Enterprise Water Works Board

Financial Statements

For The Year Ended September 30, 2012

Enterprise Water Works Board
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September 30, 2012

Carr, Riggs & Ingram, LLC
1117 Boll Weevil Circle
Enterprise, AL 36330

Mailing Address:
P.O. Box 311070
Enterprise, AL 36331

(334) 347-0088
(334) 347-7650 (fax)
www.cricpa.com

INDEPENDENT AUDITORS' REPORT

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

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, 2012, as listed in the table of contents. These financial statements are the responsibility of the Board's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Enterprise Water Works Board and do not purport to, and do not, present fairly the financial position of the City of Enterprise, Alabama, as of September 30, 2012, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Board, as of September 30, 2012, 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.

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.

In accordance with **Government Auditing Standards**, we have also issued our report dated March 22, 2013 on our consideration of the Board's internal control over financial reporting and 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** and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the schedules of funding progress on pages 20 through 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's financial statements as a whole. The schedule of revenues, expenses and changes in net assets – budget and actual is presented for additional analysis and is not a required part of the financial statements. The schedule of revenues, expenses and changes in net assets – budget and actual is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The schedule of revenues, expenses and changes in net assets – budget and actual has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

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

Certified Public Accountants

March 22, 2013

Enterprise Water Works Board

Statement of Net Assets

September 30,		2012
Current Assets		
Cash	$	155,629
Accounts receivable, net		594,895
Unbilled revenue		225,306
Prepaid insurance		4,010
Total current assets		979,840
Noncurrent Assets		
Restricted cash		1,461,947
Debt issue costs, net		256,233
Capital assets, not being depreciated		5,552,716
Capital assets, net of depreciation		12,197,378
Total noncurrent assets		19,468,274
Total assets		20,448,114
Current Liabilities		
Accounts payable		633,114
Accrued expenses		24,997
Accrued interest		131,430
Due to other funds		466,227
Current portion of long-term debt		469,207
Total current liabilities		1,724,975
Noncurrent Liabilities		
Compensated absences		27,658
Customer deposits		51,291
Other postemployment benefits obligation		284,148
Long-term debt, net		12,908,539
Total noncurrent liabilities		13,271,636
Total liabilities		14,996,611
Net Assets		
Invested in capital assets, net of related debt		4,372,348
Restricted by bond requirements		1,461,947
Unrestricted		(382,792)
Total net assets	$	5,451,503

See accompanying notes to financial statements.

Enterprise Water Works Board

Statement of Revenues, Expenses and Changes in Net Assets

For the year ended September 30,		**2012**
Operating Revenues		
Water sales, net	$	3,366,363
Water extensions		113,625
Connection fees		158,635
Miscellaneous income		82,792
Net operating revenues		3,721,415
Operating Expenses		
Advertising		946
Amortization		33,990
Bank charges		8,168
Chemicals		39,749
Contractual services		150,559
Depreciation		562,763
Dues and subscriptions		1,885
Gasoline and oil		57,923
Health insurance		128,257
Insurance		120,244
Maintenance		65,804
Miscellaneous		14,713
Office supplies		111,091
Other postemployment benefits		84,091
Payroll taxes		51,889
Rents		2,656
Repairs		155,354
Retirement		66,415
Salaries		702,328
Travel		3,400
Uniforms		4,182
Utilities		596,897
Water testing		39,761
Total operating expenses		3,003,065
Operating Income		718,350

-Continued-

See accompanying notes to financial statements.

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

For the year ended September 30,		**2012**
Nonoperating Revenues (Expenses)		
Grants		8,450
Interest income		2,081
Donated property		36,800
Interest expense		(463,304)
Net nonoperating revenues (expenses)		(415,973)
Income Before Transfers		302,377
Transfers out		(125,362)
Change in net assets		177,015
Total Net Assets - Beginning		5,274,488
Total Net Assets - Ending	$	5,451,503

See accompanying notes to financial statements.

Enterprise Water Works Board

Statement of Cash Flows

September 30,		2012
Cash Flows From Operating Activities		
Receipts from customers	$	3,901,778
Payments to suppliers		(872,057)
Payments to and on behalf of employees		(981,156)
Net cash provided by operating activities		2,048,565
Cash Flows From Noncapital Financing Activities		
Grants		8,450
Operating transfers out		(125,362)
Net cash used in noncapital financing activities		(116,912)
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets		(4,975,353)
Restricted cash used to fund capital asset purchases		3,971,129
Interest paid on capital debt		(464,452)
Principal payments on debt		(554,906)
Net cash used in capital and related financing activities		(2,023,582)
Cash Flows From Investing Activities		
Interest income		2,081
Net Decrease in Cash		(89,848)
Cash and Cash Equivalents - Beginning		245,477
Cash and Cash Equivalents - Ending	$	155,629
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income	$	718,350
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense		562,763
Amortization expense		33,990
Changes in assets and liabilities		
Receivables and unbilled revenue, net		180,363
Due to other funds		(7,281)
Accounts payable		507,762
Accrued expenses		(11,605)
Other post employment benefits obligation		64,223
Net cash provided by operating activities	$	2,048,565

See accompanying 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 Financial Statement Presentation and Accounting

Basis of Presentation

The Board's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Board has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. Although the Board has the option to apply FASB pronouncements issued after that date, it has chosen not to do so.

Basis of Accounting

The accounts of the Board are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Board's assets, liabilities, net assets, revenues and expenses. Enterprise funds account for activities that are financed with debt that is secured solely by a pledge

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

of the net revenues from fees and charges of the activity; or that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges described to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Board is determined by its measurement focus. The transactions of the Board are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for specific purposes; and unrestricted components. Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. This economic resources measurement focus is on determination of operating income, financial position, changes in net assets and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as material, contracts, personnel and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Board's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

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, 2012 was $2,081.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012. Bad debt expense, related to recording the allowance for uncollectible charges, totaled $130,655 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. During the fiscal year ended September 30, 2012, total interest incurred was $563,414, of which $463,304 was charged to expense and $100,110 was capitalized. Cumulative capitalized interest included in construction in progress at September 30, 2012 totaled approximately $528,000. At the completion of these projects, capitalized interest will be added to the cost of the projects and depreciated over the estimated useful life of the asset.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012 was $27,658.

Bond Premiums, Discounts and Issuance Costs

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premiums or discounts. Bond issuance costs are reported as assets and amortized over the term of the related debt.

The difference between the carrying amount of the bonds that have been refunded and their reacquisition price is also recognized as a deferred charge. This amount represents the gain or loss on the refunding transaction and is amortized using the straight-line method over the shorter of the life of the new debt or the life of the old debt had it not been refunded. Bonds payable are reported net of these deferred balances.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Unrestricted net assets represent the net assets available for future operations or distribution. Restricted net assets represent the net assets that have been legally identified for specific purposes. Invested in capital assets, net of related debt, represents capital assets, net of accumulated depreciation and outstanding principal balances of debt used to finance the purchase or construction or those assets. It is the Board's policy to use restricted assets before unrestricted assets when both are available to fund specific expenditures.

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, 2012 were $946.

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 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.

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

Credit and Interest Rate Risk

Although the Board has no formal investment policy addressing credit and interest rate risk, it has limited its exposure to both as noted below. 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 assets in the amount of $421,432, 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	833,387	4,604,803	-	5,438,190
Total capital assets, not being depreciated	$ 947,913	$ 4,604,803	$ -	$ 5,552,716
Capital assets, being depreciated:				
Buildings	$ 47,494	$ -	$ -	$ 47,494
Wells, tanks & plants	20,694,994	36,800	-	20,731,794
Equipment	2,050,663	333,750	-	2,384,413
Total capital assets, being depreciated	22,793,151	370,550	-	23,163,701
Less accumulated depreciation for:				
Buildings	27,653	809	-	28,463
Wells, tanks & plants	9,040,083	432,391	-	9,472,474
Equipment	1,335,824	129,563	-	1,465,386
	10,403,560	562,763	-	10,966,323
Total capital assets, being depreciated, net	$ 12,389,591	$ (192,213)	$ -	$12,197,378

At September 30, 2012, the Board had several uncompleted construction contracts in progress, all of which were related to the construction of a new elevated water tank and other water system improvements. The remaining commitment on these construction projects, which are currently expected to be completed in fiscal year 2013, totaled approximately $459,000.

NOTE 4 – INTERFUND BALANCES

Interfund balances are generally used to meet cash demands necessary to pay operating expenses. Transfers between other funds at September 30, 2012 consist of the following:

Transfers to the City of Enterprise	$	125,362

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, 2012, interfund balances were as follows:

Due from City of Enterprise – General Fund	$	28,068	Various
Due to City of Enterprise – Sewer Fund	$	494,295	Sewer and Environmental Fee Collections

NOTE 5 – CHANGES IN LONG-TERM DEBT

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

Debt	Interest Rate	Balance 10/1/11	Additions	Reductions	Balance 9/30/12	Due Within One Year
2009 General Obligation Bonds - Water Portion	2.50 – 4.75%	$ 6,426,415	$ -	$ 199,906	**$ 6,226,509**	$ 204,811
2011 General Obligation Bonds - Water Portion	1.50 – 4.40%	8,010,000	-	355,000	**7,655,000**	290,000
Total		$ 14,436,415	$ -	$ 554,906	**$ 13,881,509**	$ 494,811

NOTE 5 – CHANGES IN LONG-TERM DEBT (Continued)

Adjustments for deferred amounts:

Debt	Balance 10/1/11	Additions	Reductions	Balance 9/30/12	Due Within One Year
Original Issue Discount- 2009 Bonds	$ (136,956)	$ -	$ 13,771	**$ (123,185)**	$ (6,087)
Bond Premium 2011 Bonds	12,426	-	(606)	**11,820**	606
Deferred Amount on Refunding – 2011 Bonds	(412,521)	-	20,123	**(392,398)**	(20,123)
Total	$ (537,051)	$ -	$ 33,288	**$ (503,763)**	$ (25,604)

Unamortized original issue discount related to bonds payable as of September 30, 2012 was $123,185. Unamortized bond premium and unamortized deferred amount on refunding related to bonds payable were $11,820 and $392,398, respectively, as of September 30, 2012.

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.

NOTE 5 – CHANGES IN LONG-TERM DEBT (Continued)

Annual requirements to maturity to retire proprietary fund long-term debt as of September 30, 2012 are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2013	$ 494,811	$ 517,936
2014	505,943	506,889
2015	515,849	495,064
2016	531,981	482,894
2017	540,566	469,672
2018-2022	2,975,000	2,082,772
2023-2027	3,612,831	1,442,042
2028-2032	4,366,037	577,690
2033-2034	338,491	8,039
Total	$ 13,881,509	$ 6,582,998

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

NOTE 7 – EMPLOYEE RETIREMENT PLAN (Continued)

method, retirees are allowed 2.0125% of their average final salary (best three of the last ten years) 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, 2012, the Enterprise Water Works Board's annual pension cost of $66,415 was materially equal to the Board's required and actual contributions. The amount of member contributions made for the year ended September 30, 2012 was $32,158. 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, 2011. 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 2013 for the September 30, 2011 valuation). As a result, the rates in effect currently should continue in use until October 1, 2013.

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
9/30/09	$ 62,601	100%	$ -0-
9/30/10	61,917	100%	-0-
9/30/11	76,777	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.

NOTE 8 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Funded Status and Funding Progress:

During the fiscal year ended September 30, 2012, the Board recognized expenses of $84,091 for postemployment benefits. Current, four retirees from the Board receive postemployment health care benefits and six retirees of the Board currently receive postemployment life insurance benefits. The Board contributed $19,796 in premiums for retirees' health insurance, with retirees contributing $12,942. The City contributed $72 in premiums for retirees' life insurance for the fiscal year 2012.

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*		(19,868)
Increase in net OPEB obligation		64,223
Net OPEB obligation, beginning of year		219,925
Net OPEB obligation, end of year	$	284,148

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

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, 2012 and the preceding two years was as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2010	$ 101,296	23.05%	$ 161,437
9/30/2011	84,091	30.45%	219,925
9/30/2012	84,091	23.63%	284,148

***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 2012 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, 2012, 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, 2012

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)
10/1/09	$ -0-	N/A	N/A	N/A	N/A	N/A
10/1/10	$ -0-	837,854	837,854	0.00%	$ 692,470	120.99%
10/1/11	$ -0-	N/A	N/A	N/A	N/A	N/A

Enterprise Water Works Board
Required Supplemental Information
Schedule of Funding Progress for the Employee Retirement Plan
For the Year Ended September 30, 2012

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)
9/30/06(2)	$ 1,544,415	$ 1,877,577	$ 333,162	82.3%	$551,937	60.4%
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(3)	$ 1,359,809	$ 2,162,362	$ 802,553	62.9%	$663,976	120.9%
9/30/10(3)(4)	$ 1,359,809	$ 2,168,568	$ 808,759	62.7%	$663,976	121.8%
9/30/11(5)	$ 1,307,147	$ 2,201,427	$ 894,280	59.4%	$655,492	136.4%
9/30/11(4)(5)	$ 1,307,147	$ 2,206,503	$ 899,356	59.2%	$655,492	137.2%

1. Reflects liability for cost of living benefits increases granted on or after October 1, 1978.
2. Reflects change in actuarial assumptions.
3. Reflects impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.
4. 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.
5. Reflects change in actuarial assumptions.

* Market Value of Assets as of September 30, 2011: $1,101,955

SUPPLEMENTAL INFORMATION

Enterprise Water Works Board
Schedule of Revenues, Expenses and Changes in Net Assets-Budget and Actual
For the Year Ended September 30, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Operating Revenues				
Water sales, net	$ 3,428,349	$ 3,428,349	$ 3,366,363	$ (61,986)
Water extensions	107,500	107,500	113,625	6,125
Connection fees	142,824	142,824	158,635	15,811
Miscellaneous income	54,838	54,838	82,792	27,954
Total operating revenues	3,733,511	3,733,511	3,721,415	(12,096)
Operating Expenses				
Advertising	1,851	1,851	946	905
Amortization	-	-	33,990	(33,990)
Bank charges	6,300	6,300	8,168	(1,868)
Chemicals	38,859	38,859	39,749	(890)
Contractual services	147,123	147,123	150,559	(3,436)
Depreciation	-	-	562,763	(562,763)
Dues and subscriptions	2,098	2,098	1,885	213
Gasoline and oil	33,818	33,818	57,923	(24,105)
Health insurance	122,497	122,497	128,257	(5,760)
Insurance	164,389	164,389	120,244	44,145
Legal	1,000	1,000	-	1,000
Maintenance	118,681	118,681	65,804	52,877
Miscellaneous	4,388	4,388	14,713	(10,325)
Office supplies	116,843	116,843	111,091	5,752
Other postemployment benefits	-	-	84,091	(84,091)
Payroll taxes	53,944	53,944	51,889	2,055
Rents	3,441	3,441	2,656	785
Repairs	167,695	167,695	155,354	12,341
Retirement	52,553	52,553	66,415	(13,862)
Salaries	742,270	742,270	702,328	39,942
Travel	2,500	2,500	3,400	(900)
Uniforms	4,950	4,950	4,182	768
Utilities	532,023	532,023	596,897	(64,874)
Water testing	40,400	40,400	39,761	639
Total operating expenses	2,357,623	2,357,623	3,003,065	(645,442)
Operating Income	1,375,888	1,375,888	718,350	(657,538)

-Continued-

See accompanying notes to financial statements.

Enterprise Water Works Board
Schedule of Revenues, Expenses and Changes in Net Assets-
Budget and Actual (Continued)
For the Year Ended September 30, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Nonoperating Revenues (Expenses)				
Grants	-	-	8,450	8,450
Interest income	11,866	11,866	2,081	(9,785)
Donated property	-	-	36,800	36,800
Other income	47,798	47,798	-	(47,798)
Interest expense	(1,032,479)	(1,032,479)	(463,304)	569,175
Net nonoperating revenues (expenses)	(972,815)	(972,815)	(415,973)	556,842
Income Before Transfers	403,073	403,073	302,377	(100,696)
Transfers out	(111,982)	(111,982)	(125,362)	13,380
Change in net assets	291,091	291,091	177,015	(114,076)
Net Assets - Beginning	5,274,488	5,274,488	5,274,488	-
Net Assets - Ending	$ 5,565,579	$ 5,565,579	$ 5,451,503	$ (114,076)

See accompanying notes to financial statements.

Carr, Riggs & Ingram, LLC
1117 Boll Weevil Circle
Enterprise, AL 36330

Mailing Address:
P.O. Box 311070
Enterprise, AL 36331

(334) 347-0088
(334) 347-7650 (fax)
www.cricpa.com

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 the financial statements of the Enterprise Water Works Board (the "Board"), a component unit of Enterprise, Alabama, as of and for the year ended September 30, 2012 and have issued our report thereon dated March 22, 2013. 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.

Internal Control Over Financial Reporting

Management of the Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 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**.

This report is intended solely for the information and use of management and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C

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

Certified Public Accountants

March 22, 2013