West Morgan - East Lawrence Water and Sewer Authority

SEPTEMBER 30, 2017

FINANCIAL STATEMENTS

WEST MORGAN - EAST LAWRENCE
WATER AND SEWER AUTHORITY

INDEX

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
West Morgan - East Lawrence
Water and Sewer Authority

Report on the Financial Statements

We have audited the accompanying financial statements of West Morgan - East Lawrence Water and Sewer Authority (the Authority) which comprise the balance sheet as of September 30, 2017, the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Morgan - East Lawrence Water and Sewer Authority as of September 30, 2017, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7, the Schedule of Changes in the Net Pension Liability on page 32, the Schedule of Employer Contributions on page 33, and the Schedule of Funding Progress of the Authority's Post-employment Benefit on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Jackson Thornton & Co. PC

Montgomery, Alabama
December 11, 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, 2017 and 2016. 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, 2017, the Authority had approximately 850 miles of 3" diameter through 24" diameter water lines serving approximately 10,467 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.

In 2016, the Authority added a carbon filtration system to meet new EPA health advisories for PFC's (Perfluorinated Compounds). The addition of the carbon filtration system is to remove the PFC's to meet standards and provide safe, potable drinking water to our customers.

Accounting Standards

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

Financial Highlights

The Authority's overall financial position decreased during fiscal year 2017. The decrease in net position for fiscal year 2017 was $984,938. Total liabilities decreased $2.45 million in fiscal year 2017 to $42.0 million. Total assets decreased from fiscal year 2016 by $3.4 million, providing the Authority with total assets of $55.2 million.

Operating revenues increased $39,745 from the prior year, while operating expenses increased $187,073 from the prior year, which resulted in a decrease in the operating income of 16.35% in fiscal 2017.

The net profit/(loss) margin was (16.54)% for 2016 and (13.14%) for 2017.

Statements of Net Position

- In 2017, total assets and deferred outflows decreased $3.37 million to $55.2 million. Current assets decreased $74,908 to a total of $4.38 million; restricted assets decreased $3.18 million; and capital assets, decreased $386,806 to $48.0 million. Total assets and deferred outflows for fiscal year 2016 were $58.5 million.

- Current assets decreased $74,908 from 2016. Current assets for 2017 and 2016 were $4.38 million and $4.45 million, respectively.

- Restricted assets, which are funds restricted by long-term debt instruments, decreased $3.18 million from the prior year due to the bond issue to pay for additional treatment technologies at the water treatment plant.

- Capital assets decreased $386,806 from the prior year and totaled $48.0 million.

- Current liabilities payable from current assets decreased $1.71 million over the prior year.

- Long-term liabilities decreased $787,968 to a total of $40.3 million in 2017.

Statements of Revenues, Expenses, and Changes in Net Position

- Total operating revenues for 2017 increased $39,745 from 2016 to $7.5 million.

- Total operating expenses in 2017 were $6.74 million, which is an increase of $187,083 from 2016.

- Current year operating activity produced an operating income of $753,960, which is a decrease from the prior year's operating income of $901,288. The gross operating margin in fiscal 2017 was 10.06% as compared to the operating margin of 12.09% in 2016.

- Total non-operating revenues were $275,643 in 2017 and $122,022 in 2016. Total non-operating expenses were $2.01 million in 2017 and $2.26 million in 2016.

- The Authority's decrease in net position was $984,938 for 2017. In 2017 and 2016, the Authority's net position was $13.01 million and 13.99 million, respectively.

Statements of Cash Flows

A summary of the Authority's statements of cash flows for fiscal 2017 and 2016 is presented below.

Table 1

Condensed Statements of Cash Flows

	2017	2016
Cash flows from operating activities	$ 3,355,151	$ 3,561,711
Cash flows used for capital and related financing activities	(6,085,703)	(32,499)
Cash flows used for investing activities	(546)	(5,420)
Net change in cash	(2,731,098)	3,523,792
Cash and cash equivalents - beginning of year	6,878,565	3,354,773
Cash and cash equivalents - end of year	$ 4,147,467	$ 6,878,565

Capital Assets

At the end of fiscal 2017, the Authority had net investment in capital assets, net of related debt, of $10.2 million, which was a decrease of $2.95 million from 2016.

Long-Term Debt

At the end of fiscal 2017, the Authority's financial statements showed outstanding bond issues totaling $38.5 million. This is a decrease of $831,305 from the 2016 outstanding bond debt of $39.4 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 2017 and 2016. 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 carry an A rating from Standard and Poor's. The water revenue warrants, Series 2010-CB and Series 2010-A carry an AA+ rating from Standard and Poor's.

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

Balance Sheets
As of September 30, 2017, and 2016

	2017	2016
Current assets	$ 4,375,424	$ 4,450,332
Restricted assets	666,470	3,850,126
Other non-current assets	440,572	-
Capital assets	48,041,004	48,427,810
Deferred outflows	1,628,920	1,798,310
Total assets and deferred outflows	$ 55,152,390	$ 58,526,578
Current liabilities	$ 616,683	$ 2,326,545
Restricted liabilities	1,210,463	1,164,068
Long-term debt outstanding	38,522,474	39,353,779
Post-employment obligations	1,731,064	1,687,727
Total liabilities	42,080,684	44,532,119
Deferred inflows	62,185	-
Net position		
Net investment in capital assets	10,176,567	13,126,507
Restricted for debt service	193,993	347,369
Unrestricted	2,638,961	520,583
Total net position	13,009,521	13,994,459
Total liabilities, deferred inflows, and net position	$ 55,152,390	$ 58,526,578

Table 3

Changes in Net Position
For the Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues	$ 7,495,977	$ 7,456,232
Operating expenses	6,742,017	6,554,944
Operating income	753,960	901,288
Non-operating revenues (expenses)	(2,003,819)	(2,243,633)
Loss before contributions	(1,249,859)	(1,342,345)
Capital contributions	264,921	108,764
Decrease in net position	(984,938)	(1,233,581)
Net position - beginning of year	13,994,459	15,228,040
Net position - end of year	$ 13,009,521	$ 13,994,459

WEST MORGAN - EAST LAWRENCE
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BALANCE SHEET
AT SEPTEMBER 30, 2017

ASSETS

CURRENT ASSETS:		
Cash and cash equivalents	$	3,480,997
Accounts receivable:		
Customers, net of allowance of $7,963		372,110
Unbilled revenue		328,744
Inventories		134,821
Prepaid expenses		58,752
Total current assets		4,375,424
NON-CURRENT ASSETS:		
Restricted cash and cash equivalents		666,470
Prepaid bond insurance costs		440,572
Capital assets:		
Fixed properties in service		80,079,497
Less: Accumulated depreciation		32,398,800
		47,680,697
Construction in progress		360,307
Total capital assets, net		48,041,004
DEFERRED OUTFLOWS:		
Loss on refunding		1,396,024
Employer pension contributions		131,657
Pension related		101,239
Total deferred outflows		1,628,920
Total assets and deferred outflows	$	55,152,390

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

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

LIABILITIES:	
Current liabilities, unrestricted:	
Accounts payable	$ 67,313
Customer deposits	149,075
Other accrued expenses	400,295
Total current liabilities, unrestricted	616,683
Current liabilities, restricted:	
Current maturities on long-term debt	1,010,000
Accrued interest payable	200,463
Total current liabilities, restricted	1,210,463
Total current liabilities	1,827,146
NON-CURRENT LIABILITIES:	
Revenue bonds:	
Revenue bonds and notes payable	40,120,962
Less: Original issue discount	588,488
Less: Current maturities on long-term debt	1,010,000
Pension obligation	952,426
OPEB obligation	778,638
Total non-current liabilities	40,253,538
Total liabilities	42,080,684
DEFERRED INFLOWS:	
Pension related	62,185
Total deferred inflows	62,185
Total liabilities and deferred inflows	42,142,869
NET POSITION:	
Net investment in capital assets	10,176,567
Restricted for debt service	193,993
Unrestricted	2,638,961
Total net position	13,009,521
Total liabilities, deferred inflows, and net position	$ 55,152,390

WEST MORGAN - EAST LAWRENCE
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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2017

OPERATING REVENUES:	
Water sales, net of bad debt expense	$ 6,591,478
Sewer sales	479,003
Other	425,496
Total operating revenues	7,495,977
OPERATING EXPENSES:	
Water operations	2,345,256
Water treatment	1,636,234
Sewer operations	273,413
Depreciation of fixed properties	2,487,114
Total operating expenses	6,742,017
OPERATING INCOME	753,960
NON-OPERATING REVENUES AND (EXPENSES):	
Interest expense	(1,830,994)
Amortization expense	(170,126)
Interest earned	10,722
Gain (loss) on disposal	(2,153)
Other	(11,268)
Total non-operating expenses	(2,003,819)
LOSS BEFORE CONTRIBUTIONS	(1,249,859)
CAPITAL CONTRIBUTIONS	264,921
CHANGE IN NET POSITION	(984,938)
NET POSITION AT BEGINNING OF YEAR	13,994,459
NET POSITION AT END OF YEAR	$ 13,009,521

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

WEST MORGAN - EAST LAWRENCE
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2017
Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:	
Receipts from customers	$ 7,573,285
Payments to suppliers	(2,453,746)
Payments to employees	(1,901,454)
Other operating cash receipts (payments)	137,066
Net cash from operating activities	3,355,151
CASH FLOWS FROM (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(3,734,720)
Contributed capital	264,921
Principal paid on revenue bonds and other long-term debt	(970,000)
Interest paid	(1,645,904)
Net cash used for capital and related financing activities	(6,085,703)
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:	
Interest received	10,722
Trustee and investment fees	(11,268)
Net cash used for investing activities	(546)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,731,098)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,878,565
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,147,467

WEST MORGAN - EAST LAWRENCE
WATER AND SEWER AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2017
Increase (Decrease) in Cash and Cash Equivalents

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income	$ 753,960
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	2,487,114
Bad debt expense	21,949
Decrease (increase) in operating assets and increase (decrease) in operating liabilities:	
Accounts receivable	52,954
Inventories	513
Prepaid expenses	(10,462)
Accounts payable	(225,266)
Customer deposits	2,405
Other accrued expenses	271,984
Total adjustments	2,601,191
Net cash from operating activities	$ 3,355,151
RECONCILIATION OF CASH AND CASH EQUIVALENTS:	
Unrestricted	$ 3,480,997
Restricted	666,470
Total	$ 4,147,467

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization - The West Morgan - East Lawrence Water and Sewer Authority (the 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. 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).

Accounting principles - The Authority's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Operating income reported in the Authority's financial statements includes revenues and expenses related to primary, continuing operations of the Authority. Principal operating revenues for the Authority are charges to consumers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. All items not meeting this definition are reported as non-operating revenues and expenses.

Use of 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.

Recognition of revenue - Water and sewer sales are recognized when water is used by the ultimate consumer.

Cash and cash equivalents - The Authority considers all investments having original maturities of three months or less to be cash equivalents.

All bank balances of deposits as of the balance sheet date are entirely insured by the Federal Deposit Insurance Corporation (FDIC) and the Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program is a multiple financial collateral pool administered by the State Treasurer according to State of Alabama statute.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

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 of the deposit. The balance on the certificate of deposit at September 30, 2017 was $104,116.

Accounts receivable - The Authority extends credit to its customers who are located in Morgan and Lawrence Counties, Alabama. Trade receivables are carried at original invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines uncollectible accounts by identifying troubled accounts and 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.

The Authority entered into a contract with Lawrence County, Alabama, to bill and collect sanitation charges (garbage collection). The Authority retains a service charge for each account billed and remits the net collections to Lawrence County monthly. Unpaid sanitation charges are included in accounts receivable - customers, and service charges are reported as 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.

Capital assets - Capital assets and construction in progress, including infrastructure assets, are recorded at cost. Assets acquired by the Authority through contributions, such as from land developers, are capitalized and recorded at contributors' estimated cost which approximates fair value. Depreciation of capital assets in service is computed on the straight-line method for financial reporting purposes. Expenditures for maintenance and repairs are charged to operations as incurred.

Deposits - GASB requires certain disclosures regarding policies and practices with respect to deposits and investments and certain risks associated with them. The following describes those risks.

Custodial credit risk - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. For those deposits controlled by the trustee, all of the underlying securities are held in trust for the Authority in the name of the trustee, not in the name of the Authority.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

BNY Mellon, as trustee, invests all deposits in U.S. Treasury Cash Reserves Institutional Service Shares. These funds are rated AAA by Standard and Poor's Ratings Services.

Credit risk - The Authority requires that all bond funds be invested in U.S. Treasury instruments.

Concentration of credit risk - The Authority places no limit on the amount the Authority may invest in any one issuer. Such limitation is unnecessary because all of the Authority's investments are fully collateralized or investments in U.S. Treasury Cash Reserves Institutional Service Shares maintained in trust for the Authority.

Taxes - The Authority is not subject to Federal and State income taxes. The Authority collects utility taxes from its members on behalf of the State of Alabama. Revenue is presented net of taxes collected in the statement of revenues, expenses, and changes in net position.

Net position - Net position is divided into three components:

- Net investment in capital assets - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

- Restricted for debt service - consist of net assets that are restricted by the Authority's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors (including those who have donated to the Authority).

- Unrestricted - all other net assets are reported in this category.

NOTE 2 - RESTRICTED FUNDS:

Restricted funds - Under the terms of the water revenue bond indenture, obligations were incurred in connection with the issuance of the 2010, 2010-CB, 2010-A1, and 2016 revenue warrants as described in Note 6.

1. The Revenue Account is to account for all revenues and operating expenses in connection with the operation of the system. All revenue payments required by the indenture are transferred from this account into the Bond Fund, Reserve Fund, and Replacement Fund on a monthly basis. Revenues remaining after these required payments may be withdrawn and used by the Board on a monthly basis.

NOTE 2 - RESTRICTED FUNDS: (continued)

2. The Bond Fund is controlled by the Trustee at the BNY Mellon Trust Department to accumulate funds required for the payment of principal and interest on the 2010, 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. The balance of this fund at September 30, 2017 was $217,282.

3. The Reserve Fund is controlled by the Trustee to pay interest and principal due on the outstanding bonds should monies held in the Bond Fund be inadequate. The Authority has paid for Qualified Surety Bonds for each series of bonds outstanding to meet the reserve fund requirement.

4. The Replacement Fund 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, 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 balance of this fund at September 30, 2017 was $177,174.

5. The Construction Fund is controlled by the Trustee to provide funds for the acquisition and construction of improvements. 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. The balance of this fund at September 30, 2017 was $272,014.

NOTE 3 - CAPITAL ASSETS:

The useful lives used to compute depreciation for financial reporting purposes are as follows:

Water and Sewer system	5 - 50 years
Buildings and furnishings	4 - 33 years
Equipment	3 - 10 years

NOTE 3 - CAPITAL ASSETS: (continued)

Capital assets in service at September 30, 2017 are summarized as follows:

	BEGINNING BALANCE	INCREASE	DECREASE	ENDING BALANCE
Capital assets not being depreciated:				
Land and improvements	$ 107,199			$ 107,199
Construction in progress	2,927,930	$ 2,102,459	$ (4,670,082)	360,307
Total capital assets not being depreciated	3,035,129	2,102,459	(4,670,082)	467,506
Capital assets being depreciated:				
Water and Sewer system	72,915,223	4,662,877	(70,775)	77,507,325
Buildings and leasehold improvements	765,014	7,205	(1,200)	771,019
Automotive equipment	1,835,029		(141,075)	1,693,954
Total capital assets being depreciated	75,515,266	4,670,082	(213,050)	79,972,298
Total accumulated depreciation	30,122,584	2,487,114	(210,898)	32,398,800
Total capital assets being depreciated, net	45,392,682	2,182,968	(2,152)	47,573,498
Total capital assets, net	$ 48,427,811	$ 4,285,427	$ (4,672,234)	$ 48,041,004

The Authority received contributed property of $264,921 during 2017.

NOTE 4 - 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 organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the Board to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

NOTE 4 - PENSION PLAN: (continued)

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

1) The Governor, ex officio.

2) The State Treasurer, ex officio.

3) The State Personnel Director, ex officio.

4) The State Director of Finance, ex officio.

5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.

6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:

    a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.

    b. Two vested active state employees.

    c. Two vested active employees of an employer participating in ERS pursuant to § 36-27-6.

Benefits provided - State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after ten years of creditable service. State employees who retire after age 60 (52 for State Police) with ten 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 ten 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 three of the last ten years) for each year of service. State Police are allowed 2.8750% for each year of State Police service in computing the formula method.

NOTE 4 - PENSION PLAN: (continued)
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 ten 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 1.6500% of their average final compensation (highest five of the last ten years) for each year of service. State Police are allowed 2.3750% for each year of State Police service in computing the formula method.

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

The ERS membership includes approximately 85,874 participants. As of September 30, 2016, membership consisted of:

	ERS	AUTHORITY
Retirement and beneficiaries currently receiving benefits	23,007	7
Terminated employees entitled to but not yet receiving benefits	1,155	0
Terminated employees not entitled to a benefit	6,654	1
Active members	54,823	26
Post-DROP participants still in active service	235	-
Total	85,874	34

Contributions - Covered members of the ERS contributed 5.00% 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 6.00% 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 10.00% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

NOTE 4 - PENSION PLAN: (continued)

Tier 2 covered members of the ERS contribute 6.00% 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 7.00% of earnable compensation. Tier 2 State Police members of the ERS contribute 10.00% 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, 2017, the Authority's active employee contribution rate was 4.65% of covered employee payroll, and the Authority's average contribution rate to fund the normal and accrued liability costs was 8.29% of covered employee payroll.

The Authority's contractually required contribution rate for the year ended September 30, 2017 was 8.32% of pensionable pay for Tier 1 employees, and 5.82% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Authority was $131,657 for the year ended September 30, 2017.

The Authority's net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2015 rolled forward to September 30, 2016 using standard roll-forward techniques as shown in the following table:

NOTE 4 - PENSION PLAN: (continued)

	Expected	Actual
Total pension liability as of September 30, 2015 (a)	$ 4,090,423	$ 4,025,555
Entry age normal cost for October 1, 2015 - September 30, 2016 (b)	101,405	101,405
Actual benefit payments and refunds for October 1, 2015 - September 30, 2016 (c)	(142,971)	(142,971)
Total pension liability as of September 30, 2016 = [(a) x (1.08)] + (b) + [(c) x (1.04)]	$ 4,370,372	$ 4,300,315
Difference between expected and actual experience Gain (loss)		$ (70,057)

Actuarial assumptions - The total pension liability in the September 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

* Net of pension plan investment expense, including inflation

Mortality rates for ERS were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females at ages on and after age 78. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected to Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the September 30, 2015 valuation were based on the results of an actuarial experience study for the period October 1, 2010 - September 30, 2015.

NOTE 4 - PENSION PLAN: (continued)

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return
Fixed Income	17.00%	4.40%
U. S. Large Stocks	32.00%	8.00%
U. S. Mid Stocks	9.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
Total	100.00%	

Discount rate - The discount rate used to measure the total pension liability was the long-term rate of return, 7.75%. 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.

NOTE 4 - PENSION PLAN: (continued)

Changes in the net pension liability for the year ended September 30, 2017 are as follows:

	INCREASE (DECREASE)		
	TOTAL PENSION LIABILITY (a)	PLAN FIDUCIARY NET POSITION (b)	NET PENSION LIABILITY (a)-(b)
Balance at September 30, 2015	$ 4,090,423	$ 3,042,190	$ 1,048,233
Changes for the year:			
Service cost	101,405		101,405
Interest	321,515		321,515
Changes of assumptions	51,287		51,287
Difference between expected and actual experience	(70,057)		(70,057)
Contributions - employer		113,958	(113,958)
Contributions - employee		73,893	(73,893)
Net investment income		312,106	(312,106)
Benefit payments, including refunds of employee contributions	(142,971)	(142,971)	
Net changes	261,179	356,986	(95,807)
Balance at September 30, 2016	$ 4,351,602	$ 3,399,176	$ 952,426

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 7.75%, 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 (6.75%) or 1 - percentage point higher (8.75%) than the current rate:

	1.00% DECREASE (6.75%)	CURRENT RATE (7.75%)	1.00% INCREASE (8.75%)
Authority's net pension liability	$ 1,544,982	$ 952,426	$ 459,544

NOTE 4 - PENSION PLAN: (continued)

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2016. The auditor's report dated September 18, 2017 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.

For the year ended September 30, 2017, the Authority recognized pension expense of $112,899.

At September 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	2017	
	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual experience	$ 29,375	$ 62,185
Changes of assumptions	45,524	-
Net differences between projected and actual earnings on pension plan investments	26,340	-
Employer contributions subsequent to the measurement date	131,657	-
Totals	$ 232,896	$ 62,185

NOTE 4 - PENSION PLAN: (continued)

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

Year ended September 30:	
2018	$ 8,962
2019	8,964
2020	29,920
2021	(10,682)
2022	2,706
Thereafter	(816)

NOTE 5 - POST-EMPLOYMENT PLAN:

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.

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.

NOTE 5 - POST-EMPLOYMENT PLAN: (continued)

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 $1,865,377 with an annual required contribution (ARC) of $140,257. 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 following table shows the components of the Authority's annual OPEB cost for the year and changes in the Board's net OPEB obligation as of September 30:

	2017	2016	2015
Annual required contribution	$ 140,257	$ 168,122	$ 168,122
Interest on net OPEB obligation	15,598	12,100	8,165
Adjustment to annual required contribution	-	-	-
Annual OPEB cost	155,855	180,222	176,287
Assumed contributions	16,711	36,807	27,058
Increase in net OPEB obligation	139,144	143,415	149,229
Net OPEB obligation at beginning of year	639,494	496,079	346,850
Estimated net OPEB obligation at end of year	$ 778,638	$ 639,494	$ 496,079
Percentage of annual OPEB cost contributed	11%	20%	15%

NOTE 5 - POST-EMPLOYMENT PLAN: (continued)

Funded status and funding progress - As of September 30, 2017, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was approximately $1,865,377. The covered payroll was $1,587,488 and the ratio of the UAAL to covered payroll was 117.50%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

Actuarial methods and assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuations, the projected unit credit method was used. The actuarial assumptions are as follows:

	2017
Weighted-average assumptions as of December 31:	
Discount rate	4.00%
Health-care cost trend rate assumed for next year	8.00%
Rate to which the cost trend rate is assumed to decline, ultimate trend rate	4.70%
Year that the rate reaches the ultimate trend rate	2027

NOTE 6 - LONG-TERM DEBT:

DESCRIPTION	
Revenue bonds - Series 2010	$ 2,290,000
Revenue bonds - Series 2010-CB	5,285,000
Revenue bonds - Series 2010-A1	26,275,000
Revenue bonds - Series 2010-A2	2,040,962
Revenue bonds - Series 2016	4,010,000
Subordinated, Series 2004 - SRF	220,000
Total long-term debt	$ 40,120,962

Changes in long-term obligations for the year ended September 30, 2017, are as follows:

	BEGINNING BALANCE	INCREASE	DECREASE	ENDING BALANCE
Water Revenue Bonds				
Series 2010	$ 2,700,000		$ (410,000)	$ 2,290,000
Series 2010-CB	5,665,000		(380,000)	5,285,000
Series 2010-A1	26,275,000			26,275,000
Series 2010-A2	1,929,928	$ 111,034		2,040,962
Series 2016	4,165,000		(155,000)	4,010,000
Sewer Revenue Bonds				
Series 2004 SRF	245,000		(25,000)	220,000
Totals	$ 40,979,928	$ 111,034	$ (970,000)	$ 40,120,962

NOTE 6 - LONG-TERM DEBT: (continued)

Bond maturities and interest payments are summarized as follows:

YEAR OF MATURITY	PRINCIPAL	INTEREST
2018	$ 1,010,000	$ 1,629,179
2019	1,045,000	1,598,502
2020	1,070,000	1,567,152
2021	1,155,000	1,533,025
2022	1,195,000	1,496,427
2023-2027	6,690,000	6,856,059
2028-2032	8,405,000	5,382,660
2033-2037	10,500,000	3,280,160
2038-2042	7,719,462	5,202,788
2043-2044	624,260	4,575,740
Plus accreted interest	707,240	
Totals	$ 40,120,962	$ 33,121,692

The Series 2010, 2010-CB, and 2016 Revenue Bonds require semiannual interest payments and annual principal payments. The principal and interest on these bonds are secured by a pledge of the revenues derived by the Board from the operation of the system remaining after the payment of the cost of operating and maintaining the system. The rates on the Series 2010 Bonds range from 2.00% to 3.50% and mature in 2025, the rate on the 2010-CB Bonds are 3.50% and mature in 2025, and the rates on the 2016 Bonds range from 2.00% to 2.625% and mature in 2036.

The Series 2010-A Bonds were issued in two parts, Series 2010-A1 Interest Bonds and Series 2010-A2 Capital Appreciation Bonds. The principal and interest on these bonds are secured by a pledge of the revenues derived by the Board from the operation of the system remaining after the payment of the cost of operating and maintaining the system.

Interest only on the Series 2010-A1 Bonds is payable semiannually at rates ranging from 4.40% to 5.00%. Principal payments on the Series 2010-A1 Bonds are due annually beginning on August 15, 2026 through 2040.

NOTE 6 - LONG-TERM DEBT: (continued)

The Series 2010-A2 Bonds are capital appreciation bonds. No payments of either principal or interest will be made until August 15, 2041. Interest will accrue annually until 2041. Four equal payments of $2,600,000 will be made annually beginning on August 15, 2041 through 2044. The offering yield is 6.50% at maturity. The accreted value of the Series 2010-A2 Bonds at September 30, 2017 was $2,040,962.

The Trust Indenture dated December 1, 2010 and the 2010-CB, 2010-A1, 2010-A2, and 2016 Supplemental Trust Indentures do not constitute a mortgage on the system; therefore, no foreclosure may be made.

The Series 2010, 2010-CB, 2010-A1, 2010-A2, and Series 2016 Supplemental Trust Indentures contain provisions, including a covenant of debt service coverage of not less than 1.20, which the Authority is required to meet. The debt service coverage of the Authority was 1.28 for the year ended September 30, 2017.

The Authority has previously refunded bonds which resulted in deferred losses of $2,417,908. The losses are being amortized using the straight-line method over the life of the bonds. Amortization expense was $148,187 for the year ended September 30, 2017. Accumulated amortization at September 30, 2017 was $1,021,884.

Bond discounts are being amortized using the effective interest method, ranging from 15 to 30 years. Amortization expense was $69,493 for the year ended September 30, 2017. Accumulated amortization at September 30, 2017 was $234,980.

NOTE 7 - RISK MANAGEMENT AND INSURANCE ARRANGEMENTS:

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, illnesses or injuries to employees, and natural disasters. The Authority carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. No significant reductions in insurance coverage have occurred since the prior year.

NOTE 8 - 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. On May 10, 2017, 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.

REQUIRED SUPPLEMENTARY INFORMATION

WEST MORGAN - EAST LAWRENCE
WATER AND SEWER AUTHORITY

SCHEDULES OF CHANGES IN THE NET PENSION LIABILITY
FISCAL YEAR ENDING SEPTEMBER 30,

	2016	2015	2014
TOTAL PENSION LIABILITY:			
Service cost	$ 101,405	$ 95,828	$ 98,509
Interest	321,515	297,059	276,505
Difference in expected and actual experience	(70,057)	39,005	-
Changes of assumptions	51,287	-	-
Benefit payments, including refunds of employee contributions	(142,971)	(109,405)	(126,790)
Net change in total pension liability	261,179	322,487	248,224
Total pension liability - beginning	4,090,423	3,767,936	3,519,712
Total pension liability - end (a)	$ 4,351,602	$ 4,090,423	$ 3,767,936
PLAN FIDUCIARY NET POSITION:			
Contributions - employer	$ 113,958	$ 100,373	$ 98,453
Contributions - member	73,893	64,048	62,155
Net investment income	312,106	35,346	314,423
Benefit payments, including refunds of employee contributions	(142,971)	(109,405)	(126,790)
Net change in plan fiduciary net position	356,986	90,362	348,241
Plan net position - beginning	3,042,190	2,951,828	2,603,587
Plan net position - end (b)	$ 3,399,176	$ 3,042,190	$ 2,951,828
Net pension liability - ending (a) - (b)	$ 952,426	$ 1,048,233	$ 816,108
Plan fiduciary net position as a percentage of the total pension liability	78.11%	74.37%	78.34%
Covered employee payroll	$ 1,435,471	$ 1,287,712	$ 1,253,196
Net pension liability as a percentage of covered employee payroll	66.35%	81.40%	65.12%

WEST MORGAN - EAST LAWRENCE
WATER AND SEWER AUTHORITY

SCHEDULES OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDING SEPTEMBER 30,

	2017	2016	2015
Actuarially determined contribution *	$ 131,657	$ 120,377	$ 104,837
Contributions in relation to the actuarially determined contribution**	131,657	120,377	104,837
Contribution deficiency	$ -	$ -	$ -
Covered employee payroll	$ 1,587,488	$ 1,435,471	$ 1,287,712
Contributions as a percentage of covered employee payroll	8.29%	8.39%	8.14%

* Amounts of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. Fiscal year 2017, the fiscal year is the 12 month period beginning after October 1, 2016.

** Employer's covered payroll during fiscal year is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2017, the fiscal year is the 12 month period beginning after October 1, 2016.

Notes to schedule:

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 2017 were based on the September 30, 2014 actuarial valuation.

Methods and assumptions used to determine the contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization method	22 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75 - 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

WEST MORGAN - EAST LAWRENCE
WATER AND SEWER AUTHORITY

SCHEDULE OF FUNDING PROGRESS OF THE AUTHORITY'S
POST-EMPLOYMENT BENEFIT
SEPTEMBER 30,

	2017	2016	2015
FUNDED STATUS OF THE PLAN:			
Actuarial accrued liability (AAL)	$ 1,865,377	$1,973,647	$1,973,647
Actuarial value of assets			
Unfunded AAL	1,865,377	1,973,647	1,973,647
Asset value as a percentage of the AAL	0%	0%	0%

	2017	2016	2015
ANNUAL COVERED PAYROLL:			
Unfunded AAL	$ 1,865,377	$1,973,647	$1,973,647
Annual covered payroll	1,587,488	1,435,471	1,287,712
Ratio of UAAL to annual covered payroll	118%	137%	153%