

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
COMPARATIVE
FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 and 2015**

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
SEPTEMBER 30, 2016 and 2015**

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
Bessemer, Alabama

We were engaged to audit the accompanying financial statements of the business-type activities the City of Bessemer, Alabama Water Service Department ("the Water Service"), as of September 30, 2016 and 2015 and the related statements of changes in net position, revenues and expenses, and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Emphasis of matter

As discussed in Note 11 and Note 12 to the basic financial statements, during 2015 the Board adopted Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions and Governmental Accounting Standards Board Statements No. 71, Pension Transactions for Contributions Subsequent to the Measurement Date. As a result of the adoption, the Board has restated its net position as of October 1, 2014 to comply with the pronouncements. Our opinion is not modified with respect to this matter.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bessemer Water Service as of September 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

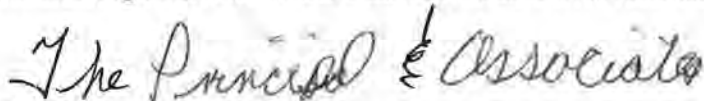
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3-10 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. The Governmental Accounting Standards Board Statement No. 68, Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27 is not a required part of the basic financial statements but is supplementary information required to be presented by GASB. 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 on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated February 28, 2017 on our consideration of the Bessemer Water's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 Bessemer Water's internal control over financial reporting and compliance.



The Principal & Associates, Inc.
Certified Public Accountants
2100 South Bridge Parkway, Suite 650
P.O. Box 360973
Birmingham, Alabama 35236

February 28, 2017

**CITY OF BESSEMER, ALABAMA
BESSEMER WATER SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management Discussion and Analysis (MD&A) of the City of Bessemer Alabama, Bessemer Water Service ("Water Service") activities and financial performance provides the reader with an introduction and overview to the financial statements of the Water Service for the fiscal years ended September 30, 2016 and 2015.

Bessemer Water Service is respectfully an enterprise fund of the municipality, City of Bessemer. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, cost incurred and net income is necessary for adequate managerial accountability.

Following this MD&A are the basic financial statements of the Water Service together with the notes thereto which are essential to a full understanding of the data contained in the financial statements.

WATER SERVICE ACTIVITIES AND HIGHLIGHTS

The following is a schedule of the number of customers and respective water usage classified by meter size.

	<u>2016</u>	<u>2015</u>
5/8 inch		
Number of customers	26420	26371
Usage per 100 cu. ft.	1614913	1632359
3/4 inch		
Number of customers	4651	4132
Usage per 100 cu. ft.	296078	271029
1 inch		
Number of customers	339	330
Usage per 100 cu. ft.	84850	77163
1 1/2 inch		
Number of customers	3	3
Usage per 100 cu. ft.	4073	4482
2 inch		
Number of customers	348	330
Usage per 100 cu. ft.	485586	322601
3 inch		
Number of customers	4	4
Usage per 100 cu. ft.	14265	16681
4 inch		
Number of customers	26	27
Usage per 100 cu. ft.	318265	220863
6 inch		
Number of customers	20	20
Usage per 100 cu. ft.	257064	248616
8 inch		
Number of customers	8	8
Usage per 100 cu. ft.	598214	577582

**CITY OF BESSEMER, ALABAMA
BESSEMER WATER SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)**

FINANCIAL OPERATIONS HIGHLIGHTS

Changes in net position for 2016 yielded a \$3,343,067 increase as compared to a \$2,905,518 increase in 2015.

During fiscal year 2016 there was a 3.49% increase in revenue from water sales while experiencing a diminutive percentile decrease in the cost of water purchases.

- Total Operating Revenues increased by 4% from \$19.4 million to \$20.1 million. Residential and domestic sales increased by 1.78%, commercial water sales decreased by 1.25% and industrial water sales increased by 9.65%, mostly driven by a minimal rate increase based on the consumer price index, which took effect in February 2016. In comparison, revenues from other public authorities increased by 6.82%, while revenues earned from commission fees paid to us by other municipalities for collections made on their behalf decreased by 14.85%. Forfeited discounts increased by 11.99%.
- Operating Expenses, including depreciation and amortization, increased by 2%, from \$15.3 million to \$15.7 million. Transmission and distribution expense increased by 10.26%, Administrative and General expense increased by 6.01%, Pumping and Power expenses increased by 6.07%, & Customer Accounting and Collections decreased by 10.05%.
- The net result of the above was operating income before depreciation and other non-operating income/expenses increased from \$4.7 million in 2015 to \$ 5.1 million in 2016. Depreciation and other non-operating income/expenses remained stable at \$1.8 million in 2015 to \$1.8 million in 2016.

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

	2016	2015
Operating Revenues	20,155,375	19,369,942
Operating Expenses	<u>(15,718,473)</u>	<u>(14,663,034)</u>
Excess before depreciation and other non-operating revenues and expenses	4,436,902	4,706,908
Depreciation	<u>(687,463)</u>	<u>(682,595)</u>
Income before other non-operating revenues and expenses	4,436,902	4,024,314
Other non-operating revenues and expenses, net	<u>(1,093,835)</u>	<u>(1,118,795)</u>
Increase (Decrease) in net position	<u><u>\$ 3,343,067</u></u>	<u><u>\$ 2,905,519</u></u>

**CITY OF BESSEMER, ALABAMA
BESSEMER WATER SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)**

FINANCIAL POSITION SUMMARY

The financial information for the fiscal years ending September 30, 2016 and 2015 is presented as a means to further the understanding of our financial performance.

A condensed summary of the Water Service's net position at September 30th is shown below:

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets	\$ 11,428,449	\$ 5,720,941
Restricted Assets	3,056,257	2,524,627
Capital assets, net	35,758,547	34,867,686
Other assets and non-current assets	<u>341,931</u>	<u>357,976</u>
	50,585,184	43,471,230
Deferred Outflows on Pension	<u>868,361</u>	<u>441,266</u>
Total Assets and Deferred Outflows	<u>\$ 51,453,545</u>	<u>\$ 43,912,496</u>
LIABILITIES		
Current liabilities	\$ 5,956,704	\$ 2,741,842
Compensated Balances, Less current portion	585,619	551,211
Net Pension Liability	5,604,299	4,833,889
Long-term debt and non-current liabilities	<u>21,000,000</u>	<u>21,520,000</u>
Total liabilities	33,146,622	29,646,942
Deferred Inflows on Pension	<u>-</u>	<u>213,902</u>
NET POSITION		
Invested in capital assets, net of debt	12,278,547	11,887,686
Restricted: Debt Service	2,248,956	1,343,034
Restricted: Water system contingency	807,301	261,593
Unrestricted	<u>2,972,119</u>	<u>559,339</u>
TOTAL NET POSITION	<u>18,306,923</u>	<u>14,051,652</u>
Total Liabilities, Net Position and Deferred Inflows	<u>\$ 51,453,545</u>	<u>\$ 43,912,496</u>

The largest portion of the Water Service's net position represents Capital Assets that are not restricted to bond reserve funds which are subject to external restrictions on how they can be used under bond resolutions.

Another portion of the Water Service's net position represents its investment in capital assets (e.g., land, structure improvements, and transportation and plant equipment), less the related indebtedness outstanding used to acquire those capital assets. The Water Service uses those capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although, the Water Service's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay liabilities. The remaining unrestricted net assets may be used to meet other Water Service's ongoing obligations.

Bessemer Water Service continues plans to analyze its Water Service infrastructure with an objective to validate any changes to, and/or upgrades to its infrastructure and fixed assets. Management completed the EPA Brighton pipe upgrade project, slightly over budget as adjusted. The completion of this project is expected to have a ROI through less repairs and maintenance in the upcoming years. Furthermore, Bessemer Water continued its efforts to undertake minor infrastructure improvements in Bessemer, Ross Bridge, Alabaster, Midfield, Hueytown, and other service areas. The projects, as approved, are linked to the efficiency and safety of its infrastructure.

Management continues to stress in-house efficiency adjustments in the upcoming fiscal year. Bessemer Water

**CITY OF BESSEMER, ALABAMA
BESSEMER WATER SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)**

Service anticipates continued business investment for the area. In addition, as we advance through the 2017 fiscal year, we will remain cautious for conditions that may affect our infrastructure and economics as a water utility.

Furthermore, management continues the application of the consumer price index as a guide for customer rates, and continues to assess technological counter savings for its cost factors.

WATER RATES AND CHARGES

The following is the retail rate schedule which was adopted by the City Council of the City of Bessemer, Alabama ("the City") during the current fiscal year:

Residential
Rate per 100 cu. ft. \$3.21
Availability charges
5/8 inch meter \$ 18.67 per month
3/4 inch meter \$ 18.67 per month
1 inch meter \$ 20.81 per month
2 inch meter \$ 105.17 per month

Commercial
Rate per 100 cu. ft. \$3.21
Availability charges
5/8 inch meter \$ 21.33 per month
3/4 inch meter \$ 21.33 per month
1 inch meter \$ 30.81 per month
1 1/2 inch meter \$ 58.12 per month
2 inch meter \$105.17 per month
3 inch meter \$218.93 per month
4 inch meter \$385.81 per month
6 inch meter \$856.11 per month
8 inch meter \$1,296.06 per month

Fire Protection
Public \$207.60 per year or \$17.31 per month per hydrant
Sprinkler Heads \$266.80 per year or \$22.23 per month up to 500 head increments

If a meter serves more than one Residential unit, the availability charge for a 3/4 meter will apply to each additional unit.

If a meter serves more than one Commercial unit, the availability charge for a 3/4 meter will apply to each additional unit.

Trailer parks will be charged by the total number of available lots or pads, multiplied by 70% times the rate for a 3/4 meter, or by the size of the master meter serving the park, whichever is greater.

Water Capital Recovery Fee(Payable at application for water service)		Tapping Fees (See Water Capital Recovery Fee	
<u>Residential/Commercial/Industrial</u>		<u>Residential/Commercial/Industrial</u>	
a. 3/4"	\$1,187.84	a. 3/4"	\$1,730.00
b. 1"	1,187.84	b. 1"	1,996.16
c. 2"	1,781.75	c. 2"	1,781.75
d. 4" and above	5,939.17	d. 4"	3,992.32
		e. 6"	5,323.08
		f. 8"	7,984.61

Hotels/Motels, Apartments, Nursing Homes/Assistant Living Facilities, & Hospitals – Water Capital Recovery (Payable at time Building Permit is issued)
Hotels/Motels: (Multiply the number of rooms in the hotel/motel by .35 by the amount set forth for a 3/4 inch line).
Apartments: (Multiply the number of rooms in the Apartments .50 by the amount set forth for a 3/4 inch line).
Nursing Homes/Assistant Living Facilities: (Multiply the number of rooms in the Nursing Homes/Assistant Living Facility by .30 by the amount set forth for a 3/4 inch line).
Hospitals: Multiply the number of rooms in the Hospital by .50 by the amount set forth for a 3/4 inch line.

The revenues realized from water sales are shown below:

	2016	2015
Residential and domestic	10,728,365	10,540,841
Commercial	1,331,415	1,348,238
Industrial	3,718,897	3,391,477
Public and private protection	34,810	34,994
Other public authorities	1,194,462	1,118,178
Total Water Sales	<u>\$ 17,007,949</u>	<u>\$ 16,433,728</u>

CITY OF BESSEMER, ALABAMA
BESSEMER WATER SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

REVENUES

A summary of revenues for the year ended September 30, 2016, and the amount and percentage of change in relation to prior year amounts is as follows:

	2016 Amount	Percent of Total	Increase (Decrease) from 2015	Percent Increase (Decrease)
Operating:				
Residential and domestic	\$ 10,728,365	53.23%	\$ 187,524	1.78%
Commercial	1,331,415	6.61%	\$ (16,823)	-1.25%
Industrial	3,718,897	18.45%	\$ 327,420	9.65%
Public and Private protection	34,810	0.17%	\$ (184)	-0.53%
Other public authorities	1,194,462	5.93%	\$ 76,284	6.82%
Customers' forfeited discount	1,166,835	5.79%	\$ 124,947	11.99%
Sewer Commissions	1,007,374	5.00%	\$ (175,637)	-14.85%
Rental & Other Revenue	973,217	4.83%	\$ 261,903	36.82%
Total Operating	20,155,375	100.00%	785,434	4.05%
Non-Operating				
Interest Income	860	0.00%	\$ 560	186.67%
Total Non-Operating	860	0.00%	560	186.67%
TOTAL REVENUES	\$ 20,156,235	100.00%	\$ 785,994	4.06%

A summary of revenues for the year ended September 30, 2015, and the amount and percentage of change in relation to prior year amounts is as follows:

	2015 Amount	Percent of Total	Increase (Decrease) from 2014	Percent Increase (Decrease)
Operating:				
Residential and domestic	\$ 10,540,841	54.42%	\$ 86,567	0.83%
Commercial	1,348,238	6.96%	\$ 174,656	14.88%
Industrial	3,391,477	17.51%	\$ 228,342	7.22%
Public and Private protection	34,994	0.18%	\$ 274	0.79%
Other public authorities	1,118,178	5.77%	\$ (31,195)	-2.71%
Customers' forfeited discount	1,041,888	5.38%	\$ 106,230	11.35%
Sewer Commissions	1,183,011	6.11%	\$ 94,343	8.67%
Rental & Other Revenue	711,314	3.67%	\$ 115,821	19.45%
Total Operating	19,369,941	100.00%	775,038	4.17%
Non-Operating				
Interest Income	300	0.00%	\$ (712)	-70.36%
Total Non-Operating	300	0.00%	(712)	-70.36%
TOTAL REVENUES	\$ 19,370,241	100.00%	\$ 774,326	4.16%

CITY OF BESSEMER, ALABAMA
BESSEMER WATER SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

EXPENSES

A summary of expenses for the year ended September 30, 2016, and the amount and percentage of change in relation to prior year amounts is as follows:

	2016 Amount	Percent of Total	Increase (Decrease) from 2015	Percent Increase (Decrease)
Operating:				
Water purchased	\$ 7,422,542	44.15%	\$ (4,717)	-0.06%
Power and pumping	639,193	3.80%	36,552	6.07%
Transmission and distribution	3,861,217	22.97%	359,290	10.26%
Customer accounting and collections	1,059,804	6.30%	(118,376)	-10.05%
Bad debt expense	200,296	1.19%	10,889	5.75%
Administrative and general	1,432,450	8.52%	81,154	6.01%
Tax equivalents	185,392	1.10%	(5,132)	-2.69%
Payroll taxes	230,116	1.37%	8,316	3.75%
Total Operating	15,031,010	89.40%	367,976	2.51%
Depreciation	687,463	4.09%	4,868	0.71%
Non-Operating				
Interest expense	1,078,650	6.42%	(24,400)	-2.21%
Amortization of Bond Issuance expense	16,045	0.10%	-	0.00%
Total Non-Operating	1,094,695	6.51%	(24,400)	-2.21%
TOTAL EXPENSES	\$ 16,813,168	100.00%	\$ 348,444	2.12%

A summary of expenses for the year ended September 30, 2015, and the amount and percentage of change in relation to prior year amounts is as follows:

	2015 Amount	Percent of Total	Increase (Decrease) from 2014	Percent Increase (Decrease)
Operating:				
Water purchased	\$ 7,427,259	45.11%	\$ 218,125	3.03%
Power and pumping	602,641	3.66%	20,715	3.56%
Transmission and distribution	3,501,927	21.27%	250,256	7.70%
Customer accounting and collections	1,178,180	7.16%	(98,905)	-7.74%
Bad debt expense	189,407	1.15%	188,994	45761.26%
Administrative and general	1,351,296	8.21%	185,686	15.93%
Tax equivalents	190,524	1.16%	(8,131)	-4.09%
Payroll taxes	221,800	1.35%	870	0.39%
Total Operating	14,663,034	89.06%	757,610	5.45%
Depreciation	682,595	4.15%	4,861	0.72%
Non-Operating				
Interest expense	1,103,050	6.70%	(14,200)	-1.27%
Amortization of Bond Issuance expense	16,045	0.10%	-	0.00%
Total Non-Operating	1,119,095	6.80%	(14,200)	-1.27%
TOTAL EXPENSES	\$ 16,464,724	100.00%	\$ 748,271	4.76%

**CITY OF BESSEMER, ALABAMA
BESSEMER WATER SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)**

SUMMARY OF CASH FLOW ACTIVITIES

The following shows a summary of the major sources and uses of cash and cash equivalents for the past two fiscal years. Cash equivalents are considered cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less:

	<u>2016</u>	<u>2015</u>
Cash flow from Operating Activities	7,329,659	\$ 5,574,070
Cash flow from Investment Activities	(2,535,711)	(3,842,438)
Cash flow from Capital and Related Financing Activities	<u>(1,578,651)</u>	<u>(1,587,850)</u>
Net Increase(Decrease) in Cash and Cash Equivalents:	3,215,297	143,782
Cash and Cash Equivalents:		
Beginning of the Year	<u>1,984,572</u>	<u>1,750,790</u>
End of the Year	<u><u>\$ 5,199,869</u></u>	<u><u>\$ 1,894,572</u></u>

The Water Service's available cash and cash equivalents increased from \$1.9 million at the end of fiscal year 2015 to \$ 5.2 million at the end of fiscal year 2016 due to positive cash flow of funds provided by operating activities, restructured payment agreements to outside agencies and, improved collection efforts.

FINANCIAL STATEMENTS

The Statement of Net Position presents information on all of the Water Service's assets and liabilities, with the difference between the two reported as net position. Over time increases or decreases in net position may serve as useful indicators of whether the financial position of the Water Service is improving or deteriorating. The statement of revenues, expenses and changes in net position shows the business-type activity of the Water Service and provides information regarding income and expenses, both operating and non-operating, that affect net position.

The Water Service's financial statements are prepared on an accrual basis in accordance with U. S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The Water Service is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land and construction in progress) are depreciated over their useful lives. Amounts are restricted for debt service and, where applicable for construction activities. See the note to the financial statements for a summary of the Water Service's significant accounting policies.

**CITY OF BESSEMER, ALABAMA
BESSEMER WATER SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)**

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

During fiscal year 2016, the Water Service continued to evaluate its needs for capital improvements, including its purchase of plant equipment necessary to increase operating efficiency. Efforts to fine-tune operations to counter inherent economic deficiencies continued throughout the fiscal year. Accordingly, management completed the EPA Brighton pipe upgrade project, slightly over budget as adjusted. The completion of this project is expected to have a ROI through less repairs and maintenance in the upcoming years. Furthermore, Bessemer Water continued its efforts to undertake minor infrastructure projects in Bessemer, Ross Bridge, Alabaster, Midfield, Hueytown, and other service areas. These projects, as approved, are linked to the efficiency and safety of our service area's infrastructure. However, we continue to examine plans for an overall restructure of bonds for necessary capital acquisitions, infrastructural growth, safety and efficiency in a future fiscal term.

LONG-TERM DEBT OUTSTANDING

The City issued \$24,995,000 of Water Revenue Warrants; Series 2008 dated January 1, 2008 at interest rates ranging from 4.0% to 5.20% maturing January 1, 2039. The Warrants are payable solely from the revenues derived from the operation of the Water System. The City is required by Indenture to maintain a Reserve Fund in an amount equal to the maximum Annual Debt Service Requirements. The City has covenanted in the Indenture to make, impose, charge and collect the rates for the services of the Water System in such manner as shall produce revenues in each fiscal year sufficient (a) to provide for payment of all Operating Expenses, (b) to produce Annual Net Income equal to 120% of the Annual Debt Service Requirement on the Warrants during such Fiscal year and (c) to pay all amounts required to be paid into the special funds established under the Indenture.

The balance outstanding for the Series 2008 Water Revenue Warrants as of September 30, 2016 was \$21,520,000 and, the balance as of September 30, 2015, was \$22,020,000.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Water Service's finances for those interested. Questions concerning the information provided in this report or request for additional information should be addressed in writing to the Chief Accountant, 1600 1st Avenue North, Bessemer, Alabama 35020.

Respectfully submitted,



Ida Taylor, CPA
Chief Accountant

BASIC FINANCIAL STATEMENTS

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets:		
Cash on Deposit	\$ 4,302,568	\$ 1,632,979
Other receivable	2,679,757	2,154,147
Materials and supplies	599,845	357,670
Prepaid insurance	7,271	63,835
Due from Bessemer Electric Service	3,839,008	1,512,310
Total current assets	<u>11,428,449</u>	<u>5,720,941</u>
Restricted Assets		
Cash on Deposit	807,301	261,593
Investments	2,248,956	2,263,034
Total Restricted Assets	<u>3,056,257</u>	<u>2,524,627</u>
Utility Plant in Service		
Water plant in service	47,728,937	47,568,469
Less: accumulated depreciation	<u>(18,916,544)</u>	<u>(18,229,082)</u>
	28,812,393	29,339,386
Construction work in progress	<u>6,946,154</u>	<u>5,528,300</u>
Net plant and equipment	35,758,547	34,867,686
Other Assets:		
Unamortized bond discount cost	341,931	357,976
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on pension	868,361	441,266
	<u>868,361</u>	<u>441,266</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 51,453,545</u></u>	<u><u>\$ 43,912,496</u></u>

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Trade accounts payable	\$ 513,242	\$ 415,461
Payable to other municipalities	3,750,556	1,448,026
Accrued payroll	130,297	
Accrued interest	273,362	273,363
Current Compensated absences	111,547	104,993
Current maturities of revenue warrants	520,000	500,000
Due to Bessemer Electric Service	657,700	-
Total current liabilities	<u>5,956,704</u>	<u>2,741,842</u>
Long-term debt:		
Revenue warrants, less current portion	21,000,000	21,520,000
Compensated Balances, less current portion	585,619	551,211
Net pension liability	5,604,299	4,833,889
Total Long-Term Debt	<u>27,189,918</u>	<u>26,905,100</u>
 Total liabilities	 <u>33,146,622</u>	 <u>29,646,942</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred amount on pension		213,902
 Net Position		
Investment in capital assets, net of related debt	12,278,547	11,887,686
Restricted:		
Debt service	2,248,956	1,343,034
Water system contingency	807,301	261,593
Unrestricted	2,972,119	559,339
Total net position	<u>18,306,923</u>	<u>14,051,652</u>
Total Liabilities, Net Position, and Deferred Inflows	 <u><u>\$ 51,453,545</u></u>	 <u><u>\$ 43,912,496</u></u>

CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating revenue:		
Residential and domestic	\$ 10,728,365	\$ 10,540,841
Commercial	1,331,415	1,348,238
Industrial	3,718,897	3,391,477
Public and private protection	34,810	34,994
Other public authorities	1,194,462	1,118,178
Customers' forfeited discounts and penalties	1,166,835	1,041,888
Sewer commissions	1,007,374	1,183,011
Rental & Other fees	870,082	536,226
Other revenue	103,135	175,088
Total operating revenues	<u>20,155,375</u>	<u>19,369,942</u>
Operating expenses:		
Water purchased	7,422,542	7,427,259
Power and pumping	639,193	602,641
Transmission and distribution	3,861,217	3,501,927
Customer accounting and collection	1,059,804	1,178,180
Bad debt expense	200,296	189,407
Administrative and general	1,432,450	1,351,296
Depreciation	687,463	682,595
Tax equivalents	185,392	190,524
Payroll taxes	230,116	221,800
Total operating expenses	<u>15,718,473</u>	<u>15,345,629</u>
Operating income	<u>4,436,902</u>	<u>4,024,314</u>
Nonoperating income (expense):		
Interest income	860	300
Interest expense	(1,078,650)	(1,103,049)
Amortization of bond cost	(16,045)	(16,045)
Total nonoperating income (expense)	<u>(1,093,835)</u>	<u>(1,118,794)</u>
Change in Net Position	<u>3,343,067</u>	<u>2,905,519</u>
Net Position, beginning of the year	14,051,652	15,752,659
Prior Period Adjustment	912,204	-
Restatement	-	(4,606,526)
Net Position, end of the year	<u>\$ 18,306,923</u>	<u>\$ 14,051,652</u>

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
INCREASE (DECREASE) IN CASH ON DEPOSIT		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 19,629,765	\$ 19,649,367
Cash payments to employees for services	(3,041,102)	(2,496,300)
Cash paid to suppliers for goods and services	<u>(9,259,004)</u>	<u>(11,578,997)</u>
Net cash provided by operating activities	<u>7,329,659</u>	<u>5,574,070</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on revenue warrants	(500,000)	(480,000)
Interest paid	<u>(1,078,651)</u>	<u>(1,107,850)</u>
Net cash used by capital and related financing activities	<u>(1,578,651)</u>	<u>(1,587,850)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property plant and equipment	(2,536,571)	(2,500,395)
Investment in/sale of restricted accounts		(1,342,343)
Interest received	<u>860</u>	<u>300</u>
Net cash provided (used) by investing activities	<u>(2,535,711)</u>	<u>(3,842,438)</u>
NET INCREASE (DECREASE) IN CASH ON DEPOSIT	3,215,297	143,782
CASH ON DEPOSIT AT BEGINNING OF THE YEAR	<u>1,894,572</u>	<u>1,750,790</u>
CASH ON DEPOSIT AT END OF THE YEAR	<u><u>5,109,869</u></u>	<u><u>1,894,572</u></u>
CASH ON DEPOSIT CONSISTED OF THE FOLLOWING:		
Current assets	4,302,568	1,632,979
Restricted assets	<u>807,301</u>	<u>261,593</u>
Total	<u><u>\$ 5,109,869</u></u>	<u><u>\$ 1,894,572</u></u>

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME	<u>\$ 4,436,902</u>	<u>\$ 4,024,314</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	687,463	682,595
Bad Debt Expense	200,296	189,407
Changes in assets and liabilities:		
Prepaid expenses	56,564	(63,835)
Due From Bessemer Electric Service	(642,463)	10,931,562
Other receivables	(525,610)	(648,074)
Inventories	(242,175)	231,225
Deferred outflows of pension resources	(427,095)	(441,266)
Accrued interest payable	(1)	(4,800)
Accounts payable	97,781	396,560
Compensated Absences	40,962	(135,058)
Salaries & wages payable	130,297	
Due to Bessemer Electric Service	657,700	(14,831,976)
Payable to other municipalities	2,302,530	195,625
Net pension liability	770,410	4,833,889
Deferred inflows of pension resources	(213,902)	213,902
 Total adjustments	 <u>2,892,757</u>	 <u>1,549,756</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u><u>\$ 7,329,659</u></u>	 <u><u>\$ 5,574,070</u></u>

**SUPPLEMENTAL DISCLOSURE OF NONCASH
AND RELATED FINANCING ACTIVITIES**

Decrease in original debt discount cost	16,045	16,045
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**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

The accounting policies of the Water Service (Utility) conform to generally accepted accounting principles as they apply to governments. The following is a summary of the more significant accounting policies:

Reporting Entity

Because the Water Service is a department of the City of Bessemer, the Water Service's financial data is incorporated into the Annual Financial Report of the City of Bessemer. These financial statements are intended to present the financial position, changes in financial position and cash flows attributable only to the Water Service. The management of the Water Service is selected by the Mayor.

Basis of Accounting and Measurement Focus

The Utility reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Utility is that the costs of delivering utility service to its service area on a continuing basis be financed or recovered primarily through user charges, capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting.

Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues and expenses result from exchange transactions associated with the principal activity of the Utility. Exchange transactions are those in which each party receives and gives up essentially equal values. The principal operating revenues of the Utility is Water sales to its customers. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

Financial Reporting

The Utility's basic financial statements are prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

Financial Reporting (Continued)

In September 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position effective for financial statements for periods beginning after December 15, 2011. The effect of the implementation of this statement to the Utility financial reporting was limited to renaming of Net Assets to Net Position.

In conjunction with the implementation of GASB Statement No. 63, the Utility implemented the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The changes in this guidance did not affect the Utility.

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- The invested in capital assets component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets for which constraints are imposed thereon by external parties, such as creditors' binding debt covenants, grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

Purchase Water

Water for re-sale to customers is purchased from the Governmental Utility Service Corporation of Bessemer, Alabama.

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

Pensions

The Employees' Retirement System of Alabama (the Plan) 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.

Water Plant in Service

The utility plant in service is stated at cost less accumulated depreciation. Capital assets of the utility plant are defined by the Water Service as assets with an initial individual cost of \$5,000 or more and an estimated life in excess of one year. Additions and significant improvements that extend the useful life of a capital asset are capitalized. Ordinary maintenance and repairs are charged to expense as incurred.

Capital assets are depreciated over their estimated useful lives by using the straight-line method:

Buildings	50 years
Water and Sewer Distribution	50 years
Transportation Equipment	10 years
Other Equipment	10 years
Furniture	10 years
Office Equipment	5 years

When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost and the related accumulated provision for depreciation are removed from the accounts, and the gain or loss on such disposition is reflected in income.

Land has an indefinite life and is not depreciated.

Trusted Funds

Indenture agreements with a financial institution related to the Water Service Revenue Warrants Series 2008 require certain funds to be established and controlled by a trustee. The accounts of the trusted funds are maintained on the cash receipts and disbursement basis and are adjusted for financial statement purposes to reflect accrued receivables and payables and certain inter-fund monthly transfers of cash to restricted investment accounts representing construction, debt service, debt service reserve, and improvement funds. These funds provide for payment of principal and interest on the warrants, establish a reserve in the event that revenues of the Water Service are insufficient to service the debt, and provide for payment of reasonable cost of capital improvements to the system.

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

The trustee funds assets include investments that are uninsured and unregistered, with the securities held by the trustee, but not in the Utility's name.

Investments

Investments consist of money market funds and U.S. government and agency obligations. All investment income is reported in the statement of revenues, expenses, and changes in net position.

Cash Equivalents

For the purposes of the statements of cash flows, the Water Service considers investments with original maturity of three (3) months or less to be cash equivalents.

Inventories

Material and supply inventories are stated at the lower of average cost or market.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Debt Deferred Charge and Warrant Discount Cost

Debt deferred charge on refunding and warrant discount cost is capitalized and amortized over the term of the bonds using the straight-line method.

Risk Management

The Water Service is exposed to various risks of losses related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, torts, and natural disasters. The Water Service manages these risks through the purchase of commercial insurance.

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

Financial Instruments

The carrying amounts of the Water Service's cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair value because of the immediate or short-term maturity of these financial instruments. The carrying amounts of long-term obligations approximate fair value because the stated interest rates on the indebtedness approximate current borrowing rates.

Use of Estimates

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

Budget

The Water Service prepares an internal operations budget for management purposes which is approved by the Mayor.

Reclassifications

Certain prior year's data presented in the financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on total assets, change in net position, or cash flows.

Deferred outflows/inflows of resources

Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time. A deferred charge on refunding arises from advance refunding of debt. The difference between the cost of the securities placed in trust for future payment of refunded debt and the net carrying value of that debt is deferred and amortized as a component of interest expense over the shorter of the term of the refunding issue or the original term of the refunded debt. The unamortized amount is reported as a deferred outflow of resources in the statements of net position.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

Compensated Absences

Compensated absences have been accounted for in accordance with GASB Statement No. 16, Accounting for Compensated Absences. Vacation leave is earned on graduated rates based on the employee's length of service (one day per month of service, initially) and up to forty days of unused leave may be carried over to the following year. After one year of service, an employee is eligible to receive up to 40 days of accrued vacation leave upon separation of service if they leave the City in good standing. Vacation pay is accrued when incurred in the financial statements. Sick leave is earned at a rate of one day per month of service. After five years of service, an employee is eligible to receive up to 75 days of accrued sick leave (100% of the first 60 days of accrued sick leave and 50% of the next 30 days of accrued sick leave) upon separation of service if they leave the City in good standing. Sick leave is accrued when incurred in the financial statements for those employees that meet the longevity requirements and is limited to the maximum days eligible for payment upon separation of service. It is necessary for the Utility Department to operate on a 24-hour basis regardless of weather or holidays. It has been the City's policy to allow those employees that work in those departments to accrue hours of holiday leave time and miscellaneous overtime leave with no cap. At various times, the City has approved lump sum payments of this accrued compensation, but this is on a discretionary basis. Upon separation of service from the City, employees are entitled to receive payment for any accrued compensation related to holiday leave or miscellaneous overtime leave. The record keeping for compensated absences is handled by the payroll clerk and the value of compensated absences is based on the reported hours accrued at the current hourly rate for each employee. It is reasonably possible that the actual amount paid for compensated absences will be different than the estimated value of accrued compensated absences.

NOTE 2 CUSTOMER ACCOUNTS RECEIVABLE

The Electric Service bills and collects from customers for services provided by the Water Service and the Electric Service Department, which is another department of the City. At September 30, 2016 and 2015, the Water Service customer receivables totaled approximately \$20,830,167 and \$20,102,413 and the allowance for doubtful accounts was \$17,349,531 and \$17,662,604, respectively.

NOTE 3 CASH AND CASH EQUIVALENTS

The Mayor approves all banks or other institutions as depositories for the Utility funds. The Mayor requires all funds on deposit to be collateralized by a pledge of unencumbered securities.

The carrying amount of cash bank balances at September 30, 2016 totaled \$7,358,825, and the bank balance was \$8,672,064. Of this total, \$1,250,001 was insured by federal depository insurance, \$6,108,824 was collateralized with securities held by banks in their trust departments and \$-0- was uncollateralized.

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

Investments

Assumptions

The Utility's Bond Indentures limits trustee investments to "eligible investments." The Utility has not adopted a formal investment policy for trustee investments or other Utility investments. Eligible investments include any of the following: federal obligations and eligible bank obligations.

Disclosures

As of September 30, 2016, the Utility had the following investments and maturities:

Investment Type	Market Value	Less Than 1 year
Federal US Treasury		
Obligations	\$ 2,248,956	\$ 2,248,956
Certificate of Deposits	-	-
	<u>\$ 2,248,956</u>	<u>\$ 2,248,956</u>

Interest Rate Risk. The Utility does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Utility's Bond Indenture limits investments to Eligible Investments defined as Federal Obligations and Eligible Bank Obligations (fully collateralized by Federal Obligations).

As of September 30, 2016, the Federal U.S. Treasury obligations were rated Aaa and AAA by Standard & Poor's and Moody's, respectively.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Balances are held in securities that are allowed by the Indenture, which require no collateralization. The accounts are in the name of the Trustee for the benefit of the holder

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

Deposits

As of September 30, 2016 and 2015, the Utility's deposits were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

At September 30, 2016 and 2015, the Utility investment balances were as follows:

Investment Type	2016 Carrying	2016	2015 Carrying	2015
	Amount	Fair Value	Amount	Fair Value
Federal US Treasury				
Obligations	\$ 2,248,956	\$ 2,248,956	\$ 2,263,034	\$ 2,263,034
Certificate of Deposits	-	-	-	-
	<u>\$ 2,248,956</u>	<u>\$ 2,248,956</u>	<u>\$ 2,263,034</u>	<u>\$ 2,263,034</u>

TRUSTEED FUNDS

Indenture agreements with a financial institution related to the Water Service Revenue Warrants Series 2008 that require monthly transfers of cash to restricted investment accounts representing construction, debt service, debt service reserve, and improvement funds. These Funds provide for payment of principal and interest on the warrants, establish a reserve in the event that revenues of the Water Service are insufficient to service the debt, and provide for payment of reasonable cost of capital improvements to the system. Amounts not needed to fund requirements may be used for any lawful purpose. Components and descriptions of the various funds, exclusive of accrued interest, are as follow at September 30:

	2016	2015
Construction fund	\$ 1	\$ 1
Warrant fund	663,282	653,249
Reserve fund	1,585,674	1,609,784
	<u>\$ 2,248,956</u>	<u>\$ 2,263,034</u>

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS**

Investments (continued)

NOTE 4 WATER REVENUE WARRANTS SERIES 2008

On January 1, 2008, the City of Bessemer issued \$24,995,000 in Water Revenue Warrants, Series 2008 (secured by revenues of the Water Service). The Series 2008 warrants were issued to, a) refund all the outstanding Water Revenue Warrants issued in 1996 and 2000, b) finance the cost of improvements, and c) pay the cost of issuing the Series 2008 Warrants. The debt service requirements of the Series 2008 Warrants to maturity are as follows:

	<u>2016</u>	<u>2015</u>
Utility revenue warrants, rates varying from 4% to 6%, Series 2008, maturing January 1, 2039	\$21,520,000	\$22,020,000
Less current maturities of loan payable	<u>520,000</u>	<u>500,000</u>
Noncurrent maturities of loan payable	<u>\$21,000,000</u>	<u>\$21,520,000</u>
Maturities of the loan payable are as follows:		
2017	520,000	
2018	540,000	
2019	560,000	
2020	590,000	
2021	615,000	
Thereafter	<u>18,695,000</u>	
	<u>\$21,520,000</u>	

The unamortized bond discount balances at September 30, 2016 and 2015, totaled \$341,931 and \$357,976, respectively.

The Indenture agreement with a Bank related to the Water Service Revenue Warrants Series 2008 contains various covenants including a provision which requires the Water Service to produce revenues sufficient in each fiscal year to (i) operate, maintain and repair the Water System in accordance with sound business practice (ii), produce an amount equal to 1.20 times the Annual Debt Service Requirement as defined by the Indenture. The Water Service has complied with these requirements of Indenture.

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 4 WATER REVENUE WARRANTS SERIES 2008 (CONTINUED)

Activity during 2016 related to long-term debt principal obligations is as follows:

	Balance at September 30, 2015	Additions	Deletions	Balance at September 30, 2016	Due Within One Year
Water Revenue Warrants					
Series 2008	\$ 22,020,000	\$ -	\$ 500,000	\$ 21,520,000	\$ 520,000
Compensated Absences	656,204	40,962		697,166	111,547
	<u>\$ 22,676,204</u>	<u>\$ 40,962</u>	<u>\$ 500,000</u>	<u>\$ 22,217,166</u>	<u>\$ 631,547</u>

The aggregate maturities of long-term debt at September 30, 2016 are as follows:

	Principal	Interest	Total
Year ending September 30: 2017	\$ 520,000	\$ 1,063,050	\$ 1,583,050
2018	540,000	1,041,850	1,581,850
2019	560,000	1,019,500	1,579,500
2020	590,000	995,560	1,585,560
2021	615,000	983,170	1,598,170
2022-2026	3,560,000	4,361,628	7,921,628
2027-2031	4,690,000	3,225,475	7,915,475
2032-2036	6,035,000	1,886,875	7,921,875
2037-2039	4,410,000	338,250	4,748,250
	<u>\$ 21,520,000</u>	<u>\$ 14,915,358</u>	<u>\$ 36,435,358</u>

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 5 LEASE.

Operating Lease Agreement -Warehouse Space

The Electric Service leases operating space to the Water Service Department. The lease requires an annual lease payment of \$25,616.

NOTE 6 CAPITAL ASSETS

Balances of major classes of utility capital assets and accumulated depreciation at September 30, 2016 and changes therein for the year then ended are as follows:

Capital assets activity for the year ended September 30, 2016, was as follows:

	9/30/15 Beginning Balance	Increases	Decreases	9/30/16 Ending Balance
Capital Assets not being depreciated				
Land	\$ 80,495	\$ -	\$ -	\$ 80,495
Construction in Progress	5,528,300	1,417,854	-	6,946,154
Total Capital Assets, not being depreciated	5,608,795	1,417,854	-	7,026,649
Capital Assets				
Building and capital facilities	342,832	-	-	342,832
Plant equipment	45,028,730	104,229	-	45,132,959
Furniture and other equipment	2,116,412	56,239	-	2,172,651
Total Capital Assets, being depreciated	47,487,974	160,468	-	47,648,442
Less accumulated depreciation				
Building and capital facilities	214,397	4,963		219,360
Plant equipment	17,122,516	651,862		17,774,378
Furniture and other equipment	892,168	30,638		922,806
Total accumulated depreciation	18,229,081	687,463	-	18,916,544
Total Capital Assets being depreciated, net	29,258,893	(526,995)	-	28,731,898
Net capital assets	\$ 34,867,688	\$ 890,859	\$ -	\$ 35,758,547

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS**

CAPITAL ASSETS (CONTINUED)

Note 7 Changes in Amounts Invested in Capital Assets, Net of Related Debt

The changes in amounts invested in capital assets, net of related debt are summarized as follows for the years ended September 30:

	<u>2016</u>	<u>2015</u>
Balance at beginning of year	\$ 11,887,686	\$ 10,484,233
Change in net capital assets	890,861	1,883,453
Change in related warrants	(500,000)	(480,000)
Change in related capital lease	-	-
Balance at end of year	<u>\$ 12,278,547</u>	<u>\$ 11,887,686</u>

Note 8 CONTINGENCIES

The Water Service is involved in various lawsuits. The lawsuits are in the early stages of litigation, and no gain or loss contingency can be estimated. Consequently, no financial statement accruals have been recorded. In the opinion of the Water Services' management, the potential adverse impact of these lawsuits would not have a material effect on the financial statements.

Note 9 INTERCOMPANYPAYABLE

The Electric Service pays certain expense incurred by the Water Service and subsequently, records an intercompany receivable due from the Water Service. The amount due the Electric Service as September 30, 2016 and 2015 was \$657,700 and \$-0-, respectively.

Note 10 SUBSEQUENT EVENTS

Events occurring after September 30, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of February 28, 2017, which is the date the financial statements were available to be issued. The Utility is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 11 IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

For the year ended September 30, 2015, the Utility implemented the following Governmental Accounting Standards Board pronouncement:

Governmental Accounting Standards Board Statement No. 68

In September 2012, the GASB issued Statement 68, Accounting and Financial Reporting for Pensions. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for the fiscal year ending September 30, 2015. As discussed in Note 11, the changes in this guidance did not affect the Utility's financial reporting.

RESTATEMENT

The Board recorded a retroactive restatement as a result of implementing Governmental Accounting Standards Board Statement 68, Accounting and Financial Reporting for Pensions. GASB Statement No. 68 establishes the accounting requirements for government employers who provide pension benefits to their employees through a trust.

Accounting changes adopted to conform to this Statement should be applied retroactively. The Board elected not to restate previously issued financial statements. As a result, the cumulative effect of applying this Statement has been reported as a restatement of pension cost in the statement of net position for the year ending September 30, 2015. The amount of the adjustment was (\$4,606,526).

Future Accounting Pronouncements

The Governmental Accounting Standards Board has issued statements that will become effective in subsequent fiscal years. The statements address:

- Accounting and financial reporting for pensions;
- Mergers, acquisitions and transfers of operations; and
- Financial guarantees.

The Utility Service is currently evaluating the effects that these statements will have on its financial statements for subsequent fiscal years.

NOTE 12 EMPLOYEE RETIREMENT PLAN

The City of Bessemer (including the employees of the Utilities Service Department) contributes to the Employees' Retirement System of Alabama (RSA), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the various state agencies and departments.

Plan description. The Employees' Retirement System of Alabama (ERS), 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 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. 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, 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.

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 contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, 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.

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 contribution rates are the same for Tier 2 covered members of ERS 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 Utility's active employee contribution rate was 5.00 % of covered employee payroll, and the Utility's average contribution rate to fund the normal and accrued liability costs was 20.24 % of covered employee payroll.

Utility's contractually required contribution rate for the year ended September 30, 2015 was 14.65 % of pensionable pay for Tier 1 employees, and 11.52% 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 Utility were \$407,512 for the year ended September 30, 2016.

NOTE 12 EMPLOYEE RETIREMENT PLAN- (continued)***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At September 30, 2016 the Utility Department reported a liability of \$5,604,299 for its proportionate share of the collective net pension liability. The collective 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 of September 30, 2014. The Utility Department's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating ERS employers. At September 30, 2016 the Utility Department's proportion was 7.31%, which was an increase (decrease) of .04% from its proportion measured as of September 30, 2015.

For the year ended September 30, 2016, the Utility Department recognized pension expense of \$522,094. At September 30, 2016 the Utility 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	\$ 228,406	\$ 0
Changes of assumptions	0	0
Net difference between projected and actual earnings on pension plan investments	232,444	0
Employer contributions subsequent to the measurement date	407,512	
Total	\$ 868,361	\$ 0

September 30, 2016 Employer Contributions applied to pension liability \$407,512 reported as deferred outflows of resources related to pensions resulting from the Utility Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year end September:

2017	\$ 89,740
2018	89,740
2019	89,740
2020	142,366
2021	4,479
Thereafter	4,479
	\$ 420,544

NOTE 12 EMPLOYEE RETIREMENT PLAN- (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 2016 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%.

NOTE 12 EMPLOYEE RETIREMENT PLAN- (continued)

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 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 Utility Department's proportionate share of the net pension liability to changes in the discount rate

The following table presents the Utility Department's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the Utility 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	Current Rate	1% Increases
	(7.00%)	(8.00%)	(9.00%)
Utility Department's proportionate share of collective net pension liability	\$7,044,626	\$5,604,299	\$4,381,319

(Dollar amounts in thousands)

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. 67 Report for the ERS prepared as of September 30, 2014. The auditor's report dated April 5, 2016 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2015 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Note 13 PRIOR PERIOD ADJUSTMENTS TO NET POSITION

The beginning net position for September 30, 2015 has been adjusted to properly reflect the balances of, short-term investments, capital assets, other assets and other liabilities to correct misstatements. To correct these misstatements, the beginning net position of \$14,051,652 as originally reported, has been corrected to \$14,963,856.

**CITY OF BESSEMER, ALABAMA
WATER SERVICE DEPARTMENT
REPORT ON INTERNAL CONTROL
SEPTEMBER 30, 2016**



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

To the Honorable Mayor and
Members of the City Council
Bessemer, 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 City of Bessemer, Alabama Water Service Department ("the Water Service") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Water Service's basic financial statements, and have issued our report thereon dated February 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Water Service's internal control over financial reporting (internal control) to determine the auditing 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 the Water Service's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water Service'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 preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be a material weakness. 2016-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water Service's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement, 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.



The Principal & Associates, Inc.
Certified Public Accountants
2100 South Bridge Parkway, Suite 650
P.O. Box 360973
Birmingham, Alabama 35236

February 28, 2017

**Bessemer Water
Service Schedule of Findings
September 30, 2016**

2016-001 General Ledger

Condition: The general ledger lacks balance sheet integrity due to the failure of internal accounting practices that allow for the timely and accurate general ledger account reconciliations that are critical to recording accurate general ledger account balances. The general ledger contained significant misstated account balances as follows:

Description	General Ledger Booked Balance	Misstatement (Over) Under	Corrected General Ledger Balance
Warrant Fund 2008	\$ 653,249	\$ 10,033	\$ 663,282
Bond Reserve Fund	1,609,784	(24,110)	1,585,674
Inventory-Materials & Supplies	524,333	75,511	599,844
2008 Unamortized Debt Expense	(53,133)	53,133	-
2008 Unamortized Bond Discount	357,975	(16,045)	341,930
Amortization Expense	20,472	(4,428)	16,044
General ledger Out of Balance	\$ (38,436)	38,436	\$ -

Criteria: Since the advent of the Sarbanes-Oxley Act, the Utility can no longer rely on the external auditors as an internal control. It is required that the Utility report most errors that the auditors find as material misstatements and material weakness unless the Utility can prove that its own internal controls would have found the error in a timely manner prior to the close out of the general ledger for the reporting period in order to ensure that the financial statements are free of material misstatements.

**Bessemer Water
Service Schedule of Findings
September 30, 2016**

Cause: Management relied on their external auditor as an internal control over the general ledger account reconciliation process which is prohibited by the Sarbanes-Oxley Act. Under staffing in the accounting department resulted in one accountant doing the work for both Utility Departments which caused a break down in the general ledger accounting process that was compounded by the lack of a secondary review of the general ledger by accounting supervisory personnel prior to the closing of the general ledger.

Effect: Some general ledger account balances are significantly misstated as of result, the general ledger cannot be relied upon to produce an accurate statement of net position. The current general ledger accounting controls operate after the general ledger is closed which relegate the control to a corrective after-the-fact control. After-the-fact accounting controls are only effective in identifying misstatements for correction after the general ledger has been closed, which indicates the lack of the proper preventative accounting controls over the general closing ledger process that would detect and correct misstatements prior to the closing of the general ledger.

Recommendation

We recommend that the Utility reconcile all accounts that could contain a significant or material misstatement and post all necessary adjustments to the general ledger in a timely manner. Necessary adjustments include all identified general ledger entries that, either individually or in the aggregate, are significant or material to the financial statements. The Utility should analyze all non-reconciled accounts in the general ledger to determine their effect for potential financial misstatement.

It's impracticable for the Utility accounting departments to reconcile all accounts on a monthly basis given the nature of the Utility operations and other factors. We recommend a risk rating -reviewing all balance sheet accounts and rating them on quantitative and qualitative criteria such as

Quantitative risk factors.

- Volume of transactions.
- Dollar value of transactions.
- Normal account dollar balance.

Qualitative risk factors.

- Complexity of transactions.
- Volatility, complexity and subjectivity of accounting rules.
- Fraud susceptibility of transactions.
- Level of automation vs. manual intervention.
- Regulatory oversight.
- Quality of internal control over transactions.

**Bessemer Water
Service Schedule of Findings
September 30, 2016**

Regardless of the risk-rating process the Utility decides to use, it should use

- *High* , for accounts where there is a reasonable potential for the account to be misstated by a material amount.
- *Medium* , for accounts where there is a reasonable potential for the account to be misstated by a significant amount up to a material amount.
- *Low* , for accounts where there is no reasonable potential for the account to be misstated by a significant or material amount.

All high- and medium-risk accounts should be reconciled and all necessary general ledger reconciling adjustments recorded before the Utility's post-closing adjustment review process. For low-risk accounts, management should perform an analytical review of the account balance to ensure it is within reasonable limits that would provide adequate evidence upon which to base a conclusion that the account does not contain a significant or material misstatement. If such a conclusion is not reasonable based on the results of the review, then the account should be timely reconciled before the Utility's post-closing adjustment review process.

In this recommendation, any of the items listed above that are left out of the Utility's post-closing adjustment process generally will result in a control deficiency, since they must be identified and included in the normal post-closing adjustment process.

Management Response

Management disagrees in partial to the account reconciliation process as stated by our auditor. Management understands the nature of customer account balances as booked from prior management of the Utilities. However, in order to properly correct account balances, General Management was charged with the task of updating its utility "Service Practice Policies", contracts with third party collection agencies, and other outside agency contacts. During the fiscal period, management obtained a new principal staff accountant to replace the vacant key position. It is management hope, through training and due diligence, the accounting work-loads will be back to normal levels, which would include its internal controls as established.

SUPPLEMENTARY INFORMATION

**Bessemer Water Service
Schedule of Bessemer Water Service Contributions
Retirement Plan of Alabama**

	* Last Fiscal Year
	2016
Contractually required contribution	\$ 592,577
Contributions in relation to the contractually required contribution	<u>592,577</u>
Contribution deficiency (excess)	<u>\$ -</u>
System' covered-employee payroll	\$ 2,928,475
Contributions as a percentage of covered-employee payroll	20.24%

*The amounts presented for each fiscal year were determined as of prior fiscal ending September 30.

See independent auditors' report and notes to financial statements.

Bessemer Water Service
Schedule of Proportionate Share of the Net Pension Liability
Retirement Plan of Alabama

	* Last Fiscal Year
	<u>2015</u>
System's proportion of the net pension liability	0.073
System's proportionate share of net pension liability	\$ 5,604,303
System' covered-employee payroll	\$ 2,928,475
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	191.37%
Plan fiduciary net position as a percentage of the total pension liability	56.05%

*The amounts presented for each fiscal year were
determined as of prior fiscal ending September 30.

See independent auditors' report and notes to financial statements.