

**CITY OF FLORENCE, ALABAMA  
ELECTRICITY, GAS, AND  
WATER AND WASTEWATER DEPARTMENTS  
FINANCIAL STATEMENTS  
JUNE 30, 2011 and 2010**



**CITY OF FLORENCE, ALABAMA  
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>Independent Auditor’s Report</b>	1 – 2
<b>Management Discussion and Analysis</b>	3 – 14
<b>Financial Statements:</b>	
<b><u>Electricity Department</u></b>	
Balance Sheets	15
Statements of Revenues, Expenses, and Changes in Fund Net Assets	16
Statements of Cash Flows	17 – 18
<b><u>Gas Department</u></b>	
Balance Sheets	19
Statements of Revenues, Expenses, and Changes in Fund Net Assets	20
Statements of Cash Flows	21 – 22
<b><u>Water and Wastewater Department</u></b>	
Balance Sheets	23
Statements of Revenues, Expenses, and Changes in Fund Net Assets	24
Statements of Cash Flows	25 – 26
Notes to Financial Statements	27 – 44
<b>Required Supplementary Information:</b>	
<b><u>Electricity Department</u></b>	
Schedule of Revenues, Expenses, and Changes in Fund Net Assets— Budget and Actual (GAAP Budgetary Basis)	45
<b><u>Gas Department</u></b>	
Schedule of Revenues, Expenses, and Changes in Fund Net Assets— Budget and Actual (GAAP Budgetary Basis)	46
<b><u>Water and Wastewater Department</u></b>	
Schedule of Revenues, Expenses, and Changes in Fund Net Assets— Budget and Actual (GAAP Budgetary Basis)	47
Schedules of Funding Progress	48
<b>Supplementary Schedules Section:</b>	
<b><u>Graphical Representation</u></b>	
Source of Funds	49
Use of Funds	50
<b><u>Electricity Department</u></b>	
Schedule of Utility Plant in Service and Accumulated Depreciation	51
<b><u>Gas Department</u></b>	
Schedule of Utility Plant in Service and Accumulated Depreciation	52
<b><u>Water and Wastewater Department</u></b>	
Schedule of Utility Plant in Service and Accumulated Depreciation	53
Schedule of Revenues and Expenses—Killen System	54



Charles L. Watkins, CPA  
M. Buddy Johnsey, III, CPA

*Member of*  
American Institute of CPA's  
AICPA Private Companies  
Practice Section  
Alabama Society of CPA's

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Florence, Alabama Electricity, Gas, and Water and Wastewater Departments

We have audited the accompanying financial statements of the Electricity, Gas, and Water and Wastewater Departments of the City of Florence, Alabama, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the City of Florence, Alabama's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Electricity, Gas, and Water and Wastewater Departments of the City of Florence, Alabama and do not purport to, and do not, present fairly the financial position of the City of Florence, Alabama, as of June 30, 2011 and 2010, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electricity, Gas, and Water and Wastewater Departments of the City of Florence, Alabama, as of June 30, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of funding progress on pages 3 through 14 and pages 45 through 48 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 our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



The CPA. Never Underestimate The Value.®

516 East Mobile Street • Florence, Alabama 35630-4747 • Phone (256) 767-0021 • Fax (256) 767-1491

[www.wjpc.com](http://www.wjpc.com)

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Electricity, Gas, and Water and Wastewater Departments of the City of Florence, Alabama's basic financial statements. The supplementary schedules section is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "The Watkins Johnsey Professional Group, P.C." in a cursive script.

The Watkins Johnsey Professional Group, P.C.  
Florence, Alabama  
December 27, 2011

**CITY OF FLORENCE, ALABAMA  
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR 2011**

**FINANCIAL HIGHLIGHTS**

- The individual enterprise funds experienced the following changes in net assets: Electricity increased \$5.5 million or 8%; Gas increased \$.7 million or 2%; Water and Wastewater increased \$3.0 million or 5%.
- The individual enterprise funds experienced the following changes in net utility plant: Electricity increased \$1.2 million or 2%; Gas decreased \$.4 million or 1%; Water and Wastewater decreased \$.7 million or 1%.
- The individual enterprise funds experienced the following changes in operating revenues: Electricity increased \$13.8 million or 12%; Gas decreased \$5.3 million or 23%; Water and Wastewater increased \$.7 million or 4%.
- The individual enterprise funds experienced the following changes in operating expenses: Electricity increased \$13.8 million or 13%; Gas decreased \$4.1 million or 19%; Water and Wastewater increased \$.7 million or 5%.
- The individual enterprise funds experienced the following changes in nonoperating revenues: Electricity decreased about \$59,500 or 26%; Gas increased about \$24,500 or 19%; Water and Wastewater decreased about \$42,300 or 70%.
- The individual enterprise funds experienced the following changes in nonoperating expenses: Electricity decreased \$30,300 or 11%; Gas decreased about \$228,400 or almost 100%; Water and Wastewater decreased \$455,200 or 22%.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

Florence Utilities is accounted for through three separate enterprise funds – Electricity, Natural Gas, and Water and Wastewater. This annual report contains the financial statements of each of these funds.

This annual report consists of three parts: Management's Discussion and Analysis, Financial Statements, and Supplementary Information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

**REQUIRED FINANCIAL STATEMENTS**

The financial statements of Florence Utilities report information about Florence Utilities using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

The Balance Sheet includes all of each fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Florence Utilities' creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of Florence Utilities, and assessing the liquidity and financial flexibility of Florence Utilities.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. This statement measures the success of Florence Utilities' operations over the past year and can be used to determine whether Florence Utilities has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

The other required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about Florence Utilities cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities; and provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

## FINANCIAL ANALYSIS OF FLORENCE UTILITIES

One of the most important questions asked about Florence Utilities' finances is that "Is Florence Utilities, as a whole, better off or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report information about Florence Utilities' activities in a way that will help answer this question. These two statements report the net assets of each fund and the changes in them. You can think of each fund's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in net assets are one indicator of whether its financial health is improving or deteriorating. However, you will also need to consider other non-financial factors such as the changes in economic conditions, weather, customer growth, and regulatory and legislative mandates.

### Electricity Department

The Electricity Department's net assets increased from last year by \$5,496,073 or about 8%. The summaries below focus on the Electricity Department's net assets and changes in net assets during the years presented.

#### Electricity Department Net Assets

	FY 2011	FY 2010	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 36,410,010	\$ 29,115,178	\$ 7,294,832	25.06%
Capital Assets, Net	71,077,487	69,902,278	1,175,209	1.68%
Other Noncurrent Assets	7,989,068	7,516,094	472,974	6.29%
Total Assets	<u>\$ 115,476,565</u>	<u>\$ 106,533,550</u>	<u>\$ 8,943,015</u>	<u>8.39%</u>
Current Liabilities	\$ 25,688,123	\$ 22,131,529	\$ 3,556,594	16.07%
Noncurrent Liabilities	13,109,735	13,219,387	(109,652)	-0.83%
Total Liabilities	<u>\$ 38,797,858</u>	<u>\$ 35,350,916</u>	<u>\$ 3,446,942</u>	<u>9.75%</u>
Invested in Capital Assets, Net of Related Debt	\$ 65,045,943	\$ 63,196,791	\$ 1,849,152	2.93%
Restricted	974,559	990,244	(15,685)	-1.58%
Unrestricted	10,658,205	6,995,599	3,662,606	52.36%
Total Net Assets	<u>\$ 76,678,707</u>	<u>\$ 71,182,634</u>	<u>\$ 5,496,073</u>	<u>7.72%</u>

Changes in the Electricity Department's net assets can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets for the years presented.

As the table below indicates, operating revenues increased approximately \$13.8 million or about 12% from FY 2010. During FY 2011, TVA had twelve rate changes to its distributors under its monthly fuel cost adjustment provisions. Florence Utilities passed these rate changes along to our customers, resulting in an increase in both sales revenues and cost of sales. Our corresponding rate changes were revenue neutral for us. In FY 2011, we experienced approximately a 3% increase in kWh sold over that for FY 2010. In April and May 2011, our electrical system suffered damages from tornadoes. We submitted claims for damages to FEMA and the Alabama Emergency Management Agency. These claims are shown as capital contributions in compliance with GASB 34. The Electricity Department continues to experience very low interest revenues caused by very low interest rates. The Electricity Department experienced a decrease in nonoperating expenses by \$30,346 or about 11%, primarily interest expense.

Electricity Department  
Statements of Revenues, Expenses, and Changes in Fund Net Assets

	FY 2011	FY 2010	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	\$ 125,107,873	\$ 111,296,454	\$ 13,811,419	12.41%
Operating Expenses				
Cost of Sales	\$ 99,892,949	\$ 87,239,996	\$ 12,652,953	14.50%
Operations	8,077,065	8,258,922	(181,857)	-2.20%
Maintenance	5,414,492	4,244,630	1,169,862	27.56%
Depreciation	4,417,680	4,342,399	75,281	1.73%
Taxes and Tax Equivalents	3,114,742	3,070,324	44,418	1.45%
Total Operating Expenses	\$ 120,916,928	\$ 107,156,271	\$ 13,760,657	12.84%
Operating Income	\$ 4,190,945	\$ 4,140,183	\$ 50,762	1.23%
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 170,230	\$ 229,698	\$ (59,468)	-25.89%
Nonoperating Expenses	(253,837)	(284,183)	30,346	-10.68%
Total Nonoperating Revenues (Exp)	\$ (83,607)	\$ (54,485)	\$ (29,122)	53.45%
Income before Contributions	\$ 4,107,338	\$ 4,085,698	\$ 21,640	0.53%
Capital Contributions	1,388,735	-	1,388,735	N/A
Change in Net Assets	\$ 5,496,073	\$ 4,085,698	\$ 1,410,375	34.52%
Total Net Assets - Beginning	71,182,634	67,096,936	4,085,698	6.09%
Total Net Assets - Ending	\$ 76,678,707	\$ 71,182,634	\$ 5,496,073	7.72%

Gas Department

The Gas Department's net assets increased from last year by \$652,229 or about 2%. The summaries below focus on the Gas Department's net assets and changes in net assets during the years presented.

Gas Department  
Net Assets

	FY 2011	FY 2010	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 11,703,160	\$ 10,899,434	\$ 803,726	7.37%
Capital Assets, Net	31,543,020	31,945,854	(402,834)	-1.26%
Other Noncurrent Assets	353	706	(353)	-50.00%
Total Assets	<u>\$ 43,246,533</u>	<u>\$ 42,845,994</u>	<u>\$ 400,539</u>	<u>0.93%</u>
Current Liabilities	\$ 1,105,950	\$ 1,373,500	\$ (267,550)	-19.48%
Noncurrent Liabilities	327,019	311,159	15,860	5.10%
Total Liabilities	<u>\$ 1,432,969</u>	<u>\$ 1,684,659</u>	<u>\$ (251,690)</u>	<u>-14.94%</u>
Invested in Capital Assets, Net of Related Debt	\$ 31,543,020	\$ 31,945,854	\$ (402,834)	-1.26%
Unrestricted	10,270,544	9,215,481	1,055,063	11.45%
Total Net Assets	<u>\$ 41,813,564</u>	<u>\$ 41,161,335</u>	<u>\$ 652,229</u>	<u>1.58%</u>

Changes in the Gas Department's net assets can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets for the years presented.

As the following table indicates, operating revenues decreased approximately \$5.3 million or about 23% from FY 2010. The Gas Department had three general rate changes in FY 2011 – effective July 2010, August 2010, and February 2011. These rate changes reflected the varying costs in the natural gas market. The Gas Department experienced an approximate 3.5% decrease in overall sales volume in FY 2011 over FY 2010. Cost of sales decreased by \$4.6 million or about 32% due to decreased gas prices and decreased sales volumes. The Gas Department experienced an increase in nonoperating revenues of \$24,453 or about 19%. The Gas Department experienced a decrease in nonoperating expenses of \$228,447 or almost 100%.



Gas Department  
Statements of Revenues, Expenses, and Changes in Fund Net Assets

	FY 2011	FY 2010	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	\$ 17,696,281	\$ 22,947,041	\$ (5,250,760)	-22.88%
Operating Expenses				
Cost of Sales	\$ 9,636,273	\$ 14,232,153	\$ (4,595,880)	-32.29%
Operations	2,991,550	2,727,285	264,265	9.69%
Maintenance	1,701,447	1,520,338	181,109	11.91%
Depreciation and Amortization	1,331,355	1,327,255	4,100	0.31%
Taxes and Tax Equivalents	1,533,703	1,522,031	11,672	0.77%
Total Operating Expenses	\$ 17,194,328	\$ 21,329,062	\$ (4,134,734)	-19.39%
Operating Income	\$ 501,953	\$ 1,617,979	\$ (1,116,026)	-68.98%
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 150,629	\$ 126,176	\$ 24,453	19.38%
Nonoperating Expenses	(353)	(228,800)	228,447	-99.85%
Total Nonoperating Revenues (Exp)	\$ 150,276	\$ (102,624)	\$ 252,900	-246.43%
Change in Net Assets	\$ 652,229	\$ 1,515,355	\$ (863,126)	-56.96%
Total Net Assets - Beginning	41,161,335	39,645,980	1,515,355	3.82%
Total Net Assets - Ending	\$ 41,813,564	\$ 41,161,335	\$ 652,229	1.58%

Water and Wastewater Department

The Water and Wastewater Department's net assets increased from last year by \$2,993,359 or about 5%. The summaries below focus on the Water and Wastewater Department's net assets and changes in net assets during the years presented.

Water and Wastewater Department				
<u>Net Assets</u>				
	FY 2011	FY 2010	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 8,946,283	\$ 8,706,400	\$ 239,883	2.76%
Capital Assets, Net	99,717,962	100,469,104	(751,142)	-0.75%
Other Noncurrent Assets	24,517,188	5,713,456	18,803,732	329.11%
Total Assets	<u>\$ 133,181,433</u>	<u>\$ 114,888,960</u>	<u>\$ 18,292,473</u>	<u>15.92%</u>
Current Liabilities	\$ 5,133,264	\$ 6,277,652	\$ (1,144,388)	-18.23%
Noncurrent Liabilities	62,742,040	46,298,538	16,443,502	35.52%
Total Liabilities	<u>\$ 67,875,304</u>	<u>\$ 52,576,190</u>	<u>\$ 15,299,114</u>	<u>29.10%</u>
Invested in Capital Assets, Net of Related Debt	\$ 33,807,580	\$ 49,919,429	\$ (16,111,849)	-32.28%
Restricted	23,307,583	5,316,639	17,990,944	338.39%
Unrestricted	8,190,966	7,076,702	1,114,264	15.75%
Total Net Assets	<u><u>\$ 65,306,129</u></u>	<u><u>\$ 62,312,770</u></u>	<u><u>\$ 2,993,359</u></u>	<u><u>4.80%</u></u>

Changes in the Water and Wastewater Department's net assets can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets for the years presented.

As the following table indicates, operating revenues increased approximately \$676,300 or about 4% from FY 2010 revenues. The small increase in operating revenues, despite a rate increase, was largely due to decreased residential water sales. Operating expenses increased by \$672,100 or about 5%. The Water and Wastewater Department experienced a decrease in nonoperating revenues of \$42,332 or 70% due to declining interest income. The Water and Wastewater Department experienced a decrease in nonoperating expenses of \$455,230 or 22%.

Water and Wastewater Department  
Statements of Revenues, Expenses, and Changes in Fund Net Assets

	FY 2011	FY 2010	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	\$ 17,772,918	\$ 17,096,627	\$ 676,291	3.96%
Operating Expenses				
Water Treatment and Pumping	\$ 2,586,594	\$ 2,431,728	\$ 154,866	6.37%
Sewage Disposal	2,305,109	2,085,509	219,600	10.53%
Transmission and Distribution	1,268,397	1,171,219	97,178	8.30%
Accounting and Collections	1,033,598	1,094,583	(60,985)	-5.57%
Administrative and General	1,562,459	1,494,688	67,771	4.53%
Depreciation	2,910,272	2,776,120	134,152	4.83%
Taxes and Tax Equivalents	1,522,344	1,462,860	59,484	4.07%
Total Operating Expenses	<u>\$ 13,188,773</u>	<u>\$ 12,516,707</u>	<u>\$ 672,066</u>	<u>5.37%</u>
Operating Income	<u>\$ 4,584,145</u>	<u>\$ 4,579,920</u>	<u>\$ 4,225</u>	<u>0.09%</u>
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 18,052	\$ 60,384	\$ (42,332)	-70.10%
Nonoperating Expenses	(1,608,838)	(2,064,068)	455,230	-22.05%
Total Nonoperating Revenues (Exp)	<u>\$ (1,590,786)</u>	<u>\$ (2,003,684)</u>	<u>\$ 412,898</u>	<u>-20.61%</u>
Change in Net Assets	\$ 2,993,359	\$ 2,576,236	\$ 417,123	16.19%
Total Net Assets - Beginning	<u>62,312,770</u>	<u>59,736,534</u>	<u>2,576,236</u>	<u>4.31%</u>
Total Net Assets - Ending	<u><u>\$ 65,306,129</u></u>	<u><u>\$ 62,312,770</u></u>	<u><u>\$ 2,993,359</u></u>	<u><u>4.80%</u></u>

**BUDGETARY HIGHLIGHTS**

As required, the City Council adopts a budget for each enterprise fund comprising the Florence Utilities. The FY 2011 original budgets for the Gas and Water and Wastewater Departments were adopted on June 15, 2010. The original budget for the Electricity Department was adopted on September 7, 2010. The budgets for the Electricity Department, Gas Department, and the Water and Wastewater Department were amended on October 5, 2010. A budget comparison statement is prepared monthly for each department for internal use and is distributed to elected officials and the appropriate management personnel. A budget comparison report is included for the Electricity Department, Gas Department, and the Water and Wastewater Department in the Required Supplementary Information Section of this annual report. Following is a summarized report and brief explanation of highlights.

Electricity Department

Electricity Department  
 Schedule of Revenues, Expenses, and Changes in Fund Net Assets  
 Budget and Actual (GAAP Budgetary Basis)  
 For Year Ended June 30, 2011

	Final		Variance	
	Budget	Actual	Dollars	Percent
Operating Revenues	\$ 113,675,500	\$ 125,107,873	\$ 11,432,373	10.06%
Operating Expenses	111,255,200	120,916,928	(9,661,728)	-8.68%
Operating Income	\$ 2,420,300	\$ 4,190,945	\$ 1,770,645	73.16%
Nonoperating Revenues (Expenses)	(71,500)	(83,607)	(12,107)	16.93%
Income before Contributions	2,348,800	4,107,338	1,758,538	74.87%
Capital Contributions	-	1,388,735	1,388,735	
Change in Net Assets	\$ 2,348,800	\$ 5,496,073	\$ 3,147,273	133.99%

As the above budget report shows, the Electricity Department exceeded the budgeted Change in Net Assets by \$3,147,273. This is approximately 2.8% of budgeted operating revenues. As you can see on the budget schedule in the required supplementary information, the sales of electricity to residential and large customers accounted for most of the budget operating revenues variance amount. The large difference of actual over budgeted operating expenses is primarily due to the increased cost of sales due to increased sales. The remaining total variance is due to smaller variances, both positive and negative, over a large number of accounts. In FY 2011, we had unbudgeted capital contributions of \$1,388,735. This represents reimbursement claims to FEMA and AEMA due to storm damages in April and May 2011.

Gas Department

Gas Department  
 Schedule of Revenues, Expenses, and Changes in Fund Net Assets  
 Budget and Actual (GAAP Budgetary Basis)  
 For Year Ended June 30, 2011

	Final		Variance	
	Budget	Actual	Dollars	Percent
Operating Revenues	\$ 19,352,600	\$ 17,696,281	\$ (1,656,319)	-8.56%
Operating Expenses	18,840,700	17,194,328	1,646,372	8.74%
Operating Income	\$ 511,900	\$ 501,953	\$ (9,947)	-1.94%
Nonoperating Revenues (Expenses)	18,600	150,276	131,676	707.94%
Change in Net Assets	\$ 530,500	\$ 652,229	\$ 121,729	22.95%

The Gas Department exceeded budgeted Change in Net Assets by \$121,729, or approximately 1% of budgeted operating revenues. As you can see on the budget schedule in the required supplementary information, the total variance is accounted for by a combination for positive and negative variances. The large variance in budgeted operating revenues was largely offset by the variance in cost of sales. There was unbudgeted nonoperating revenue of \$125,140 representing a partial reimbursement from Tennessee Gas Pipeline Company of recoverable costs of the PCB/HSL Project beginning in 1992.

Water and Wastewater Department

Water and Wastewater Department  
 Schedule of Revenues, Expenses, and Changes in Fund Net Assets  
 Budget and Actual (GAAP Budgetary Basis)  
 For Year Ended June 30, 2011

	Final Budget	Actual	Variance	
			Dollars	Percent
Operating Revenues	\$ 17,815,200	\$ 17,772,918	\$ (42,282)	-0.24%
Operating Expenses	13,158,900	13,188,773	(29,873)	-0.23%
Operating Income	\$ 4,656,300	\$ 4,584,145	\$ (72,155)	-1.55%
Nonoperating Revenues (Expenses)	(1,867,700)	(1,590,786)	276,914	-14.83%
Change in Net Assets	\$ 2,788,600	\$ 2,993,359	\$ 204,759	7.34%

The Water and Wastewater Department exceeded the budgeted Change in Net Assets by \$204,759. This represents about 1.1% of final budgeted operating revenues. As you can see on the budget schedule in the required supplementary information, there was a combination for positive and negative variances for many accounts. There was a relative large variance for nonoperating expenses. The decrease in interest expense due to refinancing of our SRF warrants in FY 2011 was not reflected in the budget.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

At the end of FY 2011, capital assets comprised the majority of each fund's assets. The following are summaries highlighting each fund's changes in capital assets. Information that is more detailed is presented for each department in the supplementary schedules section.

Electricity Department

Electricity Department  
 Capital Assets, Net  
 FY 2011

	FY 2011	FY 2010	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 143,086,193	\$ 139,892,178	\$ 3,194,015	2.28%
Construction in Progress	3,166,916	1,376,323	1,790,593	130.10%
Less: Accumulated Depreciation	(75,175,622)	(71,366,223)	(3,809,399)	5.34%
Net Utility Plant	\$ 71,077,487	\$ 69,902,278	\$ 1,175,209	1.68%

As the above table shows, the Electricity Department experienced a 1.68% increase in net utility plant. The department plans to finance capital expenditures in FY 2012 through cash generated from operations.

Gas Department

Gas Department  
Capital Assets, Net  
FY 2011

	FY 2011	FY 2010	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 52,178,039	\$ 51,507,281	\$ 670,758	1.30%
Acquisition Adjustment (net of amortization)	211,447	222,108	(10,661)	-4.80%
Construction in Progress	37,765	44,936	(7,171)	-15.96%
Less: Accumulated Depreciation	(20,884,231)	(19,828,471)	(1,055,760)	5.32%
Net Utility Plant	<u>\$ 31,543,020</u>	<u>\$ 31,945,854</u>	<u>\$ (402,834)</u>	<u>-1.26%</u>

As the above table shows, the Gas Department decreased net utility plant by 1.26%. The department plans to finance capital expenditures in FY 2012 through cash reserves and cash generated from current operations.

Water and Wastewater Department

Water and Wastewater Department  
Capital Assets, Net  
FY 2011

	FY 2011	FY 2010	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 144,138,069	\$ 143,132,371	\$ 1,005,698	0.70%
Construction in Progress	1,155,657	69,299	1,086,358	1567.64%
Less: Accumulated Depreciation	(45,575,764)	(42,732,566)	(2,843,198)	6.65%
Net Utility Plant	<u>\$ 99,717,962</u>	<u>\$ 100,469,104</u>	<u>\$ (751,142)</u>	<u>-0.75%</u>

As the above table shows, the Water and Wastewater Department decreased net utility plant by .75%. The department plans to finance capital expenditures in FY 2012 with cash generated from operations, the remaining balance of the 2007 SRF Warrants, and the proceeds from the \$20.6 million Water & Sewer Revenue Warrants, Series 2011, issued in June 2011.

## Long-term Debt

During FY 2011, each department had outstanding warrants. The amount and discussion of these issues are discussed more fully in the notes to financial statements.

### Electricity Department

The Electricity Department has two warrant issues as described in the notes to financial statements, outstanding at year-end. The Electric Revenue Refunding Warrants, Series 2009, interest rates range from 1.50% to 3.65%. It was issued with an underlying A1 and AA- by Moody's and Standard & Poor's, respectively. This issue requires that the Electricity Department's Annual Net Income (as defined in the indenture) be at least 1.25 times the maximum Annual Debt Service Requirement. For FY 2011, the Electricity Department exceeded that requirement at about 13.96 times.

The other issue outstanding is a line of credit warrant with CB&S Bank, the Electric Taxable Revenue Warrants, Series 2008, issued in April 2008. At year-end, there was no outstanding balance on it. The Department did not utilize this line of credit during FY 2011. This line of credit is available until January 2013. This warrant has an interest rate of 4.99%.

### Gas Department

The Gas Department has one outstanding issue at year-end. It is a line of credit warrant with CB&S Bank, the Natural Gas Taxable Revenue Warrants, Series 2008, issued April 2008. At year-end, there was no outstanding balance on it. The Department did not utilize this line of credit during FY 2011. This line of credit is available until July 2012. This warrant has an interest rate of 4.99%.

### Water and Wastewater Department

The Water and Wastewater Department has seven warrant issues outstanding at year-end as described in the notes to financial statements. These issues are (1) Water and Sewer Revenue Warrants, SRF Series 2006, interest rate 3.25%, (2) Water and Sewer Revenue Warrants, SRF Series 2007, interest rate 3.5%, (3) Water and Sewer Revenue Warrants, SRF Series 2010-A, interest rate 2.61%, (4) Water and Sewer Revenue Warrants, SRF Series 2010-B, interest rate 2.57%, (5) Water and Sewer Revenue Warrants, SRF Series 2010-C, interest rate 2.57%, (6) Water and Sewer Revenue Warrants, SRF Series 2010-D, interest rate 2.57%, and (7) Water and Sewer Revenue Warrants, Series 2011, interest rates ranging from 3.25% to 5%. The SRF warrants are issued through a federally funded (EPA) loan program to states for wastewater improvements. In Alabama, this program is administered by ADEM. The SRF series warrants are financing massive renovations of portions of our wastewater system. At year-end, approximately \$2.2 million remains available of the 2007 issue. The 2011 Series is insured by Assured Guaranty Municipal Corp. The Department received an Aa3 (Negative Outlook) with an A1 (underlying rating) from Moody's at its issue. The Department received an AA+ (Stable Outlook) with an AA- (underlying rating) from Standard & Poor's at its issue.

The 2011 issue requires that the Water and Wastewater Department's Annual Net Income (as defined in the indenture) be at least 1.25 times the maximum Annual Debt Service Requirement. For FY 2011, the Water and Wastewater Department exceeded that requirement at about 1.42 times.

During FY 2011, the Department, in connection with the Alabama Water Pollution Control Authority's refinancing of some of its bonds, refinanced the Water and Sewer Revenue Warrants, SRF Series 1998, 1999, 1999B, and 2000 in order to benefit from a lower interest rate. The payment dates and final maturity remained unchanged. The present value at 2.503% of the savings on the Series 1998, 1999, and 1999B refinancing was \$805,931. The present value at 3.157% of the savings on the Series 2000 warrant refinancing was \$488,696.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The geographic area served by Florence Utilities is facing an improving economic environment. The Florence MSA's unemployment rate for October 2011 was 8.0% as compared to 8.7% for September 2010. The State of Alabama's unemployment rates were 9.3% for October 2011, and 9.1% for September 2010. In addition to the economic environment, the weather is an important factor in determining utility sales. Although it is impossible to predict the weather in the upcoming year, sales in kWh for FY 2012 through September for electricity have decreased from the same number through the same time last year by 6%. Sales in Dth to commercial and industrial natural gas customers for the period from July 2011 through September 2011, as compared to sales for the same period in the previous fiscal year have increased approximately .35%. FY 2011 sales revenues from water and wastewater operations through September have increased 8% over the same period in FY 2011.

The City Council adopted the Gas Department's and the Water and Wastewater Department's FY 2012 budgets on August 16, 2011. The City Council adopted the Electricity Department's FY 2012 budget on September 20, 2011.

The City's power contract with TVA provides for a monthly fuel cost adjustment (FCA) on sales to its distributors. Florence Utilities passes any rate increases or decreases caused by TVA action on to its customers.

The Gas Department's rate ordinance allows for gas increases/decreases without further City Council action. The Department implemented a rate change in July 2011 and August 2011. The volatility of natural gas makes this ability for quick rate action important for the Department's financial health.

The City Council approved a rate ordinance providing for water and wastewater rate increases effective July 2011 to fund improvements to the water infrastructure.

## CONTACTING FLORENCE UTILITIES FINANCIAL MANAGER

This financial report is designed to provide the Electricity Department's, Gas Department's, and Water and Wastewater Department's ratepayers and creditors with a general overview of their finances and to demonstrate Florence Utilities' accountability for the money it receives. A limited number of prior years' audited financial statements are available online at the Florence Utilities website at [www.florenceutilities.com](http://www.florenceutilities.com) and the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board. If you have questions about this report or need additional financial information, contact the Controller of Utilities, Florence Utilities, P.O. Box 877, Florence, AL 35631.





This page intentionally blank.

**CITY OF FLORENCE, ALABAMA  
ELECTRICITY DEPARTMENT  
BALANCE SHEETS  
JUNE 30, 2011 and 2010**

<b>ASSETS</b>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 12,734,154	\$ 9,030,571
Receivables (net)	14,372,584	12,278,805
Inventories	1,497,969	1,577,998
Prepaid expenses	<u>7,805,303</u>	<u>6,227,804</u>
Total current assets	<u>\$ 36,410,010</u>	<u>\$ 29,115,178</u>
Noncurrent assets:		
Restricted cash and cash equivalents	\$ 974,559	\$ 990,244
Capital assets:		
Utility plant in service (at cost)	143,086,193	139,892,178
Construction in progress	3,166,916	1,376,323
Less: accumulated depreciation	75,175,622	71,366,223
Receivables from customers for conservation loans	6,786,738	6,155,895
Prepaid purchased power-TVA DEU program	129,150	258,750
Unamortized debt issuance costs	<u>98,621</u>	<u>111,205</u>
Total noncurrent assets	<u>\$ 79,066,555</u>	<u>\$ 77,418,372</u>
Total assets	<u><u>\$ 115,476,565</u></u>	<u><u>\$ 106,533,550</u></u>



**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY DEPARTMENT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Electric sales:		
<i>Residential</i>	\$ 67,103,532	\$ 58,874,931
<i>Small commercial</i>	12,096,649	11,019,013
<i>Large commercial</i>	40,886,363	36,689,892
<i>Public street and highway lighting</i>	2,182,749	2,077,448
Forfeited discounts	1,124,951	992,185
Rents from electric property	1,082,767	1,005,890
Other operating revenues	<u>630,862</u>	<u>637,095</u>
Total operating revenues	<u>\$ 125,107,873</u>	<u>\$ 111,296,454</u>
Operating expenses:		
Costs of sales	\$ 99,892,949	\$ 87,239,996
Operations	8,077,065	8,258,922
Maintenance	5,414,492	4,244,630
Depreciation	4,417,680	4,342,399
Taxes and tax equivalents	<u>3,114,742</u>	<u>3,070,324</u>
Total operating expenses	<u>\$ 120,916,928</u>	<u>\$ 107,156,271</u>
Operating income	<u>\$ 4,190,945</u>	<u>\$ 4,140,183</u>
Nonoperating revenues (expenses):		
Interest revenues	\$ 49,108	\$ 51,317
Merchandising revenues (net of costs)	121,006	153,735
Miscellaneous nonoperating income	116	24,646
Interest expense	(210,196)	(240,542)
Amortization of debt discount and costs	<u>(43,641)</u>	<u>(43,641)</u>
Total nonoperating revenues (expenses)	<u>\$ (83,607)</u>	<u>\$ (54,485)</u>
Income before contributions	\$ 4,107,338	\$ 4,085,698
Capital contributions	<u>1,388,735</u>	<u>                    </u>
Change in net assets	\$ 5,496,073	\$ 4,085,698
Total net assets—beginning	<u>71,182,634</u>	<u>67,096,936</u>
Total net assets—ending	<u><u>\$ 76,678,707</u></u>	<u><u>\$ 71,182,634</u></u>

The accompanying notes and independent auditor's report are an integral part of these financial statements.

**CITY OF FLORENCE, ALABAMA  
ELECTRICITY DEPARTMENT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 123,135,218	\$ 109,895,284
Receipts from interfund services provided	2,275,594	2,412,589
Payments to suppliers	(101,837,733)	(89,738,423)
Payments to employees for services and benefits—exclusive of capitalized costs	(9,663,164)	(9,430,938)
Payments for interfund services used	<u>(5,008,488)</u>	<u>(5,088,635)</u>
Net cash provided by operating activities	<u>\$ 8,901,427</u>	<u>\$ 8,049,877</u>
Cash flows from noncapital financing activities:		
Increase in receivables from customers for conservation loans	\$ (630,843)	\$ (1,226,767)
Increase in advances from TVA for conservation loans	612,535	1,255,929
Deferred TVA DEU program (net)	<u>100,000</u>	<u>100,000</u>
Net cash provided by noncapital financing activities	<u>\$ 81,692</u>	<u>\$ 129,162</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (5,493,481)	\$ (4,239,866)
Removal costs of retirements of capital assets	(345,617)	(276,370)
Salvage value of retirements of capital assets	22,464	63,118
Capital contributions	1,388,735	
Principal paid on capital debt	(705,000)	(265,000)
Interest paid on capital debt	(211,430)	(255,192)
Payment of debt issuance costs		<u>(27,000)</u>
Net cash used for capital and related financing activities	<u>\$ (5,344,329)</u>	<u>\$ (5,000,310)</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 49,108</u>	<u>\$ 51,317</u>
Net cash provided by investing activities	<u>\$ 49,108</u>	<u>\$ 51,317</u>
Net increase in cash and cash equivalents	\$ 3,687,898	\$ 3,230,046
Balances—beginning of the year	<u>10,020,815</u>	<u>6,790,769</u>
Balances—end of the year	<u><u>\$ 13,708,713</u></u>	<u><u>\$ 10,020,815</u></u>
<i>Classified as:</i>		
Current assets	\$ 12,734,154	\$ 9,030,571
Restricted assets	<u>974,559</u>	<u>990,244</u>
Totals	<u><u>\$ 13,708,713</u></u>	<u><u>\$ 10,020,815</u></u>

The accompanying notes and independent auditor's report are an integral part of these financial statements.

**CITY OF FLORENCE, ALABAMA  
ELECTRICITY DEPARTMENT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2011 and 2010  
(Continued)**

	<u>2011</u>	<u>2010</u>
<i>Reconciliation of operating income to net cash provided (used)</i>		
<i>by operating activities:</i>		
Operating income	\$ 4,190,945	\$ 4,140,183
Adjustments to reconcile operating income to net cash provided (used)		
<i>by operating activities:</i>		
Depreciation	\$ 4,641,425	\$ 4,640,066
Income from merchandising revenues (net of costs)	121,006	153,735
Miscellaneous nonoperating income	116	24,646
Change in assets and liabilities:		
Receivables (net)	(2,093,779)	(1,579,551)
Inventories	80,029	71,709
Prepaid expenses	(1,577,499)	270,232
Accounts and other payables	<u>3,539,184</u>	<u>328,857</u>
Total adjustments	<u>\$ 4,710,482</u>	<u>\$ 3,909,694</u>
Net cash provided by operating activities	<u>\$ 8,901,427</u>	<u>\$ 8,049,877</u>

The accompanying notes and independent auditor's report are an integral part of these financial statements.

**CITY OF FLORENCE, ALABAMA  
GAS DEPARTMENT  
BALANCE SHEETS  
JUNE 30, 2011 and 2010**

<b>ASSETS</b>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 9,787,818	\$ 8,221,806
Accounts receivable (net)	775,932	1,077,938
Accrued interest receivable	185	691
Inventories	1,128,278	1,589,534
Prepaid expenses	<u>10,947</u>	<u>9,465</u>
Total current assets	<u>\$ 11,703,160</u>	<u>\$ 10,899,434</u>
Noncurrent assets:		
Capital assets:		
Utility plant in service (at cost)	\$ 52,178,039	\$ 51,507,281
Acquisition adjustment (net of amortization)	211,447	222,108
Construction in progress	37,765	44,936
Less: accumulated depreciation	20,884,231	19,828,471
Unamortized debt issuance costs	<u>353</u>	<u>706</u>
Total noncurrent assets	<u>\$ 31,543,373</u>	<u>\$ 31,946,560</u>
 Total assets	 <u><u>\$ 43,246,533</u></u>	 <u><u>\$ 42,845,994</u></u>

<b>LIABILITIES</b>	<u>2011</u>	<u>2010</u>
Current liabilities:		
Accounts payable	\$ 788,622	\$ 1,070,195
Accrued annual and sick leave	218,013	207,439
Accrued taxes and expenses	<u>99,315</u>	<u>95,866</u>
Total current liabilities	<u>\$ 1,105,950</u>	<u>\$ 1,373,500</u>
Noncurrent liabilities:		
Accrued annual and sick leave	<u>\$ 327,019</u>	<u>\$ 311,159</u>
Total noncurrent liabilities	<u>\$ 327,019</u>	<u>\$ 311,159</u>
Total liabilities	<u>\$ 1,432,969</u>	<u>\$ 1,684,659</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 31,543,020	\$ 31,945,854
Unrestricted	<u>10,270,544</u>	<u>9,215,481</u>
Total net assets	<u>\$ 41,813,564</u>	<u>\$ 41,161,335</u>
Total liabilities and net assets	<u><u>\$ 43,246,533</u></u>	<u><u>\$ 42,845,994</u></u>

The accompanying notes and independent auditor's report are an integral part of these financial statements.



**CITY OF FLORENCE, ALABAMA  
GAS DEPARTMENT  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Gas sales:		
<i>Residential</i>	\$ 7,265,429	\$ 8,192,798
<i>Commercial</i>	4,505,351	4,935,006
<i>Industrial</i>	3,310,930	7,961,194
<i>Resale and transportation</i>	2,428,137	1,662,409
Service fees	85,384	83,121
Forfeited discounts	89,095	101,317
Other operating revenues	11,955	11,196
	<u>17,696,281</u>	<u>22,947,041</u>
Total operating revenues	\$ 17,696,281	\$ 22,947,041
Operating expenses:		
Costs of sales	\$ 9,636,273	\$ 14,232,153
Operations	2,991,550	2,727,285
Maintenance	1,701,447	1,520,338
Depreciation	1,320,694	1,316,594
Amortization of acquisition adjustment	10,661	10,661
Taxes and tax equivalents	1,533,703	1,522,031
	<u>17,194,328</u>	<u>21,329,062</u>
Total operating expenses	\$ 17,194,328	\$ 21,329,062
Operating income	<u>501,953</u>	<u>1,617,979</u>
Nonoperating revenues (expenses):		
Interest revenues	\$ 9,287	\$ 18,602
Gain (loss) on disposition of assets	12,200	22,096
Miscellaneous nonoperating income	129,142	85,478
Interest expense		(140,782)
Amortization of debt discount and costs	(353)	(88,018)
	<u>150,276</u>	<u>(102,624)</u>
Total nonoperating revenues (expenses)	\$ 150,276	\$ (102,624)
Change in net assets	\$ 652,229	\$ 1,515,355
Total net assets—beginning	<u>41,161,335</u>	<u>39,645,980</u>
Total net assets—ending	<u><u>41,813,564</u></u>	<u><u>41,161,335</u></u>

The accompanying notes and independent auditor's report are an integral part of these financial statements.

**CITY OF FLORENCE, ALABAMA  
GAS DEPARTMENT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 18,127,830	\$ 22,940,138
Receipts from interfund services provided	110,024	106,155
Payments to suppliers	(10,344,423)	(14,640,758)
Payments to employees for services and benefits—exclusive of capitalized costs	(2,929,865)	(2,784,920)
Payments for interfund services used	<u>(2,491,026)</u>	<u>(2,468,548)</u>
Net cash provided by operating activities	<u>\$ 2,472,540</u>	<u>\$ 3,152,067</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (896,399)	\$ (1,039,317)
Proceeds from disposition of assets	12,200	27,025
Removal costs of retirements of capital assets	(32,122)	(46,903)
Principal paid on capital debt		(3,250,000)
Interest paid on capital debt		<u>(153,580)</u>
Net cash used for capital and related financing activities	<u>\$ (916,321)</u>	<u>\$ (4,462,775)</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 9,793</u>	<u>\$ 19,935</u>
Net cash provided by investing activities	<u>\$ 9,793</u>	<u>\$ 19,935</u>
Net increase (decrease) in cash and cash equivalents	\$ 1,566,012	\$ (1,290,773)
Balances—beginning of the year	<u>8,221,806</u>	<u>9,512,579</u>
Balances—end of the year	<u>\$ 9,787,818</u>	<u>\$ 8,221,806</u>
<i>Classified as:</i>		
Current assets	<u>\$ 9,787,818</u>	<u>\$ 8,221,806</u>

The accompanying notes and independent auditor's report are an integral part of these financial statements.

**CITY OF FLORENCE, ALABAMA  
GAS DEPARTMENT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2011 and 2010  
(Continued)**

	<u>2011</u>	<u>2010</u>
<i>Reconciliation of operating income to net cash provided (used)</i>		
<i>by operating activities:</i>		
Operating income	\$ 501,953	\$ 1,617,979
Adjustments to reconcile operating income to net cash provided (used)		
<i>by operating activities:</i>		
Depreciation	\$ 1,320,694	\$ 1,316,594
Amortization of acquisition adjustment	10,661	10,661
Miscellaneous nonoperating income	129,142	85,478
Change in assets and liabilities:		
Receivables (net)	302,006	(102,793)
Inventories	461,256	207,142
Prepaid expenses	(1,482)	1,727
Accounts and other payables	<u>(251,690)</u>	<u>15,279</u>
 Total adjustments	 \$ 1,970,587	 \$ 1,534,088
 Net cash provided by operating activities	 <u>\$ 2,472,540</u>	 <u>\$ 3,152,067</u>

The accompanying notes and independent auditor's report are an integral part of these financial statements.

**CITY OF FLORENCE, ALABAMA  
WATER AND WASTEWATER DEPARTMENT  
BALANCE SHEETS  
JUNE 30, 2011 and 2010**

<b>ASSETS</b>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 6,357,092	\$ 6,044,554
Accounts receivable (net)	1,707,418	1,371,838
Accrued interest receivable		3,542
Inventories	606,009	584,883
Prepaid expenses	<u>275,764</u>	<u>701,583</u>
Total current assets	<u>\$ 8,946,283</u>	<u>\$ 8,706,400</u>
Noncurrent assets:		
Restricted cash and cash equivalents	\$ 23,966,344	\$ 5,316,639
Capital assets:		
Utility plant in service (at cost)	144,138,069	143,132,371
Construction in progress	1,155,657	69,299
Less: accumulated depreciation	45,575,764	42,732,566
Unamortized debt issuance costs	<u>550,844</u>	<u>396,817</u>
Total noncurrent assets	<u>\$ 124,235,150</u>	<u>\$ 106,182,560</u>
 Total assets	 <u><u>\$ 133,181,433</u></u>	 <u><u>\$ 114,888,960</u></u>

<b>LIABILITIES</b>	<u>2011</u>	<u>2010</u>
Current liabilities:		
Accounts payable	\$ 498,141	\$ 467,291
Retainage payable on construction contracts	11,751	6,759
Accrued annual and sick leave	230,455	221,373
Accrued taxes and expenses	<u>220,132</u>	<u>298,285</u>
Total current liabilities	<u>\$ 960,479</u>	<u>\$ 993,708</u>
Liabilities payable from restricted assets:		
Revenue warrants—payable within one year	\$ 3,550,000	\$ 4,595,000
Unamortized debt premium (discount)	2,121	(11,804)
Unamortized deferred loss on early retirement of debt	(38,097)	
Accrued interest	<u>658,761</u>	<u>700,748</u>
Total liabilities payable from restricted assets	<u>\$ 4,172,785</u>	<u>\$ 5,283,944</u>
Noncurrent liabilities:		
Revenue warrants—payable after one year	\$ 62,654,530	\$ 45,971,398
Unamortized debt premium (discount)	50,914	(4,919)
Unamortized deferred loss on early retirement of debt	(309,086)	
Accrued annual and sick leave	<u>345,682</u>	<u>332,059</u>
Total noncurrent liabilities	<u>\$ 62,742,040</u>	<u>\$ 46,298,538</u>
Total liabilities	<u>\$ 67,875,304</u>	<u>\$ 52,576,190</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 33,807,580	\$ 49,919,429
Restricted for debt service	3,162,915	5,316,639
Restricted for capital projects	20,144,668	
Unrestricted	<u>8,190,966</u>	<u>7,076,702</u>
Total net assets	<u>\$ 65,306,129</u>	<u>\$ 62,312,770</u>
Total liabilities and net assets	<u>\$ 133,181,433</u>	<u>\$ 114,888,960</u>

The accompanying notes and independent auditor's report are an integral part of these financial statements.

**CITY OF FLORENCE, ALABAMA**  
**WATER AND WASTEWATER DEPARTMENT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Water sales:		
<i>Residential</i>	\$ 5,888,453	\$ 5,458,959
<i>Commercial</i>	3,093,065	3,023,306
<i>Resale</i>	1,707,682	1,576,467
Sewer service sales:		
<i>Residential</i>	3,421,099	3,410,475
<i>Commercial</i>	3,327,019	3,282,601
Forfeited discounts	140,779	133,513
Other operating revenues	194,821	211,306
	<u>\$ 17,772,918</u>	<u>\$ 17,096,627</u>
Operating expenses:		
Water treatment and pumping	\$ 2,586,594	\$ 2,431,728
Sewage disposal	2,305,109	2,085,509
Transmission and distribution	1,268,397	1,171,219
Accounting and collections	1,033,598	1,094,583
Administrative and general	1,562,459	1,494,688
Depreciation	2,910,272	2,776,120
Taxes and tax equivalents	1,522,344	1,462,860
	<u>\$ 13,188,773</u>	<u>\$ 12,516,707</u>
Total operating expenses		
	<u>\$ 13,188,773</u>	<u>\$ 12,516,707</u>
Operating income	<u>\$ 4,584,145</u>	<u>\$ 4,579,920</u>
Nonoperating revenues (expenses):		
Interest revenues	\$ 18,052	\$ 47,805
Gain (loss) on disposition of assets	(442)	12,579
Interest expense	(1,542,039)	(2,006,235)
Amortization of debt discount and costs	(66,357)	(57,833)
	<u>\$ (1,590,786)</u>	<u>\$ (2,003,684)</u>
Total nonoperating revenues (expenses)		
	<u>\$ (1,590,786)</u>	<u>\$ (2,003,684)</u>
Change in net assets	\$ 2,993,359	\$ 2,576,236
Total net assets—beginning	<u>62,312,770</u>	<u>59,736,534</u>
Total net assets—ending	<u>\$ 65,306,129</u>	<u>\$ 62,312,770</u>

The accompanying notes and independent auditor's report are an integral part of these financial statements.

**CITY OF FLORENCE, ALABAMA  
WATER AND WASTEWATER DEPARTMENT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 17,123,093	\$ 16,680,987
Receipts from interfund services provided	141,689	146,042
Payments to suppliers	(2,982,723)	(3,517,013)
Payments to employees for services and benefits—exclusive of capitalized costs	(4,052,759)	(3,852,192)
Payments for interfund services used	<u>(2,685,376)</u>	<u>(2,785,941)</u>
Net cash provided by operating activities	<u>\$ 7,543,924</u>	<u>\$ 6,671,883</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (2,159,572)	\$ (1,588,203)
Proceeds from disposition of assets		16,505
Net proceeds from capital debt	20,513,678	150,838
Payment of debt issuance costs	(90,084)	
Principal paid on capital debt	(5,205,000)	(4,410,000)
Interest paid on capital debt	<u>(1,662,297)</u>	<u>(2,056,279)</u>
Net cash provided by (used for) capital and related financing activities	<u>\$ 11,396,725</u>	<u>\$ (7,887,139)</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 21,594</u>	<u>\$ 91,491</u>
Net cash provided by investing activities	<u>\$ 21,594</u>	<u>\$ 91,491</u>
Net increase (decrease) in cash and cash equivalents	\$ 18,962,243	\$ (1,123,765)
Balances—beginning of the year	<u>11,361,193</u>	<u>12,484,958</u>
Balances—end of the year	<u>\$ 30,323,436</u>	<u>\$ 11,361,193</u>
<u>Classified as:</u>		
Current assets	\$ 6,357,092	\$ 6,044,554
Restricted assets	<u>23,966,344</u>	<u>5,316,639</u>
Totals	<u>\$ 30,323,436</u>	<u>\$ 11,361,193</u>

The accompanying notes and independent auditor's report are an integral part of these financial statements.

**CITY OF FLORENCE, ALABAMA  
WATER AND WASTEWATER DEPARTMENT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2011 and 2010  
(Continued)**

	<b>2011</b>	<b>2010</b>
<i>Reconciliation of operating income to net cash provided (used)</i>		
<i>by operating activities:</i>		
Operating income	\$ 4,584,145	\$ 4,579,920
Adjustments to reconcile operating income to net cash provided (used)		
<i>by operating activities:</i>		
Depreciation	\$ 2,910,272	\$ 2,776,120
Change in assets and liabilities:		
Receivables (net)	(335,580)	(116,769)
Inventories	(21,126)	12,310
Prepaid expenses	425,819	(350,839)
Accounts and other payables	(19,606)	(228,859)
 Total adjustments	 \$ 2,959,779	 \$ 2,091,963
 Net cash provided by operating activities	 \$ 7,543,924	 \$ 6,671,883

*Noncash capital and financing activities:*

The Department issued Water and Sewer Revenue Warrants, Series 2010-A, 2010-B, 2010-C, and 2010-D to refund, on a current basis, Water and Sewer Revenue Warrants, SRF Series 1998, 1999, 1999B, and 2000 in the total amount of \$39,090,000.

Bond issuance costs of \$460,760 that were deducted from the capital debt proceeds were capitalized and will be amortized over the debt repayment period.



**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and 2010**

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Florence Utilities (the “Utilities”) are comprised of the Electricity, Gas, and Water and Wastewater Departments of the City of Florence, Alabama. The Utilities provide electricity, natural gas, water and wastewater services to the City of Florence (the “City”) and various areas of Lauderdale County. The financial statements of the Utilities have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

***Basis of Accounting and Financial Statement Presentation:***

These three (3) enterprise funds are included as blended component units in the financial statements of the City of Florence, Alabama. The Department managers supervise the daily operations of providing services to citizens and are accountable to the Mayor and City Council. Financial statements are presented for each department. The footnotes are presented separately for each department, where applicable, and jointly for areas where common descriptions exist.

The City and all related departments have adopted the provisions of GASB Statement No. 34, “Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments”. Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets or balance sheet, a statement of revenues, expenses, and changes in fund net assets, and a statement of cash flows. It requires the classification of net assets into three components—invested in capital assets, net of related debt, restricted, and unrestricted. These classifications are defined as follows:

- ◆ Invested in capital assets, net of related debt—This component of net asset 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 that are attributable to the acquisition, construction, or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- ◆ Restricted net assets—This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- ◆ Unrestricted net assets—This component of net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

In addition, the Statement requires the reporting of capital contributions as a change in net assets, the presentation of the Statement of Cash Flows using the direct method, and the inclusion of Management’s Discussion and Analysis (MD&A) that provides an analysis of the Utilities’ overall financial position and results of operations.

**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and 2010**  
**(Continued)**

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The financial statements of the Utilities are prepared primarily on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred, with the exception of the accounting for unbilled revenues. The Utilities do not accrue any unbilled revenue from the dates of the most recent meter readings to the balance sheet date. However, revenues are recorded through the complete billing cycle that could include revenues subsequent to the year-end. This policy has been consistently followed and is an accepted accounting treatment followed by public utility systems.

The Utilities' proprietary activities apply all applicable GASB pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

***Accounts Receivable—Trade:***

The Electricity department acts as billing and collection agent for other City departments and other county utilities.

***Inventories:***

Inventories are presented at the lower of average cost or market on a first-in, first-out basis and are expensed when used. Inventories consist primarily of materials and supplies held for consumption or construction projects.

***Debt Premiums, Discounts, and Issuance Costs:***

Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the related debt using the straight-line method. Bonds and warrants payable are reported net of the applicable premium or discount. Debt issuance costs are reported as deferred charges.

***Deferred Loss on Early Retirement of Debt:***

The loss on early retirement of debt is deferred and amortized, using the straight-line method, over the original remaining life of the old debt or the life of the new debt, whichever is less. Bonds and warrants payable are reported net of the unamortized deferred loss on early retirement of debt.

***Prepaid Expenses:***

Payments made to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amounts and reflecting the expenses in the year in which they are consumed.

***Cash and Cash Equivalents:***

For purposes of the statement of cash flows, the Utilities consider all currency, demand deposits, certificates of deposit, and money market accounts with financial institutions and short-term U. S. Government securities to be cash equivalents.

***Revenues and Expenses:***

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Utilities. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Utilities policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and 2010**  
**(Continued)**

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

***Net Assets:***

Net assets represent the difference between assets and liabilities. Net assets reported as invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted or through external restriction imposed by creditors, grantors, or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the Utilities' policy to use restricted resources first, then unrestricted resources as they are needed. The Utilities have restricted net assets relative to those resources necessary to comply with various covenants of bond financing agreements.

***Annual and Sick Leave:***

The Utilities accrue its liability for earned but unpaid annual and sick leave costs. The City's annual leave policy provides for a minimum of five (5) days and a maximum of twenty-one (21) days (Electricity department employees-maximum of twenty-six (26) days) of annual leave to all regular full-time employees, depending on years of service and date of hire and has been accrued as a liability at the current rate of pay. The sick leave policy provides that all regular full-time employees earn sick leave at the rate of one and  $\frac{1}{4}$  (1.25) days per month of employment. Sick leave accumulates automatically without limit. After fifteen (15) years of continuous service, accumulated sick leave is accrued as a liability at a rate of one (1) day out of every five (5) days at the current rate of pay. Upon separation of employment for employees with fifteen (15) or more years of service, the City deposits the employee's sick leave accrual into a Post Employment Health Plan (PEHP) account. This monetary benefit is non-taxable to the employee; however, its use is restricted to fund future health insurance premiums. In addition to the sick leave, the Utilities currently contribute \$25 per month per employee into a separate PEHP account. Use of these funds is restricted to allowable medical expenses and can only be accessed after termination of employment.

***Reclassifications:***

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

***Estimates:***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and 2010**  
**(Continued)**

**NOTE 2—UTILITY PLANT**

**Electricity Department**

Utility plant is stated at historical cost. Major renewals and betterments, including internal labor cost, are recorded to utility plant, while general routine maintenance and replacements that do not extend the useful life or improve the assets are charged to operations in the period incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is from 5 to 50 years. Depreciation for the fiscal year 2011 totaled \$4,641,425 of which \$4,417,680 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts on the basis of vehicle usage, totaled \$223,745 for the year ended June 30, 2011. Depreciation for the fiscal year 2010 totaled \$4,640,066 of which \$4,342,399 was charged against income and \$71,029 was an error adjustment. Amounts applicable to certain transportation equipment, which was allocated to various accounts on the basis of vehicle usage, totaled \$226,638 for the year ended June 30, 2010.

As of June 30, 2011 and 2010, nondepreciable capital assets consist of land, land rights, and right-of-ways in the amount of \$1,095,904 and \$1,054,104, respectively.

A summary of utility plant in service is presented below:

	<i>Balance Beginning of Year</i>	<i>Additions and Reclassifications</i>	<i>Retirements and Reclassifications</i>	<i>Balance End of Year</i>
Transmission plant	\$ 28,744,560	\$ 478,919	\$ 23,164	\$ 29,200,315
Distribution plant	96,890,320	2,320,735	478,214	98,732,841
General plant	14,257,298	903,234	7,495	15,153,037
Totals	<u>\$ 139,892,178</u>	<u>\$ 3,702,888</u>	<u>\$ 508,873</u>	<u>\$ 143,086,193</u>

**Gas Department**

Utility plant is stated at historical cost. Major renewals and betterments, including internal labor cost, are recorded to utility plant, while general routine maintenance and replacements that do not extend the useful life or improve the assets are charged to operations in the period incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is from 5 to 50 years. Depreciation expense amounted to \$1,320,694 for 2011 and \$1,316,594 for 2010.

As of June 30, 2011 and 2010, nondepreciable capital assets consist of land, land rights, and right-of-ways in the amount of \$320,747.

A summary of utility plant in service is presented below:

	<i>Balance Beginning of Year</i>	<i>Additions and Reclassifications</i>	<i>Retirements and Reclassifications</i>	<i>Balance End of Year</i>
Transmission plant	\$ 9,707,884	\$ 29,372	\$ -	\$ 9,737,256
Distribution plant	34,495,841	671,204	123,442	35,043,603
General plant	7,303,556	202,994	109,370	7,397,180
Totals	<u>\$ 51,507,281</u>	<u>\$ 903,570</u>	<u>\$ 232,812</u>	<u>\$ 52,178,039</u>

**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and 2010**  
**(Continued)**

**NOTE 2—UTILITY PLANT** (Continued)

During the 2000 fiscal year, the Department performed improvements to the Gate Station purchased in fiscal year 1998 and in doing so retired approximately one-half of the equipment. The Department was able to obtain information on the costs of the original equipment and based on that information, the Department was able to determine the cost of the retirements, and reclassify the difference between the purchase price of the Gate Station and the cost of the equipment. The Department then reclassified from Measuring and Regulating Equipment to the Gas Plant Acquisition Adjustment account, in the amount of \$355,373 and reclassified from Accumulated Depreciation to Accumulated Amortization of Gas Plant Acquisition Adjustment in the amount of \$15,992. The Department is amortizing the Acquisition Adjustment over a 33-year period. Current and prior year amortization amounted to \$10,661. As of June 30, 2011 and 2010, accumulated amortization amounted to \$143,926 and \$133,265, respectively.

**Water and Wastewater Department**

Utility plant is stated at historical cost. Major renewals and betterments, including internal labor cost, are recorded to utility plant, while general routine maintenance and replacements that do not extend the useful life or improve the assets are charged to operations in the period incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is from 5 to 75 years. Depreciation expense amounted to \$2,910,272 for 2011 and \$2,776,120 for 2010.

As of June 30, 2011 and 2010, nondepreciable capital assets consist of land, land rights, and right-of-ways in the amount of \$968,039.

A summary of utility plant in service is presented below:

	<i>Balance Beginning of Year</i>	<i>Additions and Reclassifications</i>	<i>Retirements and Reclassifications</i>	<i>Balance End of Year</i>
Transmission and distribution plant	\$ 139,757,419	\$ 867,086	\$ -	\$ 140,624,505
General plant	3,374,952	206,128	67,516	3,513,564
Totals	<u>\$ 143,132,371</u>	<u>\$ 1,073,214</u>	<u>\$ 67,516</u>	<u>\$ 144,138,069</u>

**NOTE 3—RECEIVABLES AND PAYABLES**

Receivables at June 30, 2011 and 2010 were as follows for each department:

**Electricity Department**

	<u>2011</u>	<u>2010</u>
Customer accounts	\$ 11,050,769	\$ 10,209,030
Other governments	1,737,064	325,272
Miscellaneous	190,037	676,093
Secured customer deposits	1,416,407	1,074,347
Accrued rents	348,084	320,825
Less: allowance for doubtful accounts	(369,777)	(326,762)
Net receivables	<u>\$ 14,372,584</u>	<u>\$ 12,278,805</u>

**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and 2010**  
**(Continued)**

**NOTE 3—RECEIVABLES AND PAYABLES** (Continued)

**Gas Department**

	<u>2011</u>	<u>2010</u>
Customer accounts	\$ 764,582	\$ 1,091,799
Other governments	36,206	16,656
Miscellaneous	3,060	4,025
Less: allowance for doubtful accounts	(27,916)	(34,542)
Net receivables	<u>\$ 775,932</u>	<u>\$ 1,077,938</u>

**Water and Wastewater Department**

	<u>2011</u>	<u>2010</u>
Customer accounts	\$ 1,628,327	\$ 1,445,717
Other governments	166,558	12,552
Less: allowance for doubtful accounts	(87,467)	(86,431)
Net receivables	<u>\$ 1,707,418</u>	<u>\$ 1,371,838</u>

Payables at June 30, 2011 and 2010 were as follows for each department:

**Electricity Department**

	<u>2011</u>	<u>2010</u>
Vendors	\$ 17,521,219	\$ 14,474,305
Salaries and benefits	419,904	326,121
Other governments	16,065	44,447
Totals	<u>\$ 17,957,188</u>	<u>\$ 14,844,873</u>

**Gas Department**

	<u>2011</u>	<u>2010</u>
Vendors	\$ 558,623	\$ 801,576
Salaries and benefits	99,314	95,866
Other governments	230,000	268,619
Totals	<u>\$ 887,937</u>	<u>\$ 1,166,061</u>

**Water and Wastewater Department**

	<u>2011</u>	<u>2010</u>
Vendors	\$ 219,058	\$ 330,381
Salaries and benefits	129,783	121,051
Other governments	369,432	314,144
Totals	<u>\$ 718,273</u>	<u>\$ 765,576</u>

**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and 2010**  
**(Continued)**

**NOTE 4—STORAGE GAS**

**Gas Department**

The Department has purchased a volume of gas storage capacity from certain gas suppliers. This gas is purchased in off demand periods during the year and is sold during peak demand periods. Payment for the gas is made when allotted to the storage facility by the supplier. The Department expenses the gas as it is sold and used by customers. At June 30, 2011 and 2010, the Department had \$813,579 and \$1,322,939, respectively, in storage gas that is valued using the weighted average method.

**NOTE 5—RESTRICTED ASSETS**

Revenue warrants issued by the Utilities require that certain amounts from debt proceeds and debt service outlays be deposited into restricted funds, which are expended for their specified purposes. These funds are invested in government securities that are carried at fair value.

**Electricity Department**

Special funds created for debt service by the Series 2009 Warrant Indenture are invested in short-term U.S. Government obligations, as follows:

	<u>2011</u>	<u>2010</u>
Series 2009 Debt Service Reserve Fund	\$ 725,000	\$ 725,000
Series 2009 Warrant Funds	249,559	265,244
Total restricted cash and cash equivalents	<u>\$ 974,559</u>	<u>\$ 990,244</u>

**Water and Wastewater Department**

Special funds created for capital construction and debt service by the Series 1995, Series 2011, and SRF Warrant Indentures are invested in short-term U.S. Government obligations, as follows:

	<u>2011</u>	<u>2010</u>
Series 1995 Warrant Funds	\$ -	\$ 105,183
Series 1995 Debt Service Reserve Fund		1,262,844
SRF Series 1998 Warrant Funds		3,420,053
SRF Series 2006 Warrant Funds	93,944	72,416
SRF Series 2007 Warrant Funds	478,415	456,143
SRF Series 2010-A Warrant Funds	669,807	
SRF Series 2010-B Warrant Funds	1,119,764	
SRF Series 2010-C Warrant Funds	1,105,094	
SRF Series 2010-D Warrant Funds	276,381	
Series 2011 Warrant Funds	78,271	
Series 2011 Construction Fund	20,144,668	
Total restricted cash and cash equivalents	<u>\$ 23,966,344</u>	<u>\$ 5,316,639</u>

**CITY OF FLORENCE, ALABAMA  
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 and 2010  
(Continued)**

**NOTE 6—TVA POWER AND CONSERVATION PROGRAMS**

**Electricity Department**

**Conservation Program**

The Department has entered into a contract with TVA to establish a joint home energy conservation program that provides eligible customers with arranged financing for home energy conservation improvements. As a part of this contract, the Department is a fiscal intermediary for the conservation loans provided by the program. The Department had at June 30, 2011 and 2010, a total of \$6,786,738 and \$6,155,895, respectively, of energy conservation loans due from customers participating in the program. These loans are to be repaid in monthly installments by the customer over a 10-year period at an interest rate established by TVA. Under the terms of the contract, as amended, the Department has received advances on these conservation loans in the amount of \$6,926,496 and \$6,313,961 as of June 30, 2011 and 2010, respectively.

**Power Programs**

The Department participates in the TVA Power Invoice Prepayment Program. This program allows the Department to transfer funds electronically, which are nonrefundable, on a weekly basis to be applied to the monthly TVA power invoice. An early payment credit is computed on a daily basis at a rate established monthly by TVA and is added to the prepayment account. This rate has been slightly higher than the interest rate currently earned on temporary cash investments with local banks. The prepayment balances of \$7,472,350 and \$5,933,490 as of June 30, 2011 and 2010, respectively, are reflected as prepayments in the financial statements.

The Department has entered into two (2) agreements with TVA under the Discounted Energy Units Program. The program entitles the Department to receive a discount of 2.5 cents per kWh on monthly contract volume of 217,500 kWh for a period of 10 years with the discount being applied to the monthly power invoice. The Department recorded the initial contract investments of \$500,000 and \$500,000 together with deferred interest income of \$152,500 and \$143,500 as deferred assets with an offsetting deferred liability for the interest income portion of the agreement. As of June 30, 2011, the balance of the investments was \$258,750 with \$129,150 reported as noncurrent prepaid purchased power and \$129,600 reported as current. The balance of the deferred interest income was \$58,750 with \$29,150 reported as noncurrent deferred interest income and \$29,600 as current. As of June 30, 2010, the balance of the investments was \$388,350 with \$258,750 reported as noncurrent prepaid purchased power and \$129,600 reported as current. The balance of the deferred interest income was \$88,350 with \$58,750 reported as noncurrent deferred interest income and \$29,600 as current.

**NOTE 7—LONG-TERM OBLIGATIONS**

**Electricity Department**

Long-term liability activity for the year ended June 30, 2011 was as follows:

	<i>Electric Revenue Refunding Warrants, Series 2009</i>
Balance—beginning of year	\$ 6,985,000
Less: principal paid on debt	705,000
Balance—end of year	\$ 6,280,000



**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and 2010**  
**(Continued)**

**NOTE 7—LONG-TERM OBLIGATIONS** (Continued)

The Department issued Electric Taxable Revenue Warrants, Series 2008, dated April 4, 2008, in the amount of \$2,000,000 under a line of credit agreement with CB&S Bank. Proceeds of the loan will be advanced as requested by the Department. The revenues of the system are pledged for payment of the principal and interest of these warrants. Interest is payable semi-annually on each July 1 and January 1 until maturity at a rate of 4.99%. The entire outstanding principal balance of these warrants is due on January 1, 2013. There were no advances on the line of credit agreement during the fiscal years presented.

The Department issued Electric Revenue Refunding Warrants, Series 2009, dated June 1, 2009, in the amount of \$7,250,000 with interest rates ranging from 1.50% to 3.65% for the current refunding of the Electric Revenue Warrants, Series 1999. The net revenues of the system are irrevocably pledged for payment of the principal and interest of the warrants. Principal is payable annually on June 1. Interest is payable semi-annually on each June 1 and December 1.

Debt service over the remaining term of the warrants is summarized as follows:

<i>Fiscal Year Ending June 30</i>	<i>Principal Maturities and Scheduled Mandatory Redemption Payments</i>	<i>Interest Payable</i>	<i>Total Debt Service</i>
2012	\$ 710,000	\$ 196,625	\$ 906,625
2013	730,000	179,585	909,585
2014	745,000	161,335	906,335
2015	765,000	140,848	905,848
2016	790,000	117,133	907,133
2017–2019	2,540,000	185,536	2,725,536
Totals	\$ 6,280,000	\$ 981,062	\$ 7,261,062
Less: portion due within one year	710,000		
Long-term debt at June 30, 2011	\$ 5,570,000		

All interest costs were expensed for the fiscal years presented.

**Gas Department**

The Department issued Natural Gas Taxable Revenue Warrants, Series 2008, dated April 4, 2008, in the amount of \$2,000,000 under a line of credit agreement with CB&S Bank. Proceeds of the loan will be advanced as requested by the Department. The revenues of the system are pledged for payment of the principal and interest of these warrants. Interest is payable semi-annually on each July 1 and January 1 until maturity at a rate of 4.99%. The entire outstanding principal balance of these warrants is due on July 1, 2012. There were no advances on the line of credit agreement during the fiscal years presented.

All interest costs were expensed for the fiscal years presented.

**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and 2010**  
**(Continued)**

**NOTE 7—LONG-TERM OBLIGATIONS** (Continued)

**Water and Wastewater Department**

Long-term liability activity for the year ended June 30, 2011 was as follows:

	<i>Water and Sewer Revenue Warrants, Series 1995</i>	<i>Water and Sewer Revenue Warrants, SRF Series 1998</i>	<i>Water and Sewer Revenue Warrants, SRF Series 1999</i>	<i>Water and Sewer Revenue Warrants, SRF Series 1999B</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2000</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2006</i>
Balance—beginning of year	\$ 1,785,000	\$ 13,965,000	\$ 13,485,000	\$ 3,380,000	\$ 8,260,000	\$ 3,580,000
Add: proceeds from debt	1,785,000					
Less: principal paid on debt						160,000
Add (Less): current refunding activity		(13,965,000)	(13,485,000)	(3,380,000)	(8,260,000)	
Balance—end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,420,000

	<i>Water and Sewer Revenue Warrants, SRF Series 2007</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2010-A</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2010-B</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2010-C</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2010-D</i>	<i>Water and Sewer Revenue Warrants, Series 2011</i>	<i>Totals</i>
Balance—beginning of year	\$ 6,111,398	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,566,398
Add: proceeds from debt	243,132					20,600,000	20,843,132
Less: principal paid on debt	320,000	615,000	1,045,000	1,025,000	255,000		5,205,000
Add (Less): current refunding activity		8,260,000	13,965,000	13,485,000	3,380,000		-
Balance—end of year	\$ 6,034,530	\$ 7,645,000	\$ 12,920,000	\$ 12,460,000	\$ 3,125,000	\$ 20,600,000	\$ 66,204,530

**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and 2010**  
**(Continued)**

**NOTE 7—LONG-TERM OBLIGATIONS** (Continued)

The Department issued Water and Sewer Revenue Warrants, Series 1995, dated November 1, 1995 in the amount of \$13,470,000 with interest rates ranging from 3.500% to 5.625%. The warrants were issued for capital improvements to the Cypress Creek water treatment facility and to its wastewater system; advance refunding of the Water and Sewer Revenue Bonds, Series 1988, dated December 1, 1988, and advance refunding of the Water Revenue Bonds, Series A, dated May 1, 1988 (the "Killen Bonds"). The net revenues of the system are irrevocably pledged for payment of the principal and interest of these warrants. Principal and interest is payable semi-annually on each June 1 and December 1. On February 15, 2011, the Department elected to redeem the outstanding warrants.

The Department issued Water and Sewer Revenue Warrants, SRF Series 1998, dated January 27, 1998 in the amount of \$21,795,000 bearing an interest rate of 3.75%. The warrants were issued for capital improvements to the Cypress Creek wastewater treatment facility and the Sweetwater Creek Interceptor projects. The warrants were issued under the State of Alabama Revolving Fund (SRF) and are administered jointly by the Alabama Water Pollution Control Authority (AWPCA) and the Alabama Department of Environmental Management (ADEM). The net revenues of the system are pledged for payment of the principal and interest of these warrants and issued in parity with the Series 1995 Revenue Warrants. Interest accrued on the warrants until September 1, 2000 and the Department, as a part of the capital projects, capitalized that interest. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15. These warrants were refunded, on a current basis, through the issuance of Water and Sewer Revenue Warrants, Series 2010-B-CWSRF-BL, dated August 13, 2010, in the amount of \$13,965,000.

The Department issued Water and Sewer Revenue Warrants, SRF Series 1999, dated December 23, 1998 in the amount of \$21,250,000 bearing an interest rate of 3.50%. The warrants were issued for capital improvements to the Cypress Creek wastewater treatment facility and the Sweetwater Creek Interceptor projects. The warrants were issued under the SRF and are administered jointly by the AWPCA and ADEM. The net revenues of the system are pledged for payment of the principal and interest of these warrants and issued in parity with the Series 1995 and 1998 Revenue Warrants. Interest accrued on the warrants until September 1, 2000 and the Department, as a part of the capital projects, capitalized that interest. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15. These warrants were refunded, on a current basis, through the issuance of Water and Sewer Revenue Warrants, Series 2010-C-CWSRF-BL, dated August 13, 2010, in the amount of \$13,485,000.

The Department issued Water and Sewer Revenue Warrants, SRF Series 1999B, dated December 23, 1998, on October 19, 1999 in the amount of \$5,310,000 bearing an interest rate of 3.50%. The warrants were issued for capital improvements to the Cypress Creek wastewater treatment facility. The warrants were issued under the SRF and are administered jointly by the AWPCA and ADEM. The net revenues of the system are pledged for payment of the principal and interest of these warrants and issued in parity with the Series 1995 and 1998 Revenue Warrants. Interest accrued on the warrants until September 1, 2000 and the Department, as a part of the capital projects, capitalized that interest. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15. These warrants were refunded, on a current basis, through the issuance of Water and Sewer Revenue Warrants, Series 2010-D-CWSRF-BL, dated August 13, 2010, in the amount of \$3,380,000.

**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and 2010**  
**(Continued)**

**NOTE 7—LONG-TERM OBLIGATIONS** (Continued)

The Department issued Water and Sewer Revenue Warrants, SRF Series 2000, dated December 22, 1999 in the amount of \$12,835,000 bearing an interest rate of 3.85%. The warrants were issued for capital improvements to the Cypress Creek wastewater treatment facility and the River Interceptor projects. The warrants were issued under the SRF and are administered jointly by the AWPCA and ADEM. The net revenues of the system are pledged for payment of the principal and interest of these warrants and issued in parity with the Series 1995 and 1998 Revenue Warrants. Interest accrued on the warrants until September 1, 2000 and the Department, as a part of the capital projects, capitalized that interest. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15. These warrants were refunded, on a current basis, through the issuance of Water and Sewer Revenue Warrants, Series 2010-A-CWSRF-BL, dated July 13, 2010, in the amount of \$8,260,000.

The Department issued Water and Sewer Revenue Warrants, SRF Series 2006, dated January 15, 2006 in the amount of \$4,030,000 bearing an interest rate of 3.25%. The warrants were issued for constructing wastewater treatment and related facilities in connection with the sanitary sewer system. The warrants were issued under the SRF and are administered jointly by the AWPCA and ADEM. The revenues of the system are pledged for payment of the principal and interest of these warrants. Interest accrued on the warrants until August 15, 2007 and the Department, as a part of the capital projects, capitalized that interest. Principal is payable annually on February 15. Interest is payable semi-annually on each February 15 and August 15.

The Department issued Water and Sewer Revenue Warrants, SRF Series 2007, dated September 15, 2007 in the amount of \$8,825,000 bearing an interest rate of 3.50%. The warrants were issued for making certain improvements to the sanitary sewer system. The warrants were issued under the SRF and are administered jointly by the AWPCA and ADEM. The net revenues of the system are pledged for payment of the principal and interest of the warrants. Interest accrued on the warrants until February 1, 2009 and the Department, as part of the capital projects, capitalized that interest. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15. As of June 30, 2011, the remaining balance of the warrants to be requested from ADEM was \$2,160,470.

The Department issued Water and Sewer Revenue Warrants, Series 2010-A-CWSRF-BL, dated July 13, 2010, in the amount of \$8,260,000 bearing an interest rate of 2.61% for the current refunding of the Water and Sewer Revenue Warrants, SRF Series 2000. The warrants were issued under the SRF and are administered jointly by the AWPCA and ADEM. The net revenues of the system are pledged for payment of the principal and interest of these warrants. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15.

The Department issued Water and Sewer Revenue Warrants, Series 2010-B-CWSRF-BL, dated August 13, 2010, in the amount of \$13,965,000 bearing an interest rate of 2.57% for the current refunding of the Water and Sewer Revenue Warrants, SRF Series 1998. The warrants were issued under the SRF and are administered jointly by the AWPCA and ADEM. The net revenues of the system are pledged for payment of the principal and interest of these warrants. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15.

The Department issued Water and Sewer Revenue Warrants, Series 2010-C-CWSRF-BL, dated August 13, 2010, in the amount of \$13,485,000 bearing an interest rate of 2.57% for the current refunding of the Water and Sewer Revenue Warrants, SRF Series 1999. The warrants were issued under the SRF and are administered jointly by the AWPCA and ADEM. The net revenues of the system are pledged for payment of the principal and interest of these warrants. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15.

**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and 2010**  
**(Continued)**

**NOTE 7—LONG-TERM OBLIGATIONS** (Continued)

The Department issued Water and Sewer Revenue Warrants, Series 2010-D-CWSRF-BL, dated August 13, 2010, in the amount of \$3,380,000 bearing an interest rate of 2.57% for the current refunding of the Water and Sewer Revenue Warrants, SRF Series 1999B. The warrants were issued under the SRF and are administered jointly by the AWPCA and ADEM. The net revenues of the system are pledged for payment of the principal and interest of these warrants. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15.

The Department issued Water and Sewer Revenue Warrants, Series 2011, dated June 1, 2011, in the amount of \$20,600,000 with interest rates ranging from 3.25% to 5.00%. The warrants were issued for capital improvements to upgrade the water treatment plants and the replacement of the Cypress Creek electrical system. The net revenues of the system are pledged for payment of the principal and interest of these warrants. Principal is payable annually beginning on August 15, 2021. Interest is payable semi-annually on each February 15 and August 15.

Debt service over the remaining term of the warrants is summarized as follows:

<i>Fiscal Year Ending June 30</i>	<i>Principal Maturities and Scheduled Mandatory Redemption Payments</i>	<i>Interest Payable</i>	<i>Total Debt Service</i>
2012	\$ 3,550,000	\$ 1,970,447	\$ 5,520,447
2013	3,675,000	2,159,218	5,834,218
2014	3,810,000	2,058,418	5,868,418
2015	3,955,000	1,953,924	5,908,924
2016	4,105,000	1,845,357	5,950,357
2017–2021	22,895,000	7,453,793	30,348,793
2022–2026	6,390,000	5,332,436	11,722,436
2027–2031	7,775,000	3,952,048	11,727,048
2032–2036	9,920,000	1,808,544	11,728,544
2037	2,290,000	54,387	2,344,387
Totals	\$ 68,365,000	\$ 28,588,572	\$ 96,953,572
Less: portion due within one year	3,550,000		
Less: amount of SRF funds available for disbursement	2,160,470		
Long-term debt at June 30, 2011	\$ 62,654,530		

All interest costs were expensed for the fiscal years presented.

**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and 2010**  
**(Continued)**

**NOTE 8—PENSION AND DEFERRED COMPENSATION PLANS**

**Pension Plan**

**Plan Description**—The City of Florence, Alabama Employees' Retirement Plan is a single-employer defined benefit pension plan administered by Metropolitan Life Insurance Company (a subsidiary of MetLife) providing retirement benefits to plan members. The latest City of Florence Employees' Retirement Plan Actuarial Valuation Report can be obtained by contacting the manager of the Human Resources/Benefits Department.

**Funding Policy**—The contribution requirements for plan members is 2.56% of the first \$350 of monthly earnings (excluding overtime pay) plus 5.12% of monthly earnings in excess of \$350. Employer contributions are based on employee contributions using a factor of 2.75. Plan provisions and contribution requirements are established and may be amended by the City Council.

**Annual Pension Cost and Net Pension Obligation**—The City's annual pension cost and net pension obligation to the Plan for the latest actuarial valuation period were as follows:

Annual required contribution	\$	4,020,393
Interest on net pension obligation		(114,200)
Adjustment to annual required contribution		<u>(182,350)</u>
Annual pension cost	\$	3,723,843
Contributions made		<u>4,180,293</u>
Increase (decrease) in net pension obligation	\$	(456,450)
Net pension obligation—beginning of year		<u>(1,522,669)</u>
Net pension obligation—end of year	\$	<u><u>(1,979,119)</u></u>

**Three-Year Trend Information**

<i>Fiscal Year Ended</i>	<i>Annual Pension Cost (APC)</i>	<i>Percentage of APC Contributed</i>	<i>Net Pension Obligation</i>
October 1, 2009	\$ 3,723,843	112.3%	\$ (1,979,119)
October 1, 2008	3,399,764	113.7%	(1,522,669)
October 1, 2007	3,306,889	104.5%	(1,056,142)

**Funded Status and Funding Progress**—As of October 1, 2009, the most recent actuarial valuation date, the plan was 84.1% funded. The actuarial accrued liability for benefits was \$80.5 million and the actuarial value of assets was \$67.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$12.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$26.8 million, and the ratio of the UAAL to the covered payroll was 47.8%.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**CITY OF FLORENCE, ALABAMA  
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 and 2010  
(Continued)**

**NOTE 8—PENSION AND DEFERRED COMPENSATION PLANS** (Continued)

**Actuarial Methods and Assumptions**—In the October 1, 2009 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included (a) 7.5% investment rate of return and (b) projected salary increases of 3.5% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a four-year period. The UAAL is being amortized as a level dollar amount on a closed basis, which as of October 1, 2009, was twenty-nine (29) years.

**Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. As required by Federal regulations, these plan assets are held in trust for the exclusive benefit of participants and their beneficiaries.

The City has no fiduciary relationship with the trust. In accordance with the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the plan assets are not reported in the City's financial statements.

**NOTE 9—POSTRETIREMENT BENEFITS PLAN**

**Plan Description**—The City of Florence, Alabama administers a single-employer defined benefit postretirement benefits plan. The plan provides medical, dental, and life insurance benefits to eligible retired City employees. Benefit provisions are established and may be amended by the City Council. The plan does not issue a publicly available financial report.

**Funding Policy**—The contribution requirements for plan members and the City are established and may be amended by the City Council. The City pays the entire cost of these benefits. A portion of the annual required contribution is financed on a pay-as-you-go basis.

**Annual OPEB Cost and Net OPEB Obligation**—The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the plan:

Annual required contribution	\$ 460,057
Interest on prior year net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>\$ 460,057</u>
Contributions made	<u>460,057</u>
Increase (decrease) in net OPEB obligation	\$ -
Net OPEB obligation—beginning of year	<u>-</u>
Net OPEB obligation—end of year	<u><u>\$ -</u></u>

**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and 2010**  
**(Continued)**

**NOTE 9—POSTRETIREMENT BENEFITS PLAN** (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years were as follows:

<i>Fiscal Year Ended</i>	<i>Annual OPEB Cost</i>	<i>Percentage of Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
September 30, 2010	\$ 460,057	100.0%	\$ -
September 30, 2009	N/A	N/A	N/A
September 30, 2008	469,977	100.0%	-

Because fiscal year 2008 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the above illustration does not reflect similar information respective of all of the years presented. The City has elected to perform an actuarial valuation of the plan on a biennial basis.

***Funded Status and Funding Progress***—As of October 1, 2009, the most recent actuarial valuation date, the plan was 10.8% funded. The actuarial accrued liability for benefits was \$4.5 million and the actuarial value of assets was \$0.5 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.0 million. The covered payroll (annual payroll of active employees covered by the plan) was \$25.7 million, and the ratio of the UAAL to the covered payroll was 15.6%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

***Actuarial Methods and Assumptions***—Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the October 1, 2009 actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a discount rate of 6.5%, which is based on the historical and expected returns that the City earns on its investments, projected salary increases of 3.5% per year, and an annual healthcare cost trend of 10.0% initially that is reduced by decrements to an ultimate rate of 5.0% after seven (7) years. These rates included a 3.0% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at October 1, 2009 was twenty-eight (28) years.



**CITY OF FLORENCE, ALABAMA  
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 and 2010  
(Continued)**

**NOTE 10—LEASE COMMITMENTS**

**Electricity Department**

The Department entered into a "Use Facilities" lease with TVA on April 21, 1983. This lease provides the Department with the use of facilities located in the Wilson Hydro Area. The lease shall continue in effect, for the term of the Power Contract dated July 6, 1966, between TVA and the City of Florence and shall include any extension, renewal, or replacement thereof. The Department is on a five (5) year rolling Power Contract. Therefore, the future minimum lease payments will always be five (5) years until the Department informs TVA of its intent to cancel the contract. Effective on April 1, 2007, the monthly charge has been recomputed to be \$16,781. Payments under the lease amounted to \$201,372 for the fiscal years presented. The future minimum annual rental payments for the succeeding five (5) years are as follows:

<i>Fiscal Year Ending</i>	<i>Amount</i>
2012	\$ 201,372
2013	201,372
2014	201,372
2015	201,372
2016	201,372
Total	<u>\$ 1,006,860</u>

**NOTE 11—DEPOSITS AND INVESTMENTS**

On April 17, 2007, the City adopted an investment policy to formalize the framework for the City's investment activities. The policy generally limits its investments to non-negotiable certificates of deposit. For the Electricity Department, the policy allows funds to be invested in the TVA Prepaid Power Program and the TVA Discounted Energy Unit Program. Under the terms of bond indentures, the Utilities are required to deposit into certain bond funds for debt service. These investments are governed by the bond indenture, held by the paying agent as required under the indenture, and are invested in U. S. Government securities.

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Utilities will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Utilities' deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the **Code of Alabama 1975**, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

**CITY OF FLORENCE, ALABAMA**  
**ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and 2010**  
**(Continued)**

**NOTE 12—RISK MANAGEMENT**

The City's risk management activities are accounted for through three (3) self-insurance funds. The purpose of these funds is to administer employee health, property and liability, and workers' compensation insurance programs of the City on a cost-reimbursement basis. These funds account for the risk financing activities of the City but do not constitute a transfer of risk from the City. The City retains risk of loss on the employee health, property and liability, and a portion of workers' compensation insurance. For the insured portion of workers' compensation insurance, there have been no reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years. Additional information related to the self-insurance funds can be requested from the City's Insurance department.

The Utilities remit payments to these self-insurance funds and any liability resulting to the Utilities will be paid from these funds.

**NOTE 13—CONTINGENCIES AND COMMITMENTS**

The Utilities are party to certain legal actions arising in the ordinary course of business. In management's opinion, the Utilities have adequate insurance coverage and/or legal defenses, if needed, and do not believe that they will materially affect the Utilities operations or financial position.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds or the general fund. The amount, if any, which may be disallowed by the grantor, cannot be determined at this time although the Utilities expect such amounts to be immaterial.

**Electricity Department**

The Department enters into agreements with contractors for the construction and expansion of the system and for system maintenance. As of June 30, 2011, open contracts for construction totaled \$362,049 of which \$360,172 had been recorded as construction in progress. As of June 30, 2011, open contracts for system maintenance totaled \$2,810,778 of which \$1,324,426 had been recorded as current maintenance expense. As of June 30, 2010, open contracts for construction totaled \$55,891 of which \$10,386 had been recorded as construction in progress. As of June 30, 2010, open contracts for system maintenance totaled \$2,898,308 of which \$727,173 had been recorded as current maintenance expense.

**Gas Department**

The Department entered into an agreement with two (2) energy suppliers to purchase natural gas in the futures market. This agreement allows the Department to purchase gas at current rates for delivery at a future time. If the quantities of gas purchased are not needed for resale during the month for which it was purchased, the Department could transport the gas to its storage facilities, or the Agreement allows the suppliers to re-purchase the gas at market price. Thus, management does not believe that the risk of loss from the purchase commitment would materially affect the Department's operations or financial position. As of June 30, 2011 and 2010, the Department had made purchase commitments amounting to \$2,875,998 and \$4,221,660, respectively, for the subsequent fiscal year's gas needs.

**Water and Wastewater Department**

The Department enters into agreements with contractors for the construction and expansion of the system. As of June 30, 2011, open contracts for construction totaled \$3,856,668 of which \$776,504 had been recorded as construction in progress. As of June 30, 2011, open contracts for system maintenance totaled \$264,909 of which \$59,831 had been recorded as current maintenance expense. As of June 30, 2010, open contracts for construction totaled \$662,921 of which \$268,773 had been recorded as construction in progress. As of June 30, 2010, open contracts for system maintenance totaled \$277,115 of which \$102,141 had been recorded as current maintenance expense.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF FLORENCE, ALABAMA  
ELECTRICITY DEPARTMENT  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS—  
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating revenues:				
Electric sales:				
<i>Residential</i>	\$ 58,940,000	\$ 58,940,000	\$ 67,103,532	\$ 8,163,532
<i>Small commercial</i>	11,150,000	11,150,000	12,096,649	946,649
<i>Large commercial</i>	38,857,500	38,857,500	40,886,363	2,028,863
<i>Public street and highway lighting</i>	2,138,000	2,138,000	2,182,749	44,749
Forfeited discounts	940,000	940,000	1,124,951	184,951
Rents	1,000,000	1,000,000	1,082,767	82,767
Other operating revenues	650,000	650,000	630,862	(19,138)
Total operating revenues	<u>\$ 113,675,500</u>	<u>\$ 113,675,500</u>	<u>\$ 125,107,873</u>	<u>\$ 11,432,373</u>
Operating expenses:				
Costs of sales	\$ 90,535,000	\$ 90,535,000	\$ 99,892,949	\$ (9,357,949)
Operations:				
<i>Transmission</i>	384,600	389,200	408,282	(19,082)
<i>Distribution</i>	2,821,000	2,875,700	2,743,042	132,658
<i>Customer accounts</i>	1,960,600	2,016,300	2,089,649	(73,349)
<i>Customer service and information assistance and instruction</i>	5,000	6,200	14,169	(7,969)
<i>Sales</i>	70,000	70,000	28,603	41,397
<i>Administrative and general</i>	3,080,100	3,094,600	2,793,320	301,280
Maintenance:				
<i>Transmission</i>	339,000	344,000	257,394	86,606
<i>Distribution</i>	4,176,500	4,226,800	4,752,702	(525,902)
<i>Administrative and general</i>	373,000	378,900	404,396	(25,496)
Depreciation	4,300,000	4,300,000	4,417,680	(117,680)
Taxes and tax equivalents	3,018,500	3,018,500	3,114,742	(96,242)
Total operating expenses	<u>\$ 111,063,300</u>	<u>\$ 111,255,200</u>	<u>\$ 120,916,928</u>	<u>\$ (9,661,728)</u>
Operating income	<u>\$ 2,612,200</u>	<u>\$ 2,420,300</u>	<u>\$ 4,190,945</u>	<u>\$ 1,770,645</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 54,000	\$ 54,000	\$ 49,108	\$ (4,892)
Merchandising revenues (net of costs)	130,000	128,400	121,006	(7,394)
Miscellaneous non-operating income			116	116
Interest expense	(210,200)	(210,200)	(210,196)	4
Amortization of debt discount and costs	(43,700)	(43,700)	(43,641)	59
Total nonoperating revenues (expenses)	<u>\$ (69,900)</u>	<u>\$ (71,500)</u>	<u>\$ (83,607)</u>	<u>\$ (12,107)</u>
Income before contributions	<u>\$ 2,542,300</u>	<u>\$ 2,348,800</u>	<u>\$ 4,107,338</u>	<u>\$ 1,758,538</u>
Capital contributions			1,388,735	1,388,735
Change in net assets	\$ 2,542,300	\$ 2,348,800	\$ 5,496,073	\$ 3,147,273
Total net assets—beginning	<u>71,182,634</u>	<u>71,182,634</u>	<u>71,182,634</u>	
Total net assets—ending	<u>\$ 73,724,934</u>	<u>\$ 73,531,434</u>	<u>\$ 76,678,707</u>	<u>\$ 3,147,273</u>

**CITY OF FLORENCE, ALABAMA  
GAS DEPARTMENT  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS—  
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating revenues:				
Gas sales:				
<i>Residential</i>	\$ 7,606,000	\$ 7,606,000	\$ 7,265,429	\$ (340,571)
<i>Commercial</i>	4,680,000	4,680,000	4,505,351	(174,649)
<i>Industrial</i>	3,921,000	3,921,000	3,310,930	(610,070)
<i>Resale and transportation</i>	2,869,000	2,951,500	2,428,137	(523,363)
Service fees	82,500	82,500	85,384	2,884
Forfeited discounts	100,000	100,000	89,095	(10,905)
Other operating revenues	11,600	11,600	11,955	355
Total operating revenues	<u>\$ 19,270,100</u>	<u>\$ 19,352,600</u>	<u>\$ 17,696,281</u>	<u>\$ (1,656,319)</u>
Operating expenses:				
Costs of sales	\$ 11,298,000	\$ 11,298,000	\$ 9,636,273	\$ 1,661,727
Operations:				
<i>Transmission</i>	153,000	155,800	211,913	(56,113)
<i>Distribution</i>	448,300	450,700	427,244	23,456
<i>Customer accounts</i>	635,500	635,500	605,759	29,741
<i>Sales</i>	82,000	82,600	69,494	13,106
<i>Administrative and general</i>	1,664,200	1,674,400	1,677,140	(2,740)
Maintenance:				
<i>Transmission</i>	800	800	145,892	(145,092)
<i>Distribution</i>	1,522,300	1,552,500	1,510,191	42,309
<i>Administrative and general</i>	38,600	38,600	45,364	(6,764)
Depreciation	1,375,000	1,375,000	1,320,694	54,306
Amortization of acquisition adjustment	10,700	10,700	10,661	39
Taxes and tax equivalents	1,566,100	1,566,100	1,533,703	32,397
Total operating expenses	<u>\$ 18,794,500</u>	<u>\$ 18,840,700</u>	<u>\$ 17,194,328</u>	<u>\$ 1,646,372</u>
Operating income	<u>\$ 475,600</u>	<u>\$ 511,900</u>	<u>\$ 501,953</u>	<u>\$ (9,947)</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 10,000	\$ 10,000	\$ 9,287	\$ (713)
Gain on disposition of assets	1,000	1,000	12,200	11,200
Miscellaneous nonoperating income	8,000	8,000	129,142	121,142
Amortization of debt discount and costs	(400)	(400)	(353)	47
Total nonoperating revenues (expenses)	<u>\$ 18,600</u>	<u>\$ 18,600</u>	<u>\$ 150,276</u>	<u>\$ 131,676</u>
Change in net assets	\$ 494,200	\$ 530,500	\$ 652,229	\$ 121,729
Total net assets—beginning	<u>41,161,335</u>	<u>41,161,335</u>	<u>41,161,335</u>	
Total net assets—ending	<u>\$ 41,655,535</u>	<u>\$ 41,691,835</u>	<u>\$ 41,813,564</u>	<u>\$ 121,729</u>

**CITY OF FLORENCE, ALABAMA**  
**WATER AND WASTEWATER DEPARTMENT**  
**SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS—**  
**BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating revenues:				
Water sales:				
<i>Residential</i>	\$ 5,650,000	\$ 5,650,000	\$ 5,888,453	\$ 238,453
<i>Commercial</i>	3,200,000	3,200,000	3,093,065	(106,935)
<i>Resale</i>	1,605,000	1,605,000	1,707,682	102,682
Sewer service sales:				
<i>Residential</i>	3,600,000	3,600,000	3,421,099	(178,901)
<i>Commercial</i>	3,400,000	3,400,000	3,327,019	(72,981)
Forfeited discounts	139,000	139,000	140,779	1,779
Other operating revenues	221,200	221,200	194,821	(26,379)
Total operating revenues	<u>\$ 17,815,200</u>	<u>\$ 17,815,200</u>	<u>\$ 17,772,918</u>	<u>\$ (42,282)</u>
Operating expenses:				
Water treatment and pumping	\$ 2,509,100	\$ 2,528,600	\$ 2,586,594	\$ (57,994)
Sewage disposal	2,146,200	2,166,600	2,305,109	(138,509)
Transmission and distribution	1,585,900	1,600,700	1,268,397	332,303
Accounting and collections	991,100	1,066,800	1,033,598	33,202
Administrative and general	1,505,600	1,511,500	1,562,459	(50,959)
Depreciation	2,767,900	2,767,900	2,910,272	(142,372)
Taxes and tax equivalents	1,516,800	1,516,800	1,522,344	(5,544)
Total operating expenses	<u>\$ 13,022,600</u>	<u>\$ 13,158,900</u>	<u>\$ 13,188,773</u>	<u>\$ (29,873)</u>
Operating income	<u>\$ 4,792,600</u>	<u>\$ 4,656,300</u>	<u>\$ 4,584,145</u>	<u>\$ (72,155)</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 61,300	\$ 61,300	\$ 18,052	\$ (43,248)
Gain (loss) on disposition of assets			(442)	(442)
Interest expense	(1,871,100)	(1,871,100)	(1,542,039)	329,061
Amortization of debt discount and costs	(57,900)	(57,900)	(66,357)	(8,457)
Total nonoperating revenues (expenses)	<u>\$ (1,867,700)</u>	<u>\$ (1,867,700)</u>	<u>\$ (1,590,786)</u>	<u>\$ 276,914</u>
Change in net assets	\$ 2,924,900	\$ 2,788,600	\$ 2,993,359	\$ 204,759
Total net assets—beginning	<u>62,312,770</u>	<u>62,312,770</u>	<u>62,312,770</u>	
Total net assets—ending	<u>\$ 65,237,670</u>	<u>\$ 65,101,370</u>	<u>\$ 65,306,129</u>	<u>\$ 204,759</u>

**CITY OF FLORENCE, ALABAMA**

**Schedules of Funding Progress**

<b>Employees' Retirement Plan</b>						
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)—Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
October 1, 2009	\$ 67,757,315	\$ 80,549,687	\$ 12,792,372	84.1%	\$ 26,775,834	47.8%
October 1, 2008	66,598,720	78,123,330	11,524,610	85.2%	26,289,687	43.8%
October 1, 2007	66,351,235	75,291,669	8,940,434	88.1%	25,653,135	34.9%

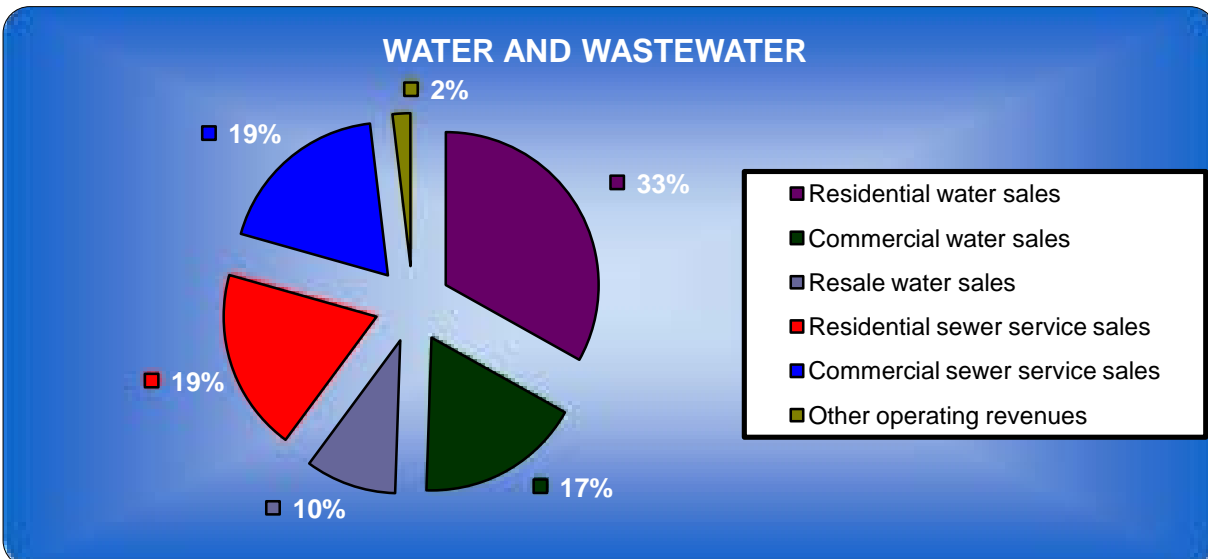
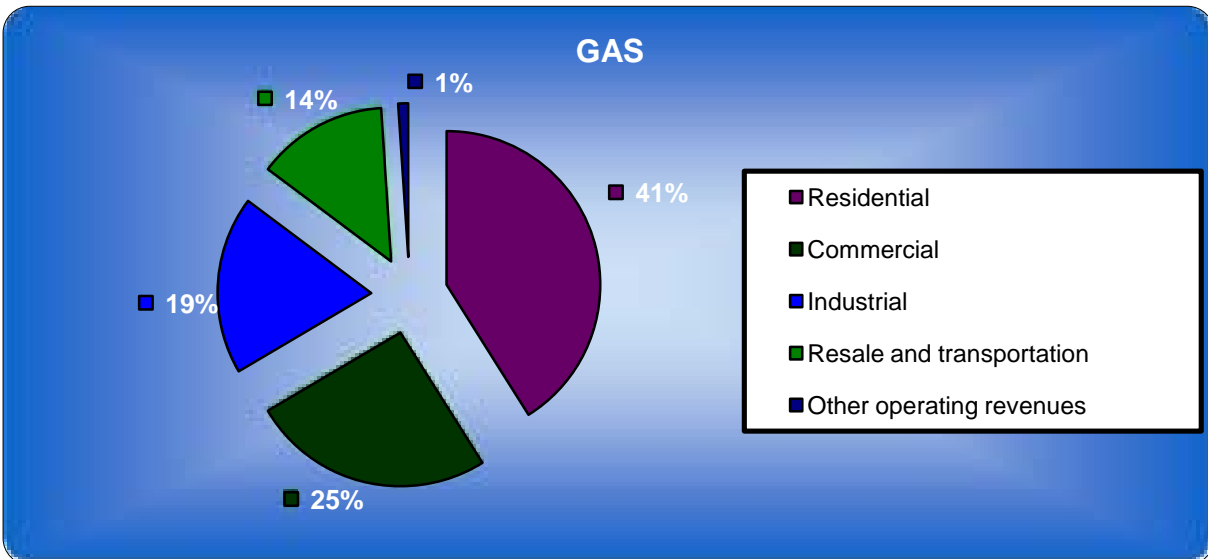
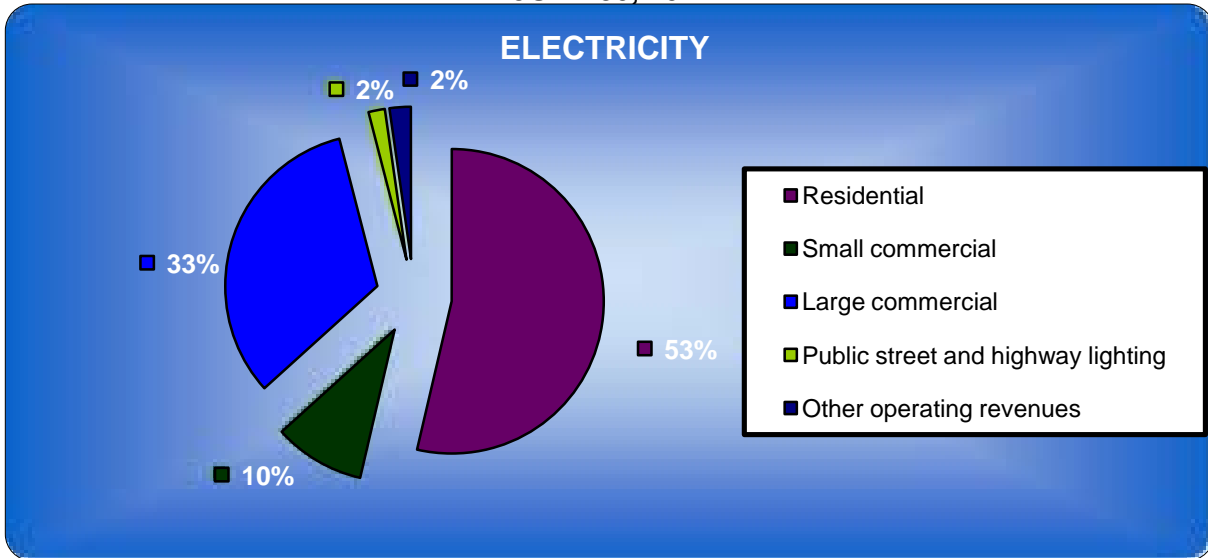
<b>Postretirement Benefits Plan</b>						
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)—Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
October 1, 2009	\$ 483,054	\$ 4,487,605	\$ 4,004,551	10.8%	\$ 25,726,624	15.6%
October 1, 2008	N/A	N/A	N/A	N/A	N/A	N/A
October 1, 2007	-	4,186,288	4,186,288	0.0%	26,065,584	16.1%

Because fiscal year 2008 was the year of transition for GASB Statement No. 45, the requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the above illustration does not reflect similar information respective of all of the years presented. The City has elected to perform an actuarial valuation on the plan on a biennial basis.

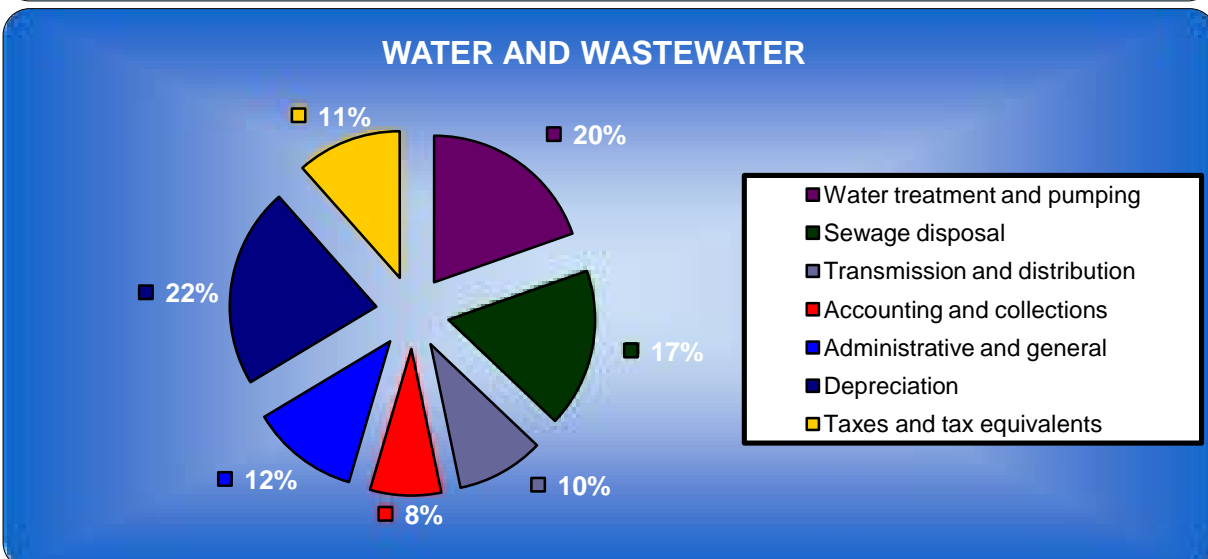
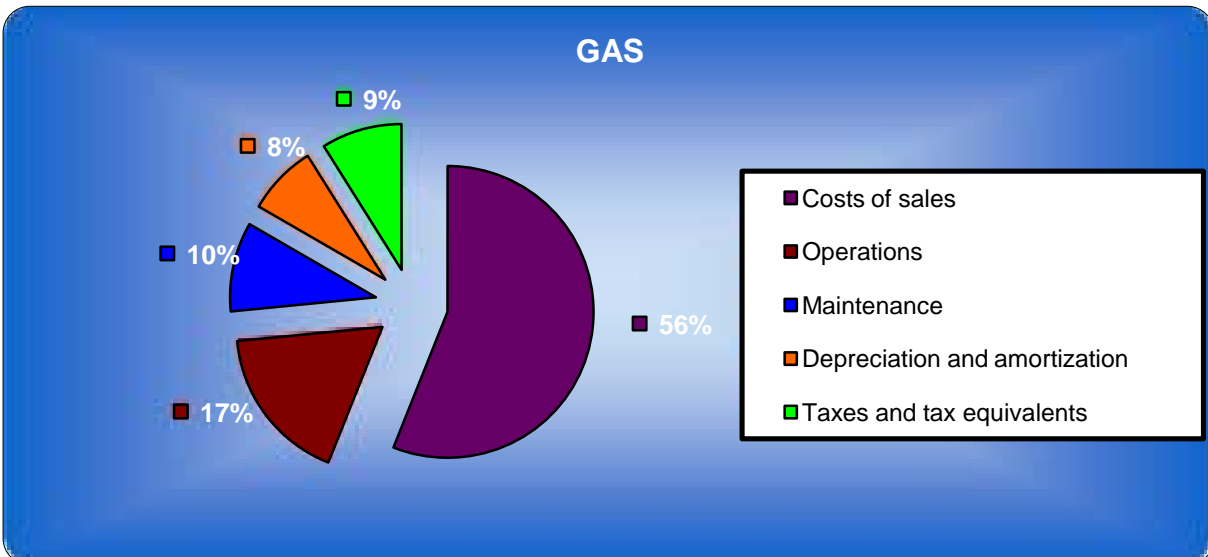
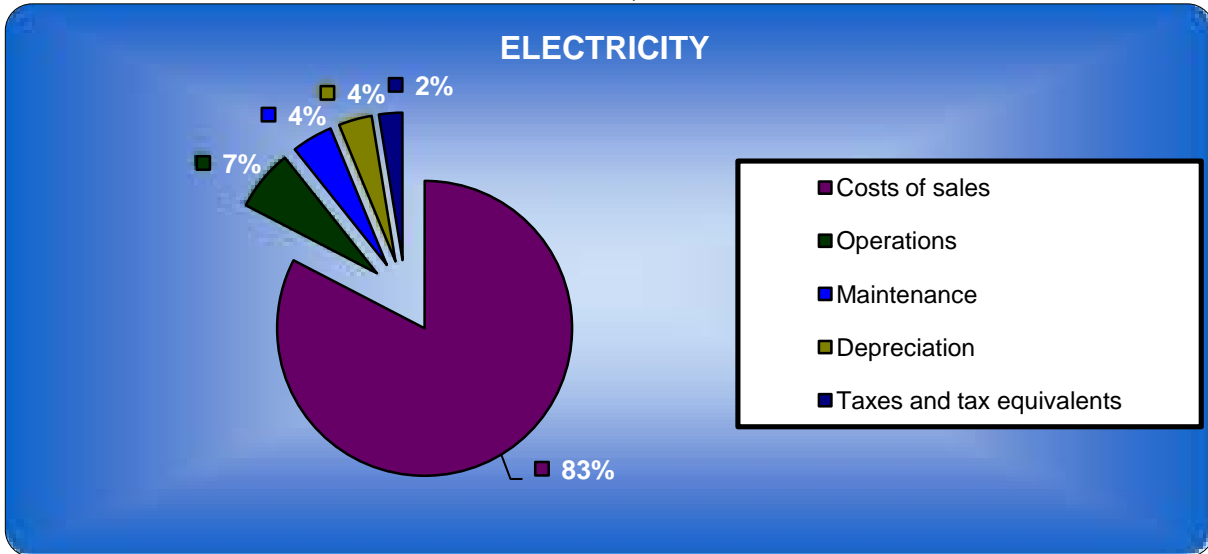
## **SUPPLEMENTARY SCHEDULES SECTION**



**CITY OF FLORENCE, ALABAMA  
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENT  
SOURCE OF FUNDS  
JUNE 30, 2011**



**CITY OF FLORENCE, ALABAMA  
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENT  
USE OF FUNDS  
JUNE 30, 2011**



*Percentages in graphs may not add up to 100 percent due to rounding.*

# **ELECTRICITY DEPARTMENT**

**CITY OF FLORENCE, ALABAMA  
ELECTRICITY DEPARTMENT  
SCHEDULE OF UTILITY PLANT IN SERVICE  
AND ACCUMULATED DEPRECIATION  
JUNE 30, 2011**

<u>Description</u>	<u>UTILITY PLANT</u>			
	<u>Balance Beginning of Year</u>	<u>Additions and Reclassifications</u>	<u>Retirements and Reclassifications</u>	<u>Balance End of Year</u>
Transmission plant:				
Land and land rights	\$ 571,289	\$ -	\$ -	\$ 571,289
Clearing land and right of ways	90,378			90,378
Structures and improvements	53,927			53,927
Station equipment	19,219,753	47,521		19,267,274
Towers and fixtures	32,266			32,266
Poles and fixtures	3,924,636	229,187	10,859	4,142,964
Overhead conductors and devices	4,852,311	202,211	12,305	5,042,217
Total transmission plant	<u>\$ 28,744,560</u>	<u>\$ 478,919</u>	<u>\$ 23,164</u>	<u>\$ 29,200,315</u>
Distribution plant:				
Land and land rights	\$ 69,040	\$ -	\$ -	\$ 69,040
Station equipment	2,911,556	8,352		2,919,908
Poles, towers and fixtures	19,112,033	638,155	52,525	19,697,663
Overhead conductors and devices	20,817,440	158,282	8,885	20,966,837
Underground conduit	2,317,155	67,588	146	2,384,597
Underground conductors and devices	7,709,239	461,055	9,324	8,160,970
Line transformers	22,755,521	563,754	59,194	23,260,081
Services	7,762,338	202,873	46,516	7,918,695
Meters	4,153,923	104,671	276,052	3,982,542
Installation on customer premises	2,180,250	77,542	22,256	2,235,536
Street lighting and signal systems	7,101,825	38,463	3,316	7,136,972
Total distribution plant	<u>\$ 96,890,320</u>	<u>\$ 2,320,735</u>	<u>\$ 478,214</u>	<u>\$ 98,732,841</u>
General plant:				
Land and land rights	\$ 323,397	\$ 41,800	\$ -	\$ 365,197
Structures and improvements	1,884,482	165,808		2,050,290
Office furniture and equipment	2,872,609	82,565	7,495	2,947,679
Transportation equipment	4,984,189	526,602		5,510,791
Stores equipment	43,900			43,900
Tools, shop and garage equipment	3,027,747	23,304		3,051,051
Laboratory equipment	68,211	6,040		74,251
Power operated equipment	280,500	44,625		325,125
Communication equipment	580,305	6,290		586,595
Miscellaneous equipment	191,958	6,200		198,158
Total general plant	<u>\$ 14,257,298</u>	<u>\$ 903,234</u>	<u>\$ 7,495</u>	<u>\$ 15,153,037</u>
Total utility plant in service	<u><u>\$ 139,892,178</u></u>	<u><u>\$ 3,702,888</u></u>	<u><u>\$ 508,873</u></u>	<u><u>\$ 143,086,193</u></u>

**ACCUMULATED DEPRECIATION**

<u>Balance Beginning of Year</u>	<u>Accrual</u>	<u>Retirements- Original Cost</u>	<u>Removal Costs</u>	<u>Salvage</u>	<u>Adjustments</u>	<u>Balance End of Year</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
43,715	1,079					44,794
12,300,426	673,324				28,893	13,002,643
32,266						32,266
2,556,409	162,134	10,859	7,485		475	2,700,674
3,209,853	148,570	12,305	8,483		114	3,337,749
<u>\$ 18,142,669</u>	<u>\$ 985,107</u>	<u>\$ 23,164</u>	<u>\$ 15,968</u>	<u>\$ -</u>	<u>\$ 29,482</u>	<u>\$ 19,118,126</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,891,193	116,768				2	2,007,963
8,182,533	582,472	52,525	36,207		19,177	8,695,450
12,802,987	575,285	8,885	6,125		3,489	13,366,751
1,413,214	93,325	146	101		1,789	1,508,081
3,558,424	316,992	9,324	6,427		(283,683)	3,575,982
6,474,595	517,144	59,194	40,805	22,464	157,530	7,071,734
2,881,834	235,540	46,516	32,065		24,400	3,063,193
738,043	112,896	276,052	190,293		39,728	424,322
1,400,438	110,667	22,256	15,341		6,890	1,480,398
4,749,617	356,048	3,316	2,285		1,196	5,101,260
<u>\$ 44,092,878</u>	<u>\$ 3,017,137</u>	<u>\$ 478,214</u>	<u>\$ 329,649</u>	<u>\$ 22,464</u>	<u>\$ (29,482)</u>	<u>\$ 46,295,134</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
863,086	50,996					914,082
2,421,512	142,961	7,495				2,556,978
3,265,764	234,308					3,500,072
25,717	2,974					28,691
2,015,072	147,701					2,162,773
59,513	30					59,543
13,862	22,183					36,045
396,850	21,022					417,872
69,300	17,006					86,306
<u>\$ 9,130,676</u>	<u>\$ 639,181</u>	<u>\$ 7,495</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,762,362</u>
<u>\$ 71,366,223</u>	<u>\$ 4,641,425</u>	<u>\$ 508,873</u>	<u>\$ 345,617</u>	<u>\$ 22,464</u>	<u>\$ -</u>	<u>\$ 75,175,622</u>

## **GAS DEPARTMENT**

**CITY OF FLORENCE, ALABAMA  
GAS DEPARTMENT  
SCHEDULE OF UTILITY PLANT IN SERVICE  
AND ACCUMULATED DEPRECIATION  
JUNE 30, 2011**

<u>Description</u>	<b>UTILITY PLANT</b>			
	<b>Balance Beginning of Year</b>	<b>Additions and Reclassifications</b>	<b>Retirements and Reclassifications</b>	<b>Balance End of Year</b>
Transmission plant:				
Land and land rights	\$ 120,667	\$ -	\$ -	\$ 120,667
Structures and improvements	142,993			142,993
Mains	6,898,312			6,898,312
Measuring and regulating equipment	2,545,912	29,372		2,575,284
Total transmission plant	<u>\$ 9,707,884</u>	<u>\$ 29,372</u>	<u>\$ -</u>	<u>\$ 9,737,256</u>
Distribution plant:				
Land and land rights	\$ 42,685	\$ -	\$ -	\$ 42,685
Structures and improvements	154,621			154,621
Mains	18,707,753	187,623	61,109	18,834,267
Measuring and regulating equipment	3,588,012	384,574		3,972,586
Services	11,149,192	275,967	62,333	11,362,826
Other distribution equipment	15,621			15,621
Corrosion	837,957	(176,960)		660,997
Total distribution plant	<u>\$ 34,495,841</u>	<u>\$ 671,204</u>	<u>\$ 123,442</u>	<u>\$ 35,043,603</u>
General plant:				
Land and land rights	\$ 157,395	\$ -	\$ -	\$ 157,395
Structures and improvements	2,664,044	5,336		2,669,380
Office furniture and equipment	612,472	19,817		632,289
Transportation equipment	1,387,655	162,948	109,370	1,441,233
Stores equipment	16,441	678		17,119
Tools, shop and garage equipment	19,886	520		20,406
Laboratory equipment	34,050			34,050
Power operated equipment	1,934,929	13,695		1,948,624
Communication equipment	84,975			84,975
Miscellaneous equipment	373,120			373,120
Other tangible property	18,589			18,589
Total general plant	<u>\$ 7,303,556</u>	<u>\$ 202,994</u>	<u>\$ 109,370</u>	<u>\$ 7,397,180</u>
Total utility plant in service	<u>\$ 51,507,281</u>	<u>\$ 903,570</u>	<u>\$ 232,812</u>	<u>\$ 52,178,039</u>

**ACCUMULATED DEPRECIATION**

<b>Balance Beginning of Year</b>	<b>Accrual</b>	<b>Retirements- Original Cost</b>	<b>Removal Costs</b>	<b>Balance End of Year</b>
\$ -	\$ -	\$ -	\$ -	\$ -
112,134	5,720			117,854
1,845,180	137,992			1,983,172
1,463,199	76,818			1,540,017
<u>\$ 3,420,513</u>	<u>\$ 220,530</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,641,043</u>
\$ -	\$ -	\$ -	\$ -	\$ -
148,217	6,404			154,621
3,708,515	375,420	61,109	392	4,022,434
1,517,926	132,288			1,650,214
4,379,286	337,680	62,333	31,730	4,622,903
12,872	467			13,339
673,083	(12,086)			660,997
<u>\$ 10,439,899</u>	<u>\$ 840,173</u>	<u>\$ 123,442</u>	<u>\$ 32,122</u>	<u>\$ 11,124,508</u>
\$ -	\$ -	\$ -	\$ -	\$ -
2,038,041	133,336			2,171,377
551,568	20,510			572,078
1,234,753	48,484	109,370		1,173,867
5,462	1,651			7,113
9,194	1,997			11,191
16,124	3,063			19,187
1,757,531	26,458			1,783,989
79,784	3,970			83,754
257,477	20,059			277,536
18,125	463			18,588
<u>\$ 5,968,059</u>	<u>\$ 259,991</u>	<u>\$ 109,370</u>	<u>\$ -</u>	<u>\$ 6,118,680</u>
<u>\$ 19,828,471</u>	<u>\$ 1,320,694</u>	<u>\$ 232,812</u>	<u>\$ 32,122</u>	<u>\$ 20,884,231</u>



**WATER AND WASTEWATER DEPARTMENT**

**CITY OF FLORENCE, ALABAMA  
WATER AND WASTEWATER DEPARTMENT  
SCHEDULE OF UTILITY PLANT IN SERVICE  
AND ACCUMULATED DEPRECIATION  
JUNE 30, 2011**

<b>Description</b>	<b>UTILITY PLANT</b>			
	<b>Balance Beginning of Year</b>	<b>Additions and Reclassifications</b>	<b>Retirements and Reclassifications</b>	<b>Balance End of Year</b>
Transmission and distribution plant:				
Land and land rights	\$ 968,039	\$ -	\$ -	\$ 968,039
Supply source	9,790,847			9,790,847
Pumping structures	1,516,599			1,516,599
Sewer plant and system	90,757,114	40,830		90,797,944
Reservoirs and standpipes	1,720,330	3,006		1,723,336
Purification building and equipment	13,686,507	465,721		14,152,228
Transmission mains and appurtenances	6,205,719	1,986		6,207,705
Distribution mains and appurtenances	10,416,342	283,202		10,699,544
Customer services	3,574,885	65,541		3,640,426
Fire hydrants	554,734	5,847		560,581
Miscellaneous structures and improvements	566,303	953		567,256
Total transmission and distribution plant	<u>\$ 139,757,419</u>	<u>\$ 867,086</u>	<u>\$ -</u>	<u>\$ 140,624,505</u>
General plant:				
Office furniture and equipment	\$ 496,635	\$ 22,596	\$ 6,098	\$ 513,133
Transportation equipment	1,545,547	171,332		1,716,879
Tools and equipment	1,250,335	10,456	61,418	1,199,373
Communication equipment	55,846			55,846
Laboratory equipment	26,589	1,744		28,333
Total general plant	<u>\$ 3,374,952</u>	<u>\$ 206,128</u>	<u>\$ 67,516</u>	<u>\$ 3,513,564</u>
Total utility plant in service	<u><u>\$ 143,132,371</u></u>	<u><u>\$ 1,073,214</u></u>	<u><u>\$ 67,516</u></u>	<u><u>\$ 144,138,069</u></u>

**ACCUMULATED DEPRECIATION**

<b>Balance Beginning of Year</b>	<b>Additions and Reclassifications</b>	<b>Retirements and Reclassifications</b>	<b>Balance End of Year</b>
\$ -	\$ -	\$ -	\$ -
3,514,012	196,187		3,710,199
790,977	41,438		832,415
18,583,087	1,731,234		20,314,321
956,157	34,749		990,906
5,592,790	287,905		5,880,695
1,987,655	105,207		2,092,862
5,800,370	229,623		6,029,993
2,362,205	64,942		2,427,147
242,862	11,679		254,541
238,730	13,407		252,137
<u>\$ 40,068,845</u>	<u>\$ 2,716,371</u>	<u>\$ -</u>	<u>\$ 42,785,216</u>
\$ 416,432	\$ 19,159	\$ 6,098	\$ 429,493
1,292,820	81,162		1,373,982
905,490	84,822	60,976	929,336
31,039	5,320		36,359
17,940	3,438		21,378
<u>\$ 2,663,721</u>	<u>\$ 193,901</u>	<u>\$ 67,074</u>	<u>\$ 2,790,548</u>
<u>\$ 42,732,566</u>	<u>\$ 2,910,272</u>	<u>\$ 67,074</u>	<u>\$ 45,575,764</u>

**CITY OF FLORENCE, ALABAMA**  
**WATER AND WASTEWATER DEPARTMENT**  
**SCHEDULE OF REVENUES AND EXPENSES—KILLEN SYSTEM**  
**FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Water sales:		
<i>Residential</i>	\$ 1,232,337	\$ 1,166,463
<i>Commercial</i>	326,269	317,323
Forfeited discounts	16,539	15,384
Other operating revenues	<u>18,032</u>	<u>17,651</u>
Total operating revenues	<u>\$ 1,593,177</u>	<u>\$ 1,516,821</u>
Operating expenses:		
Water treatment and pumping	\$ 405,595	\$ 391,879
Transmission and distribution	194,350	196,273
Accounting and collections	135,350	146,959
Administrative and general	129,049	124,428
Depreciation	96,893	84,130
Taxes and tax equivalents	<u>19,486</u>	<u>18,472</u>
Total operating expenses	<u>\$ 980,723</u>	<u>\$ 962,141</u>
Operating income	<u>\$ 612,454</u>	<u>\$ 554,680</u>
Nonoperating revenues (expenses):		
Interest revenues	\$ 1,443	\$ 3,817
Interest expense	<u>(8,205)</u>	<u>(19,856)</u>
Total nonoperating revenues (expenses)	<u>\$ (6,762)</u>	<u>\$ (16,039)</u>
Income before capital contributions	<u>\$ 605,692</u>	<u>\$ 538,641</u>