

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND
WATER AND WASTEWATER DEPARTMENTS
FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016**



**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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, 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 pension schedules on pages 3 through 14 and pages 49 through 54 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 supplementary schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.



The Watkins Johnsey Professional Group, P.C.
Florence, Alabama
November 2, 2017

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2017**

FINANCIAL HIGHLIGHTS

- The individual enterprise funds experienced the following changes in net position: Electricity increased \$.9 million or 1.1%; Gas decreased \$.1 million or .2%; Water and Wastewater increased \$3.3 million or 4.3%.
- The individual enterprise funds experienced the following changes in net utility plant: Electricity increased \$2.0 million or 2%; Gas decreased \$.2 million or .7%; Water and Wastewater decreased \$.1 million or .1%.
- The individual enterprise funds experienced the following changes in operating revenues: Electricity increased \$4.7 million or 4%; Gas decreased \$.5 million or 3%; Water and Wastewater increased \$.4 million or 2%.
- The individual enterprise funds experienced the following changes in operating expenses: Electricity increased \$4.3 million or 4%; Gas increased \$.1 million or 1%; Water and Wastewater decreased \$.1 million or 1%.
- The individual enterprise funds experienced the following changes in nonoperating revenues: Electricity increased about \$21,700 or 12%; Gas decreased about \$23,800 or 16%; Water and Wastewater increased about \$16,000 or 188%.
- The individual enterprise funds experienced the following changes in nonoperating expenses: Electricity decreased \$26,000 or 8%; Gas had no nonoperating expenses in FY 2017 or 2016; Water and Wastewater decreased \$4,700 or .2%.

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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 of 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 "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 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, other non-financial factors need to be considered, such as the changes in economic conditions, weather, customer growth or decline, and regulatory and legislative mandates.

Electricity Department

The Electricity Department's net position increased from last year by \$872,548 or about 1%. 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 2017 | FY 2016 | Increase / (Decrease) | |
|----------------------------------|-----------------------|-----------------------|-----------------------|---------------|
| | | | Dollars | Percent |
| Current Assets | \$ 33,743,801 | \$ 36,165,832 | \$ (2,422,031) | -6.70% |
| Capital Assets, Net | 87,066,751 | 85,085,872 | 1,980,879 | 2.33% |
| Other Noncurrent Assets | 4,697,673 | 5,898,871 | (1,201,198) | -20.36% |
| Total Assets | <u>\$ 125,508,225</u> | <u>\$ 127,150,575</u> | <u>\$ (1,642,350)</u> | <u>-1.29%</u> |
| Deferred Outflows of Resources | \$ 3,767,723 | \$ 3,745,667 | \$ 22,056 | 0.59% |
| Current Liabilities | \$ 26,555,899 | \$ 27,287,766 | \$ (731,867) | -2.68% |
| Noncurrent Liabilities | 20,568,891 | 22,681,270 | (2,112,379) | -9.31% |
| Total Liabilities | <u>\$ 47,124,790</u> | <u>\$ 49,969,036</u> | <u>\$ (2,844,246)</u> | <u>-5.69%</u> |
| Deferred Inflows of Resources | \$ 710,949 | \$ 359,545 | \$ 351,404 | 97.74% |
| Net Investment in Capital Assets | \$ 79,049,148 | \$ 76,284,026 | \$ 2,765,122 | 3.62% |
| Restricted for Debt Service | 989,547 | 985,834 | 3,713 | 0.38% |
| Unrestricted | 1,401,514 | 3,297,801 | (1,896,287) | -57.50% |
| Total Net Position | <u>\$ 81,440,209</u> | <u>\$ 80,567,661</u> | <u>\$ 872,548</u> | <u>1.08%</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 \$4.7 million or about 4% from FY 2016. During FY 2017, 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 1% increase in kilowatt-hours sold in FY 2017 compared to FY 2016. The Electricity Department continues to experience very low interest revenues caused by very low interest rates. The Electricity Department experienced a decrease in nonoperating expenses by \$26,275 or about 8%.

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

| | FY 2017 | FY 2016 | Increase / (Decrease) | |
|-----------------------------------|----------------|----------------|-----------------------|---------|
| | | | Dollars | Percent |
| Operating Revenues | \$ 121,718,018 | \$ 117,015,869 | \$ 4,702,149 | 4.02% |
| Operating Expenses | | | | |
| Cost of Sales | \$ 97,233,123 | \$ 92,637,438 | \$ 4,595,685 | 4.96% |
| Operations | 9,154,696 | 8,794,834 | 359,862 | 4.09% |
| Maintenance | 5,553,101 | 6,533,678 | (980,577) | -15.01% |
| Depreciation | 5,255,576 | 5,063,677 | 191,899 | 3.79% |
| Taxes and Tax Equivalents | 3,553,432 | 3,386,033 | 167,399 | 4.94% |
| Total Operating Expenses | \$ 120,749,928 | \$ 116,415,660 | \$ 4,334,268 | 3.72% |
| Operating Income | \$ 968,090 | \$ 600,209 | \$ 367,881 | 61.29% |
| Nonoperating Revenues (Expenses) | | | | |
| Nonoperating Revenues | \$ 209,042 | \$ 187,317 | \$ 21,725 | 11.60% |
| Nonoperating Expenses | (304,584) | (330,859) | 26,275 | -7.94% |
| Total Nonoperating Revenues (Exp) | \$ (95,542) | \$ (143,542) | \$ 48,000 | -33.44% |
| Change in Net Position | \$ 872,548 | \$ 456,667 | \$ 415,881 | 91.07% |
| Total Net Position - Beginning | 80,567,661 | 80,110,994 | 456,667 | 0.57% |
| Total Net Position - Ending | \$ 81,440,209 | \$ 80,567,661 | \$ 872,548 | 1.08% |

Gas Department

The Gas Department's net position decreased from last year by \$98,840 or less than 1%. 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 2017 | FY 2016 | Increase / (Decrease) | |
|----------------------------------|----------------------|----------------------|-----------------------|---------------|
| | | | Dollars | Percent |
| Current Assets | \$ 14,965,691 | \$ 14,625,859 | \$ 339,832 | 2.32% |
| Capital Assets, Net | 31,644,383 | 31,867,752 | (223,369) | -0.70% |
| Total Assets | <u>\$ 46,610,074</u> | <u>\$ 46,493,611</u> | <u>\$ 116,463</u> | <u>0.25%</u> |
| Deferred Outflows of Resources | \$ 1,302,201 | \$ 1,507,962 | \$ (205,761) | -13.64% |
| Current Liabilities | \$ 1,128,222 | \$ 1,122,338 | \$ 5,884 | 0.52% |
| Noncurrent Liabilities | 4,158,941 | 4,242,299 | (83,358) | -1.96% |
| Total Liabilities | <u>\$ 5,287,163</u> | <u>\$ 5,364,637</u> | <u>\$ (77,474)</u> | <u>-1.44%</u> |
| Deferred Inflows of Resources | \$ 213,909 | \$ 126,893 | \$ 87,016 | 68.57% |
| Net Investment in Capital Assets | \$ 31,644,383 | \$ 31,867,752 | \$ (223,369) | -0.70% |
| Unrestricted | 10,766,820 | 10,642,291 | 124,529 | 1.17% |
| Total Net Position | <u>\$ 42,411,203</u> | <u>\$ 42,510,043</u> | <u>\$ (98,840)</u> | <u>-0.23%</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 decreased approximately \$.5 million or about 3% from FY 2016. The Department had two rate changes in FY 2017. The Gas Department experienced an approximate 10.2% decrease in overall sales volume in FY 2017 compared to FY 2016. Cost of sales decreased by \$.2 million or about 3% due to decreased sales caused by a mild winter. The Gas Department experienced a decrease in nonoperating revenues of \$23,839 or about 16%. The Gas Department did not have nonoperating expenses in FY 2017 or FY 2016.

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

| | FY 2017 | FY 2016 | Increase / (Decrease) | |
|-----------------------------------|-----------------------------|-----------------------------|---------------------------|----------------------|
| | | | Dollars | Percent |
| Operating Revenues | \$ 14,096,954 | \$ 14,574,944 | \$ (477,990) | -3.28% |
| Operating Expenses | | | | |
| Cost of Sales | \$ 6,658,476 | \$ 6,873,074 | \$ (214,598) | -3.12% |
| Operations | 3,046,738 | 2,691,967 | 354,771 | 13.18% |
| Maintenance | 1,620,249 | 1,626,823 | (6,574) | -0.40% |
| Depreciation and Amortization | 1,478,154 | 1,471,533 | 6,621 | 0.45% |
| Taxes and Tax Equivalents | 1,518,788 | 1,536,490 | (17,702) | -1.15% |
| Total Operating Expenses | <u>\$ 14,322,405</u> | <u>\$ 14,199,887</u> | <u>\$ 122,518</u> | <u>0.86%</u> |
| Operating Income (Loss) | <u>\$ (225,451)</u> | <u>\$ 375,057</u> | <u>\$ (600,508)</u> | <u>-160.11%</u> |
| Nonoperating Revenues (Expenses) | | | | |
| Nonoperating Revenues | \$ 126,611 | \$ 150,450 | \$ (23,839) | -15.85% |
| Total Nonoperating Revenues (Exp) | <u>\$ 126,611</u> | <u>\$ 150,450</u> | <u>\$ (23,839)</u> | <u>-15.85%</u> |
| Change in Net Position | \$ (98,840) | \$ 525,507 | \$ (624,347) | -118.81% |
| Total Net Position - Beginning | <u>42,510,043</u> | <u>41,984,536</u> | <u>525,507</u> | <u>1.25%</u> |
| Total Net Position - Ending | <u><u>\$ 42,411,203</u></u> | <u><u>\$ 42,510,043</u></u> | <u><u>\$ (98,840)</u></u> | <u><u>-0.23%</u></u> |

Water and Wastewater Department

The Water and Wastewater Department's net position increased from last year by \$3,270,354 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 2017 | FY 2016 | Increase / (Decrease) | |
|----------------------------------|-----------------------|-----------------------|-----------------------|---------------|
| | | | Dollars | Percent |
| Current Assets | \$ 13,917,215 | \$ 12,020,518 | \$ 1,896,697 | 15.78% |
| Capital Assets, Net | 115,580,952 | 115,723,022 | (142,070) | -0.12% |
| Other Noncurrent Assets | 4,863,787 | 7,535,872 | (2,672,085) | -35.46% |
| Total Assets | <u>\$ 134,361,954</u> | <u>\$ 135,279,412</u> | <u>\$ (917,458)</u> | <u>-0.68%</u> |
| Deferred Outflows of Resources | \$ 1,482,590 | \$ 1,213,933 | \$ 268,657 | 22.13% |
| Current Liabilities | \$ 6,547,786 | \$ 6,271,996 | \$ 275,790 | 4.40% |
| Noncurrent Liabilities | 49,680,204 | 54,025,678 | (4,345,474) | -8.04% |
| Total Liabilities | <u>\$ 56,227,990</u> | <u>\$ 60,297,674</u> | <u>\$ (4,069,684)</u> | <u>-6.75%</u> |
| Deferred Inflows of Resources | \$ 276,584 | \$ 126,056 | \$ 150,528 | 119.41% |
| Net Investment in Capital Assets | \$ 64,819,245 | \$ 60,742,291 | \$ 4,076,954 | 6.71% |
| Restricted for Debt Service | 4,013,035 | 6,686,684 | (2,673,649) | -39.98% |
| Unrestricted | 10,507,690 | 8,640,641 | 1,867,049 | 21.61% |
| Total Net Position | <u>\$ 79,339,970</u> | <u>\$ 76,069,616</u> | <u>\$ 3,270,354</u> | <u>4.30%</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 increased approximately \$.4 million or about 2% from FY 2016 revenues. Operating expenses decreased by about \$147,143 or about 1%. The Water and Wastewater Department experienced an increase in nonoperating revenues of about \$15,984 or 188%. The Water and Wastewater Department experienced a decrease in nonoperating expenses of \$4,717 or less than 1%.

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

| | FY 2017 | FY 2016 | Increase / (Decrease) | |
|-----------------------------------|-----------------------|-----------------------|-----------------------|---------------|
| | | | Dollars | Percent |
| Operating Revenues | \$ 20,193,395 | \$ 19,783,158 | \$ 410,237 | 2.07% |
| Operating Expenses | | | | |
| Water Treatment and Pumping | \$ 2,910,524 | \$ 2,956,275 | \$ (45,751) | -1.55% |
| Sewage Disposal | 1,923,893 | 2,074,143 | (150,250) | -7.24% |
| Transmission and Distribution | 1,538,259 | 1,732,216 | (193,957) | -11.20% |
| Accounting and Collections | 1,022,105 | 1,140,024 | (117,919) | -10.34% |
| Administrative and General | 2,114,967 | 1,974,688 | 140,279 | 7.10% |
| Depreciation | 3,842,203 | 3,650,614 | 191,589 | 5.25% |
| Taxes and Tax Equivalents | 1,712,239 | 1,683,373 | 28,866 | 1.71% |
| Total Operating Expenses | <u>\$ 15,064,190</u> | <u>\$ 15,211,333</u> | <u>\$ (147,143)</u> | <u>-0.97%</u> |
| Operating Income | <u>\$ 5,129,205</u> | <u>\$ 4,571,825</u> | <u>\$ 557,380</u> | <u>12.19%</u> |
| Nonoperating Revenues (Expenses) | | | | |
| Nonoperating Revenues | \$ 24,498 | \$ 8,514 | \$ 15,984 | 187.74% |
| Nonoperating Expenses | (1,883,349) | (1,888,066) | 4,717 | -0.25% |
| Total Nonoperating Revenues (Exp) | <u>\$ (1,858,851)</u> | <u>\$ (1,879,552)</u> | <u>\$ 20,701</u> | <u>-1.10%</u> |
| Change in Net Position | \$ 3,270,354 | \$ 2,692,273 | \$ 578,081 | 21.47% |
| Total Net Position - Beginning | <u>76,069,616</u> | <u>73,377,343</u> | <u>2,692,273</u> | <u>3.67%</u> |
| Total Net Position - Ending | <u>\$ 79,339,970</u> | <u>\$ 76,069,616</u> | <u>\$ 3,270,354</u> | <u>4.30%</u> |

BUDGETARY HIGHLIGHTS

As required, the City Council adopts a budget for each enterprise fund comprising the Florence Utilities. The FY 2017 original budgets for the Gas and Water and Wastewater Departments were adopted on June 7, 2016. The original budget for the Electricity Department was adopted on July 5, 2016. The FY 2017 budgets for the Electricity Department, Gas Department, and the Water and Wastewater Department were amended on October 18, 2016. 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, 2017

| | Final Budget | Actual | Variance | |
|----------------------------------|-----------------|----------------|----------------|---------|
| | | | Dollars | Percent |
| Operating Revenues | \$ 122,868,000 | \$ 121,718,018 | \$ (1,149,982) | -0.94% |
| Operating Expenses | 121,608,100 | 120,749,928 | 858,172 | 0.71% |
| Operating Income | \$ 1,259,900 | \$ 968,090 | \$ (291,810) | -23.16% |
| Nonoperating Revenues (Expenses) | (168,500) | (95,542) | 72,958 | 43.30% |
| Change in Net Position | \$ 1,091,400 | \$ 872,548 | \$ (218,852) | -20.05% |
| Total Net Position - Beginning | 80,567,661 | 80,567,661 | | |
| Total Net Position - Ending | \$ 81,659,061 | \$ 81,440,209 | \$ (218,852) | -0.27% |

As the above budget report shows, the Electricity Department did not meet the budgeted Change in Net Position by \$218,852 or approximately 20%. As you can see on the budget schedule in the required supplementary information, the decrease in sales was primarily responsible for most of the budget operating expenses variance amount. There were other 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, 2017

| | Final Budget | Actual | Variance | |
|----------------------------------|-----------------|---------------|----------------|----------|
| | | | Dollars | Percent |
| Operating Revenues | \$ 19,544,800 | \$ 14,096,954 | \$ (5,447,846) | -27.87% |
| Operating Expenses | 19,027,000 | 14,322,405 | 4,704,595 | 24.73% |
| Operating Income (Loss) | \$ 517,800 | \$ (225,451) | \$ (743,251) | -143.54% |
| Nonoperating Revenues (Expenses) | 139,500 | 126,611 | (12,889) | -9.24% |
| Change in Net Position | \$ 657,300 | \$ (98,840) | \$ (756,140) | -115.04% |
| Total Net Position - Beginning | 42,510,043 | 42,510,043 | | |
| Total Net Position - Ending | \$ 43,167,343 | \$ 42,411,203 | \$ (756,140) | -1.75% |

The Gas Department did not meet the budgeted Change in Net Position by \$756,140, or approximately 115%. As you can see on the budget schedule in the required supplementary information, the variance is primarily accounted for by a decrease in sales. The large variance in budgeted operating revenues was largely offset by the variance in operating expenses, which includes 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, 2017

| | Final Budget | Actual | Variance | |
|----------------------------------|-----------------|---------------|--------------|---------|
| | | | Dollars | Percent |
| Operating Revenues | \$ 20,049,000 | \$ 20,193,395 | \$ 144,395 | 0.72% |
| Operating Expenses | 16,169,960 | 15,064,190 | 1,105,770 | 6.84% |
| Operating Income | \$ 3,879,040 | \$ 5,129,205 | \$ 1,250,165 | 32.23% |
| Nonoperating Revenues (Expenses) | (1,801,200) | (1,858,851) | (57,651) | -3.20% |
| Change in Net Position | \$ 2,077,840 | \$ 3,270,354 | \$ 1,192,514 | 57.39% |
| Total Net Position - Beginning | 76,069,616 | 76,069,616 | | |
| Total Net Position - Ending | \$ 78,147,456 | \$ 79,339,970 | \$ 1,192,514 | 1.53% |

The Water and Wastewater Department exceeded the budgeted Change in Net Position by \$1,192,514, or approximately 57%. 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 treatment and pumping expense and sewage disposal expense.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY 2017, 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 2017

| | FY 2017 | FY 2016 | Increase / (Decrease) | |
|------------------------------------|----------------|----------------|-----------------------|---------|
| | | | Dollars | Percent |
| Utility Plant in Service (at Cost) | \$ 172,536,195 | \$ 164,229,076 | \$ 8,307,119 | 5.06% |
| Construction in Progress | 1,129,989 | 5,016,802 | (3,886,813) | -77.48% |
| Less: Accumulated Depreciation | (86,599,433) | (84,160,006) | (2,439,427) | 2.90% |
| Net Utility Plant | \$ 87,066,751 | \$ 85,085,872 | \$ 1,980,879 | 2.33% |

As the above table shows, the Electricity Department experienced a 2.33% increase in net utility plant. The Department plans to finance capital expenditures in FY 2018 through cash generated from current operations and cash reserves.

Gas Department

Gas Department
Capital Assets, Net
FY 2017

| | FY 2017 | FY 2016 | Increase / (Decrease) | |
|--|----------------------|----------------------|-----------------------|---------------|
| | | | Dollars | Percent |
| Utility Plant in Service (at Cost) | \$ 57,675,243 | \$ 56,813,332 | \$ 861,911 | 1.52% |
| Acquisition Adjustment (net of amortization) | 147,480 | 158,141 | (10,661) | -6.74% |
| Construction in Progress | 158,395 | 134,961 | 23,434 | 17.36% |
| Less: Accumulated Depreciation | (26,336,735) | (25,238,682) | (1,098,053) | 4.35% |
| Net Utility Plant | <u>\$ 31,644,383</u> | <u>\$ 31,867,752</u> | <u>\$ (223,369)</u> | <u>-0.70%</u> |

As the above table shows, the Gas Department decreased net utility plant by .70%. The Department plans to finance capital expenditures in FY 2018 through cash reserves and cash generated from current operations.

Water and Wastewater Department

Water and Wastewater Department
Capital Assets, Net
FY 2017

| | FY 2017 | FY 2016 | Increase / (Decrease) | |
|------------------------------------|-----------------------|-----------------------|-----------------------|---------------|
| | | | Dollars | Percent |
| Utility Plant in Service (at Cost) | \$ 177,039,821 | \$ 173,392,362 | \$ 3,647,459 | 2.10% |
| Construction in Progress | 682,033 | 1,253,175 | (571,142) | -45.58% |
| Less: Accumulated Depreciation | (62,140,902) | (58,922,515) | (3,218,387) | 5.46% |
| Net Utility Plant | <u>\$ 115,580,952</u> | <u>\$ 115,723,022</u> | <u>\$ (142,070)</u> | <u>-0.12%</u> |

As the above table shows, the Water and Wastewater Department decreased net utility plant by .12%. The Department plans to finance capital expenditures in FY 2018 with cash reserves, cash generated from current operations, and a grant.

Long-term Debt

During FY 2017, 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 had no outstanding warrants during FY 2017.

Electricity Department

The Electricity Department had 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 2017, the Electricity Department exceeded that requirement at about 8.57 times. The Department does not anticipate issuing new debt in FY 2018.

Gas Department

The Gas Department had no outstanding debt issues in FY 2017. The Department has no plans to issue new debt in FY 2018.

Water and Wastewater Department

The Water and Wastewater Department had eight 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%, (7) Water and Sewer Revenue Warrants, Series 2011, interest rates ranging from 3.25% to 5%, and (8) Water and Sewer Revenue Warrants, SRF Series 2013-DWSRF-DL, interest rates at 1.70% through December 1, 2016 and 2.45% thereafter. The SRF warrants were issued through a federally funded (EPA) loan program to states for wastewater improvements. In Alabama, this program is administered by ADEM. 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, the proceeds of the 2011 issue have been spent. 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 2017, the Water and Wastewater Department exceeded that requirement at about 1.58 times.

Subsequent to year-end, the Department has refinanced the SRF Series 2006, SRF Series 2007, and \$20,110,000 of the Series 2011 warrants to take advantage of more favorable interest rates. The Water and Sewer Revenue Warrants, Series 2017 were issued with a rating of A1 by Moody's and AA- Stable, AA (Insured) by Standard & Poor's.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Florence MSA's unemployment rate for August 2017 was 4.7% as compared to 6.2% for August 2016. The State of Alabama's unemployment rates were 4.2% for August 2017 and 5.7% for August 2016. 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 2018 through September 2017 for electricity have decreased from the same period last year by 9.5%. Sales in dekatherms to commercial and industrial natural gas customers for the period from July 2017 through September 2017, as compared to sales for the same period in the previous fiscal year, have increased approximately 2.7%. FY 2018 sales revenues from water and wastewater operations through September 2017 have decreased about 2.7% over the same period in FY 2016.

The City Council adopted the Gas Department's and the Water and Wastewater Department's FY 2018 budgets on May 16, 2017. The City Council adopted the Electricity Department's FY 2018 budget on August 1, 2017. These budgets have not been amended to date.

The City's power contract with TVA provides for a Total Monthly Fuel Cost Adjustment (TMFCA) on sales to its distributors. Florence Utilities passes any rate increases or decreases caused by TVA action on to its customers.

The Gas Department's rate ordinance allows for gas rate changes without further City Council action. The Department implemented a rate increase in July 2017. The volatility of natural gas makes this ability for quick rate action important for the Department's financial health.

The current rate ordinance includes a provision to increase the water and sewer rates annually based upon increase in Consumer Price Index, subject to certain restrictions. The Water and Wastewater Department implemented a rate increase effective July 1, 2017. The ordinance is available for review on the City's website at www.florenceutilities.com along with some prior rate ordinances.

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, 2017 and 2016**

| ASSETS | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 13,025,719 | \$ 14,949,543 |
| Accounts receivable (net) | 11,683,572 | 12,652,539 |
| Accrued interest receivable | 6,852 | 2,560 |
| Inventories | 1,434,954 | 1,560,896 |
| Prepaid expenses | <u>7,592,704</u> | <u>7,000,294</u> |
| Total current assets | <u>\$ 33,743,801</u> | <u>\$ 36,165,832</u> |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | \$ 1,010,186 | \$ 1,008,851 |
| Capital assets: | | |
| Utility plant in service (at cost) | 172,536,195 | 164,229,076 |
| Construction in progress | 1,129,989 | 5,016,802 |
| Less: accumulated depreciation | 86,599,433 | 84,160,006 |
| Receivables from customers for conservation loans | <u>3,687,487</u> | <u>4,890,020</u> |
| Total noncurrent assets | <u>\$ 91,764,424</u> | <u>\$ 90,984,743</u> |
| Total assets | <u>\$ 125,508,225</u> | <u>\$ 127,150,575</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred amount on refunding | \$ 52,794 | \$ 79,192 |
| Pensions | <u>3,714,929</u> | <u>3,666,475</u> |
| Total deferred outflows of resources | <u>\$ 3,767,723</u> | <u>\$ 3,745,667</u> |

| LIABILITIES | <u>2017</u> | <u>2016</u> |
|--|-----------------------------|-----------------------------|
| Current liabilities: | | |
| Accounts payable | \$ 16,521,835 | \$ 17,263,228 |
| Retainage payable | 38,098 | 214,802 |
| Customer deposits | 8,180,938 | 7,689,043 |
| Compensated absences | 637,259 | 600,960 |
| Accrued taxes and expenses | <u>311,489</u> | <u>686,075</u> |
| Total current liabilities | <u>\$ 25,689,619</u> | <u>\$ 26,454,108</u> |
| Liabilities payable from restricted assets: | | |
| Revenue warrants—payable within one year | \$ 850,000 | \$ 815,000 |
| Unamortized debt premium (discount) | (4,359) | (4,359) |
| Accrued interest | <u>20,639</u> | <u>23,017</u> |
| Total liabilities payable from restricted assets | <u>\$ 866,280</u> | <u>\$ 833,658</u> |
| Noncurrent liabilities: | | |
| Revenue warrants—payable after one year | \$ 7,225,000 | \$ 8,075,000 |
| Unamortized debt premium (discount) | (244) | (4,603) |
| Advances from TVA for conservation loans | 3,800,330 | 5,026,787 |
| Compensated absences | 955,888 | 901,440 |
| Pensions | <u>8,587,917</u> | <u>8,682,646</u> |
| Total noncurrent liabilities | <u>\$ 20,568,891</u> | <u>\$ 22,681,270</u> |
| Total liabilities | <u>\$ 47,124,790</u> | <u>\$ 49,969,036</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pensions | <u>\$ 710,949</u> | <u>\$ 359,545</u> |
| NET POSITION | | |
| Net investment in capital assets | \$ 79,049,148 | \$ 76,284,026 |
| Restricted for debt service | 989,547 | 985,834 |
| Unrestricted | <u>1,401,514</u> | <u>3,297,801</u> |
| Total net position | <u><u>\$ 81,440,209</u></u> | <u><u>\$ 80,567,661</u></u> |

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

**CITY OF FLORENCE, ALABAMA
ELECTRICITY DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

| | 2017 | 2016 |
|---|----------------|----------------|
| Operating revenues: | | |
| Electric sales: | | |
| <i>Residential</i> | \$ 63,007,954 | \$ 60,272,425 |
| <i>Small commercial</i> | 12,968,466 | 12,268,841 |
| <i>Large commercial</i> | 40,420,616 | 39,190,745 |
| <i>Public street and highway lighting</i> | 2,371,122 | 2,295,442 |
| Forfeited discounts | 1,089,083 | 1,041,693 |
| Rents from electric property | 1,251,575 | 1,338,685 |
| Other operating revenues | 609,202 | 608,038 |
| Total operating revenues | \$ 121,718,018 | \$ 117,015,869 |
| Operating expenses: | | |
| Costs of sales | \$ 97,233,123 | \$ 92,637,438 |
| Operations | 9,154,696 | 8,794,834 |
| Maintenance | 5,553,101 | 6,533,678 |
| Depreciation | 5,255,576 | 5,063,677 |
| Taxes and tax equivalents | 3,553,432 | 3,386,033 |
| Total operating expenses | \$ 120,749,928 | \$ 116,415,660 |
| Operating income | \$ 968,090 | \$ 600,209 |
| Nonoperating revenues (expenses): | | |
| Interest revenues | \$ 43,673 | \$ 17,005 |
| Merchandising revenues (net of costs) | 86,695 | 129,270 |
| Miscellaneous nonoperating income | 14,766 | 13,500 |
| Gain on disposition of assets | 63,908 | 27,542 |
| Interest expense | (273,828) | (300,103) |
| Amortization of debt related costs | (30,756) | (30,756) |
| Total nonoperating revenues (expenses) | \$ (95,542) | \$ (143,542) |
| Change in net position | \$ 872,548 | \$ 456,667 |
| Total net position—beginning | 80,567,661 | 80,110,994 |
| Total net position—ending | \$ 81,440,209 | \$ 80,567,661 |

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, 2017 and 2016**

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------------|-----------------------------|
| Cash flows from operating activities: | | |
| Receipts from customers and users | \$ 122,788,446 | \$ 116,657,484 |
| Receipts from interfund services provided | 3,650,843 | 3,504,479 |
| Payments to suppliers | (104,843,603) | (100,287,448) |
| Payments to employees for services and benefits—exclusive of capitalized costs | (11,508,837) | (10,668,149) |
| Payments for interfund services used | <u>(3,337,047)</u> | <u>(3,168,003)</u> |
| Net cash provided by operating activities | <u>\$ 6,749,802</u> | <u>\$ 6,038,363</u> |
| Cash flows from noncapital financing activities: | | |
| Change in receivables from customers for conservation loans | \$ 1,202,533 | \$ 1,315,703 |
| Change in advances from TVA for conservation loans | <u>(1,226,457)</u> | <u>(1,354,135)</u> |
| Net cash provided (used) by noncapital financing activities | <u>\$ (23,924)</u> | <u>\$ (38,432)</u> |
| Cash flows from capital and related financing activities: | | |
| Purchase and construction of capital assets (net) | \$ (6,896,619) | \$ (7,748,756) |
| Proceeds from disposition of assets | 136,433 | 58,188 |
| Removal costs of retirements of capital assets | (836,357) | (534,966) |
| Salvage value of retirements of capital assets | | 1,447 |
| Principal paid on capital debt | (815,000) | (790,000) |
| Interest paid on capital debt | <u>(276,205)</u> | <u>(302,276)</u> |
| Net cash used for capital and related financing activities | <u>\$ (8,687,748)</u> | <u>\$ (9,316,363)</u> |
| Cash flows from investing activities: | | |
| Interest on investments | <u>\$ 39,381</u> | <u>\$ 15,557</u> |
| Net cash provided by investing activities | <u>\$ 39,381</u> | <u>\$ 15,557</u> |
| Net increase (decrease) in cash and cash equivalents | \$ (1,922,489) | \$ (3,300,875) |
| Balances—beginning of the year | <u>15,958,394</u> | <u>19,259,269</u> |
| Balances—end of the year | <u><u>\$ 14,035,905</u></u> | <u><u>\$ 15,958,394</u></u> |
| <i>Classified as:</i> | | |
| Current assets | \$ 13,025,719 | \$ 14,949,543 |
| Restricted assets | <u>1,010,186</u> | <u>1,008,851</u> |
| Totals | <u><u>\$ 14,035,905</u></u> | <u><u>\$ 15,958,394</u></u> |

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

**CITY OF FLORENCE, ALABAMA
ELECTRICITY DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 and 2016
(Continued)**

| | <u>2017</u> | <u>2016</u> |
|---|------------------|------------------|
| <i>Reconciliation of operating income to net cash provided (used)</i> | | |
| <i>by operating activities:</i> | | |
| Operating income | \$ 968,090 | \$ 600,209 |
| Adjustments to reconcile operating income to net cash provided (used) | | |
| <i>by operating activities:</i> | | |
| Depreciation | \$ 5,679,572 | \$ 5,481,738 |
| Income from merchandising revenues (net of costs) | 86,695 | 129,270 |
| Miscellaneous nonoperating income | 14,766 | 13,500 |
| Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources: | | |
| Receivables (net) | 968,967 | (501,155) |
| Inventories | 125,942 | 30,453 |
| Prepaid expenses | (592,410) | 211,620 |
| Deferred outflows of resources—pensions | (48,454) | (1,990,285) |
| Accounts and other payables | (1,201,936) | (472,083) |
| Customer deposits | 491,895 | 465,234 |
| Net pension liability | (94,729) | 2,189,711 |
| Deferred inflows of resources—pensions | 351,404 | (119,849) |
| | <u>5,781,712</u> | <u>5,438,154</u> |
| Total adjustments | \$ | \$ |
| | <u>6,749,802</u> | <u>6,038,363</u> |
| Net cash provided by operating activities | \$ | \$ |

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, 2017 and 2016**

| ASSETS | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 11,737,095 | \$ 11,333,793 |
| Accounts receivable (net) | 782,266 | 706,701 |
| Accrued interest receivable | 7,193 | 3,490 |
| Inventories | 1,045,437 | 1,009,284 |
| Prepaid expenses | <u>1,393,700</u> | <u>1,572,591</u> |
| Total current assets | <u>\$ 14,965,691</u> | <u>\$ 14,625,859</u> |
| Noncurrent assets: | | |
| Capital assets: | | |
| Utility plant in service (at cost) | \$ 57,675,243 | \$ 56,813,332 |
| Acquisition adjustment (net of amortization) | 147,480 | 158,141 |
| Construction in progress | 158,395 | 134,961 |
| Less: accumulated depreciation | <u>26,336,735</u> | <u>25,238,682</u> |
| Total noncurrent assets | <u>\$ 31,644,383</u> | <u>\$ 31,867,752</u> |
| Total assets | <u>\$ 46,610,074</u> | <u>\$ 46,493,611</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pensions | <u>\$ 1,302,201</u> | <u>\$ 1,507,962</u> |

| LIABILITIES | <u>2017</u> | <u>2016</u> |
|--------------------------------------|----------------------|----------------------|
| Current liabilities: | | |
| Accounts payable | \$ 812,427 | \$ 751,113 |
| Compensated absences | 234,983 | 227,898 |
| Accrued taxes and expenses | <u>80,812</u> | <u>143,327</u> |
| Total current liabilities | <u>\$ 1,128,222</u> | <u>\$ 1,122,338</u> |
| Noncurrent liabilities: | | |
| Compensated absences | \$ 352,475 | \$ 341,847 |
| Pensions | <u>3,806,466</u> | <u>3,900,452</u> |
| Total noncurrent liabilities | <u>\$ 4,158,941</u> | <u>\$ 4,242,299</u> |
| Total liabilities | <u>\$ 5,287,163</u> | <u>\$ 5,364,637</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pensions | <u>\$ 213,909</u> | <u>\$ 126,893</u> |
| NET POSITION | | |
| Net investment in capital assets | \$ 31,644,383 | \$ 31,867,752 |
| Unrestricted | <u>10,766,820</u> | <u>10,642,291</u> |
| Total net position | <u>\$ 42,411,203</u> | <u>\$ 42,510,043</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, 2017 and 2016**

| | <u>2017</u> | <u>2016</u> |
|--|-----------------------------|-----------------------------|
| Operating revenues: | | |
| Gas sales: | | |
| <i>Residential</i> | \$ 5,263,492 | \$ 5,824,261 |
| <i>Commercial</i> | 3,952,945 | 4,152,276 |
| <i>Industrial</i> | 3,721,102 | 3,526,219 |
| <i>Resale and transportation</i> | 1,023,002 | 926,663 |
| Service fees | 62,239 | 60,823 |
| Forfeited discounts | 65,456 | 71,229 |
| Other operating revenues | <u>8,718</u> | <u>13,473</u> |
| Total operating revenues | <u>\$ 14,096,954</u> | <u>\$ 14,574,944</u> |
| Operating expenses: | | |
| Costs of sales | \$ 6,658,476 | \$ 6,873,074 |
| Operations | 3,046,738 | 2,691,967 |
| Maintenance | 1,620,249 | 1,626,823 |
| Depreciation | 1,467,493 | 1,460,872 |
| Amortization of acquisition adjustment | 10,661 | 10,661 |
| Taxes and tax equivalents | <u>1,518,788</u> | <u>1,536,490</u> |
| Total operating expenses | <u>\$ 14,322,405</u> | <u>\$ 14,199,887</u> |
| Operating income (loss) | <u>\$ (225,451)</u> | <u>\$ 375,057</u> |
| Nonoperating revenues (expenses): | | |
| Interest revenues | \$ 18,109 | \$ 7,386 |
| Gain (loss) on disposition of assets | (274) | 450 |
| Miscellaneous nonoperating income | <u>108,776</u> | <u>142,614</u> |
| Total nonoperating revenues (expenses) | <u>\$ 126,611</u> | <u>\$ 150,450</u> |
| Change in net position | <u>\$ (98,840)</u> | <u>\$ 525,507</u> |
| Total net position—beginning | <u>42,510,043</u> | <u>41,984,536</u> |
| Total net position—ending | <u><u>\$ 42,411,203</u></u> | <u><u>\$ 42,510,043</u></u> |

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

**CITY OF FLORENCE, ALABAMA
GAS DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| Cash flows from operating activities: | | |
| Receipts from customers and users | \$ 14,130,165 | \$ 14,686,437 |
| Receipts from interfund services provided | 179,069 | 167,305 |
| Payments to suppliers | (6,575,951) | (7,126,920) |
| Payments to employees for services and benefits—exclusive of capitalized costs | (3,167,802) | (2,907,111) |
| Payments for interfund services used | <u>(2,921,526)</u> | <u>(2,565,689)</u> |
| Net cash provided by operating activities | <u>\$ 1,643,955</u> | <u>\$ 2,254,022</u> |
| Cash flows from capital and related financing activities: | | |
| Purchase and construction of capital assets (net) | \$ (1,215,088) | \$ (1,271,992) |
| Proceeds from disposition of assets | 150 | 450 |
| Removal costs of retirements of capital assets | <u>(40,121)</u> | <u>(50,779)</u> |
| Net cash used for capital and related financing activities | <u>\$ (1,255,059)</u> | <u>\$ (1,322,321)</u> |
| Cash flows from investing activities: | | |
| Interest on investments | <u>\$ 14,406</u> | <u>\$ 4,684</u> |
| Net cash provided by investing activities | <u>\$ 14,406</u> | <u>\$ 4,684</u> |
| Net increase (decrease) in cash and cash equivalents | \$ 403,302 | \$ 936,385 |
| Balances—beginning of the year | <u>11,333,793</u> | <u>10,397,408</u> |
| Balances—end of the year | <u>\$ 11,737,095</u> | <u>\$ 11,333,793</u> |
| <i>Classified as:</i> | | |
| Current assets | <u>\$ 11,737,095</u> | <u>\$ 11,333,793</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, 2017 and 2016
(Continued)**

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| <i>Reconciliation of operating income (loss) to net cash provided (used)</i> | | |
| <i>by operating activities:</i> | | |
| Operating income (loss) | \$ (225,451) | \$ 375,057 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | \$ 1,467,493 | \$ 1,460,872 |
| Amortization of acquisition adjustment | 10,661 | 10,661 |
| Miscellaneous nonoperating income | 108,776 | 142,614 |
| Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources: | | |
| Receivables (net) | (75,565) | (31,121) |
| Inventories | (36,153) | 331,558 |
| Prepaid expenses | 178,891 | 328,951 |
| Deferred outflows of resources—pensions | 205,761 | (1,243,135) |
| Accounts and other payables | 16,512 | (515,973) |
| Net pension liability | (93,986) | 1,436,836 |
| Deferred inflows of resources—pensions | <u>87,016</u> | <u>(42,298)</u> |
| Total adjustments | <u>\$ 1,869,406</u> | <u>\$ 1,878,965</u> |
| Net cash provided by operating activities | <u>\$ 1,643,955</u> | <u>\$ 2,254,022</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, 2017 and 2016

| ASSETS | <u>2017</u> | <u>2016</u> |
|---------------------------------------|-----------------------|-----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 11,188,559 | \$ 9,279,316 |
| Accounts receivable (net) | 1,711,437 | 1,815,695 |
| Accrued interest receivable | 7,566 | 3,220 |
| Inventories | 726,736 | 646,454 |
| Prepaid expenses | <u>282,917</u> | <u>275,833</u> |
| Total current assets | <u>\$ 13,917,215</u> | <u>\$ 12,020,518</u> |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | \$ 4,693,654 | \$ 7,356,784 |
| Capital assets: | | |
| Utility plant in service (at cost) | 177,039,821 | 173,392,362 |
| Construction in progress | 682,033 | 1,253,175 |
| Less: accumulated depreciation | 62,140,902 | 58,922,515 |
| Prepaid debt related costs (net) | <u>170,133</u> | <u>179,088</u> |
| Total noncurrent assets | <u>\$ 120,444,739</u> | <u>\$ 123,258,894</u> |
| Total assets | <u>\$ 134,361,954</u> | <u>\$ 135,279,412</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred amount on refunding | \$ 118,600 | \$ 156,697 |
| Pensions | <u>1,363,990</u> | <u>1,057,236</u> |
| Total deferred outflows of resources | <u>\$ 1,482,590</u> | <u>\$ 1,213,933</u> |

| LIABILITIES | <u>2017</u> | <u>2016</u> |
|--|-----------------------------|-----------------------------|
| Current liabilities: | | |
| Accounts payable | \$ 643,323 | \$ 707,679 |
| Retainage payable on construction contracts | 48,067 | 23,059 |
| Compensated absences | 276,849 | 270,564 |
| Accrued taxes and expenses | <u>256,807</u> | <u>343,473</u> |
| Total current liabilities | <u>\$ 1,225,046</u> | <u>\$ 1,344,775</u> |
| Liabilities payable from restricted assets: | | |
| Revenue warrants—payable within one year | \$ 4,640,000 | \$ 4,255,000 |
| Unamortized debt premium (discount) | 2,121 | 2,121 |
| Accrued interest | <u>680,619</u> | <u>670,100</u> |
| Total liabilities payable from restricted assets | <u>\$ 5,322,740</u> | <u>\$ 4,927,221</u> |
| Noncurrent liabilities: | | |
| Revenue warrants—payable after one year | \$ 46,200,000 | \$ 50,840,000 |
| Unamortized debt premium (discount) | 38,186 | 40,307 |
| Compensated absences | 415,273 | 405,846 |
| Pensions | <u>3,026,745</u> | <u>2,739,525</u> |
| Total noncurrent liabilities | <u>\$ 49,680,204</u> | <u>\$ 54,025,678</u> |
| Total liabilities | <u>\$ 56,227,990</u> | <u>\$ 60,297,674</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pensions | <u>\$ 276,584</u> | <u>\$ 126,055</u> |
| NET POSITION | | |
| Net investment in capital assets | \$ 64,819,245 | \$ 60,742,291 |
| Restricted for debt service | 4,013,035 | 6,686,684 |
| Unrestricted | <u>10,507,690</u> | <u>8,640,641</u> |
| Total net position | <u><u>\$ 79,339,970</u></u> | <u><u>\$ 76,069,616</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, 2017 and 2016

| | 2017 | 2016 |
|--|----------------|----------------|
| Operating revenues: | | |
| Water sales: | | |
| <i>Residential</i> | \$ 7,223,203 | \$ 6,985,938 |
| <i>Commercial</i> | 3,430,196 | 3,353,246 |
| <i>Resale</i> | 1,650,679 | 1,637,370 |
| Sewer service sales: | | |
| <i>Residential</i> | 4,314,419 | 4,248,932 |
| <i>Commercial</i> | 3,270,774 | 3,264,955 |
| Forfeited discounts | 166,522 | 160,894 |
| Other operating revenues | 137,602 | 131,823 |
| Total operating revenues | \$ 20,193,395 | \$ 19,783,158 |
| Operating expenses: | | |
| Water treatment and pumping | \$ 2,910,524 | \$ 2,956,275 |
| Sewage disposal | 1,923,893 | 2,074,143 |
| Transmission and distribution | 1,538,259 | 1,732,216 |
| Accounting and collections | 1,022,105 | 1,140,024 |
| Administrative and general | 2,114,967 | 1,974,688 |
| Depreciation | 3,842,203 | 3,650,614 |
| Taxes and tax equivalents | 1,712,239 | 1,683,373 |
| Total operating expenses | \$ 15,064,190 | \$ 15,211,333 |
| Operating income | \$ 5,129,205 | \$ 4,571,825 |
| Nonoperating revenues (expenses): | | |
| Interest revenues | \$ 24,498 | \$ 8,514 |
| Gain (loss) on disposition of assets | (65,793) | (39,280) |
| Interest expense | (1,772,625) | (1,803,856) |
| Amortization of debt related costs | (44,931) | (44,930) |
| Total nonoperating revenues (expenses) | \$ (1,858,851) | \$ (1,879,552) |
| Change in net position | \$ 3,270,354 | \$ 2,692,273 |
| Total net position—beginning | 76,069,616 | 73,377,343 |
| Total net position—ending | \$ 79,339,970 | \$ 76,069,616 |

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, 2017 and 2016**

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------------|-----------------------------|
| Cash flows from operating activities: | | |
| Receipts from customers and users | \$ 19,985,495 | \$ 19,334,369 |
| Receipts from interfund services provided | 333,309 | 156,092 |
| Payments to suppliers | (3,306,016) | (3,756,665) |
| Payments to employees for services and benefits—exclusive of capitalized costs | (4,802,850) | (4,580,863) |
| Payments for interfund services used | <u>(2,985,069)</u> | <u>(3,189,183)</u> |
| Net cash provided by operating activities | <u>\$ 9,224,869</u> | <u>\$ 7,963,750</u> |
| Cash flows from capital and related financing activities: | | |
| Purchase and construction of capital assets (net) | \$ (3,981,802) | \$ (2,468,949) |
| Principal paid on capital debt | (4,255,000) | (4,105,000) |
| Interest paid on capital debt | <u>(1,762,106)</u> | <u>(1,845,357)</u> |
| Net cash used for capital and related financing activities | <u>\$ (9,998,908)</u> | <u>\$ (8,419,306)</u> |
| Cash flows from investing activities: | | |
| Interest on investments | <u>\$ 20,152</u> | <u>\$ 5,406</u> |
| Net cash provided by investing activities | <u>\$ 20,152</u> | <u>\$ 5,406</u> |
| Net increase (decrease) in cash and cash equivalents | \$ (753,887) | \$ (450,150) |
| Balances—beginning of the year | <u>16,636,100</u> | <u>17,086,250</u> |
| Balances—end of the year | <u><u>\$ 15,882,213</u></u> | <u><u>\$ 16,636,100</u></u> |
| <i>Classified as:</i> | | |
| Current assets | \$ 11,188,559 | \$ 9,279,316 |
| Restricted assets | <u>4,693,654</u> | <u>7,356,784</u> |
| Totals | <u><u>\$ 15,882,213</u></u> | <u><u>\$ 16,636,100</u></u> |

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

**CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 and 2016
(Continued)**

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| <i>Reconciliation of operating income to net cash provided (used)</i> | | |
| <i>by operating activities:</i> | | |
| Operating income | \$ 5,129,205 | \$ 4,571,825 |
| Adjustments to reconcile operating income to net cash provided (used) | | |
| <i>by operating activities:</i> | | |
| Depreciation | \$ 3,936,121 | \$ 3,745,691 |
| Change in assets and liabilities: | | |
| Receivables (net) | 104,258 | (61,074) |
| Inventories | 41,676 | (33,289) |
| Prepaid expenses | (7,084) | (6,087) |
| Deferred outflows of resources—pensions | (306,754) | (615,974) |
| Accounts and other payables | (110,302) | (275,446) |
| Net pension liability | 287,220 | 680,122 |
| Deferred inflows of resources—pensions | 150,529 | (42,018) |
| | <u>\$ 4,095,664</u> | <u>\$ 3,391,925</u> |
| Total adjustments | | |
| Net cash provided by operating activities | <u>\$ 9,224,869</u> | <u>\$ 7,963,750</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, 2017 and 2016

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, 2017 and 2016
(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 statement of net position 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 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 expensed when incurred.

Deferred Inflows/Outflows from Current Refunding or Advance Refunding of Debt:

The difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

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.

Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Florence, Alabama Employees' Retirement Plan ("CFAERP") and additions to/deductions from CFAERP's fiduciary net position have been determined on the same basis as they are reported by CFAERP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position:

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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 2017 totaled \$5,679,572 of which \$5,255,576 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts based on vehicle usage, totaled \$423,996 for the year ended June 30, 2017. Depreciation for the fiscal year 2016 totaled \$5,481,738 of which \$5,063,677 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts based on vehicle usage, totaled \$418,061 for the year ended June 30, 2016.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016
(Continued)

NOTE 2—UTILITY PLANT (Continued)

As of June 30, 2017 and 2016, nondepreciable capital assets consist of land, land rights, and right-of-ways in the amount of \$1,155,380.

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 | \$ 36,814,030 | \$ 5,390,891 | \$ 569,293 | \$ 41,635,628 |
| Distribution plant | 108,133,354 | 3,206,663 | 1,286,177 | 110,053,840 |
| General plant | 19,281,692 | 2,185,878 | 620,843 | 20,846,727 |
| Totals | <u>\$ 164,229,076</u> | <u>\$ 10,783,432</u> | <u>\$ 2,476,313</u> | <u>\$ 172,536,195</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 position 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, 2017 and 2016, accumulated depreciation amounted to \$237,931 and \$198,276, 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 \$1,467,493 for 2017 and \$1,460,872 for 2016.

As of June 30, 2017 and 2016, nondepreciable capital assets consist of land, land rights, and right-of-ways in the amount of \$320,954 and \$320,855, 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 | \$ 10,140,598 | \$ 38,241 | \$ 5,403 | \$ 10,173,436 |
| Distribution plant | 39,032,494 | 752,471 | 294,806 | 39,490,159 |
| General plant | 7,640,240 | 400,942 | 29,534 | 8,011,648 |
| Totals | <u>\$ 56,813,332</u> | <u>\$ 1,191,654</u> | <u>\$ 329,743</u> | <u>\$ 57,675,243</u> |

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016
(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, 2017 and 2016, accumulated amortization amounted to \$207,893 and \$197,232, 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 for the fiscal year 2017 totaled \$3,936,121 of which \$3,842,203 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts based on vehicle usage, totaled \$93,918 for the year ended June 30, 2017. Depreciation for the fiscal year 2016 totaled \$3,745,691 of which \$3,650,614 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts based on vehicle usage, totaled \$95,077 for the year ended June 30, 2016.

As of June 30, 2017 and 2016, 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 | \$ 169,336,046 | \$ 4,336,052 | \$ 817,597 | \$ 172,854,501 |
| General plant | 4,056,316 | 216,892 | 87,888 | 4,185,320 |
| Totals | <u>\$ 173,392,362</u> | <u>\$ 4,552,944</u> | <u>\$ 905,485</u> | <u>\$ 177,039,821</u> |

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016
(Continued)

NOTE 3—RECEIVABLES AND PAYABLES

Receivables at June 30, 2017 and 2016 were as follows for each department:

Electricity Department

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|----------------------|----------------------|
| Customer accounts | \$ 9,896,364 | \$ 10,402,721 |
| Other governments | 354,497 | 914,986 |
| Miscellaneous | 206,223 | 199,325 |
| Secured customer deposits | 1,099,607 | 1,051,057 |
| Accrued rents | 392,690 | 386,373 |
| Less: allowance for doubtful accounts | (265,809) | (301,923) |
| Net receivables | <u>\$ 11,683,572</u> | <u>\$ 12,652,539</u> |

Gas Department

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|-------------------|-------------------|
| Customer accounts | \$ 769,689 | \$ 680,231 |
| Other governments | 29,801 | 39,616 |
| Miscellaneous | 947 | 6,635 |
| Less: allowance for doubtful accounts | (18,171) | (19,781) |
| Net receivables | <u>\$ 782,266</u> | <u>\$ 706,701</u> |

Water and Wastewater Department

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|---------------------|---------------------|
| Customer accounts | \$ 1,740,614 | \$ 1,862,754 |
| Other governments | 16,601 | 12,259 |
| Less: allowance for doubtful accounts | (45,778) | (59,318) |
| Net receivables | <u>\$ 1,711,437</u> | <u>\$ 1,815,695</u> |

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016
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NOTE 3—RECEIVABLES AND PAYABLES (Continued)

Payables at June 30, 2017 and 2016 were as follows for each department:

Electricity Department

| | <u>2017</u> | <u>2016</u> |
|-----------------------|----------------------|----------------------|
| Vendors | \$ 16,582,212 | \$ 17,547,053 |
| Salaries and benefits | 266,135 | 602,474 |
| Other governments | 23,075 | 14,578 |
| Totals | <u>\$ 16,871,422</u> | <u>\$ 18,164,105</u> |

Gas Department

| | <u>2017</u> | <u>2016</u> |
|-----------------------|-------------------|-------------------|
| Vendors | \$ 565,763 | \$ 523,507 |
| Salaries and benefits | 62,235 | 143,327 |
| Other governments | 265,241 | 227,606 |
| Totals | <u>\$ 893,239</u> | <u>\$ 894,440</u> |

Water and Wastewater Department

| | <u>2017</u> | <u>2016</u> |
|-----------------------|-------------------|---------------------|
| Vendors | \$ 342,992 | \$ 423,495 |
| Salaries and benefits | 133,877 | 209,233 |
| Other governments | 471,328 | 441,483 |
| Totals | <u>\$ 948,197</u> | <u>\$ 1,074,211</u> |

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, 2017 and 2016, the Department had \$726,557 and \$678,102, respectively, in storage gas that is valued using the weighted average method.

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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>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Series 2009 Debt Service Reserve Fund | \$ 725,000 | \$ 725,000 |
| Series 2009 Warrant Funds | 76,627 | 75,510 |
| Series 2013 Debt Service Reserve Fund | 193,042 | 192,869 |
| Series 2013 Warrant Funds | 15,517 | 15,472 |
| Total restricted cash and cash equivalents | <u>\$ 1,010,186</u> | <u>\$ 1,008,851</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>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| SRF Series 2006 Warrant Funds | \$ 115,217 | \$ 115,683 |
| SRF Series 2007 Warrant Funds | 464,263 | 459,842 |
| SRF Series 2010-A Warrant Funds | 775,718 | 755,129 |
| SRF Series 2010-B Warrant Funds | 1,309,343 | 1,275,062 |
| SRF Series 2010-C Warrant Funds | 1,256,265 | 1,226,815 |
| SRF Series 2010-D Warrant Funds | 317,662 | 311,005 |
| Series 2011 Warrant Funds | 404,960 | 404,850 |
| Series 2011 Construction Fund | | 2,808,398 |
| SRF Series 2013 Warrant Funds | 50,226 | |
| Total restricted cash and cash equivalents | <u>\$ 4,693,654</u> | <u>\$ 7,356,784</u> |

**CITY OF FLORENCE, ALABAMA
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JUNE 30, 2017 and 2016
(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. During the 2016 fiscal year, TVA discontinued this Energy Right program. Subsequently, TVA established the eScore program, which gave the Department the option to continue on-bill financing or choose off-bill financing. The Department elected the off-bill financing option, thus the Department will act as a fiscal intermediary only for existing conservation loans until all are paid in full. The Department had at June 30, 2017 and 2016, a total of \$3,687,487 and \$4,890,020, 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 \$3,800,330 and \$5,026,787 as of June 30, 2017 and 2016, respectively.

Power Program

The Department participates in the TVA Power Invoice Prepayment Program. This program allows the Department to transfer funds electronically, which are nonrefundable, on a weekly basis to be applied to the monthly TVA power invoice. An early payment credit is computed on a daily basis at a rate established monthly by TVA and is added to the prepayment account. This rate has been slightly higher than the interest rate currently earned on temporary cash investments with local banks. The prepayment balances of \$7,336,257 and \$6,723,609 as of June 30, 2017 and 2016, respectively, are reflected as prepayments in the financial statements.

NOTE 7—LONG-TERM OBLIGATIONS

Electricity Department

Long-term obligations activity for the year ended June 30, 2017 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 | \$ 2,540,000 | \$ 6,350,000 | \$ 8,890,000 |
| Less: principal paid on debt | 815,000 | | 815,000 |
| Balance—end of year | <u>\$ 1,725,000</u> | <u>\$ 6,350,000</u> | <u>\$ 8,075,000</u> |

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(Continued)

NOTE 7—LONG-TERM OBLIGATIONS (Continued)

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> |
|---|---|-----------------------------|-----------------------------------|
| 2018 | \$ 850,000 | \$ 247,680 | \$ 1,097,680 |
| 2019 | 875,000 | 217,080 | 1,092,080 |
| 2020 | 385,000 | 185,143 | 570,143 |
| 2021 | 390,000 | 178,405 | 568,405 |
| 2022 | 400,000 | 170,605 | 570,605 |
| 2023–2027 | 2,150,000 | 708,165 | 2,858,165 |
| 2028–2032 | 2,475,000 | 384,100 | 2,859,100 |
| 2033 | 550,000 | 22,000 | 572,000 |
| Totals | \$ 8,075,000 | \$ 2,113,178 | \$ 10,188,178 |
| Less: Portion due within one year | 850,000 | | |
| Long-term debt at June 30, 2017 | \$ 7,225,000 | | |

All interest costs were expensed for the fiscal years presented.

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NOTE 7—LONG-TERM OBLIGATIONS (Continued)

Water and Wastewater Department

Long-term obligations activity for the year ended June 30, 2017 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> |
|------------------------------|--|--|--|
| Balance—beginning of year | \$ 2,535,000 | \$ 6,405,000 | \$ 4,190,000 |
| Less: principal paid on debt | 195,000 | 395,000 | 775,000 |
| Balance—end of year | <u>\$ 2,340,000</u> | <u>\$ 6,010,000</u> | <u>\$ 3,415,000</u> |

| | <i>Water and Sewer Revenue Warrants, SRF Series 2010-B</i> | <i>Water and Sewer Revenue Warrants, SRF Series 2010-C</i> | <i>Water and Sewer Revenue Warrants, SRF Series 2010-D</i> |
|------------------------------|--|--|--|
| Balance—beginning of year | \$ 7,065,000 | \$ 6,770,000 | \$ 1,705,000 |
| Less: principal paid on debt | 1,310,000 | 1,260,000 | 320,000 |
| Balance—end of year | <u>\$ 5,755,000</u> | <u>\$ 5,510,000</u> | <u>\$ 1,385,000</u> |

| | <i>Water and Sewer Revenue Warrants, Series 2011</i> | <i>Water and Sewer Revenue Warrants, SRF Series 2013</i> | <i>Totals</i> |
|------------------------------|--|--|----------------------|
| Balance—beginning of year | \$ 20,600,000 | \$ 5,825,000 | \$ 55,095,000 |
| Less: principal paid on debt | | | 4,255,000 |
| Balance—end of year | <u>\$ 20,600,000</u> | <u>\$ 5,825,000</u> | <u>\$ 50,840,000</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 State of Alabama Revolving Fund (SRF) and are administered jointly by the Alabama Water Pollution Control Authority (AWPCA) and the Alabama Department of Environmental Management (ADEM). The 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.

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(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.

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NOTE 7—LONG-TERM OBLIGATIONS (Continued)

The Department issued Water and Sewer Revenue Warrants, Series 2013-DWSRF-DL, dated October 15, 2013, in the amount of \$5,825,000 with interest rates ranging from 1.70% to 2.45%. The warrants were issued for capital improvements to upgrade the water treatment plants, the acquisition of and installation of automatic meter reading equipment, and capital improvements to the Wilson Lake intake equipment. The net revenues of the system are pledged for payment of the principal and interest of these warrants. Interest in the amount of \$309,728 has been accrued on the warrants until February 15, 2017 and the Department, as part of the capital projects, capitalized that interest. Principal is payable annually beginning on August 15, 2017. Interest is payable semi-annually on each February 15 and August 15 beginning in February 2017.

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> |
|---|---|-----------------------------|-----------------------------------|
| 2018 | \$ 4,640,000 | \$ 1,756,001 | \$ 6,396,001 |
| 2019 | 4,805,000 | 1,629,470 | 6,434,470 |
| 2020 | 4,985,000 | 1,498,225 | 6,483,225 |
| 2021 | 5,160,000 | 1,362,240 | 6,522,240 |
| 2022 | 1,440,000 | 1,270,211 | 2,710,211 |
| 2023–2027 | 7,985,000 | 5,586,067 | 13,571,067 |
| 2028–2032 | 9,670,000 | 3,892,089 | 13,562,089 |
| 2033–2037 | 12,155,000 | 1,416,720 | 13,571,720 |
| Totals | \$ 50,840,000 | \$ 18,411,023 | \$ 69,251,023 |
| Less: Portion due within one year | 4,640,000 | | |
| Long-term debt at June 30, 2017 | \$ 46,200,000 | | |

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
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(Continued)**

NOTE 8—PENSION AND DEFERRED COMPENSATION PLANS

Pension Plan

Plan Description—The City’s defined benefit pension plan, City of Florence, Alabama Employees’ Retirement Plan (CFAERP), provides pensions, disability, death, and termination benefits for all permanent full-time employees of the City. CFAERP is a single-employer defined benefit pension plan.

Benefits Provided—Retirement benefits for general employees are calculated as follows:

| | |
|---------------------|---|
| Normal Retirement | The monthly amount accrued or purchased under the employer’s retirement annuity plan in effect prior to October 1, 1966, plus for each month of credited service, an amount calculated as follows: <ul style="list-style-type: none"> • Before July 1, 1957, 1/24th of 1% of first \$350 of monthly earnings on October 1, 1966, plus 3/24ths of 1% of the excess; • From July 1, 1957 to October 1, 1966, 1/12th of .58% of first \$350 of monthly earnings on October 1, 1966, plus 1/12th of 1.66% of the excess; • From October 1, 1966 to October 1, 1979, 1/12th of 1.58% of first \$350 of monthly earnings, plus 1/12th of 3.16% of the excess; • From October 1, 1979 to October 1, 1988, 1/12th of 2.10% of first \$350 of monthly earnings, plus 1/12th of 3.26% of the excess; • After October 1, 1988, 1/12th of 2.31% of first \$350 of monthly earnings, plus 1/12th of 3.586% of the excess. <p>Effective October 1, 1992, participant accrued benefits were increased by 10%.</p> |
| Early Retirement | Monthly benefit determined in same manner as normal retirement benefit, based on participant’s accrued benefit as of early retirement date, and reduced by 1/180th for each of the first 24 months and 1/360th for each additional month that the early retirement date precedes age 62. However, a participant who has attained age 62 with 5 years of credited service, or age 57 with 30 years of total service, or age 52 with 25 years of total service may retire early and receive normal retirement benefit with no reduction for early commencement. |
| Disability Benefit | Monthly benefit equal to the accrued benefit as of the disability retirement date. |
| Death Benefit | A lump sum cash payment equal to the excess (if any) of the participant’s contributions plus credited interest over the pension payments (if any) received by the participant. |
| Termination Benefit | An amount equal to the participant’s accrued benefit. Instead of a deferred benefit, a participant may withdraw contributions with interest. |

Benefits are payable as an annuity over the lifetime of the participant, with a minimum payout of the participant’s contribution plus interest. Other benefit options include:

- 120 months certain and life annuity.
- Contingent annuitant option with either 100%, 66 2/3%, or 50% of the annuity being payable to the contingent annuitant for life after the participant’s death.
- Lump-sum cash payment (only available if attained age 55 with 5 years of credited service early retirement or attained age 65 normal retirement).

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
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(Continued)

NOTE 8—PENSION AND DEFERRED COMPENSATION PLANS (Continued)

Employees Covered by Benefit Terms—At September 30, 2016, the following employees were covered by the benefit terms:

| | |
|--|-----|
| Active employees who have not reached age 65 | 628 |
| Active participants attaining Normal Retirement Age 65 | 11 |
| Inactive participants (30 in pay status) | 92 |
| Total participants | 731 |

Contributions—The authority to establish and amend the contribution requirements of the CFAERP belongs to the City Council. The Council establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

For the year ended September 30, 2016, the active employee contribution rate was 2.56% on the first \$350 of monthly compensation and 5.12% of monthly compensation in excess of \$350. The City contributes 2.75 times the employee contribution.

Net Pension Liability—The City's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions—The total pension liability in the September 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|-----------------------------------|
| Inflation | 2.50% |
| Salary increases | 3.00% |
| Investment rate of return | 7.50%, net of investment expenses |

Mortality rates were based on the RP-2014 Mortality Table with generational projection using MP-2016.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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(Continued)

NOTE 8—PENSION AND DEFERRED COMPENSATION PLANS (Continued)

| <i>Asset Class</i> | <i>Target Allocation</i> | <i>Long-Term Expected Real Rate of Return</i> |
|--------------------------------|--------------------------|---|
| US Fixed Income | 30.50% | 5.00% |
| US Large Cap Growth Equity | 15.50% | 10.30% |
| US Large Cap Value Equity | 15.50% | 10.00% |
| Europe Equity | 9.40% | 8.90% |
| Real Estate Investment Trusts | 5.00% | 9.00% |
| Emerging Markets Equity | 3.00% | 12.80% |
| US Mid Cap Growth Equity | 3.00% | 11.30% |
| US Mid Cap Value Equity | 3.00% | 10.60% |
| US Small Cap Growth Equity | 3.00% | 12.20% |
| US Small Cap Value Equity | 3.00% | 11.40% |
| Japan Equity | 2.90% | 9.40% |
| Core Private Real Estate Funds | 2.50% | 7.60% |
| Ultra-Short Fixed Income | 2.00% | 3.40% |
| Asia Pacific ex Japan Equity | 1.70% | 11.70% |

Discount Rate—The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at 2.75 times the employee contributions. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability—The following table shows the components of the changes in the net pension liability:

| | <i>Total Pension Liability</i> | <i>Plan Fiduciary Net Position</i> | <i>Net Pension Liability</i> |
|---|--------------------------------|------------------------------------|------------------------------|
| Balance as of September 30, 2016 | \$ 106,594,794 | \$ 76,330,780 | \$ 30,264,014 |
| Changes for the year: | | | |
| Service cost | 2,888,380 | | 2,888,380 |
| Interest on total pension liability | 7,880,999 | | 7,880,999 |
| Effect of plan changes | | | - |
| Effect of economic/demographic gains/losses | 1,690,662 | | 1,690,662 |
| Effect of assumption changes/inputs | (188,107) | | (188,107) |
| Benefit payments | (8,968,541) | (8,968,541) | - |
| Employer contributions | | 4,309,829 | (4,309,829) |
| Member contributions | | 1,567,210 | (1,567,210) |
| Net investment income | | 7,565,914 | (7,565,914) |
| Administrative expenses | | (384,687) | 384,687 |
| Balance as of September 30, 2017 * | \$ 109,898,187 | \$ 80,420,505 | \$ 29,477,682 |

* The measurement date is one year earlier than the reporting date.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
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NOTE 8—PENSION AND DEFERRED COMPENSATION PLANS (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate—The following presents the net pension liability of the City, calculated using the discount rate of 7.50%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

| | <i>1% Decrease</i> | <i>Current</i> | <i>1% Increase</i> |
|-------------------------|----------------------|----------------------|----------------------|
| | <i>(6.50%)</i> | <i>Discount Rate</i> | <i>(8.50%)</i> |
| | <i>(6.50%)</i> | <i>(7.50%)</i> | <i>(8.50%)</i> |
| Total Pension Liability | \$ 118,396,139 | \$ 109,898,187 | \$ 102,120,936 |
| Fiduciary Net Position | 80,420,505 | 80,420,505 | 80,420,505 |
| Net Pension Liability | <u>\$ 37,975,634</u> | <u>\$ 29,477,682</u> | <u>\$ 21,700,431</u> |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—For the year ended September 30, 2016, the City recognized pension expense of \$5,055,488. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <i>Deferred</i> | <i>Deferred</i> |
|---|--------------------|-------------------|
| | <i>Outflows of</i> | <i>Inflows of</i> |
| | <i>Resources</i> | <i>Resources</i> |
| Contributions made subsequent to the measurement date | \$ 4,059,238 | \$ - |
| Differences between expected and actual experience | 3,096,307 | |
| Changes of assumptions | 1,050,626 | 168,774 |
| Net difference between projected and actual earnings | 4,245,936 | 2,410,085 |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <i>Year Ended</i> | <i>Amount</i> |
|---------------------|---------------|
| <i>September 30</i> | |
| 2018 | \$ 1,065,440 |
| 2019 | 1,065,442 |
| 2020 | 1,482,841 |
| 2021 | 67,528 |
| 2022 | 461,350 |
| Thereafter * | 1,671,409 |

* Additional future deferred outflows and inflows of resources may impact these amounts.

Deferred outflows of resources resulting from employer contributions made subsequent to the measurement date in the amount of \$4,059,238 will be recognized as a reduction of the net pension liability in the year ending September 30, 2018.

The Utilities have recorded their proportionate share of the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense based on the actuarial valuation of the CFAERP.

**CITY OF FLORENCE, ALABAMA
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NOTES TO FINANCIAL STATEMENTS
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NOTE 8—PENSION AND DEFERRED COMPENSATION PLANS (Continued)

Deferred Compensation Plan

The City offers its employees access to deferred compensation plans created in accordance with Internal Revenue Code Section 457. These plans, available to all City employees, permit them to defer a portion of their salary until future years. Participation in the plans 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 professional standards, the assets of these plans 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 benefits (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 No. 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 | \$ | 924,068 |
| Interest on prior year net OPEB obligation | | - |
| Adjustment to annual required contribution | | - |
| Annual OPEB cost | \$ | 924,068 |
| Contributions made | | 793,133 |
| Increase (decrease) in net OPEB obligation | \$ | 130,935 |
| Net OPEB obligation—beginning of year | | - |
| Net OPEB obligation—end of year | \$ | 130,935 |

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016
(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, 2016 | \$ 924,068 | 85.8% | \$ 130,935 |
| September 30, 2015 | | | |
| September 30, 2014 | 883,366 | 100.0% | - |
| September 30, 2013 | | | |
| September 30, 2012 | 756,308 | 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, 2015, the most recent actuarial valuation date, the plan was 9.4% funded. The actuarial accrued liability for benefits was \$12.2 million and the actuarial value of assets was \$1.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$11.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$29.9 million, and the ratio of the UAAL to the covered payroll was 37.1%.

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, 2015 actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a discount rate of 5.0%, 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 5.0% initially that is reduced by decrements to an ultimate rate of 4.6% after fifty-five (55) years. These rates included a 2.5% 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, 2015 was twenty-two (22) years.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016
(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 April 1, 2007, the monthly charge was recomputed to \$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> |
|-----------------------------------|---------------------|
| 2018 | \$ 201,372 |
| 2019 | 201,372 |
| 2020 | 201,372 |
| 2021 | 201,372 |
| 2022 | 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, 2017 and 2016
(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, 2017, open contracts for construction totaled \$50,000 of which \$6,386 had been recorded as cumulative construction in progress. As of June 30, 2017, open contracts for system maintenance totaled \$5,847,357 of which \$3,545,616 had been recorded as current maintenance expense. As of June 30, 2016, open contracts for construction totaled \$2,885,653 of which \$2,487,999 had been recorded as cumulative construction in progress. As of June 30, 2016, open contracts for system maintenance totaled \$5,847,357 of which \$2,215,007 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, 2017 and 2016, the Department had made purchase commitments amounting to \$7,211,493 and \$10,253,694, respectively, for the subsequent fiscal year's gas needs.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016
(Continued)

NOTE 13—CONTINGENCIES AND COMMITMENTS (Continued)

Water and Wastewater Department

The Department enters into agreements with contractors for the construction and expansion of the system. As of June 30, 2017, open contracts for construction totaled \$4,030,227 of which \$3,298,967 had been recorded as cumulative construction in progress. As of June 30, 2017, open contracts for system maintenance totaled \$228,661 of which \$175,362 had been recorded as current maintenance expense. As of June 30, 2016, open contracts for construction totaled \$6,274,030 of which \$5,053,855 had been recorded as cumulative construction in progress. As of June 30, 2016, open contracts for system maintenance totaled \$268,823 of which \$127,764 had been recorded as current maintenance expense.

NOTE 14—SUBSEQUENT EVENT

Water and Wastewater Department

Subsequent to year-end, the Department issued Water and Sewer Revenue Warrants, Series 2017 in the amount of \$29,940,000 for the purpose of the advance refunding and redemption of \$20,110,000 principal portion of the Water and Sewer Revenue Warrants, Series 2011 and the current refunding and redemption of the Water and Sewer Revenue Warrants, SRF Series 2006 and the Water and Sewer Revenue Warrants, SRF Series 2007.

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, 2017

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget - Positive (Negative) |
|--|-------------------------|-----------------------|---|---|
| | Original | Final | | |
| Operating revenues: | | | | |
| Electric sales: | | | | |
| <i>Residential</i> | \$ 64,005,000 | \$ 64,005,000 | \$ 63,007,954 | \$ (997,046) |
| <i>Small commercial</i> | 12,555,000 | 12,555,000 | 12,968,466 | 413,466 |
| <i>Large commercial</i> | 40,920,000 | 40,920,000 | 40,420,616 | (499,384) |
| <i>Public street and highway lighting</i> | 2,315,000 | 2,315,000 | 2,371,122 | 56,122 |
| Forfeited discounts | 1,118,000 | 1,118,000 | 1,089,083 | (28,917) |
| Rents | 1,340,000 | 1,340,000 | 1,251,575 | (88,425) |
| Other operating revenues | 615,000 | 615,000 | 609,202 | (5,798) |
| Total operating revenues | <u>\$ 122,868,000</u> | <u>\$ 122,868,000</u> | <u>\$ 121,718,018</u> | <u>\$ (1,149,982)</u> |
| Operating expenses: | | | | |
| Costs of sales | \$ 97,520,000 | \$ 97,520,000 | \$ 97,233,123 | \$ 286,877 |
| Operations: | | | | |
| <i>Transmission</i> | 328,200 | 329,400 | 330,778 | (1,378) |
| <i>Distribution</i> | 2,940,200 | 2,985,300 | 2,680,347 | 304,953 |
| <i>Customer accounts</i> | 2,196,300 | 2,242,000 | 1,943,944 | 298,056 |
| <i>Customer service and information assistance and instruction</i> | 86,600 | 87,700 | 85,961 | 1,739 |
| <i>Sales</i> | 8,000 | 8,000 | 7,113 | 887 |
| <i>Administrative and general</i> | 3,930,300 | 3,945,200 | 4,106,553 | (161,353) |
| Maintenance: | | | | |
| <i>Transmission</i> | 326,500 | 330,500 | 290,188 | 40,312 |
| <i>Distribution</i> | 5,359,400 | 5,391,300 | 4,764,944 | 626,356 |
| <i>Administrative and general</i> | 431,600 | 434,700 | 497,969 | (63,269) |
| Depreciation | 5,000,000 | 5,000,000 | 5,255,576 | (255,576) |
| Taxes and tax equivalents | 3,334,000 | 3,334,000 | 3,553,432 | (219,432) |
| Total operating expenses | <u>\$ 121,461,100</u> | <u>\$ 121,608,100</u> | <u>\$ 120,749,928</u> | <u>\$ 858,172</u> |
| Operating income | <u>\$ 1,406,900</u> | <u>\$ 1,259,900</u> | <u>\$ 968,090</u> | <u>\$ (291,810)</u> |
| Nonoperating revenues (expenses): | | | | |
| Interest revenues | \$ 14,000 | \$ 14,000 | \$ 43,673 | \$ 29,673 |
| Merchandising revenues (net of costs) | 120,000 | 120,000 | 86,695 | (33,305) |
| Miscellaneous nonoperating income | 20,000 | 20,000 | 14,766 | (5,234) |
| Gain on disposition of assets | | | 63,908 | 63,908 |
| Interest expense | (273,900) | (273,900) | (273,828) | 72 |
| Amortization of debt related costs | (48,600) | (48,600) | (30,756) | 17,844 |
| Total nonoperating revenues (expenses) | <u>\$ (168,500)</u> | <u>\$ (168,500)</u> | <u>\$ (95,542)</u> | <u>\$ 72,958</u> |
| Change in net position | <u>\$ 1,238,400</u> | <u>\$ 1,091,400</u> | <u>\$ 872,548</u> | <u>\$ (218,852)</u> |
| Total net position—beginning | <u>80,567,661</u> | <u>80,567,661</u> | <u>80,567,661</u> | |
| Total net position—ending | <u>\$ 81,806,061</u> | <u>\$ 81,659,061</u> | <u>\$ 81,440,209</u> | <u>\$ (218,852)</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, 2017**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget - Positive (Negative) |
|--|----------------------|----------------------|---|---|
| | Original | Final | | |
| Operating revenues: | | | | |
| Gas sales: | | | | |
| <i>Residential</i> | \$ 7,344,700 | \$ 7,344,700 | \$ 5,263,492 | \$ (2,081,208) |
| <i>Commercial</i> | 4,770,500 | 4,770,500 | 3,952,945 | (817,555) |
| <i>Industrial</i> | 5,569,500 | 5,569,500 | 3,721,102 | (1,848,398) |
| <i>Resale and transportation</i> | 1,698,500 | 1,698,500 | 1,023,002 | (675,498) |
| Service fees | 65,000 | 65,000 | 62,239 | (2,761) |
| Forfeited discounts | 85,000 | 85,000 | 65,456 | (19,544) |
| Other operating revenues | 11,600 | 11,600 | 8,718 | (2,882) |
| Total operating revenues | <u>\$ 19,544,800</u> | <u>\$ 19,544,800</u> | <u>\$ 14,096,954</u> | <u>\$ (5,447,846)</u> |
| Operating expenses: | | | | |
| Costs of sales | \$ 11,202,400 | \$ 11,202,400 | \$ 6,658,476 | \$ 4,543,924 |
| Operations: | | | | |
| <i>Transmission</i> | 127,900 | 129,700 | 140,587 | (10,887) |
| <i>Distribution</i> | 509,100 | 512,700 | 504,383 | 8,317 |
| <i>Customer accounts</i> | 510,000 | 510,000 | 399,612 | 110,388 |
| <i>Sales</i> | 50,200 | 50,200 | 33,816 | 16,384 |
| <i>Administrative and general</i> | 1,789,500 | 1,795,600 | 1,968,340 | (172,740) |
| Maintenance: | | | | |
| <i>Transmission</i> | 2,700 | 2,700 | 2,084 | 616 |
| <i>Distribution</i> | 1,612,300 | 1,633,200 | 1,557,101 | 76,099 |
| <i>Administrative and general</i> | 75,000 | 75,000 | 61,064 | 13,936 |
| Depreciation | 1,535,000 | 1,535,000 | 1,467,493 | 67,507 |
| Amortization of acquisition adjustment | 10,700 | 10,700 | 10,661 | 39 |
| Taxes and tax equivalents | 1,567,300 | 1,569,800 | 1,518,788 | 51,012 |
| Total operating expenses | <u>\$ 18,992,100</u> | <u>\$ 19,027,000</u> | <u>\$ 14,322,405</u> | <u>\$ 4,704,595</u> |
| Operating income (loss) | <u>\$ 552,700</u> | <u>\$ 517,800</u> | <u>\$ (225,451)</u> | <u>\$ (743,251)</u> |
| Nonoperating revenues (expenses): | | | | |
| Interest revenues | \$ 5,000 | \$ 5,000 | \$ 18,109 | \$ 13,109 |
| Gain (loss) on disposition of assets | 5,000 | 5,000 | (274) | (5,274) |
| Miscellaneous nonoperating income | 129,500 | 129,500 | 108,776 | (20,724) |
| Total nonoperating revenues (expenses) | <u>\$ 139,500</u> | <u>\$ 139,500</u> | <u>\$ 126,611</u> | <u>\$ (12,889)</u> |
| Change in net position | \$ 692,200 | \$ 657,300 | \$ (98,840) | \$ (756,140) |
| Total net position—beginning | <u>42,510,043</u> | <u>42,510,043</u> | <u>42,510,043</u> | |
| Total net position—ending | <u>\$ 43,202,243</u> | <u>\$ 43,167,343</u> | <u>\$ 42,411,203</u> | <u>\$ (756,140)</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, 2017

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts (Budgetary Basis)</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|-------------------------|-----------------------|---|---|
| | <u>Original</u> | <u>Final</u> | | |
| Operating revenues: | | | | |
| Water sales: | | | | |
| <i>Residential</i> | \$ 7,125,900 | \$ 7,125,900 | \$ 7,223,203 | \$ 97,303 |
| <i>Commercial</i> | 3,424,400 | 3,424,400 | 3,430,196 | 5,796 |
| <i>Resale</i> | 1,639,900 | 1,639,900 | 1,650,679 | 10,779 |
| Sewer service sales: | | | | |
| <i>Residential</i> | 4,273,700 | 4,273,700 | 4,314,419 | 40,719 |
| <i>Commercial</i> | 3,299,100 | 3,299,100 | 3,270,774 | (28,326) |
| Forfeited discounts | 165,200 | 165,200 | 166,522 | 1,322 |
| Other operating revenues | 120,800 | 120,800 | 137,602 | 16,802 |
| Total operating revenues | <u>\$ 20,049,000</u> | <u>\$ 20,049,000</u> | <u>\$ 20,193,395</u> | <u>\$ 144,395</u> |
| Operating expenses: | | | | |
| Water treatment and pumping | \$ 3,446,300 | \$ 3,462,100 | \$ 2,910,524 | \$ 551,576 |
| Sewage disposal | 2,184,100 | 2,196,300 | 1,923,893 | 272,407 |
| Transmission and distribution | 1,484,800 | 1,497,560 | 1,538,259 | (40,699) |
| Accounting and collections | 1,212,800 | 1,212,800 | 1,022,105 | 190,695 |
| Administrative and general | 2,280,300 | 2,287,100 | 2,114,967 | 172,133 |
| Depreciation | 3,777,000 | 3,777,000 | 3,842,203 | (65,203) |
| Taxes and tax equivalents | 1,737,100 | 1,737,100 | 1,712,239 | 24,861 |
| Total operating expenses | <u>\$ 16,122,400</u> | <u>\$ 16,169,960</u> | <u>\$ 15,064,190</u> | <u>\$ 1,105,770</u> |
| Operating income | <u>\$ 3,926,600</u> | <u>\$ 3,879,040</u> | <u>\$ 5,129,205</u> | <u>\$ 1,250,165</u> |
| Nonoperating revenues (expenses): | | | | |
| Interest revenues | \$ 6,000 | \$ 6,000 | \$ 24,498 | \$ 18,498 |
| Gain (loss) on disposition of assets | | | (65,793) | (65,793) |
| Interest expense | (1,762,200) | (1,762,200) | (1,772,625) | (10,425) |
| Amortization of debt related costs | (45,000) | (45,000) | (44,931) | 69 |
| Total nonoperating revenues (expenses) | <u>\$ (1,801,200)</u> | <u>\$ (1,801,200)</u> | <u>\$ (1,858,851)</u> | <u>\$ (57,651)</u> |
| Change in net position | \$ 2,125,400 | \$ 2,077,840 | \$ 3,270,354 | \$ 1,192,514 |
| Total net position—beginning | <u>76,069,616</u> | <u>76,069,616</u> | <u>76,069,616</u> | |
| Total net position—ending | <u>\$ 78,195,016</u> | <u>\$ 78,147,456</u> | <u>\$ 79,339,970</u> | <u>\$ 1,192,514</u> |

**CITY OF FLORENCE, ALABAMA
EMPLOYEES' RETIREMENT PLAN
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS**

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|-----------------------|-----------------------|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| TOTAL PENSION LIABILITY | | | | | | | | | | |
| Service cost | \$ 2,888,380 | \$ 2,825,270 | \$ 2,854,759 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Interest | 7,880,999 | 7,721,152 | 7,603,781 | | | | | | | |
| Effect of plan changes | | | | | | | | | | |
| Effect of economic/demographic gains or losses | 1,690,662 | 558,626 | 1,537,047 | | | | | | | |
| Effect of assumption changes or inputs | (188,107) | 1,286,192 | | | | | | | | |
| Benefit payments | (8,968,541) | (11,629,512) | (9,216,405) | | | | | | | |
| Net change in total pension liability | \$ 3,303,393 | \$ 761,728 | \$ 2,779,182 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total pension liability, beginning | 106,594,794 | 105,833,066 | 103,053,884 | | | | | | | |
| Total pension liability, ending (a) | <u>\$ 109,898,187</u> | <u>\$ 106,594,794</u> | <u>\$ 105,833,066</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| FIDUCIARY NET POSITION | | | | | | | | | | |
| Contributions—employer | \$ 4,309,829 | \$ 4,052,968 | \$ 3,710,391 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions—employee | 1,567,210 | 1,473,806 | 1,349,233 | | | | | | | |
| Investment income, net of investment expenses | 7,565,914 | (1,028,142) | 7,950,048 | | | | | | | |
| Benefit payments | (8,968,541) | (11,629,512) | (9,216,405) | | | | | | | |
| Administrative expenses | (384,687) | (353,852) | (378,171) | | | | | | | |
| Net change in plan fiduciary net position | \$ 4,089,725 | \$ (7,484,732) | \$ 3,415,096 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Fiduciary net position, beginning | 76,330,780 | 83,815,512 | 80,400,416 | | | | | | | |
| Fiduciary net position, ending (b) | <u>\$ 80,420,505</u> | <u>\$ 76,330,780</u> | <u>\$ 83,815,512</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Net pension liability, ending (a-b) | <u>\$ 29,477,682</u> | <u>\$ 30,264,014</u> | <u>\$ 22,017,554</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Fiduciary net position as a percentage of total pension liability | 73.18% | 71.61% | 79.20% | | | | | | | |
| Covered-employee payroll | \$ 30,035,187 | \$ 29,475,065 | \$ 29,557,478 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Net pension liability as a percentage of covered-employee payroll | 98.14% | 102.68% | 74.49% | | | | | | | |

CITY OF FLORENCE, ALABAMA
Schedule of Employer Contributions

Employees' Retirement Plan

| <i>Fiscal Year Ended September 30</i> | <i>Actuarially Determined Contribution</i> | <i>Actual Employer Contribution</i> | <i>Contribution Deficiency (Excess)</i> | <i>Covered Payroll</i> | <i>Contribution as a Percentage of Covered Payroll</i> |
|---|--|---|---|----------------------------|--|
| 2008 | \$ 2,435,104 | \$ 3,726,546 | \$ (1,291,442) | \$ 25,653,135 | 14.53% |
| 2009 | 2,315,374 | 4,029,198 | (1,713,824) | 26,289,687 | 15.33% |
| 2010 | 2,260,178 | 3,563,874 | (1,303,696) | 26,775,834 | 13.31% |
| 2011 | 2,920,660 | 3,888,126 | (967,466) | 28,074,105 | 13.85% |
| 2012 | 3,377,314 | 3,765,076 | (387,762) | 28,743,659 | 13.10% |
| 2013 | 3,764,645 | 3,878,051 | (113,406) | 27,759,757 | 13.97% |
| 2014 | 4,139,524 | 3,710,391 | 429,133 | 29,562,601 | 12.55% |
| 2015 | 4,023,027 | 4,052,968 | (29,941) | 29,557,478 | 13.71% |
| 2016 | 4,276,605 | 4,309,829 | (33,224) | 29,475,065 | 14.62% |
| 2017 | 4,453,606 | 4,059,238 | 394,368 | 30,035,187 | 13.51% |

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of September 30, one year prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine the contribution rates:

Actuarial cost method: Entry age normal

Amortization method: Level dollar of payroll, closed

Remaining amortization period: 24 years

Asset valuation method: 4-year smoothed market

Corridor: 90.00% to 110.00% of market

Inflation: 2.50%

Salary increases: 3.00%

Investment rate of return: 7.50%, net of investment expenses

Cost of living adjustments: None

Retirement age: Normal–Attained age 65; Early–Attained age 55 with 5 years credited service, or attained age 52 with 25 years of total service

Turnover: Annual rates ranging from 12.00% at age 25 to 0.00% at age 55

Mortality: RP-2014 Mortality Table with generational projection using MP-2016

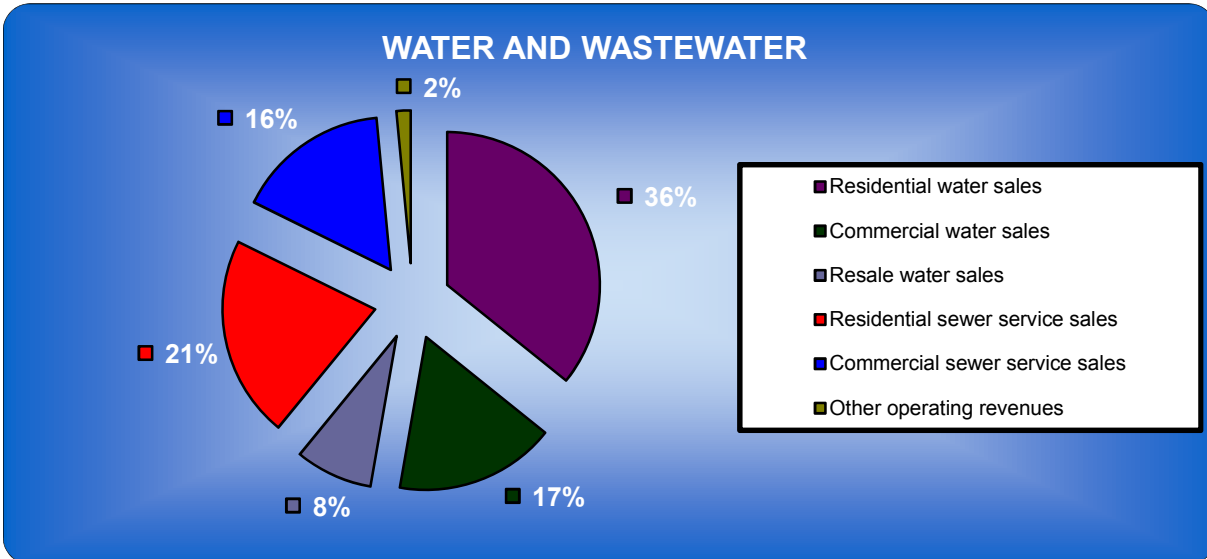
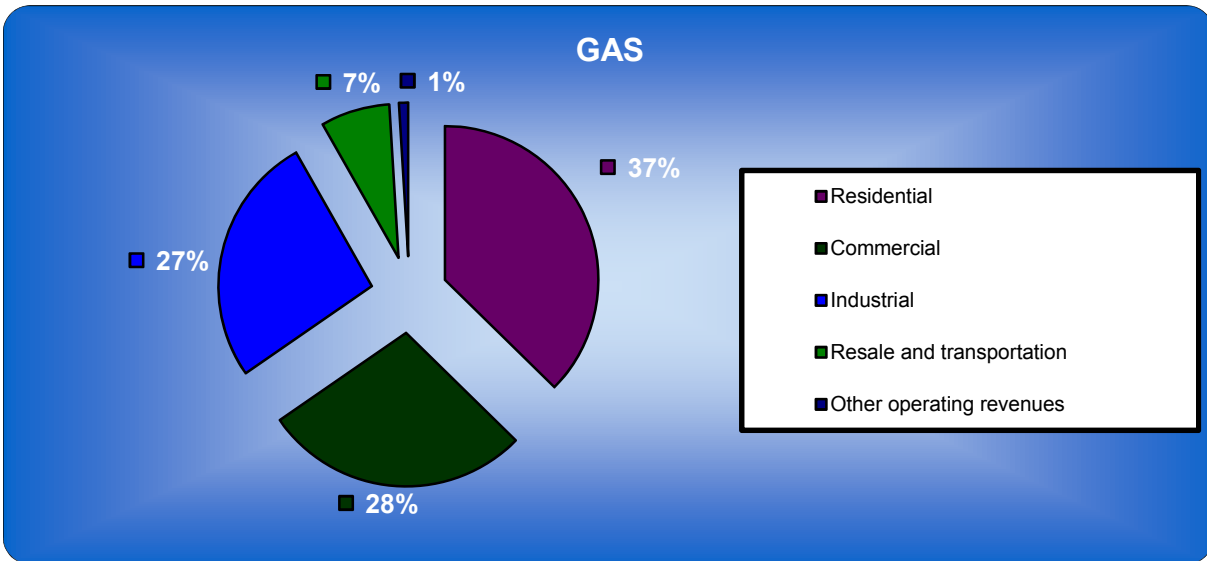
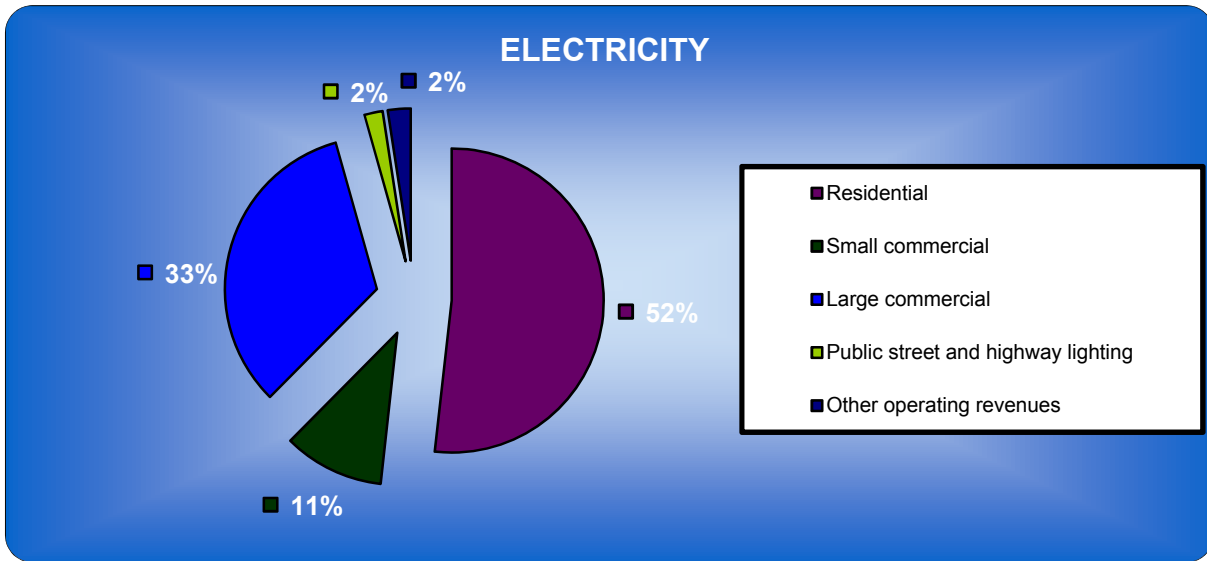
CITY OF FLORENCE, ALABAMA
Schedules of Funding Progress

| Postretirement Benefits Plan | | | | | | |
|---|--|---|--|-------------------------------------|------------------------------------|--|
| <i>Actuarial Valuation Date</i> | <i>Actuarial Value of Assets (a)</i> | <i>Actuarial Accrued Liability (AAL)— Unit Credit (b)</i> | <i>Unfunded AAL (UAAL) (b - a)</i> | <i>Funded Ratio (a / b)</i> | <i>Covered Payroll (c)</i> | <i>UAAL as a Percentage of Covered Payroll ((b - a) / c)</i> |
| October 1, 2015 | \$ 1,147,813 | \$ 12,244,809 | \$ 11,096,996 | 9.4% | \$ 29,881,788 | 37.1% |
| October 1, 2013 | 1,142,548 | 11,719,967 | 10,577,419 | 9.7% | 29,562,601 | 35.8% |
| October 1, 2011 | 683,821 | 8,666,316 | 7,982,495 | 7.9% | 28,103,737 | 28.4% |

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

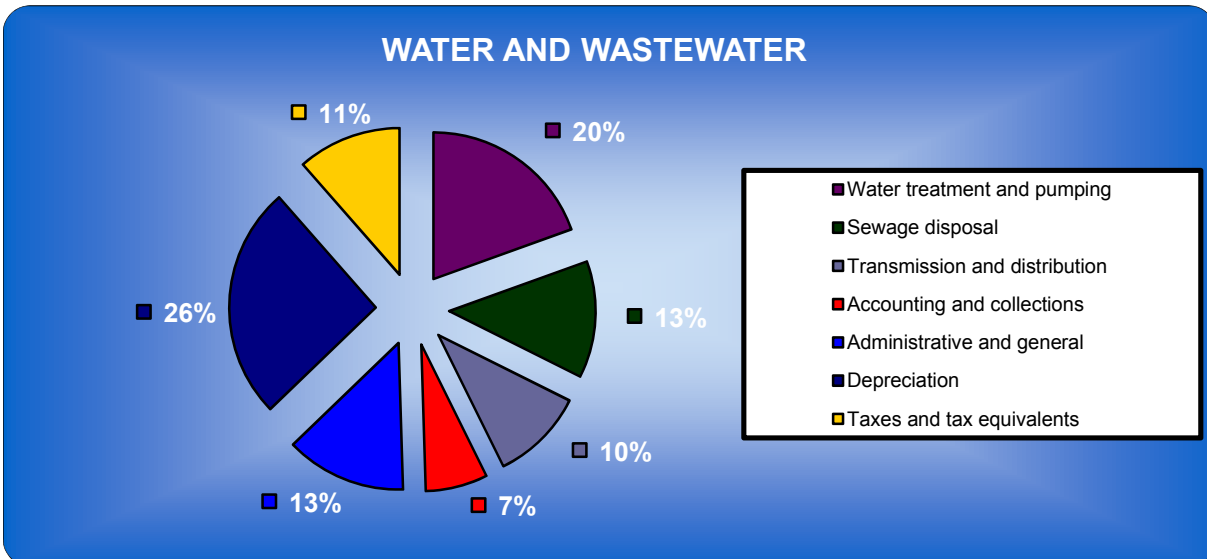
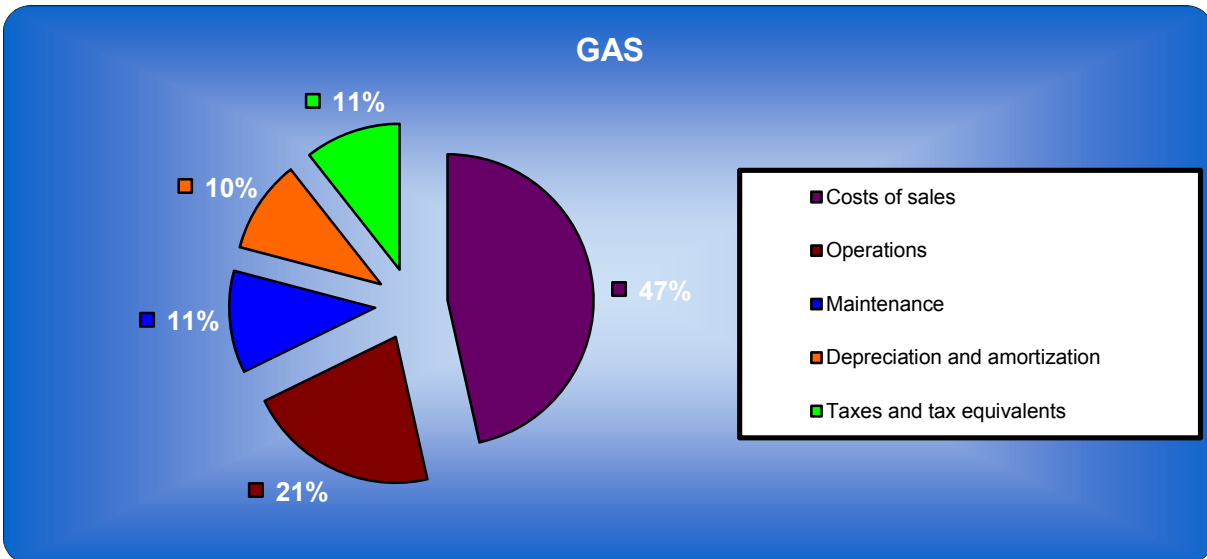
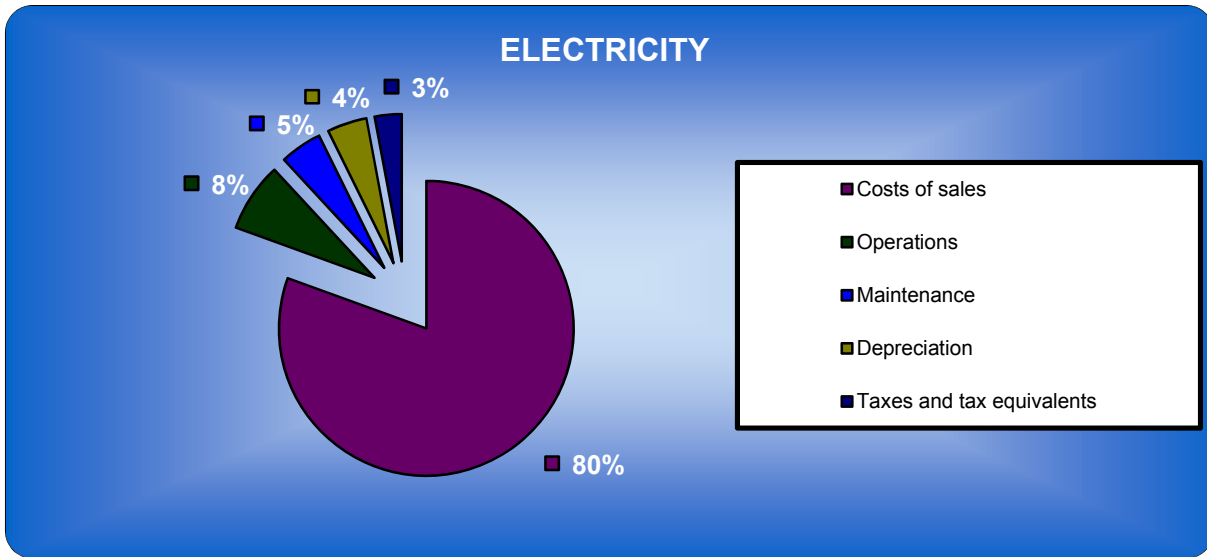
SUPPLEMENTARY SCHEDULES SECTION

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENT
SOURCE OF FUNDS
JUNE 30, 2017**



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, 2017**



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, 2017**

| <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 | \$ 605,708 | \$ - | \$ - | \$ 605,708 |
| Clearing land and right of ways | 90,378 | | | 90,378 |
| Structures and improvements | 70,402 | | | 70,402 |
| Station equipment | 22,665,246 | 4,975,750 | 545,600 | 27,095,396 |
| Towers and fixtures | 32,266 | | | 32,266 |
| Poles and fixtures | 6,439,780 | 221,567 | 17,964 | 6,643,383 |
| Overhead conductors and devices | 6,910,250 | 193,574 | 5,729 | 7,098,095 |
| Total transmission plant | <u>\$ 36,814,030</u> | <u>\$ 5,390,891</u> | <u>\$ 569,293</u> | <u>\$ 41,635,628</u> |
| Distribution plant: | | | | |
| Land and land rights | \$ 69,040 | \$ - | \$ - | \$ 69,040 |
| Station equipment | 2,846,481 | 11,686 | 461,289 | 2,396,878 |
| Poles, towers, and fixtures | 21,387,525 | 1,058,384 | 100,529 | 22,345,380 |
| Overhead conductors and devices | 22,190,652 | 154,677 | 41,783 | 22,303,546 |
| Underground conduit | 2,995,484 | 88,214 | 570 | 3,083,128 |
| Underground conductors and devices | 10,629,967 | 462,354 | 8,516 | 11,083,805 |
| Line transformers | 24,288,942 | 824,593 | 360,936 | 24,752,599 |
| Services | 9,055,620 | 179,645 | 104,583 | 9,130,682 |
| Meters | 4,335,661 | 115,393 | 135,393 | 4,315,661 |
| Installation on customer premises | 2,606,558 | 93,755 | 63,055 | 2,637,258 |
| Street lighting and signal systems | 7,727,424 | 217,962 | 9,523 | 7,935,863 |
| Total distribution plant | <u>\$ 108,133,354</u> | <u>\$ 3,206,663</u> | <u>\$ 1,286,177</u> | <u>\$ 110,053,840</u> |
| General plant: | | | | |
| Land and land rights | \$ 390,254 | \$ - | \$ - | \$ 390,254 |
| Structures and improvements | 3,957,710 | 1,608,798 | | 5,566,508 |
| Office furniture and equipment | 3,333,494 | 233,384 | 19,262 | 3,547,616 |
| Transportation equipment | 7,379,989 | 163,599 | 321,980 | 7,221,608 |
| Stores equipment | 54,393 | | | 54,393 |
| Tools, shop, and garage equipment | 2,888,784 | 135,027 | 276,722 | 2,747,089 |
| Laboratory equipment | 57,987 | | 979 | 57,008 |
| Power operated equipment | 316,625 | | | 316,625 |
| Communication equipment | 605,288 | 15,700 | | 620,988 |
| Miscellaneous equipment | 297,168 | 29,370 | 1,900 | 324,638 |
| Total general plant | <u>\$ 19,281,692</u> | <u>\$ 2,185,878</u> | <u>\$ 620,843</u> | <u>\$ 20,846,727</u> |
| Total utility plant in service | <u><u>\$ 164,229,076</u></u> | <u><u>\$ 10,783,432</u></u> | <u><u>\$ 2,476,313</u></u> | <u><u>\$ 172,536,195</u></u> |

ACCUMULATED DEPRECIATION

| <u>Balance Beginning of Year</u> | <u>Accrual</u> | <u>Retirements- Original Cost</u> | <u>Removal Costs</u> | <u>Adjustments</u> | <u>Balance End of Year</u> |
|--|---------------------|---|--------------------------|--------------------|------------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | | | | | - |
| 50,736 | 1,408 | | | | 52,144 |
| 14,064,415 | 847,731 | 545,599 | 245,931 | | 14,120,616 |
| 32,266 | | | | | 32,266 |
| 3,611,615 | 263,306 | 17,964 | 8,097 | | 3,848,860 |
| 4,093,716 | 212,111 | 5,729 | 2,582 | | 4,297,516 |
| <u>\$ 21,852,748</u> | <u>\$ 1,324,556</u> | <u>\$ 569,292</u> | <u>\$ 256,610</u> | <u>\$ -</u> | <u>\$ 22,351,402</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2,465,630 | 98,912 | 461,289 | 207,927 | | 1,895,326 |
| 7,035,072 | 656,008 | 100,529 | 45,313 | | 7,545,238 |
| 15,265,718 | 611,706 | 41,783 | 18,834 | 6,981 | 15,823,788 |
| 2,039,056 | 122,499 | 570 | 257 | | 2,160,728 |
| 5,289,608 | 435,585 | 8,515 | 3,838 | | 5,712,840 |
| 6,631,579 | 550,322 | 360,936 | 162,693 | (63,112) | 6,595,160 |
| 3,546,301 | 272,728 | 104,583 | 47,141 | | 3,667,305 |
| 368,677 | 120,089 | 135,393 | 61,029 | 56,131 | 348,475 |
| 1,875,973 | 130,260 | 63,055 | 28,422 | | 1,914,756 |
| 6,804,500 | 394,441 | 9,523 | 4,293 | | 7,185,125 |
| <u>\$ 51,322,114</u> | <u>\$ 3,392,550</u> | <u>\$ 1,286,176</u> | <u>\$ 579,747</u> | <u>\$ -</u> | <u>\$ 52,848,741</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 1,251,927 | 110,767 | | | | 1,362,694 |
| 2,610,766 | 201,040 | 18,196 | | | 2,793,610 |
| 4,354,117 | 445,120 | 290,809 | | | 4,508,428 |
| 39,386 | 2,477 | | | | 41,863 |
| 2,226,151 | 111,000 | 236,436 | | | 2,100,715 |
| 41,784 | 1,929 | 979 | | | 42,734 |
| 150,017 | 24,481 | | | | 174,498 |
| 172,959 | 39,378 | | | | 212,337 |
| 138,037 | 26,274 | 1,900 | | | 162,411 |
| <u>\$ 10,985,144</u> | <u>\$ 962,466</u> | <u>\$ 548,320</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 11,399,290</u> |
| <u>\$ 84,160,006</u> | <u>\$ 5,679,572</u> | <u>\$ 2,403,788</u> | <u>\$ 836,357</u> | <u>\$ -</u> | <u>\$ 86,599,433</u> |

GAS DEPARTMENT

**CITY OF FLORENCE, ALABAMA
GAS DEPARTMENT
SCHEDULE OF UTILITY PLANT IN SERVICE
AND ACCUMULATED DEPRECIATION
JUNE 30, 2017**

| <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 | \$ 120,691 | \$ - | \$ - | \$ 120,691 |
| Structures and improvements | 142,993 | | | 142,993 |
| Mains | 7,205,284 | 33,102 | 5,403 | 7,232,983 |
| Measuring and regulating equipment | 2,671,630 | 5,139 | | 2,676,769 |
| Total transmission plant | <u>\$ 10,140,598</u> | <u>\$ 38,241</u> | <u>\$ 5,403</u> | <u>\$ 10,173,436</u> |
| Distribution plant: | | | | |
| Land and land rights | \$ 42,769 | \$ 99 | \$ - | \$ 42,868 |
| Structures and improvements | 154,621 | | | 154,621 |
| Mains | 19,760,484 | 154,316 | 25,013 | 19,889,787 |
| Measuring and regulating equipment | 5,730,247 | 222,560 | 216,800 | 5,736,007 |
| Services | 12,624,265 | 375,455 | 52,993 | 12,946,727 |
| Other distribution equipment | 15,621 | | | 15,621 |
| Corrosion | 704,487 | 41 | | 704,528 |
| Total distribution plant | <u>\$ 39,032,494</u> | <u>\$ 752,471</u> | <u>\$ 294,806</u> | <u>\$ 39,490,159</u> |
| General plant: | | | | |
| Land and land rights | \$ 157,395 | \$ - | \$ - | \$ 157,395 |
| Structures and improvements | 2,730,445 | 9,530 | | 2,739,975 |
| Office furniture and equipment | 544,476 | 8,805 | 9,881 | 543,400 |
| Transportation equipment | 1,641,321 | 153,346 | | 1,794,667 |
| Stores equipment | 17,798 | | | 17,798 |
| Tools, shop and garage equipment | 19,777 | 2,562 | | 22,339 |
| Laboratory equipment | 32,258 | | | 32,258 |
| Power operated equipment | 1,984,361 | 219,137 | | 2,203,498 |
| Communication equipment | 42,212 | | | 42,212 |
| Miscellaneous equipment | 470,197 | 7,562 | 19,653 | 458,106 |
| Total general plant | <u>\$ 7,640,240</u> | <u>\$ 400,942</u> | <u>\$ 29,534</u> | <u>\$ 8,011,648</u> |
| Total utility plant in service | <u>\$ 56,813,332</u> | <u>\$ 1,191,654</u> | <u>\$ 329,743</u> | <u>\$ 57,675,243</u> |

ACCUMULATED DEPRECIATION

| Balance Beginning of Year | Accrual | Retirements- Original Cost | Removal Costs | Balance End of Year |
|--|---------------------|---|--------------------------|------------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - |
| 142,993 | | | | 142,993 |
| 2,673,746 | 144,408 | 5,403 | 2,672 | 2,810,079 |
| 1,936,822 | 80,226 | | | 2,017,048 |
| <u>\$ 4,753,561</u> | <u>\$ 224,634</u> | <u>\$ 5,403</u> | <u>\$ 2,672</u> | <u>\$ 4,970,120</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - |
| 154,621 | | | | 154,621 |
| 5,801,263 | 396,503 | 25,013 | 2,892 | 6,169,861 |
| 1,580,811 | 171,994 | 216,800 | | 1,536,005 |
| 5,914,479 | 383,565 | 52,993 | 34,557 | 6,210,494 |
| 15,621 | | | | 15,621 |
| 704,487 | 41 | | | 704,528 |
| <u>\$ 14,171,282</u> | <u>\$ 952,103</u> | <u>\$ 294,806</u> | <u>\$ 37,449</u> | <u>\$ 14,791,130</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - |
| 2,730,445 | 9,530 | | | 2,739,975 |
| 431,890 | 38,924 | 9,457 | | 461,357 |
| 1,297,839 | 114,008 | | | 1,411,847 |
| 13,864 | 1,005 | | | 14,869 |
| 17,306 | 948 | | | 18,254 |
| 31,118 | 1,140 | | | 32,258 |
| 1,391,979 | 102,108 | | | 1,494,087 |
| 38,846 | 1,112 | | | 39,958 |
| 360,552 | 21,981 | 19,653 | | 362,880 |
| <u>\$ 6,313,839</u> | <u>\$ 290,756</u> | <u>\$ 29,110</u> | <u>\$ -</u> | <u>\$ 6,575,485</u> |
| <u>\$ 25,238,682</u> | <u>\$ 1,467,493</u> | <u>\$ 329,319</u> | <u>\$ 40,121</u> | <u>\$ 26,336,735</u> |

WATER AND WASTEWATER DEPARTMENT

**CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF UTILITY PLANT IN SERVICE
AND ACCUMULATED DEPRECIATION
JUNE 30, 2017**

| 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 | 3,327,037 | | | 3,327,037 |
| Pumping structures | 6,126,061 | 20,559 | | 6,146,620 |
| Sewer plant and system | 94,311,793 | 53,871 | 822 | 94,364,842 |
| Reservoirs and standpipes | 1,746,776 | | | 1,746,776 |
| Purification building and equipment | 35,654,235 | 98,648 | | 35,752,883 |
| Transmission mains and appurtenances | 6,210,473 | | | 6,210,473 |
| Distribution mains and appurtenances | 11,691,239 | 3,946,509 | 694,817 | 14,942,931 |
| Customer services | 8,138,791 | 216,465 | 121,958 | 8,233,298 |
| Fire hydrants | 569,946 | | | 569,946 |
| Miscellaneous structures and improvements | 591,656 | | | 591,656 |
| Total transmission and distribution plant | <u>\$ 169,336,046</u> | <u>\$ 4,336,052</u> | <u>\$ 817,597</u> | <u>\$ 172,854,501</u> |
| General plant: | | | | |
| Office furniture and equipment | \$ 604,325 | \$ 15,791 | \$ 9,218 | \$ 610,898 |
| Transportation equipment | 1,774,661 | 88,947 | 4,532 | 1,859,076 |
| Tools and equipment | 1,537,787 | 107,401 | 70,603 | 1,574,585 |
| Communication equipment | 73,221 | 4,753 | | 77,974 |
| Laboratory equipment | 66,322 | | 3,535 | 62,787 |
| Total general plant | <u>\$ 4,056,316</u> | <u>\$ 216,892</u> | <u>\$ 87,888</u> | <u>\$ 4,185,320</u> |
| Total utility plant in service | <u><u>\$ 173,392,362</u></u> | <u><u>\$ 4,552,944</u></u> | <u><u>\$ 905,485</u></u> | <u><u>\$ 177,039,821</u></u> |

ACCUMULATED DEPRECIATION

| Balance Beginning of Year | Additions and Reclassifications | Retirements and Reclassifications | Balance End of Year |
|--|--|--|------------------------------------|
| \$ - | \$ - | \$ - | \$ - |
| 929,651 | 66,910 | | 996,561 |
| 1,432,588 | 186,505 | | 1,619,093 |
| 29,204,980 | 1,820,523 | 216 | 31,025,287 |
| 1,164,234 | 35,628 | | 1,199,862 |
| 10,514,769 | 952,191 | | 11,466,960 |
| 2,619,230 | 105,271 | | 2,724,501 |
| 7,120,602 | 204,005 | 633,801 | 6,690,806 |
| 1,911,131 | 336,255 | | 2,247,386 |
| 315,201 | 12,156 | | 327,357 |
| 320,197 | 15,412 | | 335,609 |
| <u>\$ 55,532,583</u> | <u>\$ 3,734,856</u> | <u>\$ 634,017</u> | <u>\$ 58,633,422</u> |
| | | | |
| \$ 508,629 | \$ 21,781 | \$ 9,087 | \$ 521,323 |
| 1,487,923 | 90,618 | 1,888 | 1,576,653 |
| 1,287,115 | 76,819 | 69,207 | 1,294,727 |
| 53,241 | 5,589 | | 58,830 |
| 53,024 | 6,458 | 3,535 | 55,947 |
| <u>\$ 3,389,932</u> | <u>\$ 201,265</u> | <u>\$ 83,717</u> | <u>\$ 3,507,480</u> |
| <u>\$ 58,922,515</u> | <u>\$ 3,936,121</u> | <u>\$ 717,734</u> | <u>\$ 62,140,902</u> |

CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF REVENUES AND EXPENSES—KILLEN SYSTEM
FOR THE YEARS ENDED JUNE 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|--------------------------|--------------------------|
| Operating revenues: | | |
| Water sales: | | |
| <i>Residential</i> | \$ 1,508,054 | \$ 1,459,814 |
| <i>Commercial</i> | 447,465 | 419,913 |
| Forfeited discounts | 19,782 | 18,707 |
| Other operating revenues | <u>15,484</u> | <u>15,269</u> |
| Total operating revenues | <u>\$ 1,990,785</u> | <u>\$ 1,913,703</u> |
| Operating expenses: | | |
| Water treatment and pumping | \$ 475,815 | \$ 510,046 |
| Transmission and distribution | 242,027 | 224,790 |
| Accounting and collections | 89,846 | 96,625 |
| Administrative and general | 177,290 | 155,615 |
| Depreciation | 53,008 | 48,832 |
| Taxes and tax equivalentents | <u>21,930</u> | <u>21,235</u> |
| Total operating expenses | <u>\$ 1,059,916</u> | <u>\$ 1,057,143</u> |
| Operating income | <u>\$ 930,869</u> | <u>\$ 856,560</u> |
| Nonoperating revenues (expenses): | | |
| Interest revenues | \$ 1,941 | \$ 680 |
| Interest expense | (137,083) | (126,313) |
| Amortization of debt related costs | <u>(888)</u> | <u>(888)</u> |
| Total nonoperating revenues (expenses) | <u>\$ (136,030)</u> | <u>\$ (126,521)</u> |
| Income before capital contributions | <u><u>\$ 794,839</u></u> | <u><u>\$ 730,039</u></u> |