

WATER WORKS AND SEWER BOARD OF THE
CITY OF GRAYSVILLE, ALABAMA

FINANCIAL STATEMENT

SEPTEMBER 30, 2017

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For the Year Ended September 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Water Works and Sewer Board
of the City of Graysville, Alabama

We have audited the accompanying financial statements of the Water Works and Sewer Board of the City of Graysville, Alabama (the Board), a component unit of the City of Graysville, Alabama (the City) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which 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.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water Works and Sewer Board of the City of Graysville, Alabama, a component unit of the City of Graysville, Alabama, as of September 30, 2017, and the respective 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.

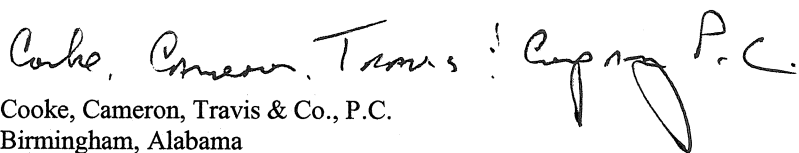
Other Matters*Required Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Accounting principles generally accepted in the United States of America require that the schedule of changes in net pension liability and schedule of contributions on pages 20 and 21, respectively, be presented to supplement the basic financial statements. The accompanying schedule of expenditures of federal awards shown on page 22, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2018, on our consideration of Water Works and Sewer Board of the City of Graysville, Alabama'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 Water Works and Sewer Board of the City of Graysville, Alabama internal control over financial reporting and compliance.



Cooke, Cameron, Travis & Company P.C.

Cooke, Cameron, Travis & Co., P.C.
Birmingham, Alabama
February 21, 2018

STATEMENT OF NET POSITION

Water Works and Sewer Board of the City of
Graysville, Alabama

ASSETS

Current assets	
Cash and cash equivalents	\$ 342,384
Accounts receivable, net	304,109
Prepaid expenses	12,545
Restricted assets	
Cash	267,011
Assets held in trust	<u>93,738</u>
Total current assets	<u>1,019,787</u>
Noncurrent assets	
Nondepreciable capital assets	81,753
Depreciable capital assets, net	<u>2,221,508</u>
Total noncurrent assets	<u>2,303,261</u>
Total assets	<u>\$ 3,323,048</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of pension resources	\$ 15,938
Employer contributions subsequent to the measurement date	<u>29,037</u>
Total deferred outflows of resources	<u>\$ 44,975</u>

See the accompanying notes to financial statements.

STATEMENT OF NET POSITION

As of September 30, 2017

LIABILITIES

Current Liabilities	
Accounts payable	\$ 203,458
Due to City of Graysville	11,327
Due to Graysville Municipal Gas System	2,476
Accrued expenses	35,561
Accrued interest	6,417
Compensated absences	11,213
Payable from restricted assets	
Customer deposits	233,721
Total current liabilities	504,173
Long Term Liabilities	
Bond liability	875,000
Net pension liability	326,809
Total noncurrent liabilities	1,201,809
Total liabilities	\$ 1,705,982

DEFERRED INFLOWS OF RESOURCES

Net difference between projected and actual earnings on pension plan investments	\$ 33,222
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NET POSITION

Investment in capital assets	\$ 2,303,261
Restricted	-
Unrestricted	(674,442)
Total net position	\$ 1,628,819

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Water Works and Sewer Board of the City of
Graysville, Alabama

For the year ended September 30, 2017

Operating revenues	\$	2,017,622
Operating expenses		
Water purchases		1,342,561
Salaries and payroll taxes		135,830
Employee benefits		54,820
Depreciation		109,749
Utilities and telephone		34,139
Supplies expense		54,165
Maintenance and repairs		30,467
Insurance		27,241
Legal and accounting		28,618
Other		42,620
Total operating expenses		<u>1,860,210</u>
Operating income		<u>157,412</u>
Nonoperating revenues (expenses)		
DWSRF - debt forgiveness		320,683
Interest expense		<u>(19,250)</u>
Total nonoperating revenues (expenses)		<u>301,433</u>
Change in net position		458,845
Net position, beginning of year		<u>1,169,974</u>
Net position, end of year	\$	<u><u>1,628,819</u></u>

See the accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

Water Works and Sewer Board of the City of
Graysville, Alabama

For the year ended September 30, 2017

Cash flows from operating activities	
Cash received from customers	\$ 1,991,820
Cash paid to employees	(207,780)
Cash paid to suppliers for goods and services	<u>(1,589,098)</u>
Net cash flows (used) by operating activities	<u>194,942</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	(1,100,335)
Net pension liability decrease	(33,171)
Project cost financing - DWSRF	974,675
Increase in deferred pension inflows	33,222
Decrease in deferred pension outflows	<u>7,784</u>
Net cash flows (used) by capital and related financing activities	<u>(117,825)</u>
Net (decrease) in cash and cash equivalents	77,117
Cash and cash equivalents, beginning of year	<u>532,278</u>
Cash and cash equivalents, end of year	<u>\$ 609,395</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 157,412
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	109,749
(Increase) in accounts receivable, net	(27,018)
Decrease in prepaid expenses	559
Decrease in accounts payable	(33,492)
Increase in customer deposits	1,216
Decrease in compensated absences	(348)
(Decrease) in due to other funds	(16,782)
Increase in accrued expenses	<u>3,646</u>
Net cash (used) by operating activities	<u>\$ 194,942</u>
Cash and cash equivalents, end of year	
Current cash and cash equivalents	\$ 342,384
Cash set aside for existing restrictions	<u>267,011</u>
	<u>\$ 609,395</u>

See the accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

Reporting Entity

The Water Works and Sewer Board of the City of Graysville (the Board) was created by the City of Graysville, Alabama (the City) to provide water and sanitary sewer service to the City and surrounding communities. The Board is governed by three-member group appointed by the Graysville City Council. For financial reporting purposes, the Board is a component unit of the City and is included in the financial reporting entity of the City.

The fund is organized as an enterprise fund where the intent of the governing body is that the costs and expenses, including depreciation, of providing services are financed or recovered through user charges. Activities of the fund include administration, operations and maintenance of the Board, including billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for the Board's debt. The accounting objectives of the fund are determinations of operating income and changes in net position, financial position and cash flows. All assets and liabilities are included on the Statement of Net Position.

The financial statements of the Board have been prepared in conformity with *Generally Accepted Accounting Principles*, as applied to governmental units. The more significant of the Board's accounting policies are described below.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenue and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The financial statements for the Board are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position and the operating statements present increases (revenues) and decrease (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

The Board distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Board's principal ongoing operations. Operating expenses for the Board include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

The Board's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with original maturities of three months or less.

See independent auditors' report

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

At September 30, 2017, the Board had net receivables from customers totaling \$290,109.

An allowance for uncollectible accounts is provided based on historical evidence. At September 30, 2017, the Board provided \$58,082 for uncollectible accounts.

Board-Restricted Cash and Cash Equivalents

Certain cash accounts have been restricted by the Board for the repayment of customer deposits. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Capital Assets

All capital assets are valued at historical costs or estimated historical costs if actual cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Interest expense during construction periods is capitalized as part of the costs of the asset.

Assets capitalized have an original cost of \$1,000 or more and five years or more of useful life. Depreciation has been calculated on each class of depreciable property using the straight line-method. Estimated useful lives are as follows:

Buildings and improvements	10-30 Years
Mains, meters and pumping station	50 Years
Storage tanks	25 Years
Vehicles	5 Years
Heavy equipment	10-12 Years
Other equipment and fixtures	5-15 Years

Depreciation is provided in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on a straight-line basis.

Use of Estimates

In preparing these financial statements, management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated Absences

The Board leases employees from the City. The City's vacation policy states that eligible employees can earn vacation leave which, if unused, is paid upon termination of employment. Vacation leave is earned at graduated rates based on the employee's length of service. Vacation leave earned by an employee in the twelve-month period preceding the employee's anniversary date, but not used by the end of the twelve-month period after the employee's anniversary date is forfeited. Therefore, the City's liability for accrued vacation is all current. The City Council has, on occasion, allowed employees to roll over accrued vacation days through a vote during regular Council meetings. The City does not have a policy for vested sick pay; thus, no liability for accumulated unpaid sick leave is reflected in the accompanying financial statements. The Board accrues liabilities for vacation pay in the amount that will be owed to the City when the accrued vacation benefits are paid to the leased employees by the City, at which time the Board must reimburse the City for the expenses.

See independent auditors' report

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Board currently has one item that qualifies for reporting in this category, the employer contributions paid by the City to the Retirement Systems of Alabama (RSA) subsequent to the measurement date (September 30, 2016). (See also Note 4 for additional details)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board currently has one item that qualifies for reporting in this category, the employer contributions paid by the City to the Retirement Systems of Alabama (RSA) subsequent to the measurement date (September 30, 2016). See Note 4.

Pensions

The Employee's Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Report.

NOTE 2 - DEPOSITS

All of the Board's demand deposits, time deposits and certificates of deposits are insured and collateralized in accordance with the Security for Alabama Funds Enhancement, or SAFE Program, which is encompassed in Title 41, Chapter 14A, Code of Alabama 1975, as amended, which is a multiple-financial-institutions collateral pool. The statute provides for assessments against the members of the pool on a pro rata basis in the event that the collateral pool is insufficient to cover the losses of a member financial institution that fails. As such, all deposits covered by this collateral pool are considered to be fully insured.

The Board does not have a formal investment policy; however, all funds are invested in compliance with state statutes. State statutes authorize the Board to invest in obligations of the U.S. Treasury, U.S. Corporate equities, State of Alabama obligations, county obligations, and other municipal obligations, as well as bank certificates of deposit and bank public funds investment accounts.

See independent auditors' report

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 was as follows:

	Balance October 1, 2016	Additions/ Adjustements	Retirements	Balance September 30, 2017
Capital assets not being depreciated				
Land	\$ 81,753	\$ -	\$ -	\$ 81,753
Total capital assets not being depreciated	<u>81,753</u>	<u>-</u>	<u>-</u>	<u>81,753</u>
Capital assets being depreciated				
Buildings & improvements	85,490	-	-	85,490
Mains, meters & pumping station	2,822,276	1,087,704	-	3,909,980
Storage tanks	837,868	-	-	837,868
Vehicles	96,765	-	-	96,765
Heavy equipment	48,249	-	-	48,249
Other equipment & fixtures	107,701	12,631	-	120,332
Total capital assets being depreciated	<u>3,998,349</u>	<u>1,100,335</u>	<u>-</u>	<u>5,098,684</u>
Less accumulated depreciation for:				
Buildings & improvements	74,900	2,762	-	77,662
Mains, meters & pumping station	1,829,870	70,370	-	1,900,240
Storage tanks	638,577	27,591	-	666,168
Vehicles	96,765	-	-	96,765
Heavy equipment	49,622	-	-	49,622
Other equipment & fixtures	77,693	9,026	-	86,719
Total accumulated depreciation	<u>2,767,427</u>	<u>109,749</u>	<u>-</u>	<u>2,877,176</u>
Total capital assets being depreciated, net	<u>1,230,922</u>	<u>990,586</u>	<u>-</u>	<u>2,221,508</u>
Capital assets, net	<u>\$ 1,312,675</u>	<u>\$ 990,586</u>	<u>\$ -</u>	<u>\$ 2,303,261</u>

Depreciation for the year ended September 30, 2017, was \$109,749.

See independent auditors' report

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PENSION PLAN

As described in Note 8, the Board leases certain employees from the City of Graysville, Alabama (the City). The following note disclosure was derived from the City of Graysville, Alabama's pension plan disclosure, and apportioned to the Board. The Board specific information provided throughout is based on gross salaries of leased employees pursuant to a 2007 agreement with the City.

General Information about the Pension Plan

Plan description

The Employee's Retirement System (ERS) of Alabama, an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns and quasi-public organizations. The ERS is part of the Retirement Systems of Alabama, which also includes the Teacher's Retirement System (TRS) for employees with education-related government employers, and the Judicial Retirement Fund (JRF) for employees in the judiciary. Each are component units of the State of Alabama. The responsibility for the general administration and operation of ERS is vested in its Board of Control, separate from the Boards of Control for the TRS and JRF. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

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

1. The Governor, ex officio.
2. The State Treasurer, ex officio.
3. The State Personnel Director, ex officio.
4. The State Director of Finance, ex officio.
5. Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
6. Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to §36-27-6.

Benefits provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Generally, benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.012% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

See independent auditors' report

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PENSION PLAN (continued)

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

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

The ERS, exclusive of the TRS and JRS, serves approximately 875 local participating employers. These participating employers include one state agency, 294 cities, 65 counties, and 515 other public entities. The ERS membership includes approximately 160,000 participants. As of September 30, 2016, the City's members consisted of:

Retirees and beneficiaries currently receiving benefits	34
Terminated employees entitled but not yet receiving benefits	1
Terminated employees not entitled to a benefit	8
Active members	<u>50</u>
Total	<u><u>93</u></u>

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members, but may do so by a resolution of the governing body of the political subdivision. Any contribution increase affects the local government's actuarial calculation.

See independent auditors' report

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PENSION PLAN (continued)

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation.

The ERS establishes rates based upon an actuarially determined rates recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the cost 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. The Board’s average contribution rate to fund the normal and accrued liability costs was approximately 16% of covered employee payroll for the year ended September 30, 2016.

The Water Works and Sewer Board of the City of Graysville contractually required contribution rate for the year ended September 30, 2016 was 20.38% of pensionable pay for Tier 1 employees, and 19.79% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the cost 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 for the Board’s leased employee’s salary portion of \$126,009 were \$29,037 for the year ended September 30, 2017. This is not the pension expense or pension income reflected in the current Statement of Net Position. This expense (income) is a result of the variables explained subsequently.

Net Pension Liability

The Board’s net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015 rolled forward to September 30, 2016 using standard roll-forward techniques as shown in the following table. These numbers are estimated as allocable to the Water Board, based upon pro-rata salaries of the Board as a percentage of the City plan. The Water Board is part of the broader RSA multi-employer plan division City of Graysville (division 2214).

Roll forward of the Total Pension Liability:

	<u>Expected</u>	Actual - 2016 <u>Valuation Assumptions</u>
a. Pension Liability 09/30/15	\$ 657,523	\$ 642,670
b. Discount Rate	8.00%	7.75%
c. Entry Age Normal Cost for 10/01/15 to 9/30/16	9,713	9,713
d. Transfers Among Employers		(21,240)
e. Actual Benefit Payments and Refunds for the period 10/1/15 to 09/30/2016	<u>(45,515)</u>	<u>(45,515)</u>
d. Total Pension Liability as of 9/30/2016 = [(a) x (1+(b))] + c + d + [(e) x (1+ .05*(b))]	<u>\$ 621,721</u>	<u>\$ 585,628</u>
Assumption Change Loss: (Difference between actual 2015 assumptions and actual 2016 assumptions)		\$ 23,757

See independent auditors’ report

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PENSION PLAN (continued)

Actuarial assumptions

The total pension liability is determined by an actuarial valuation as of September 30, 2015, using the following actuarial assumptions, which reflect the experience studies adopted in September 2016, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.25% - 5.00%
Investment rate of return	7.75% (net of investment expense)

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

The actuarial assumptions used in the September 30, 2015 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of the fiscal year 2016.

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 weighing 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:

	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return*</u>
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 Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	3.00%	1.50%
Total	<u>100.00%</u>	

* Includes assumed rate of inflation of 2.50%

See independent auditors' report

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PENSION PLAN (continued)

Discount rate (Investment earnings percentage net of investment costs and fees)

The discount rate used to measure the total pension liability was 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 at rates equal to the difference between actuarially determined contributions rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at September 30, 2015	\$ 657,523	\$ 315,057	\$ 342,466
Changes for the Year:			
Service cost	9,713	-	9,713
Interest	50,781	-	50,781
Changes of assumptions	23,757	-	23,757
Differences between expected and actual experience	(41,325)	-	(41,325)
Contributions - employer	-	20,685	(20,685)
Contributions - employee	-	7,764	(7,764)
Net investment income	-	30,135	(30,135)
Benefit payments, including refunds of employee contributions	(45,515)	(45,515)	-
Administrative expense	-	-	-
Transfers among employers	(21,240)	(21,240)	-
Balances at September 30, 2016	<u>\$ 633,694</u>	<u>\$ 306,886</u>	<u>\$ 326,809</u>

Sensitivity of the net pension liability to changes in the discount rate (investment returns)

The following table presents the proportionate share of the Board's net pension liability calculated using the discount rate of 7.75%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using an investment return that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current discount rate:

	1% Decrease 6.75%	Current Rate 7.75%	1% Increase 8.75%
Water Board's Net Pension Liability	\$ 391,706	\$ 326,809	\$ 271,427

See independent auditors' report

NOTES TO FINANCIAL STATEMENTS

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 Financial 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 RSA’s auditors’ report on the Statement of Changes in Fiduciary Net Position and accompanying notes is also available. Additional financial and actuarial information is available at www.rsa-al.gov.

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

For the year ended September 30, 2017, the Board remitted pension costs of \$29,037, which included following the prescribed funding percentages calculated and recommended by the Retirement Systems of Alabama. At September 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to its pension plan of the following sources:

	<u>Deferred Outflows of</u>	<u>Deferred Inflows of</u>
Differences between expected and actual experience	\$ 6,523	\$ 33,222
Change in assumptions	8,058	-
Net difference between projected and actual earnings on plan investments	1,357	-
Employer contributions subsequent to measurement date	<u>29,037</u>	<u>-</u>
Total	<u>\$ 44,975</u>	<u>\$ 33,222</u>

The Board will recognize the portion of deferred outflows of resources related to contributions subsequent to the measurement date in the next fiscal measurement year. Other deferred outflows and inflows of resources will be recognized in pension expense in the period indicated below:

Year ended September 30:	
2018	\$ 3,183
2019	3,183
2020	3,269
2021	(4,737)
2022	(344)
Thereafter	-

NOTE 5 – RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts, damage to and destruction of assets, errors and omissions, worker’s compensation and natural disasters for which the City carries commercial insurance. As of September 30, 2017, the Board is not facing any material litigation.

See independent auditors’ report

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – DRINKING WATER STATE REVOLVING FUND

During the fiscal year ended September 30, 2016, the State of Alabama awarded a drinking water system and infrastructure revolving loan to the Water Works and Sewer Board of the City of Graysville, AL. The total award was \$1,235,000, of which \$360,000 was to be forgiven by the State. The remaining \$875,000 is the principle of the Water Revenue Bond (Series 2016-DWSRF-DL), dated April 16, 2016. This represents the amount to be repaid to the State for the benefit of the ADEM, as part of the recapitalization of the state's Drinking Water State Revolving Fund.

Systems could apply and be forgiven up to 50 percent of the revolving loan as part of the program administered by the Alabama Department of Environmental Management (ADEM). The determination is made within the ADEM program based on demographic and infrastructure issues of a particular system. The Water Board and Sewer System of the City of Graysville was the tenth and final system to receive forgiveness. The \$360,000 forgiven represented the remaining amount after ADEM forgave nine systems at the 50 percent maximum prescribed by the program.

Other systems received the revolving loan, but were required to pay back the entire award. The federal program requires a State of Alabama to match a minimum of 20 percent. The State chose to match the federal award requirement of 20 percent by establishing the aforementioned forgiveness program for challenged systems.

The United States of America awarded the State of Alabama 1.9 percent of the national allocation of approximately \$836 million for the fiscal year 2016. The Catalog of Federal Domestic Assistance program number is 66.468. The expenditure threshold for a Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards single audit is applicable for fiscal year September 30, 2017, evaluating the Board as an independent entity.

Program Objectives

Capitalization grants are awarded to States to create and maintain Drinking Water State Revolving Fund (DWSRF) programs. States can use capitalization grant funds to establish a revolving loan fund to assist public water systems finance the costs of infrastructure needed to achieve or maintain compliance with Safe Drinking Water Act (SDWA) requirements and protect the public health objectives of the Act. The DWSRF can be used to provide loans and other types of financial assistance for qualified communities, local agencies, and private entities. States may also set aside certain percentages of their capitalization grant or allotment for various activities that promote source water protection and enhanced water systems management.

Revenue Recognition

During the year ended September 30, 2016, the Board expended \$134,878, which allowed for the recognition of pro rata revenue of \$39,317 under the matching principle of the \$360,000 forgiven by the State of Alabama. For the year ended September 30, 2017, the remaining award funds were expended, resulting in the recognition of \$320,683 as revenue for the year then ended.

See independent auditors' report

NOTE 7 – LONG TERM DEBT, BOND INTEREST CAPITALIZATION & BOND AMORTIZATION COSTS

As described in note 6 to the financial statements, the Water Works and Sewer Board of the City of Graysville, AL entered into an agreement whereby \$875,000 of the funding approved by the Alabama Department of Environmental Management is an indenture. The resulting Water Revenue Bond Series 2016-DWSRF-DL was issued April 15, 2016. The bonds carry a fixed rate of interest of 2.2 percent and will redeem annually beginning in 2018 in amounts ranging from \$35,000 to \$55,000.

The agreement deferred any principal payment or interest from the Board until February 15, 2018. A portion of the funds, \$21,710, were set aside at closing to be maintained by the trustee to partially satisfy the first interest payment due in February 2018. As such, interest was capitalized and expensed for the years ending September 30, 2016 and 2017 in the amount of \$8,876 and \$12,834, respectively.

Schedule of long term debt amortization:

Series 2016-WSRT- DL Revenue Bonds	Principal Due	Interest Rate
2017	\$ -	2.20
2018	35,000	2.20
2019	35,000	2.20
2020	35,000	2.20
2021	40,000	2.20
2022 - 2037	<u>730,000</u>	2.20
Total	<u>\$ 875,000</u>	

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Purchase Commitment

On December 10, 1992, the Board entered into a water supply contract with the Water Works and Sewer Board of the City of Birmingham for a term of twenty (20) years with additional renewal periods of five (5) years thereafter. The current contract renewal term expires December 2022. The Board contractually agreed to purchase all its future water needs from the Water Works and Sewer Board of the City of Birmingham at the current market rate. The contract may be amended by the mutual consent of both parties.

Concentration of Source of Supply

The Water Works and Sewer Board of the City of Birmingham is the sole supplier of water to the Board. Fluctuations in supply, demand, price or other factors could have an adverse effect on the Board's operations.

Concentration of Source of Labor

On February 6, 2007, the Board entered into an agreement with the City of Graysville whereby all water board employees were transferred to the City. The City, in turn, provides employees to perform all essential services of the Board on a reimbursement basis.

See independent auditors' report

NOTES TO FINANCIAL STATEMENTS

NOTE 9– RELATED PARTY TRANSACTIONS

The City has an agreement with the Board, under which the City pays some operating expenses of the Board, including personnel expenses. These payments are reimbursed to the City by the Board. For the fiscal year ended September 30, 2017, these payments totaled \$181,137, including gross salary cost and related payroll taxes. Also, the Board owed the City \$11,327 for reimbursement of operating expenses as of September 30, 2017.

NOTE 10 – ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 82, Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73

Governmental Accounting Standards Board Statement No. 82 was issued in March 2016 and made effective for reporting periods beginning after June 15, 2016. The Board's year ending September 30, 2017 was subject to the provisions of GASB Statement No. 82.

The statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement requires the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. Before the issuance of GASB Statement No. 82, GASB Statements No. 67 and No. 68 required presentation of covered-employee payroll, which is the payroll of all employees that are provided with pensions through the pension plan, and ratios that use that measure. This Statement also establishes that a deviation from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of GASB Statements No. 67, No. 68, or No. 73 for the selection of assumptions used in determining the total pension liability and related measures. This Statement also classifies payments made by an employer to satisfy plan member contribution requirements as plan member contributions for purposes of GASB Statement No. 67 and as employee contributions for purposes of GASB Statement No. 68.

GASB Statement No. 85, Omnibus 2017

Governmental Accounting Standards Board Statement No. 85 was issued in March 2017 and made effective for reporting periods beginning after June 15, 2017. The statement addresses a variety of issues, including those related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (pensions and other post-employment benefits) identified during implementation and application of certain GASB Statements. The Board's year ending September 30, 2018 will be subject to the provisions of GASB Statement No. 82.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated financial transactions and economic events subsequent to September 30, 2017 for material issues and transactions that could be related to fiscal year 2017. As of the independent audit report dated February 21, 2018, no material subsequent transaction has been identified requiring accounting or disclosure in this financial statement.

See independent auditors' report

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY

Water Works and Sewer Board of the City of
Graysville, AL

Last 10 Fiscal Years Ending September 30

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total pension liability										
Service Cost	\$ 9,713	\$ 10,218	\$ 10,729							
Interest	50,781	47,462	54,059							
Changes of benefit terms	-	-	-							
Differences between expected and actual experience	(41,325)	27,244	-							
Changes of assumptions	23,757	-	-							
Benefit payments, including refunds of employee contributions	(45,515)	(48,533)	(59,139)							
Adjustment estimate for city total*	21,240	(20,897)	-							
Net change in total pension liability	18,651	15,494	5,649							
Total pension liability - beginning	<u>726,456</u>	<u>710,962</u>	<u>705,313</u>							
Total pension liability - ending (a)	<u>\$ 745,107</u>	<u>\$ 726,456</u>	<u>\$ 710,962</u>							
Plan fiduciary net position										
Contributions - employer	\$ 20,685	\$ 21,118	\$ 15,038							
Contributions - member	7,764	7,932	8,953							
Net investment income	30,135	3,849	42,469							
Benefit payments, including refunds of employee contributions	(45,515)	(48,533)	(59,139)							
Transfers among employees	(21,240)	(8,660)	23,847							
Net change in plan fiduciary net position	(8,171)	(24,294)	31,168							
Plan net position - beginning	<u>366,476</u>	<u>390,770</u>	<u>359,602</u>							
Plan net position - ending (b)	<u>\$ 358,305</u>	<u>\$ 366,476</u>	<u>\$ 390,770</u>							
Net pension liability (asset) - ending (a) - (b)	\$ 386,802	\$ 359,980	\$ 320,192							
Plan fiduciary net position as a percentage of the total pension liability	48.09%	50.45%	54.96%							
Covered-employee payroll *	\$ 126,009	\$ 104,441	\$ 133,874							
Net pension liability (asset) as a percentage of covered-employee payroll	306.96%	344.67%	239.17%							

* Employer's covered-payroll during fiscal year is the total payroll to covered employees (pensionable payroll). For FY 2017, the measurement period is October 1, 2015 - September 30, 2016.

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS

Water Works and Sewer Board of the City of
Graysville, AL

Last 10 Fiscal Years Ending September 30

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution *	\$ 20,685	\$ 21,118	\$ 21,498							
Contributions in relation to the actuarially determined contribution	<u>(20,685)</u>	<u>(21,118)</u>	<u>(21,498)</u>							
Contribution deficiency (excess)	\$ -	\$ -	\$ -							
Covered-employee payroll **	126,009	104,441	127,179							
Contributions as a percentage of covered-employee payroll	16.42%	20.22%	16.90%							

* Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments.

** Employer's covered-payroll during fiscal year 2017 is the total covered for the twelve month period of the underlying financial statements.

Notes to schedule

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2017 were based on the September 30, 2014 actuarial variation.

Methods and assumptions used to determine contribution rates:

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Water Works and Sewer Board of the
City of Graysville, Alabama

September 30, 2017

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
Capitalization Grants for Drinking Water Revolving Funds	66.468	\$ 1,128,663

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Water Works and Sewer Board of the
City of Graysville, Alabama

September 30, 2017

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the Alabama Department of Environmental Management Grant under the federal Capitalization Grants for Drinking Water Revolving Funds program and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Water Revenue Bond

The total grant award from the Alabama Department of Environmental Management equaled \$1,235,000, of which \$360,000 was forgiven. The remaining \$875,000 is the principle of the Water Revenue Bond (Series 2016-DWSRF-DL). The balance of the Water Revenue Bond at September 30, 2017 is \$875,000, without regard to any unexpended funds.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Water Works and Sewer Board of the
City of Graysville, Alabama

September 30, 2017

NONE

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**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 of
Water Works and Sewer Board of the
City of Graysville, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Water Works and Sewer Board of the City of Graysville, Alabama (the Board), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon February 21, 2018.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Board'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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 Board'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 Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cooke, Cameron, Travis & Company P.C.
Cooke, Cameron, Travis and Company, P. C.
Birmingham, Alabama
February 21, 2018

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of
Water Works and Sewer Board of the
City of Graysville, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Water Works and Sewer Board of the City of Graysville, Alabama's (the Board) compliance with the types of compliance requirements described in the OMB Compliance Supplement, that could have a direct and material effect on each of the Board's major federal programs for the year ended September 30, 2017. The Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulation Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with each major program. However, our audit does not provide a legal determination of the Board's compliance.

Opinion on Each Major Program

In our opinion, the Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended September 30, 2017.

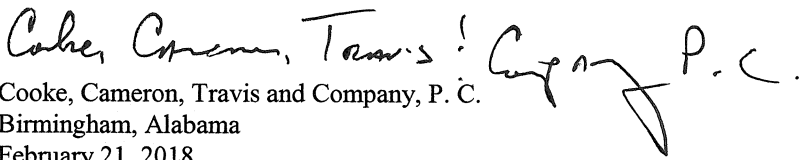
Report on Internal Control Over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be *material weaknesses* or *significant deficiencies*. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of our testing based on the requirements of OMB Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


Cooke, Cameron, Travis and Company, P. C.
Birmingham, Alabama
February 21, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Water Works and Sewer Board of the
City of Graysville, Alabama

September 30, 2017

Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of Water Works and Sewer Board of the City of Graysville, Alabama
2. No material weaknesses were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Water Works and Sewer Board of the City of Graysville, Alabama were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Water Works and Sewer Board of the City of Graysville, Alabama expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 200.516(a) of OMB Uniform Guidance are reported in this Schedule.
7. The program tested as a major program included EPA Capitalization Grants for Drinking Water State Revolving Funds (66.468).
8. The threshold for distinguishing Types A and B programs was \$750,000.

Findings – Financial Statements

Our Audit disclosed no findings that are required to be reported herein under the Drinking Water State Revolving Fund program.

Findings and Questioned Costs Major Federal Award Programs Audit

Our Audit disclosed no findings that are required to be reported herein under OMB Uniform Guidance.