

Enterprise Water Works Board

Financial Statements

For The Year Ended September 30, 2013

**Enterprise Water Works Board
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September 30, 2013**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the Enterprise Water Works Board
City of Enterprise, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the Enterprise Water Works Board (the "Board"), a component unit of the City of Enterprise, Alabama, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Board, as of September 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the schedule of funding progress for the other postemployment benefits plan on page 20 and the schedule of funding progress for the employee retirement plan on page 21 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Board has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The schedule of revenues, expenses and changes in net position – budget and actual on pages 22 through 23 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of revenues, expenses and changes in net position – budget and actual is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule of revenues, expenses and changes in net position – budget and actual has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2014 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

June 19, 2014

Enterprise Water Works Board

Statement of Net Position

<i>September 30,</i>	2013
Current Assets	
Cash	\$ 322,677
Accounts receivable, net	590,266
Unbilled revenue	229,200
Prepaid insurance	4,010
<hr/>	
Total current assets	1,146,153
Noncurrent Assets	
Restricted cash	423,534
Debt issue costs, net	256,233
Capital assets, not being depreciated	136,430
Capital assets, net of depreciation	17,836,281
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Total noncurrent assets	18,652,478
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Total assets	19,798,631
Current Liabilities	
Accounts payable	106,445
Accrued expenses	28,495
Accrued interest	128,530
Due to other funds	732,055
Current portion of long-term debt	478,642
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Total current liabilities	1,474,167
Noncurrent Liabilities	
Compensated absences	26,747
Customer deposits	51,291
Other postemployment benefits obligation	349,411
Long-term debt, net	12,431,605
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Total noncurrent liabilities	12,859,054
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Total liabilities	14,333,221
Net Position	
Net investment in capital assets	5,062,464
Restricted by bond requirements	423,534
Unrestricted	(20,588)
<hr/>	
Total net position	\$ 5,465,410

See accompanying notes to financial statements.

Enterprise Water Works Board

Statement of Revenues, Expenses and Changes in Net Position

<i>For the year ended September 30,</i>	2013
Operating Revenues	
Water sales, net	\$ 3,212,540
Water extensions	95,979
Connection fees	158,451
Miscellaneous income	56,632
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Net operating revenues	3,523,602
<hr/>	
Operating Expenses	
Advertising	2,498
Bank charges	9,993
Chemicals	38,016
Contractual services	179,199
Depreciation	606,303
Dues and subscriptions	2,011
Gasoline and oil	45,711
Health insurance	125,517
Insurance	135,380
Maintenance	43,019
Miscellaneous	59,738
Office supplies	114,071
Other postemployment benefits	84,091
Payroll taxes	53,807
Rents	3,096
Repairs	105,992
Retirement	75,489
Salaries	723,464
Travel	2,823
Uniforms	3,072
Utilities	562,847
Water testing	48,611
<hr/>	
Total operating expenses	3,024,748
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Operating Income	498,854

-Continued-

See accompanying notes to financial statements.

Enterprise Water Works Board

Statement of Revenues, Expenses and Changes in Net Position (Continued)

<i>For the year ended September 30,</i>	2013
Nonoperating Revenues (Expenses)	
Insurance proceeds	1,775
Interest income	4
Gain on sale of capital assets	51,312
Interest expense	(442,361)
Net nonoperating revenues (expenses)	(389,270)
Income Before Transfers	109,584
Transfers in	37,000
Transfers out	(132,677)
Net transfers	(95,677)
Change in net position	13,907
Total Net Position - Beginning	5,451,503
Total Net Position - Ending	\$ 5,465,410

See accompanying notes to financial statements.

Enterprise Water Works Board

Statement of Cash Flows

<i>September 30,</i>	2013
Cash Flows From Operating Activities	
Receipts from customers	\$ 3,524,337
Payments to suppliers	(1,615,894)
Payments to and on behalf of employees	(995,542)
Net cash provided by operating activities	912,901
Cash Flows From Noncapital Financing Activities	
Restricted cash used to fund operating activities	209,493
Proceeds from insurance claims	1,775
Operating transfers in	37,000
Operating transfers out	(132,677)
Net cash provided by noncapital financing activities	115,591
Cash Flows From Capital and Related Financing Activities	
Purchase of capital assets	(828,920)
Restricted cash used to fund capital asset purchases	828,920
Proceeds from sale of capital assets	51,312
Interest paid on capital debt	(417,949)
Principal payments on debt	(494,811)
Net cash used in capital and related financing activities	(861,448)
Cash Flows From Investing Activities	
Interest income	4
Net Increase in Cash	167,048
Cash and Cash Equivalents - Beginning	155,629
Cash and Cash Equivalents - Ending	\$ 322,677
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 498,854
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	606,303
Changes in assets and liabilities	
Receivables and unbilled revenue, net	735
Due to other funds	265,828
Accounts payable	(526,669)
Accrued expenses	3,498
Compensated absences	(911)
Other post employment benefits obligation	65,263
Net cash provided by operating activities	\$ 912,901

See accompanying notes to financial statements.

Enterprise Water Works Board

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Water Works Board (the “Board”) is incorporated under the provisions of the State of Alabama. The Board is a component unit of the City of Enterprise, Alabama (the “City”). The Board’s purpose is to provide water services to the citizens of the City. The Board currently provides water to all citizens within the city limits of Enterprise, as well as to customers in limited areas outside the City.

The financial statements of the Board have been prepared in accordance with the accounting principles and reporting guidelines established by the Governmental Accounting Standards Board (GASB).

The following is a summary of the more significant policies:

Reporting Entity

The Board's financial statements do not purport to reflect the financial position or the results of operations of the City taken as a whole.

The Board is governed by a four-member board, currently made up of the Mayor of the City, one council member of the City, and two citizens. The City approves the Board's budget and the rates for user charges.

The Board is an independent governmental entity separate and distinct from the City; however, the Board is a component unit enterprise fund of the City and is included in the City’s basic financial statements.

Basis of Accounting

The Board is reported as a Proprietary Fund and uses the economic resources measurement focus and accrual basis of accounting. The accrual basis of accounts recognizes revenues when earned and expenses when incurred. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Board’s enterprise fund are charges to customers for sales and services. The Board also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Recently Adopted Accounting Standards

The GASB has issued the following statements:

- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement improves financial reporting by codifying all sources of GAAP for state and local governments so that

Enterprise Water Works Board

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

they derive from a single source. The Board has elected to include all pre-November 30, 1989 FASB pronouncements which are now codified in GASB Statement No. 62. As such, disclosures of FASB or AICPA pronouncements applied to these and future financial statements are no longer required.

- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides guidance for certain items formerly classified as assets and liabilities. GASB Concepts Statement 4 redefines these as “deferred outflows of resources” (formerly assets) and “deferred inflows of resources” (formerly liabilities). Each new category must have its own section on the Statement of Net Position. This statement also requires that the last line of the statements formerly titled “Net assets” now be titled “Net position” to reflect the new classifications. In addition, “Capital assets, net of related debt” should now be titled “Net investment in capital assets” in order to properly present the total of the items. Other than the new titles and presentation, this statement only addresses upfront payments of service concession arrangements and the deferral of annual changes in the fair value of derivatives as items to be reclassified as either a deferred outflow or deferred inflow.

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 and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Board does not currently have any items that qualify for reporting in the category.

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 and so will *not* be recognized as an inflow of resources (revenue) until that time. The Board does not currently have any items that qualify for reporting in this category.

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in the supplemental information.

1. Formal budgetary integration is employed as a management control device during the year. These budgets are adopted on a basis consistent with generally accepted accounting principles.
2. The budget amounts shown in the financial statements are the final authorized amounts as revised (if applicable) during the year.

Cash and Cash Equivalents

Cash includes amounts held in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Board. Interest income for the year ended September 30, 2013 was \$4.

Enterprise Water Works Board

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash

Restricted cash consists of cash accumulated according to the bond indentures to be used to retire long-term debt and construct improvements to the water system. Additionally, restricted cash includes funds set aside for repayment of customer deposits.

Accounts Receivable

Provision for uncollectible charges is charged to revenues in the amounts sufficient to maintain the allowance at a level considered adequate to cover current losses. The Board grants credit to customers who use its services, substantially all of whom are local residences or businesses. There were no charges written off as uncollectible during the year ended September 30, 2013. Bad debt expense, related to recording the allowance for uncollectible charges, totaled \$127,106 and is presented as a component of net water sales.

Fixed Assets

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets.

Capital assets, which include property, plant, equipment and infrastructure, are reported as a component of noncurrent assets in the accompanying financial statements. To the extent the Board's capitalization threshold of \$5,000 for equipment and \$25,000 for buildings is met, capital outlays of the Board are recorded as fixed assets and depreciated over their estimated useful lives on a straight-line basis using the following estimated useful lives:

Water system	25-50 years
Buildings	50 years
Furniture and equipment	3-10 years

All fixed assets that are constructed or purchased are valued at historical cost or estimated historical cost, if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date of donation.

Maintenance, repairs and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in nonoperating revenues and expenses.

Capitalization of Interest

In conformity with accounting principles generally accepted in the United States of America, the Board capitalizes interest cost, net of related interest earned (as appropriate and if significant), from the date of borrowing until the projects acquired with those funds are ready for their intended use.

Enterprise Water Works Board

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During the fiscal year ended September 30, 2013, total interest incurred was \$545,947, of which \$442,361 was charged to expense and \$103,586 was capitalized. At the completion of a project, capitalized interest is added to the cost of the project and depreciated over the estimated useful life of the asset.

Unbilled Revenue

Estimated unbilled revenues are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

Compensated Absences

Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

The Board's employees earn 80 hours of annual leave after the first year of employment is completed. After the tenth year of service, each full-time employee earns 120 hours of annual leave per year. Employees completing up to ten years of service may accrue up to and including 160 hours of annual leave.

Employees completing more than 10 years of service may accrue up to and including 240 hours of annual leave. Upon termination of employment, an employee receives payment of accumulated vacation hours up to certain limits at current wage rates.

Each full-time Board employee accrues sick leave at the rate of eight hours per month. Sick leave may be accumulated up to a maximum of 480 hours. Upon separation from service, all sick leave is cancelled and is not transferrable to annual leave, except that full-time employees, in good standing, will upon retirement under the Retirement System of Alabama, for the length of service or disability, be paid for accrued sick leave at the time of retirement, not to exceed 480 hours.

Vacation and sick leave is accrued when incurred in the proprietary fund financial statements. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

The balance of accrued compensated absences at September 30, 2013 was \$26,747.

Net Position

The Board's net position is divided into three components:

- *Net investment in capital assets* – This component of net position consists of the historical cost of capital assets, net of accumulated depreciation, and is reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Enterprise Water Works Board

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Restricted net position* – This component of net position consists of assets that are restricted by contributors, contractual provisions, or enabling legislation, reduced by liabilities and deferred inflows of resources related to those assets. The Board's restricted net position as reported in the statement of net position consists of cash which is restricted for debt service.
- *Unrestricted* - This component of net position is the net amount of the assets, deferred outflows or resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising

The Board expenses all advertising costs during the fiscal year in which they are incurred. Total advertising expenses for the fiscal year ended September 30, 2013 were \$2,498.

Subsequent Events

Management has evaluated events and transactions that occurred after the fiscal year end and through the date of this report, which is the date the financial statements were available to be issued, and no events were deemed to warrant recognition or disclosure.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Custodial Risk

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board has no formal investment policy addressing custodial credit risk. However, the Board's deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or by the Security for 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

Enterprise Water Works Board

Notes to Financial Statements

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the FDIC. If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

Credit and Interest Rate Risk

Concentration of credit risk is the risk of loss attributable to the quantity of the government's investments with a single issuer. The Board has limited its credit risk by investing only in investment quality certificates of deposit. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board has limited its interest rate risk by investing in securities with a maturity of one year or less.

The Board's Restricted Series 2011 Warrant Fund, reported in noncurrent assets on the accompanying statement of net position in the amount of \$423,534, and is not subject to credit risk categorization. This fund invests exclusively in U.S. Treasury Obligations, and its market value is equal to cost.

NOTE 3 – CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 114,526	\$ -	\$ -	\$ 114,526
Construction in progress	5,438,190	669,854	6,086,140	21,904
Total capital assets, not being depreciated	\$ 5,552,716	\$ 669,854	\$ 6,086,140	\$ 136,430
Capital assets, being depreciated:				
Buildings	\$ 47,494	\$ -	\$ -	\$ 47,494
Wells, tanks & plants	20,731,794	6,086,140	-	26,817,934
Equipment	2,384,413	159,066	112,045	2,431,434
Total capital assets, being depreciated	23,163,701	6,245,206	112,045	29,296,862
Less accumulated depreciation for:				
Buildings	28,463	809	-	29,272
Wells, tanks & plants	9,472,474	455,157	-	9,927,631
Equipment	1,465,386	150,337	112,045	1,503,678
	10,966,323	606,303	112,045	11,460,581
Total capital assets, being depreciated, net	\$ 12,197,378	\$ 5,638,903	\$ -	\$ 17,836,281

Enterprise Water Works Board

Notes to Financial Statements

NOTE 3 – CAPITAL ASSETS (Continued)

At September 30, 2013, the Board had one uncompleted construction contract in progress related to the updating of the water system components on two major roadways. The remaining commitment of the Board on this construction project, which is currently expected to be completed in fiscal year 2015, totaled approximately \$355,000.

NOTE 4 – INTERFUND BALANCES

Interfund balances are generally used to meet cash demands necessary to pay operating expenses. Transfers between other funds for the fiscal year ended September 30, 2013 consist of the following:

Transfers from the City of Enterprise – Sewer Fund	\$	37,000
Transfers to the City of Enterprise – General Fund	\$	132,677

Transfers are required by the City from time to time to fund the Board's portion of principal due on City's Line of Credit, payment of debt service and for various other routine cash requirements of the City.

Due to and Due from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. The balances result from the time lag between the date that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

At September 30, 2013, interfund balances were as follows:

Due from City of Enterprise – General Fund	\$	3,088	Garbage
Due to City of Enterprise – Sewer Fund	\$	735,143	Sewer and Environmental Fee Collections

NOTE 5 – LONG-TERM DEBT

The following is a summary of changes in long-term debt during the fiscal year:

Debt	Interest Rate	Balance 10/1/12	Additions	Reductions	Balance 9/30/13	Due Within One Year
2009 General Obligation Bonds - Water Portion	2.50 – 4.75%	\$ 6,226,509	\$ -	\$ 204,811	\$ 6,021,698	\$ 210,943
2011 General Obligation Bonds - Water Portion	1.50 – 4.40%	7,655,000	-	290,000	7,365,000	295,000
Total		\$13,881,509	\$ -	\$ 494,811	\$13,386,698	\$ 505,943

Enterprise Water Works Board

Notes to Financial Statements

NOTE 5 – LONG-TERM DEBT (Continued)

Adjustments for deferred amounts:

Debt	Balance 10/1/12	Additions	Reduction s	Balance 9/30/13	Due Within One Year
Original Issue					
Discount- 2009 Bonds	\$ (123,185)	\$ -	\$ 7,795	\$ (115,390)	\$ (7,784)
Bond Premium 2011 Bonds	11,820	-	(606)	11,214	606
Deferred Amount on Refunding – 2011 Bonds	(392,398)	-	20,123	(372,275)	(20,123)
Total	\$ (503,763)	\$ -	\$ 27,312	\$ (476,451)	\$ (27,301)

Unamortized original issue discount related to bonds payable as of September 30, 2013 was \$115,390. Unamortized bond premium and unamortized deferred amount on refunding related to bonds payable were \$11,214 and \$372,275, respectively, as of September 30, 2013.

In October 2009, the City of Enterprise issued Series 2009 General Obligation Warrants in the amount of \$27,770,000. The purpose of this bond issuance was for capital improvements. The proceeds of the bond issuance were split between the Enterprise Water Works Board, City Sewer Fund and City Capital Projects Fund. The portion of the Series 2009 Warrants allocated to the Enterprise Water Works Board was \$6,811,509. On October 27, 2009 the Enterprise Water Works Board and the City of Enterprise entered into a funding agreement in relation to the Series 2009 Warrants.

On July 1, 2011, the City of Enterprise issued General Obligation Warrants Series 2011 in the amount of \$8,010,000. The purpose of the bond issuance was to provide funds to refund the outstanding Water Revenue Bonds, Series 2001 of the Enterprise Water Works Board and to pay the costs of issuing the Series 2011 Warrants. On July 1, 2011, the Enterprise Water Works Board and the City of Enterprise entered into a funding agreement in relation to the Series 2011 Warrants.

The proceeds of the Series 2011 issue provided resources (to be invested in direct obligations of the United States of America) that were placed in an escrow account for the purpose of future debt service payments of the Series 2001 Water Revenue Bonds. The funds in escrow were to pay the principal of and interest on the refunded bonds until and on October 1, 2011 and to pay the redemption price on October 1, 2011, on those refunded bonds that had stated maturities in 2012 and thereafter. As a result, the refunded bonds are considered defeased and the liability has been removed from the Board's financial statements.

The refunding was undertaken to reduce future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$412,521, which is the deferred amount on refunding. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the refunded debt. The transaction also resulted in an economic gain of \$576,413 and a reduction of \$1,747,912 in future debt service payments.

Enterprise Water Works Board

Notes to Financial Statements

NOTE 5 – LONG-TERM DEBT (Continued)

Annual requirements to maturity to retire proprietary fund long-term debt as of September 30, 2013 are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2014	\$ 505,943	\$ 509,526
2015	515,849	498,302
2016	531,981	486,501
2017	540,566	473,707
2018	554,151	459,075
2019-2023	3,085,189	2,003,868
2024-2028	3,770,189	1,328,489
2029-2033	3,882,830	433,302
Total	\$ 13,386,698	\$ 6,192,770

NOTE 6 – UTILITY REVENUES PLEDGED

In the funding agreements dated October 1, 2009 and July 1, 2011 between the City of Enterprise and Enterprise Water Works Board, in relation to the Series 2009 and Series 2011 General Obligation Warrants of the City of Enterprise, respectively, the Board has pledged the revenues to be derived from the operation of the Water System remaining after the payment of operating expenses and Board debt service, but solely to the extent of the funding agreement obligations. These pledges of the net system revenues are subject and subordinate to any pledge of net system revenues for the benefit of any Board debt service with respect to debt obligations outstanding on the date of delivery of the funding agreements and with the consent of the City of Enterprise, debt obligations of the Board issued or incurred after the date of the funding agreements.

NOTE 7 – EMPLOYEE RETIREMENT PLAN

Plan Description:

The Enterprise Water Works Board contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for the various State agencies and departments. Substantially all employees are members of the Employees' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the Enterprise Water Works Board. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service.

Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method, retirees are allowed 2.0125% of their average final salary (best three of the last ten years)

Enterprise Water Works Board

Notes to Financial Statements

NOTE 7 – EMPLOYEE RETIREMENT PLAN (Continued)

for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Employees' Retirement System of Alabama was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System of Alabama is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-17-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6.

Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to the Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

Funding Policy:

Employees are required under the system to contribute 5% of their annual gross salary to the plan. The Board is required to contribute at an actuarially determined rate; the current rate is 12.14% of annual covered payroll for the Board.

Annual Pension Cost:

For the year ended September 30, 2013, the Enterprise Water Works Board's annual pension cost of \$75,489 was materially equal to the Board's required and actual contributions. The amount of member contributions made for the year ended September 30, 2013 was \$34,037. The required contribution was determined using the entry age actuarial cost method.

Actuarial Valuation:

The actuarial value of Retirement System of Alabama assets was determined using the five year smoothed market method. The amortization method is the level percent open method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 3.75% to 7.25% per year, and (c) no cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%.

The most recent actuarial valuation is fiscal year ended September 30, 2012. However, as allowed by the Governmental Accounting Standards Board, the rates set by this valuation and future valuations will be effective for the period beginning two years from the period ending date of the valuation (i.e. fiscal year 2014 for the September 30, 2012 valuation). As a result, the rates in effect currently should continue in use until October 1, 2014.

Enterprise Water Works Board

Notes to Financial Statements

NOTE 7 – EMPLOYEE RETIREMENT PLAN (Continued)

Trend Information for Retirement System of Alabama

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/10	\$ 61,917	100%	\$ -0-
9/30/11	76,777	100%	-0-
9/30/12	70,692	100%	-0-

The schedule of funding progress, presented as required supplemental information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

NOTE 8 – POSTEMPLOYMENT HEALTH CARE BENEFITS

The Board applies GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (“OPEB”), for certain postemployment benefits provided by the Board. The requirements of this Statement are being implemented prospectively, with the actuarially determined liability of \$1,147,134 at the September 30, 2008 date of transition being amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care benefits liability at the date of transition.

Plan Description and Provisions:

In addition to the pension benefits described in Note 7, pursuant to Act 86-541, Regular Session 1986, employees retiring under the State Retirement System of Alabama on or after January 1, 1987, may continue coverage under the Board’s group health insurance plan in force at the time of retirement. The employees of the Enterprise Water Works Board are covered under the postemployment health care benefit plan, a single-employer defined benefit plan, administered by the City of Enterprise. Benefits are provided through Local Government Health Insurance Programs (“LGHIP”) administered by the Alabama State Employees Insurance Board. The Board’s policy is that the retirees pay an annually determined dollar contribution for medical and dental coverage.

The amount varies based on coverage tier and Medicare status of the retiree and spouse. Currently, the retiree pays \$162 per month for individual pre-Medicare coverage and \$92 per month for individual Medicare coverage. Eligibility for coverage will continue as long as the Board continues the group health insurance plan and continue after age 65 with the medical coverage offered as a supplement to Medicare benefits. Expenses for postemployment health care benefits are recognized on a pay-as-you-go basis.

The Board also provides group life insurance for employees who retire from active work. The amount of life insurance provided is \$10,000 until age 65. At age 65, the benefits decrease gradually as follows: 35% at age 65, 60% at age 70, and 75% at age 75. Expenses for postemployment life insurance are funded on a pay-as-you-go basis.

Enterprise Water Works Board

Notes to Financial Statements

NOTE 8 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Funded Status and Funding Progress:

During the fiscal year ended September 30, 2013, the Board recognized expenses of \$84,091 for postemployment benefits. Currently, four retirees from the Board receive postemployment health care benefits and six retirees of the Board receive postemployment life insurance benefits. The Board contributed \$18,828 in premiums for retirees' health insurance, with retirees contributing \$13,116. The City contributed \$72 in premiums for retirees' life insurance for the fiscal year 2013.

As of September 30, 2011, the most recent actuarial valuation date with information presented as of October 1, 2010, the actuarial accrued liability for benefits was \$837,854, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$837,854.

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 funding 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 supplemental information following these notes to financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Annual OPEB Cost and Net OPEB Obligation:

The Board's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Board's projected annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation.

Description	Amount
Annual required contribution	\$ 86,789
Adjustment to Annual Required Contribution	(2,698)
Annual OPEB cost (expense)	84,091
Actual retiree claims payments*	(18,828)
Increase in net OPEB obligation	65,263
Net OPEB obligation, beginning of year	284,148
Net OPEB obligation, end of year	\$ 349,411

* Expected retiree claims payments, per the most recent actuarial report dated September 30, 2011, were \$25,603.

Enterprise Water Works Board

Notes to Financial Statements

NOTE 8 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2013 and the preceding two years was as follows:

Fiscal Year	Actuarial Valuation Date	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2011	10/01/10	\$ 84,091	30.45%	\$ 219,925
9/30/2012	10/01/10	84,091	23.63%	284,148
9/30/2013	10/01/10	84,091	22.39%	349,411

Actuarial Method and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating 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 participating members. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, 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.

The Board's OPEB actuarial valuation as of September 30, 2011 used the projected unit credit actuarial cost method to estimate the unfunded actuarial accrued liability as of September 30, 2011, and to estimate the Board's fiscal year 2013 annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4% rate of return on invested assets, including inflation of 3%. The actuarial assumptions also included a medical cost trend of 5% Level. The unfunded actuarial accrued liability is being amortized as a level percent of projected payrolls on an open basis. The remaining amortization period at September 30, 2011 was 27 years.

NOTE 9 – RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, error and omissions, injuries to employees, and natural disasters. During the fiscal year ended September 30, 2013, the Board carried insurance through various commercial carriers to cover all material risks of loss. The Board had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years and there have been no significant reductions in insurance coverage from coverage in the prior year.

REQUIRED SUPPLEMENTAL INFORMATION

**Enterprise Water Works Board
 Required Supplemental Information
 Schedule of Funding Progress for the Other Postemployment
 Benefits Plan
 For the Year Ended September 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)*	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
10/1/08	\$ -0-	\$ 1,147,134	\$ 1,147,134	0.00%	\$ 605,449	189.47%
10/1/10	\$ -0-	\$ 837,854	\$ 837,854	0.00%	\$ 692,470	120.99%

**Enterprise Water Works Board
Required Supplemental Information
Schedule of Funding Progress for the Employee Retirement Plan
For the Year Ended September 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Accrued Liability (AAL) Entry Age (b)(1)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
9/30/07	\$ 1,519,769	\$ 1,914,728	\$ 394,959	79.4%	\$ 602,805	65.5%
9/30/08	\$ 1,484,075	\$ 2,002,746	\$ 518,671	74.1%	\$ 605,449	85.7%
9/30/09	\$ 1,428,540	\$ 2,107,392	\$ 678,852	67.8%	\$ 575,175	118.0%
9/30/10(2)	\$ 1,359,809	\$ 2,162,362	\$ 802,553	62.9%	\$ 663,976	120.9%
9/30/11(4)	\$ 1,307,147	\$ 2,201,427	\$ 894,280	59.4%	\$ 655,492	136.4%
9/30/12(5)	\$ 1,280,306	\$ 2,104,644	\$ 824,338	60.8%	\$ 673,011	122.5%
9/30/12(3)(5)	\$ 1,280,306	\$ 2,110,714	\$ 830,408	60.7%	\$ 673,011	123.4%

1. Reflects liability for cost of living benefits increases granted on or after October 1, 1978.
2. Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.
3. Reflects the impact of Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.
4. Reflects change in actuarial assumptions.
5. Reflects changes to interest smoothing methodology.

* The actuarial value of assets was set equal to the market value of assets as of September 30, 2012.

SUPPLEMENTAL INFORMATION

Enterprise Water Works Board
Schedule of Revenues, Expenses and Changes in Net Position-
Budget and Actual
For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Operating Revenues				
Water sales, net	\$ 3,489,638	\$ 3,489,638	\$ 3,212,540	\$ (277,098)
Water extensions	127,359	127,359	95,979	(31,380)
Connection fees	155,461	155,461	158,451	2,990
Miscellaneous income	59,690	59,690	56,632	(3,058)
Total operating revenues	3,832,148	3,832,148	3,523,602	(308,546)
Operating Expenses				
Advertising	1,500	1,719	2,498	(779)
Bank charges	-	-	9,993	(9,993)
Chemicals	44,630	45,899	38,016	7,883
Contractual services	138,000	138,000	179,199	(41,199)
Depreciation	-	-	606,303	(606,303)
Dues and subscriptions	2,100	2,100	2,011	89
Gasoline and oil	46,300	46,300	45,711	589
Health insurance	127,157	127,157	125,517	1,640
Insurance	141,565	141,565	135,380	6,185
Legal	1,000	1,000	-	1,000
Maintenance	117,677	118,250	43,019	75,231
Miscellaneous	5,080	5,212	59,738	(54,526)
Office supplies	127,276	127,348	114,071	13,277
Other postemployment benefits	20,077	20,077	84,091	(64,014)
Payroll taxes	56,958	56,958	53,807	3,151
Rents	3,441	3,656	3,096	560
Repairs	151,849	157,139	105,992	51,147
Retirement	85,898	85,898	75,489	10,409
Salaries	783,739	783,739	723,464	60,275
Travel	2,916	2,916	2,823	93
Uniforms	4,063	4,063	3,072	991
Utilities	548,545	548,619	562,847	(14,228)
Water testing	37,309	37,309	48,611	(11,302)
Total operating expenses	2,447,080	2,454,924	3,024,748	(569,824)
Operating Income	1,385,068	1,377,224	498,854	(878,370)

-Continued-

See accompanying notes to financial statements.

Enterprise Water Works Board
Schedule of Revenues, Expenses and Changes in Net Position-
Budget and Actual (Continued)
For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Nonoperating Revenues (Expenses)				
Insurance proceeds	19,421	19,421	1,775	(17,646)
Interest income	12,916	12,916	4	(12,912)
Gain on sale of capital assets	25,000	25,000	51,312	26,312
Other income	5,395	5,395	-	(5,395)
Interest expense	(536,555)	(536,555)	(442,361)	94,194
Net nonoperating revenues (expenses)	(473,823)	(473,823)	(389,270)	84,553
Income Before Transfers	911,245	903,401	109,584	(793,817)
Transfers in	-	-	37,000	37,000
Transfers out	(119,622)	(119,622)	(132,677)	(13,055)
Net transfers	(119,622)	(119,622)	(95,677)	23,945
Change in net position	791,623	783,779	13,907	(769,872)
Net Position - Beginning	5,451,503	5,451,503	5,451,503	-
Net Position - Ending	\$ 6,243,126	\$ 6,235,282	\$ 5,465,410	\$ (769,872)

See accompanying notes to financial statements.

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

To the Board of Directors
Enterprise Water Works Board
Enterprise, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Enterprise Water Works Board (the "Board"), a component unit of the City of Enterprise, Alabama, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated March 14, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control that we consider to be a significant deficiency, as described below:

2013-01 Customer Billing Policies and Procedures

Finding – We noted two instances in a sample of 25 where customers were not being billed according to the Board's stated billing policies and rates. In one instance, a customer was not being billed for sewer services received and in the other instance, a customer was not being charged utility tax. Both errors appeared to be due to improper data entry at the point of initial customer setup.

Recommendation – The Board should implement a policy whereby billing setup for all new customers is properly reviewed and authorized by the data entry clerk and a supervisor. Management should also establish a policy for reviewing existing customer billing on an ongoing basis testing for completeness and accuracy.

Compliance and Other Matters

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

Purpose of this Report

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

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

June 19, 2014