THE GOVERNMENTAL UTILITY SERVICES CORPORATION OF BESSEMER, ALABAMA

Audited Financial Statements
September 30, 2016

THE GOVERNMENTAL UTILITY SERVICES CORPORATION OF BESSEMER, ALABAMA

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Governmental Utility Services Corporation of Bessemer, Alabama
Bessemer, Alabama

We have audited the accompanying financial statements of the Governmental Utility Services Corporation of Bessemer, Alabama (the "GUSC"), as of and for the year ended September 30, 2016, and the related notes to the 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the GUSC as of September 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of changes in the net pension liability and the schedule of employer contributions 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 on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The GUSC 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 the 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.

Kellum, Wilson & Associates, P.C.

Kellum, Wilson & Associates, P.C.

December 12, 2016

THE GOVERNMENTAL UTILITY SERVICES CORPORATION OF BESSEMER, ALABAMA
Statement of Net Position
September 30, 2016

ASSETS	
CURRENT ASSETS	
Cash	$ 48,673
Restricted Cash and Cash Equivalents	2,601,968
Unbilled Receivable	417,296
Restricted Investments	115,228
Prepaid Insurance	58,881
TOTAL CURRENT ASSETS	3,242,046
NONCURRENT ASSETS	
Land	639,576
Depreciable Assets, Net	32,226,448
Net Pension Asset	19,715
TOTAL NONCURRENT ASSETS	32,885,739
TOTAL ASSETS	36,127,785
DEFERRED OUTFLOW OF RESOURCES	
Net Difference Between Projected and Actual Earnings on Plan Investments	13,560
Difference Between Expected and Actual Experience	17,826
Deferred Employer Contributions Subsequent to Valuation Date	16,559
Deferred Loss on Refunding	1,203,179
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,251,124

The accompanying notes are an integral part of these statements.

THE GOVERNMENTAL UTILITY SERVICES CORPORATION OF BESSEMER, ALABAMA
Statement of Net Position
September 30, 2016

CURRENT LIABILITIES		
Accounts Payable	$	231,702
Accrued Expenses		10,527
Current Portion of Bonds Payable		1,380,000
Accrued Interest		827,404
TOTAL CURRENT LIABILITIES		2,449,633
NONCURRENT LIABILITIES		
Bonds Payable Less Unamortized Discount of $534,037		51,095,963
TOTAL NONCURRENT LIABILITIES		51,095,963
TOTAL LIABILITIES		53,545,596
DEFERRED INFLOW OF RESOURCES		
Net Difference Between Projected and Actual Earnings on Plan Investments		-
TOTAL DEFERRED INFLOWS OF RESOURCES		-
NET POSITION		
Net Investment in Capital Assets		(19,609,939)
Restricted		1,889,792
Unrestricted		1,553,460
TOTAL NET POSITION	$	(16,166,687)

The accompanying notes are an integral part of these statements.

THE GOVERNMENTAL UTILITY SERVICES CORPORATION OF BESSEMER, ALABAMA
Statement of Revenue, Expenses, and Changes in Net Position
For the Year Ended September 30, 2016

OPERATING REVENUES	$	7,477,631
OPERATING EXPENSES		
Administrative Services		13,200
Bank Charges		456
Depreciation Expense		985,411
Insurance Expense		103,762
Licenses and Permits		799
Miscellaneous		2,045
Office Supplies		9,475
Operating and Maintenance		3,239,178
Postage		421
Professional Fees		90,475
Travel and Conferences		3,225
Trustee Fees		5,820
TOTAL OPERATING EXPENSES		4,454,267
OPERATING INCOME		3,023,364
NON-OPERATING INCOME (EXPENSES)		
Interest Expense		(2,716,388)
Interest Income		51
TOTAL OTHER INCOME (EXPENSES)		(2,716,337)
CHANGE IN NET POSITION		307,027
NET POSITION BEGINNING OF YEAR		(16,473,714)
NET POSITION END OF YEAR	$	(16,166,687)

The accompanying notes are an integral part of these statements.

THE GOVERNMENTAL UTILITY SERVICES CORPORATION OF BESSEMER, ALABAMA
Statement of Cash Flows
For the Year Ended September 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Receipts from Customer	$	7,402,101
Cash Payments to Suppliers		(2,522,113)
Cash Payments to Employees		(777,134)
NET CASH PROVIDED BY OPERATING ACTIVITIES		4,102,854
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond Principal Payments		(1,330,000)
Purchase of Property, Plant, and Equipment		(22,735)
Interest Paid on Bonds		(2,532,088)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		(3,884,823)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received from Investments		51
Change in Restricted Investments		104,772
NET CASH PROVIDED BY INVESTING ACTIVITIES		104,823
NET INCREASE IN CASH AND CASH EQUIVALENTS		322,854
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		2,327,787
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	2,650,641

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION		
Cash	$	48,673
Restricted Cash and Cash Equivalents		2,601,968
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	2,650,641

The accompanying notes are an integral part of these statements.

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$	3,023,364
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		985,411
(Increase) Decrease in:		
Unbilled Receivable		(75,530)
Prepaid Insurance		857
Net Pension Asset		43,779
Deferred Outflows		(30,533)
Increase (Decrease) in:		
Accounts Payable		171,758
Accrued Expenses		(6,743)
Deferred Inflows		(9,509)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	4,102,854

The accompanying notes are an integral part of these statements.

NOTE 1: DESCRIPTION OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Government Utility Services Corporation of Bessemer, Alabama (the "GUSC"), is a public corporation and instrumentality organized and existing under the laws of the State of Alabama and particularly pursuant to the provisions of Chapter 97, Title 11, Code of Alabama 1975. The GUSC was incorporated on October 17, 1995.

The Project consists of a water intake structure, a 12 MGD water treatment and supply facility with the capacity to operate at 24 MGD, and an approximately 16.5-mile water transmission line (the "Project"). In order to reduce the cost of purchasing water for the Bessemer Water System (the "System") and establish an independent source of water for the City of Bessemer (the "City"), the City has entered into a water supply agreement, dated as of April 1998, (the "Water Supply Agreement") with the GUSC for the exclusive supply of water for the System.

The GUSC's Water Supply Revenue Bonds, Series 2008 (the "Series 2008 Bonds"), are secured by the net revenues generated from the exclusive sale of water to the City pursuant to the Water Supply Agreement. The City will in turn sell the water purchased from the GUSC to its customers. Under the terms of the Water Supply Agreement, the City will be obligated to pay amounts, as the purchase price for the water, corresponding to the operation and maintenance expenses of the GUSC and principal and interest on the Series 2008 Bonds when due. The payments by the City to the GUSC under the Water Supply Agreement will be an operating expense of the System to be paid prior to any payment of any principal or interest on the City's outstanding water revenue indebtedness. The financial statements of the GUSC have been prepared in conformity with generally accepted accounting principles (GAAP). The more significant of the GUSC's accounting policies are described below.

<u>Basis of Accounting and Operating Income</u>

The accrual basis of accounting is used and, accordingly, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. GUSC's operating revenues and expenses result from providing services and delivering water in connection with ongoing operations. Operating expenses for GUSC include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are classified as nonoperating in the financial statements.

<u>Plant and Equipment</u>

Plant and equipment are stated at the original cost, including interest on funds borrowed to finance the construction of the Project. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expenses. The cost of replacement of property (exclusive of minor items and property) is charged to utility plant.

NOTE 1: DESCRIPTION OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation

Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Water Plant	50 years
Furniture and Equipment	5 – 10 years
Vehicle	5 years

Capitalization of Interest

Interest costs related to bond issues are capitalized only during the construction period. These costs are netted against applicable interest earnings on construction account investments. During the year ended September 30, 2016, the GUSC did not have any capitalized interest. Interest cost incurred and charged to expense in the current period totaled $2,716,388.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of restricted and unrestricted cash on hand and short-term investments with maturities of three months or less.

Unbilled Receivable

Unbilled receivable represents operating expenses and debt service paid or incurred by the GUSC that have not been billed to the City as of the fiscal year ended September 30, 2016.

Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the GUSC's policy to use restricted resources first, then unrestricted resources as needed. Restricted assets and liabilities payable from restricted assets current in nature are reported with current assets and current liabilities in the financial statements. *Restricted Assets* report assets restricted for operating expenses, non-routine maintenance, constructing capital improvements, and liquidation of bonds payable. See Note 4 for information describing restricted assets.

Right of Offset

Receivables from and payables to external parties are reported separately and are not offset in the financial statements, unless a right of offset exists.

NOTE 1: DESCRIPTION OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 ended, 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.

NOTE 2: CONCENTRATION OF CREDIT RISK

The City of Bessemer is the GUSC's only customer. If the City is unable to meet its obligations to the GUSC, the GUSC will not be able to meet its obligations for debt service and operating expenses. The City is currently meeting its obligations as required under the Water Supply Agreement.

NOTE 3: LAND AND DEPRECIABLE ASSETS

Balances of major classes of assets at September 30, 2016, are as follows:

Description	2015	Additions	Deletions	2016
Land	$ 639,576	$ -	$ -	$ 639,576
Construction in Progress	$ -	$ -	$ -	$ -
Depreciable Assets				
Water Plant	$ 47,102,604	$ -	$ -	$ 47,102,604
Furniture and Equipment	306,229	22,735	-	328,964
Vehicles	43,400	-	-	43,400
Subtotal	47,452,233	$ 22,735	$ -	47,474,968
Less: Accumulated Depreciation	14,263,109			15,248,520
Total Depreciable Assets	$ 33,189,124			$ 32,226,448

Depreciation expense was $985,411 for the year ended September 30, 2016.

NOTE 4: RESTRICTED ASSETS

These funds are restricted to uses outlined in the Trust Indentures. The balance of restricted funds at September 30, 2016, is as follows:

Indenture Fund Description	2016
Replacement Fund	$ 297,342
Reserve Fund Account	-
Cost of Issuance Fund	-
Debt Service Fund	1,374,441
Operations and Maintenance	1,045,412
Revenue Fund	-
Total	$ 2,717,195

NOTE 5: LONG-TERM BONDS PAYABLE

The outstanding Series 2008 Bonds mature in varying amounts beginning June 1, 2017, until June 1, 2039, and interest is payable semiannually on June 1 and December 1, ranging from 3.75 percent to 5.00 percent. The revenues of the GUSC are pledged as security for repayment of the Series 2008 Bonds.

Long-term bonds payable activity for the year ended September 30, 2016, is as follows:

Description	2015	Additions	Deletions	2016
Bonds Payable	$ 54,340,000	$ -	$ 1,330,000	$ 53,010,000
Less:				
Unamortized Discount	583,355	-	49,318	534,037
	$ 53,756,645			$ 52,475,963

The following schedule presents the total debt service that will be payable on the Series 2008 Bonds for the fiscal years ended September 30, 2017, through 2039:

Fiscal Year Ending September 30	Principal on Series 2008 Bonds	Interest on Series 2008 Bonds
2017	$ 1,380,000	$ 2,482,213
2018	1,430,000	2,430,463
2019	1,485,000	2,373,263
2020	1,545,000	2,313,863
2021	1,610,000	2,250,132
2022 - 2026	9,145,000	10,154,183
2027 - 2031	11,450,000	7,853,195
2032 - 2036	14,455,000	4,844,188
2037 - 2039	10,510,000	1,068,000
Total	$ 53,010,000	$ 35,769,500

NOTE 6: DEPOSITS IN FINANCIAL INSTITUTIONS

Demand Deposits

At September 30, 2016, $250,000 in demand deposit accounts were covered by FDIC Insurance. The GUSC is identified as a public funds depositor and is therefore part of Alabama's S.A.F.E. program.

Trustee Held Funds

The GUSC maintains trustee accounts required by the bond indentures which hold cash and are invested primarily in U.S. government obligations, U.S. agencies and instrumentalities, and a repurchase agreement with a forward contract ("forward delivery agreement").

Credit Risk

State statutes limit the GUSC to invest in obligations of the U.S. Treasury, U.S. Corporate Debt, U.S. Corporate Equities, State of Alabama Obligations, County Obligations, and other Municipal Obligations, as well as bank certificates of deposit, bank public funds investments accounts, and repurchase agreements.

Interest Rate Risk

The GUSC does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value arising from increasing interest rates. The GUSC entered into a forward delivery agreement with Wachovia/Wells Fargo (the "provider) upon the issuance of their Series 2002 bonds and amended that agreement with the issuance of the Series 2008 bonds.

The GUSC entered into the forward delivery agreement to hedge against future interest rate declines and to provide immediate relief to the City by applying the fee received from the provider to the City's accounts receivable balance. The initial fee received was $586,500 with a subsequent reduction of $39,000 charged to the deferred loss on refunding upon the issuance of the Series 2008 bonds. The net fees received from the forward delivery agreement provided a 3.77% guaranteed rate of return on future monthly debt service payments. The forward delivery agreement allows the provider to invest in commercial paper which is rated at the time of purchase in the single highest classification, "A-1" by S&P or "P-1" by Moody's. These investments do not comply with eligible investments as mandated by state statute. However, under the agreement the risk of loss resides with the provider and not the GUSC.

Concentration of Credit Risk

The GUSC places no limit on the amounts the GUSC may invest in any one issuer. Investments in U.S. Treasury Reserves and investments held under the forward delivery agreement make up 43.21 percent and 56.79 percent of the GUSC's investments, respectively.

NOTE 6: DEPOSITS IN FINANCIAL INSTITUTIONS (CONTINUED)

Concentration of Credit Risk (Continued)

Investments	Credit Rating	Maturity	Fair Value
Direct Investments			
Federated U.S. Treasury Reserves	AAAm, Aaa-mf	1 – 90 days	$ 1,045,412
Subtotal			1,045,412
Investments Under Forward Delivery Agreement			
Federated U.S. Treasury Reserves	AAAm, Aaa-mf	1 – 90 days	$ 411,440
FHLMC Discount Note	P-1, A-1+	11/29/2016	205,928
Federal Farm Credit Banks	P-1, A-1+	5/30/2017	114,649
Federal Farm Credit Banks	P-1, A-1+	12/6/2016	114,947
Federal Home Loan Banks	P-1, A-1+	10/12/2016	205,990
Federal Home Loan Banks	P-1, A-1+	11/16/2016	205,944
Federal Home Loan Banks	P-1, A-1+	11/23/2016	114,964
Subtotal			1,373,862
Total			$ 2,419,274

NOTE 7: DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

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 (this includes GUSC). 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.

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

General Information about the Pension Plan (Continued)

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 § 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 Tier 1 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 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, Tier 1 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.

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

General Information about the Pension Plan (Continued)

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medial 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 84,393 participants. As of September 30, 2015, membership consisted of:

Retirees and beneficiaries currently receiving benefits	22,211
Terminated employees entitled to but not yet receiving benefits	1,353
Terminated employees not entitled to a benefit	5,451
Active Members	55,164
Post-DROP participants still in active service	214
Total	84,393

Contributions. Tier 1 covered members of the ERS (except State Police and certified law enforcement, correctional officers, and firefighters) contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, Tier 1 covered members of the ERS (except State Police and certified law enforcement, correctional officers and firefighters) were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, Tier 1 covered members of the ERS (except State Police and certified law enforcement, correctional officers and firefighters) are required by statute to contribute 7.50% of earnable compensation. Tier 1 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, Tier 1 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. Tier 1 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 (except State Police and certified law enforcement, correctional officers and firefighters) 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 ERS local participating employers.

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

General Information about the Pension Plan (Continued)

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 GUSC's active employee contribution rate was 3.11 percent of covered employee payroll, and the GUSC's average contribution rate to fund the normal and accrued liability costs was 2.74 percent of covered employee payroll.

The GUSC's contractually required contribution rate for the year ended September 30, 2016, was 3.17% of pensionable pay for Tier 1 employees, and 2.96% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were $18,747 for the year ended September 30, 2016.

Net Pension Liability

The GUSC'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 of September 30, 2014, rolled forward to September 30, 2015, using standard roll-forward techniques as shown in the following table:

Total Pension Liability As of September 30, 2014 (a)	$ 294,646
Entry Age Normal Cost for October 1, 2014 – September 30, 2015 (b)	$ 47,788
Actual Benefit Payments and Refunds for October 1, 2014 – September 30, 2015 (c)	$ 0
Total Expected Pension Liability As of September 30, 2015 [(a) x (1.08)] + (b) – [(c) x (1.04)]	$ 366,006
Difference between Expected and Actual Experience (Gain)/Loss	$ 19,875

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Net Pension Liability (Continued)

Actuarial assumptions. The total pension liability in the September 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75% - 7.25%
Investment rate of return*	8.00%

*Net of pension plan investment expense

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2014, 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	100.00%	

*Includes assumed rate of inflation of 2.50%.

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Net Pension Liability (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 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.

Changes in Net Pension Liability

	Increase(Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at 9/30/2014	$ 294,646	$ 358,140	$ (63,494)
Changes for the year:			
Service Cost	47,788	-	47,788
Interest	23,572	-	23,572
Differences Between Expected and Actual Experience	19,875	-	19,875
Contributions – Employer	-	15,489	(15,489)
Contributions – Employee	-	27,463	(27,463)
Net Investment Income	-	4,504	(4,504)
Benefit Payments, Including Refunds of Employee Contributions	-	-	-
Administrative Expenses	-	-	-
Transfers Among Employers	-	-	-
Net Changes	91,235	47,456	43,779
Balances at 9/30/2015	$ 385,881	$ 405,596	$ (19,715)

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Net Pension Liability (Continued)

Sensitivity of the net pension liability to changes in the discount rate. The following table presents the GUSC's net pension liability calculated using the discount rate of 8%, as well as what the GUSC'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%)
GUSC's Net Pension Liability	$ 42,283	$ (19,715)	$ (70,624)

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 October 17, 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.

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

For the year ended September 30, 2016, the GUSC recognized pension expense of $18,373. At September 30, 2016, the GUSC reported deferred outflows of resources and deferred inflows of resources related to pension of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 17,826	$ -
Changes of Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	13,560	-
Employer Contributions Subsequent to the Measurement Date	16,559	-
Total	$ 47,945	$ -

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Net Pension Liability (Continued)

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

Year Ended September 30:	
2017	$21,404
2018	4,845
2019	4,844
2020	7,222
2021	2,049
Thereafter	7,581
Total	$ 47,945

NOTE 8: NET POSITION

At September 30, 2016, the net position of the GUSC consisted of the following:

Net investment in capital assets:	
Net property, plant, and equipment	$ 32,866,024
Less:	
Water supply revenue bonds payable, net	(52,475,963)
Total net investment in capital assets	(19,609,939)
Restricted:	
Assets restricted for debt service	1,374,441
Less:	
Accrued interest payable from restricted assets	(827,404)
Total restricted for debt service	547,037
Assets restricted for replacement	297,343
Assets restricted for operating and maintenance	1,045,412
Total restricted net position	1,889,792
Unrestricted net position	1,553,460
Total net position	$ (16,166,687)

None of the net position is restricted by enabling legislation.

NOTE 9: CONTINGENCY

On May 5, 2008, the GUSC terminated the management agreement with Covanta. The GUSC committed to provide the employees with life insurance comparable to that provided by Covanta which provided coverage equal to twice the amount of annual salary. The GUSC has secured adequate life insurance on all but one employee. The coverage shortfall is approximately $100,000. On October 10, 2013, the GUSC resolved this life insurance shortfall by entering into an agreement with the employee that his spouse will receive $100,000 upon his death if the terms and conditions of the agreement are met.

NOTE 10: SUBSEQUENT EVENTS

The GUSC has evaluated subsequent events through December 12, 2016, the date which the financial statements were available to be issued.

THE GOVERNMENTAL UTILITY SERVICES CORPORATION OF BESSEMER, ALABAMA
Schedule of Changes in Net Pension Liability
Fiscal Year Ending September 30, 2016

	2015	2014
TOTAL PENSION LIABILITY		
Service Cost	$ 47,788	$ 45,359
Interest	23,572	18,466
Changes in Benefit Terms	-	-
Differences Between Expected and Actual Experience	19,875	-
Changes of Assumptions	-	-
Benefit Payments, Including Refunds of Employee Contributions	-	-
NET CHANGE IN TOTAL PENSION LIABILITY	91,235	63,825
TOTAL PENSION LIABILITY – BEGINNING	294,646	230,821
TOTAL PENSION LIABILITY – ENDING (a)	$ 385,881	$ 294,646
PLAN FIDUCIARY NET POSITION		
Contributions – Employer	$ 15,489	$ 24,486
Contributions – Member	27,463	25,979
Net Investment Income	4,504	35,665
Benefit Payments, Including Refunds of Employee Contributions	-	-
Transfers Among Employers	-	-
NET CHANGE IN PLAN FIDUCIARY NET POSITION	47,456	86,130
PLAN NET POSITION – BEGINNING	358,140	272,010
PLAN NET POSITION – ENDING (b)	$ 405,596	$ 358,140
NET PENSION LIABILITY (ASSET) – ENDING (a) - (b)	$ (19,715)	$ (63,494)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	105.11%	121.55%
Covered-Employee Payroll*	$ 549,248	$ 519,581
Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	-3.59%	-12.22%

*Employer's covered-payroll during measurement period is the total covered payroll. For FY2016, the measurement period is October 1, 2014, through September 30, 2015. GASB issued a statement "Pension Issues" in March, 2016 to redefine covered payroll for FY2016.

	2016	2015
Actuarially Determined Contributions*	$ 16,559	$ 15,489
Contributions in Relation to the Actuarially Determined Contributions*	16,559	15,489
Contribution Deficiency (Excess)	$ -	$ -
Covered-Employee Payroll**	$ 603,574	$ 549,248
Contributions as a Percentage of Covered-Employee Payroll	2.74%	2.82%

*Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. For FY2016, the fiscal year 10/01/2015 through 09/30/2016.

**Employer's covered-payroll for FY2016 is the total covered payroll for October 1, 2015, through September 30, 2016.

NOTES TO SCHEDULE

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2016 were based on the September 30, 2013, actuarial valuation.

Methods and Assumptions used to Determine Contribution Rates for the period October 1, 2015, through September 30, 2016:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percent Closed
Remaining Amortization Period	30 Years
Asset Valuation Method	Five Year Smooth Market
Inflation	3%
Salary Increases	3.75 – 7.25%, Including Inflation
Investment Rate of Return	8.00%, Net of Pension Plan Investment Expense Including Inflation