

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND
WATER AND WASTEWATER DEPARTMENTS
FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012**



**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, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electricity, Gas, and Water and Wastewater Departments of the City of Florence, Alabama, as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



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Emphasis of Matter

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, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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 44 through 47 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements of the Electricity, Gas, and Water and Wastewater Departments of the City of Florence, Alabama. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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.



The Watkins Johnsey Professional Group, P.C.
Florence, Alabama
October 29, 2013

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2013**

FINANCIAL HIGHLIGHTS

- The individual enterprise funds experienced the following changes in net position: Electricity increased \$4.1 million or 5%; Gas increased \$1.2 million or 3%; Water and Wastewater increased \$2.5 million or 4%.
- The individual enterprise funds experienced the following changes in net utility plant: Electricity increased \$2.0 million or 3%; Gas decreased \$.4 million or 1%; Water and Wastewater increased \$4.5 million or 4%.
- The individual enterprise funds experienced the following changes in operating revenues: Electricity increased \$3.0 million or 3%; Gas increased \$2.4 million or 17%; Water and Wastewater decreased \$.1 million or 1%.
- The individual enterprise funds experienced the following changes in operating expenses: Electricity increased \$1.0 million or 1%; Gas increased \$.7 million or 5%; Water and Wastewater increased \$.3 million or 2%.
- The individual enterprise funds experienced the following changes in nonoperating revenues: Electricity increased about \$85,700 or 38%; Gas decreased about \$259,800 or 61%; Water and Wastewater decreased about \$42,600 or 79%.
- The individual enterprise funds experienced the following changes in nonoperating expenses: Electricity increased \$40,000 or 17%; Gas decreased \$400 or 100%; Water and Wastewater increased \$324,000 or 15%.

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 Statement of Net Position 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 Position. 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 Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Fund Net Position report information about Florence Utilities' activities in a way that will help answer this question. These two statements report the net position of each fund and the changes in them. You can think of each fund's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in net position 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 position increased from last year by \$4,056,668 or about 5%. The summaries below focus on the Electricity Department's net position and changes in net position during the years presented.

Electricity Department Statements of Net Position

	FY 2013	FY 2012	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 38,231,275	\$ 37,519,638	\$ 711,637	1.90%
Capital Assets, Net	74,716,020	72,701,528	2,014,492	2.77%
Other Noncurrent Assets	14,096,996	7,877,297	6,219,699	78.96%
Total Assets	<u>\$ 127,044,291</u>	<u>\$ 118,098,463</u>	<u>\$ 8,945,828</u>	<u>7.57%</u>
Current Liabilities	\$ 25,992,422	\$ 26,766,023	\$ (773,601)	-2.89%
Noncurrent Liabilities	18,282,207	12,619,446	5,662,761	44.87%
Total Liabilities	<u>\$ 44,274,629</u>	<u>\$ 39,385,469</u>	<u>\$ 4,889,160</u>	<u>12.41%</u>
Net Investment in Capital Assets	\$ 69,757,586	\$ 67,348,927	\$ 2,408,659	3.58%
Restricted for Debt Service	979,952	785,834	194,118	24.70%
Unrestricted	12,032,124	10,578,233	1,453,891	13.74%
Total Net Position	<u><u>\$ 82,769,662</u></u>	<u><u>\$ 78,712,994</u></u>	<u><u>\$ 4,056,668</u></u>	<u><u>5.15%</u></u>

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

As the table below indicates, operating revenues increased approximately \$3.0 million or about 3% from FY 2012. During FY 2013, 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 3% increase in kilowatt-hours sold in FY 2013 compared to FY 2012. Consequently, the cost of sales increased also. The Electricity Department continues to experience very low interest revenues caused by very low interest rates. The Electricity Department experienced an increase in nonoperating expenses, primarily debt expense, by \$40,010 or about 17% as the result of issuing new debt in FY 2013.

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

	FY 2013	FY 2012	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	\$ 120,747,245	\$ 117,716,208	\$ 3,031,037	2.57%
Operating Expenses				
Cost of Sales	\$ 94,529,545	\$ 94,048,593	\$ 480,952	0.51%
Operations	9,036,452	8,615,709	420,743	4.88%
Maintenance	5,320,332	5,388,513	(68,181)	-1.27%
Depreciation	4,628,512	4,508,125	120,387	2.67%
Taxes and Tax Equivalents	3,209,637	3,109,188	100,449	3.23%
Total Operating Expenses	\$ 116,724,478	\$ 115,670,128	\$ 1,054,350	0.91%
Operating Income	\$ 4,022,767	\$ 2,046,080	\$ 1,976,687	96.61%
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 312,757	\$ 227,053	\$ 85,704	37.75%
Nonoperating Expenses	(278,856)	(238,846)	(40,010)	16.75%
Total Nonoperating Revenues (Exp)	\$ 33,901	\$ (11,793)	\$ 45,694	387.47%
Change in Net Position	\$ 4,056,668	\$ 2,034,287	\$ 2,022,381	99.41%
Total Net Position - Beginning	78,712,994	76,678,707	2,034,287	2.65%
Total Net Position - Ending	\$ 82,769,662	\$ 78,712,994	\$ 4,056,668	5.15%

Gas Department

The Gas Department's net position increased from last year by \$1,249,611 or about 3%. The summaries below focus on the Gas Department's net position and changes in net position during the years presented.

Gas Department
Statements of Net Position

	FY 2013	FY 2012	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 13,512,539	\$ 11,608,341	\$ 1,904,198	16.40%
Capital Assets, Net	30,891,576	31,303,658	(412,082)	-1.32%
Total Assets	<u>\$ 44,404,115</u>	<u>\$ 42,911,999</u>	<u>\$ 1,492,116</u>	<u>3.48%</u>
Current Liabilities	\$ 1,259,557	\$ 990,153	\$ 269,404	27.21%
Noncurrent Liabilities	311,476	338,375	(26,899)	-7.95%
Total Liabilities	<u>\$ 1,571,033</u>	<u>\$ 1,328,528</u>	<u>\$ 242,505</u>	<u>18.25%</u>
Net Investment in Capital Assets	\$ 30,891,576	\$ 31,303,658	\$ (412,082)	-1.32%
Unrestricted	11,941,506	10,279,813	1,661,693	16.16%
Total Net Position	<u><u>\$ 42,833,082</u></u>	<u><u>\$ 41,583,471</u></u>	<u><u>\$ 1,249,611</u></u>	<u><u>3.01%</u></u>

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

As the following table indicates, operating revenues increased approximately \$2.4 million or about 17% from FY 2012. The last general rate increase was effective July 2012. The Gas Department experienced an approximate 12.1% increase in overall sales volume in FY 2013 compared to FY 2012. Cost of sales increased by \$772,669 or about 10% due to increased sales volume. The Gas Department experienced a decrease in nonoperating revenues of \$259,822 or about 61%. The decrease was due to the timing of payments from the new Tennessee Gas Pipeline Marketing Assistance Program and the final reimbursement from Tennessee Gas Pipeline of recoverable costs of the PCB/HSL project was made in FY 2012. Additionally, the City did not have an auction for the sale of surplus equipment in FY 2013. The Gas Department's nonoperating expenses remained substantially unchanged.

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

	FY 2013	FY 2012	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	\$ 16,715,581	\$ 14,286,953	\$ 2,428,628	17.00%
Operating Expenses				
Cost of Sales	\$ 8,157,714	\$ 7,385,045	\$ 772,669	10.46%
Operations	3,002,805	3,077,940	(75,135)	-2.44%
Maintenance	1,558,528	1,602,658	(44,130)	-2.75%
Depreciation and Amortization	1,396,039	1,355,048	40,991	3.03%
Taxes and Tax Equivalents	1,517,295	1,522,235	(4,940)	-0.32%
Total Operating Expenses	\$ 15,632,381	\$ 14,942,926	\$ 689,455	4.61%
Operating Income (Loss)	\$ 1,083,200	\$ (655,973)	\$ 1,739,173	265.13%
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 166,411	\$ 426,233	\$ (259,822)	-60.96%
Nonoperating Expenses	-	(353)	353	100.00%
Total Nonoperating Revenues (Exp)	\$ 166,411	\$ 425,880	\$ (259,469)	-60.93%
Change in Net Position	\$ 1,249,611	\$ (230,093)	\$ 1,479,704	643.09%
Total Net Position - Beginning	41,583,471	41,813,564	(230,093)	-0.55%
Total Net Position - Ending	\$ 42,833,082	\$ 41,583,471	\$ 1,249,611	3.01%

Water and Wastewater Department

The Water and Wastewater Department's net position increased from last year by \$2,542,377 or about 4%. The summaries below focus on the Water and Wastewater Department's net position and changes in net position during the years presented.

Water and Wastewater Department
Statements of Net Position

	FY 2013	FY 2012	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 8,632,160	\$ 9,430,320	\$ (798,160)	-8.46%
Capital Assets, Net	106,314,361	101,767,527	4,546,834	4.47%
Other Noncurrent Assets	19,678,723	23,802,711	(4,123,988)	-17.33%
Total Assets	<u>\$ 134,625,244</u>	<u>\$ 135,000,558</u>	<u>\$ (375,314)</u>	<u>-0.28%</u>
Current Liabilities	\$ 5,916,266	\$ 6,211,559	\$ (295,293)	-4.75%
Noncurrent Liabilities	57,539,009	60,161,407	(2,622,398)	-4.36%
Total Liabilities	<u>\$ 63,455,275</u>	<u>\$ 66,372,966</u>	<u>\$ (2,917,691)</u>	<u>-4.40%</u>
Net Investment in Capital Assets	\$ 60,281,407	\$ 57,395,671	\$ 2,885,736	5.03%
Restricted for Debt Service	3,497,004	3,379,839	117,165	3.47%
Unrestricted	7,391,558	7,852,082	(460,524)	-5.86%
Total Net Position	<u>\$ 71,169,969</u>	<u>\$ 68,627,592</u>	<u>\$ 2,542,377</u>	<u>3.70%</u>

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

As the following table indicates, operating revenues decreased approximately \$.1 million or about 1% from FY 2012 revenues. The decrease in operating revenues was largely due to the summer weather being wetter than normal. Operating expenses increased by \$.3 million or about 2%. The Water and Wastewater Department experienced a decrease in nonoperating revenues of \$42,583 or 79%. The City did not have a sale of surplus equipment in FY 2013. The Water and Wastewater Department experienced a decrease in nonoperating expenses of \$324,358 or 15% primarily due to retirement of capital assets that were not fully depreciated.

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

	FY 2013	FY 2012	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	\$ 18,784,696	\$ 18,896,354	\$ (111,658)	-0.59%
Operating Expenses				
Water Treatment and Pumping	\$ 2,707,180	\$ 2,680,144	\$ 27,036	1.01%
Sewage Disposal	2,162,646	2,172,603	(9,957)	-0.46%
Transmission and Distribution	1,277,071	1,246,190	30,881	2.48%
Accounting and Collections	1,058,064	1,075,799	(17,735)	-1.65%
Administrative and General	1,855,677	1,716,284	139,393	8.12%
Depreciation	3,049,453	2,929,129	120,324	4.11%
Taxes and Tax Equivalents	1,622,099	1,611,554	10,545	0.65%
Total Operating Expenses	<u>\$ 13,732,190</u>	<u>\$ 13,431,703</u>	<u>\$ 300,487</u>	<u>2.24%</u>
Operating Income	<u>\$ 5,052,506</u>	<u>\$ 5,464,651</u>	<u>\$ (412,145)</u>	<u>-7.54%</u>
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 11,174	\$ 53,757	\$ (42,583)	-79.21%
Nonoperating Expenses	(2,521,303)	(2,196,945)	(324,358)	14.76%
Total Nonoperating Revenues (Exp)	<u>\$ (2,510,129)</u>	<u>\$ (2,143,188)</u>	<u>\$ (366,941)</u>	<u>17.12%</u>
Change in Net Position	\$ 2,542,377	\$ 3,321,463	\$ (779,086)	-23.46%
Total Net Position - Beginning	<u>68,627,592</u>	<u>65,306,129</u>	<u>3,321,463</u>	<u>5.09%</u>
Total Net Position - Ending	<u>\$ 71,169,969</u>	<u>\$ 68,627,592</u>	<u>\$ 2,542,377</u>	<u>3.70%</u>

BUDGETARY HIGHLIGHTS

As required, the City Council adopts a budget for each enterprise fund comprising the Florence Utilities. The FY 2013 original budgets for the Gas and Water and Wastewater Departments were adopted on May 15, 2012. The original budget for the Electricity Department was adopted on June 19, 2012. The budgets for the Electricity Department, Gas Department, and the Water and Wastewater Department were amended on September 18, 2012. 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 Position
Budget and Actual (GAAP Budgetary Basis)
For the Year Ended June 30, 2013

	Final Budget	Actual	Variance	
			Dollars	Percent
Operating Revenues	\$ 121,675,000	\$ 120,747,245	\$ (927,755)	-0.76%
Operating Expenses	119,783,000	116,724,478	3,058,522	2.55%
Operating Income	\$ 1,892,000	\$ 4,022,767	\$ 2,130,767	112.62%
Nonoperating Revenues (Expenses)	(18,200)	33,901	52,101	286.27%
Change in Net Position	\$ 1,873,800	\$ 4,056,668	\$ 2,182,868	116.49%

As the above budget report shows, the Electricity Department exceeded the budgeted Change in Net Position by \$2,182,868. This is approximately 2% of budgeted operating revenues. As you can see on the budget schedule in the required supplementary information, the cost of sales of electricity accounted for most of the budget operating expenses variance amount. 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 Position
Budget and Actual (GAAP Budgetary Basis)
For the Year Ended June 30, 2013

	Final Budget	Actual	Variance	
			Dollars	Percent
Operating Revenues	\$ 18,426,300	\$ 16,715,581	\$ (1,710,719)	-9.28%
Operating Expenses	17,947,200	15,632,381	2,314,819	12.90%
Operating Income	\$ 479,100	\$ 1,083,200	\$ 604,100	126.09%
Nonoperating Revenues (Expenses)	152,200	166,411	14,211	9.34%
Change in Net Position	\$ 631,300	\$ 1,249,611	\$ 618,311	97.94%

The Gas Department exceeded the budgeted Change in Net Position by \$618,311, 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 of positive and negative variances. The large variance in budgeted operating revenues was more than offset by the variance in cost of sales.

Water and Wastewater Department

Water and Wastewater Department
 Schedule of Revenues, Expenses, and Changes in Fund Net Position
 Budget and Actual (GAAP Budgetary Basis)
 For the Year Ended June 30, 2013

	Final Budget	Actual	Variance	
			Dollars	Percent
Operating Revenues	\$ 19,745,800	\$ 18,784,696	\$ (961,104)	-4.87%
Operating Expenses	14,192,100	13,732,190	459,910	3.24%
Operating Income	\$ 5,553,700	\$ 5,052,506	\$ (501,194)	-9.02%
Nonoperating Revenues (Expenses)	(2,204,800)	(2,510,129)	(305,329)	-13.85%
Change in Net Position	\$ 3,348,900	\$ 2,542,377	\$ (806,523)	-24.08%

The Water and Wastewater Department did not meet the budgeted Change in Net Position by \$806,523. This represents about 4% 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. The more significant variances are water sales, transmission and distribution operating expenses, and an unbudgeted loss on retirement of capital assets.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY 2013, 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 2013

	FY 2013	FY 2012	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 153,615,233	\$ 149,190,959	\$ 4,424,274	2.97%
Construction in Progress	1,257,177	1,249,834	7,343	0.59%
Less: Accumulated Depreciation	(80,156,390)	(77,739,265)	(2,417,125)	3.11%
Net Utility Plant	\$ 74,716,020	\$ 72,701,528	\$ 2,014,492	2.77%

As the above table shows, the Electricity Department experienced a 2.77% increase in net utility plant. The department plans to finance capital expenditures in FY 2014 through cash generated from current operations, cash reserves, and proceeds from warrants issued in FY 2013.

Gas Department

Gas Department
Capital Assets, Net
FY 2013

	FY 2013	FY 2012	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 53,208,002	\$ 52,516,394	\$ 691,608	1.32%
Acquisition Adjustment (net of amortization)	190,125	200,786	(10,661)	-5.31%
Construction in Progress	69,191	34,050	35,141	103.20%
Less: Accumulated Depreciation	(22,575,742)	(21,447,572)	(1,128,170)	5.26%
Net Utility Plant	<u>\$ 30,891,576</u>	<u>\$ 31,303,658</u>	<u>\$ (412,082)</u>	<u>-1.32%</u>

As the above table shows, the Gas Department decreased net utility plant by 1.32%. The department plans to finance capital expenditures in FY 2014 through cash reserves and cash generated from current operations.

Water and Wastewater Department

Water and Wastewater Department
Capital Assets, Net
FY 2013

	FY 2013	FY 2012	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 154,490,212	\$ 144,531,504	\$ 9,958,708	6.89%
Construction in Progress	1,647,994	5,526,809	(3,878,815)	-70.18%
Less: Accumulated Depreciation	(49,823,845)	(48,290,786)	(1,533,059)	3.17%
Net Utility Plant	<u>\$ 106,314,361</u>	<u>\$ 101,767,527</u>	<u>\$ 4,546,834</u>	<u>4.47%</u>

As the above table shows, the Water and Wastewater Department increased net utility plant by 4.47%. In FY 2013, 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 2014 with cash reserves, cash generated from current operations, various grants, and the proceeds from the Water & Sewer Revenue Warrants, Series 2011. The Department anticipates issuing approximately \$5.8 million of new SRF warrants in FY 2014, with some of the proceeds being used in FY 2014 for capital expenditures.

Long-term Debt

During FY 2013, the Electricity and Water & Wastewater Departments had outstanding warrants. The amount and discussion of these issues are discussed more fully in the notes to financial statements. The Gas Department did not have any outstanding warrants during FY 2013.

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 ranging 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. The Electric Revenue Warrants, Series 2013, were issued in March 2013. Their interest rates range from 1.75% to 4.00%. It was issued with an underlying rating of Aa2 and AA-/ Stable by Moody's and Standard & Poor's, respectively. These issues require 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 2013, the Electricity Department exceeded that requirement at about 10.62 times.

At the beginning of the fiscal year, there was an outstanding line of credit warrant with CB&S Bank, the Electric Taxable Revenue Warrants, Series 2008, issued in April 2008. The Department did not utilize this line of credit. This line of credit expired in January 2013. This warrant had an interest rate of 4.99%. The Department did not replace this line of credit due to its stable and healthy net working capital.

The Department does not anticipate issuing new debt in FY 2014.

Gas Department

The Department did not have any outstanding debt issues in FY 2013. At this time the Department does not have any plans to issue any new debt in FY 2014.

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. 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. At year-end, approximately \$14.9 million of the proceeds of the 2011 issue remain available.

The Department did not issue any long-term debt during FY 2013. The Department anticipates issuing approximately \$5.8 million of SRF Warrants during FY 2014.

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 2013, the Water and Wastewater Department exceeded that requirement at about 1.48 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 2013 was 6.4% as compared to 8.6% for July 2012. The State of Alabama's unemployment rates were 6.6% for July 2013, and 8.3% for July 2012. 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 2014 through September 2013 for electricity have decreased from the same period last year by 7.2%. Sales in dekatherms to commercial and industrial natural gas customers for the period from July 2013 through September 2013, as compared to sales for the same period in the previous fiscal year, have increased approximately 1.3%. FY 2014 sales revenues from water and wastewater operations through September 2013 have decreased 7.1% over the same period in FY 2013.

The City Council adopted the Gas Department's and the Water and Wastewater Department's FY 2014 budgets on June 4, 2013. The budgets for the Gas and Water and Wastewater Departments were amended on October 1, 2013. The City Council adopted the Electricity Department's FY 2014 budget on September 3, 2013. The Electricity Department's budget was amended on October 1, 2013.

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. TVA is implementing a rate increase in October 2013. The City will pass this rate increase to our customers but does not anticipate having a rate increase to benefit the Electricity Department.

The Gas Department's rate ordinance allows for gas increases/decreases without further City Council action. The Department last implemented a rate increase in July 2012. The volatility of natural gas makes this ability for quick rate action important for the Department's financial health.

The Water and Wastewater Department does not plan to seek a rate increase in FY 2014.

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, AL 35631.



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**CITY OF FLORENCE, ALABAMA
ELECTRICITY DEPARTMENT
STATEMENTS OF NET POSITION
JUNE 30, 2013 and 2012**

ASSETS	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 16,459,058	\$ 15,684,611
Accounts receivable (net)	12,934,147	12,086,561
Accrued interest receivable	2,304	3,781
Inventories	1,712,333	1,655,358
Prepaid expenses	<u>7,123,433</u>	<u>8,089,327</u>
Total current assets	<u>\$ 38,231,275</u>	<u>\$ 37,519,638</u>
Noncurrent assets:		
Restricted cash and cash equivalents	\$ 7,059,968	\$ 800,799
Capital assets:		
Utility plant in service (at cost)	153,615,233	149,190,959
Construction in progress	1,257,177	1,249,834
Less: accumulated depreciation	80,156,390	77,739,265
Receivables from customers for conservation loans	6,853,277	6,958,287
Prepaid purchased power-TVA DEU program		32,175
Unamortized debt issuance costs	<u>183,751</u>	<u>86,036</u>
Total noncurrent assets	<u>\$ 88,813,016</u>	<u>\$ 80,578,825</u>
Total assets	<u><u>\$ 127,044,291</u></u>	<u><u>\$ 118,098,463</u></u>

LIABILITIES	<u>2013</u>	<u>2012</u>
Current liabilities:		
Accounts payable	\$ 16,970,161	\$ 17,924,065
Retainage payable	113,523	178,925
Customer deposits	7,029,111	6,738,674
Compensated absences	621,716	554,643
Accrued taxes and expenses	507,619	633,833
Deferred interest income-TVA DEU program	7,175	21,975
	<hr/>	<hr/>
Total current liabilities	\$ 25,249,305	\$ 26,052,115
Liabilities payable from restricted assets:		
Revenue warrants—payable within one year	\$ 745,000	\$ 730,000
Unamortized debt premium (discount)	(4,359)	(4,660)
Unamortized deferred loss on early retirement of debt	(26,397)	(26,397)
Accrued interest	28,873	14,965
	<hr/>	<hr/>
Total liabilities payable from restricted assets	\$ 743,117	\$ 713,908
Noncurrent liabilities:		
Revenue warrants—payable after one year	\$ 10,445,000	\$ 4,840,000
Unamortized debt premium (discount)	(17,679)	(27,957)
Unamortized deferred loss on early retirement of debt	(131,988)	(158,385)
Advances from TVA for conservation loans	7,054,301	7,126,648
Compensated absences	932,573	831,965
Deferred interest income-TVA DEU program	7,175	7,175
	<hr/>	<hr/>
Total noncurrent liabilities	\$ 18,282,207	\$ 12,619,446
Total liabilities	<u>\$ 44,274,629</u>	<u>\$ 39,385,469</u>
NET POSITION		
Net investment in capital assets	\$ 69,757,586	\$ 67,348,927
Restricted for debt service	979,952	785,834
Unrestricted	12,032,124	10,578,233
	<hr/>	<hr/>
Total net position	\$ 82,769,662	\$ 78,712,994
Total liabilities and net position	<u>\$ 127,044,291</u>	<u>\$ 118,098,463</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 POSITION
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

	2013	2012
Operating revenues:		
Electric sales:		
<i>Residential</i>	\$ 63,175,468	\$ 60,847,474
<i>Small commercial</i>	12,267,600	11,903,279
<i>Large commercial</i>	40,075,098	39,894,945
<i>Public street and highway lighting</i>	2,213,655	2,182,678
Forfeited discounts	1,093,825	1,079,800
Rents from electric property	1,282,398	1,189,854
Other operating revenues	639,201	618,178
Total operating revenues	\$ 120,747,245	\$ 117,716,208
Operating expenses:		
Costs of sales	\$ 94,529,545	\$ 94,048,593
Operations	9,036,452	8,615,709
Maintenance	5,320,332	5,388,513
Depreciation	4,628,512	4,508,125
Taxes and tax equivalents	3,209,637	3,109,188
Total operating expenses	\$ 116,724,478	\$ 115,670,128
Operating income	\$ 4,022,767	\$ 2,046,080
Nonoperating revenues (expenses):		
Interest revenues	\$ 38,947	\$ 43,704
Merchandising revenues (net of costs)	106,082	182,536
Miscellaneous nonoperating income	2,611	813
Gain on disposition of assets	165,117	
Interest expense	(233,606)	(195,205)
Amortization of debt related costs	(45,250)	(43,641)
Total nonoperating revenues (expenses)	\$ 33,901	\$ (11,793)
Change in net position	\$ 4,056,668	\$ 2,034,287
Total net position—beginning	78,712,994	76,678,707
Total net position—ending	\$ 82,769,662	\$ 78,712,994

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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 120,008,353	\$ 120,185,580
Receipts from interfund services provided	2,483,750	2,369,314
Payments to suppliers	(100,781,841)	(99,870,091)
Payments to employees for services and benefits—exclusive of capitalized costs	(10,261,797)	(9,811,687)
Payments for interfund services used	(3,008,837)	(2,918,019)
	<u>\$ 8,439,628</u>	<u>\$ 9,955,097</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities:		
Change in receivables from customers for conservation loans	\$ 105,010	\$ (171,549)
Change in advances from TVA for conservation loans	(72,347)	200,152
Deferred TVA DEU program (net)	25,000	75,000
	<u>\$ 57,663</u>	<u>\$ 103,603</u>
Net cash provided by noncapital financing activities		
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (6,395,050)	\$ (6,102,158)
Proceeds from disposition of assets	165,117	
Removal costs of retirements of capital assets	(573,650)	(313,143)
Salvage value of retirements of capital assets	5,171	
Proceeds from capital debt	6,350,000	
Principal paid on capital debt	(730,000)	(710,000)
Interest paid on capital debt	(219,698)	(196,625)
Payment of debt premium and issuance costs	(105,989)	
	<u>\$ (1,504,099)</u>	<u>\$ (7,321,926)</u>
Net cash used for capital and related financing activities		
Cash flows from investing activities:		
Interest on investments	\$ 40,424	\$ 39,923
	<u>\$ 40,424</u>	<u>\$ 39,923</u>
Net cash provided by investing activities		
Net increase in cash and cash equivalents	\$ 7,033,616	\$ 2,776,697
Balances—beginning of the year	<u>16,485,410</u>	<u>13,708,713</u>
Balances—end of the year	<u>\$ 23,519,026</u>	<u>\$ 16,485,410</u>
<i>Classified as:</i>		
Current assets	\$ 16,459,058	\$ 15,684,611
Restricted assets	<u>7,059,968</u>	<u>800,799</u>
Totals	<u>\$ 23,519,026</u>	<u>\$ 16,485,410</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, 2013 and 2012
(Continued)**

	<u>2013</u>	<u>2012</u>
<i>Reconciliation of operating income to net cash provided (used)</i>		
<i>by operating activities:</i>		
Operating income	\$ 4,022,767	\$ 2,046,080
Adjustments to reconcile operating income to net cash provided (used)		
<i>by operating activities:</i>		
Depreciation	\$ 4,949,037	\$ 4,791,261
Income from merchandising revenues (net of costs)	106,082	182,536
Miscellaneous nonoperating income	2,611	813
Change in assets and liabilities:		
Receivables (net)	(847,586)	2,286,023
Inventories	(56,975)	(157,389)
Prepaid expenses	965,894	(284,024)
Accounts and other payables	<u>(702,202)</u>	<u>1,089,797</u>
Total adjustments	<u>\$ 4,416,861</u>	<u>\$ 7,909,017</u>
Net cash provided by operating activities	<u>\$ 8,439,628</u>	<u>\$ 9,955,097</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 NET POSITION
JUNE 30, 2013 and 2012**

ASSETS	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 11,554,051	\$ 9,332,377
Accounts receivable (net)	970,686	700,783
Inventories	968,033	1,555,468
Prepaid expenses	19,769	19,713
	<u> </u>	<u> </u>
Total current assets	<u>\$ 13,512,539</u>	<u>\$ 11,608,341</u>
Noncurrent assets:		
Capital assets:		
Utility plant in service (at cost)	\$ 53,208,002	\$ 52,516,394
Acquisition adjustment (net of amortization)	190,125	200,786
Construction in progress	69,191	34,050
Less: accumulated depreciation	22,575,742	21,447,572
	<u> </u>	<u> </u>
Total noncurrent assets	<u>\$ 30,891,576</u>	<u>\$ 31,303,658</u>
Total assets	<u><u>\$ 44,404,115</u></u>	<u><u>\$ 42,911,999</u></u>

LIABILITIES	<u>2013</u>	<u>2012</u>
Current liabilities:		
Accounts payable	\$ 942,251	\$ 588,851
Compensated absences	207,651	225,583
Accrued taxes and expenses	109,655	175,719
Total current liabilities	<u>\$ 1,259,557</u>	<u>\$ 990,153</u>
Noncurrent liabilities:		
Compensated absences	<u>\$ 311,476</u>	<u>\$ 338,375</u>
Total noncurrent liabilities	<u>\$ 311,476</u>	<u>\$ 338,375</u>
Total liabilities	<u>\$ 1,571,033</u>	<u>\$ 1,328,528</u>
NET POSITION		
Net investment in capital assets	\$ 30,891,576	\$ 31,303,658
Unrestricted	11,941,506	10,279,813
Total net position	<u>\$ 42,833,082</u>	<u>\$ 41,583,471</u>
Total liabilities and net position	<u>\$ 44,404,115</u>	<u>\$ 42,911,999</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 POSITION
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Gas sales:		
<i>Residential</i>	\$ 7,110,993	\$ 5,693,754
<i>Commercial</i>	4,647,957	3,801,004
<i>Industrial</i>	2,796,707	2,694,185
<i>Resale and transportation</i>	1,975,085	1,925,041
Service fees	84,409	86,644
Forfeited discounts	87,826	73,133
Other operating revenues	12,604	13,192
	<u>16,715,581</u>	<u>14,286,953</u>
Total operating revenues	\$	\$
Operating expenses:		
Costs of sales	\$ 8,157,714	\$ 7,385,045
Operations	3,002,805	3,077,940
Maintenance	1,558,528	1,602,658
Depreciation	1,385,378	1,344,387
Amortization of acquisition adjustment	10,661	10,661
Taxes and tax equivalents	1,517,295	1,522,235
	<u>15,632,381</u>	<u>14,942,926</u>
Total operating expenses	\$	\$
Operating income (loss)	\$ 1,083,200	\$ (655,973)
Nonoperating revenues (expenses):		
Interest revenues	\$ 12,080	\$ 13,296
Gain on disposition of assets	6,800	44,382
Miscellaneous nonoperating income	147,531	368,555
Amortization of debt related costs		(353)
	<u>166,411</u>	<u>425,880</u>
Total nonoperating revenues (expenses)	\$	\$
Change in net position	\$ 1,249,611	\$ (230,093)
Total net position—beginning	<u>41,583,471</u>	<u>41,813,564</u>
Total net position—ending	<u>\$ 42,833,082</u>	<u>\$ 41,583,471</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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 16,613,848	\$ 14,731,411
Receipts from interfund services provided	116,494	112,618
Payments to suppliers	(8,003,555)	(8,735,029)
Payments to employees for services and benefits—exclusive of capitalized costs	(3,079,230)	(3,063,769)
Payments for interfund services used	<u>(2,460,806)</u>	<u>(2,442,849)</u>
Net cash provided by operating activities	<u>\$ 3,186,751</u>	<u>\$ 602,382</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (918,637)	\$ (1,089,291)
Proceeds from disposition of assets	6,800	66,783
Removal costs of retirements of capital assets	<u>(65,320)</u>	<u>(48,796)</u>
Net cash used for capital and related financing activities	<u>\$ (977,157)</u>	<u>\$ (1,071,304)</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 12,080</u>	<u>\$ 13,481</u>
Net cash provided by investing activities	<u>\$ 12,080</u>	<u>\$ 13,481</u>
Net increase (decrease) in cash and cash equivalents	\$ 2,221,674	\$ (455,441)
Balances—beginning of the year	<u>9,332,377</u>	<u>9,787,818</u>
Balances—end of the year	<u>\$ 11,554,051</u>	<u>\$ 9,332,377</u>
<i>Classified as:</i>		
Current assets	<u>\$ 11,554,051</u>	<u>\$ 9,332,377</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, 2013 and 2012
(Continued)**

	<u>2013</u>	<u>2012</u>
<i>Reconciliation of operating income to net cash provided (used)</i>		
<i>by operating activities:</i>		
Operating income (loss)	\$ 1,083,200	\$ (655,973)
Adjustments to reconcile operating income to net cash provided (used)		
<i>by operating activities:</i>		
Depreciation	\$ 1,385,378	\$ 1,344,387
Amortization of acquisition adjustment	10,661	10,661
Miscellaneous nonoperating income	147,531	368,555
Change in assets and liabilities:		
Receivables (net)	(269,903)	75,149
Inventories	587,435	(427,190)
Prepaid expenses	(56)	(8,766)
Accounts and other payables	<u>242,505</u>	<u>(104,441)</u>
 Total adjustments	 \$ 2,103,551	 \$ 1,258,355
 Net cash provided by operating activities	 <u>\$ 3,186,751</u>	 <u>\$ 602,382</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 NET POSITION
JUNE 30, 2013 and 2012**

ASSETS	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 5,923,045	\$ 6,807,806
Accounts receivable (net)	1,898,453	1,851,339
Accrued interest receivable		1,908
Inventories	597,280	579,233
Prepaid expenses	<u>213,382</u>	<u>190,034</u>
Total current assets	<u>\$ 8,632,160</u>	<u>\$ 9,430,320</u>
Noncurrent assets:		
Restricted cash and cash equivalents	\$ 19,171,947	\$ 23,273,901
Capital assets:		
Utility plant in service (at cost)	154,490,212	144,531,504
Construction in progress	1,647,994	5,526,809
Less: accumulated depreciation	49,823,845	48,290,786
Unamortized debt issuance costs	<u>506,776</u>	<u>528,810</u>
Total noncurrent assets	<u>\$ 125,993,084</u>	<u>\$ 125,570,238</u>
Total assets	<u><u>\$ 134,625,244</u></u>	<u><u>\$ 135,000,558</u></u>

LIABILITIES	<u>2013</u>	<u>2012</u>
Current liabilities:		
Accounts payable	\$ 676,907	\$ 1,031,198
Retainage payable on construction contracts	138,229	148,011
Compensated absences	263,486	241,173
Accrued taxes and expenses	<u>273,526</u>	<u>324,905</u>
Total current liabilities	<u>\$ 1,352,148</u>	<u>\$ 1,745,287</u>
Liabilities payable from restricted assets:		
Revenue warrants—payable within one year	\$ 3,810,000	\$ 3,675,000
Unamortized debt premium (discount)	2,121	2,121
Unamortized deferred loss on early retirement of debt	(38,097)	(38,097)
Accrued interest	<u>790,094</u>	<u>827,248</u>
Total liabilities payable from restricted assets	<u>\$ 4,564,118</u>	<u>\$ 4,466,272</u>
Noncurrent liabilities:		
Revenue warrants—payable after one year	\$ 57,330,000	\$ 60,021,843
Unamortized debt premium (discount)	46,671	48,792
Unamortized deferred loss on early retirement of debt	(232,892)	(270,989)
Compensated absences	<u>395,230</u>	<u>361,761</u>
Total noncurrent liabilities	<u>\$ 57,539,009</u>	<u>\$ 60,161,407</u>
Total liabilities	<u>\$ 63,455,275</u>	<u>\$ 66,372,966</u>
NET POSITION		
Net investment in capital assets	\$ 60,281,407	\$ 57,395,671
Restricted for debt service	3,497,004	3,379,839
Unrestricted	<u>7,391,558</u>	<u>7,852,082</u>
Total net position	<u>\$ 71,169,969</u>	<u>\$ 68,627,592</u>
Total liabilities and net position	<u><u>\$ 134,625,244</u></u>	<u><u>\$ 135,000,558</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 POSITION
FOR THE YEARS ENDED JUNE 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Water sales:		
<i>Residential</i>	\$ 6,238,316	\$ 6,369,631
<i>Commercial</i>	3,356,199	3,260,437
<i>Resale</i>	1,434,459	1,646,767
Sewer service sales:		
<i>Residential</i>	3,738,252	3,748,907
<i>Commercial</i>	3,583,125	3,465,276
Forfeited discounts	149,534	153,584
Other operating revenues	284,811	251,752
	<u>\$ 18,784,696</u>	<u>\$ 18,896,354</u>
Operating expenses:		
Water treatment and pumping	\$ 2,707,180	\$ 2,680,144
Sewage disposal	2,162,646	2,172,603
Transmission and distribution	1,277,071	1,246,190
Accounting and collections	1,058,064	1,075,799
Administrative and general	1,855,677	1,716,284
Depreciation	3,049,453	2,929,129
Taxes and tax equivalents	1,622,099	1,611,554
	<u>\$ 13,732,190</u>	<u>\$ 13,431,703</u>
Total operating expenses		
	<u>\$ 13,732,190</u>	<u>\$ 13,431,703</u>
Operating income	<u>\$ 5,052,506</u>	<u>\$ 5,464,651</u>
Nonoperating revenues (expenses):		
Interest revenues	\$ 11,174	\$ 12,530
Gain (loss) on disposition of assets	(341,229)	41,227
Interest expense	(2,122,064)	(2,138,935)
Amortization of debt related costs	(58,010)	(58,010)
	<u>\$ (2,510,129)</u>	<u>\$ (2,143,188)</u>
Total nonoperating revenues (expenses)		
	<u>\$ (2,510,129)</u>	<u>\$ (2,143,188)</u>
Change in net position	\$ 2,542,377	\$ 3,321,463
Total net position—beginning	<u>68,627,592</u>	<u>65,306,129</u>
Total net position—ending	<u>\$ 71,169,969</u>	<u>\$ 68,627,592</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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 18,423,258	\$ 18,445,904
Receipts from interfund services provided	150,185	158,038
Payments to suppliers	(3,814,391)	(2,547,331)
Payments to employees for services and benefits—exclusive of capitalized costs	(4,290,886)	(4,109,550)
Payments for interfund services used	<u>(2,814,386)</u>	<u>(2,783,809)</u>
Net cash provided by operating activities	<u>\$ 7,653,780</u>	<u>\$ 9,163,252</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (7,937,516)	\$ (4,979,632)
Proceeds from disposition of assets		42,164
Net proceeds from capital debt	1,118,157	1,042,313
Principal paid on capital debt	(3,675,000)	(3,550,000)
Interest paid on capital debt	<u>(2,159,218)</u>	<u>(1,970,448)</u>
Net cash used for capital and related financing activities	<u>\$ (12,653,577)</u>	<u>\$ (9,415,603)</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 13,082</u>	<u>\$ 10,622</u>
Net cash provided by investing activities	<u>\$ 13,082</u>	<u>\$ 10,622</u>
Net decrease in cash and cash equivalents	\$ (4,986,715)	\$ (241,729)
Balances—beginning of the year	<u>30,081,707</u>	<u>30,323,436</u>
Balances—end of the year	<u>\$ 25,094,992</u>	<u>\$ 30,081,707</u>
<i>Classified as:</i>		
Current assets	\$ 5,923,045	\$ 6,807,806
Restricted assets	<u>19,171,947</u>	<u>23,273,901</u>
Totals	<u>\$ 25,094,992</u>	<u>\$ 30,081,707</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, 2013 and 2012
(Continued)**

	<u>2013</u>	<u>2012</u>
<i>Reconciliation of operating income to net cash provided (used)</i>		
<i>by operating activities:</i>		
Operating income	\$ 5,052,506	\$ 5,464,651
Adjustments to reconcile operating income to net cash provided (used)		
<i>by operating activities:</i>		
Depreciation	\$ 3,049,453	\$ 2,929,129
Change in assets and liabilities:		
Receivables (net)	(47,114)	(143,921)
Inventories	(18,047)	26,776
Prepaid expenses	(23,348)	85,730
Accounts and other payables	<u>(359,670)</u>	<u>800,887</u>
Total adjustments	<u>\$ 2,601,274</u>	<u>\$ 3,698,601</u>
Net cash provided by operating activities	<u>\$ 7,653,780</u>	<u>\$ 9,163,252</u>

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

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012

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 position or balance sheet, a statement of revenues, expenses, and changes in fund net position, and a statement of cash flows. It requires the classification of net position into three components—net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- ◆ Net investment in capital assets—This component of net position 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 net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- ◆ Restricted net position—This component of net position consists of constraints placed on net position 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 position—This component of net position consist of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

In addition, the Statement requires the reporting of capital contributions as a change in net position, 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, 2013 and 2012
(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.

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, 2013 and 2012
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position:

Net position represents the difference between assets and liabilities. Net position reported as net investment in capital assets 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 position is 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 position 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. The 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 2013 totaled \$4,949,037 of which \$4,628,512 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts on the basis of vehicle usage, totaled \$320,525 for the year ended June 30, 2013. 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.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012
(Continued)

NOTE 2—UTILITY PLANT (Continued)

As of June 30, 2013 and 2012, nondepreciable capital assets consist of land, land rights, and right-of-ways in the amount of \$1,188,366 and \$1,121,509, 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	\$ 30,410,845	\$ 1,082,503	\$ 570,726	\$ 30,922,622
Distribution plant	102,907,301	2,725,640	1,108,973	104,523,968
General plant	15,872,813	2,580,273	284,443	18,168,643
Totals	<u>\$ 149,190,959</u>	<u>\$ 6,388,416</u>	<u>\$ 1,964,142</u>	<u>\$ 153,615,233</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 and prior year depreciation amounted to \$39,655. As of June 30, 2013 and 2012, accumulated depreciation amounted to \$79,310 and \$39,655, respectively.

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 \$1,385,378 for 2013 and \$1,344,387 for 2012.

As of June 30, 2013 and 2012, 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	\$ 9,794,754	\$ 32,760	\$ 4,955	\$ 9,822,559
Distribution plant	35,543,561	687,351	95,169	36,135,743
General plant	7,178,079	163,385	91,764	7,249,700
Totals	<u>\$ 52,516,394</u>	<u>\$ 883,496</u>	<u>\$ 191,888</u>	<u>\$ 53,208,002</u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012
(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, 2013 and 2012, accumulated amortization amounted to \$165,248 and \$154,587, 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 \$3,049,453 for 2013 and \$2,929,129 for 2012.

As of June 30, 2013 and 2012, 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	\$ 140,913,398	\$ 11,645,180	\$ 1,855,000	\$ 150,703,578
General plant	3,618,106	171,151	2,623	3,786,634
Totals	<u>\$ 144,531,504</u>	<u>\$ 11,816,331</u>	<u>\$ 1,857,623</u>	<u>\$ 154,490,212</u>

NOTE 3—RECEIVABLES AND PAYABLES

Receivables at June 30, 2013 and 2012 were as follows for each department:

Electricity Department

	<u>2013</u>	<u>2012</u>
Customer accounts	\$ 10,702,191	\$ 9,921,605
Other governments	607,857	652,288
Miscellaneous	142,193	82,751
Secured customer deposits	1,441,673	1,377,473
Accrued rents	381,732	373,868
Less: allowance for doubtful accounts	(341,499)	(321,424)
Net receivables	<u>\$ 12,934,147</u>	<u>\$ 12,086,561</u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012
(Continued)

NOTE 3—RECEIVABLES AND PAYABLES (Continued)

Gas Department

	<u>2013</u>	<u>2012</u>
Customer accounts	\$ 975,936	\$ 697,271
Other governments	18,455	18,541
Miscellaneous	10,258	3,897
Less: allowance for doubtful accounts	<u>(33,963)</u>	<u>(18,926)</u>
Net receivables	<u>\$ 970,686</u>	<u>\$ 700,783</u>

Of the customer accounts receivable, \$73,777 is not due to be collected in the subsequent fiscal year.

Water and Wastewater Department

	<u>2013</u>	<u>2012</u>
Customer accounts	\$ 1,889,227	\$ 1,601,169
Other governments	95,241	332,011
Miscellaneous	1,599	615
Less: allowance for doubtful accounts	<u>(87,614)</u>	<u>(82,456)</u>
Net receivables	<u>\$ 1,898,453</u>	<u>\$ 1,851,339</u>

Payables at June 30, 2013 and 2012 were as follows for each department:

Electricity Department

	<u>2013</u>	<u>2012</u>
Vendors	\$ 16,771,909	\$ 18,108,211
Salaries and benefits	805,269	618,143
Other governments	<u>14,125</u>	<u>10,469</u>
Totals	<u>\$ 17,591,303</u>	<u>\$ 18,736,823</u>

Gas Department

	<u>2013</u>	<u>2012</u>
Vendors	\$ 771,759	\$ 375,424
Salaries and benefits	109,655	171,354
Other governments	<u>170,492</u>	<u>217,792</u>
Totals	<u>\$ 1,051,906</u>	<u>\$ 764,570</u>

Water and Wastewater Department

	<u>2013</u>	<u>2012</u>
Vendors	\$ 660,013	\$ 951,053
Salaries and benefits	153,401	203,387
Other governments	<u>275,248</u>	<u>349,674</u>
Totals	<u>\$ 1,088,662</u>	<u>\$ 1,504,114</u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012
(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, 2013 and 2012, the Department had \$668,604 and \$1,254,221, 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 capital construction and debt service by the Series 2009 and Series 2013 Warrant Indentures are invested in short-term U.S. Government obligations, as follows:

	<u>2013</u>	<u>2012</u>
Series 2009 Debt Service Reserve Fund	\$ 725,000	\$ 725,000
Series 2009 Warrant Funds	75,528	75,799
Series 2013 Debt Service Reserve Fund	192,869	
Series 2013 Warrant Funds	15,428	
Series 2013 Construction Fund	6,051,143	
Total restricted cash and cash equivalents	<u>\$ 7,059,968</u>	<u>\$ 800,799</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>2013</u>	<u>2012</u>
SRF Series 2006 Warrant Funds	\$ 114,736	\$ 114,911
SRF Series 2007 Warrant Funds	439,177	435,042
SRF Series 2010-A Warrant Funds	701,449	685,764
SRF Series 2010-B Warrant Funds	1,187,188	1,157,985
SRF Series 2010-C Warrant Funds	1,150,715	1,130,411
SRF Series 2010-D Warrant Funds	288,985	278,126
Series 2011 Warrant Funds	404,848	404,848
Series 2011 Construction Fund	14,884,849	19,066,814
Total restricted cash and cash equivalents	<u>\$ 19,171,947</u>	<u>\$ 23,273,901</u>

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012
(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, 2013 and 2012, a total of \$6,853,277 and \$6,958,287, 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 \$7,054,301 and \$7,126,648 as of June 30, 2013 and 2012, 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 \$6,956,180 and \$7,821,540 as of June 30, 2013 and 2012, 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, 2013, the balance of the investments was \$32,175 reported as current prepaid purchased power. The balance of the deferred interest income was \$7,175 reported as current deferred interest income. 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.

NOTE 7—LONG-TERM OBLIGATIONS

Electricity Department

Long-term liability activity for the year ended June 30, 2013 was as follows:

	<i>Electric Revenue Refunding Warrants, Series 2009</i>	<i>Electric Revenue Warrants, Series 2013</i>	<i>Totals</i>
Balance—beginning of year	\$ 5,570,000	\$ -	\$ 5,570,000
Add: proceeds from debt		6,350,000	6,350,000
Less: principal paid on debt	730,000		730,000
Balance—end of year	<u>\$ 4,840,000</u>	<u>\$ 6,350,000</u>	<u>\$ 11,190,000</u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012
(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 line of credit agreement was closed on January 30, 2013.

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.

The Department issued Electric Revenue Warrants, Series 2013, dated March 1, 2013, in the amount of \$6,350,000 with interest rates ranging from 1.75% to 4.00% for the purpose of purchasing and constructing capital improvements to the system. The net revenues of the system are irrevocably pledged for payment of the principal and interest of the warrants. Principal is payable annually beginning on June 1, 2020. 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>
2014	\$ 745,000	\$ 346,477	\$ 1,091,477
2015	765,000	325,990	1,090,990
2016	790,000	302,275	1,092,275
2017	815,000	276,205	1,091,205
2018	850,000	247,680	1,097,680
2019–2023	2,460,000	913,438	3,373,438
2024–2028	2,205,000	652,560	2,857,560
2029–2033	2,560,000	299,500	2,859,500
Totals	\$ 11,190,000	\$ 3,364,125	\$ 14,554,125
Less: portion due within one year	745,000		
Long-term debt at June 30, 2013	\$ 10,445,000		

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, 2013 and 2012
(Continued)

NOTE 7—LONG-TERM OBLIGATIONS (Continued)

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.

Water and Wastewater Department

Long-term liability activity for the year ended June 30, 2013 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	\$ 3,255,000	\$ 6,741,843	\$ 7,005,000	\$ 11,835,000
Add: proceeds from debt		1,118,157		
Less: principal paid on debt	170,000	345,000	665,000	1,125,000
Balance—end of year	<u>\$ 3,085,000</u>	<u>\$ 7,515,000</u>	<u>\$ 6,340,000</u>	<u>\$ 10,710,000</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	\$ 11,400,000	\$ 2,860,000	\$ 20,600,000	\$ 63,696,843
Add: proceeds from debt				1,118,157
Less: principal paid on debt	1,100,000	270,000		3,675,000
Balance—end of year	<u>\$ 10,300,000</u>	<u>\$ 2,590,000</u>	<u>\$ 20,600,000</u>	<u>\$ 61,140,000</u>

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. 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, 2013 and 2012
(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. 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-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 \$12,920,000 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 \$12,460,000 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 \$3,125,000 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, 2013 and 2012
(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>
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	4,410,000	1,616,106	6,026,106
2019–2023	16,655,000	6,371,423	23,026,423
2024–2028	6,870,000	4,851,326	11,721,326
2029–2033	8,545,000	3,183,900	11,728,900
2034–2037	8,535,000	845,681	9,380,681
Totals	\$ 61,140,000	\$ 24,458,907	\$ 85,598,907
Less: portion due within one year	3,810,000		
Long-term debt at June 30, 2013	\$ 57,330,000		

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, 2013 and 2012
(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	\$	4,554,239
Interest on net pension obligation		(118,933)
Adjustment to annual required contribution		<u>(193,610)</u>
Annual pension cost	\$	4,241,696
Contributions made		<u>3,888,126</u>
Increase (decrease) in net pension obligation	\$	353,570
Net pension obligation—beginning of year		<u>(1,585,775)</u>
Net pension obligation—end of year	\$	<u><u>(1,232,205)</u></u>

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
October 1, 2011	\$ 4,241,696	91.7%	\$ (1,232,205)
October 1, 2010	4,090,863	90.4%	(1,585,775)
October 1, 2009	3,723,843	112.3%	(1,979,119)

Funded Status and Funding Progress—As of October 1, 2011, the most recent actuarial valuation date, the plan was 71.2% funded. The actuarial accrued liability for benefits was \$97.1 million and the actuarial value of assets was \$69.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$28.0 million. The covered payroll (annual payroll of active employees covered by the plan) was \$28.7 million, and the ratio of the UAAL to the covered payroll was 97.4%.

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, 2011 actuarial valuation, the entry age normal actuarial cost method with frozen initial liability (which was redetermined as of October 1, 2011) was used. The actuarial assumptions included (a) 7.5% investment rate of return and (b) projected salary increases of 3.0% per year. Both (a) and (b) included an inflation component of 2.75%. 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, 2011, was twenty-nine (29) years.

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012
(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	\$ 756,308
Interest on prior year net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>\$ 756,308</u>
Contributions made	<u>756,308</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, 2013 and 2012
(Continued)**

NOTE 9—POSTRETIREMENT BENEFITS PLAN (Continued)

Three-Year Trend Information

<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, 2012	\$ 756,308	100.0%	\$ -
September 30, 2011			
September 30, 2010	460,057	100.0%	-
September 30, 2009			
September 30, 2008	469,977	100.0%	-

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, 2011, the most recent actuarial valuation date, the plan was 7.9% funded. The actuarial accrued liability for benefits was \$8.7 million and the actuarial value of assets was \$0.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$8.0 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 28.4%.

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, 2011 actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a discount rate of 5.5%, 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 6.0% initially that is reduced by decrements to an ultimate rate of 4.7% after eighty-five (85) years. These rates included a 2.75% 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, 2011 was twenty-six (26) years.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012
(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>
2014	\$ 201,372
2015	201,372
2016	201,372
2017	201,372
2018	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, 2013 and 2012
(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 a 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, 2013, open contracts for construction totaled \$440,766 of which \$0 had been recorded as cumulative construction in progress. As of June 30, 2013, open contracts for system maintenance totaled \$4,224,651 of which \$1,601,368 had been recorded as current maintenance expense. 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.

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, 2013 and 2012, the Department had made purchase commitments amounting to \$4,365,214 and \$3,426,687, 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, 2013, open contracts for construction totaled \$11,140,261 of which \$511,169 had been recorded as cumulative construction in progress. As of June 30, 2013, open contracts for system maintenance totaled \$189,544 of which \$68,226 had been recorded as current maintenance expense. 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.



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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF FLORENCE, ALABAMA
ELECTRICITY DEPARTMENT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION—
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating revenues:				
Electric sales:				
<i>Residential</i>	\$ 64,150,000	\$ 64,150,000	\$ 63,175,468	\$ (974,532)
<i>Small commercial</i>	11,900,000	11,900,000	12,267,600	367,600
<i>Large commercial</i>	40,555,000	40,555,000	40,075,098	(479,902)
<i>Public street and highway lighting</i>	2,190,000	2,190,000	2,213,655	23,655
Forfeited discounts	1,050,000	1,050,000	1,093,825	43,825
Rents	1,200,000	1,200,000	1,282,398	82,398
Other operating revenues	630,000	630,000	639,201	9,201
Total operating revenues	<u>\$ 121,675,000</u>	<u>\$ 121,675,000</u>	<u>\$ 120,747,245</u>	<u>\$ (927,755)</u>
Operating expenses:				
Costs of sales	\$ 97,250,000	\$ 97,250,000	\$ 94,529,545	\$ 2,720,455
Operations:				
<i>Transmission</i>	431,800	436,000	425,236	10,764
<i>Distribution</i>	2,890,100	2,956,800	2,974,180	(17,380)
<i>Customer accounts</i>	2,281,400	2,341,700	2,044,361	297,339
<i>Customer service and information assistance and instruction</i>	29,000	30,200	30,573	(373)
<i>Sales</i>	41,000	41,000	8,449	32,551
<i>Administrative and general</i>	3,241,000	3,258,400	3,553,653	(295,253)
Maintenance:				
<i>Transmission</i>	290,000	293,300	266,149	27,151
<i>Distribution</i>	4,922,500	4,976,100	4,657,961	318,139
<i>Administrative and general</i>	391,000	397,500	396,222	1,278
Depreciation	4,600,000	4,600,000	4,628,512	(28,512)
Taxes and tax equivalents	3,202,000	3,202,000	3,209,637	(7,637)
Total operating expenses	<u>\$ 119,569,800</u>	<u>\$ 119,783,000</u>	<u>\$ 116,724,478</u>	<u>\$ 3,058,522</u>
Operating income	<u>\$ 2,105,200</u>	<u>\$ 1,892,000</u>	<u>\$ 4,022,767</u>	<u>\$ 2,130,767</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 40,000	\$ 40,000	\$ 38,947	\$ (1,053)
Merchandising revenues (net of costs)	175,000	172,200	106,082	(66,118)
Miscellaneous nonoperating income			2,611	2,611
Gain on disposition of assets			165,117	165,117
Interest expense	(186,700)	(186,700)	(233,606)	(46,906)
Amortization of debt related costs	(43,700)	(43,700)	(45,250)	(1,550)
Total nonoperating revenues (expenses)	<u>\$ (15,400)</u>	<u>\$ (18,200)</u>	<u>\$ 33,901</u>	<u>\$ 52,101</u>
Change in net position	<u>\$ 2,089,800</u>	<u>\$ 1,873,800</u>	<u>\$ 4,056,668</u>	<u>\$ 2,182,868</u>
Total net position—beginning	<u>78,712,994</u>	<u>78,712,994</u>	<u>78,712,994</u>	
Total net position—ending	<u>\$ 80,802,794</u>	<u>\$ 80,586,794</u>	<u>\$ 82,769,662</u>	<u>\$ 2,182,868</u>

**CITY OF FLORENCE, ALABAMA
GAS DEPARTMENT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION—
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating revenues:				
Gas sales:				
<i>Residential</i>	\$ 7,392,000	\$ 7,392,000	\$ 7,110,993	\$ (281,007)
<i>Commercial</i>	4,556,000	4,556,000	4,647,957	91,957
<i>Industrial</i>	3,575,500	3,575,500	2,796,707	(778,793)
<i>Resale and transportation</i>	2,710,400	2,710,400	1,975,085	(735,315)
Service fees	89,300	89,300	84,409	(4,891)
Forfeited discounts	90,000	90,000	87,826	(2,174)
Other operating revenues	13,100	13,100	12,604	(496)
Total operating revenues	<u>\$ 18,426,300</u>	<u>\$ 18,426,300</u>	<u>\$ 16,715,581</u>	<u>\$ (1,710,719)</u>
Operating expenses:				
Costs of sales	\$ 10,251,500	\$ 10,251,500	\$ 8,157,714	\$ 2,093,786
Operations:				
<i>Transmission</i>	235,700	240,100	180,747	59,353
<i>Distribution</i>	399,700	401,900	375,277	26,623
<i>Customer accounts</i>	674,800	674,800	584,039	90,761
<i>Sales</i>	79,400	80,000	70,822	9,178
<i>Administrative and general</i>	1,744,900	1,755,800	1,791,920	(36,120)
Maintenance:				
<i>Transmission</i>	2,500	2,500	1,105	1,395
<i>Distribution</i>	1,570,200	1,602,900	1,505,557	97,343
<i>Administrative and general</i>	39,500	39,500	51,866	(12,366)
Depreciation	1,350,000	1,350,000	1,385,378	(35,378)
Amortization of acquisition adjustment	10,700	10,700	10,661	39
Taxes and tax equivalents	1,537,500	1,537,500	1,517,295	20,205
Total operating expenses	<u>\$ 17,896,400</u>	<u>\$ 17,947,200</u>	<u>\$ 15,632,381</u>	<u>\$ 2,314,819</u>
Operating income (loss)	<u>\$ 529,900</u>	<u>\$ 479,100</u>	<u>\$ 1,083,200</u>	<u>\$ 604,100</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 13,500	\$ 13,500	\$ 12,080	\$ (1,420)
Gain on disposition of assets	3,500	3,500	6,800	3,300
Miscellaneous nonoperating income	135,200	135,200	147,531	12,331
Total nonoperating revenues (expenses)	<u>\$ 152,200</u>	<u>\$ 152,200</u>	<u>\$ 166,411</u>	<u>\$ 14,211</u>
Change in net position	\$ 682,100	\$ 631,300	\$ 1,249,611	\$ 618,311
Total net position—beginning	<u>41,583,471</u>	<u>41,583,471</u>	<u>41,583,471</u>	
Total net position—ending	<u>\$ 42,265,571</u>	<u>\$ 42,214,771</u>	<u>\$ 42,833,082</u>	<u>\$ 618,311</u>

CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION—
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating revenues:				
Water sales:				
<i>Residential</i>	\$ 6,703,300	\$ 6,703,300	\$ 6,238,316	\$ (464,984)
<i>Commercial</i>	3,448,700	3,448,700	3,356,199	(92,501)
<i>Resale</i>	1,804,400	1,804,400	1,434,459	(369,941)
Sewer service sales:				
<i>Residential</i>	3,804,300	3,804,300	3,738,252	(66,048)
<i>Commercial</i>	3,588,900	3,588,900	3,583,125	(5,775)
Forfeited discounts	159,700	159,700	149,534	(10,166)
Other operating revenues	236,500	236,500	284,811	48,311
Total operating revenues	<u>\$ 19,745,800</u>	<u>\$ 19,745,800</u>	<u>\$ 18,784,696</u>	<u>\$ (961,104)</u>
Operating expenses:				
Water treatment and pumping	\$ 2,825,200	\$ 2,847,000	\$ 2,707,180	\$ 139,820
Sewage disposal	2,332,000	2,357,800	2,162,646	195,154
Transmission and distribution	1,565,600	1,586,950	1,277,071	309,879
Accounting and collections	994,100	994,100	1,058,064	(63,964)
Administrative and general	1,741,300	1,748,350	1,855,677	(107,327)
Depreciation	2,977,300	2,977,300	3,049,453	(72,153)
Taxes and tax equivalents	1,680,600	1,680,600	1,622,099	58,501
Total operating expenses	<u>\$ 14,116,100</u>	<u>\$ 14,192,100</u>	<u>\$ 13,732,190</u>	<u>\$ 459,910</u>
Operating income	<u>\$ 5,629,700</u>	<u>\$ 5,553,700</u>	<u>\$ 5,052,506</u>	<u>\$ (501,194)</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 12,500	\$ 12,500	\$ 11,174	\$ (1,326)
Gain (loss) on disposition of assets			(341,229)	(341,229)
Interest expense	(2,159,300)	(2,159,300)	(2,122,064)	37,236
Amortization of debt related costs	(58,000)	(58,000)	(58,010)	(10)
Total nonoperating revenues (expenses)	<u>\$ (2,204,800)</u>	<u>\$ (2,204,800)</u>	<u>\$ (2,510,129)</u>	<u>\$ (305,329)</u>
Change in net position	<u>\$ 3,424,900</u>	<u>\$ 3,348,900</u>	<u>\$ 2,542,377</u>	<u>\$ (806,523)</u>
Total net position—beginning	<u>68,627,592</u>	<u>68,627,592</u>	<u>68,627,592</u>	
Total net position—ending	<u>\$ 72,052,492</u>	<u>\$ 71,976,492</u>	<u>\$ 71,169,969</u>	<u>\$ (806,523)</u>

CITY OF FLORENCE, ALABAMA

Schedules of Funding Progress

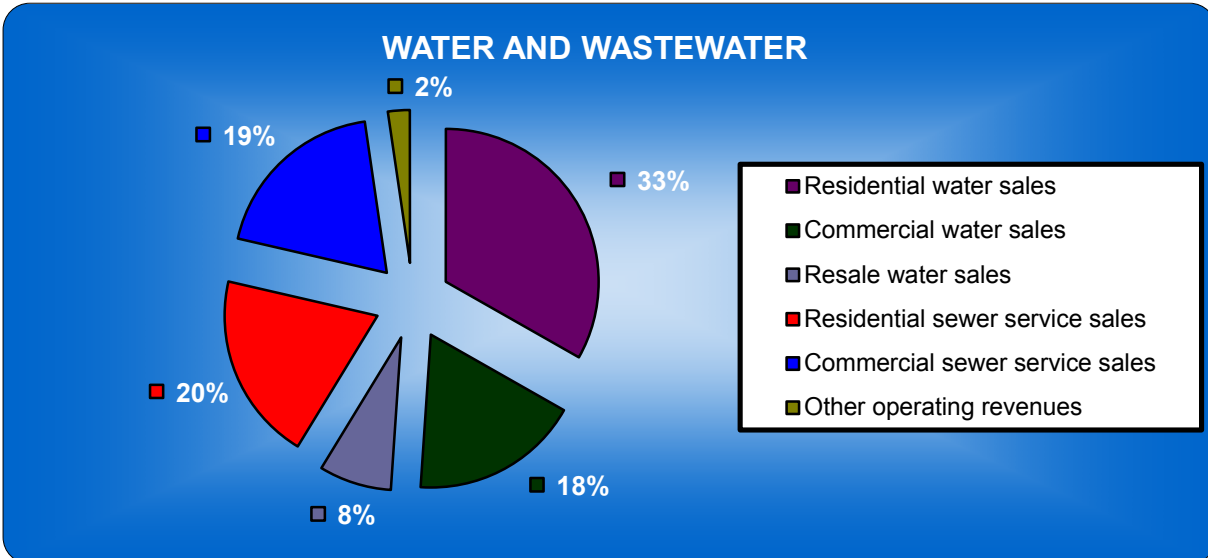
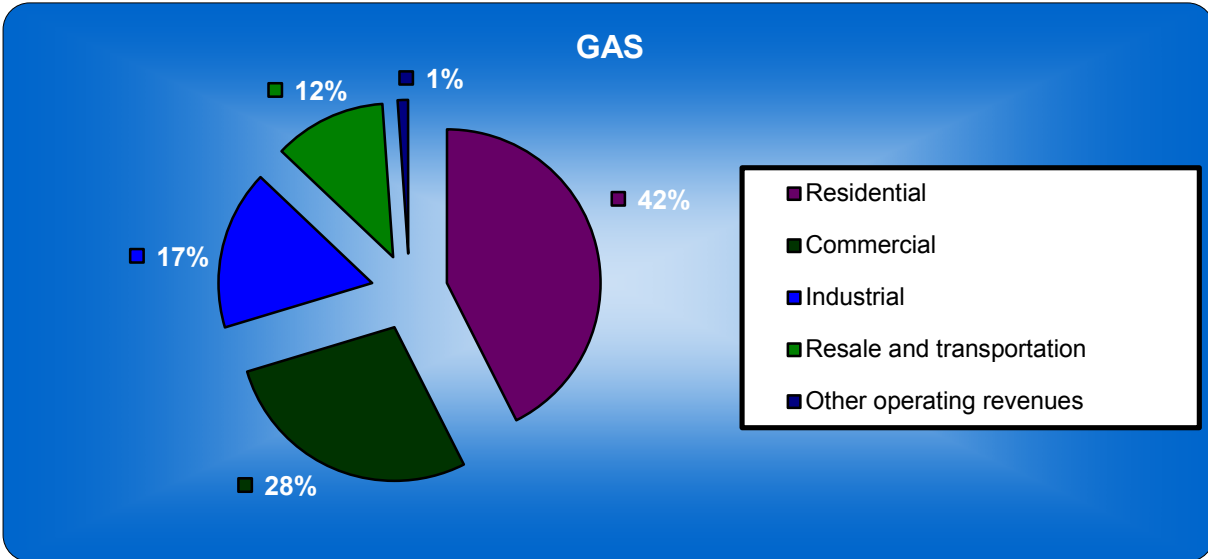
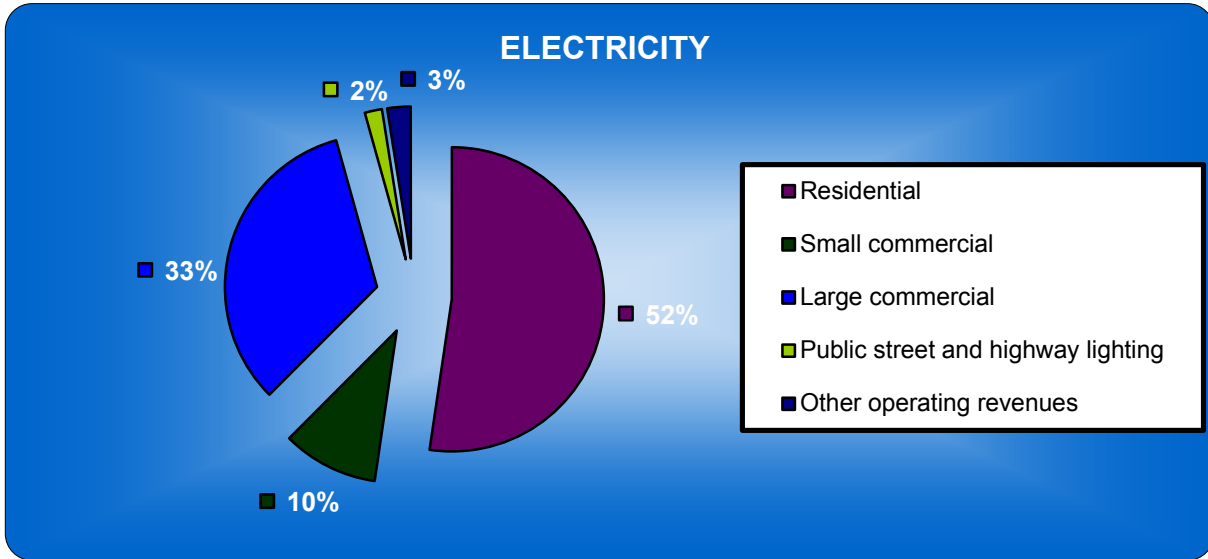
Employees' Retirement Plan						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)— Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
October 1, 2011	\$ 69,076,688	\$ 97,078,177	\$ 28,001,489	71.2%	\$ 28,743,659	97.4%
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%

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, 2011	\$ 683,821	\$ 8,666,316	\$ 7,982,495	7.9%	\$ 28,103,737	28.4%
October 1, 2009	483,054	4,487,605	4,004,551	10.8%	25,726,624	15.6%
October 1, 2007	—	4,186,288	4,186,288	0.0%	26,065,584	16.1%

The City has elected to perform an actuarial valuation on the plan on a biennial basis.

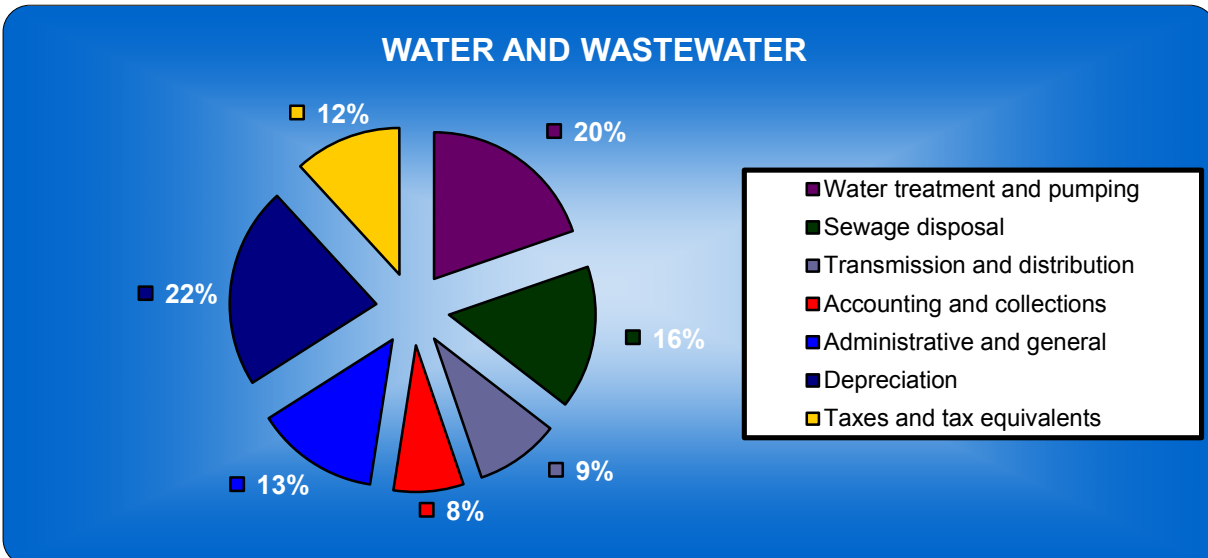
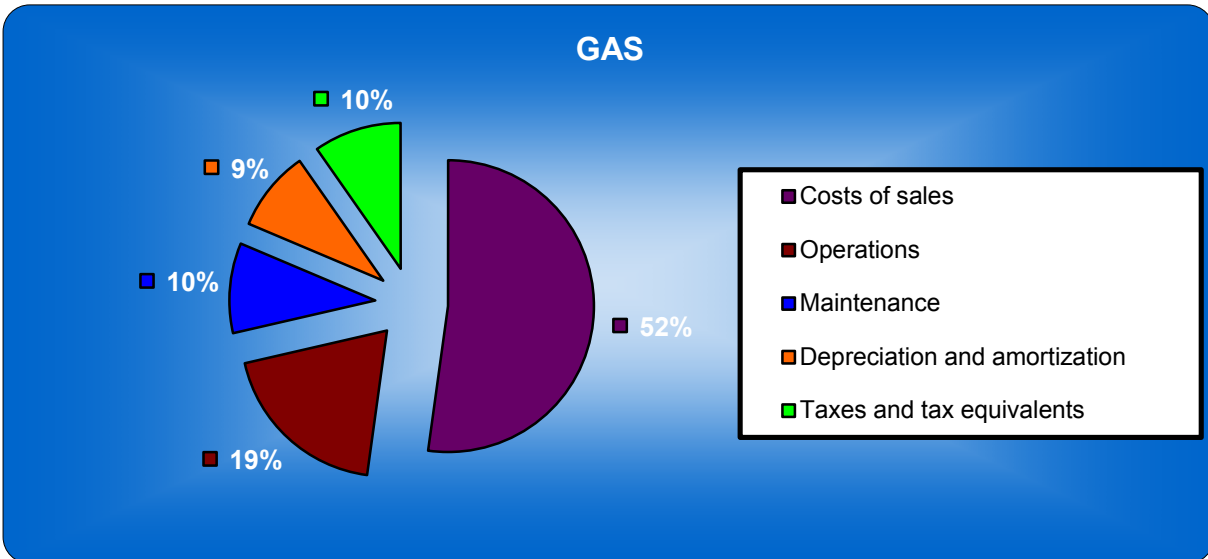
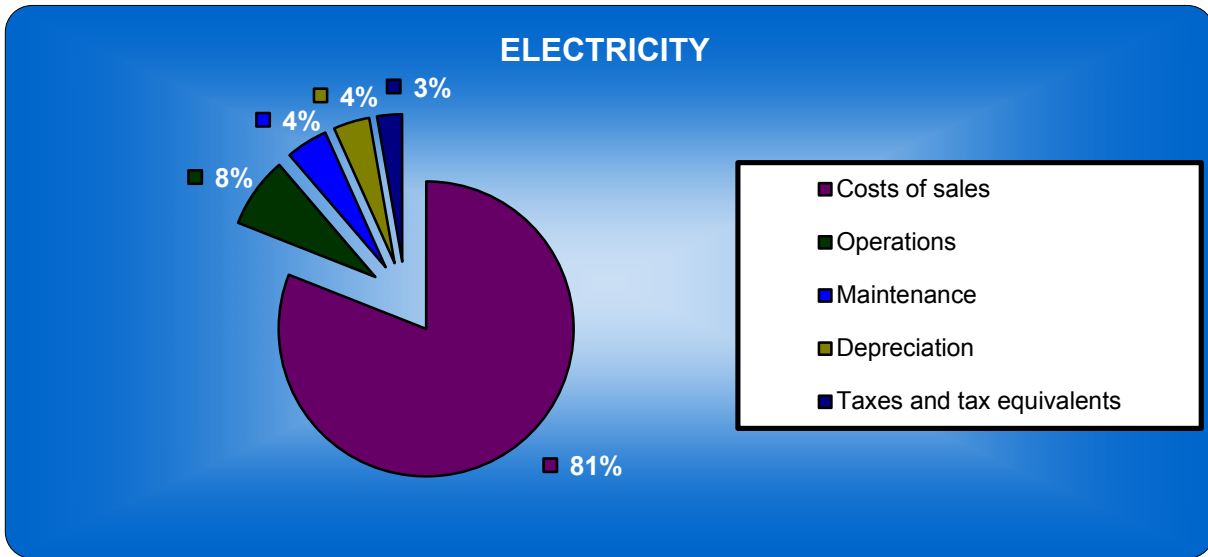
SUPPLEMENTARY SCHEDULES SECTION

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENT
SOURCE OF FUNDS
JUNE 30, 2013**



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, 2013**



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, 2013**

<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	\$ 596,894	\$ -	\$ -	\$ 596,894
Clearing land and right of ways	90,378			90,378
Structures and improvements	53,927			53,927
Station equipment	19,902,944	893,186	559,655	20,236,475
Towers and fixtures	32,266			32,266
Poles and fixtures	4,453,723	181,620	10,456	4,624,887
Overhead conductors and devices	5,280,713	7,697	615	5,287,795
Total transmission plant	<u>\$ 30,410,845</u>	<u>\$ 1,082,503</u>	<u>\$ 570,726</u>	<u>\$ 30,922,622</u>
Distribution plant:				
Land and land rights	\$ 69,040	\$ -	\$ -	\$ 69,040
Station equipment	2,933,708	698	87,925	2,846,481
Poles, towers, and fixtures	21,131,358	1,014,744	87,516	22,058,586
Overhead conductors and devices	21,793,275	198,428	24,859	21,966,844
Underground conduit	2,543,342	87,063	1,613	2,628,792
Underground conductors and devices	8,765,897	424,402	27,327	9,162,972
Line transformers	23,722,505	454,637	542,676	23,634,466
Services	8,255,787	287,652	143,895	8,399,544
Meters	4,185,438	46,316	119,126	4,112,628
Installation on customer premises	2,318,541	123,196	41,164	2,400,573
Street lighting and signal systems	7,188,410	88,504	32,872	7,244,042
Total distribution plant	<u>\$ 102,907,301</u>	<u>\$ 2,725,640</u>	<u>\$ 1,108,973</u>	<u>\$ 104,523,968</u>
General plant:				
Land and land rights	\$ 365,197	\$ 66,857	\$ -	\$ 432,054
Structures and improvements	2,556,107	1,229,766		3,785,873
Office furniture and equipment	2,919,614	461,293	100,842	3,280,065
Transportation equipment	5,899,621	688,192	22,216	6,565,597
Stores equipment	43,707			43,707
Tools, shop, and garage equipment	3,036,795	72,399	2,310	3,106,884
Laboratory equipment	62,572			62,572
Power operated equipment	316,625			316,625
Communication equipment	490,225	53,603	159,075	384,753
Miscellaneous equipment	182,350	8,163		190,513
Total general plant	<u>\$ 15,872,813</u>	<u>\$ 2,580,273</u>	<u>\$ 284,443</u>	<u>\$ 18,168,643</u>
Total utility plant in service	<u><u>\$ 149,190,959</u></u>	<u><u>\$ 6,388,416</u></u>	<u><u>\$ 1,964,142</u></u>	<u><u>\$ 153,615,233</u></u>

ACCUMULATED DEPRECIATION

Balance Beginning of Year	Accrual	Retirements- Original Cost	Removal Costs	Salvage	Adjustments	Balance End of Year
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-						-
45,873	1,079					46,952
13,379,181	696,762	559,655	191,133			13,325,155
32,266						32,266
2,870,090	182,028	10,456	3,571			3,038,091
3,483,002	158,546	615	210			3,640,723
<u>\$ 19,810,412</u>	<u>\$ 1,038,415</u>	<u>\$ 570,726</u>	<u>\$ 194,914</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,083,187</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,125,219	116,788	87,926	30,028			2,124,053
9,166,726	646,715	87,516	29,888			9,696,037
13,804,300	601,084	24,859	8,490			14,372,035
1,604,784	102,327	1,613	551			1,704,947
3,886,290	356,203	27,326	9,333			4,205,834
6,862,528	534,655	542,676	185,334	1,229		6,670,402
3,189,870	249,736	143,895	49,143			3,246,568
396,038	113,658	119,126	40,684			349,886
1,560,931	117,555	41,164	14,059			1,623,263
5,445,901	360,652	32,872	11,226			5,762,455
<u>\$ 48,042,587</u>	<u>\$ 3,199,373</u>	<u>\$ 1,108,973</u>	<u>\$ 378,736</u>	<u>\$ 1,229</u>	<u>\$ -</u>	<u>\$ 49,755,480</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
964,964	76,541					1,041,505
2,595,448	123,658	100,843		834	709	2,619,806
3,594,193	336,127	22,216		1,941		3,910,045
31,758	1,989					33,747
2,175,098	119,726	2,309		741		2,293,256
47,984	120					48,104
52,095	24,481					76,576
339,582	12,690	159,075		426		193,623
85,144	15,917					101,061
<u>\$ 9,886,266</u>	<u>\$ 711,249</u>	<u>\$ 284,443</u>	<u>\$ -</u>	<u>\$ 3,942</u>	<u>\$ 709</u>	<u>\$ 10,317,723</u>
<u>\$ 77,739,265</u>	<u>\$ 4,949,037</u>	<u>\$ 1,964,142</u>	<u>\$ 573,650</u>	<u>\$ 5,171</u>	<u>\$ 709</u>	<u>\$ 80,156,390</u>

GAS DEPARTMENT

**CITY OF FLORENCE, ALABAMA
GAS DEPARTMENT
SCHEDULE OF UTILITY PLANT IN SERVICE
AND ACCUMULATED DEPRECIATION
JUNE 30, 2013**

<u>Description</u>	UTILITY PLANT			
	<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	6,893,056	24,125	4,955	6,912,226
Measuring and regulating equipment	2,638,038	8,635		2,646,673
Total transmission plant	<u>\$ 9,794,754</u>	<u>\$ 32,760</u>	<u>\$ 4,955</u>	<u>\$ 9,822,559</u>
Distribution plant:				
Land and land rights	\$ 42,685	\$ -	\$ -	\$ 42,685
Structures and improvements	154,621			154,621
Mains	18,979,572	183,572	15,472	19,147,672
Measuring and regulating equipment	4,119,935	198,049		4,317,984
Services	11,562,336	301,650	79,697	11,784,289
Other distribution equipment	15,621			15,621
Corrosion	668,791	4,080		672,871
Total distribution plant	<u>\$ 35,543,561</u>	<u>\$ 687,351</u>	<u>\$ 95,169</u>	<u>\$ 36,135,743</u>
General plant:				
Land and land rights	\$ 157,395	\$ -	\$ -	\$ 157,395
Structures and improvements	2,677,655	18,911		2,696,566
Office furniture and equipment	592,065	30,997	1,920	621,142
Transportation equipment	1,374,666	102,143		1,476,809
Stores equipment	17,798			17,798
Tools, shop and garage equipment	20,406			20,406
Laboratory equipment	32,258			32,258
Power operated equipment	1,833,971	5,393	88,432	1,750,932
Communication equipment	78,360		750	77,610
Miscellaneous equipment	374,916	5,941	662	380,195
Other tangible property	18,589			18,589
Total general plant	<u>\$ 7,178,079</u>	<u>\$ 163,385</u>	<u>\$ 91,764</u>	<u>\$ 7,249,700</u>
Total utility plant in service	<u>\$ 52,516,394</u>	<u>\$ 883,496</u>	<u>\$ 191,888</u>	<u>\$ 53,208,002</u>

ACCUMULATED DEPRECIATION

Balance Beginning of Year	Accrual	Retirements- Original Cost	Removal Costs	Balance End of Year
\$ -	\$ -	\$ -	\$ -	\$ -
123,574	5,719			129,293
2,056,116	138,079	4,955		2,189,240
1,677,956	79,271			1,757,227
\$ 3,857,646	\$ 223,069	\$ 4,955	\$ -	\$ 4,075,760
\$ -	\$ -	\$ -	\$ -	\$ -
154,621				154,621
4,350,077	381,272	15,471	3,512	4,712,366
1,771,602	126,568			1,898,170
4,853,077	350,199	79,697	61,808	5,061,771
13,808	469			14,277
668,790	4,081			672,871
\$ 11,811,975	\$ 862,589	\$ 95,168	\$ 65,320	\$ 12,514,076
\$ -	\$ -	\$ -	\$ -	\$ -
2,305,053	134,355			2,439,408
534,116	21,025	1,919		553,222
1,054,339	73,867			1,128,206
8,893	1,643			10,536
13,232	2,041			15,273
20,173	2,778			22,951
1,452,714	46,918	88,433		1,411,199
77,451	312	750		77,013
293,392	16,781	663		309,510
18,588				18,588
\$ 5,777,951	\$ 299,720	\$ 91,765	\$ -	\$ 5,985,906
\$ 21,447,572	\$ 1,385,378	\$ 191,888	\$ 65,320	\$ 22,575,742

WATER AND WASTEWATER DEPARTMENT

**CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF UTILITY PLANT IN SERVICE
AND ACCUMULATED DEPRECIATION
JUNE 30, 2013**

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	2,786,622		4,303,221
Sewer plant and system	90,820,515	2,800,879		93,621,394
Reservoirs and standpipes	1,729,721	3,647		1,733,368
Purification building and equipment	14,161,945	5,745,447	1,855,000	18,052,392
Transmission mains and appurtenances	6,210,473			6,210,473
Distribution mains and appurtenances	10,856,969	247,907		11,104,876
Customer services	3,710,649	51,583		3,762,232
Fire hydrants	570,225	427		570,652
Miscellaneous structures and improvements	577,416	8,668		586,084
Total transmission and distribution plant	<u>\$ 140,913,398</u>	<u>\$ 11,645,180</u>	<u>\$ 1,855,000</u>	<u>\$ 150,703,578</u>
General plant:				
Office furniture and equipment	\$ 536,014	\$ 22,505	\$ 641	\$ 557,878
Transportation equipment	1,743,809	96,154		1,839,963
Tools and equipment	1,250,626	16,293	1,982	1,264,937
Communication equipment	58,539	1,600		60,139
Laboratory equipment	29,118	34,599		63,717
Total general plant	<u>\$ 3,618,106</u>	<u>\$ 171,151</u>	<u>\$ 2,623</u>	<u>\$ 3,786,634</u>
Total utility plant in service	<u><u>\$ 144,531,504</u></u>	<u><u>\$ 11,816,331</u></u>	<u><u>\$ 1,857,623</u></u>	<u><u>\$ 154,490,212</u></u>

ACCUMULATED DEPRECIATION

Balance Beginning of Year	Additions and Reclassifications	Retirements and Reclassifications	Balance End of Year
\$ -	\$ -	\$ -	\$ -
3,906,385	196,186		4,102,571
870,973	41,457		912,430
22,043,668	1,754,842		23,798,510
1,025,774	35,041		1,060,815
6,178,526	342,063	1,514,000	5,006,589
2,198,146	105,271		2,303,417
6,262,647	235,187		6,497,834
2,495,615	72,287		2,567,902
266,595	12,058		278,653
265,861	13,997		279,858
<u>\$ 45,514,190</u>	<u>\$ 2,808,389</u>	<u>\$ 1,514,000</u>	<u>\$ 46,808,579</u>
\$ 446,211	\$ 22,447	\$ 632	\$ 468,026
1,327,828	108,947		1,436,775
936,560	96,920	1,762	1,031,718
41,590	5,587		47,177
24,407	7,163		31,570
<u>\$ 2,776,596</u>	<u>\$ 241,064</u>	<u>\$ 2,394</u>	<u>\$ 3,015,266</u>
<u>\$ 48,290,786</u>	<u>\$ 3,049,453</u>	<u>\$ 1,516,394</u>	<u>\$ 49,823,845</u>

CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF REVENUES AND EXPENSES—KILLEN SYSTEM
FOR THE YEARS ENDED JUNE 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Water sales:		
<i>Residential</i>	\$ 1,301,977	\$ 1,329,496
<i>Commercial</i>	366,930	359,427
Forfeited discounts	17,493	17,959
Other operating revenues	<u>18,905</u>	<u>18,263</u>
Total operating revenues	<u>\$ 1,705,305</u>	<u>\$ 1,725,145</u>
Operating expenses:		
Water treatment and pumping	\$ 431,543	\$ 409,213
Transmission and distribution	196,296	187,731
Accounting and collections	132,691	139,386
Administrative and general	149,994	140,758
Depreciation	96,354	97,326
Taxes and tax equivalent	<u>20,079</u>	<u>19,565</u>
Total operating expenses	<u>\$ 1,026,957</u>	<u>\$ 993,979</u>
Operating income	<u>\$ 678,348</u>	<u>\$ 731,166</u>
Nonoperating revenues (expenses):		
Interest revenues	\$ 893	\$ 1,002
Gain (loss) on disposition of assets	(9)	
Interest expense	(126,313)	(126,313)
Amortization of debt related costs	<u>(2,588)</u>	<u>(2,588)</u>
Total nonoperating revenues (expenses)	<u>\$ (128,017)</u>	<u>\$ (127,899)</u>
Income before capital contributions	<u><u>\$ 550,331</u></u>	<u><u>\$ 603,267</u></u>