West Morgan – East Lawrence
Water and Sewer Authority
Financial Statements
September 30, 2016 and 2015

West Morgan – East Lawrence Water and Sewer Authority
Table of Contents
September 30, 2016 and 2015

Independent Auditor's Report

Board of Directors
West Morgan – East Lawrence
Water and Sewer Authority
Decatur, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the West Morgan-East Lawrence Water and Sewer Authority (the "Authority"), as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the West Morgan-East Lawrence Water and Sewer Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the West Morgan-East Lawrence Water and Sewer Authority as of September 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the basic financial statements, the West Morgan-East Lawrence Water and Sewer Authority has elected to change its policy for accruing unbilled accounts receivable in 2016. The 2015 financial statements were retrospectively adjusted for this change. Our opinion is not modified with respect to that matter.

As discussed in Note 1 to the basic financial statements, in the year ended September 30, 2015, the West Morgan-East Lawrence Water and Sewer Authority adopted new accounting guidance related to the manner in which it accounts for pensions. As described within the notes to the financial statements, the West Morgan-East Lawrence Water and Sewer Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68, effective July 1, 2014. Also, as discussed in Note 1 to the basic financial statements, the West Morgan-East Lawrence Water and Sewer Authority retrospectively adjusted the Other Post-Employment Benefit liability to conform to current standards. The September 30, 2015 financial statements have been restated to reflect these changes. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9, schedule of funding progress on page 45, schedule of changes in the net pension liability on page 46, and schedule of employer contributions on page 47, 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.

Other Information

Our audits were conducted for the purpose of forming opinions on the basic financial statements of the West Morgan-East Lawrence Water and Sewer Authority. The information on pages 48-49 is presented for purposes of additional analysis and is not a required part of the financial statements.

The schedules of revenues and expenses and the schedules of operating expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of revenues and expenses and the schedules of operating expenses are fairly stated in all material respects in relation to the financial statements as a whole.

In our report dated December 3, 2016, we expressed a qualified opinion that the Authority had not recorded earned but unbilled revenues for the year ending September 30, 2015. As described in Note 1, the Authority has changed its method of accounting for these items and restated its September 30, 2015 financial statements to conform to accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the restated September 30, 2015 financial statements, as presented herein, is different from that expressed in our previous report.

CDPA, PC

February 2, 2017

Our discussion and analysis of the financial performance of the West Morgan-East Lawrence Water and Sewer Authority provides an overview of the Authority's financial activities for the fiscal years ended September 30, 2016 and 2015. This information should be used in conjunction with the Independent Auditor's Report and the Authority's audited financial statements.

Background and Overview

The West Morgan-East Lawrence Water and Sewer Authority was formally established under, and operates in compliance with the applicable provisions of the Code of Alabama (i.e. Article 1 of Chapter 50 of Title 11 of the Code of Alabama of 1975, as amended). The Authority owns and operates the potable water distribution system and sanitary sewer collection system and is a separate corporation from the Morgan and Lawrence County Commissions. The Authority service area encompasses most of the unincorporated areas of Morgan and Lawrence Counties as well as the towns of Courtland and Hillsboro and is the exclusive water purveyor within this area. The Authority's sole business is to provide safe, potable drinking water and sanitary sewer service to its customers. As of September 30, 2016, the Authority had approximately 850 miles of 3" diameter through 24" diameter water lines serving approximately 10,245 customers.

In 2002, the Authority amended its charter to begin providing sanitary sewer collection and treatment within its water service area. The Authority completed the initial phase of its sewer infrastructure in December 2004 and continues to provide sanitary sewer service to several schools, businesses, industries, and residential developments in its service area. The acquisition of the Town of Courtland Sewer Department in 2010 added approximately 500 new sewer customers to the Authority's customer base, and resulted in the acquisition of Courtland's wastewater treatment facility and collection system. Additional development continues in the Mallard Fox West Industrial Park, which will further expand the Authority's sewer customer base.

Accounting Standards

The Authority's financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board (GASB).

The GASB issued GASB No, 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011. The GASB also issued GASB No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, with earlier application encouraged. In 2015, GASB No. 68, *Accounting and Financial Reporting for Pensions*, became effective for fiscal years beginning after June 15, 2014. The authority has adopted GASB Nos. 63, 65, and 68 for all fiscal years ended September 30, 2015 and later.

Financial Highlights

The Authority's overall financial position decreased during fiscal year 2016. The decrease in net position for fiscal year 2016 was $1.23 million. The decrease in net position in 2015 was $67,740. Total assets increased from fiscal year 2015 by $4.28 million, providing the Authority with total assets and deferred outflows of $58.5 million. Total liabilities increased $5.60 million in fiscal year 2015 to $44.5 million. Total assets and deferred outflows in 2015 and 2014 were $54.2 million and $54.4 million, respectively. Total liabilities in 2015 and 2014 were $38.9 million and $38.5 million, respectively.

Operating revenues increased $52,534 from the prior year, while operating expenses increased $189,173 from the prior year, which resulted in a decrease in the operating margin from 14.02% in fiscal 2015 to 12.09% in fiscal 2016. Sales for fiscal 2017 are expected to increase slightly over 2016, and operating income should increase as well.

The net profit/(loss) margin was 0.91% for 2015 and (16.54%) for 2016.

Statements of Net Position

- Total assets and deferred outflows increased $4.28 million to $58.5 million. Current assets increased $55,367 to a total of $4.45 million; restricted assets increased $3.48 million; and capital assets, increased $748,315 to $48.4 million. Total assets and deferred outflows for fiscal years 2015 and 2014 were $54.2 million and $54.4 million, respectively.

- Current assets increased $55,367 from 2015, with an increase in cash and accounts receivable accounting for the increase. Current assets increased $113,470 from 2014 to 2015.

- Restricted assets, which are funds restricted by long-term debt instruments, increased $3.48 million from the prior year due to the bond issue to pay for additional treatment technologies at the water treatment plant. These same assets increased $2,173 in 2015.

- Capital assets increased $748,315 from the prior year. As stated earlier, capital assets are reported net of accumulated depreciation. Capital assets, net of accumulated depreciation, totaled $48.4 million.

  In 2015 capital assets, net of accumulated depreciation, decreased $279,304 to a total of $47.7 million. Capital assets, net of accumulated depreciation, totaled $47.9 million in 2014.

- Current liabilities payable from current assets increased $1.72 million over the prior year. In 2015, current liabilities payable from current assets increased $132,280 from 2014.

- Long-term liabilities increased $3.70 million to a total of $41.0 million in 2016. Long-term liabilities decreased $284,351 to $37.3 million in 2015.

Statements of Revenues, Expenses and Changes in Net Position

- Total operating revenues for 2016 increased $52,534 from 2015 to $7.45 million; 2015 decreased $202,737 from 2014 to a total of $7.4 million.

- Total operating expenses in 2016 were $6.55 million, which is an increase of $189,173 from 2015. Operating expenses in 2015 were $6.36 million, which was an increase from $83,117 over 2014.

- Current year operating activity produced an operating income of $901,288, which is a decrease from the prior year's operating income of $1,037,927. The operating income in 2014 was $1,323,781. The gross operating margin in fiscal 2016 was 12.09% as compared to the operating margin of 14.02% in 2015 and 17.40% in 2014.

- Total non-operating revenues were $122,022 in 2016, $922,070 in 2015, and $3.5 million in 2014. Total non-operating expenses were $2.26 million in 2016, $1.89 million in 2015, and $2.02 million in 2014. The large non-operating revenue in 2015 was due to contributions to the water system infrastructure for projects constructed by others and given to the Authority; the 2014 non-operating revenue was due to the litigation settlement with Richland LLC and contributions to the water system infrastructure for projects constructed by others and given to the Authority.

- The Authority's final decrease in net position was $1.23 million for 2015. In 2015 and 2014, the Authority's net position increased by $67,740 and $2.81 million respectively; again due to the litigation settlement and contributions by others.

Statements of Cash Flows

A summary of the Authority's statements of cash flows for fiscal years 2016, 2015, and 2014 is presented below.

Table 1

Condensed Statements of Cash Flows
(In thousands of dollars)

	2016	2015 (Restated)	2014
Cash flows from operating activities	$5,173	$3,719	$3,280
Cash flows from non-capital financing activities	7	6	7
Cash flows from capital and related financing activities	(1,651)	(3,598)	(2,723)
Cash flows from investing activities	(3,484)	(8)	(3)
Net change in cash	45	119	561
Cash – beginning of year	2,983	2,864	2,303
Cash – end of year	$3,028	$2,983	$2,864

Capital Assets

At the end of fiscal 2016, the Authority had net investment in capital assets, of $13.1 million, which was an increase of $599,322 from 2015. At the end of fiscal 2015, the Authority had a net investment in capital assets, of $12.5 million, which was an increase of $210,018 million from 2014.

Long-Term Debt

At the end of fiscal 2016, the Authority's financial statements showed outstanding bond issues, including the current portion, totaling $40.3 million. This is an increase of $3.51 million from the 2015 outstanding bond debt of $36.8 million. The outstanding bond debt in 2014 totaled $37.4 million.

The outstanding bonds bear interest at rates ranging from 2.0% to 6.5%. The Authority was in compliance with all bond covenants at the end of fiscal 2016, 2015, and 2014. The 2004 sewer bond issue through the Alabama Drinking Water Financing Authority (SRF) is not required to have a bond rating. The water revenue warrants, Series 2010 (May) carry an A rating from Standard and Poors. The water revenue warrants, Series 2010-CB and Series 2010-A carry an AA+ rating from Standard and Poors.

Note Regarding Forward Looking Statements

Certain information provided by the Authority, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that the Authority expects or anticipates will or may occur in the future, contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions, or changes in other factors affecting such forward-looking information.

Contacting the Department of Financial Management

This financial report is designed to provide our customers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the General Manager of the West Morgan-East Lawrence Water and Sewer Authority.

Table 2

Statements of Net Position
As of September 30, 2016, 2015, and 2014

	2016	2015 (Restated)	2014
Current and other assets	$ 4,450,332	$ 4,394,965	$ 4,281,495
Restricted assets	3,850,126	371,666	369,493
Capital assets	48,427,810	47,679,495	47,958,799
Deferred outflows	1,798,310	1,797,236	1,840,586
Total assets and deferred outflows	$ 58,526,578	$ 54,243,362	$ 54,450,373
Current and other liabilities	$ 2,326,545	$ 606,630	$ 474,350
Current liabilities, payable from restricted assets	1,164,068	987,752	945,288
Long-term debt outstanding	41,041,506	37,337,114	37,052,763
Total liabilities	44,532,119	38,931,496	38,472,401
Deferred inflows	-	83,826	-
Net position:			
Net invested in capital assets	13,126,507	12,527,185	12,317,167
Restricted for debt service	197,369	195,538	193,370
Restricted for capital improvements	150,000	150,000	150,000
Unrestricted	520,583	2,355,317	3,317,435
Total net position	13,994,459	15,228,040	15,977,972
Total liabilities, deferred inflows, and net position	$ 58,526,578	$ 54,243,362	$ 54,450,373

Table 3

Changes in Net Position
For the Years Ended September 30, 2016, 2015, and 2014

	2016	2015 (Restated)	2014
Operating revenues	$ 7,456,232	$ 7,403,698	$ 7,606,435
Operating expenses	6,554,944	6,365,771	6,282,654
Operating income	901,288	1,037,927	1,323,781
Non-operating revenues (expenses)	(2,134,869)	(970,187)	1,481,497
Increase (decrease) in net position	(1,233,581)	67,740	2,805,278
Net position – beginning of year	15,228,040	15,977,972	13,172,694
Adjustment for change in accounting principle	-	(817,672)	-
Net position – beginning of year (restated)	15,228,040	15,160,300	13,172,694
Net position – end of year	$ 13,994,459	$ 15,228,040	$ 15,977,972

West Morgan – East Lawrence Water and Sewer Authority
Statements of Net Position
September 30, 2016 and 2015

	2016	2015 (Restated)
Assets		
Current Assets		
Cash and Cash Equivalents	$ 3,028,439	$ 2,983,107
Accounts Receivable – Customers (Less Allowance for Doubtful Accounts of $8,318 in 2016 and $5,968 in 2015)	775,757	707,293
Inventory	135,335	135,993
Prepaid Expenses	510,801	568,572
Total Current Assets	4,450,332	4,394,965
Restricted Assets		
2010 (May) Revenue Warrant Fund	42,136	41,567
2010-CB Revenue Warrant Fund	48,792	47,868
2010-A1 Revenue Warrant Fund	106,441	106,103
2016 Revenue Warrant Construction Fund	3,476,432	-
Capital Asset Replacement Fund	176,325	176,128
Total Restricted Assets	3,850,126	371,666
Capital Assets		
Land and Land Rights	107,199	107,199
Building	765,014	770,928
Water Treatment Plant	22,668,980	22,460,857
Infrastructure Assets	46,575,905	46,451,304
Vehicles and Equipment	1,835,029	1,880,961
Treatment Plant Equipment	632,104	632,227
Sewer System	3,038,233	3,059,708
Meters	15,054	46,829
Construction in Progress	2,912,876	490,820
	78,550,394	75,900,833
Less Accumulated Depreciation	(30,122,584)	(28,221,338)
Net Capital Assets	48,427,810	47,679,495
Total Assets	56,728,268	52,446,126

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

West Morgan – East Lawrence Water and Sewer Authority
Statements of Net Position
September 30, 2016 and 2015

	2016	2015 (Restated)
Assets		
Deferred Outflows		
Deferred Outflows of Resources Related to Pensions	254,099	104,837
Unamortized Loss on Defeasance of Debt	1,544,211	1,692,399
Total Deferred Outflows	1,798,310	1,797,236
Total Assets and Deferred Outflows	$ 58,526,578	$ 54,243,362

`

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

West Morgan – East Lawrence Water and Sewer Authority
Statements of Net Position
September 30, 2016 and 2015

	2016	2015 (Restated)
Liabilities		
Current Liabilities Payable from Current Assets		
Accounts Payable	$ 1,924,839	$ 171,989
Accrued Payroll and Benefits	235,381	220,909
Customer Deposits	146,670	148,779
Accrued Utility Tax	19,655	20,394
Retainage Payable	-	13,657
Notes Payable, Due Within One Year	-	30,902
Total Current Liabilities Payable from Current Assets	2,326,545	606,630
Current Liabilities Payable from Restricted Assets		
Sewer Revenue Warrants, Series 2004	25,000	25,000
Water Revenue Warrants, Series 2010 (May)	408,880	403,880
Water Revenue Warrants, Series 2010-CB	380,000	360,000
Water Revenue Warrants, Series 2016	154,287	-
Accrued Interest on Warrants	195,901	198,872
Total Current Liabilities Payable from Restricted Assets	1,164,068	987,752
Long-Term Liabilities		
Sewer Revenue Warrants, Series 2004	220,000	245,000
Water Revenue Warrants, Series 2010 (May)	2,281,229	2,690,110
Water Revenue Warrants, Series 2010-CB	5,285,000	5,665,000
Water Revenue Warrants, Series 2010-A1	25,641,101	25,614,482
Water Revenue Warrants, Series 2010-A2	1,929,928	1,810,335
Water Revenue Warrants, Series 2016	3,996,521	-
Net Pension Liability	1,048,233	816,108
Net OPEB Obligation	639,494	496,079
Total Long-Term Liabilities	41,041,506	37,337,114
Total Liabilities	44,532,119	38,931,496
Deferred Inflows		
Deferred Inflows of Resources Related to Pensions	-	83,826
Total Deferred Inflows	-	83,826

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

	2016	2015 (Restated)
Net Position		
Net Investment in Capital Assets	13,126,507	12,527,185
Restricted for Debt Service	197,369	195,538
Restricted for Capital Improvements	150,000	150,000
Unrestricted	520,583	2,355,317
Total Net Position	13,994,459	15,228,040
Total Liabilities, Deferred Inflows, and Net Position	$ 58,526,578	$ 54,243,362

-

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

West Morgan – East Lawrence Water and Sewer Authority
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2016 and 2015

	2016	2015 (Restated)
Operating Revenues		
Water Sales, Net of Bad Debt Expense	$ 6,590,908	$ 6,539,694
Sewer Sales	430,684	402,671
Availability Fees	15,358	52,652
New Service	99,396	50,450
Penalties	202,570	213,749
Service Calls	82,133	100,486
Service Projects	950	10,666
Sundry	34,233	33,330
Total Operating Revenues	7,456,232	7,403,698
Operating Expenses	6,554,944	6,365,771
Net Operating Income	901,288	1,037,927
Non-Operating Revenues (Expenses)		
Grant Revenues	108,764	872,052
Interest Income Earned	6,287	6,888
Sanitation Billing	6,971	6,174
(Loss) Gain on Disposal of Capital Assets	(252,553)	36,956
Interest Expense – Revenue Warrants	(1,697,014)	(1,707,877)
Interest Expense - Other	(609)	(1,974)
Amortization of Warrant Insurance Cost	(20,854)	(20,755)
Amortization of Loss on Defeasance of Debt	(148,187)	(148,187)
Issuance Cost – Revenue Warrants Series 2016	(125,967)	-
Trustee and Investment Fees	(11,707)	(13,464)
Total Non-Operating Revenues (Expenses)	(2,134,869)	(970,187)
(Decrease) Increase in Net Position	(1,233,581)	67,740
Net Position – Beginning of Year	15,228,040	15,977,972
Adjustment for Change in Accounting Principle (Note 1)	-	(817,672)
Net Position – Beginning of Year (Restated)	15,228,040	15,160,300
Net Position – End of Year	$ 13,994,459	$ 15,228,040

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

West Morgan – East Lawrence Water and Sewer Authority
Statements of Cash Flow
For the Years Ended September 30, 2016 and 2015

	2016	2015 (Restated)
Cash Flows from Operating Activities		
Cash Received from Customers	$ 7,385,659	$ 7,457,940
Cash Payments to Suppliers for Goods and Services	(446,688)	(2,072,654)
Cash Payments to Employees for Services	(1,823,351)	(1,619,104)
Other Operating Cash Received (Expended)	57,771	(46,436)
Net Cash Provided by Operating Activities	5,173,391	3,719,746
Cash Flows from Non-Capital Financing Activities		
Cash Received from Sanitation Billing	6,971	6,174
Net Cash Provided by Non-Capital Financing Activities	6,971	6,174
Cash Flows from Capital and Related Financing Activities		
Water System		
Purchase and Construction of Capital Assets	(3,296,828)	(2,034,849)
Grant Revenues	108,764	872,052
Payments of Principal on Water Revenue Warrants	(765,000)	(720,000)
Payments of Interest on Water Revenue Warrants, Exclusive of Discount Amortization	(1,581,585)	(1,600,432)
Other Financing Source – 2016 Series Warrants	4,165,000	-
Discount on 2016 Series Warrants	(14,251)	-
Payment of Bond Issuance Costs on 2016 Series Warrants	(125,967)	-
Payments of Principal on Notes Payable – Other	(30,902)	(32,422)
Payments of Interest on Notes Payable – Other	(609)	(1,974)
Net Cash Used by Water System Capital and Related Financing Activities	(1,541,378)	(3,517,625)

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

West Morgan – East Lawrence Water and Sewer Authority
Statements of Cash Flow
For the Years Ended September 30, 2016 and 2015

	2016	2015 (Restated)
Sewer System		
Purchase and Construction of Capital Assets	(76,918)	(47,323)
Payment of Principal on Sewer Revenue Warrants	(25,000)	(25,000)
Payments of Interest on Sewer Revenue Warrants	(7,854)	(8,616)
Net Cash Used by Sewer System Capital and Related Financing Activities	(109,772)	(80,939)
Net Cash Used by Capital and Related Financing Activities	(1,651,150)	(3,598,564)
Cash Flows from Investing Activities		
Interest Received	6,287	6,888
Trustee and Investment Fees	(11,707)	(13,464)
Net Increase in Restricted Assets	(3,478,460)	(2,173)
Net Cash Used by Investing Activities	(3,483,880)	(8,749)
Net Increase in Cash and Cash Equivalents	45,332	118,607
Cash and Cash Equivalents, October 1	2,983,107	2,864,500
Cash and Cash Equivalents, September 30	$ 3,028,439	$ 2,983,107

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

West Morgan – East Lawrence Water and Sewer Authority
Statements of Cash Flow
For the Years Ended September 30, 2016 and 2015

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities

	2016	2015 (Restated)
Net Operating Income	$ 901,288	$ 1,037,927
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Depreciation	2,409,723	2,436,980
Bad Debt Expense	19,515	9,453
Amortization of Prepaid Bond Issurance	(20,854)	(20,755)
Changes in Current Assets and Current Liabilities		
Accounts Receivable – Customers	(87,979)	41,817
Inventory	658	303
Prepaid Expenses	57,771	(46,436)
Accounts Payable	1,752,850	71,335
Accrued Payroll and Benefits	157,887	194,468
Retainage Payable	(13,657)	13,657
Customer Deposits	(2,109)	2,972
Accrued Utility Tax	(739)	600
Pension Related Deferrals and Liabilities	(963)	(22,575)
Total Adjustments	4,272,103	2,681,819
Net Cash Provided by Operating Activities	$ 5,173,391	$ 3,719,746

Noncash Investing, Capital and Financing Activities:

The Authority capitalized $36,845 and $38,548 of interest costs into Construction-in-Progress during the year ended September 30, 2016 and 2015, respectively.

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The West Morgan–East Lawrence Water and Sewer Authority was organized on August 11, 1969, in the State of Alabama, and is engaged in the selling of potable water and sanitary sewer services to customers in Morgan and Lawrence Counties.

Accounting Policies

The West Morgan–East Lawrence Water and Sewer Authority (the "Authority") follows accounting standards set by the Governmental Accountancy Standards Board, commonly referred to as the "GASB." The GASB sets accounting principles generally accepted in the United States of America (GAAP) that the Authority follows.

The Authority has adopted GASB No. 62 "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*". GASB No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance of FASB issued on or before November 30, 1989. The Authority generally follows post November 30, 1989 FASB pronouncements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Recognition of Water and Sewer Revenue and Cost

The Authority records water and sewer revenue on the accrual basis of accounting. Amounts are recorded in the period they are earned. The Authority records related costs of service under the accrual method of accounting. Amounts are recorded in the period that they are used.

Accounting Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, money market, and savings accounts, and short-term investments with original maturities of three months or less, excluding restricted funds, which are carried at fair value (level 1).

The Authority's deposits at September 30, 2016 and 2015 were held by financial institutions that participate in the State of Alabama's Security of Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the ***Code of Alabama 1975***, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State

Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

The Authority's deposits at September 30, 2016 and 2015 consisted of checking, savings, money market accounts with short term maturities, and one certificate of deposit as discussed in the following paragraph. Because of their liquid nature, the money market accounts and certificate of deposit are considered to be cash equivalents for purposes of the Statements of Cash Flows.

The Authority renewed a $100,000 certificate of deposit from CB&S Bank on September 24, 2016, bearing interest at .35% and maturing March 24, 2018. The Board of Directors designated the certificate of deposit, including interest earned, to partially fund the annual required contribution (ARC) for other post-employment benefits (OPEB) for the Authority. Because a designation may be rescinded by the Board at any time, the certificate of deposit does not qualify as a trust under GASB No. 43 for the purpose of reducing the OPEB liability by the amount on deposit. The balance on the certificate of deposit at September 30, 2016 and 2015 was $104,116 and $103,840, respectively.

Accounts Receivable – Customers

The Authority extends credit to its customers who are located in Morgan and Lawrence Counties, Alabama. Customer accounts receivable are carried at the original invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by using historical experience applied to an aging of accounts. Customer receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

In fiscal year 2014, the Authority entered into a contract with the Town of Courtland, Alabama, to bill and collect Courtland's sanitation charges (garbage collection). The Authority retains a service charge for each account billed and remits the net collections to Courtland monthly. Unpaid sanitation charges are included in accounts receivable – customers, and net sanitation charges are reported as non-operating revenue on the Statements of Revenues, Expenses, and Changes in Net Position.

Inventories

Inventories of materials and supplies are priced at the lower of cost or market with cost being determined by the average cost method.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of* *resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Authority has two items that qualify for reporting in this category. They are (i) the deferred outflow of resources related to pensions and (ii) the unamortized deferred loss on debt defeasance.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one type of item that qualifies for reporting in this category. It is the deferred inflow of resources related to pensions.

Cost of Borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Investment and Deposit Policy

The Authority has no formal policy on managing credit risk. However, it is the policy of the Authority that its unrestricted funds may only be invested in United States Treasury bills, government secured bonds, and accounts collateralized by the Alabama SAFE program. The investments for restricted funds are disclosed in Note 2.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk. However, it is the policy of the Authority that its unrestricted funds may only be invested in United States Treasury bills, government secured bonds, and accounts collateralized by the Alabama SAFE program.

Capital Assets

Capital assets and construction in progress, including infrastructure assets, are stated at cost less accumulated depreciation. System additions are constructed by employees and outside contractors depending on the type of work and overhead costs. While projects are in progress, costs are accumulated in construction-in-progress accounts. When projects are completed, the total cost is transferred to the appropriate capital asset account. Net interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of constructing those assets. These costs are capitalized in accordance with generally accepted accounting principles. Interest costs capitalized on construction-in-progress for the years ended September 30, 2016 and 2015 were $36,845 and $38,548, respectively. Wages and related employee benefits for employees' time while working on the construction of capital assets are also capitalized as a component of the cost of constructing those assets.

Other additions to the capital asset accounts include purchased items capitalized based on acquisition costs. Additions, improvements, and expenditures for repairs and maintenance that significantly add to the productivity or extend the economic life of the assets are capitalized. Other expenditures for repairs and maintenance are charged to operations.

Upon retirement, the original cost and related accumulated depreciation of the asset are removed from the respective accounts, and any profit or loss on the disposition is credited or charged to income.

Depreciation is computed on the straight–line basis over the estimated useful lives of the assets ranging from three to fifty years. Depreciation expense for capital assets for the years ended September 30, 2016 and 2015 was $2,409,723 and $2,436,980, respectively.

Construction-in-progress consists of projects begun prior to the fiscal year end, which will be completed and placed in service in subsequent fiscal years. The projects included in construction in progress at September 30, 2016 and 2015 were:

	2016	2015
Expansion of Trinity Sewer Facility	$ 189,252	$ 136,680
PFOA/PFOS Removal Process	1,888,584	-
Carbon Filter Project	-	72,637
Distribution Line Improvements	573,683	271,480
Lacon Booster Pumping Station	-	5,365
Vaughn Bridge Road Water Line Relocation	256,532	-
Owens Mt. Storage Tank	4,825	-
Lacon Area Storage Tank	-	4,658
Total Construction in Progress	$ 2,912,876	$ 490,820

Amortization

Prepaid bond insurance and loss on defeasance of debt, related to the issuance of revenue warrants, are amortized on a straight-line basis over periods ranging from fourteen to thirty years. Amortization expense for the years ended September 30, 2016 and 2015 was $169,041 and $168,942, respectively.

Accrued Compensated Absences

The liability for annual vacation and personal leave is recorded based on the number of accumulated annual vacation and personal leave hours at the employee’s current pay rate. Annual leave may be accumulated and carried forward from one year to the next at the discretion of the general manager. Upon separation from service, the employee may be paid for all unused accrued leave at his/her current rate of pay, provided that proper notice of separation is given. The accrual for compensated absences at September 30, 2016 and 2015 was $170,696 and $146,281, respectively.

No liability is recorded for sick leave. Accrued sick leave is not payable to employees upon separation from service and, therefore, is not vested.

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

Net position of the Authority is classified in the following three components:

- Net Investment in Capital Assets – consists of capital assets, net of accumulated depreciation, and reduced by the current balances of any outstanding borrowing used to finance the purchase or construction of those assets.

- Restricted – consists of noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Authority including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 2.

- Unrestricted – consists of the remaining net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted.

Use of Restricted Resources

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds to have been spent first.

Revenues and Expenses

Operating revenues consist of revenues generated by the sale of water and sewer services and general operation of the systems. Non-operating revenues consist of revenues generated by activities other than the direct operation of the systems. Operating expenses consist of all expenses incurred to provide water and sewer services, other than financing costs. Non-operating expenses consist of interest expense and other expenses not directly related to providing services.

Residential sales are reported net of bad debt expense. For the fiscal years ended September 30, 2016 and 2015, total bad debt expense was $19,515 and $9,453, respectively.

Statements of Cash Flows

For purposes of the Statements of Cash Flows, the Authority considers all highly liquid investments (excluding all restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Reclassifications

Certain amounts previously reported in the 2015 financial statement have been reclassified to conform to the 2016 presentation.

Subsequent Events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through the date of the auditor's report, which was the date the financial statements were available to be issued.

Change in Accounting Principle

Net position as of October 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Net position as previously reported at September 30, 2014	$ 15,977,972
Net pension liability (measurement date as of September 30, 2014)	(916,125)
Deferred outflows – contributions subsequent to measurement date	98,453
Total prior period adjustment	(817,672)
Net position as restated, October 1, 2014	$ 15,160,300

Restatement of Prior Period

The September 30, 2015 Statement of Net Position, and the Statement of Revenues, Expenses, and Changes in Net Position were restated to record unbilled revenue, and adjust OPEB liabilities to accurately depict the most recent actuarial valuation. Management's previous policy was not to accrue for the unbilled revenue. This policy changed during the current year and the prior period amounts were restated for comparative purposes to record these amounts in the September 30, 2015 financial statements. The new policy is preferable since it reflects the accrual of water and sewer revenue at year end.

The prior period OPEB liability was restated in the 2015 fiscal year to accurately depict the most recent actuarial valuation. The effect of these restatements was as follows:

	Originally Reported 2015	Adjustment	Restated
2014 Net Position			
(Beginning Net Position)	$ (15,594,723)	$ (383,249)	$ (15,977,972)
2015 Net Position	(15,977,972)	817,672	(15,160,300)
Accounts Receivable	376,410	330,883	707,293
Net OPEB Obligation	(544,588)	48,509	(496,079)
Operating Revenue	(7,426,448)	22,750	(7,403,698)
Operating Expenses	6,384,664	(18,893)	6,365,771

Recently Adopted Accounting Standards

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. This statement requires most investments to be measured at fair value, and disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. This statement is effective for periods beginning after June 15, 2015. The adoption did not materially affect the Authority's financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. It also amends Statement No. 62, *Codification of accounting and financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraph 64, 74, and 82. The provisions of Statement No. 76 are effective for financial statements for periods beginning after June 15, 2015. The adoption did not materially affect the Authority's financial statements.

NOTE 2 – RESTRICTED ASSETS

Under the terms of the water revenue bond indenture, obligations were incurred in connection with the issuance of the 2010 (May), 2010-CB, 2010-A1, and 2016 revenue warrants as described in Note 7.

Principal and Interest Funds

Trustee accounts were required and established at the BNY Mellon Trust Department to receive payments from the operating funds of the Authority for the payment of principal and interest on the 2010 (May), 2010-CB, and 2010-A1 revenue warrants. An amount equal to one-sixth of the interest that will mature on the next succeeding interest payment date plus one-twelfth of the principal amount of warrants required to be redeemed pursuant to any mandatory redemption requirement is deposited monthly. All monies paid into these funds must be used for payment of principal and interest on warrants at their respective maturities.

Series 2016 Construction Fund

The sum of $4,043,795 was deposited into the fund upon the issuance of the Series 2016 Warrants. Monies in this fund were used for the payment of issuance costs of the Series 2016 Warrants and will be used for the payment of the costs of acquiring and constructing certain additions and improvements to the system as specified in the trust indenture. Construction project costs and issuance costs drawn from the construction fund during the fiscal years ended September 30, 2016 and 2015 were $567,363 and $0, respectively.

Replacement Fund

A trustee account was required and established at the BNY Mellon Trust Department to hold certain funds for capital asset replacement. The sum of $150,000 in cash was transferred into the fund in compliance with the requirements of the 2010 (May), 2010-CB, and 2010-A1 revenue warrants. If the amount on deposit in the fund is less than $150,000, the Authority is required to pay $2,500 per month into the fund until the balance exceeds $150,000. Monies in the fund may be used for acquiring or constructing capital improvements.

The 2010 (May), 2010-CB, 2010-A1, and 2016 warrant indentures specify the types of investments authorized. The Authority may at its option from time to time cause any or all of the moneys in the warrant funds to be invested in federal securities having a specified maturity or being redeemable at the option of the holder, prior to the date when it is anticipated by the Authority that such moneys will be needed. Similarly, the Authority may at its option from time to time cause any or all of the money on deposit in the improvement fund to be invested in any federal securities, eligible certificates of deposit, or other securities in which the Authority is legally authorized to invest its moneys, which have a specified maturity, or which are redeemable at the option of the holder thereof, prior to the date on which it is anticipated by the Authority that such moneys will be needed.

The fair market value of the restricted assets related to the 2010 (May), 2010-CB, 2010-A1, and 2016 Series by type of investment are as follows. The restricted investments in the U.S. Treasury securities are held by the trustee and are in the Authority's name.

	9/30/16	9/30/15
	Fair Market Value	Fair Market Value
U.S. Treasury Securities	$3,850,126	$ 371,666

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs (the Authority does not value any of its investments using level 2 or 3 inputs).

The following is a summary of the fair value hierarchy of the fair value of investments of the Authority as of September 30, 2016 and 2015:

	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	
Investments by Fair Value Level	2016	2015
U.S. Treasury Securities	$ 3,850,126	$ 371,666

At September 30, 2016 and 2015, the balances in the restricted assets equaled or exceeded those balances required by the provisions of the bond indenture. The Authority was in compliance with all bond covenants at September 30, 2016 and 2015.

NOTE 3 – CAPITAL ASSETS

The following schedules detail changes in major classes of capital assets and the related accumulated depreciation for the years ended September 30, 2016:

	Balance 10/01/15	Additions	Dispositions	Transfers	Balance 09/30/16
Depreciable Assets					
Land and Land Rights	$ 107,199	$ -	$ -	$ -	$ 107,199
Building	770,928	5,313	(11,227)	-	765,014
Water Treatment Plant	22,460,857	8,070	(600,817)	800,870	22,668,980
Infrastructure Assets	46,451,304	9,387	(63,539)	178,753	46,575,905
Vehicles and Equipment	1,880,961	11,071	(57,003)	-	1,835,029
Treatment Plant Equipment	632,227	6,858	(6,981)	-	632,104
Sewer System	3,059,708	-	(21,475)	-	3,038,233
	75,363,184	40,699	(761,042)	979,623	75,622,464
Non-Depreciable Assets					
Meters	46,829	-	-	(31,775)	15,054
Construction in Progress	490,820	3,374,562	(4,658)	(947,848)	2,912,876
	537,649	3,374,562	(4,658)	(979,623)	2,927,930
Total Capital Assets	75,900,833	3,415,261	(765,700)	-	78,550,394
Accumulated Depreciation	(28,221,338)	(2,409,723)	508,477	-	(30,122,584)
Net Capital Assets	$ 47,679,495	$1,005,538	$ (257,223)	$ -	$ 48,427,810

The following schedules detail changes in major classes of capital assets and the related accumulated depreciation for the years ended September 30, 2015:

	Balance 10/01/14	Additions	Dispositions	Transfers	Balance 09/30/15
Depreciable Assets					
Land and Land Rights	$ 105,199	$ 2,000	$ -	$ -	$ 107,199
Building	770,928	-	-	-	770,928
Water Treatment Plant	22,104,482	61,174	-	295,201	22,460,857
Infrastructure Assets	45,188,526	6,084	-	1,256,694	46,451,304
Vehicles and Equipment	1,828,342	169,824	(117,205)	-	1,880,961
Treatment Plant Equipment	611,922	20,305	-	-	632,227
Sewer System	3,030,990	28,718	-	-	3,059,708
	73,640,389	288,105	(117,205)	1,551,895	75,363,184
Non-Depreciable Assets					
Meters	-	70,899	-	(24,070)	46,829
Construction in Progress	219,973	1,798,672	-	(1,527,825)	490,820
	219,973	1,869,571	-	(1,551,895)	537,649
Total Capital Assets	73,860,362	2,157,676	(117,205)	-	75,900,833
Accumulated Depreciation	(25,901,563)	(2,436,980)	117,205	-	(28,221,338)
Net Capital Assets	$ 47,958,799	$ (279,304)	$ -	$ -	$ 47,679,495

NOTE 4 – CUSTOMER DEPOSITS

Customer deposits represent water deposits made by customers and held by the Authority. Deposits are returned to customers when accounts are closed or applied to the final bill. The deposits do not earn interest.

NOTE 5 – PENSION PLAN

General Information about the Pension Plan

Plan description

The Employees' Retirement System of Alabama (ERS), an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns and quasi-public oranizations. 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.

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 ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

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

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

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, the 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 Retired Members Still in Active Service	214
Total	84,393

The breakdown of the employees' specific to the Authority is as follows:

Retirees and beneficiaries currently receiving benefits	6
Terminated employees entitled to but not yet receiving benefits	-
Terminated employees not entitled to a benefit	1
Active Members	26
Post-DROP Retired Members Still in Active Service	-
Total	33

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2016 and 2015, the Authority's active employee contribution rate was 5% (Tier 1) and 6% (Tier 2) of covered employee payroll, and the Authority's average contribution rate to fund the normal and accrued liability costs was 7.74% (Tier 1) and 5.24% (Tier 2) of covered employee payroll.

The Authority's contractually required contribution rate for the year ended September 30, 2016 was 8.11% of pensionable pay for Tier 1 employees, and 5.61% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. The Authority's contractually required contribution rate for the year ended September 30, 2015 was 8.27% of pensionable pay for Tier 1 employees, and 5.97% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2012, 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 Authority were $120,377 and $104,837 for the year ended September 30, 2016 and 2015, respectively.

Net Pension Liability

The Authority's September 30, 2016 net pension liability was measured and based on the September 30, 2015 measurement date, 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:

	Expected	Actual
(a) TPL as of September 30, 2014	$ 3,767,936	$ 3,804,052
(b) Entry Age Normal Cost for the period October 1, 2014 - September 30, 2015	95,828	95,828
(c) Actual Benefit Payments and Refunds for the period October 1, 2014 - September 30, 2015	(109,405)	(109,405)
(d) TPL as of September 30, 2015 = [(a) x (1.08)] + (b) - [(c) x (1.04)]	$ 4,051,418	$ 4,090,423
(e) Difference between Expected and Actual Experience (Gain)/Loss		$ 39,005

The Authority's September 30, 2015 net pension liability was measured and based on the September 30, 2014 measurement date, 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, 2014 using standard roll-forward techniques as shown in the following table:

(a) TPL as of September 30, 2013	$ 3,519,712
(b) Entry Age Normal Cost for the period October 1, 2013 - September 30, 2014	98,509
(c) Actual Benefit Payments and Refunds for the period October 1, 2013 - September 30, 2014	(126,790)
(d) TPL as of September 30, 2014 = [(a) x (1.08)] + (b) - [(c) x (1.04)]	$ 3,767,936

Actuarial Assumptions

The total pension liability in the September 30, 2014 and 2013 actuarial valuations were 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 2016 and 2015 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%.*

Discount rate

The discount rate used to measure the total pension liability at September 30, 2016 and 2015 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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2013	$ 3,519,712	$ 2,603,587	$ 916,125
Changes for the year:			
Service Cost	98,509	-	98,509
Interest	276,505	-	276,505
Changes of Assumptions	-	-	-
Difference Between Expected & Actual Experience	-	-	-
Contributions - Employer	-	98,453	(98,453)
Contributions - Employee	-	62,155	(62,155)
Net Investment Income	-	314,423	(314,423)
Benefits Paid & Refunds of Employee Contributions	(126,790)	(126,790)	-
Administrative Expense	-	-	-
Transfers Among Employers	-	-	-
Net Changes	248,224	348,241	(100,017)
Balances at September 30, 2014	$ 3,767,936	$ 2,951,828	$ 816,108
Changes for the year:			
Service Cost	95,828	-	95,828
Interest	297,059	-	297,059
Changes of Assumptions	-	-	-
Difference Between Expected & Actual Experience	39,005	-	39,005
Contributions - Employer	-	100,373	(100,373)
Contributions - Employee	-	64,048	(64,048)
Net Investment Income	-	35,346	(35,346)
Benefits Paid & Refunds of Employee Contributions	(109,405)	(109,405)	-
Administrative Expense	-	-	-
Transfers Among Employers	-	-	-
Net Changes	322,487	90,362	232,125
Balances at September 30, 2015	$ 4,090,423	$ 3,042,190	$ 1,048,233

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the Authority’s net pension liability calculated using the discount rate of 8%, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1- percentage-point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
2015 Plan's Net Pension Liability	$ 1,584,759	$ 1,048,233	$ 600,422
2014 Plan's Net Pension Liability	$ 1,319,773	$ 816,108	$ 396,232

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, 2014. The auditor's report dated June 3, 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 and 2015, the Authority recognized pension expense of $114,950 and $82,262, respectively calculated as follows:

	2016	2015
Service Cost	$ 95,828	$ 98,509
Interest on the Total Pension Liability	297,059	276,505
Expensed Portion of Current Period Difference Between Expected & Actual Experience in the Total Pension Liability	4,815	-
Member Contributions	(64,048)	(62,155)
Projected Earnings on Plan Investments	(238,347)	(209,640)
Expensed Portion of Current Period Differences Between Actual & Projected Earnings on Plan Investments	40,600	(20,957)
Transfers Among Employers	-	-
Recognition of Beginning Deferred Inflows of Resources as Pension Expense	(20,957)	-
Total	$ 114,950	$ 82,262

At September 30, 2016 and 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected & Actual Experience	$ 34,190	$ -	$ -	$ -
Changes of Assumptions	-	-	-	-
Net Difference Between Projected & Actual Earnings on Pension Plan Investments	99,532	-	-	83,826
Employer Contributions Subsequent to the Measurement Date	120,377	-	104,837	-
Total	$ 254,099	$ -	$ 104,837	$ 83,826

The $120,377 and $104,837 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017 ($120,377) and 2016 ($104,837). Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ended September 30,	
2017	$ 24,458
2018	24,458
2019	24,460
2020	45,416
2021	4,815
Thereafter	10,115
Total	$ 133,722

NOTE 6 – OTHER POST EMPLOYMENT BENEFITS

The Authority's retiree post-employment benefit plan is a single-employer defined benefit OPEB plan as described in the employee handbook and administered by management. Claims are processed by Blue Cross/Blue Shield of Alabama. The Plan provides for continuation of active medical, pharmacy, dental, and vision benefits upon retirement from the Authority for the remainder of the participant's life. Retirees can elect continuation of the above benefits, provided the participant continues to make the required contributions. The amount of the participant contribution is based on 35% of the premium assessed by Blue Cross/Blue Shield of Alabama.

A participant is eligible to receive benefits from the plan upon retirement under the Retirement System of Alabama. To be eligible for retiree benefits under Tier 1, the participant must be actively covered under the medical plan for three years prior to retirement and must have either attained age 60 with ten years of service or any age with twenty–five years of service. To be eligible for retiree benefits under Tier 2, the participant must be actively covered under the medical plan for three years prior to retirement and must have attained age 62 with ten years of service. To be eligible for police retiree benefits, the participant must be actively covered under the medical plan for three years prior to retirement and must have either attained age 52 with ten years of service or any age with twenty–five years of service.

A participant is eligible for a disability retirement upon attainment of ten years of service and must be deemed permanently incapacitated for duty before reaching eligibility for service retirement. The surviving spouse of a participant who dies while in active service is only eligible for eighteen months of participant paid COBRA coverage. Participants that are not eligible for retirement at the time of their termination are not eligible for immediate or future benefits from the plan. Coverage is also provided to spouses of retirees who are currently receiving benefits. If the retiree predeceases the spouse, the spouse is eligible for eighteen months of participant paid COBRA coverage.

For participants retired prior to January 2, 2004, retirees and their spouses are eligible to continue medical coverage under the plan until the death of the participant. For participants retired after January 2, 2004, retirees and their spouses are eligible to continue medical coverage under the plan until the participant attains age 65. If the retiree predeceases the spouse, the spouse is eligible for eighteen months of participant paid COBRA coverage.

The Authority qualifies for the GASB No. 45 Alternative Measurement Method (AMM) for determining its OPEB liability and required contribution. The Authority calculated its preliminary liability using the AMM assuming no changes to the benefit package in place at the time. The Authority created its own actuarial report based on software licensed from an actuarial firm. The result yielded an actuarial accrued liability (AAL) for the Authority of $1,973,647 with an annual required contribution (ARC) of $168,122. However, actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The projection of benefits is based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members.

The Authority has not established a trust fund for depositing the annual required contribution and managing the OPEB obligation. However, the Authority purchased a certificate of deposit and designated the certificate as partial payment of the ARC for the Authority. The certificate of deposit is explained in detail in Note 1.

For the years ended September 30, 2016 and 2015, the Authority's annual OPEB cost of $180,222 and $176,287, respectively, was greater than the Authority's required contribution. The required contribution was determined as part of the September 30, 2015 actuarial valuation using the entry age method. September 30, 2015 was the most recent fiscal year available upon which to calculate the actuarial valuation. The actuarial assumptions included (a) a discount rate of 2.5% per annum, compounded annually, (b) use of RP2000 Mortality Table for Males and Females projected for ten years, and (c) amortization of the actuarial liability assuming thirty level annual payments. The actuarial valuation is effective for the fiscal years ended September 30, 2015, 2016, and 2017.

The following table shows the calculation of the annual required contribution (ARC) and net OPEB obligation for the Authority.

	Fiscal Year Ending September 30, 2016	Fiscal Year Ending September 30, 2015
Determination of Annual Required Contribution		
Normal Cost at Year End	$ 105,339	$ 105,339
Amortization of UAAL	62,783	62,783
Annual Required Contribution	$ 168,122	$ 168,122
Determination of Net OPEB Obligation		
Annual Required Contribution	$ 168,122	$ 168,122
Interest on Prior Year Net OPEB Obligation	12,100	8,165
Adjustment to ARC	-	-
Annual OPEB Cost	180,222	176,287
Contribution Made	(36,807)	(27,058)
Increase in Net OPEB Obligation	$ 143,415	$ 149,229
Net OPEB Obligation – Beginning of Year	$ 496,079	$ 346,850
Net OPEB Obligation – End of Year	$ 639,494	$ 496,079

Three Year Trend Information

Fiscal Year Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
09/30/16	$ 180,222	20.42%	$ 639,494
09/30/15	$ 176,287	15.35%	$ 496,079
09/30/14	$ 176,531	0%	$ 346,850

NOTE 7 – LONG-TERM DEBT

Sewer Revenue Warrants – Series 2004

On July 15, 2004, the Authority issued Sewer Revenue Warrants, Series 2004, in the original amount of $510,000 to the Alabama Drinking Water Financing Authority (SRF). The warrants bear interest at 3.05% per annum. The balance due on these warrants at September 30, 2016 and 2015 was $245,000 and $270,000, respectively. The Series 2004 sewer revenue warrants are special obligations of the Authority, payable solely out of the revenues from the sewer system of the Authority after the payment of the costs of maintaining and operating the sewer system. Payment of principal and interest on the warrants is subordinated to the payment of principal and interest on the warrants payable from the revenues of the water system. The purpose of the Series 2004 sewer revenue warrants was to partially finance the construction of the sewer system. Interest on the Series 2004 Sewer Revenue Warrants is payable semi–annually on February 15 and August 15. Principal is payable annually on February 15.

Water Revenue Warrants – Series 2010 (May)

On May 13, 2010, the Authority issued Water Revenue Warrants, Series 2010 (May), rated A by Standard and Poors. The warrants were authorized in the original amount of $4,965,000 and bear interest ranging from 2% to 3.5% per annum. The outstanding balance on these warrants at September 30, 2016 and 2015 was $2,700,000 and $3,105,000, respectively. The proceeds from these warrants were used to current refund Water Revenue Warrants, Series 1998 and 2001, establish a small construction fund, and pay the costs of issuance of the Series 2010 (May) warrants. The Series 2010 (May) warrants are limited obligations of the Authority, payable solely from the revenues of the water system of the Authority remaining after the payment of the costs of maintaining and operating the system.

The Series 2010 (May) warrants are secured by a pledge of the net system revenues on an equal and proportionate basis and parity of lien to debt service on prior lien obligations and any additional parity obligations which may be issued hereafter. The warrants are also secured by a non-foreclosable mortgage on the system. Payment of principal and interest is insured by a policy issued by Assured Guaranty Corp. Warrants having a stated maturity of August 15, 2020, or thereafter, may be redeemed under provisions specified in the indenture. Interest on the Series 2010 (May) warrants is payable semi-annually on February 15 and August 15. Principal is payable annually on August 15.

Water Revenue Warrants – Series 2010-CB

On December 1, 2010, the Authority issued Water Revenue Warrants, Series 2010-CB, rated AA+ by Standard and Poors. The warrants were authorized in the original amount of $7,445,000. The outstanding balance on the warrants at September 30, 2016 and 2015 was $5,665,000 and $6,025,000 and bear interest at 3.5% per annum. The proceeds from the warrants were used to advance refund 71% of the Water Revenue Warrants, Series 2006, and pay the costs of issuance of the Series 2010-CB warrants. The Series 2010-CB warrants are limited obligations of the

Authority, payable solely from the revenues of the water system of the Authority remaining after the payment of the costs of maintaining and operating the system.

The Series 2010-CB warrants are secured by a pledge of the net system revenues on an equal and proportionate basis and parity of lien to the Water Revenue Warrants, Series 2010-A, and any additional parity obligations which may be issued hereafter and subordinated to the payment of principal and interest on the Water Revenue Warrants, Series 2010 (May). The warrants are also secured by a non-foreclosable mortgage on the system. Warrants having a stated maturity of August 15, 2020, or thereafter, may be redeemed under provisions specified in the indenture. Interest on the Series 2010-CB warrants is payable semi-annually on February 15 and August 15. Principal is payable annually on August 15.

Water Revenue Warrants – Series 2010-A1 and Series 2010-A2

On December 1, 2010, the Authority issued Water Revenue Warrants, Series 2010-A, rated AA+ by Standard and Poors. The warrants were issued in two parts, Series 2010-A1 Current Interest Warrants authorized in the original amount of $26,275,000, and Series 2010-A2 Capital Appreciation Warrants authorized in the original amount of $1,333,722 with a face value of $10,400,000 at maturity. The proceeds from the warrants were used to pay the costs of issuance of the Series 2010-A warrants, advance refund in full the 2004 SRF Water Revenue Warrants and Water Revenue Warrants, Series 2008, advance refund 29% of the Water Revenue Warrants, Series 2006, and establish a construction fund to complete the filtration project at the water treatment plant and construct a 24” water main extension from the water treatment plant. The Series 2010-A warrants are limited obligations of the Authority, payable solely from the revenues of the water system of the Authority remaining after the payment of the costs of maintaining and operating the system.

The Series 2010-A warrants are secured by a pledge of the net system revenues on an equal and proportionate basis and parity of lien to the Water Revenue Warrants, Series 2010-CB, and any additional parity obligations which may be issued hereafter and subordinated to the payment of principal and interest on the Water Revenue Warrants, Series 2010 (May). The warrants are also secured by a non-foreclosable mortgage on the system. Payment of principal and interest is insured by a policy issued by Assured Guaranty Municipal Corp. Warrants having a stated maturity of August 15, 2020, or thereafter, may be redeemed under provisions specified in the indenture.

Interest only on the Series 2010-A1 warrants is payable semi-annually on February 15 and August 15 at rates ranging from 4.4% to 5.0%. Principal payments on Series 2010-A1 are due annually on August 15 beginning in 2026.

The Series 2010-A2 warrants are capital appreciation warrants. No payments, either of principal or interest, will be made until August 15, 2041. Interest will accrue on the warrants annually until 2041. Four equal payments of $2,600,000 each will be made on August 15, 2041, 2042, 2043, and 2044, for a total maturity value of $10,400,000. The offering yield is 6.5% at maturity. The accreted value of the Series 2010-A2 warrants at September 30, 2016 and 2015 was $1,929,928 and $1,810,335, respectively.

Water Revenue Warrants – Series 2016

During the year ended September 30, 2016, the Authority issued Water and Sewer Revenue Warrants, Series 2016, dated September 1, 2016. These warrants were authorized in the original amount of $4,165,000 bearing interest ranging from 2% - 2.625% per annum. The balance due on these warrants at September 30, 2016 was $4,165,000. The proceeds from these warrants were used to pay the costs of issuance and fund construction projects described in the indenture. Series 2016 Warrants are secured by a pledge of revenues derived from the operation of the system after payment of the costs of maintaining and operating the system and are subject and subordinate to the prior pledge thereof for the Series 2010 (May) Bonds and on an equal and proportionate basis and parity of lien with the Series 2010-A1, Series 2010 A-2, and Series 2010-CB Bonds. Warrants having a stated maturity of August 15, 2020, or thereafter, may be redeemed under provisions specified in the indenture. Interest on the Series 2016 Warrants is payable semi–annually on February 15 and August 15. Principal is payable annually on August 15.

The following is a summary of the Authority's long term debt transactions for the fiscal years ended September 30, 2016 and 2015.

	Debt Outstanding 10/01/2015	Additions	Reductions	Debt Outstanding 9/30/2016	Due Within One Year
Water Revenue Warrants					
Series 2010 (May)	$ 3,105,000	$ -	$(405,000)	2,700,000	410,000
Series 2010-CB	6,025,000	-	(360,000)	5,665,000	380,000
Series 2010-A1	26,275,000	-	-	26,275,000	-
Series 2010-A2	1,810,335	119,593	-	1,929,928	-
Series 2016	-	4,165,000	-	4,165,000	155,000
Sewer Revenue Warrants					
Series 2004 SRF	270,000	-	(25,000)	245,000	25,000
	37,485,335	4,284,593	(790,000)	40,979,928	970,000
Revenue Warrant Discounts					
Series 2010 (May)	11,010	-	(1,119)	9,891	1,120
Series 2010-A1	660,518	-	(26,619)	633,899	26,619
Series 2016	-	14,251	(59)	14,192	713
	671,528	14,251	(27,797)	657,982	28,452
Total, Net	$ 36,813,807	$4,270,342	$(762,203)	$ 40,321,946	$ 941,548

	Debt Outstanding 10/01/2014	Additions	Reductions	Debt Outstanding 9/30/2015	Due Within One Year
Water Revenue Warrants					
Series 2010 (May)	$ 3,500,000	$ -	$(395,000)	3,105,000	405,000
Series 2010-CB	6,350,000	-	(325,000)	6,025,000	360,000
Series 2010-A1	26,275,000	-	-	26,275,000	-
Series 2010-A2	1,698,161	112,174	-	1,810,335	-
Sewer Revenue Warrants					
Series 2004 SRF	295,000	-	(25,000)	270,000	25,000
	$ 38,118,161	$ 112,174	$(745,000)	$ 37,485,335	$ 790,000
Revenue Warrant Discounts					
Series 2010 (May)	$ 12,130	$ -	(1,120)	11,010	1,120
Series 2010-A1	687,137	-	(26,619)	660,518	26,619
	$ 699,267	$ -	$ (27,739)	671,528	$ 27,739
Total, Net	$ 37,418,894	$ 112,174	$(717,261)	$ 36,813,807	$ 762,261

The following table sets forth the debt service on the Series 2004 sewer revenue warrants and the Series 2010 (May), 2010-CB, 2010-A1, 2010-A2, and 2016 water revenue warrants.

Year	**Principal**	**Interest**	**Debt Service**
2017	970,000	1,645,904	2,615,904
2018	1,010,000	1,629,179	2,639,179
2019	1,045,000	1,598,503	2,643,503
2020	1,070,000	1,567,152	2,637,152
2021	1,155,000	1,533,027	2,688,027
2022-2026	6,420,000	7,077,630	13,497,630
2027-2031	8,010,000	5,729,680	13,739,680
2032-2036	10,240,000	3,751,501	13,991,501
2037-2041	11,730,000	1,168,750	12,898,750
2042-2044	7,800,000	-	7,800,000
Less Accreted Increase on Series 2010-A2, 2016-2044	(8,470,072)	-	(8,470,072)
Principal per Statements of Net Position	$ 40,979,928	$ 25,701,326	$ 66,681,254

In December 2010, the Authority issued Water Revenue Warrants Series 2010-A to advance refund the 2004 SRF Water Bonds and the Water Revenue Warrants Series 2006 and 2008. The funds required to refund these three warrants were placed in escrow with BNY Mellon. The amount placed in escrow was calculated using the maturity dates of the warrants (2025, 2026, and 2029). The deferred loss on defeasance of the warrants included $1,877,635 required to be deposited in the escrow fund. The escrow fund was restructured in May 2015 to change the calculation to the call dates of the warrants (2014, 2016, and 2018) instead of the maturity date. The restructuring of the escrow fund resulted in a refund to the Authority of $606,502 which was placed in a construction fund with BNY Mellon. The construction fund was restricted for the purpose of paying the costs of restructuring the escrow fund and for capital improvements specified at the time of restructuring. The construction fund was fully expended as of September 30, 2015.

The following table sets forth the amortization of discounts and deferred loss on debt defeasance associated with the revenue warrants:

Year	Discounts	Deferred Loss on Debt Defeasance
2017	$ (28,452)	$ (148,187)
2018	(28,452)	(148,187)
2019	(28,452)	(148,187)
2020	(28,452)	(148,187)
2021	(28,452)	(148,187)
2022-2026	(140,947)	(658,312)
2027-2031	(136,658)	(144,964)
2032-2036	(136,601)	-
2037-2041	(101,426)	-
	$ (657,892)	$ (1,544,211)

The sinking fund requirements related to all water revenue warrants were satisfied for the years ended September 30, 2016 and 2015. The Series 2004 sewer revenue warrants have no sinking fund requirements.

The maximum annual debt service on all warrants is $2,600,000, which occurs in the fiscal years 2041-2044. During the fiscal year ended September 30, 2016, the total amount of interest costs incurred on all indebtedness was $1,734,468. Of the total interest costs, $1,697,623 was charged to expense, and $36,845 was capitalized as part of the cost of construction projects in progress. The interest charged to expense included $609 interest expense paid on notes payable – other described in Note 9. During fiscal year ended September 30, 2015, the total amount of interest costs incurred on all indebtedness was $1,748,399. Of the total interest costs, $1,709,851 was charged to expense, and $38,548 was capitalized as part of the cost of construction projects in progress.

NOTE 8 – NOTES PAYABLE – OTHER

In July 2013 the Authority entered into five notes payable with Ally Bank for the purchase of five vehicles. The notes were issued in original amounts ranging from $11,000 to $28,500 at an interest rate of 4% per annum. Each note is secured by the related vehicle. Monthly payments totaling $2,866, including principal and interest, are required through August 2016. During the fiscal year ended September 30, 2016 and 2015, the Authority made principal payments of $32,422 and $30,902. These notes payable were paid off during the year ended September 30, 2016.

NOTE 9 – CONTRACT AGREEMENTS

Contract to Purchase Water

On October 8, 1996, the Authority entered into a contract to purchase water from the City of Decatur. The term of this contract is 20 years from the date of the final signature of the contract. After a period of 20 years the Authority will have an option to renew this contract in five year increments, up to an additional 20 years. The Authority or the City may terminate this contract by giving the other party written notice of such termination not less than six months prior to the proposed termination date.

Contracts to Sell Water

During the years ended September 30, 2016 and 2015, the Authority had contracts to sell water to the following entities: the Town of Town Creek, West Lawrence Water Cooperative, the City of Falkville, the City of Moulton, the Town of Trinity, and VAW Water Cooperative. Details of these contracts are on file in the Authority's office.

NOTE 10 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Authority carries commercial insurance for all risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 – CONCENTRATION OF RISK/ECONOMIC DEPENDENCY

The Authority sells water and sewer services to residents and businesses of Morgan County and Lawrence County, Alabama. The Authority also extends credit to other water systems located in the same area. No one customer constitutes a concentration of sales.

NOTE 12 – ENVIRONMENTAL REMEDIATION

A salt brine leak occurred at the water treatment plant in December 2011, discharging a saturated salt solution into the soil. The Authority notified the Alabama Department of Environmental Management (ADEM) of the discharge in April 2012. InSite Engineering, LLC, the Authority's engineering consultant, prepared and submitted a Preliminary Investigation Plan to ADEM for the remediation of the subsurface soils and protection of the underground infrastructure. ADEM approved the Plan, and the Authority entered into a Remediation Agreement with ADEM on June 14, 2012. Remediation was completed in fiscal year 2015. The Authority has submitted its completion report to ADEM and is waiting ADEM's acceptance of the remediation. The Remediation Agreement will remain in force until the Authority is released in writing by ADEM.

NOTE 13 – LAWSUITS

During the year ended September 30, 2016 the Authority entered into a class action lawsuit against 3M Company, Dyneon, LLC, and Daikin America, Inc. related to the contamination of the Tennessee River. As of the date of the auditor's report, a partial settlement was reached with Daikin, LLC for $3.9 million, but is still awaiting court approval, as such the settlement amount is not reflected in the Statements of Revenue, Expenses, and Changes in Net Position. The outcome of the lawsuit with the remaining companies cannot be readily determined as of the date of the auditor's report.

During the year ended September 30, 2016 the Authority was the defendant in two class action lawsuits brought forth by customers of the Authority relating to and Environmental Protection Agency (EPA) advisory which listed a standard the Authority was not meeting. The outcome of these lawsuits cannot be readily determined as of the date of the auditor's report, and management believes that there is minimal financial exposure.

Other Post-Employment Benefits

Information currently available from the actuarial consultant regarding OPEB shows data applicable to the West Morgan-East Lawrence Water and Sewer Authority as follows:

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liabilities (AAL)	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
9/30/16	-	$ 1,973,647	$ 1,973,647	-	N/A	N/A
9/30/15	-	$ 1,973,647	$ 1,973,647	-	N/A	N/A
9/30/14	-	$ 1,975,960	$ 1,975,960	-	N/A	N/A

West Morgan – East Lawrence Water and Sewer Authority
Schedule of Changes in the Net Pension Liability – "Unaudited"

	For the Measurement Period Ended September 30, 2015	For the Measurement Period Ended September 30, 2014
Total Pension Liability		
Service Cost	$ 95,828	$ 98,509
Interest	297,059	276,505
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	39,005	-
Changes of Assumptions	-	-
Benefit Payments, Including Refunds of Employee Contributions	(109,405)	(126,790)
Net Change in Total Pension Liability	322,487	248,224
Total Pension Liability – Beginning	3,767,936	3,519,712
Total Pension Liability – Ending (a)	$ 4,090,423	$ 3,767,936
Plan Fiduciary Net Position		
Contributions – Employer	$ 100,373	$ 98,453
Contributions – Employee	64,048	62,155
Net Investment Income	35,346	314,423
Benefit Payments, Including Refunds of Employee Contributions	(109,405)	(126,790)
Administrative Expense	-	-
Other	-	-
Net Change in Plan Fiduciary Net Positions	90,362	348,241
Plan Fiduciary Net Position – Beginning	2,951,828	2,603,587
Plan Fiduciary Net Position – Ending (b)	3,042,190	2,951,828
Net Pension Liability – Ending (a) – (b)	$ 1,048,233	$ 816,108
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.37%	78.34%
Covered-Employee Payroll[1]	1,287,712	1,253,196
Net Pension Liability as a Percentage of Covered-Employee Payroll	81.40%	65.12%

[1] *Employer's covered payroll during the measurement period is the total covered payroll. For FY 2016 the measurement period is October 1, 2014 - September 30, 2015.*

Notes to the Schedule of Changes in the Net Pension Liability and Related Ratios

This schedule presents only two years of information, rather than ten years, as only two years of trend information is available at September 30, 2016.

Schedule of Employer Contributions – "Unaudited"

	2016	2015
Actuarially Determined Contribution[1]	$ 120,377	$ 104,837
Contributions in Relation to the Actuarially Determined Contribution	(120,377)	(104,837)
Contribution Deficiency (Excess)	$ -	$ -
Covered-Employee Payroll[2]	1,435,471	1,287,712
Contributions as a Percentage of Covered-Employee Payroll	8.49%	8.14%

Notes to the Schedule of Employer Contributions

This schedule presents only two years of information, rather than ten years, as only two years of trend information are available at September 30, 2016.

Actuarially determined contribution rates are calculated as of September 30, two 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 date.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	22 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75 – 7.25%, including inflation
Investment rate of return	8.0%, net of pension plan investment expense, including inflation

[1] *The 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.*

[2] *Employer's covered payroll for FY 2016 is the total covered payroll for the 12 month period of the underlying financial statement.*

West Morgan – East Lawrence Water and Sewer Authority
Schedules of Revenues and Expenses
For The Years Ended September 30, 2016 and 2015

	Water System			Sewer System			Totals		
Operating Revenues	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Water Sales, net of bad debt expense	$ 6,590,908	$ 6,539,694	51,214	$ -	$ -	-	$ 6,590,908	$ 6,539,694	51,214
Sewer Sales	-	-	-	430,684	402,671	28,013	430,684	402,671	28,013
Availability Fees	11,308	51,752	(40,444)	4,050	900	3,150	15,358	52,652	(37,294)
New Service	99,096	50,250	48,846	300	200	100	99,396	50,450	48,946
Penalties	202,570	213,749	(11,179)	-	-	-	202,570	213,749	(11,179)
Service Calls	79,073	98,176	(19,103)	3,060	2,310	750	82,133	100,486	(18,353)
Service Projects	950	10,666	(9,716)	-	-	-	950	10,666	(9,716)
Sundry	34,233	33,330	903	-	-	-	34,233	33,330	903
Total Operating Revenues	7,018,138	6,997,617	20,521	438,094	406,081	32,013	7,456,232	7,403,698	52,534
Operating Expenses	6,192,642	6,002,450	190,192	362,302	363,321	(1,019)	6,554,944	6,365,771	189,173
Operating Income	825,496	995,167	(169,671)	75,792	42,760	33,032	901,288	1,037,927	(136,639)
Non-Operating Revenue (Expenses)									
Grant Revenues	108,764	872,052	(763,288)	-	-	-	108,764	872,052	(763,288)
Interest Income Earned	6,287	6,888	(601)	-	-	-	6,287	6,888	(601)
Sanitation Billing	6,971	6,174	797	-	-	-	6,971	6,174	797
Litigation Settlement	-	-	-	-	-	-	-	-	-
Contributions - Water System Infrastructure	-	-	-		-	-		-	
Realized Loss on Sale of Investments	-	-	-	-	-	-	-	-	-
Gain on Disposal of Capital Assets	(252,553)	36,956	(289,509)	-	-	-	(252,553)	36,956	(289,509)
Interest Expense – Revenue Warrants	(1,689,421)	(1,699,544)	10,123	(7,593)	(8,333)	740	(1,697,014)	(1,707,877)	10,863
Interest Expense – Other	(609)	(1,974)	1,365	-	-	-	(609)	(1,974)	1,365
Amortization of Bond Insurance Cost	(20,854)	(20,755)	(99)	-	-	-	(20,854)	(20,755)	(99)
Amortization of Loss on Defeasance of Debt	(148,187)	(148,187)	-	-	-	-	(148,187)	(148,187)	-
Escrow Fund Restructuring Cost	-	-	-	-	-	-	-	-	-
Bond Issuance Cost	(125,967)	-	(125,967)	-	-	-	(125,967)	-	(125,967)
Trustee and Investment Fees	(11,707)	(13,464)	1,757	-	-	-	(11,707)	(13,464)	1,757
Total Non–Operating Revenues (Expenses)	(2,127,276)	(961,854)	(1,165,422)	(7,593)	(8,333)	740	(2,134,869)	(970,187)	(1,164,682)
(Decrease) Increase In Net Position	$(1,301,780)	$ 33,313	(1,335,093)	$ 68,199	$ 34,427	33,772	$(1,233,581)	$ 67,740	(1,301,321)

West Morgan – East Lawrence Water and Sewer Authority
Schedules of Operating Expenses
For The Years Ended September 30, 2016 and 2015

	Water System			Sewer System			Total Expenses		
EXPENSES	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Wages	$ 1,262,949	$ 1,158,373	104,576	$ 119,073	$ 116,119	2,954	$ 1,382,022	$ 1,274,492	107,530
Contract Labor	234,383	207,616	26,767	21,185	21,060	125	255,568	228,676	26,892
Fringe Benefits	553,540	497,870	55,670	45,676	41,210	4,466	599,216	539,080	60,136
Bank Fees	53,586	52,149	1,437	-	-	-	53,586	52,149	1,437
Billing Services	24,834	13,736	11,098	108	79	29	24,942	13,815	11,127
Conferences and Training	9,938	8,762	1,176	1,420	1,105	315	11,358	9,867	1,491
Depreciation	2,318,772	2,347,318	(28,546)	90,963	89,662	1,301	2,409,735	2,436,980	(27,245)
Director Expenses	26,920	37,167	(10,247)	-	-	-	26,920	37,167	(10,247)
Fuel and Lubrication	59,408	75,909	(16,501)	10,344	13,237	(2,893)	69,752	89,146	(19,394)
Insurance	119,250	131,775	(12,525)	5,580	4,824	756	124,830	136,599	(11,769)
Memberships and Dues	4,198	14,603	(10,405)	20,777	19,245	1,532	24,975	33,848	(8,873)
Office Expenses	24,515	18,401	6,114	657	212	445	25,172	18,613	6,559
Postage	73,320	53,718	19,602	530	414	116	73,850	54,132	19,718
Professional Services	216,311	155,742	60,569	-	-	-	216,311	155,742	60,569
Railroad Fees	850	850	-	-	-	-	850	850	-
Repairs and Maintenance	219,284	234,885	(15,601)	18,159	26,631	(8,472)	237,443	261,516	(24,073)
Safety	4,871	4,206	665	208	-	208	5,079	4,206	873
Service Projects	34,905	26,128	8,777	-	-	-	34,905	26,128	8,777
Software Maintenance	26,625	21,952	4,673	-	-	-	26,625	21,952	4,673
Supplies	372,555	394,711	(22,156)	4,119	4,094	25	376,674	398,805	(22,131)
Telephone	23,937	23,758	179	-	-	-	23,937	23,758	179
Uniforms	6,787	6,021	766	829	731	98	7,616	6,752	864
Utilities	472,056	513,431	(41,375)	22,448	24,464	(2,016)	494,504	537,895	(43,391)
Water Purchases	48,848	3,377	45,471	226	226	-	49,074	3,603	45,471
TOTAL	$ 6,192,642	$ 6,002,458	190,184	$ 362,302	$ 363,313	(1,011)	$ 6,554,944	$ 6,365,771	189,173