WATER WORKS BOARD OF THE
CITY OF CALERA, ALABAMA
FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Water Works Board
of the City of Calera, Alabama

We have audited the accompanying financial statements of the Water Works Board, a component unit of the City of Calera, Alabama, as of and for the year ended September 30, 2008, 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. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Works Board, a component unit of the City of Calera, Alabama, as of September 30, 2008, 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 budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Water Works Board, a component unit of the City of Calera, Alabama has not presented management discussion and analysis that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the financial statements.

Moses, Phillips, Young, Brannon and Henninger, L.L.P.

Birmingham, Alabama
August 5, 2009
## Assets

### Current:
- Cash and cash equivalents: $1,270,688
- Accounts receivable, net: 465,702
- Accrued interest receivable: 1,900
- Inventory - parts: 172,719
  - Restricted assets:
    - Cash and cash equivalents: 63,415
    - Unamortized bond issue cost: 19,789

**Total Current Assets**: 1,994,193

### Noncurrent:
- Restricted assets:
  - Cash and cash equivalents: 1,279,803
  - Non-Depreciable assets: 211,671
  - Depreciable capital assets, net: 18,217,745
  - Unamortized bond issue cost, net of current portion: 286,537

**Total Noncurrent Assets**: 19,995,756

**Total Assets**: $21,989,949

## Liabilities

### Current:
- Accounts payable: $460,080
- Accrued expenses: 44,980
- Accrued interest payable: 7,055
- Current portion of long-term debt: 1,033,750
- Current portion of compensated absences: 6,423

**Payable from restricted assets**:
- Customer deposits: 63,415
- Accrued interest payable: 109,573
- Current portion of long-term debt: 250,448

**Total Current Liabilities**: 1,975,724

### Noncurrent:
- Compensated absences, net of current portion: 6,423
- Long-term debt, net of current portion: 14,917,574

**Total Noncurrent Liabilities**: 14,923,997

**Total Liabilities**: 16,899,721

## Net Assets

- Invested in capital, net of related debt: 2,227,644
- Unrestricted: 1,942,802
- Restricted for debt service (expendable): 919,782

**Total Net Assets**: 5,090,228

**Total Liabilities and Net Assets**: $21,989,949

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The accompanying notes are an integral part of these financial statements.
Water Works Board of the City of Calera, Alabama
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2008

Operating Revenues
Utility receipts $ 2,341,127
Fees 357,896
Charges for services 50,023
Miscellaneous revenue 4,595

Total Operating Revenues 2,753,641

Operating Expenses
Personnel services 1,087,321
Supplies expense 325,462
Repairs and maintenance 240,127
Depreciation 512,779
Administrative expenses 268,324
Outside services 60,553

Total Operating Expenses 2,494,566

Operating Loss 259,075

Non Operating Revenues (Expenses)
Interest income 39,558
Interest expense (506,574)
Amortization expense (20,538)
Trustee fees (19,599)
Loss on disposal of capital assets (472)
Payments to City of Calera (18,086)
Donations of capital from City of Calera 8,329

Total Non Operating Revenues (Expenses) (517,382)

Change in Net Assets (258,307)

Net Assets, Beginning of Year 5,176,193

Prior Period Adjustment 172,342

Net Assets, End of Year $ 5,090,228

The accompanying notes are an integral part of these financial statements.
Water Works  Board of the City of Calera, Alabama
Statement of Cash Flows
For the Year Ended September 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES
Cash received from customers $ 2,764,251
Cash paid to employees (1,056,118)
Cash paid to suppliers for goods and services (785,861)

NET CASH PROVIDED BY OPERATING ACTIVITIES 922,272

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES
Payments to City of Calera (18,086)

NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES (18,086)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES
Purchase of property, plant, and equipment (8,888,031)
Proceeds from issuance of note payable 1,000,000
Principal payments on debt (296,538)
Interest payments on debt (696,514)
Trustee fees (19,599)

NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES (8,880,682)

CASH FLOWS FROM INVESTING ACTIVITIES
Interest on cash and investments 178,183

NET CASH PROVIDED BY INVESTING ACTIVITIES 178,183

NET DECREASE IN CASH AND CASH EQUIVALENTS (7,798,313)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 10,412,219

CASH AND CASH EQUIVALENTS AT END OF YEAR $ 2,613,906

The accompanying notes are an integral part of these financial statements.
**Water Works Board of the City of Calera, Alabama**  
**Statement of Cash Flows - Continued**  
**For the Year Ended September 30, 2008**

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents in current assets</td>
<td>$1,334,103</td>
</tr>
<tr>
<td>Restricted cash in noncurrent assets</td>
<td>$1,279,803</td>
</tr>
<tr>
<td><strong>TOTAL CASH AND CASH EQUIVALENTS</strong></td>
<td><strong>$2,613,906</strong></td>
</tr>
</tbody>
</table>

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>$259,075</td>
</tr>
<tr>
<td>Adjustments to reconcile operating income to net cash provided by operating activities:</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>$512,779</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>$33,123</td>
</tr>
<tr>
<td>(Increase) decrease in:</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>($32,273)</td>
</tr>
<tr>
<td>Inventory</td>
<td>$93,593</td>
</tr>
<tr>
<td>Increase (decrease) in:</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$15,012</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>$9,760</td>
</tr>
<tr>
<td>Compensated absences</td>
<td>$52</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>$31,151</td>
</tr>
<tr>
<td><strong>NET CASH PROVIDED BY OPERATING ACTIVITIES</strong></td>
<td><strong>$922,272</strong></td>
</tr>
</tbody>
</table>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

The Water Works Board of the City of Calera had amortization of bonds issue costs of $20,538, amortization of bond discounts of $8,879, and amortization on deferred refunding of bonds of $17,824.

The Water Works Board of the City of Calera received contributions of capital from the City in the amount of $8,329.

The accompanying notes are an integral part of these financial statements.
NOTE TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

Water Works Board
City of Calera, Alabama

NOTE A - SUMMARY OF ACCOUNTING POLICIES

1. Reporting Entity

The City of Calera Water Works Board (the Board) was created by the City of Calera, Alabama (the City) to provide water services to the City and surrounding communities. The Board is governed by a five member group appointed by the Calera City Council. For financial reporting purposes, the Board is a component unit of the City of Calera and is included in the financial reporting entity of the City.

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

The financial statements of the Water Board have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units. The more significant of the Board’s accounting policies are described below.

2. Measurement Focus/Basis of Accounting

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

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

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

The Water and Sewer Board applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board pronouncements, in which case, Governmental Accounting Standards Board prevails.

3. Cash

The Board’s cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit with original maturities of three months or less.
NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

4. Accounts Receivable

At September 30, 2008, the Board had net receivables from customers of $465,702.

An allowance for uncollectible accounts is provided based on historical evidence. At September 30, 2008, the Board provided $12,000 for uncollectible accounts.

5. Inventories

Inventories consist of supplies, valued at the lower of cost or market value. Cost is determined using a weighted average method. The cost of inventories is recorded as an expenditure/expense when consumed rather than when purchased.

6. Restricted Assets

Specific assets are segregated as to use and are therefore identified as restricted assets. Restricted assets, maintained by the Board and its trustee, are restricted pursuant to various bond indenture agreements. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Capital Assets

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

Assets capitalized have an original cost of $3,000 or more and five years or more of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

- Plant and distribution system: 40-50 Years
- Vehicles: 5 Years
- Other equipment and fixtures: 5-10 Years

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

8. Noncurrent Liabilities

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Warrant issuance costs and deferred amount of refunding are deferred and amortized over the life of the Bonds using the Bonds outstanding method. Bonds payable are recorded net of the applicable deferred amount of refunding. Warrant issuance costs are reported as deferred charges and amortized over the life of the related debt.
NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

9. Use of Estimates

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

10. Compensated Absences

The Board's vacation policy states that eligible employees can earn vacation leave which, if unused, is paid upon termination of employment. Vacation leave is earned at graduated rates based on the employee's length of service. An employee may carry forward a limited amount of vacation leave from one calendar year to the next. Any amount of vacation leave earned by an employee in excess of the limit but not used by the end of the calendar year is forfeited. Certain employees are permitted to accrue holiday leave for hours worked on holidays observed by the Board. An employee who resigns or retires in good standing shall be paid for all holiday leave accrued. The Board does not have a policy for vested sick pay, thus no liability for accumulated unpaid sick leave is reflected in the accompanying financial statements. The Board accrues liabilities for vacation leave and holiday leave in the amount that will be owed to employees upon termination of service.

NOTE B - DEPOSITS

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

The Board has an investment policy, the objective of which is to minimize credit rate and interest rate risk. The policy addresses risks as follows:

Credit Risk (Custodial Credit Risk and Concentration of Credit Risk)

The Board will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities authorized in Alabama Code section 19-3-120; and qualifying the institutions, brokers/dealers, intermediaries and advisors with which the City will do business.

The Board will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Board's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from one type of security or issuer will be minimized.

Investment Rate Risk

The Board will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual fund, or similar investment pools and limiting the average maturity schedule in accordance with the Board's cash requirements.
NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board
City of Calera, Alabama

September 30, 2008

NOTE B - DEPOSITS - CONTINUED

Foreign Currency Risk

The City is not authorized to invest in investments which have this type of risk.

Debt service trust funds are invested by banks’ trust departments in U.S. Government Securities and are not subject to collateralization requirements.

State statutes authorize the Board to invest in obligations of the U.S. Treasury, U.S. Corporate equities, State of Alabama obligations, county obligations, and other municipal obligations, as well as bank certificates of deposit and bank public funds investment accounts.

NOTE C - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2008 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Balance October 1</th>
<th>Additions/ Completions</th>
<th>Retirements/ Adjustments</th>
<th>Balance September 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital assets not being depreciated</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$106,653</td>
<td>$</td>
<td>$</td>
<td>$106,653</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>1,984,245</td>
<td>105,018</td>
<td>(1,984,245)</td>
<td>105,018</td>
</tr>
<tr>
<td>Total Capital assets not being depreciated</td>
<td>2,090,898</td>
<td>105,018</td>
<td>(1,984,245)</td>
<td>211,671</td>
</tr>
<tr>
<td>System and facilities</td>
<td>9,726,041</td>
<td>10,257,842</td>
<td>-</td>
<td>19,983,883</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>53,436</td>
<td>-</td>
<td>-</td>
<td>53,436</td>
</tr>
<tr>
<td>Vehicles</td>
<td>272,534</td>
<td>8,330</td>
<td>(12,542)</td>
<td>268,322</td>
</tr>
<tr>
<td>Equipment</td>
<td>1,088,939</td>
<td>21,195</td>
<td>(7,228)</td>
<td>1,102,906</td>
</tr>
<tr>
<td>Total capital assets being depreciated</td>
<td>11,140,950</td>
<td>10,287,367</td>
<td>(19,770)</td>
<td>21,408,547</td>
</tr>
<tr>
<td>Less accumulated depreciation for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System and facilities</td>
<td>1,923,344</td>
<td>327,694</td>
<td>-</td>
<td>2,251,038</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>1,343</td>
<td>1,336</td>
<td>-</td>
<td>2,679</td>
</tr>
<tr>
<td>Vehicles</td>
<td>134,185</td>
<td>40,810</td>
<td>(12,542)</td>
<td>162,453</td>
</tr>
<tr>
<td>Equipment</td>
<td>638,449</td>
<td>142,939</td>
<td>(6,756)</td>
<td>774,632</td>
</tr>
<tr>
<td>Total accumulated depreciation</td>
<td>2,697,321</td>
<td>512,779</td>
<td>(19,298)</td>
<td>3,190,802</td>
</tr>
<tr>
<td>Total capital assets, being depreciated, net</td>
<td>8,443,629</td>
<td>9,774,588</td>
<td>(472)</td>
<td>18,217,745</td>
</tr>
<tr>
<td>Water Works Board capital assets, net</td>
<td>$10,534,527</td>
<td>$9,879,606</td>
<td>$(1,984,717)</td>
<td>$18,429,416</td>
</tr>
</tbody>
</table>

Depreciation for the year ended September 30, 2008 was $512,779.
NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board
City of Calera, Alabama

NOTE D - LONG-TERM DEBT

Notes payable at September 30, 2008, are comprised of the following:

Note payable to Central State Bank for Meter
Monthly payment of $5,523 maturing in 2018, including
interest at 6.975%, using the simple interest method
secured by equipment. $ 481,726

Note payable to Central State Bank for capital
projects, dated August 1, 2008.
Outstanding principal plus interest due after 90 days, including
interest rate at 4.30% using the simple interest method, secured
by equipment 1,000,000

Total Notes Payable $1,481,726

Water revenue Bonds payable at September 30, 2008, are comprised of the following issues:

due in semi-annual installments through February 1,2023,
bearing interest rates of 4.00% to 5.35%. $ 1,988,568

2000 Water Revenue Bonds, dated November 15, 2000,
due in semi-annual installments through February 1, 2014
bearing interest rates of 4.75% to 5.50%. 803,477

2005 Water Revenue Bonds, dated August 1, 2005
due in semi-annual installments through February, 2026,
bearing interest rates of 3.70% to 4.30%. 3,358,915

2006 Water Revenue Bonds, dated September 1, 2006
due in semi-annual installments through February 1, 2036,
bearing interest rates of 3.50% to 4.35%. 8,569,086

Total Water Revenue Bonds Payable $14,720,046
### Long-Term Debt - Continued

A summary of long-term liability activity for the year ended September 30, 2008 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Balance</th>
<th>Issues or Additions</th>
<th>Payments or Expenditures</th>
<th>Balance October 1, 2007</th>
<th>2008</th>
<th>Due within one year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Bonds Payable</td>
<td>$14,958,343</td>
<td>$</td>
<td>$ (238,297)</td>
<td>$14,720,046</td>
<td>$250,448</td>
<td></td>
</tr>
<tr>
<td>Notes Payable</td>
<td>513,264</td>
<td>1,000,000</td>
<td>(31,538)</td>
<td>1,481,726</td>
<td>1,033,750</td>
<td></td>
</tr>
<tr>
<td>Compensated Absences</td>
<td>12,794</td>
<td>41,461</td>
<td>(41,409)</td>
<td>12,846</td>
<td>6,423</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>$15,484,401</strong></td>
<td><strong>$1,041,461</strong></td>
<td><strong>$ (311,244)</strong></td>
<td><strong>$16,214,618</strong></td>
<td><strong>$1,290,621</strong></td>
<td></td>
</tr>
</tbody>
</table>

The annual requirements to service the Board's debt obligations at September 30, 2008 are as follows:

<table>
<thead>
<tr>
<th>Year Ending September 30</th>
<th>Revenue Bonds Payable</th>
<th>Notes Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal</td>
<td>Interest</td>
</tr>
<tr>
<td>2009</td>
<td>$275,000</td>
<td>$651,266</td>
</tr>
<tr>
<td>2010</td>
<td>290,000</td>
<td>638,570</td>
</tr>
<tr>
<td>2011</td>
<td>305,000</td>
<td>624,972</td>
</tr>
<tr>
<td>2012</td>
<td>320,000</td>
<td>610,351</td>
</tr>
<tr>
<td>2013</td>
<td>335,000</td>
<td>594,818</td>
</tr>
<tr>
<td>2014-2018</td>
<td>1,910,000</td>
<td>2,729,406</td>
</tr>
<tr>
<td>2019-2023</td>
<td>2,385,000</td>
<td>2,256,253</td>
</tr>
<tr>
<td>2024-2028</td>
<td>2,955,000</td>
<td>1,676,654</td>
</tr>
<tr>
<td>2029-2033</td>
<td>3,665,000</td>
<td>975,944</td>
</tr>
<tr>
<td>2034-2038</td>
<td>2,610,000</td>
<td>171,563</td>
</tr>
<tr>
<td><strong>$15,050,000</strong></td>
<td><strong>$10,929,797</strong></td>
<td><strong>$1,481,726</strong></td>
</tr>
</tbody>
</table>

In a prior year, the Board defeased $3,180,000 of Series 2000 Bonds by placing new warrant proceeds in an irrevocable trust to provide for future debt service payments on the defeased Bonds. Accordingly, the trust account assets and liability for the defeased Bonds are not included in the Board's financial statements. At September 30, 2008, $3,180,000 of defeased Bonds are still outstanding.
NOTE D -  LONG-TERM DEBT – CONTINUED

Interest Capitalization

Interest costs are capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Interest revenue used to offset interest cost was $108,961 for the year ended September 30, 2008. Total interest cost incurred for the year ended September 30, 2008 was $381,224. Interest capitalized was $120,353 and interest expensed was $651,910 for the year ended September 30, 2008.

NOTE E -  PENSION PLAN (CITY-WIDE NOTE)

Plan Description

The City of Calera 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 agent for the various state agencies and departments. The Board makes contributions to the same Retirement System account used by the City. Therefore, retirement information for the Board is included in the information of the City.

Substantially all employees are members of the Employees' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the Board. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) 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 is provided to plan members.

The Employees' Retirement System 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 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 36-27-120 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.
NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board of the
City of Calera, Alabama

September 30, 2008

NOTE E - PENSION PLAN (CITY-WIDE NOTE) – CONTINUED

Funding Policy

Calera Employees' Pension Plan members are required to contribute 5% of their annual covered salary, except for certified full-time firefighters, who, as of January 1, 2001, are required to contribute 6% of their annual covered salary. The Board is required to contribute at an actuarially determined rate; the current rate is 7.87% of annual covered payroll. The contribution requirements of plan members and the Board are established and may be amended by The Retirement Systems of Alabama.

Annual Pension Cost

For September 30, 2008, the City's annual pension cost (which includes the Water Works Board) of $561,887 was equal to the City's required and actual contributions. The required contribution was determined as part of the September 30, 2007, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return (b) projected salary increases ranging from 4.61% to 7.75% per year and (c) no cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of assets was determined using the 5-year smoothed market method. Calera Employees' Pension Plan unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

The remaining amortization period at September 30, 2007, was 20 years.

Three Year Trend Information (includes Water Works Board information)

<table>
<thead>
<tr>
<th>Fiscal Year Ending September 30</th>
<th>Annual Pension Costs</th>
<th>Percentage of Annual Pension Cost Contributed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$ 504,700</td>
<td>100%</td>
</tr>
<tr>
<td>2006</td>
<td>432,150</td>
<td>100%</td>
</tr>
<tr>
<td>2005</td>
<td>371,971</td>
<td>100%</td>
</tr>
</tbody>
</table>

Schedule of Funding Progress for Calera Employees' Pension Plan

<table>
<thead>
<tr>
<th>Actuarial Valuation Date</th>
<th>Actuarial Value of Assets</th>
<th>Actuarial Value of Entry Age</th>
<th>Actuarial Value of AAL</th>
<th>Actuarial Value of UAAL</th>
<th>Actuarial Value of Funded AAL</th>
<th>Actuarial Value of Funded Ratio</th>
<th>Actuarial Value of Covered Payroll</th>
<th>Actuarial Value of Covered Payroll as a Percentage of Covered Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/30/2002</td>
<td>3,370,790</td>
<td>4,459,458</td>
<td>1,088,668</td>
<td>3,135,519</td>
<td>75.6%</td>
<td>3,824,289</td>
<td>38.2%</td>
<td></td>
</tr>
<tr>
<td>9/30/2003</td>
<td>3,908,636</td>
<td>5,369,907</td>
<td>1,461,272</td>
<td>3,824,289</td>
<td>72.8%</td>
<td>3,824,289</td>
<td>38.2%</td>
<td></td>
</tr>
<tr>
<td>9/30/2004</td>
<td>4,550,542</td>
<td>6,030,963</td>
<td>1,480,421</td>
<td>4,433,460</td>
<td>75.5%</td>
<td>4,433,460</td>
<td>33.4%</td>
<td></td>
</tr>
<tr>
<td>9/30/2005</td>
<td>5,364,394</td>
<td>7,191,039</td>
<td>1,826,645</td>
<td>5,265,682</td>
<td>74.6%</td>
<td>5,265,682</td>
<td>34.7%</td>
<td></td>
</tr>
<tr>
<td>9/30/2006</td>
<td>6,282,539</td>
<td>8,945,996</td>
<td>2,663,457</td>
<td>5,961,601</td>
<td>70.2%</td>
<td>5,961,601</td>
<td>44.7%</td>
<td></td>
</tr>
<tr>
<td>9/30/2007</td>
<td>7,427,642</td>
<td>10,369,828</td>
<td>2,942,186</td>
<td>6,527,054</td>
<td>71.6%</td>
<td>6,527,054</td>
<td>45.1%</td>
<td></td>
</tr>
</tbody>
</table>
NOTES TO FINANCIAL STATEMENTS - CONTINUED

Water Works Board of the
City of Calera, Alabama

September 30, 2008

NOTE F - OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Board follows the same employee policies adopted by the City of Calera. On April 7, 2008, the City adopted a post employment health insurance policy to make available post-retirement health insurance benefits to qualifying individuals. This policy allows qualifying retired employee and their surviving spouse to continue health insurance coverage under a plan designated by the State Employees Benefits Board (SEIB). The criteria to determine eligibility include the following:

- The employee must be full-time, including all elected officials, and retire subsequent to the date of the Ordinance and draw a monthly retirement check;
- The employee is required to have 25 years of creditable service, regardless of age, or the employee must have 10 years of service and be at least 60 years old or determined to be disabled by the Social Security Administration or the Retirement System of Alabama;
- The employee must enroll on the date he or she first becomes eligible for retiree health benefits. If coverage is declined, enrollment will not be allowed after the retirement date.
- Employees enrolling in the Local Government Health Insurance Program (LGHIP) under the SEIB on or after January 1, 2005, must have been enrolled in the health plan for 10 years prior to the date of retirement.
- A retiring elected official who is not eligible to receive the same pension benefits from the City due to local, state or federal law as full-time employees may be eligible to elect to continue coverage if the retired official has at least 25 years of service with the City, regardless of age, and has enrolled in the LGHIP for at least 10 years prior to the date of retirement. Before the SEIB will consider coverage for such a retired elected official, the City must submit an elected official retiree enrollment form (Form LG10) which will include reference to the local, state, or federal law the prohibits pension benefits and certify that no local, state, or federal law will be violated by continuing the retired elected official's health insurance coverage.

Eligible individuals will be allowed to subscribe to health insurance through the Board for either the employee only or for the employee and family. The City assumes responsibility for the premium up to a limited amount. For the year ended September 30, 2008, the City incurred post employee health benefit expenses in the amount of $69,603. As of September 30, 2008, there were eight retirees participating in the City retiree health insurance policy. Of those retirees, none were Water Board retirees.

As a Phase II implementer, the City of Calera is required to comply with Governmental Accounting Standards Board Statement No. 45 beginning in the fiscal year ending September 30, 2009. The effects of implementing the provisions of GASB 45 are estimated to create an Annual Required Contribution liability of approximately $200,000 for the City of Calera as a whole (including the Water Works Board).

NOTE G - TRUST INDENTURE COVENANTS

The Series 1998, Series 2000, Series 2005, and Series 2006 Water Revenue Bonds are secured by a pledge of all operating revenues after the payment of operating expenses. The bond indentures contain various covenants, including a prohibition against providing free service, an agreement to maintain rates adequate to pay all operating expenses and produce at least a specified net income, and to promptly discontinue service for nonpayment. The bond indentures require that the Water Works Board charge rates for water and other services provided by the Board sufficient to maintain a Debt Service Ratio (as defined in the agreement) of not less than 1.25 to 1. For the current year, the Board is not in compliance with this provision of the Trust Indenture Agreement.
NOTE H - PAYMENTS BETWEEN THE CITY AND THE WATER WORKS BOARD

The Water Works Board makes payments to the City of Calera to be used in the normal course of operations. During the year ended September 30, 2008, the Water Works Board contributed $18,086 to the City of Calera, Alabama.

NOTE I - PRIOR PERIOD ADJUSTMENTS

Beginning net assets for the Board were increased by $27,106 to reflect a decrease in beginning accrued compensated absences, increased by $202,232 to reflect a decrease in beginning accumulated depreciation, decreased by $17,968 to reflect a decrease in unamortized warrant issue costs, and decreased by $39,028 to reflect an increase in beginning unamortized deferred amount on refunding of Bond Series 2000. The net change in beginning net assets is an increase of $172,342.

NOTE J - RISK MANAGEMENT

The Water Works Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation; and natural disaster for which the Board carries commercial insurance.

NOTE K - SUBSEQUENT EVENTS

The Water Works Board is scheduled to issue Water Revenue Bonds in the amount of $3,790,000 on July 16, 2009. The bonds are tentatively to be used for a current refunding of Series 1998 Bonds, to retire a note payable to Central State Bank, and for new water storage tanks and water lines.