

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND
WATER AND WASTEWATER DEPARTMENTS
FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011**



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

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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, 2012 and 2011, 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, 2012 and 2011, 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 previously 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, 2012 and 2011, 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 our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



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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 financial statements as a whole. The supplementary schedules section is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary schedules section 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 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
October 17, 2012

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2012**

FINANCIAL HIGHLIGHTS

- The individual enterprise funds experienced the following changes in net assets: Electricity increased \$2.0 million or 3%; Gas decreased \$.2 million or 1%; Water and Wastewater increased \$3.3 million or 5%.
- The individual enterprise funds experienced the following changes in net utility plant: Electricity increased \$1.6 million or 2%; Gas decreased \$.2 million or 1%; Water and Wastewater increased \$2.0 million or 2%.
- The individual enterprise funds experienced the following changes in operating revenues: Electricity decreased \$7.4 million or 6%; Gas decreased \$3.4 million or 19%; Water and Wastewater increased \$1.1 million or 6%.
- The individual enterprise funds experienced the following changes in operating expenses: Electricity decreased \$5.2 million or 4%; Gas decreased \$2.3 million or 13%; Water and Wastewater increased \$.2 million or 2%.
- The individual enterprise funds experienced the following changes in nonoperating revenues: Electricity increased about \$56,800 or 33%; Gas increased about \$275,600 or 183%; Water and Wastewater increased about \$35,700 or 198%.
- The individual enterprise funds experienced the following changes in nonoperating expenses: Electricity decreased \$15,000 or 6%; Gas remained unchanged; Water and Wastewater increased \$.6 million or 37%.

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 \$2,034,287 or about 3%. 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 2012	FY 2011	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 37,519,638	\$ 36,410,010	\$ 1,109,628	3.05%
Capital Assets, Net	72,701,528	71,077,487	1,624,041	2.28%
Other Noncurrent Assets	7,877,297	7,989,068	(111,771)	-1.40%
Total Assets	\$ 118,098,463	\$ 115,476,565	\$ 2,621,898	2.27%
Current Liabilities	\$ 26,766,023	\$ 25,688,123	\$ 1,077,900	4.20%
Noncurrent Liabilities	12,619,446	13,109,735	(490,289)	-3.74%
Total Liabilities	\$ 39,385,469	\$ 38,797,858	\$ 587,611	1.51%
Invested in Capital Assets, Net of Related Debt	\$ 67,348,927	\$ 65,045,943	\$ 2,302,984	3.54%
Restricted	800,799	974,559	(173,760)	-17.83%
Unrestricted	10,563,268	10,658,205	(94,937)	-0.89%
Total Net Assets	\$ 78,712,994	\$ 76,678,707	\$ 2,034,287	2.65%

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 decreased approximately \$7.4 million or about 6% from FY 2011. During FY 2012, TVA had twelve rate changes to its distributors under its Total Monthly Fuel Cost Adjustment provisions. Florence Utilities passed these rate changes along to our customers. Our corresponding rate changes were revenue neutral for us. The Electricity Department experienced an approximate 7% decrease in kilowatt-hours sold in FY 2012 compared to FY 2011. Consequently, the cost of sales decreased substantially also. 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 FY 2011 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, primarily interest expense, by \$14,991 or about 6%.

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

	FY 2012	FY 2011	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	<u>\$ 117,716,208</u>	<u>\$ 125,107,873</u>	<u>\$ (7,391,665)</u>	<u>-5.91%</u>
Operating Expenses				
Cost of Sales	\$ 94,048,593	\$ 99,892,949	\$ (5,844,356)	-5.85%
Operations	8,615,709	8,077,065	538,644	6.67%
Maintenance	5,388,513	5,414,492	(25,979)	-0.48%
Depreciation	4,508,125	4,417,680	90,445	2.05%
Taxes and Tax Equivalents	3,109,188	3,114,742	(5,554)	-0.18%
Total Operating Expenses	<u>\$ 115,670,128</u>	<u>\$ 120,916,928</u>	<u>\$ (5,246,800)</u>	<u>-4.34%</u>
Operating Income	<u>\$ 2,046,080</u>	<u>\$ 4,190,945</u>	<u>\$ (2,144,865)</u>	<u>-51.18%</u>
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 227,053	\$ 170,230	\$ 56,823	33.38%
Nonoperating Expenses	(238,846)	(253,837)	14,991	-5.91%
Total Nonoperating Revenues (Exp)	<u>\$ (11,793)</u>	<u>\$ (83,607)</u>	<u>\$ 71,814</u>	<u>-85.89%</u>
Income before Contributions	\$ 2,034,287	\$ 4,107,338	\$ (2,073,051)	-50.47%
Capital Contributions	<u>-</u>	<u>1,388,735</u>	<u>(1,388,735)</u>	<u>-100.00%</u>
Change in Net Assets	\$ 2,034,287	\$ 5,496,073	\$ (3,461,786)	-62.99%
Total Net Assets - Beginning	<u>76,678,707</u>	<u>71,182,634</u>	<u>5,496,073</u>	<u>7.72%</u>
Total Net Assets - Ending	<u>\$ 78,712,994</u>	<u>\$ 76,678,707</u>	<u>\$ 2,034,287</u>	<u>2.65%</u>

Gas Department

The Gas Department's net assets decreased from last year by \$230,093 or about 1%. 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 2012	FY 2011	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 11,608,341	\$ 11,703,160	\$ (94,819)	-0.81%
Capital Assets, Net	31,303,658	31,543,020	(239,362)	-0.76%
Other Noncurrent Assets	-	353	(353)	-100.00%
Total Assets	<u>\$ 42,911,999</u>	<u>\$ 43,246,533</u>	<u>\$ (334,534)</u>	<u>-0.77%</u>
Current Liabilities	\$ 990,153	\$ 1,105,950	\$ (115,797)	-10.47%
Noncurrent Liabilities	338,375	327,019	11,356	3.47%
Total Liabilities	<u>\$ 1,328,528</u>	<u>\$ 1,432,969</u>	<u>\$ (104,441)</u>	<u>-7.29%</u>
Invested in Capital Assets, Net of Related Debt	\$ 31,303,658	\$ 31,543,020	\$ (239,362)	-0.76%
Unrestricted	10,279,813	10,270,544	9,269	0.09%
Total Net Assets	<u>\$ 41,583,471</u>	<u>\$ 41,813,564</u>	<u>\$ (230,093)</u>	<u>-0.55%</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 \$3.4 million or about 19% from FY 2011. The Gas Department had four general rate changes in FY 2012 – effective July 2011, August 2011, December 2011, and March 2012. These rate changes reflected the varying costs in the natural gas market and the decline in sales volumes. The Gas Department experienced an approximate 16.6% decrease in overall sales volume in FY 2012 compared to FY 2011. Cost of sales decreased by \$2.3 million or about 23% due to decreased gas prices and decreased sales volumes. The Gas Department experienced an increase in nonoperating revenues of \$275,604 or about 183%. The increase was due to payments from the new Tennessee Gas Pipeline Marketing Assistance Program, the final reimbursement from Tennessee Gas Pipeline of recoverable costs of the PCB/HSL project, and the sale of surplus equipment. The Gas Department's nonoperating expenses remained unchanged.

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

	FY 2012	FY 2011	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	\$ 14,286,953	\$ 17,696,281	\$ (3,409,328)	-19.27%
Operating Expenses				
Cost of Sales	\$ 7,385,045	\$ 9,636,273	\$ (2,251,228)	-23.36%
Operations	3,077,940	2,991,550	86,390	2.89%
Maintenance	1,602,658	1,701,447	(98,789)	-5.81%
Depreciation and Amortization	1,355,048	1,331,355	23,693	1.78%
Taxes and Tax Equivalents	1,522,235	1,533,703	(11,468)	-0.75%
Total Operating Expenses	\$ 14,942,926	\$ 17,194,328	\$ (2,251,402)	-13.09%
Operating Income (Loss)	\$ (655,973)	\$ 501,953	\$ (1,157,926)	-230.68%
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 426,233	\$ 150,629	\$ 275,604	182.97%
Nonoperating Expenses	(353)	(353)	-	0.00%
Total Nonoperating Revenues (Exp)	\$ 425,880	\$ 150,276	\$ 275,604	183.40%
Change in Net Assets	\$ (230,093)	\$ 652,229	\$ (882,322)	-135.28%
Total Net Assets - Beginning	41,813,564	41,161,335	652,229	1.58%
Total Net Assets - Ending	\$ 41,583,471	\$ 41,813,564	\$ (230,093)	-0.55%

Water and Wastewater Department

The Water and Wastewater Department's net assets increased from last year by \$3,321,463 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>				
	<u>FY 2012</u>	<u>FY 2011</u>	<u>Increase / (Decrease)</u>	
			<u>Dollars</u>	<u>Percent</u>
Current Assets	\$ 9,430,320	\$ 8,946,283	\$ 484,037	5.41%
Capital Assets, Net	101,767,527	99,717,962	2,049,565	2.06%
Other Noncurrent Assets	23,802,711	24,517,188	(714,477)	-2.91%
Total Assets	<u>\$ 135,000,558</u>	<u>\$ 133,181,433</u>	<u>\$ 1,819,125</u>	<u>1.37%</u>
Current Liabilities	\$ 6,211,559	\$ 5,133,264	\$ 1,078,295	21.01%
Noncurrent Liabilities	60,161,407	62,742,040	(2,580,633)	-4.11%
Total Liabilities	<u>\$ 66,372,966</u>	<u>\$ 67,875,304</u>	<u>\$ (1,502,338)</u>	<u>-2.21%</u>
Invested in Capital Assets, Net of Related Debt	\$ 38,328,857	\$ 33,807,580	\$ 4,521,277	13.37%
Restricted	22,446,653	23,307,583	(860,930)	-3.69%
Unrestricted	7,852,082	8,190,966	(338,884)	-4.14%
Total Net Assets	<u><u>\$ 68,627,592</u></u>	<u><u>\$ 65,306,129</u></u>	<u><u>\$ 3,321,463</u></u>	<u><u>5.09%</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 \$1.1 million or about 6% from FY 2011 revenues. The increase in operating revenues was largely due to the rate increase implemented effective with the beginning of the fiscal year. Operating expenses increased by \$.2 million or about 2%. The Water and Wastewater Department experienced an increase in nonoperating revenues of \$35,705 or 198% due to the sale of surplus equipment. The Water and Wastewater Department experienced an increase in nonoperating expenses of \$588,107 or 37% primarily due to additional interest expense from the new 2011 warrant issue.

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

	FY 2012	FY 2011	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	\$ 18,896,354	\$ 17,772,918	\$ 1,123,436	6.32%
Operating Expenses				
Water Treatment and Pumping	\$ 2,680,144	\$ 2,586,594	\$ 93,550	3.62%
Sewage Disposal	2,172,603	2,305,109	(132,506)	-5.75%
Transmission and Distribution	1,246,190	1,268,397	(22,207)	-1.75%
Accounting and Collections	1,075,799	1,033,598	42,201	4.08%
Administrative and General	1,716,284	1,562,459	153,825	9.85%
Depreciation	2,929,129	2,910,272	18,857	0.65%
Taxes and Tax Equivalents	1,611,554	1,522,344	89,210	5.86%
Total Operating Expenses	<u>\$ 13,431,703</u>	<u>\$ 13,188,773</u>	<u>\$ 242,930</u>	<u>1.84%</u>
Operating Income	<u>\$ 5,464,651</u>	<u>\$ 4,584,145</u>	<u>\$ 880,506</u>	<u>19.21%</u>
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 53,757	\$ 18,052	\$ 35,705	197.79%
Nonoperating Expenses	(2,196,945)	(1,608,838)	(588,107)	36.55%
Total Nonoperating Revenues (Exp)	<u>\$ (2,143,188)</u>	<u>\$ (1,590,786)</u>	<u>\$ (552,402)</u>	<u>34.73%</u>
Change in Net Assets	\$ 3,321,463	\$ 2,993,359	\$ 328,104	10.96%
Total Net Assets - Beginning	<u>65,306,129</u>	<u>62,312,770</u>	<u>2,993,359</u>	<u>4.80%</u>
Total Net Assets - Ending	<u><u>\$ 68,627,592</u></u>	<u><u>\$ 65,306,129</u></u>	<u><u>\$ 3,321,463</u></u>	<u><u>5.09%</u></u>

BUDGETARY HIGHLIGHTS

As required, the City Council adopts a budget for each enterprise fund comprising the Florence Utilities. The FY 2012 original budgets for the Gas and Water and Wastewater Departments were adopted on August 16, 2011. The original budget for the Electricity Department was adopted on September 20, 2011. The budgets for the Electricity Department, Gas Department, and the Water and Wastewater Department were not subsequently amended during the year. 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, 2012

	Final Budget	Actual	Variance	
			Dollars	Percent
Operating Revenues	\$ 128,795,000	\$ 117,716,208	\$ (11,078,792)	-8.60%
Operating Expenses	124,912,400	115,670,128	9,242,272	7.40%
Operating Income	\$ 3,882,600	\$ 2,046,080	\$ (1,836,520)	-47.30%
Nonoperating Revenues (Expenses)	(46,000)	(11,793)	34,207	-74.36%
Change in Net Assets	\$ 3,836,600	\$ 2,034,287	\$ (1,802,313)	-46.98%

As the above budget report shows, the Electricity Department did not meet the budgeted Change in Net Assets by \$1,802,313. This is approximately 1.4% of budgeted operating revenues. As you can see on the budget schedule in the required supplementary information, the sales of electricity accounted for most of the budget operating revenues variance amount. The large difference of budgeted over actual operating expenses is primarily due to the decreased cost of sales associated with the decreased sales. The remaining total variance is due to smaller variances, both positive and negative, over a large number of accounts.

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, 2012

	Final Budget	Actual	Variance	
			Dollars	Percent
Operating Revenues	\$ 19,297,700	\$ 14,286,953	\$ (5,010,747)	-25.97%
Operating Expenses	19,042,400	14,942,926	4,099,474	21.53%
Operating Income (Loss)	\$ 255,300	\$ (655,973)	\$ (911,273)	-356.94%
Nonoperating Revenues (Expenses)	184,900	425,880	240,980	130.33%
Change in Net Assets	\$ 440,200	\$ (230,093)	\$ (670,293)	-152.27%

The Gas Department did not meet the budgeted Change in Net Assets by \$670,293, or approximately 3% 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 \$197,757 representing a new Marketing Assistance Program (MAP) administered through Tennessee Gas Pipeline Company. Also, the gain on disposition of assets was \$41,882 in excess of the budgeted amount.

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, 2012

	Final Budget	Actual	Variance	
			Dollars	Percent
Operating Revenues	\$ 19,492,150	\$ 18,896,354	\$ (595,796)	-3.06%
Operating Expenses	13,650,300	13,431,703	218,597	1.60%
Operating Income	\$ 5,841,850	\$ 5,464,651	\$ (377,199)	-6.46%
Nonoperating Revenues (Expenses)	(2,007,000)	(2,143,188)	(136,188)	6.79%
Change in Net Assets	\$ 3,834,850	\$ 3,321,463	\$ (513,387)	-13.39%

The Water and Wastewater Department did not meet the budgeted Change in Net Assets by \$513,387. This represents about 3% of final budgeted operating revenues. As you can see on the budget schedule in the required supplementary information, there was a combination of positive and negative variances for many accounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY 2012, 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 2012

	FY 2012	FY 2011	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 149,190,959	\$ 143,086,193	\$ 6,104,766	4.27%
Construction in Progress	1,249,834	3,166,916	(1,917,082)	-60.53%
Less: Accumulated Depreciation	(77,739,265)	(75,175,622)	(2,563,643)	3.41%
Net Utility Plant	\$ 72,701,528	\$ 71,077,487	\$ 1,624,041	2.28%

As the above table shows, the Electricity Department experienced a 2.28% increase in net utility plant. The department plans to finance capital expenditures in FY 2013 through cash generated from operations and cash reserves. The Department is exploring the possibility of a warrant issue in FY 2013 to finance additional capital improvements.

Gas Department

Gas Department
Capital Assets, Net
FY 2012

	FY 2012	FY 2011	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 52,516,394	\$ 52,178,039	\$ 338,355	0.65%
Acquisition Adjustment (net of amortization)	200,786	211,447	(10,661)	-5.04%
Construction in Progress	34,050	37,765	(3,715)	-9.84%
Less: Accumulated Depreciation	(21,447,572)	(20,884,231)	(563,341)	2.70%
Net Utility Plant	<u>\$ 31,303,658</u>	<u>\$ 31,543,020</u>	<u>\$ (239,362)</u>	<u>-0.76%</u>

As the above table shows, the Gas Department decreased net utility plant by .76%. The department plans to finance capital expenditures in FY 2013 through cash reserves and cash generated from current operations.

Water and Wastewater Department

Water and Wastewater Department
Capital Assets, Net
FY 2012

	FY 2012	FY 2011	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 144,531,504	\$ 144,138,069	\$ 393,435	0.27%
Construction in Progress	5,526,809	1,155,657	4,371,152	378.24%
Less: Accumulated Depreciation	(48,290,786)	(45,575,764)	(2,715,022)	5.96%
Net Utility Plant	<u>\$ 101,767,527</u>	<u>\$ 99,717,962</u>	<u>\$ 2,049,565</u>	<u>2.06%</u>

As the above table shows, the Water and Wastewater Department increased net utility plant by 2.06%. In FY 2012, the Department spent a significant amount on capital improvements. At year-end, there were several large projects in progress. The department plans to finance capital expenditures in FY 2013 with cash reserves, cash generated from current operations, the remaining balance of the 2007 SRF Warrants, and the proceeds from the Water & Sewer Revenue Warrants, Series 2011, issued in June 2011.

Long-term Debt

During FY 2012, 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 first is the Electric Revenue Refunding Warrants, Series 2009, with interest rates that range from 1.50% to 3.65%. It was issued with an underlying rating of 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 2012, the Electricity Department exceeded that requirement at about 10.30 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 2012. This line of credit is available until January 2013. This warrant has an interest rate of 4.99%. The Department does not anticipate replacing this line of credit due to its stable and healthy working capital.

The Department did not issue new long-term debt during FY 2012. The Department is exploring the possibility of a warrant issue in FY 2013.

Gas Department

The Gas Department issued a line of credit warrant with CB&S Bank, the Natural Gas Taxable Revenue Warrants, Series 2008, dated April 2008. The Department did not utilize this line of credit during FY 2012. This line of credit was closed on June 20, 2012. This warrant had an interest rate of 4.99%. Due to its stable and healthy net working capital the Department did not replace this line of credit.

The Department did not issue any long-debt in FY 2012. At this time the Department does not have any plans to issue any additional debt in FY 2013.

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 \$1.1 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 Department did not issue any long-term debt during FY 2012. At this time the Department does not have any plans to issue any additional debt in FY 2013.

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 2012, the Water and Wastewater Department exceeded that requirement at about 1.59 times.

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 July 2012 was 8.6% as compared to 9.4% for July 2011. The State of Alabama's unemployment rates were 8.3% for July 2012, and 10.0% for July 2011. 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 kilowatt-hours for FY 2013 through September 2012 for electricity have decreased from the same period last year by 0.7%. Sales in dekatherms to commercial and industrial natural gas customers for the period from July 2012 through September 2012, as compared to sales for the same period in the previous fiscal year have decreased approximately 9.2%. FY 2013 sales revenues from water and wastewater operations through September have decreased 3.3% over the same period in FY 2012.

The City Council adopted the Gas Department's and the Water and Wastewater Department's FY 2013 budgets on May 15, 2012. The budgets for the Gas and Water and Wastewater Departments were amended on September 18, 2012. The City Council adopted the Electricity Department's FY 2013 budget on June 19, 2012. The Electricity Department's budget was amended on August 21, 2012 and September 18, 2012.

The City's power contract with TVA provides for a Total Monthly Fuel Cost Adjustment (TMFCA) 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 increase in July 2012. The volatility of the natural gas market 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. The Department does not plan to seek a rate increase in FY 2013.

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 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, Alabama 35631.



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**CITY OF FLORENCE, ALABAMA
ELECTRICITY DEPARTMENT
BALANCE SHEETS
JUNE 30, 2012 and 2011**

ASSETS	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 15,684,611	\$ 12,734,154
Accounts receivable (net)	12,086,561	14,372,584
Accrued interest receivable	3,781	
Inventories	1,655,358	1,497,969
Prepaid expenses	<u>8,089,327</u>	<u>7,805,303</u>
Total current assets	<u>\$ 37,519,638</u>	<u>\$ 36,410,010</u>
Noncurrent assets:		
Restricted cash and cash equivalents	\$ 800,799	\$ 974,559
Capital assets:		
Utility plant in service (at cost)	149,190,959	143,086,193
Construction in progress	1,249,834	3,166,916
Less: accumulated depreciation	77,739,265	75,175,622
Receivables from customers for conservation loans	6,958,287	6,786,738
Prepaid purchased power-TVA DEU program	32,175	129,150
Unamortized debt issuance costs	<u>86,036</u>	<u>98,621</u>
Total noncurrent assets	<u>\$ 80,578,825</u>	<u>\$ 79,066,555</u>
Total assets	<u><u>\$ 118,098,463</u></u>	<u><u>\$ 115,476,565</u></u>

LIABILITIES	<u>2012</u>	<u>2011</u>
Current liabilities:		
Accounts payable	\$ 17,924,065	\$ 17,408,879
Retainage payable	178,925	106,763
Customer deposits	6,738,674	6,471,682
Compensated absences	554,643	534,325
Accrued taxes and expenses	633,833	441,546
Deferred interest income-TVA DEU program	21,975	29,600
	<hr/>	<hr/>
Total current liabilities	\$ 26,052,115	\$ 24,992,795
Liabilities payable from restricted assets:		
Revenue warrants—payable within one year	\$ 730,000	\$ 710,000
Unamortized debt discount	(4,660)	(4,660)
Unamortized deferred loss on early retirement of debt	(26,397)	(26,397)
Accrued interest	14,965	16,385
	<hr/>	<hr/>
Total liabilities payable from restricted assets	\$ 713,908	\$ 695,328
Noncurrent liabilities:		
Revenue warrants—payable after one year	\$ 4,840,000	\$ 5,570,000
Unamortized debt discount	(27,957)	(32,616)
Unamortized deferred loss on early retirement of debt	(158,385)	(184,783)
Advances from TVA for conservation loans	7,126,648	6,926,496
Compensated absences	831,965	801,488
Deferred interest income-TVA DEU program	7,175	29,150
	<hr/>	<hr/>
Total noncurrent liabilities	\$ 12,619,446	\$ 13,109,735
	<hr/>	<hr/>
Total liabilities	\$ 39,385,469	\$ 38,797,858
NET ASSETS		
Invested in capital assets, net of related debt	\$ 67,348,927	\$ 65,045,943
Restricted for debt service	800,799	974,559
Unrestricted	10,563,268	10,658,205
	<hr/>	<hr/>
Total net assets	\$ 78,712,994	\$ 76,678,707
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 118,098,463</u>	<u>\$ 115,476,565</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 REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

	2012	2011
Operating revenues:		
Electric sales:		
<i>Residential</i>	\$ 60,847,474	\$ 67,103,532
<i>Small commercial</i>	11,903,279	12,096,649
<i>Large commercial</i>	39,894,945	40,886,363
<i>Public street and highway lighting</i>	2,182,678	2,182,749
Forfeited discounts	1,079,800	1,124,951
Rents from electric property	1,189,854	1,082,767
Other operating revenues	618,178	630,862
Total operating revenues	\$ 117,716,208	\$ 125,107,873
Operating expenses:		
Costs of sales	\$ 94,048,593	\$ 99,892,949
Operations	8,615,709	8,077,065
Maintenance	5,388,513	5,414,492
Depreciation	4,508,125	4,417,680
Taxes and tax equivalents	3,109,188	3,114,742
Total operating expenses	\$ 115,670,128	\$ 120,916,928
Operating income	\$ 2,046,080	\$ 4,190,945
Nonoperating revenues (expenses):		
Interest revenues	\$ 43,704	\$ 49,108
Merchandising revenues (net of costs)	182,536	121,006
Miscellaneous nonoperating income	813	116
Interest expense	(195,205)	(210,196)
Amortization of debt discount and costs	(43,641)	(43,641)
Total nonoperating revenues (expenses)	\$ (11,793)	\$ (83,607)
Income before contributions	\$ 2,034,287	\$ 4,107,338
Capital contributions		1,388,735
Change in net assets	\$ 2,034,287	\$ 5,496,073
Total net assets—beginning	76,678,707	71,182,634
Total net assets—ending	\$ 78,712,994	\$ 76,678,707

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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 120,185,580	\$ 123,135,218
Receipts from interfund services provided	2,369,314	2,275,594
Payments to suppliers	(99,870,091)	(101,837,733)
Payments to employees for services and benefits—exclusive of capitalized costs	(9,811,687)	(9,663,164)
Payments for interfund services used	<u>(2,918,019)</u>	<u>(5,008,488)</u>
Net cash provided by operating activities	<u>\$ 9,955,097</u>	<u>\$ 8,901,427</u>
Cash flows from noncapital financing activities:		
Increase in receivables from customers for conservation loans	\$ (171,549)	\$ (630,843)
Increase in advances from TVA for conservation loans	200,152	612,535
Deferred TVA DEU program (net)	<u>75,000</u>	<u>100,000</u>
Net cash provided by noncapital financing activities	<u>\$ 103,603</u>	<u>\$ 81,692</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (6,102,158)	\$ (5,493,481)
Removal costs of retirements of capital assets	(313,143)	(345,617)
Salvage value of retirements of capital assets		22,464
Capital contributions		1,388,735
Principal paid on capital debt	(710,000)	(705,000)
Interest paid on capital debt	<u>(196,625)</u>	<u>(211,430)</u>
Net cash used for capital and related financing activities	<u>\$ (7,321,926)</u>	<u>\$ (5,344,329)</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 39,923</u>	<u>\$ 49,108</u>
Net cash provided by investing activities	<u>\$ 39,923</u>	<u>\$ 49,108</u>
Net increase in cash and cash equivalents	\$ 2,776,697	\$ 3,687,898
Balances—beginning of the year	<u>13,708,713</u>	<u>10,020,815</u>
Balances—end of the year	<u>\$ 16,485,410</u>	<u>\$ 13,708,713</u>
<i>Classified as:</i>		
Current assets	\$ 15,684,611	\$ 12,734,154
Restricted assets	<u>800,799</u>	<u>974,559</u>
Totals	<u>\$ 16,485,410</u>	<u>\$ 13,708,713</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, 2012 and 2011
(Continued)**

	<u>2012</u>	<u>2011</u>
<i>Reconciliation of operating income to net cash provided (used)</i>		
<i>by operating activities:</i>		
Operating income	\$ 2,046,080	\$ 4,190,945
Adjustments to reconcile operating income to net cash provided (used)		
<i>by operating activities:</i>		
Depreciation	\$ 4,791,261	\$ 4,641,425
Income from merchandising revenues (net of costs)	182,536	121,006
Miscellaneous nonoperating income	813	116
Change in assets and liabilities:		
Receivables (net)	2,286,023	(2,093,779)
Inventories	(157,389)	80,029
Prepaid expenses	(284,024)	(1,577,499)
Accounts and other payables	<u>1,089,797</u>	<u>3,539,184</u>
Total adjustments	<u>\$ 7,909,017</u>	<u>\$ 4,710,482</u>
Net cash provided by operating activities	<u>\$ 9,955,097</u>	<u>\$ 8,901,427</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, 2012 and 2011**

ASSETS	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 9,332,377	\$ 9,787,818
Accounts receivable (net)	700,783	775,932
Accrued interest receivable		185
Inventories	1,555,468	1,128,278
Prepaid expenses	<u>19,713</u>	<u>10,947</u>
Total current assets	<u>\$ 11,608,341</u>	<u>\$ 11,703,160</u>
Noncurrent assets:		
Capital assets:		
Utility plant in service (at cost)	\$ 52,516,394	\$ 52,178,039
Acquisition adjustment (net of amortization)	200,786	211,447
Construction in progress	34,050	37,765
Less: accumulated depreciation	21,447,572	20,884,231
Unamortized debt issuance costs		<u>353</u>
Total noncurrent assets	<u>\$ 31,303,658</u>	<u>\$ 31,543,373</u>
Total assets	<u><u>\$ 42,911,999</u></u>	<u><u>\$ 43,246,533</u></u>

LIABILITIES	<u>2012</u>	<u>2011</u>
Current liabilities:		
Accounts payable	\$ 588,851	\$ 788,622
Compensated absences	225,583	218,013
Accrued taxes and expenses	<u>175,719</u>	<u>99,315</u>
Total current liabilities	<u>\$ 990,153</u>	<u>\$ 1,105,950</u>
Noncurrent liabilities:		
Compensated absences	<u>\$ 338,375</u>	<u>\$ 327,019</u>
Total noncurrent liabilities	<u>\$ 338,375</u>	<u>\$ 327,019</u>
Total liabilities	<u>\$ 1,328,528</u>	<u>\$ 1,432,969</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 31,303,658	\$ 31,543,020
Unrestricted	<u>10,279,813</u>	<u>10,270,544</u>
Total net assets	<u>\$ 41,583,471</u>	<u>\$ 41,813,564</u>
Total liabilities and net assets	<u><u>\$ 42,911,999</u></u>	<u><u>\$ 43,246,533</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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Gas sales:		
<i>Residential</i>	\$ 5,693,754	\$ 7,265,429
<i>Commercial</i>	3,801,004	4,505,351
<i>Industrial</i>	2,694,185	3,310,930
<i>Resale and transportation</i>	1,925,041	2,428,137
Service fees	86,644	85,384
Forfeited discounts	73,133	89,095
Other operating revenues	13,192	11,955
	<u> </u>	<u> </u>
Total operating revenues	\$ 14,286,953	\$ 17,696,281
Operating expenses:		
Costs of sales	\$ 7,385,045	\$ 9,636,273
Operations	3,077,940	2,991,550
Maintenance	1,602,658	1,701,447
Depreciation	1,344,387	1,320,694
Amortization of acquisition adjustment	10,661	10,661
Taxes and tax equivalents	1,522,235	1,533,703
	<u> </u>	<u> </u>
Total operating expenses	\$ 14,942,926	\$ 17,194,328
Operating income (loss)	\$ (655,973)	\$ 501,953
Nonoperating revenues (expenses):		
Interest revenues	\$ 13,296	\$ 9,287
Gain (loss) on disposition of assets	44,382	12,200
Miscellaneous nonoperating income	368,555	129,142
Amortization of debt discount and costs	(353)	(353)
	<u> </u>	<u> </u>
Total nonoperating revenues (expenses)	\$ 425,880	\$ 150,276
Change in net assets	\$ (230,093)	\$ 652,229
Total net assets—beginning	<u>41,813,564</u>	<u>41,161,335</u>
Total net assets—ending	<u>\$ 41,583,471</u>	<u>\$ 41,813,564</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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 14,731,411	\$ 18,127,830
Receipts from interfund services provided	112,618	110,024
Payments to suppliers	(8,735,029)	(10,344,423)
Payments to employees for services and benefits—exclusive of capitalized costs	(3,063,769)	(2,929,865)
Payments for interfund services used	<u>(2,442,849)</u>	<u>(2,491,026)</u>
Net cash provided by operating activities	<u>\$ 602,382</u>	<u>\$ 2,472,540</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (1,089,291)	\$ (896,399)
Proceeds from disposition of assets	66,783	12,200
Removal costs of retirements of capital assets	<u>(48,796)</u>	<u>(32,122)</u>
Net cash used for capital and related financing activities	<u>\$ (1,071,304)</u>	<u>\$ (916,321)</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 13,481</u>	<u>\$ 9,793</u>
Net cash provided by investing activities	<u>\$ 13,481</u>	<u>\$ 9,793</u>
Net increase (decrease) in cash and cash equivalents	\$ (455,441)	\$ 1,566,012
Balances—beginning of the year	<u>9,787,818</u>	<u>8,221,806</u>
Balances—end of the year	<u>\$ 9,332,377</u>	<u>\$ 9,787,818</u>
<i>Classified as:</i>		
Current assets	<u>\$ 9,332,377</u>	<u>\$ 9,787,818</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, 2012 and 2011
(Continued)**

	<u>2012</u>	<u>2011</u>
<i>Reconciliation of operating income to net cash provided (used)</i>		
<i>by operating activities:</i>		
Operating income (loss)	\$ (655,973)	\$ 501,953
Adjustments to reconcile operating income to net cash provided (used)		
<i>by operating activities:</i>		
Depreciation	\$ 1,344,387	\$ 1,320,694
Amortization of acquisition adjustment	10,661	10,661
Miscellaneous nonoperating income	368,555	129,142
Change in assets and liabilities:		
Receivables (net)	75,149	302,006
Inventories	(427,190)	461,256
Prepaid expenses	(8,766)	(1,482)
Accounts and other payables	<u>(104,441)</u>	<u>(251,690)</u>
Total adjustments	<u>\$ 1,258,355</u>	<u>\$ 1,970,587</u>
Net cash provided by operating activities	<u>\$ 602,382</u>	<u>\$ 2,472,540</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, 2012 and 2011**

ASSETS	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 6,807,806	\$ 6,357,092
Accounts receivable (net)	1,851,339	1,707,418
Accrued interest receivable	1,908	
Inventories	579,233	606,009
Prepaid expenses	<u>190,034</u>	<u>275,764</u>
Total current assets	<u>\$ 9,430,320</u>	<u>\$ 8,946,283</u>
Noncurrent assets:		
Restricted cash and cash equivalents	\$ 23,273,901	\$ 23,966,344
Capital assets:		
Utility plant in service (at cost)	144,531,504	144,138,069
Construction in progress	5,526,809	1,155,657
Less: accumulated depreciation	48,290,786	45,575,764
Unamortized debt issuance costs	<u>528,810</u>	<u>550,844</u>
Total noncurrent assets	<u>\$ 125,570,238</u>	<u>\$ 124,235,150</u>
Total assets	<u><u>\$ 135,000,558</u></u>	<u><u>\$ 133,181,433</u></u>

LIABILITIES	<u>2012</u>	<u>2011</u>
Current liabilities:		
Accounts payable	\$ 1,031,198	\$ 498,141
Retainage payable on construction contracts	148,011	11,751
Compensated absences	241,173	230,455
Accrued taxes and expenses	<u>324,905</u>	<u>220,132</u>
Total current liabilities	<u>\$ 1,745,287</u>	<u>\$ 960,479</u>
Liabilities payable from restricted assets:		
Revenue warrants—payable within one year	\$ 3,675,000	\$ 3,550,000
Unamortized debt premium (discount)	2,121	2,121
Unamortized deferred loss on early retirement of debt	(38,097)	(38,097)
Accrued interest	<u>827,248</u>	<u>658,761</u>
Total liabilities payable from restricted assets	<u>\$ 4,466,272</u>	<u>\$ 4,172,785</u>
Noncurrent liabilities:		
Revenue warrants—payable after one year	\$ 60,021,843	\$ 62,654,530
Unamortized debt premium (discount)	48,792	50,914
Unamortized deferred loss on early retirement of debt	(270,989)	(309,086)
Compensated absences	<u>361,761</u>	<u>345,682</u>
Total noncurrent liabilities	<u>\$ 60,161,407</u>	<u>\$ 62,742,040</u>
Total liabilities	<u>\$ 66,372,966</u>	<u>\$ 67,875,304</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 38,328,857	\$ 33,807,580
Restricted for debt service	3,379,839	3,162,915
Restricted for capital projects	19,066,814	20,144,668
Unrestricted	<u>7,852,082</u>	<u>8,190,966</u>
Total net assets	<u>\$ 68,627,592</u>	<u>\$ 65,306,129</u>
Total liabilities and net assets	<u><u>\$ 135,000,558</u></u>	<u><u>\$ 133,181,433</u></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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Water sales:		
<i>Residential</i>	\$ 6,369,631	\$ 5,888,453
<i>Commercial</i>	3,260,437	3,093,065
<i>Resale</i>	1,646,767	1,707,682
Sewer service sales:		
<i>Residential</i>	3,748,907	3,421,099
<i>Commercial</i>	3,465,276	3,327,019
Forfeited discounts	153,584	140,779
Other operating revenues	<u>251,752</u>	<u>194,821</u>
Total operating revenues	<u>\$ 18,896,354</u>	<u>\$ 17,772,918</u>
Operating expenses:		
Water treatment and pumping	\$ 2,680,144	\$ 2,586,594
Sewage disposal	2,172,603	2,305,109
Transmission and distribution	1,246,190	1,268,397
Accounting and collections	1,075,799	1,033,598
Administrative and general	1,716,284	1,562,459
Depreciation	2,929,129	2,910,272
Taxes and tax equivalents	<u>1,611,554</u>	<u>1,522,344</u>
Total operating expenses	<u>\$ 13,431,703</u>	<u>\$ 13,188,773</u>
Operating income	<u>\$ 5,464,651</u>	<u>\$ 4,584,145</u>
Nonoperating revenues (expenses):		
Interest revenues	\$ 12,530	\$ 18,052
Gain (loss) on disposition of assets	41,227	(442)
Interest expense	(2,138,935)	(1,542,039)
Amortization of debt related costs	<u>(58,010)</u>	<u>(66,357)</u>
Total nonoperating revenues (expenses)	<u>\$ (2,143,188)</u>	<u>\$ (1,590,786)</u>
Change in net assets	\$ 3,321,463	\$ 2,993,359
Total net assets—beginning	<u>65,306,129</u>	<u>62,312,770</u>
Total net assets—ending	<u><u>\$ 68,627,592</u></u>	<u><u>\$ 65,306,129</u></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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 18,445,904	\$ 17,123,093
Receipts from interfund services provided	158,038	141,689
Payments to suppliers	(2,547,331)	(2,982,723)
Payments to employees for services and benefits—exclusive of capitalized costs	(4,109,550)	(4,052,759)
Payments for interfund services used	<u>(2,783,809)</u>	<u>(2,685,376)</u>
Net cash provided by operating activities	<u>\$ 9,163,252</u>	<u>\$ 7,543,924</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (4,979,632)	\$ (2,159,572)
Proceeds from disposition of assets	42,164	
Net proceeds from capital debt	1,042,313	20,513,678
Payment of debt issuance costs		(90,084)
Principal paid on capital debt	(3,550,000)	(5,205,000)
Interest paid on capital debt	<u>(1,970,448)</u>	<u>(1,662,297)</u>
Net cash provided by (used for) capital and related financing activities	<u>\$ (9,415,603)</u>	<u>\$ 11,396,725</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 10,622</u>	<u>\$ 21,594</u>
Net cash provided by investing activities	<u>\$ 10,622</u>	<u>\$ 21,594</u>
Net increase (decrease) in cash and cash equivalents	\$ (241,729)	\$ 18,962,243
Balances—beginning of the year	<u>30,323,436</u>	<u>11,361,193</u>
Balances—end of the year	<u><u>\$ 30,081,707</u></u>	<u><u>\$ 30,323,436</u></u>
<i>Classified as:</i>		
Current assets	\$ 6,807,806	\$ 6,357,092
Restricted assets	<u>23,273,901</u>	<u>23,966,344</u>
Totals	<u><u>\$ 30,081,707</u></u>	<u><u>\$ 30,323,436</u></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, 2012 and 2011
(Continued)**

	2012	2011
<i>Reconciliation of operating income to net cash provided (used)</i>		
<i>by operating activities:</i>		
Operating income	\$ 5,464,651	\$ 4,584,145
Adjustments to reconcile operating income to net cash provided (used)		
<i>by operating activities:</i>		
Depreciation	\$ 2,929,129	\$ 2,910,272
Change in assets and liabilities:		
Receivables (net)	(143,921)	(335,580)
Inventories	26,776	(21,126)
Prepaid expenses	85,730	425,819
Accounts and other payables	800,887	(19,606)
 Total adjustments	 \$ 3,698,601	 \$ 2,959,779
 Net cash provided by operating activities	 \$ 9,163,252	 \$ 7,543,924

Noncash capital and financing activities for the year ended June 30, 2011:

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, 2012 and 2011

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, 2012 and 2011
(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.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011
(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.

Compensated Absences:

The Utilities accrue its liability for earned but unpaid compensated absences 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 one-quarter (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.

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 2012 totaled \$4,791,261 of which \$4,508,125 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts on the basis of vehicle usage, totaled \$283,136 for the year ended June 30, 2012. 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.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011
(Continued)

NOTE 2—UTILITY PLANT (Continued)

As of June 30, 2012 and 2011, nondepreciable capital assets consist of land, land rights, and right-of-ways in the amount of \$1,121,509 and \$1,095,904, 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	\$ 29,200,315	\$ 1,470,550	\$ 260,020	\$ 30,410,845
Distribution plant	98,732,841	5,277,634	1,103,174	102,907,301
General plant	15,153,037	1,271,057	551,281	15,872,813
Totals	<u>\$ 143,086,193</u>	<u>\$ 8,019,241</u>	<u>\$ 1,914,475</u>	<u>\$ 149,190,959</u>

During the 2011 fiscal year, the Department recorded a capital contribution of \$1,388,735 as a reduction in capitalized utility plant in accordance with regulatory standards. For financial reporting, the capital contribution was reported as an increase in net assets in accordance with GASB standards. The Department is depreciating the capital contribution using the straight-line method over the estimated useful lives of the assets, which is from 25 to 44 years. Current year depreciation amounted to \$39,655. As of June 30, 2012, accumulated depreciation amounted to \$39,655.

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 \$1,344,387 for 2012 and \$1,320,694 for 2011.

As of June 30, 2012 and 2011, 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	\$ 9,737,256	\$ 62,754	\$ 5,256	\$ 9,794,754
Distribution plant	35,043,603	615,359	115,401	35,543,561
General plant	7,397,180	414,893	633,994	7,178,079
Totals	<u>\$ 52,178,039</u>	<u>\$ 1,093,006</u>	<u>\$ 754,651</u>	<u>\$ 52,516,394</u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011
(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, 2012 and 2011, accumulated amortization amounted to \$154,587 and \$143,926, 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 \$2,929,129 for 2012 and \$2,910,272 for 2011.

As of June 30, 2012 and 2011, 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	\$ 140,624,505	\$ 291,393	\$ 2,500	\$ 140,913,398
General plant	3,513,564	317,087	212,545	3,618,106
Totals	<u>\$ 144,138,069</u>	<u>\$ 608,480</u>	<u>\$ 215,045</u>	<u>\$ 144,531,504</u>

NOTE 3—RECEIVABLES AND PAYABLES

Receivables at June 30, 2012 and 2011 were as follows for each department:

Electricity Department

	<u>2012</u>	<u>2011</u>
Customer accounts	\$ 9,921,605	\$ 11,050,769
Other governments	652,288	1,737,064
Miscellaneous	82,751	190,037
Secured customer deposits	1,377,473	1,416,407
Accrued rents	373,868	348,084
Less: allowance for doubtful accounts	(321,424)	(369,777)
Net receivables	<u>\$ 12,086,561</u>	<u>\$ 14,372,584</u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011
(Continued)

NOTE 3—RECEIVABLES AND PAYABLES (Continued)

Gas Department

	<u>2012</u>	<u>2011</u>
Customer accounts	\$ 697,271	\$ 764,582
Other governments	18,541	36,206
Miscellaneous	3,897	3,060
Less: allowance for doubtful accounts	(18,926)	(27,916)
Net receivables	<u>\$ 700,783</u>	<u>\$ 775,932</u>

Of the customer accounts receivable, \$96,477 is not due to be collected in the subsequent fiscal year.

Water and Wastewater Department

	<u>2012</u>	<u>2011</u>
Customer accounts	\$ 1,601,169	\$ 1,628,327
Other governments	332,011	166,558
Miscellaneous	615	
Less: allowance for doubtful accounts	(82,456)	(87,467)
Net receivables	<u>\$ 1,851,339</u>	<u>\$ 1,707,418</u>

Payables at June 30, 2012 and 2011 were as follows for each department:

Electricity Department

	<u>2012</u>	<u>2011</u>
Vendors	\$ 18,108,211	\$ 17,521,219
Salaries and benefits	618,143	419,904
Other governments	10,469	16,065
Totals	<u>\$ 18,736,823</u>	<u>\$ 17,957,188</u>

Gas Department

	<u>2012</u>	<u>2011</u>
Vendors	\$ 375,424	\$ 558,623
Salaries and benefits	171,354	99,314
Other governments	217,792	230,000
Totals	<u>\$ 764,570</u>	<u>\$ 887,937</u>

Water and Wastewater Department

	<u>2012</u>	<u>2011</u>
Vendors	\$ 951,053	\$ 230,809
Salaries and benefits	203,387	129,783
Other governments	349,674	369,432
Totals	<u>\$ 1,504,114</u>	<u>\$ 730,024</u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011
(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, 2012 and 2011, the Department had \$1,254,221 and \$813,579, 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>2012</u>	<u>2011</u>
Series 2009 Debt Service Reserve Fund	\$ 725,000	\$ 725,000
Series 2009 Warrant Funds	75,799	249,559
Total restricted cash and cash equivalents	<u>\$ 800,799</u>	<u>\$ 974,559</u>

Water and Wastewater Department

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

	<u>2012</u>	<u>2011</u>
SRF Series 2006 Warrant Funds	\$ 114,911	\$ 93,944
SRF Series 2007 Warrant Funds	435,042	478,415
SRF Series 2010-A Warrant Funds	685,764	669,807
SRF Series 2010-B Warrant Funds	1,157,985	1,119,764
SRF Series 2010-C Warrant Funds	1,130,411	1,105,094
SRF Series 2010-D Warrant Funds	278,126	276,381
Series 2011 Warrant Funds	404,848	78,271
Series 2011 Construction Fund	19,066,814	20,144,668
Total restricted cash and cash equivalents	<u>\$ 23,273,901</u>	<u>\$ 23,966,344</u>

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011
(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, 2012 and 2011, a total of \$6,958,287 and \$6,786,738, 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 \$7,126,648 and \$6,926,496 as of June 30, 2012 and 2011, 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 \$7,821,540 and \$7,472,350 as of June 30, 2012 and 2011, 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, 2012, the balance of the investments was \$129,150 with \$32,175 reported as noncurrent prepaid purchased power and \$96,975 reported as current. The balance of the deferred interest income was \$29,150 with \$7,175 reported as noncurrent deferred interest income and \$21,975 as current. 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.

NOTE 7—LONG-TERM OBLIGATIONS

Electricity Department

Long-term liability activity for the year ended June 30, 2012 was as follows:

	<i>Electric Revenue Refunding Warrants, Series 2009</i>
Balance—beginning of year	\$ 6,280,000
Less: principal paid on debt	<u>710,000</u>
Balance—end of year	<u><u>\$ 5,570,000</u></u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011
(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>
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	815,000	91,062	906,062
2018–2019	<u>1,725,000</u>	<u>94,475</u>	<u>1,819,475</u>
Totals	\$ 5,570,000	<u>\$ 784,438</u>	<u>\$ 6,354,438</u>
Less: portion due within one year	<u>730,000</u>		
Long-term debt at June 30, 2012	<u>\$ 4,840,000</u>		

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. The line of credit agreement was closed on June 20, 2012.

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, 2012 and 2011
(Continued)

NOTE 7—LONG-TERM OBLIGATIONS (Continued)

Water and Wastewater Department

Long-term liability activity for the year ended June 30, 2012 was as follows:

	<i>Water and Sewer Revenue Warrants, SRF Series 2006</i>	<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>
Balance—beginning of year	\$ 3,420,000	\$ 6,034,530	\$ 7,645,000	\$ 12,920,000
Add: proceeds from debt		1,042,313		
Less: principal paid on debt	165,000	335,000	640,000	1,085,000
Balance—end of year	<u>\$ 3,255,000</u>	<u>\$ 6,741,843</u>	<u>\$ 7,005,000</u>	<u>\$ 11,835,000</u>

	<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	\$ 12,460,000	\$ 3,125,000	\$ 20,600,000	\$ 66,204,530
Add: proceeds from debt				1,042,313
Less: principal paid on debt	1,060,000	265,000		3,550,000
Balance—end of year	<u>\$ 11,400,000</u>	<u>\$ 2,860,000</u>	<u>\$ 20,600,000</u>	<u>\$ 63,696,843</u>

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.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011
(Continued)

NOTE 7—LONG-TERM OBLIGATIONS (Continued)

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.

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.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011
(Continued)

NOTE 7—LONG-TERM OBLIGATIONS (Continued)

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, 2012, the remaining balance of the warrants to be requested from ADEM was \$1,118,157.

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.

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.

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011
(Continued)**

NOTE 7—LONG-TERM OBLIGATIONS (Continued)

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>
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	4,255,000	1,732,772	5,987,772
2018–2022	19,830,000	6,874,856	26,704,856
2023–2027	6,625,000	5,101,211	11,726,211
2028–2032	8,140,000	3,584,000	11,724,000
2033–2037	10,420,000	1,308,369	11,728,369
Totals	\$ 64,815,000	\$ 26,618,125	\$ 91,433,125
Less: portion due within one year	3,675,000		
Less: amount of SRF funds available for disbursement	1,118,157		
Long-term debt at June 30, 2012	<u>\$ 60,021,843</u>		

All interest costs were expensed for the fiscal years presented.

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.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011
(Continued)

NOTE 8—PENSION AND DEFERRED COMPENSATION PLANS (Continued)

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	\$	4,476,491
Interest on net pension obligation		(148,434)
Adjustment to annual required contribution		<u>(237,194)</u>
Annual pension cost	\$	4,090,863
Contributions made		<u>3,697,519</u>
Increase (decrease) in net pension obligation	\$	393,344
Net pension obligation—beginning of year		<u>(1,979,119)</u>
Net pension obligation—end of year	\$	<u><u>(1,585,775)</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, 2010	\$ 4,090,863	90.4%	\$ (1,585,775)
October 1, 2009	3,723,843	112.3%	(1,979,119)
October 1, 2008	3,399,764	113.7%	(1,522,669)

Funded Status and Funding Progress—As of October 1, 2010, the most recent actuarial valuation date, the plan was 74.2% funded. The actuarial accrued liability for benefits was \$93.9 million and the actuarial value of assets was \$69.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$24.3 million. The covered payroll (annual payroll of active employees covered by the plan) was \$28.1 million, and the ratio of the UAAL to the covered payroll was 86.4%.

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.

Actuarial Methods and Assumptions—In the October 1, 2010 actuarial valuation, the entry age normal actuarial cost method with frozen initial liability (which was redetermined as of October 1, 2010) 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, 2010, was thirty (30) years.

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011
(Continued)**

NOTE 8—PENSION AND DEFERRED COMPENSATION PLANS (Continued)

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, 2012 and 2011
(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, 2012 and 2011
(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>
2013	\$ 201,372
2014	201,372
2015	201,372
2016	201,372
2017	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, 2012 and 2011
(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, 2012, open contracts for construction totaled \$698,572 of which \$646,494 had been recorded as cumulative construction in progress. As of June 30, 2012, open contracts for system maintenance totaled \$4,239,317 of which \$359,020 had been recorded as current maintenance expense. 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.

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, 2012 and 2011, the Department had made purchase commitments amounting to \$3,426,687 and \$2,875,998, 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, 2012, open contracts for construction totaled \$10,747,715 of which \$3,835,174 had been recorded as cumulative construction in progress. 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.

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, 2012**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating revenues:				
Electric sales:				
<i>Residential</i>	\$ 67,900,000	\$ 67,900,000	\$ 60,847,474	\$ (7,052,526)
<i>Small commercial</i>	12,450,000	12,450,000	11,903,279	(546,721)
<i>Large commercial</i>	43,460,000	43,460,000	39,894,945	(3,565,055)
<i>Public street and highway lighting</i>	2,135,000	2,135,000	2,182,678	47,678
Forfeited discounts	1,080,000	1,080,000	1,079,800	(200)
Rents	1,120,000	1,120,000	1,189,854	69,854
Other operating revenues	650,000	650,000	618,178	(31,822)
Total operating revenues	<u>\$ 128,795,000</u>	<u>\$ 128,795,000</u>	<u>\$ 117,716,208</u>	<u>\$ (11,078,792)</u>
Operating expenses:				
Costs of sales	\$ 103,000,000	\$ 103,000,000	\$ 94,048,593	\$ 8,951,407
Operations:				
<i>Transmission</i>	407,200	407,200	410,355	(3,155)
<i>Distribution</i>	2,783,500	2,783,500	2,819,558	(36,058)
<i>Customer accounts</i>	2,035,000	2,035,000	2,106,207	(71,207)
<i>Customer service and information assistance and instruction</i>	30,000	30,000	17,586	12,414
<i>Sales</i>	40,000	40,000	37,808	2,192
<i>Administrative and general</i>	3,235,300	3,235,300	3,224,195	11,105
Maintenance:				
<i>Transmission</i>	365,000	365,000	233,619	131,381
<i>Distribution</i>	4,878,000	4,878,000	4,779,342	98,658
<i>Administrative and general</i>	432,400	432,400	375,552	56,848
Depreciation	4,500,000	4,500,000	4,508,125	(8,125)
Taxes and tax equivalents	3,206,000	3,206,000	3,109,188	96,812
Total operating expenses	<u>\$ 124,912,400</u>	<u>\$ 124,912,400</u>	<u>\$ 115,670,128</u>	<u>\$ 9,242,272</u>
Operating income	<u>\$ 3,882,600</u>	<u>\$ 3,882,600</u>	<u>\$ 2,046,080</u>	<u>\$ (1,836,520)</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 48,000	\$ 48,000	\$ 43,704	\$ (4,296)
Merchandising revenues (net of costs)	145,000	145,000	182,536	37,536
Miscellaneous nonoperating income			813	813
Interest expense	(195,300)	(195,300)	(195,205)	95
Amortization of debt discount and costs	(43,700)	(43,700)	(43,641)	59
Total nonoperating revenues (expenses)	<u>\$ (46,000)</u>	<u>\$ (46,000)</u>	<u>\$ (11,793)</u>	<u>\$ 34,207</u>
Change in net assets	<u>\$ 3,836,600</u>	<u>\$ 3,836,600</u>	<u>\$ 2,034,287</u>	<u>\$ (1,802,313)</u>
Total net assets—beginning	<u>76,678,707</u>	<u>76,678,707</u>	<u>76,678,707</u>	
Total net assets—ending	<u>\$ 80,515,307</u>	<u>\$ 80,515,307</u>	<u>\$ 78,712,994</u>	<u>\$ (1,802,313)</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, 2012**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating revenues:				
Gas sales:				
<i>Residential</i>	\$ 7,751,000	\$ 7,751,000	\$ 5,693,754	\$ (2,057,246)
<i>Commercial</i>	4,749,000	4,749,000	3,801,004	(947,996)
<i>Industrial</i>	3,714,000	3,714,000	2,694,185	(1,019,815)
<i>Resale and transportation</i>	2,886,500	2,886,500	1,925,041	(961,459)
Service fees	85,600	85,600	86,644	1,044
Forfeited discounts	100,000	100,000	73,133	(26,867)
Other operating revenues	11,600	11,600	13,192	1,592
Total operating revenues	<u>\$ 19,297,700</u>	<u>\$ 19,297,700</u>	<u>\$ 14,286,953</u>	<u>\$ (5,010,747)</u>
Operating expenses:				
Costs of sales	\$ 11,486,000	\$ 11,486,000	\$ 7,385,045	\$ 4,100,955
Operations:				
<i>Transmission</i>	186,200	186,200	218,324	(32,124)
<i>Distribution</i>	457,300	457,300	408,208	49,092
<i>Customer accounts</i>	626,700	626,700	612,493	14,207
<i>Sales</i>	65,400	65,400	80,021	(14,621)
<i>Administrative and general</i>	1,731,400	1,731,400	1,758,894	(27,494)
Maintenance:				
<i>Transmission</i>	1,500	1,500	1,078	422
<i>Distribution</i>	1,536,700	1,536,700	1,560,629	(23,929)
<i>Administrative and general</i>	44,000	44,000	40,951	3,049
Depreciation	1,350,000	1,350,000	1,344,387	5,613
Amortization of acquisition adjustment	10,700	10,700	10,661	39
Taxes and tax equivalents	1,546,500	1,546,500	1,522,235	24,265
Total operating expenses	<u>\$ 19,042,400</u>	<u>\$ 19,042,400</u>	<u>\$ 14,942,926</u>	<u>\$ 4,099,474</u>
Operating income (loss)	<u>\$ 255,300</u>	<u>\$ 255,300</u>	<u>\$ (655,973)</u>	<u>\$ (911,273)</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 10,000	\$ 10,000	\$ 13,296	\$ 3,296
Gain on disposition of assets	2,500	2,500	44,382	41,882
Miscellaneous nonoperating income	172,800	172,800	368,555	195,755
Amortization of debt discount and costs	(400)	(400)	(353)	47
Total nonoperating revenues (expenses)	<u>\$ 184,900</u>	<u>\$ 184,900</u>	<u>\$ 425,880</u>	<u>\$ 240,980</u>
Change in net assets	<u>\$ 440,200</u>	<u>\$ 440,200</u>	<u>\$ (230,093)</u>	<u>\$ (670,293)</u>
Total net assets—beginning	<u>41,813,564</u>	<u>41,813,564</u>	<u>41,813,564</u>	
Total net assets—ending	<u>\$ 42,253,764</u>	<u>\$ 42,253,764</u>	<u>\$ 41,583,471</u>	<u>\$ (670,293)</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, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating revenues:				
Water sales:				
<i>Residential</i>	\$ 6,748,000	\$ 6,748,000	\$ 6,369,631	\$ (378,369)
<i>Commercial</i>	3,490,000	3,490,000	3,260,437	(229,563)
<i>Resale</i>	1,500,000	1,500,000	1,646,767	146,767
Sewer service sales:				
<i>Residential</i>	3,800,000	3,800,000	3,748,907	(51,093)
<i>Commercial</i>	3,650,000	3,650,000	3,465,276	(184,724)
Forfeited discounts	144,750	144,750	153,584	8,834
Other operating revenues	159,400	159,400	251,752	92,352
Total operating revenues	<u>\$ 19,492,150</u>	<u>\$ 19,492,150</u>	<u>\$ 18,896,354</u>	<u>\$ (595,796)</u>
Operating expenses:				
Water treatment and pumping	\$ 2,383,100	\$ 2,383,100	\$ 2,680,144	\$ (297,044)
Sewage disposal	2,364,000	2,364,000	2,172,603	191,397
Transmission and distribution	1,531,900	1,531,900	1,246,190	285,710
Accounting and collections	987,300	987,300	1,075,799	(88,499)
Administrative and general	1,592,900	1,592,900	1,716,284	(123,384)
Depreciation	2,899,100	2,899,100	2,929,129	(30,029)
Taxes and tax equivalents	1,892,000	1,892,000	1,611,554	280,446
Total operating expenses	<u>\$ 13,650,300</u>	<u>\$ 13,650,300</u>	<u>\$ 13,431,703</u>	<u>\$ 218,597</u>
Operating income	<u>\$ 5,841,850</u>	<u>\$ 5,841,850</u>	<u>\$ 5,464,651</u>	<u>\$ (377,199)</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 17,500	\$ 17,500	\$ 12,530	\$ (4,970)
Gain (loss) on disposition of assets			41,227	41,227
Interest expense	(1,970,500)	(1,970,500)	(2,138,935)	(168,435)
Amortization of debt related costs	(54,000)	(54,000)	(58,010)	(4,010)
Total nonoperating revenues (expenses)	<u>\$ (2,007,000)</u>	<u>\$ (2,007,000)</u>	<u>\$ (2,143,188)</u>	<u>\$ (136,188)</u>
Change in net assets	<u>\$ 3,834,850</u>	<u>\$ 3,834,850</u>	<u>\$ 3,321,463</u>	<u>\$ (513,387)</u>
Total net assets—beginning	<u>65,306,129</u>	<u>65,306,129</u>	<u>65,306,129</u>	
Total net assets—ending	<u>\$ 69,140,979</u>	<u>\$ 69,140,979</u>	<u>\$ 68,627,592</u>	<u>\$ (513,387)</u>

CITY OF FLORENCE, ALABAMA

Schedules of Funding Progress

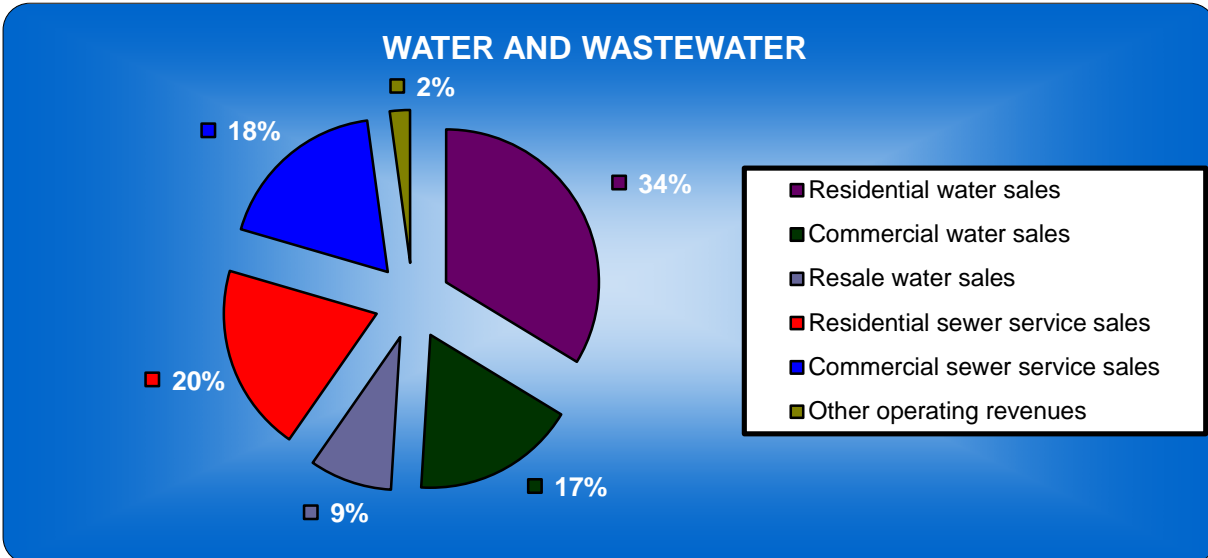
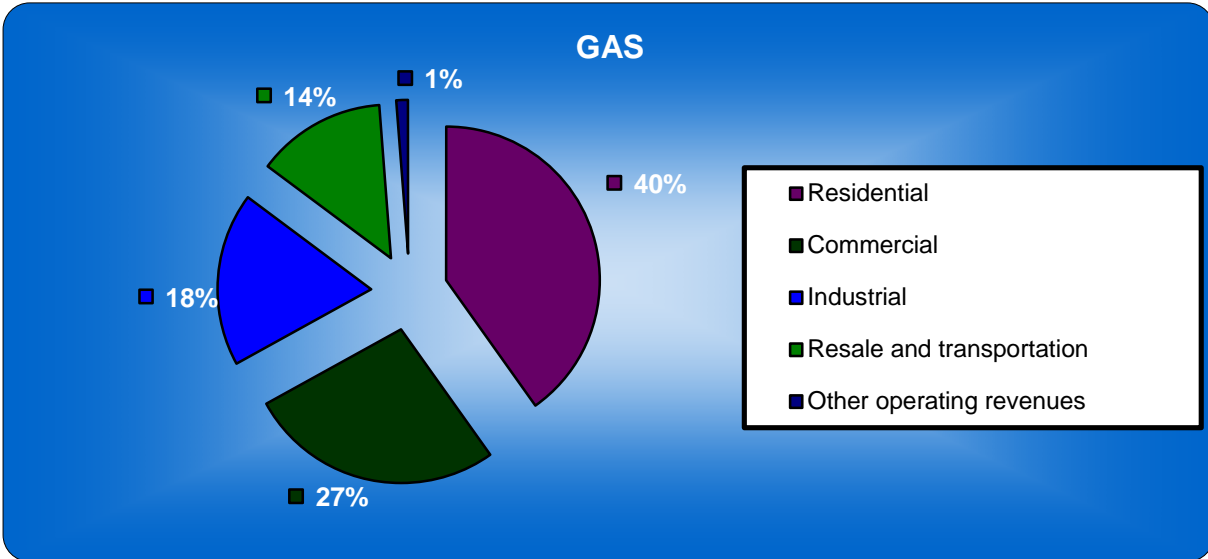
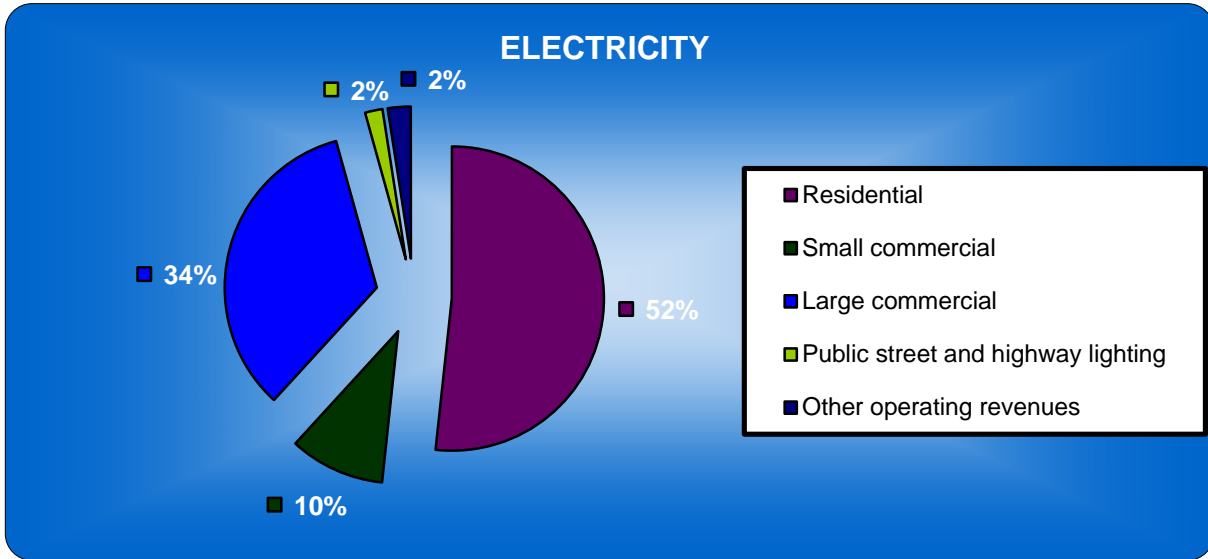
Employees' Retirement Plan						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)— Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
October 1, 2010	\$ 69,626,436	\$ 93,878,767	\$ 24,252,331	74.2%	\$ 28,074,105	86.4%
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%

Postretirement Benefits Plan						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)— Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
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.

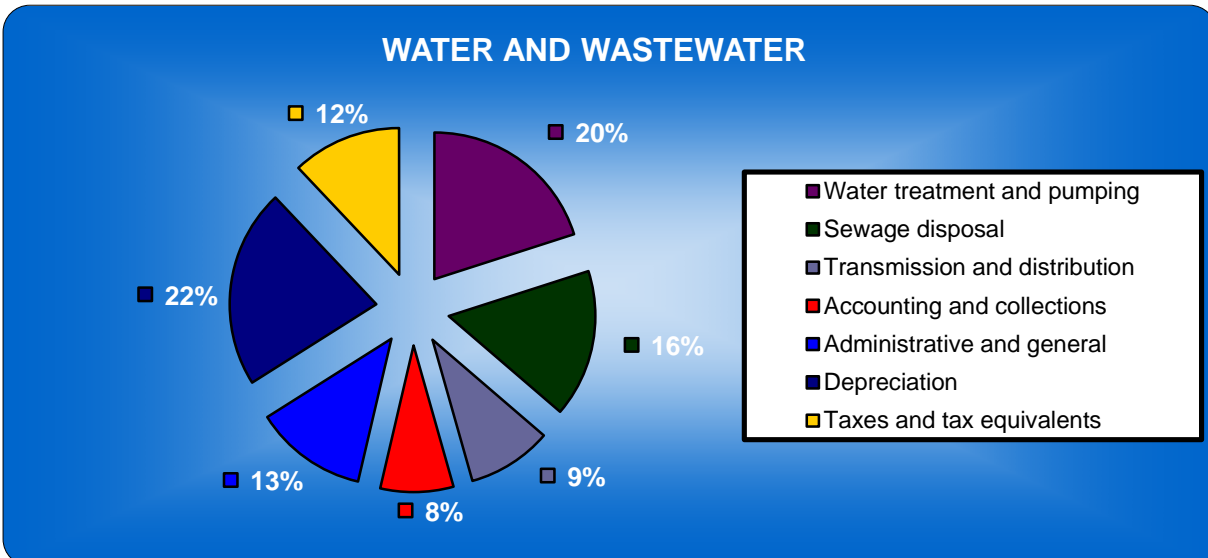
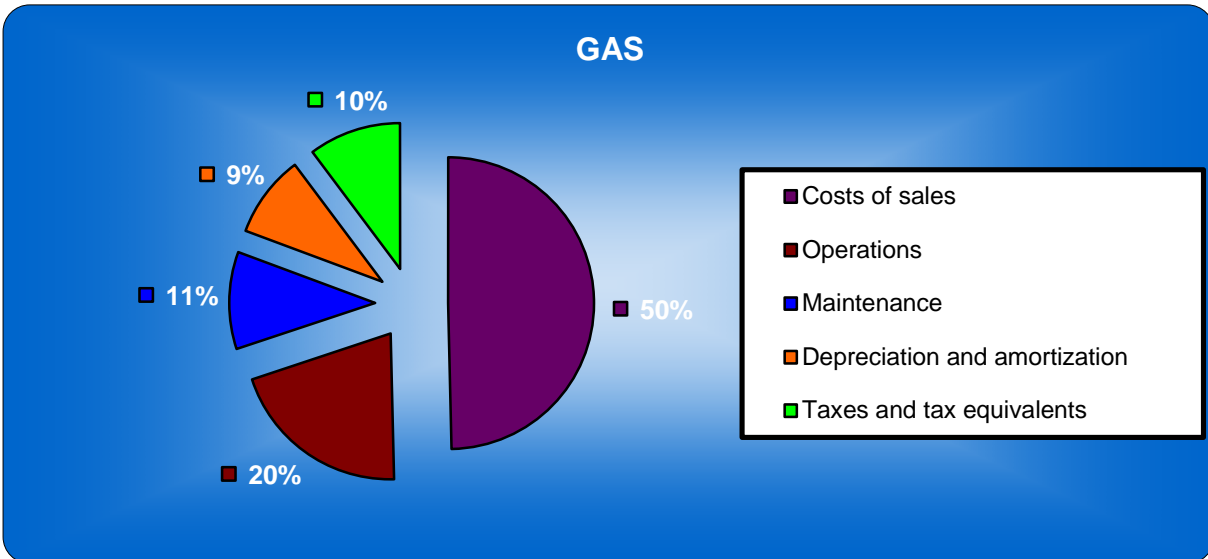
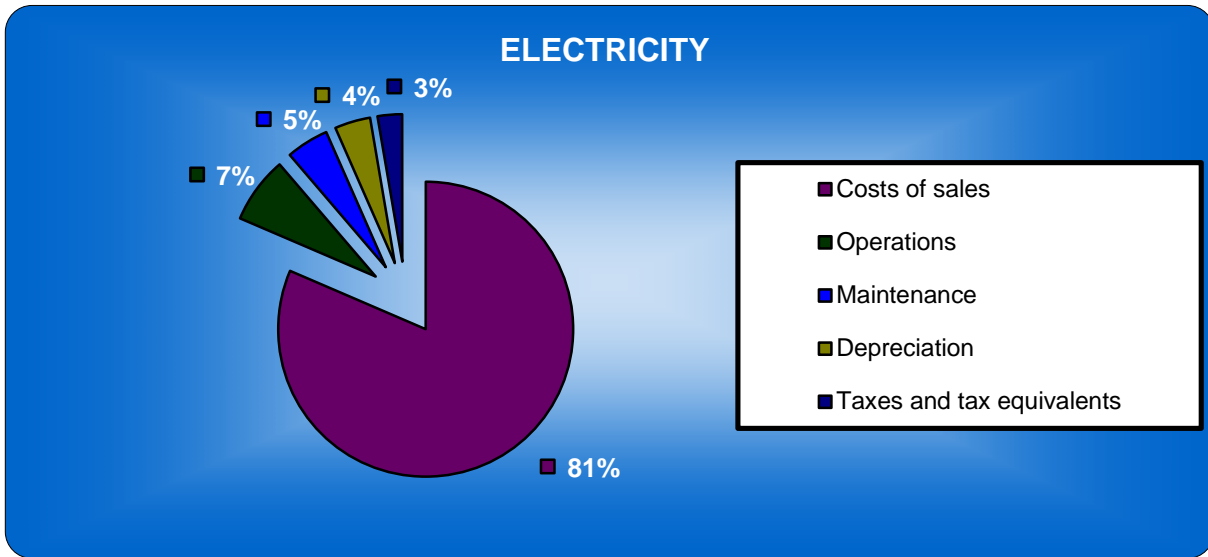
SUPPLEMENTARY SCHEDULES SECTION

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENT
SOURCE OF FUNDS
JUNE 30, 2012**



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

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENT
USE OF FUNDS
JUNE 30, 2012**



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, 2012**

<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	\$ 25,605	\$ -	\$ 596,894
Clearing land and right of ways	90,378			90,378
Structures and improvements	53,927			53,927
Station equipment	19,267,274	882,273	246,603	19,902,944
Towers and fixtures	32,266			32,266
Poles and fixtures	4,142,964	314,905	4,146	4,453,723
Overhead conductors and devices	5,042,217	247,767	9,271	5,280,713
Total transmission plant	<u>\$ 29,200,315</u>	<u>\$ 1,470,550</u>	<u>\$ 260,020</u>	<u>\$ 30,410,845</u>
Distribution plant:				
Land and land rights	\$ 69,040	\$ -	\$ -	\$ 69,040
Station equipment	2,919,908	13,800		2,933,708
Poles, towers, and fixtures	19,697,663	1,546,982	113,287	21,131,358
Overhead conductors and devices	20,966,837	951,355	124,917	21,793,275
Underground conduit	2,384,597	159,116	371	2,543,342
Underground conductors and devices	8,160,970	624,361	19,434	8,765,897
Line transformers	23,260,081	1,063,702	601,278	23,722,505
Services	7,918,695	429,888	92,796	8,255,787
Meters	3,982,542	316,587	113,691	4,185,438
Installation on customer premises	2,235,536	109,751	26,746	2,318,541
Street lighting and signal systems	7,136,972	62,092	10,654	7,188,410
Total distribution plant	<u>\$ 98,732,841</u>	<u>\$ 5,277,634</u>	<u>\$ 1,103,174</u>	<u>\$ 102,907,301</u>
General plant:				
Land and land rights	\$ 365,197	\$ -	\$ -	\$ 365,197
Structures and improvements	2,050,290	512,903	7,086	2,556,107
Office furniture and equipment	2,947,679	67,351	95,416	2,919,614
Transportation equipment	5,510,791	590,513	201,683	5,899,621
Stores equipment	43,900		193	43,707
Tools, shop, and garage equipment	3,051,051	96,266	110,522	3,036,795
Laboratory equipment	74,251		11,679	62,572
Power operated equipment	325,125		8,500	316,625
Communication equipment	586,595	1,961	98,331	490,225
Miscellaneous equipment	198,158	2,063	17,871	182,350
Total general plant	<u>\$ 15,153,037</u>	<u>\$ 1,271,057</u>	<u>\$ 551,281</u>	<u>\$ 15,872,813</u>
Total utility plant in service	<u><u>\$ 143,086,193</u></u>	<u><u>\$ 8,019,241</u></u>	<u><u>\$ 1,914,475</u></u>	<u><u>\$ 149,190,959</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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-						-
44,794	1,079					45,873
13,002,643	679,789	246,603	56,648			13,379,181
32,266						32,266
2,700,674	174,514	4,146	952			2,870,090
3,337,749	156,654	9,271	2,130			3,483,002
<u>\$ 19,118,126</u>	<u>\$ 1,012,036</u>	<u>\$ 260,020</u>	<u>\$ 59,730</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,810,412</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,007,963	117,256					2,125,219
8,695,450	610,586	113,287	26,023			9,166,726
13,366,751	591,161	124,917	28,695			13,804,300
1,508,081	97,159	371	85			1,604,784
3,575,982	334,206	19,434	4,464			3,886,290
7,071,734	530,194	601,278	138,122			6,862,528
3,063,193	240,790	92,796	21,317			3,189,870
424,322	111,523	113,691	26,116			396,038
1,480,398	113,423	26,746	6,144			1,560,931
5,101,260	357,742	10,654	2,447			5,445,901
<u>\$ 46,295,134</u>	<u>\$ 3,104,040</u>	<u>\$ 1,103,174</u>	<u>\$ 253,413</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,042,587</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
914,082	57,968	7,086				964,964
2,556,978	133,886	95,416				2,595,448
3,500,072	295,804	201,683				3,594,193
28,691	3,260	193				31,758
2,162,773	122,847	110,522				2,175,098
59,543	120	11,679				47,984
36,045	24,550	8,500				52,095
417,872	20,041	98,331				339,582
86,306	16,709	17,871				85,144
<u>\$ 9,762,362</u>	<u>\$ 675,185</u>	<u>\$ 551,281</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,886,266</u>
<u>\$ 75,175,622</u>	<u>\$ 4,791,261</u>	<u>\$ 1,914,475</u>	<u>\$ 313,143</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,739,265</u>

GAS DEPARTMENT

**CITY OF FLORENCE, ALABAMA
GAS DEPARTMENT
SCHEDULE OF UTILITY PLANT IN SERVICE
AND ACCUMULATED DEPRECIATION
JUNE 30, 2012**

<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	\$ 120,667	\$ -	\$ -	\$ 120,667
Structures and improvements	142,993			142,993
Mains	6,898,312		5,256	6,893,056
Measuring and regulating equipment	2,575,284	62,754		2,638,038
Total transmission plant	<u>\$ 9,737,256</u>	<u>\$ 62,754</u>	<u>\$ 5,256</u>	<u>\$ 9,794,754</u>
Distribution plant:				
Land and land rights	\$ 42,685	\$ -	\$ -	\$ 42,685
Structures and improvements	154,621			154,621
Mains	18,834,267	192,918	47,613	18,979,572
Measuring and regulating equipment	3,972,586	147,349		4,119,935
Services	11,362,826	267,298	67,788	11,562,336
Other distribution equipment	15,621			15,621
Corrosion	660,997	7,794		668,791
Total distribution plant	<u>\$ 35,043,603</u>	<u>\$ 615,359</u>	<u>\$ 115,401</u>	<u>\$ 35,543,561</u>
General plant:				
Land and land rights	\$ 157,395	\$ -	\$ -	\$ 157,395
Structures and improvements	2,669,380	8,275		2,677,655
Office furniture and equipment	632,289	17,799	58,023	592,065
Transportation equipment	1,441,233	107,668	174,235	1,374,666
Stores equipment	17,119	679		17,798
Tools, shop and garage equipment	20,406			20,406
Laboratory equipment	34,050		1,792	32,258
Power operated equipment	1,948,624	277,617	392,270	1,833,971
Communication equipment	84,975		6,615	78,360
Miscellaneous equipment	373,120	2,855	1,059	374,916
Other tangible property	18,589			18,589
Total general plant	<u>\$ 7,397,180</u>	<u>\$ 414,893</u>	<u>\$ 633,994</u>	<u>\$ 7,178,079</u>
Total utility plant in service	<u>\$ 52,178,039</u>	<u>\$ 1,093,006</u>	<u>\$ 754,651</u>	<u>\$ 52,516,394</u>

ACCUMULATED DEPRECIATION

Balance Beginning of Year	Accrual	Retirements- Original Cost	Removal Costs	Balance End of Year
\$ -	\$ -	\$ -	\$ -	\$ -
117,854	5,720			123,574
1,983,172	78,200	5,256		2,056,116
1,540,017	137,939			1,677,956
<u>\$ 3,641,043</u>	<u>\$ 221,859</u>	<u>\$ 5,256</u>	<u>\$ -</u>	<u>\$ 3,857,646</u>
\$ -	\$ -	\$ -	\$ -	\$ -
154,621				154,621
4,022,434	378,137	47,613	2,881	4,350,077
1,650,214	121,388			1,771,602
4,622,903	343,877	67,788	45,915	4,853,077
13,339	469			13,808
660,997	7,793			668,790
<u>\$ 11,124,508</u>	<u>\$ 851,664</u>	<u>\$ 115,401</u>	<u>\$ 48,796</u>	<u>\$ 11,811,975</u>
\$ -	\$ -	\$ -	\$ -	\$ -
2,171,377	133,676			2,305,053
572,078	20,004	57,966		534,116
1,173,867	54,707	174,235		1,054,339
7,113	1,780			8,893
11,191	2,041			13,232
19,187	2,778	1,792		20,173
1,783,989	38,651	369,926		1,452,714
83,754	312	6,615		77,451
277,536	16,915	1,059		293,392
18,588				18,588
<u>\$ 6,118,680</u>	<u>\$ 270,864</u>	<u>\$ 611,593</u>	<u>\$ -</u>	<u>\$ 5,777,951</u>
<u>\$ 20,884,231</u>	<u>\$ 1,344,387</u>	<u>\$ 732,250</u>	<u>\$ 48,796</u>	<u>\$ 21,447,572</u>

WATER AND WASTEWATER DEPARTMENT

**CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF UTILITY PLANT IN SERVICE
AND ACCUMULATED DEPRECIATION
JUNE 30, 2012**

Description	UTILITY PLANT			
	Balance Beginning of Year	Additions and Reclassifications	Retirements and Reclassifications	Balance End of Year
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	90,797,944	25,071	2,500	90,820,515
Reservoirs and standpipes	1,723,336	6,385		1,729,721
Purification building and equipment	14,152,228	9,717		14,161,945
Transmission mains and appurtenances	6,207,705	2,768		6,210,473
Distribution mains and appurtenances	10,699,544	157,425		10,856,969
Customer services	3,640,426	70,223		3,710,649
Fire hydrants	560,581	9,644		570,225
Miscellaneous structures and improvements	567,256	10,160		577,416
Total transmission and distribution plant	<u>\$ 140,624,505</u>	<u>\$ 291,393</u>	<u>\$ 2,500</u>	<u>\$ 140,913,398</u>
General plant:				
Office furniture and equipment	\$ 513,133	\$ 27,892	\$ 5,011	\$ 536,014
Transportation equipment	1,716,879	175,718	148,788	1,743,809
Tools and equipment	1,199,373	109,999	58,746	1,250,626
Communication equipment	55,846	2,693		58,539
Laboratory equipment	28,333	785		29,118
Total general plant	<u>\$ 3,513,564</u>	<u>\$ 317,087</u>	<u>\$ 212,545</u>	<u>\$ 3,618,106</u>
Total utility plant in service	<u><u>\$ 144,138,069</u></u>	<u><u>\$ 608,480</u></u>	<u><u>\$ 215,045</u></u>	<u><u>\$ 144,531,504</u></u>

ACCUMULATED DEPRECIATION

Balance Beginning of Year	Additions and Reclassifications	Retirements and Reclassifications	Balance End of Year
\$ -	\$ -	\$ -	\$ -
3,710,199	196,186		3,906,385
832,415	38,558		870,973
20,314,321	1,731,847	2,500	22,043,668
990,906	34,868		1,025,774
5,880,695	297,831		6,178,526
2,092,862	105,284		2,198,146
6,029,993	232,654		6,262,647
2,427,147	68,468		2,495,615
254,541	12,054		266,595
252,137	13,724		265,861
<u>\$ 42,785,216</u>	<u>\$ 2,731,474</u>	<u>\$ 2,500</u>	<u>\$ 45,514,190</u>
\$ 429,493	\$ 20,791	\$ 4,073	\$ 446,211
1,373,982	102,634	148,788	1,327,828
929,336	65,970	58,746	936,560
36,359	5,231		41,590
21,378	3,029		24,407
<u>\$ 2,790,548</u>	<u>\$ 197,655</u>	<u>\$ 211,607</u>	<u>\$ 2,776,596</u>
<u>\$ 45,575,764</u>	<u>\$ 2,929,129</u>	<u>\$ 214,107</u>	<u>\$ 48,290,786</u>

CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF REVENUES AND EXPENSES—KILLEN SYSTEM
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Water sales:		
<i>Residential</i>	\$ 1,329,496	\$ 1,232,337
<i>Commercial</i>	359,427	326,269
Forfeited discounts	17,959	16,539
Other operating revenues	<u>18,263</u>	<u>18,032</u>
Total operating revenues	<u>\$ 1,725,145</u>	<u>\$ 1,593,177</u>
Operating expenses:		
Water treatment and pumping	\$ 409,213	\$ 405,595
Transmission and distribution	187,731	194,350
Accounting and collections	139,386	135,350
Administrative and general	140,758	129,049
Depreciation	97,326	96,893
Taxes and tax equivalentents	<u>19,565</u>	<u>19,486</u>
Total operating expenses	<u>\$ 993,979</u>	<u>\$ 980,723</u>
Operating income	<u>\$ 731,166</u>	<u>\$ 612,454</u>
Nonoperating revenues (expenses):		
Interest revenues	\$ 1,002	\$ 1,443
Interest expense	(126,313)	(8,205)
Amortization of debt related costs	<u>(2,588)</u>	<u></u>
Total nonoperating revenues (expenses)	<u>\$ (127,899)</u>	<u>\$ (6,762)</u>
Income before capital contributions	<u><u>\$ 603,267</u></u>	<u><u>\$ 605,692</u></u>