</b>	<u>\$ 430,558</u>	<u>\$ 450,399</u>
 <b>Net pension liability (asset)-ending (a) - (b)</b>	\$ 246,142	\$ 181,519
 <b>Plan fiduciary net position as a percentage of the total pension liability</b>	63.63%	71.27%
 <b>Covered-employee payroll</b>	\$ 158,052	\$ 151,543
 <b>Net pension liability (asset) as a percentage of covered-employee payroll</b>	1.56	1.20

**THE WATERWORKS AND SEWER BOARD  
OF THE CITY OF LINEVILLE, AL  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
LAST 10 FISCAL YEARS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 14,116	\$ 15,223
Contributions in relation to the actuarially determined contributions	<u>14,116</u>	<u>15,223</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
 Covered-employee payroll	 \$ 150,256	 \$ 144,143
 Contributions as a percentage of covered employee payroll	 9.39%	 10.56%

## **SUPPLEMENTAL INFORMATION**

*Edgar and Associates, LLC*  
*Certified Public Accountants*

218 East 12th Street, Anniston, AL 36207  
256.237.1773

**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**

To Members of the Board  
Water Works and Sewer Board of the City of Lineville, 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 the business type activities of the Water Works and Sewer Board of the City of Lineville, Alabama, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Water Works and Sewer Board of the City of Lineville, Alabama's basic financial statements, and have issued our report thereon dated February 18, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Water Works and Sewer Board of the City of Lineville, Alabama'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Works and Sewer Board of the City of Lineville, Alabama's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water Works and Sewer Board of the City of Lineville, Alabama'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.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
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WITH *GOVERNMENT AUDITING STANDARDS* – (Continued)**

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 weakness 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 the Works, Gas & Sewer Board of the City of Lineville, Alabama'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.

*Edgar and Associates, LLC*

Anniston, Alabama  
February 18, 2017