

Alabama Water System, Inc.

Annual Financial Statements

As of December 31, 2016 and for the Year Then Ended

Alabama Water System, Inc.
 Annual Financial Statements
 As of and for the Year Ended December 31, 2016
 With Supplemental Information Schedules

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Arcadia, Louisiana

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Alabama Water System, Inc.
Management's Discussion and Analysis
For the Year Ended December 31, 2016

The management of the Alabama Water System, Inc. (the System), we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System as of and for the year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with the System's basic financial statements and supplementary information provided in this report in assessing the efficiency and effectiveness of our stewardship of public resources.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* ("GASB No. 34") issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

The assets of the System exceeded its liabilities at December 31, 2016, by \$2,058,245 (net position).

The System's net position increased by \$603,640 as a result of this year's operations.

Total net position is comprised of the following:

Capital assets of \$3,022,382 includes property and equipment, net of accumulated depreciation and related debt.

Restricted net position is comprised of restricted for debt of \$97,274 and restricted for deposits of \$12,854.

Unrestricted net position of \$322,735 represent the portion available to maintain the System's continuing obligations to citizens and creditors.

At December 31, 2016, the System consists solely of the general fund which are reported as business type fund. The General fund has a total ending retained earnings of \$2,058,245, an increase of \$603,640. The District's net position of \$1,625,382 reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, etc.) less any related debt used to acquire those assets still outstanding. The restricted net position of \$110,128, of which \$12,854 is restricted for deposits and \$97,274 is restricted for debt. The balance of retained earnings \$322,735 is unassigned and available for spending at the System's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis is intended to serve as an introduction to the System's basic financial statements. In accordance with GASB No. 34, the System's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements. The government-wide financial statements of the System report information about the System using accounting methods similar to those used by private sector companies. They present the financial picture of the System from an economic resources measurement focus using the accrual basis of accounting.

Alabama Water System, Inc.
Management's Discussion and Analysis
For the Year Ended December 31, 2016

These statements include all assets of the System (including capital assets) as well as all liabilities (including long-term obligations).

The *Statement of Net Position* presents information on all of the System's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.

The *Statement of Activities* presents the current year's revenues and expenses and other information showing how the System's net position changed during the year. The change in net position is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The System, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the System are categorized as governmental funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The System's net position at December 31, 2016, are summarized as follows:

The largest components of the Systems' total assets are: (1) cash and investments of \$472,059 or 13%; (2) capital assets (e.g., land, building, and improvements and equipment, net of accumulated depreciation) of \$3,022,382 or 82%. Of the System's total liabilities, the largest component is notes payable of \$1,397,000 or 87%.

As noted earlier, net position (total assets less total liabilities) may serve over time as a useful indicator of an entity's financial position. At the close of the most recent fiscal year, the System's net position totaled \$2,058,245. A portion of the System's net position reflect its investments in capital assets (e.g., building, land, and equipment). Capital assets are non-liquid assets and cannot be utilized to satisfy the System's obligations. The unrestricted net position of the System are available for future use. The unrestricted net position is 39% of the total operating expenses, excluding intergovernmental for the fiscal year ended December 31, 2016, which indicates that the System should be able to operate for at least 6 months using its unrestricted net position.

The following is a condensed statement of the System's net position as of December 31, 2016 as compared to prior year:

	<u>2016</u>	<u>2015</u>
Assets		
Current & Other Assets	\$649,578	\$443,007
Capital Assets (net)	<u>3,022,382</u>	<u>1,026,630</u>
Total Assets	<u>\$3,671,960</u>	<u>\$1,469,637</u>

Alabama Water System, Inc.
Management's Discussion and Analysis
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Liabilities		
Other Liabilities	\$203,861	\$3,891
Restricted liabilities	12,854	11,142
Notes payable	<u>1,397,000</u>	<u>0</u>
Total Liabilities	<u>1,613,715</u>	<u>15,033</u>
Net position		
Net investment in capital assets	1,625,382	1,026,630
Restricted for deposits	12,854	11,142
Restricted for debt	97,274	0
Unrestricted	<u>322,735</u>	<u>427,974</u>
Total Net position	<u>\$2,058,245</u>	<u>\$1,465,746</u>

Activities increased net position by \$603,640 for the year ended December 31, 2016.

Key elements of the analysis of government-wide revenues and expenses reflect the following:

Ordinarily, the System is heavily dependent on user fees to support its operations. User fees provided 20% of the System's total revenues and 80% federal grants. The System's operations consists mainly of depreciation and interest which comprise 50% and 12%, respectively, of total expenses.

The following is a summary of the statement of activities:

	<u>2016</u>	<u>2015</u>	Increase (Decrease)	% Increase (Decrease)
Revenue				
Program revenues	\$781,377	\$139,555	\$641,822	10000%
General Revenue & Transfers	<u>4,557</u>	<u>2,127</u>	2,430	114%
Total Revenue	<u>785,934</u>	<u>141,682</u>	<u>644,252</u>	<u>455%</u>
Expenses				
General & Administrative	0	0	0	0
Utilities	<u>182,294</u>	<u>170,986</u>	11,308	7%
Total Expenses	<u>182,294</u>	<u>170,986</u>	<u>11,308</u>	<u>7%</u>
Increase (Decrease) in Net position	603,640	(29,304)	632,944	
Net position, Beginning	<u>1,454,605</u>	<u>1,483,909</u>	(29,304)	
Net position, Ending	<u>\$2,058,245</u>	<u>\$1,454,605</u>	<u>\$603,640</u>	

CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets

At the end of December 31, 2016, the System had invested in various capital assets, including equipment, furniture, and vehicles. The capital assets are summarized below:

Alabama Water System, Inc.
Management's Discussion and Analysis
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Nondepreciable assets	\$2,065,448
Depreciable Assets:	
Buildings and improvements	80,665
Machinery and equipment	0
Wells and improvements	<u>3,313,405</u>
Totals	5,459,518
Less Accumulated Depreciation	<u>2,437,136</u>
Book-Value of Depreciable Assets	<u>\$3,022,382</u>

ECONOMIC FACTORS AND FUTURE OUTLOOK

The System's expected revenues and expenditures for 2017 are comparable to 2016's actual revenues and expenditures, excluding the federal grant. The System does not anticipate any changes in its day-to-day operations that will have a material effect on its 2017 operations.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the System's finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Secretary/Treasurer Scott Calhoun, 596 Nicholson Road, Arcadia, Louisiana 71001 or call at (318) 243-9235.

WADE & PERRY

Certified Public Accountants
A Professional Accounting Corporation
Members: AICPA/ Society of LCPA's

Independent Auditor's Report

Board of Commissioners
Alabama Water System, Inc.
Arcadia, LA

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of Alabama Water System, Inc. ("System"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinions on the Major Federal Program

The System did not comply with requirements regarding CFDA 10.760 Water and Waste Disposal Systems for Rural Communities for Suspension and Debarment and for Reporting.

Qualified Opinions

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Major Federal Program” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major federal program of the System as of December 31, 2016, and the respective changes in financial position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of System, as of December 31, 2016, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 1-4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System’s basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements

themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated August 2, 2017, on our consideration of the System'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 the testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



Ruston, Louisiana
August 2, 2017

Alabama Water System, Inc.
Statement of Net Position, Proprietary Fund
December 31, 2016

ASSETS		
Cash and equivalents		\$122,381
Receivables		164,665
Prepaid items		0
Restricted assets		362,532
Capital assets (net)		<u>3,022,382</u>
TOTAL ASSETS		<u>\$3,671,960</u>
LIABILITIES		
Accounts, salaries, and other payables		\$7,261
Accrued interest payable		0
Contracts payable		74,020
Retainage payable		122,580
Payable from restricted assets		12,854
Notes payable - current		3,821
Notes payable - noncurrent		<u>1,393,179</u>
TOTAL LIABILITIES		<u>1,613,715</u>
NET POSITION		
Prior Period Adjustment		0
Net invested in capital assets		1,625,382
Restricted for customer deposits		12,854
Restricted for debt		97,274
Unrestricted		<u>322,735</u>
TOTAL NET POSITION		<u>\$2,058,245</u>

The accompanying notes are an integral part of this statement.

Alabama Water System, Inc.
Statement of Activities
Year Ended December 31, 2016

	Program Revenues			Net (Expenses) Revenues and Changes of Primary Government
	Expenses	Charges for Services	Operating Grants and Contributions	
Business-type activities				
Water charges	\$182,294	\$155,280		\$626,097
Total business-type activities	<u>182,294</u>	<u>155,280</u>	<u>0</u>	<u>626,097</u>
Total primary government	<u>\$182,294</u>	<u>\$155,280</u>	<u>\$0</u>	<u>\$626,097</u>
General revenues:				
Investment earnings				4,211
Gain on sale of asset				0
Other general revenues				346
Total general revenues and transfers				<u>4,557</u>
Change in Net Position				603,640
Net Position - beginning				1,454,605
Prior Period Adjustment				0
Net Position - ending				<u>\$2,058,245</u>

The accompanying notes are an integral part of this statement.

Alabama Water System, Inc.
Statement of Cash Flows, Proprietary Funds
For the Year Ended December 31, 2016

Cash Flows from Operating Activities	
Receipts from customers and users	\$142,120
Payments to suppliers	4,422
Payments to employees	(16,690)
Net Cash Provided by Operating Activities	<u>129,852</u>
Cash Flows from Noncapital Financing Activities	
Loan proceeds	0
Net Cash Provided (Used) by Noncapital Financing Activities	<u>0</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	(37,141)
Construction in progress	(2,049,208)
Loan proceeds from USDA	1,397,000
Capital contributions	626,097
Interest paid on capital debt	(21,835)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(85,087)</u>
Cash Flows from Investing Activities	
Miscellaneous income	346
Interest and dividends received	4,211
Net Cash Provided by Investing Activities	<u>4,557</u>
Net Increase in Cash and equivalents	49,322
Cash and equivalents, Beginning of Year	435,591
Cash and equivalents, End of Year	<u>\$484,913</u>
Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities	
Operating income	(\$5,179)
Depreciation expense	90,596
(Increase) decrease in accounts receivable	(157,248)
Increase (decrease) in customer deposits	1,712
Increase (decrease) in accounts, salaries, and other payables	199,971
Net Cash Provided by Operating Activities	<u>129,852</u>
Reconciliation of total cash and cash investments:	
Current assets - cash and cash investments	\$122,381
Restricted assets - cash and cash investments	362,532
Total cash and cash investments	<u>\$484,913</u>

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

Alabama Water System, Inc.
Notes to the Financial Statements
As of and For the Year Ended December 31, 2016

INTRODUCTION

The Alabama Water System, Inc. (“System”) was organized in 1971 as a not for profit water system to provide water usage and service to the customers of the System in Bienville parish. The System has five commissioners comprising the board who are appointed by the Board of Commissioners. The System serves approximately 310 active customers and employs one person. The System operates two facilities that operate two wells at each site with approximately 25 miles of water lines.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of Net Position and the statement of changes in Net Position) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charge to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Alabama Water System, Inc.
Notes to the Financial Statements
As of and For the Year Ended December 31, 2016

The System reports the following major proprietary fund:

The Utility fund is to account for the provision of water services to the customers of the System. All activities necessary to provide such services are accounted for in this fund, but not limited to, administration, operations, maintenance, financing, and related debt service and billing.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the governments enterprise operations. Elimination of those charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds and internal service funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Deposits and Investments

The System's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State law and the System's investment policy allow the System to invest in collateralized certificates of deposits, government backed securities, commercial paper, the state sponsored investment pool, and mutual funds consisting solely of government backed securities. Investments for the System are reported at fair value.

D. Restricted Assets

Certain proceeds of the System's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Position because their use is limited by applicable bond covenants.

Alabama Water System, Inc.
Notes to the Financial Statements
As of and For the Year Ended December 31, 2016

E. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are capitalized at historical cost or estimated cost (the extent to which fixed asset costs have been estimated and the methods of estimation should be disclosed) if historical cost is not available (or describe other method of valuation). Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The System does not maintain a threshold level for capitalizing capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land	N/A
Water lines and wells	40 years
Improvements	15 years
Building	25 years
Equipment	5-10 years

F. Compensated Absences

The System has the following policy relating to vacation and sick leave:

Employees of the System cannot accrue vacation or sick time. Therefore, no liability has been recorded.

G. Fund Equity

In the government wide statements, equity is classified as Net Position and displayed in three components:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Constraints may be placed on the use, either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - Net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in either of the other two categories of net position.

Proprietary fund equity is classified in the same manner as in the government-wide statements.

Alabama Water System, Inc.
Notes to the Financial Statements
As of and For the Year Ended December 31, 2016

H. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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, expenditures, and expenses during the reporting period. Actual results could differ from the estimates.

2. CASH AND CASH EQUIVALENTS

At December 31, 2016, the System has cash and cash equivalents (book balances) totaling \$484,913 as follows:

Demand deposits	\$41
Interest-bearing demand deposits	124,527
Investments	<u>360,345</u>
Total	<u><u>\$484,913</u></u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2016, the System has \$490,992 in deposits (collected bank balances). These deposits are secured from risk by \$375,307 of federal deposit insurance and \$102,007 of pledged securities held by the custodial bank in the name of the fiscal agent bank. (GASB Category 3).

3. RECEIVABLES

The receivables of \$164,665 at December 31, 2016, consist of \$20,576 amounts due from customers and grant receivable \$144,089.

4. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended December 31, 2016, for the primary government is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$9,995	.		\$9,995
Construction in progress	<u>6,245</u>	<u>\$2,055,453</u>	<u>(\$6,245)</u>	<u>2,055,453</u>
Total capital assets not being depreciated	<u>16,240</u>	<u>2,055,453</u>	<u>(6,245)</u>	<u>2,065,448</u>
Capital assets being depreciated				

Alabama Water System, Inc.
Notes to the Financial Statements
As of and For the Year Ended December 31, 2016

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings	80,665			80,665
Improvements other than buildings	0			0
Machinery and equipment	0	\$37,141		37,141
Water system	3,276,264			3,276,264
Infrastructure	0			0
Total capital assets being depreciated	<u>3,356,929</u>	<u>37,141</u>	<u>0</u>	<u>3,394,070</u>
Accumulated depreciation	<u>2,346,539</u>	<u>90,596</u>		<u>2,437,135</u>
Total capital assets being depreciated, net	<u>\$1,026,630</u>	<u>\$2,001,998</u>	<u>(\$6,245)</u>	<u>\$3,022,383</u>

5. ACCOUNTS, SALARIES, AND OTHER PAYABLES

The payables of \$203,861 at December 31, 2016, are as follows:

Withholdings	\$910
Accounts	6,351
Grants	<u>196,600</u>
Total	<u>\$203,861</u>

6. LONG-TERM OBLIGATIONS

The following is a summary of the long-term obligation loans payable transactions for the year ended December 31, 2016:

Long-term obligations at beginning of year	\$0
Additions	1,397,000
Deductions	<u>0</u>
Long-term obligations at end of year	<u>\$1,397,000</u>

The following is a summary of the current (due in one year or less) and the long-term (due in more than one year) portions of long-term obligations as of December 31, 2016:

Current portion	\$3,821
Long-term portion	<u>1,393,179</u>
Total	<u>\$1,397,000</u>

The loans payable at December 31, 2016, are comprised of the following individual issues:

	<u>Outstanding 12/31/16</u>
\$1,397,000 USDA loans dated 10-27-16, due in monthly installments of \$4,219 starting November 27, 2017 through October 27, 2057, interest at 1.875%	<u>\$1,397,000</u>

Alabama Water System, Inc.
Notes to the Financial Statements
As of and For the Year Ended December 31, 2016

	<u>Outstanding</u> <u>12/31/16</u>
Total	<u>\$1,397,000</u>

The annual requirements to amortize all loans outstanding as of December 31, 2016, including interest of \$628,087 are as follows:

Year Ending December 31,	
2017	\$8,438
2018	50,627
2019	50,627
2020	50,627
2021	50,627
2022 - 2026	253,136
2027 - 2031	253,136
2032 - 2036	253,136
2037 - 2041	253,136
2042 - 2046	253,136
2047 - 2051	253,136
2052 - 2056	253,136
2057	42,189
Total	<u>\$2,025,087</u>

7. FLOW OF FUNDS: RESTRICTIONS ON USE - UTILITIES REVENUES

There shall also be set aside into a "Reserve Fund" an amount equal to 10% of the monthly payment each month over the life of the loan until there is an amount accumulated equal to one annual installment. This reserve is required to establish an emergency fund for maintenance and repairs and debt repayment should the need arise.

Funds will also be set aside into a "Short-lived Asset Fund" at the rate of \$1,211 per month in addition to that required for the debt service reserve until the loan is paid in full.

8. CONTINGENCIES AND CONCENTRATIONS

The System is not currently named as defendant in any current or pending litigation. The System's primary source of revenue (98%), excluding federal grants, is through user charges to customers. Reduction to the number of customers in the system's area of coverage would adversely affect the System's revenues.

9. COMPENSATION PAID TO COMMISSIONERS

Members of the Board of commissioners participate on a voluntary basis and receive no compensation for their services.

Alabama Water System, Inc.
Notes to the Financial Statements
As of and For the Year Ended December 31, 2016

10. RELATED PARTY TRANSACTIONS

Procedures, observations, and inquiries did not disclose any material related party transactions for the year ended December 31, 2016.

11. DATE OF MANAGEMENT REVIEW

Subsequent events have been evaluated through August 2, 2017, the date which the financial statements were available to be issued.

OTHER SUPPLEMENTAL SCHEDULES

Alabama Water System, Inc.
Schedule of Compensation, Benefits and Other Payments
to Agency Head or Chief Executive Officer
For the Year Ended December 31, 2016

Agency Head Name: Jerry Simpson

<u>Purpose</u>	
Salary	\$0
Per diem	300

REQUIRED SUPPLEMENTAL INFORMATION

WADE & PERRY

Certified Public Accountants
A Professional Accounting Corporation
Members: AICPA/ Society of LCPA's

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*

Independent Auditor's Report

Board of Directors
Alabama Water System, Inc.
Arcadia, Louisiana

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 the governmental activities of Alabama Water System, Inc. ("System") as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated August 2, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered System'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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. 2016-001.

Compliance and Other Matters

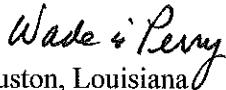
As part of obtaining reasonable assurance about whether System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2016-002.

System's Response to Findings

System's response to the findings identified in our audit is described in the accompanying schedule of findings, questioned costs and responses. System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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



Ruston, Louisiana
August 2, 2017

WADE & PERRY

Certified Public Accountants
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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

Board of Directors
Alabama Water System, Inc.
Arcadia, LA

Report on Compliance for Each Major Federal Program

We have audited Alabama Water System, Inc.'s ("System") 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 System's major federal programs for the year ended December 31, 2016. The System's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings, questioned costs and responses.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions to its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System'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 Regulations* 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 System'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 for each major federal program. However, our audit does not provide a legal determination of Alabama Water System, Inc.'s compliance.

Basis for Qualified Opinion on Water and Waste Disposal Systems for Rural Communities - CFDA Number 10.760

As described in the accompanying schedule of findings, questioned costs and responses, the System did not comply with requirements regarding CFDA 10.760 Water and Waste Disposal Systems for Rural Communities as described in finding numbers 2016-003 for Suspension and Debarment and 2016-004 for Reporting. Compliance with such requirements is necessary, in our opinion, for the System to comply with the requirements applicable to that program.

Qualified Opinion on Water and Waste Disposal Systems for Rural Communities - CFDA Number 10.760

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 10.760 Water and Waste Disposal Systems for Rural Communities for the year ended December 31, 2016.

Other Matters

The System's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings, questioned costs and responses. The System's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the System 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 System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal 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 System'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 a 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-003 and 2016-004, that we consider to be material weaknesses.

The System's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings, questioned costs and responses. The System's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wade & Perry
Ruston, Louisiana
August 2, 2017

Alabama Water System, Inc.
 Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 2016

<u>Grant Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Other Programs		
United States Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760	\$2,035,013

NOTES:

The SEFA is prepared on the accrual basis of accounting.

There were no indirect costs so no cost rate was needed.

At December 31, 2016 \$1,397,000 was outstanding on the loan with USDA. Out of the 2016 expenditures, \$1,397,000 was paid by the loan proceeds and the balance was paid with grant funds.

Alabama Water System, Inc.
 Schedule of Findings, Questioned Costs and Responses
 For the Year Ended December 31, 2016

We have audited the financial statements of Alabama Water System, Inc. as of and for the year ended December 31, 2016, and the related notes to the financial statement, which collectively comprise the basic financial statements and have issued our report thereon dated August 2, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of August 2, 2017 resulted in an unqualified opinion.

A. Summary of Audit Results

1. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses Yes No Significant Deficiency Yes No

Compliance

Compliance Material to Financial Statements Yes No

2. Federal Awards

Internal Control

Material Weaknesses Yes No Reportable Yes No

Type of Opinion On Compliance	Unqualified <input type="checkbox"/>	Qualified <input checked="" type="checkbox"/>
For Major Programs	Disclaimer <input type="checkbox"/>	Adverse <input type="checkbox"/>

Are their findings required to be reported in accordance with Uniform Guidance?

Yes No

Was a management letter issued?

Yes No

3. Identification of Major Programs:

CFDA Number(s)

Name of Federal Program (or Cluster)

10.760 Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between Type A and Type B Programs: \$ 750,000

Is the auditee a "low-risk" auditee? Yes No

B. Financial Statements Findings

2016-001. Lack of segregation of duties - Due to limited personnel, the System does not have an adequate segregation of duties regarding its accounting and reporting system to maintain a complete system of internal control. This finding is entity wide.

Recommendation: Additional training should be provided to the Secretary/treasurer to ensure knowledge of governmental accounting. A third party accountant should be contracted to assist with year end reporting until the staff is adequately trained. Accounting duties should be further segregated and proper approval steps implemented. A clear chain of command should be established.

Management's response: See corrective action plan.

2016-002. Late submission of audit report. This finding is entity wide.
LRS 24:513A(5)(a)(I) requires that "audits shall be completed within six months of the close of the entity's fiscal year." The audit for the System was not completed in time to meet the required deadline due to the System's lack of producing the financial records to the auditors.

Recommendation: The System should strive to have all financial records completed in a timely manner in order for the submission of its audit report each year to comply with requirements with the Legislative Auditor's Office and any grantor agencies. In the future, the System should maintain adequate accounting records necessary for auditors to complete the audit in time to meet the deadline.

Management's response: See corrective action plan.

2016-003. DEPARTMENT OF AGRICULTURE - CFDA Number 10.760 - Water and Waste Disposal Systems for Rural Communities

Condition

Documentation that the System had verified that the engineer and contractors were not on the suspended and debarred list could not be found.

Questioned costs

None

Criteria

2 CFR sections 200.212 and 200.318(h); 2 CFR section 180.300; 48 CFR section 52.209-6 required the System to establish procedures for verifying that an entity with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded.

Cause

There is a material weakness in internal control over compliance with federal awards programs. Management was unaware of the requirement.

Effect

The System could be penalized for failing to comply.

Context

There were contracts with an engineer for \$307,794 and three contractors totaling \$1,714,213.

Recommendation

The auditor verified that the engineer and contractors were not on the list at <https://www.sam.gov/portal/SAM/>. The System should verify that all future companies it contracts with are not on the list.

Views of Responsible Officials and Planned Corrective Action

Alabama Water System, Inc. agrees with the finding and will verify parties are not on the list in the future.

2016-004. DEPARTMENT OF AGRICULTURE - CFDA Number 10.760 - Water and Waste Disposal Systems for Rural Communities

Condition

The System did not submit to the grantor any required reports.

Questioned costs

None

Criteria

The letter of conditions with the USDA dated July 16, 2013, indicates that quarterly reports (Form RD 442-2) are required.

Cause

There is a material weakness in internal control over compliance with federal awards programs. Management was unaware of the requirement.

Effect

The System could be penalized for failing to comply.

Recommendation

We recommend that the System contact the USDA for advice on corrective action.

Views of Responsible Officials and Planned Corrective Action

Alabama Water System, Inc. agrees with the finding and will contact USDA.

Alabama Water System, Inc.
Summary of Prior Year Findings
For the Year Ended December 31, 2016

A. INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS

None

B. INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS

None

C. MANAGEMENT LETTER

None

Alabama Water System, Inc.
MANAGEMENT'S CORRECTIVE ACTION PLAN
For the Year Ended December 31, 2016

- 2016-1. Management concurs with this recommendation and will implement procedures immediately to improve segregation of duties.
- 2016-2. Management concurs with this recommendation and will implement procedures immediately to comply with this requirement.
- 2016-3. Alabama Water System, Inc. agrees with the finding and will verify parties are not on the list in the future.
- 2016-4. Alabama Water System, Inc. agrees with the finding and will contact USDA.

Management Letter Suggestion 2016-1. Management agrees with the recommendation and will implement procedures to have better internal controls over utility billing and collections.

WADE & PERRY

Certified Public Accountants
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MANAGEMENT LETTER

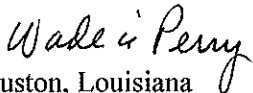
We have audited the financial statements of Alabama Water System, Inc. as of and for the year ended December 31, 2016, and have issued our report thereon dated August 2, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the Uniform Guidance.

As part of our examination, we have issued our report on the financial statements, dated August 2, 2017, and our report on internal control and compliance with laws, regulations, contracts and grants, dated August 2, 2017.

During the course of our examination, we became aware of the following matter which represents immaterial deviations of compliance or suggestions for improved internal controls.

Suggestion 2016-1. We could not test one account selected for utility billing and subsequent receipt due to no account summary being provided. One customer did not pay the entire amount due. One account's billing amount could not be tested since there was an error in the reading of the meter. One board member customer paid his balance due for two months so the prior month was overdue at the time of payment. We recommend all accounts be paid current and cutoff procedures be implemented when accounts are not paid timely according to the System's policies and procedures.

We recommend management address the foregoing issue as an improvement to operations and the administration of public programs. We are available to further explain the suggestions if needed.



Ruston, Louisiana
August 2, 2017