

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA**

FINANCIAL STATEMENTS

FOR THE YEAR ENDING SEPTEMBER 30, 2016

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA
SEPTEMBER 30, 2016**

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INDEPENDENT AUDITORS' REPORT

Water Works Board of the
City of Brewton, Alabama
Brewton, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Water Works Board of the City of Brewton, Alabama, (the Board) a component unit of the City of Brewton, Alabama, as of and for the year then September 30, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Board's 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Board as of September 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 on pages 21 and 22, respectively, 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Board's financial statements. The Supplementary information on pages 23 through 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information on pages 23 through 29 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2017, on our consideration of the Board's internal control over financial reporting and on 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 the Board's internal control over financial reporting and compliance.

Hartmann, Blackmon & Kilgore, P.C.

Certified Public Accountants

March 22, 2017
Brewton, Alabama

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

ASSETS

Current Assets

Cash	\$ 1,077,345
Accounts receivable (net of allowance for doubtful accounts in the amount of \$22,760)	54,578
Inventories	280,501
Total Current Assets	<u>1,412,424</u>

Other Assets

Restricted funds	701,154
Total Other Assets	<u>701,154</u>

Capital Assets

Water system	11,113,647
Machinery and equipment	1,438,799
Property held under capital lease	40,653
Furniture and fixtures	67,609
	<u>12,660,708</u>
Less accumulated depreciation	(4,799,162)
Land and construction in progress	83,423
Net Capital Assets	<u>7,944,969</u>

TOTAL ASSETS

10,058,547

DEFERRED OUTFLOWS OF RESOURCES

Differences between expected and actual experiences	27,240
Net difference between projected and actual earnings on plan investments	26,190
Employer retirement contributions	33,771
Defeasance of debt	155,915
Total Deferred Outflows of Resources	<u>243,116</u>

See independent auditors' report and notes to the financial statements.

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA
STATEMENT OF NET POSITION (continued)
SEPTEMBER 30, 2016**

LIABILITIES

Current Liabilities

Accounts payable	198,058
Accrued interest payable	43,792
Current maturities of long-term debt:	
Bond payable	210,000
Note payable	4,750
Obligation under capital lease	3,645
Due to City of Brewton	30,000
Customer deposits	94,243
Total Current Liabilities	<u>584,488</u>

Long-term Liabilities

Net pension liability	350,260
Long-term debt less current maturities:	
Bond payable	4,641,515
Note payable	12,746
Total Long-term Liabilities	<u>5,004,521</u>

TOTAL LIABILITIES

5,589,009

NET POSITION

Net investment in capital assets	3,369,630
Restricted	701,154
Unrestricted	641,870
Total Net Position	<u>\$ 4,712,654</u>

See independent auditors' report and notes to the financial statements.

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Operating Revenues	
Charges for services	\$ 1,529,894
Other operating revenues	30,658
	<hr/>
Total Operating Revenues	1,560,552
	<hr/>
Operating Expenses	
Salaries	437,329
Employee benefits	81,513
Office expense	29,970
Insurance	10,313
Professional fees	11,815
Maintenance and supplies	186,551
Utilities	110,441
Depreciation and amortization	322,889
Other	6,252
	<hr/>
Total Operating Expenses	1,197,073
	<hr/>
Operating Income	363,479
	<hr/>
Non-Operating Revenues/(Expenses)	
Interest income	740
Receipts from City of Brewton	7,278
Payments to City of Brewton	(9,974)
Grant revenue	218,025
Interest expense	(137,378)
	<hr/>
Total Non-Operating Revenue/(Expense)	78,691
	<hr/>
Change in Net Position	442,170
	<hr/>
Net Position at Beginning of Year	4,270,484
	<hr/>
Net Position at End of Year	\$ 4,712,654
	<hr/>

See independent auditors' report and notes to the financial statements.

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Cash Flows from Operating Activities:

Receipts from customers	\$ 1,560,277
Payments to suppliers	(402,403)
Payments to employees	(516,907)
Net Cash Provided (Used) by Operating Activities	<u>640,967</u>

Cash Flows from Capital and Related Financing Activities:

Principal paid on capital debt	(227,605)
Interest paid on capital debt	(138,383)
Proceeds from grant	218,025
Proceeds from capital debt	-
Purchase of capital assets	(532,482)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(680,445)</u>

Cash Flows from Noncapital Financing Activities:

Receipts from City of Brewton	7,278
Payments to City of Brewton	(9,974)
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>(2,696)</u>

Cash Flows from Investing Activities:

Interest received	740
Net Cash Provided (Used) by Investing Activities	<u>740</u>

Net Increase (Decrease) in Cash (41,434)

Cash at Beginning of Year 1,819,933

Cash at End of Year \$ 1,778,499

Reconciliation of Operating Income (Loss) to Net Cash

Provided (Used) by Operating Activities:

Operating Income	\$ 363,479
Adjustments to Reconcile Operating Income to Net Cash Provided	
(Used) by Operating Activities:	
Depreciation and amortization	322,889
Change in accounts receivable	(1,910)
Change in inventory	8,451
Change in pension expense as related to GASB 68	1,935
Change in customer deposits	1,635
Change in accounts payable	(55,512)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 640,967</u></u>

See independent auditors' report and notes to the financial statements.

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Water Works Board of the City of Brewton, Alabama (the Board) provides water to residents of Brewton, Alabama.

Basis of Accounting

On October 1, 2012, the Board adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure. The adoption of GASB Statement No. 62 did not have any impact on the Board's financial statements.

On October 1, 2012, the Board implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets deferred outflows of resources, liabilities and deferred inflows of resources.

As of October 1, 2013, the Board implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows of resources, deferred inflows of resources or current-period outflows (expenses) and inflows (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, *Elements of Financial Statements*:

Deferred outflows of resources are consumptions of net position by the Board that are applicable to a future reporting period.

Deferred inflows of resources are acquisitions of net position by the Board that are applicable to a future reporting period.

Outflows of resources are consumptions of net position by the Board that are applicable to the reporting period.

Inflows of resources are acquisitions of net position by the Board that are applicable to the reporting period.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

During the year ended September 30, 2015, the Board implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements create disclosure and reporting requirements that may or may not be consistent with the basis used for funding the plan. As a result, a net position liability equal to the difference between the actuarial present value of the projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the pension plan's fiduciary net position was recognized. Additionally, pension expense and deferred outflows of resources and deferred inflows of resources were recognized from changes in the components of the net position liability. See Note 3 for more information.

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued to provide guidance for determining a fair value measurement for financial reporting purposes. The requirements for GASB Statement No. 72 are effective for fiscal year 2016. Implementation had no effect on the 2016 financial statements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement No. 68* was issued to establish requirements for assets that are not within the scope of GASB Statement No. 68. The requirements of GASB Statement No. 73 are effective for fiscal year 2016. Implementation had no effect on the 2016 financial statements.

GASB Statement No. 82, *Pension Issues- an amendment of GASB Statements No. 67, No. 68, and No. 73*, was issued to address pension issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of GASB Statement No. 82 are effective for fiscal year 2017. The Board is currently evaluating the impact that this statement may have on its financial statements.

The Board is governed by its own Board of Directors and prepares and adopts an annual operating budget, which is not influenced by the City of Brewton. The Board has the authority to issue debt securities which are not obligations of the City of Brewton and most are not secured by City of Brewton revenues. The Board has responsibility for operating deficits which may occur and must fund such deficits with prior year surplus or other financing sources.

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended September 30, 2016, the Board, for financial reporting purposes, is considered a component unit of the City of Brewton, Alabama, (the City) due to the City appointing members of the governing body of the Board and the sharing of personnel, facilities and other resources. Employees for the Board are also City employees and are paid through the City of Brewton, Alabama and are included on its pension plan.

Revenue Recognition

The Board recognizes revenue from its water system operations as it is earned.

Deferred Outflows of Resources

Represent deferred losses associated with the issuance of long-term debt and is amortized on the straight-line method over the term of the debt. It also represents the pension plan contributions made between the measurement date of the pension plan and the end of the Board's fiscal year and differences between expected and actual experience and projected and actual earnings on plan investments. The deferred outflows of resources related to the pension plan are amortized over twelve months.

Deferred Inflows of Resources

Represent deferred amounts of the net difference between projected and actual earnings on the pension plan investments which is amortized on the straight-line method over a five-year period. No deferred inflows of resources were recognized in 2016.

Capital Assets

Capital asset items are carried at cost. Depreciation is charged to income over the estimated lives of the assets using the straight-line method. Estimated depreciable lives are as follows:

Water plant	50 years
Machinery and equipment	5-10 years
Furniture and Fixtures	10 years

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Income Taxes

As a governmental entity, the Board is exempt from Federal income taxes.

Inventory

Inventory consists of water system materials and is valued at the lower of cost (average cost method) or market.

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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.

Net Position and Equity Classifications

Government-wide Financial Statements

The Board adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, that superseded GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Government*. Equity is classified as net position and displayed in three components:

- Net investment in capital assets—Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of the related debt. Rather, that portion of the debt or deferred inflows of resources is included in the same net position as the unspent proceeds.

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Restricted net position—Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted net position—The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Subsequent Events

The Board has evaluated subsequent events through March 22, 2017, the date which the financial statements were available to be issued. On November 21, 2016, the Board issued Series 2016 Water Revenue Bonds of \$2,275,000 for the purpose of financing capital improvements.

There were no other material subsequent events which require disclosure at September 30, 2016.

NOTE 2 DEPOSITS AND INVESTMENT RISK

At September 30, 2016, the Board had investments in U. S. Treasury money market mutual funds. The fair value was \$701,154. The weighted average maturity is 33 days.

Investment Risk – The Board 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 – State statutes authorize the Board’s investments. The Board is authorized to invest in U. S. Government obligations and its agencies or instrumentalities, direct obligations of the state, SEC registered mutual funds holding like securities. The Board has no investment policy that further limits investment choices. As of September 30, 2016, the Board’s mutual fund investment were rated AAA by Standard & Poor’s.

Custodial Credit Risk – The Board is a participant in the Security for Alabama Funds Enhancement (SAFE) Program, a multiple financial institution collateral pool, administered by the State of Alabama. The program, by law, provides administration of pledge collateral coverage for all governments and agencies in the state and requires qualified financial institutions to provide collateral to the administrator adequate to secure all deposits of public funds in that financial institution. The State guarantees deposits identified as “public funds” will be adequately secured by insurance or collateral. Any collateral shortages of one financial institution are assessed to other member financial institutions.

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2016

NOTE 3 PENSION PLAN

The employees of the Board are included in the City of Brewton, Alabama's (the City) defined benefit pension plan. The information below is based on the City's plan information and is included here for informational purposes.

Plan Description

The City's defined benefit pension plan provides retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Employees Retirement System of Alabama (RSA), an agency multiple-employer pension plan. The State of Alabama has the authority to establish and amend the benefit provisions of the plans that participate. RSA issues a publicly available financial report that includes financial statements and required supplementary information of the plan. The report may be obtained by contacting the Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150.

The RSA was established on October 1, 1945, under the provisions of Act 515, Acts of Alabama 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 general administration and operation of the RSA is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Utilities authority to accept or reject various cost-of-living adjustments granted to retirees. RSA issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained at www.rsa-al.gov.

As established by state statute, all full-time employees of the City must participate in the pension plan from the date they are hired. Contributions made by an employee vest immediately and contributions made by the City vest after 10 years of full-time employment. An employee who leaves the employment of the City is entitled to his or her contributions and the City's contributions if vesting requirements are satisfied. During its 2012 session, the Alabama Legislature passed and the Governor signed into law changes in the pension plan creating a Tier 2 employee. Employees hired prior to January 1, 2013 (Tier 1 employees) must contribute 5% of his or her gross earnings to the pension plan. Employees hired on or after that date (Tier 2 employees) will contribute on gross earnings at rate of 6%.

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2016

NOTE 3 PENSION PLAN (continued)

A Tier 1 employee may retire after 25 years of credited service and receive pension benefits equal to 2.0125% of the employee's average final salary multiplied times years of credited service. A Tier 2 employee may retire after attainment of age 62 and ten years of service years and with benefits equal to 1.65% of the employee's average final salary multiplied times years of credited service. Average final salary for Tier 1 employees is defined as the average of the three highest years' salary out of the last ten years of service. Average final salary for Tier 2 employees is defined as the average of the five highest years' salary out of the last ten years of service. The pension plan also provides death benefits and disability benefits as determined by state statutes.

The City's contractually required contribution rate for the year ended September 30, 2016, was 9.43% for Tier 1 employees, and 6.31% for Tier 2 employees. The contribution requirements of plan members and the City are established and may be amended by RSA. 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 were \$399,683 for the year ended September 30, 2016.

The City's net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013 rolled forward to September 30, 2016 using standard roll-forward techniques as shown in the following table:

	Expected	Actual
(a)Total Pension Liability as of September 30, 2014	\$ 12,824,908	\$ 13,180,972
(b)Entry Age Normal Cost for the period October 1, 2014 to September 30, 2015	351,802	351,802
(c)Actual Benefit Payments & Refunds for October 1, 2014 to September 30, 2015	<u>(901,467)</u>	<u>(901,467)</u>
(d)Total Pension Liability as of September 30, 2015 [(a) x 1.08] + (b) - [(c) x (1.04)]	<u>\$ 13,265,177</u>	<u>\$ 13,649,726</u>
(e)Difference between Expected and Actual Experience (Gain)/Loss		\$ <u>384,549</u>

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2016

NOTE 3 PENSION PLAN (continued)

Actuarial Assumptions - The total pension liability in the September 30, 2014, actuarial valuation was determined as part of actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return (net of pension plan investment expense), (b) projected salary increases ranging from 3.75% to 7.25% per year, and an inflation component of 3%. Mortality rates for RSA 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 RSA 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	25.0%	5.0%
U.S. Large Stocks	34.0%	9.0%
U.S. Mid Stocks	8.0%	12.0%
U.S. Small Stocks	3.0%	15.0%
Inter'ntl Developed Mkt Stks	15.0%	11.0%
Inter'ntl Emerging Mkt Stks	3.0%	16.0%
Real Estate	10.0%	7.5%
Cash	2.0%	1.5%

*Includes assumed rate of inflation of 2.5%

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA**

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 3 PENSION 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 RSA 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.

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at September 30, 2014	\$ 12,824,908	\$ 9,658,204	\$ 3,166,704
Changes for the year:			
Service cost	351,802	-	351,802
Interest	989,934	-	989,934
Differences between expected and actual experience	384,549	-	384,549
Contributions - employer	-	466,292	(466,292)
Contributions - employee	-	245,303	(245,303)
Net investment income	-	113,283	(113,283)
Benefit payments, including refunds of employee contributions	(901,467)	(901,467)	-
Administrative expense	-	-	-
Transfers among employers	-	(28,815)	28,815
Net Changes	824,818	(105,404)	930,222
Balances at September 30, 2015	\$ 13,649,726	\$ 9,552,800	\$ 4,096,926

Sensitivity of the net pension liability to changes in the discount rate - The following table presents the Board's net pension liability calculated using the discount rate of 8%, as well as what the 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 (7.0%)	Current Rate (8.0%)	1% Increase (9.0%)
Net pension liability	\$ 5,616,913	\$ 4,096,926	\$ 2,819,203

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2016

NOTE 3 PENSION PLAN (continued)

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the RSA prepared as of September 30, 2015. The auditor's report dated October 15, 2015 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

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

For the year ended September 30, 2016, the City recognized pension expense of \$483,350. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 322,525	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	310,087	-
Employer contributions subsequent to measurement date	399,683	-
Total	<u>\$ 1,032,295</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized as an increase (decrease) in pension expense as follows:

Year Ending September 30,	
2017	\$ 521,694
2018	122,011
2019	122,011
2020	192,150
2021	62,024
Therafter	12,405
	<u>\$ 1,032,295</u>

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

NOTE 4 CAPITAL ASSETS

Changes in capital assets during the fiscal year were as follows:

	Balance <u>10/1/2015</u>	Increases/ <u>Reclassifications</u>	Decreases/ <u>Reclassifications</u>	Balance <u>9/30/2016</u>
<i>Capital assets not being depreciated</i>				
Land	\$ 83,423	\$ -	\$ -	\$ 83,423
Construction in progress	<u>25,875</u>	<u>-</u>	<u>25,875</u>	<u>-</u>
Total capital assets not being depreciated	<u>109,298</u>	<u>-</u>	<u>25,875</u>	<u>83,423</u>
<i>Capital assets being depreciated</i>				
Water system	10,788,868	324,779	-	11,113,647
Machinery and equipment	1,131,980	306,819	-	1,438,799
Property held under capital lease	113,894	-	73,241	40,653
Furniture and fixtures	<u>67,609</u>	<u>-</u>	<u>-</u>	<u>67,609</u>
Total capital assets being depreciated	<u>12,102,351</u>	<u>631,598</u>	<u>73,241</u>	<u>12,660,708</u>
Less accumulated depreciation for:				
Water system	3,381,313	238,109	-	3,619,422
Machinery and equipment	1,004,136	81,927	-	1,086,063
Property held under capital lease	36,209	8,131	21,303	23,037
Furniture and fixtures	<u>67,609</u>	<u>3,031</u>	<u>-</u>	<u>70,640</u>
Total accumulated depreciation	<u>4,489,267</u>	<u>331,198</u>	<u>21,303</u>	<u>4,799,162</u>
Total capital assets being depreciated	<u>7,613,084</u>	<u>300,400</u>	<u>51,938</u>	<u>7,861,546</u>
Capital assets, net	<u>\$ 7,722,382</u>	<u>\$ 300,400</u>	<u>\$ 77,813</u>	<u>\$ 7,944,969</u>

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2016

NOTE 5 LONG-TERM DEBT

Long-term debt consists of the following:

2012 water revenue bonds payable in annual installments of \$175,000 to \$330,000 with interest at 1.90% to 3.30% payable June 1 and December 1, maturing December 1, 2034

Face amount of bonds	\$ 4,935,000
Less unamortized discount	<u>83,485</u>
	4,851,515

Note payable for purchase of tractor April 30, 2015, due in 60 monthly installments of \$421, including interest at 2.00%, maturing April 30, 2020

17,496

Total long-term debt	4,869,011
Less current portion	<u>(214,750)</u>
Total Long-Term Debt, Less Current Portion	<u><u>\$ 4,654,261</u></u>

Maturities of long-term debt for each of the next five years are as follows:

Year Ending September 30,	Principal	Interest	Total
2017	\$ 214,750	\$ 128,497	\$ 343,247
2018	219,846	124,151	343,997
2019	219,943	119,753	339,696
2020	227,957	115,260	343,217
2021	225,000	110,853	335,853
2022-2026	1,220,000	475,547	1,695,547
2027-2031	1,375,000	304,572	1,679,572
2032-2035	<u>1,250,000</u>	<u>83,392</u>	<u>1,333,392</u>
	<u>\$ 4,952,496</u>	<u>\$ 1,462,025</u>	<u>\$ 6,414,521</u>

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

NOTE 5 LONG-TERM DEBT (continued)

The bond agreement relating to the Water Revenue Bonds, Series 2012 contain covenants pertaining to maintenance of reserve and bond funds. The Board is required to maintain a reserve fund in the amount of \$341,465. Also, the Board is required to deposit monthly in the bond fund one-sixth of the next succeeding interest payment and one-twelfth of the next succeeding principal payment. The Board is in compliance with all such significant financial limitations and restrictions relating to the Series 2012 bond.

NOTE 6 LEASES

The Board has entered into lease agreements as lessee to finance the acquisition of equipment (several obligations are shared with the City of Brewton, Alabama Sewer and Gas Departments in equal shares). The lease qualifies as a capital lease for accounting purposes since there is a bargain purchase option at the end of the initial base term and the present values of the minimum lease payments are greater than 90 percent of the assets purchase price. Each asset has, therefore, been recorded at the present value of the future minimum lease payments as of the inception date in the capital assets.

The capital asset acquired through the capital lease obligation is as follows:

Equipment	\$ 40,653
Less accumulated depreciation	<u>23,037</u>
Total	<u><u>\$ 17,616</u></u>

The future minimum lease obligation and the net present value of the minimum lease payments as of September 30, 2016, are as follows:

Year ending September 30,	
2017	<u>\$ 3,664</u>
	3,664
Less amount representing interest	<u>(19)</u>
Present value of minimum	
Lease payments	<u><u>\$ 3,645</u></u>

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2016

NOTE 7 DEBT DEFEASANCE

In a prior year, debt of the Board was defeased by placing the proceeds of the refunding issue in an irrevocable trust to provide for all future debt service payments of the defeased debt issue. Accordingly, the trust account assets and the liability for the defeased debt are not included in the Board's financial statements. At September 30, 2016, \$2,640,000 of defeased debt is outstanding.

NOTE 8 CONCENTRATIONS

The Board's primary source of income is water revenue from its customers. The Board grants credit, on an unsecured basis, to its customers for services rendered. Customers are located in the City of Brewton and surrounding area.

REQUIRED SUPPLEMENTARY INFORMATION

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA**

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY

LAST 10 FISCAL YEARS ENDING SEPTEMBER 30,

	2015	2014
Total pension liability		
Service cost	\$ 351,802	\$ 345,541
Interest	989,934	959,807
Changes of benefit terms	-	-
Differences between expected and actual experience	384,549	-
Changes of assumptions	-	-
Benefit payments, including refunds of employee contributions	(901,467)	(956,056)
Net change in total pension liability	824,818	349,292
Total pension liability- beginning	12,824,908	12,475,616
Total pension liability- ending (a)	<u>\$ 13,649,726</u>	<u>\$ 12,824,908</u>
Plan fiduciary net position		
Contributions- employer	\$ 466,292	\$ 386,933
Contributions- member	245,303	230,656
Net investment income	113,283	1,052,319
Benefit payments, including refunds of employee	(901,467)	(956,056)
Transfers among employers	(28,815)	9,515
Net change in plan fiduciary net position	(105,404)	723,367
Plan net position- beginning	9,658,204	8,934,837
Plan net position- ending (b)	<u>\$ 9,552,800</u>	<u>\$ 9,658,204</u>
Net pension liability (asset)- ending (a) - (b)	\$ 4,096,926	\$ 3,166,704
Plan fiduciary net position as a percentage of the total pension liability	69.99%	85.47%
Covered-employee payroll *	4,716,353	4,429,714
Net pension liability (asset) as a percentage of covered-employee payroll	86.87%	71.49%

* Employer's covered-payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For FY2016 the measurement period is October 1, 2014 - September 30, 2015.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

The schedule is provided by the pension plan of the City of Brewton, Alabama of which the Water Works Board of Brewton, Alabama is a part.

**WATER WORKS BOARD OF THE
CITY OF BREWTON, ALABAMA**

SCHEDULE OF EMPLOYER CONTRIBUTIONS

LAST 10 FISCAL YEARS ENDING SEPTEMBER 30,

	2016	2015
Actuarially determined contribution*	\$ 399,683	\$ 403,749
Contributions in relation to the actuarially determined contribution*	399,683	403,749
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll**	\$ 4,716,353	\$ 4,429,714
Contributions as a percentage of covered-employee payroll	8.47%	9.11%

* Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. The Schedule of Employer Contributions is based on the 12 month period of the underlying financial statement.

** Employer's covered-payroll during fiscal year is the total payroll paid for the 12 month period of the underlying financial statement.

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 the fiscal year 2016 were based on the September 30, 2013 actuarial valuation.

Methods and assumption used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	26 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75- 7.25 %, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

The schedule is provided by the pension plan of the City of Brewton, Alabama of which the Water Works Board of Brewton, Alabama is a part.

SUPPLEMENTARY INFORMATION

**WATER WORKS OF THE
CITY OF BREWTON, ALABAMA
SCHEDULE OF ACTIVITY—RESTRICTED FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	2012 Series		
	Reserve Fund	Bond Fund	Construction Fund
Balance at October 1, 2015	\$ 341,243	\$ 215,700	\$ 364,347
Contributions	57	340,166	54
Withdrawals	73	337,340	223,000
Balance at September 30, 2016	<u>\$ 341,227</u>	<u>\$ 218,526</u>	<u>\$ 141,401</u>

**WATER WORKS OF THE
CITY OF BREWTON, ALABAMA
SCHEDULE OF RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

The following rates apply to all customers:

Minimum	\$	11.00
Each thousand gallon increment	\$	3.50

**WATER WORKS OF THE
CITY OF BREWTON, ALABAMA
BOARD OF DIRECTORS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Chairman

Willie Randolph Nicholson

Director

Leslie Brown

Director

Richard Lynn

**WATER WORKS OF THE
CITY OF BREWTON, ALABAMA
SCHEDULE OF INSURANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

The City of Brewton, Alabama and the Water Works of the City of Brewton, Alabama are combined for insurance coverage purposes.

PROPERTY--Written through Scottsdale Indemnity Company on a blanket basis with a \$2,500/ \$15,000 Wind and Hail deductible, replacement cost.

Amount of property coverage	\$ 28,835,775
Policy dates: 01/01/2016 to 01/01/2017	

EQUIPMENT--Written through Scottsdale Indemnity Company

Amount of equipment coverage	Included in Blanket
Policy dates: 01/01/2016 to 01/01/2017	
Deductible	\$ 1,000

GENERAL LIABILITY--Written through Travelers Indemnity Company on an occurrence basis covering all premises and operations of the City of Brewton, Alabama and the Water Works of the City of Brewton, Alabama. The policy also covers products and completed operations as well as fire damage.

Coverage:	
General Aggregate	\$ 2,000,000
Products/Completed Ops Aggregate	\$ 2,000,000
Personal & Advertising Injury	\$ 1,000,000
Each Occurrence	\$ 1,000,000
Fire Damage	\$ 500,000
Policy Dates: 09/15/2016 to 09/15/2017	

BONDS - Written through EMC Insurance Company

	<u>Bond Amount</u>
Public Employees--Blanket Employee	\$ 5,000,000
Forgery and Alteration	\$ 100,000

UMBRELLA - Written through Travelers

Amount of Coverage	\$ 4,000,000
Policy Dates: 09/15/2016 to 09/15/2017	

AUTO - Written through Travelers

Amount of Coverage	\$ 1,000,000
Policy Dates: 09/15/2016 to 09/15/2017	

**WATER WORKS OF THE
CITY OF BREWTON, ALABAMA
SCHEDULE OF INSURANCE (continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

WORKERS COMP - Written through Travelers

Amount of Coverage \$ 1,000,000

Policy Dates: 02/01/2016 to 02/01/2017

CYBER LIABILITY - Written through Travelers

Amount of Coverage \$ 5,000,000

Policy Dates: 10/15/2016 to 10/15/2017

**WATER WORKS OF THE
CITY OF BREWTON, ALABAMA
SCHEDULE OF CONNECTIONS AND CUSTOMERS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Number of properties connected to and served by the Water Works of the City of Brewton, Alabama	3,500
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Number of customers of the Water Works of the City of Brewton, Alabama	3,194
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**WATER WORKS OF THE
CITY OF BREWTON, ALABAMA
SCHEDULE OF DEBT SERVICE COVERAGE
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Annual Net Income	<u><u>\$ 684,412</u></u>
Maximum Annual Debt Service Requirement	<u><u>\$ 343,247</u></u>
Coverage	<u><u>1.99</u></u>

COMPLIANCE SECTION

SHAREHOLDERS

J. Earl Blackmon, Jr., CPA
B. Vance Kilgore, CPA
Dennis E. Sherrin, CPA
G. Allen Cave, Jr., CPA
Rachel M. Godwin, CPA



Hartmann, Blackmon & Kilgore, P.C.

Certified Public Accountants & Consultants

OF COUNSEL

Xavier A. Hartmann, III, CPA
Rucker T. Taylor, III, CPA
Sally S. Wagner, CPA
Jerry Gibbons, CPA

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

Water Works Board of the City of Brewton, Alabama
Brewton, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities of the Water Works Board of the City of Brewton, Alabama as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Water Works Board of the City of Brewton, Alabama's financial statements, and have issued our report thereon dated March 22, 2017.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency and communicated it in the following paragraph.

Segregation of Duties

Our study and evaluation disclosed that because of the limited size of your accounting staff, your organization has limited segregation of duties. A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion. While we recognize that your organization is not large enough to permit an adequate segregation of duties in all respects, it is important that you be aware of this condition.

Compliance and Other Matters

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

Purpose of this Report

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

Hartmann, Blackmon & Kilgore, P.C.

Certified Public Accountants

March 22, 2017
Brewton, Alabama