

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND
WATER AND WASTEWATER DEPARTMENTS
FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018**



**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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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 and other postemployment benefits schedules on pages 3 through 14 and pages 50 through 55 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
October 31, 2019

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2019**

FINANCIAL HIGHLIGHTS

- The individual enterprise funds experienced the following changes in net position: Electricity increased \$3.8 million or 5.1%; Gas increased \$1.4 million or 3.7%; Water and Wastewater increased \$3.7 million or 4.5%.
- The individual enterprise funds experienced the following changes in net utility plant: Electricity increased \$0.5 million or .5%; Gas decreased \$.3 million or .9%; Water and Wastewater decreased \$2.6 million or 2.3%.
- The individual enterprise funds experienced the following changes in operating revenues: Electricity increased \$3.9 million or 3.2%; Gas decreased \$1.7 million or 10.0%; Water and Wastewater increased \$49,000 or .24%.
- The individual enterprise funds experienced the following changes in operating expenses: Electricity decreased \$0.9 million or 0.7%; Gas decreased \$0.2 million or 1.1%; Water and Wastewater increased \$0.5 million or 3.3%.
- The individual enterprise funds experienced the following changes in nonoperating revenues: Electricity increased about \$108,300 or 42.3%; Gas increased about \$150,300 or 156.1%; Water and Wastewater increased about \$176,300 or 197.4%.
- The individual enterprise funds experienced the following changes in nonoperating expenses: Electricity decreased \$30,700 or 11.1%; Gas decreased \$1,100 or 100.0%; Water and Wastewater decreased \$440,000 or 23.7%.

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 the cash came 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 \$3,837,866 or about 5.1%. 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 2019	FY 2018	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 35,249,860	\$ 33,906,277	\$ 1,343,583	3.96%
Capital Assets, Net	87,769,917	87,294,532	475,385	0.54%
Other Noncurrent Assets	2,795,882	3,659,259	(863,377)	-23.59%
Total Assets	<u>\$ 125,815,659</u>	<u>\$ 124,860,068</u>	<u>\$ 955,591</u>	<u>0.77%</u>
Deferred Outflows of Resources	\$ 2,378,870	\$ 3,373,441	\$ (994,571)	-29.48%
Current Liabilities	\$ 27,162,785	\$ 28,770,902	\$ (1,608,117)	-5.59%
Noncurrent Liabilities	20,239,470	22,153,006	(1,913,536)	-8.64%
Total Liabilities	<u>\$ 47,402,255</u>	<u>\$ 50,923,908</u>	<u>\$ (3,521,653)</u>	<u>-6.92%</u>
Deferred Inflows of Resources	\$ 1,096,886	\$ 1,452,079	\$ (355,193)	-24.46%
Net Investment in Capital Assets	\$ 81,415,804	\$ 80,096,174	\$ 1,319,630	1.65%
Restricted for Debt Service	953,065	1,001,842	(48,777)	-4.87%
Unrestricted	(2,673,481)	(5,240,494)	2,567,013	-48.98%
Total Net Position	<u>\$ 79,695,388</u>	<u>\$ 75,857,522</u>	<u>\$ 3,837,866</u>	<u>5.06%</u>

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

As the table below indicates, operating revenues increased approximately \$3.9 million or about 3.2% from FY 2018. During FY 2019, 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. In October 2018, the Electricity Department had a rate increase to offset rising costs. This was the first such rate increase since November 2008. The Electricity Department experienced an approximate 1.1% decrease in kilowatt-hours sold in FY 2019 compared to FY 2018. The Electricity Department experienced an increase in nonoperating revenues of \$108,335 or 42.3% due to higher interest rates. The Electricity Department experienced a decrease in nonoperating expenses by \$30,713 or about 11.1%.

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

	FY 2019	FY 2018	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	\$ 127,077,219	\$ 123,153,904	\$ 3,923,315	3.19%
Operating Expenses				
Cost of Sales	\$ 98,457,381	\$ 98,243,755	\$ 213,626	0.22%
Operations	9,574,528	9,646,038	(71,510)	-0.74%
Maintenance	6,042,774	7,128,374	(1,085,600)	-15.23%
Depreciation	5,407,027	5,503,890	(96,863)	-1.76%
Taxes and Tax Equivalents	3,876,921	3,751,245	125,676	3.35%
Total Operating Expenses	\$ 123,358,631	\$ 124,273,302	\$ (914,671)	-0.74%
Operating Income (Loss)	\$ 3,718,588	\$ (1,119,398)	\$ 4,837,986	432.20%
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 364,451	\$ 256,116	\$ 108,335	42.30%
Nonoperating Expenses	(245,173)	(275,886)	30,713	-11.13%
Total Nonoperating Revenues (Exp)	\$ 119,278	\$ (19,770)	\$ 139,048	703.33%
Change in Net Position	\$ 3,837,866	\$ (1,139,168)	\$ 4,977,034	436.90%
Total Net Position - Beginning	75,857,522	76,996,690	(1,139,168)	-1.48%
Total Net Position - Ending	\$ 79,695,388	\$ 75,857,522	\$ 3,837,866	5.06%

Gas Department

The Gas Department's net position increased from last year by \$1,400,257 or about 3.7%. 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 2019	FY 2018	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 19,838,999	\$ 18,108,859	\$ 1,730,140	9.55%
Capital Assets, Net	31,045,614	31,341,211	(295,597)	-0.94%
Total Assets	<u>\$ 50,884,613</u>	<u>\$ 49,450,070</u>	<u>\$ 1,434,543</u>	<u>2.90%</u>
Deferred Outflows of Resources	\$ 1,394,083	\$ 1,447,833	\$ (53,750)	-3.71%
Current Liabilities	\$ 903,202	\$ 1,223,099	\$ (319,897)	-26.15%
Noncurrent Liabilities	11,402,451	11,149,665	252,786	2.27%
Total Liabilities	<u>\$ 12,305,653</u>	<u>\$ 12,372,764</u>	<u>\$ (67,111)</u>	<u>-0.54%</u>
Deferred Inflows of Resources	\$ 722,398	\$ 674,751	\$ 47,647	7.06%
Net Investment in Capital Assets	\$ 31,045,614	\$ 31,341,211	\$ (295,597)	-0.94%
Unrestricted	8,205,031	6,509,177	1,695,854	26.05%
Total Net Position	<u>\$ 39,250,645</u>	<u>\$ 37,850,388</u>	<u>\$ 1,400,257</u>	<u>3.70%</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 \$1.7 million or about 10.0% from FY 2018. The Department had two rate changes in FY 2019. The Gas Department experienced an approximate 14.0% decrease in overall sales volume in FY 2019 compared to FY 2018. Cost of sales decreased by \$.8 million or about 11.1% due to decreased sales caused by a milder winter. The Gas Department experienced a decrease in nonoperating revenues of \$150,335 or about 156.1% due to higher interest rates and the sale of obsolete assets. The Gas Department experienced a decrease in nonoperating expenses by \$1,104 or 100.0%.

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

	FY 2019	FY 2018	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	<u>\$ 15,678,598</u>	<u>\$ 17,426,154</u>	<u>\$ (1,747,556)</u>	<u>-10.03%</u>
Operating Expenses				
Cost of Sales	\$ 6,218,686	\$ 6,994,911	\$ (776,225)	-11.10%
Operations	3,261,325	2,960,022	301,303	10.18%
Maintenance	1,968,695	1,671,394	297,301	17.79%
Depreciation and Amortization	1,571,022	1,543,792	27,230	1.76%
Taxes and Tax Equivalents	1,505,265	1,512,420	(7,155)	-0.47%
Total Operating Expenses	<u>\$ 14,524,993</u>	<u>\$ 14,682,539</u>	<u>\$ (157,546)</u>	<u>-1.07%</u>
Operating Income (Loss)	<u>\$ 1,153,605</u>	<u>\$ 2,743,615</u>	<u>\$ (1,590,010)</u>	<u>-57.95%</u>
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 246,652	\$ 96,317	\$ 150,335	156.08%
Nonoperating Expenses	-	(1,104)	1,104	100.00%
Total Nonoperating Revenues (Exp)	<u>\$ 246,652</u>	<u>\$ 95,213</u>	<u>\$ 151,439</u>	<u>159.05%</u>
Change in Net Position	\$ 1,400,257	\$ 2,838,828	\$ (1,438,571)	-50.67%
Total Net Position - Beginning	<u>37,850,388</u>	<u>35,011,560</u>	<u>2,838,828</u>	<u>8.11%</u>
Total Net Position - Ending	<u>\$ 39,250,645</u>	<u>\$ 37,850,388</u>	<u>\$ 1,400,257</u>	<u>3.70%</u>

Water and Wastewater Department

The Water and Wastewater Department's net position increased from last year by \$3,658,041 or about 4.5%. 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 2019	FY 2018	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 15,797,955	\$ 14,992,774	\$ 805,181	5.37%
Capital Assets, Net	110,691,945	113,297,989	(2,606,044)	-2.30%
Other Noncurrent Assets	5,940,947	5,822,511	118,436	2.03%
Total Assets	<u>\$ 132,430,847</u>	<u>\$ 134,113,274</u>	<u>\$ (1,682,427)</u>	<u>-1.25%</u>
Deferred Outflows of Resources	\$ 3,203,633	\$ 3,720,741	\$ (517,108)	-13.90%
Current Liabilities	\$ 6,585,150	\$ 6,938,975	\$ (353,825)	-5.10%
Noncurrent Liabilities	43,600,259	48,948,616	(5,348,357)	-10.93%
Total Liabilities	<u>\$ 50,185,409</u>	<u>\$ 55,887,591</u>	<u>\$ (5,702,182)</u>	<u>-10.20%</u>
Deferred Inflows of Resources	\$ 357,471	\$ 512,865	\$ (155,394)	-30.30%
Net Investment in Capital Assets	\$ 68,740,057	\$ 66,444,167	\$ 2,295,890	3.46%
Restricted for Debt Service	5,310,468	5,098,461	212,007	4.16%
Unrestricted	11,041,075	9,890,931	1,150,144	11.63%
Total Net Position	<u><u>\$ 85,091,600</u></u>	<u><u>\$ 81,433,559</u></u>	<u><u>\$ 3,658,041</u></u>	<u><u>4.49%</u></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 \$48,956 or about .24% from FY 2018 revenues. Operating expenses increased \$508,403 or about 3.3%. The Water and Wastewater Department experienced an increase in nonoperating revenues of \$176,274 or 197.4% due to higher interest rates and the sale of obsolete assets. The Water and Wastewater Department experienced a decrease in nonoperating expenses of \$439,994 or about 23.7% due to a decrease in bond related costs.

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

	FY 2019	FY 2018	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	<u>\$ 20,250,067</u>	<u>\$ 20,201,111</u>	<u>\$ 48,956</u>	<u>0.24%</u>
Operating Expenses				
Water Treatment and Pumping	\$ 3,245,027	\$ 2,826,584	\$ 418,443	14.80%
Sewage Disposal	2,086,737	1,984,615	102,122	5.15%
Transmission and Distribution	1,486,521	1,417,151	69,370	4.90%
Accounting and Collections	1,096,873	1,054,937	41,936	3.98%
Administrative and General	2,310,861	2,483,019	(172,158)	-6.93%
Depreciation	4,020,570	3,958,103	62,467	1.58%
Taxes and Tax Equivalents	1,699,718	1,713,495	(13,777)	-0.80%
Total Operating Expenses	<u>\$ 15,946,307</u>	<u>\$ 15,437,904</u>	<u>\$ 508,403</u>	<u>3.29%</u>
Operating Income	<u>\$ 4,303,760</u>	<u>\$ 4,763,207</u>	<u>\$ (459,447)</u>	<u>-9.65%</u>
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 265,585	\$ 89,311	\$ 176,274	197.37%
Nonoperating Expenses	(1,419,804)	(1,859,798)	439,994	-23.66%
Total Nonoperating Revenues (Exp)	<u>\$ (1,154,219)</u>	<u>\$ (1,770,487)</u>	<u>\$ 616,268</u>	<u>-34.81%</u>
Income Before Contributions	\$ 3,149,541	\$ 2,992,720	\$ 156,821	5.24%
Capital Contributions	<u>508,500</u>	<u>593,513</u>	<u>(85,013)</u>	<u>-14.32%</u>
Change in Net Position	\$ 3,658,041	\$ 3,586,233	\$ 71,808	2.00%
Total Net Position - Beginning	<u>81,433,559</u>	<u>77,847,326</u>	<u>3,586,233</u>	<u>4.61%</u>
Total Net Position - Ending	<u>\$ 85,091,600</u>	<u>\$ 81,433,559</u>	<u>\$ 3,658,041</u>	<u>4.49%</u>

BUDGETARY HIGHLIGHTS

As required, the City Council adopts a budget for each enterprise fund comprising the Florence Utilities. The FY 2019 original budgets for the Gas and Water and Wastewater Departments were adopted on June 19, 2018. The original budget for the Electricity Department was adopted on August 21, 2018. The FY 2019 amended budgets for the Electricity Department, Gas Department, and the Water and Wastewater Department were adopted on October 16, 2018. 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, 2019

	Final Budget	Actual	Variance	
			Dollars	Percent
Operating Revenues	\$ 123,759,000	\$ 127,077,219	\$ 3,318,219	2.68%
Operating Expenses	122,115,200	123,358,631	(1,243,431)	-1.02%
Operating Income (Loss)	\$ 1,643,800	\$ 3,718,588	\$ 2,074,788	126.22%
Nonoperating Revenues (Expenses)	117,900	119,278	1,378	-1.17%
Change in Net Position	\$ 1,761,700	\$ 3,837,866	\$ 2,076,166	117.85%
Total Net Position - Beginning	75,857,522	75,857,522		
Total Net Position - Ending	\$ 77,619,222	\$ 79,695,388	\$ 2,076,166	2.67%

As the above budget report shows, the Electricity Department exceeded the budgeted Change in Net Position by \$2,076,166 or approximately 117.9%. 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 were sales revenues, cost of sales, and overhead line maintenance.

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, 2019

	Final Budget	Actual	Variance	
			Dollars	Percent
Operating Revenues	\$ 17,474,400	\$ 15,678,598	\$ (1,795,802)	-10.28%
Operating Expenses	16,946,000	14,524,993	2,421,007	14.29%
Operating Income	\$ 528,400	\$ 1,153,605	\$ 625,205	118.32%
Nonoperating Revenues (Expenses)	55,500	246,652	191,152	344.42%
Change in Net Position	\$ 583,900	\$ 1,400,257	\$ 816,357	139.81%
Total Net Position - Beginning	37,850,388	37,850,388		
Total Net Position - Ending	\$ 38,434,288	\$ 39,250,645	\$ 816,357	2.12%

The Gas Department exceeded the budgeted Change in Net Position by \$816,357, or approximately 139.8%. 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 most significant variances were decreases in sales revenues and 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, 2019

	Final Budget	Actual	Variance	
			Dollars	Percent
Operating Revenues	\$ 20,516,500	\$ 20,250,067	\$ (266,433)	-1.30%
Operating Expenses	16,679,700	15,946,307	733,393	4.40%
Operating Income	\$ 3,836,800	\$ 4,303,760	\$ 466,960	12.17%
Nonoperating Revenues (Expenses)	(1,402,900)	(1,154,219)	248,681	17.73%
Capital Contributions	-	508,500	508,500	N/A
Change in Net Position	\$ 2,433,900	\$ 3,658,041	\$ 1,224,141	50.30%
Total Net Position - Beginning	81,433,559	81,433,559		
Total Net Position - Ending	\$ 83,867,459	\$ 85,091,600	\$ 1,224,141	1.46%

The Water and Wastewater Department exceeded the budgeted Change in Net Position by \$1,224,141, or approximately 50.3%. 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 were administrative & general expenses and capital contributions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY 2019, 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 2019

	FY 2019	FY 2018	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 181,104,143	\$ 176,680,689	\$ 4,423,454	2.50%
Construction in Progress	624,903	814,498	(189,595)	-23.28%
Less: Accumulated Depreciation	(93,959,129)	(90,200,655)	(3,758,474)	4.17%
Net Utility Plant	\$ 87,769,917	\$ 87,294,532	\$ 475,385	0.54%

As the above table shows, the Electricity Department experienced a .54% increase in net utility plant. The Department plans to finance capital expenditures in FY 2020 through cash generated from current operations and cash reserves.

Gas Department

Gas Department
Capital Assets, Net
FY 2019

	FY 2019	FY 2018	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 58,871,060	\$ 58,594,836	\$ 276,224	0.47%
Acquisition Adjustment (net of amortization)	126,158	136,819	(10,661)	-7.79%
Construction in Progress	27,192	129,952	(102,760)	-79.08%
Less: Accumulated Depreciation	(27,978,796)	(27,520,396)	(458,400)	1.67%
Net Utility Plant	<u>\$ 31,045,614</u>	<u>\$ 31,341,211</u>	<u>\$ (295,597)</u>	<u>-0.94%</u>

As the above table shows, the Gas Department decreased net utility plant by .94%. The Department plans to finance capital expenditures in FY 2020 through cash reserves and cash generated from current operations.

Water and Wastewater Department

Water and Wastewater Department
Capital Assets, Net
FY 2019

	FY 2019	FY 2018	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 180,485,879	\$ 177,963,740	\$ 2,522,139	1.42%
Construction in Progress	299,872	1,480,071	(1,180,199)	-79.74%
Less: Accumulated Depreciation	(70,093,806)	(66,145,822)	(3,947,984)	5.97%
Net Utility Plant	<u>\$ 110,691,945</u>	<u>\$ 113,297,989</u>	<u>\$ (2,606,044)</u>	<u>-2.30%</u>

As the above table shows, the Water and Wastewater Department decreased net utility plant by 2.30%. The Department plans to finance capital expenditures in FY 2020 with cash reserves and cash generated from current operations.

Long-term Debt

During FY 2019, the Electricity and Water & Wastewater Departments had outstanding warrants. The amount and discussion of these issues are discussed more fully in the notes to financial statements. The Gas Department did not have any outstanding warrants during FY 2019.

Electricity Department

The Electricity Department has one warrant issue as described in the notes to financial statements, outstanding at year-end. 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. This issue requires that the Electricity Department's Annual Net Income (as defined in the indenture) be at least 1.25 times the maximum Annual Debt Service Requirement. For FY 2019, the Electricity Department exceeded that requirement at about 11.70 times. The Electric Revenue Refunding Warrants, Series 2009 were fully satisfied on June 1, 2019 and were not outstanding at year-end. The Department does not anticipate issuing new debt in FY 2020.

Gas Department

The Gas Department did not have any outstanding debt issues in FY 2019. The Department does not have any plans to issue any new debt in FY 2020.

Water and Wastewater Department

The Water and Wastewater Department had seven warrant issues outstanding at year-end as described in the notes to financial statements. These issues are (1) Water and Sewer Revenue Warrants, SRF Series 2010-A, interest rate 2.61%, (2) Water and Sewer Revenue Warrants, SRF Series 2010-B, interest rate 2.57%, (3) Water and Sewer Revenue Warrants, SRF Series 2010-C, interest rate 2.57%, (4) Water and Sewer Revenue Warrants, SRF Series 2010-D, interest rate 2.57%, (5) Water and Sewer Revenue Warrants, Series 2011, interest rates ranging from 3.25% to 5%, (6) Water and Sewer Revenue Warrants, SRF Series 2013, interest rates at 1.70% through December 1, 2016 and 2.45% thereafter, and (7) Water and Sewer Revenue Warrants, Series 2017, interest rates ranging from 2.00% to 4.00%. 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. The Series 2017 is insured by Build America Mutual Assurance Company. The Series 2017 was issued to refinance the SRF Series 2006, SRF Series 2007 and \$20,110,000 of the Series 2011 warrants taking 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 S&P. The 2011 and 2017 issues require 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 2019, the Water and Wastewater Department exceeded that requirement at about 1.54 times. The Department does not anticipate issuing new debt in FY 2020.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Florence MSA's unemployment rate was 3.2% for August 2019 and 4.6% for August 2018. The State of Alabama's unemployment rate was 3.1% for August 2019 and 3.9% for August 2018. 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 2020 through August 2019 for electricity have decreased from the same period last year by 5.6%. Sales in dekatherms to natural gas customers for the period from July 2019 through August 2019, as compared to sales for the same period in the previous fiscal year, have decreased approximately 14.3%. FY 2020 sales revenues from water and wastewater operations through August 2019 have decreased about 1.5% from the same period in FY 2019.

The City Council adopted the Gas Department's and the Water and Wastewater Department's FY 2020 budgets on June 18, 2019. The City Council adopted the Electricity Department's FY 2020 budget on August 6, 2019. These budgets were amended on October 1, 2019 to reflect a general wage increase for employees to match the same wage increase given to the City's General Fund employees, also approved at the October 1, 2019 meeting.

The City's power contract with TVA provides for a Total Monthly Fuel Cost Adjustment (TMFCA) on sales to its distributors. The Electricity Department passes any rate increases or decreases caused by TVA action on to its customers. The Department implemented a general rate increase in October 2018.

The Gas Department's rate ordinance allows for gas rate changes without further City Council action. The Department last implemented a rate change in February 2019. 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 last implemented a rate increase in July 2017. The ordinance is available for review on the City's website at www.florenceal.org 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.florenceal.org 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, 2019 and 2018**

ASSETS	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 12,471,536	\$ 10,082,926
Accounts receivable (net)	12,090,312	13,087,199
Accrued interest receivable	5,644	4,650
Inventories	1,544,146	1,683,349
Prepaid expenses	<u>9,138,222</u>	<u>9,048,153</u>
Total current assets	<u>\$ 35,249,860</u>	<u>\$ 33,906,277</u>
Noncurrent assets:		
Restricted cash and cash equivalents	\$ 968,494	\$ 1,019,932
Capital assets:		
Utility plant in service (at cost)	181,104,143	176,680,689
Construction in progress	624,903	814,498
Less: accumulated depreciation	93,959,129	90,200,655
Receivables from customers for conservation loans	<u>1,827,388</u>	<u>2,639,327</u>
Total noncurrent assets	<u>\$ 90,565,799</u>	<u>\$ 90,953,791</u>
Total assets	<u>\$ 125,815,659</u>	<u>\$ 124,860,068</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	\$	\$ 26,397
Pensions	2,199,195	3,110,286
OPEB obligations	<u>179,675</u>	<u>236,758</u>
Total deferred outflows of resources	<u>\$ 2,378,870</u>	<u>\$ 3,373,441</u>

LIABILITIES	2019	2018
Current liabilities:		
Accounts payable	\$ 16,946,368	\$ 18,260,070
Retainage payable	64,759	67,141
Customer deposits	8,787,601	8,536,307
Compensated absences	640,058	630,553
Accrued taxes and expenses	323,269	388,100
	<hr/>	<hr/>
Total current liabilities	\$ 26,762,055	\$ 27,882,171
Liabilities payable from restricted assets:		
Revenue warrants–payable within one year	\$ 385,000	\$ 875,000
Unamortized debt premium (discount)	301	(4,359)
Accrued interest	15,429	18,090
	<hr/>	<hr/>
Total liabilities payable from restricted assets	\$ 400,730	\$ 888,731
Noncurrent liabilities:		
Revenue warrants–payable after one year	\$ 5,965,000	\$ 6,350,000
Unamortized debt premium (discount)	3,812	4,114
Advances from TVA for conservation loans	1,899,589	2,744,553
Compensated absences	960,087	945,829
Net pension liability	7,054,806	7,729,211
Total OPEB liability	4,356,176	4,379,299
	<hr/>	<hr/>
Total noncurrent liabilities	\$ 20,239,470	\$ 22,153,006
Total liabilities	<hr/>	<hr/>
	\$ 47,402,255	\$ 50,923,908
DEFERRED INFLOWS OF RESOURCES		
Pensions	\$ 888,752	\$ 1,325,013
OPEB obligations	208,134	127,066
	<hr/>	<hr/>
Total deferred inflows of resources	\$ 1,096,886	\$ 1,452,079
NET POSITION		
Net investment in capital assets	\$ 81,415,804	\$ 80,096,174
Restricted for debt service	953,065	1,001,842
Unrestricted	(2,673,481)	(5,240,494)
	<hr/>	<hr/>
Total net position	<hr/>	<hr/>
	\$ 79,695,388	\$ 75,857,522

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, 2019 and 2018**

	2019	2018
Operating revenues:		
Electric sales:		
<i>Residential</i>	\$ 67,320,031	\$ 64,728,150
<i>Small commercial</i>	13,930,110	13,213,915
<i>Large commercial</i>	40,550,073	39,880,004
<i>Public street and highway lighting</i>	2,249,296	2,313,287
Forfeited discounts	1,120,096	1,119,637
Rents from electric property	1,316,338	1,303,623
Other operating revenues	591,275	595,288
Total operating revenues	\$ 127,077,219	\$ 123,153,904
Operating expenses:		
Costs of sales	\$ 98,457,381	\$ 98,243,755
Operations	9,574,528	9,646,038
Maintenance	6,042,774	7,128,374
Depreciation	5,407,027	5,503,890
Taxes and tax equivalents	3,876,921	3,751,245
Total operating expenses	\$ 123,358,631	\$ 124,273,302
Operating income (loss)	\$ 3,718,588	\$ (1,119,398)
Nonoperating revenues (expenses):		
Interest revenues	\$ 213,258	\$ 102,477
Merchandising revenues (net of costs)	124,192	139,452
Miscellaneous nonoperating income	16,064	9,191
Gain on disposition of assets	10,937	4,996
Interest expense	(214,418)	(245,130)
Amortization of debt related costs	(30,755)	(30,756)
Total nonoperating revenues (expenses)	\$ 119,278	\$ (19,770)
Change in net position	\$ 3,837,866	\$ (1,139,168)
Total net position—beginning	75,857,522	76,996,690
Total net position—ending	\$ 79,695,388	\$ 75,857,522

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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 128,214,363	\$ 121,898,920
Receipts from interfund services provided	3,442,316	2,528,741
Payments to suppliers	(106,804,348)	(105,038,171)
Payments to employees for services and benefits—exclusive of capitalized costs	(11,625,374)	(11,641,399)
Payments for interfund services used	<u>(3,650,200)</u>	<u>(3,525,829)</u>
Net cash provided by operating activities	<u>\$ 9,576,757</u>	<u>\$ 4,222,262</u>
Cash flows from noncapital financing activities:		
Change in receivables from customers for conservation loans	\$ 811,939	\$ 1,048,160
Change in advances from TVA for conservation loans	<u>(844,964)</u>	<u>(1,055,777)</u>
Net cash used for noncapital financing activities	<u>\$ (33,025)</u>	<u>\$ (7,617)</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (5,478,469)	\$ (5,246,928)
Proceeds from disposition of assets	40,331	25,543
Removal costs of retirements of capital assets	(888,606)	(933,306)
Principal paid on capital debt	(875,000)	(850,000)
Interest paid on capital debt	<u>(217,080)</u>	<u>(247,680)</u>
Net cash used for capital and related financing activities	<u>\$ (7,418,824)</u>	<u>\$ (7,252,371)</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 212,264</u>	<u>\$ 104,679</u>
Net cash provided by investing activities	<u>\$ 212,264</u>	<u>\$ 104,679</u>
Net increase (decrease) in cash and cash equivalents	\$ 2,337,172	\$ (2,933,047)
Balances—beginning of the year	<u>11,102,858</u>	<u>14,035,905</u>
Balances—end of the year	<u><u>\$ 13,440,030</u></u>	<u><u>\$ 11,102,858</u></u>
<i>Classified as:</i>		
Current assets	\$ 12,471,536	\$ 10,082,926
Restricted assets	<u>968,494</u>	<u>1,019,932</u>
Totals	<u><u>\$ 13,440,030</u></u>	<u><u>\$ 11,102,858</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, 2019 and 2018
(Continued)**

	<u>2019</u>	<u>2018</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>		
Operating income (loss)	\$ 3,718,588	\$ (1,119,398)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	\$ 5,862,297	\$ 5,931,906
Income from merchandising revenues (net of costs)	124,192	139,452
Miscellaneous nonoperating income	16,064	9,191
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Receivables (net)	996,887	(1,403,627)
Inventories	139,203	(248,395)
Prepaid expenses	(90,069)	(1,455,449)
Deferred outflows of resources	968,174	367,885
Accounts and other payables	(1,357,152)	1,827,124
Customer deposits	251,294	355,369
Net pension liability	(674,405)	(858,706)
Total OPEB liability	(23,123)	(64,220)
Deferred inflows of resources	<u>(355,193)</u>	<u>741,130</u>
Total adjustments	<u>\$ 5,858,169</u>	<u>\$ 5,341,660</u>
Net cash provided by operating activities	<u>\$ 9,576,757</u>	<u>\$ 4,222,262</u>

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

**CITY OF FLORENCE, ALABAMA
GAS DEPARTMENT
STATEMENTS OF NET POSITION
JUNE 30, 2019 and 2018**

ASSETS	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 16,994,042	\$ 15,153,044
Accounts receivable (net)	612,727	770,385
Accrued interest receivable	58,913	20,838
Inventories	947,160	850,879
Prepaid expenses	<u>1,226,157</u>	<u>1,313,713</u>
Total current assets	<u>\$ 19,838,999</u>	<u>\$ 18,108,859</u>
Noncurrent assets:		
Capital assets:		
Utility plant in service (at cost)	\$ 58,871,060	\$ 58,594,836
Acquisition adjustment (net of amortization)	126,158	136,819
Construction in progress	27,192	129,952
Less: accumulated depreciation	<u>27,978,796</u>	<u>27,520,396</u>
Total noncurrent assets	<u>\$ 31,045,614</u>	<u>\$ 31,341,211</u>
Total assets	<u>\$ 50,884,613</u>	<u>\$ 49,450,070</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	\$ 1,097,127	\$ 1,055,102
OPEB obligations	<u>296,956</u>	<u>392,731</u>
Total deferred outflows of resources	<u>\$ 1,394,083</u>	<u>\$ 1,447,833</u>

LIABILITIES	2019	2018
Current liabilities:		
Accounts payable	\$ 593,505	\$ 928,485
Compensated absences	228,441	215,280
Accrued taxes and expenses	81,256	79,334
	<hr/>	<hr/>
Total current liabilities	\$ 903,202	\$ 1,223,099
	<hr/>	<hr/>
Noncurrent liabilities:		
Compensated absences	\$ 342,661	\$ 322,919
Net pension liability	3,860,177	3,562,406
Total OPEB liability	7,199,613	7,264,340
	<hr/>	<hr/>
Total noncurrent liabilities	\$ 11,402,451	\$ 11,149,665
	<hr/>	<hr/>
Total liabilities	\$ 12,305,653	\$ 12,372,764
	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES		
Pensions	\$ 272,645	\$ 409,163
OPEB obligations	449,753	265,588
	<hr/>	<hr/>
Total deferred inflows of resources	\$ 722,398	\$ 674,751
	<hr/>	<hr/>
NET POSITION		
Net investment in capital assets	\$ 31,045,614	\$ 31,341,211
Unrestricted	8,205,031	6,509,177
	<hr/>	<hr/>
Total net position	\$ 39,250,645	\$ 37,850,388
	<hr/>	<hr/>

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, 2019 and 2018**

	2019	2018
Operating revenues:		
Gas sales:		
<i>Residential</i>	\$ 6,604,643	\$ 7,154,322
<i>Commercial</i>	4,727,036	5,113,067
<i>Industrial</i>	3,003,136	3,813,280
<i>Resale and transportation</i>	1,187,727	1,181,179
Service fees	63,972	62,798
Forfeited discounts	80,845	90,883
Other operating revenues	11,239	10,625
Total operating revenues	\$ 15,678,598	\$ 17,426,154
Operating expenses:		
Costs of sales	\$ 6,218,686	\$ 6,994,911
Operations	3,261,325	2,960,022
Maintenance	1,968,695	1,671,394
Depreciation	1,560,361	1,533,131
Amortization of acquisition adjustment	10,661	10,661
Taxes and tax equivalents	1,505,265	1,512,420
Total operating expenses	\$ 14,524,993	\$ 14,682,539
Operating income	\$ 1,153,605	\$ 2,743,615
Nonoperating revenues (expenses):		
Interest revenues	\$ 122,928	\$ 45,695
Gain (loss) on disposition of assets	110,922	(1,104)
Miscellaneous nonoperating income	12,802	50,622
Total nonoperating revenues (expenses)	\$ 246,652	\$ 95,213
Change in net position	\$ 1,400,257	\$ 2,838,828
Total net position—beginning	37,850,388	35,011,560
Total net position—ending	\$ 39,250,645	\$ 37,850,388

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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 15,849,058	\$ 17,488,943
Receipts from interfund services provided	173,301	206,083
Payments to suppliers	(7,251,656)	(7,378,053)
Payments to employees for services and benefits—exclusive of capitalized costs	(3,129,865)	(3,199,578)
Payments for interfund services used	<u>(2,720,190)</u>	<u>(2,491,772)</u>
Net cash provided by operating activities	<u>\$ 2,920,648</u>	<u>\$ 4,625,623</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (1,164,430)	\$ (1,197,435)
Proceeds from disposition of assets	112,551	2,429
Removal costs of retirements of capital assets	<u>(112,624)</u>	<u>(46,718)</u>
Net cash used for capital and related financing activities	<u>\$ (1,164,503)</u>	<u>\$ (1,241,724)</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 84,853</u>	<u>\$ 32,050</u>
Net cash provided by investing activities	<u>\$ 84,853</u>	<u>\$ 32,050</u>
Net increase in cash and cash equivalents	\$ 1,840,998	\$ 3,415,949
Balances—beginning of the year	<u>15,153,044</u>	<u>11,737,095</u>
Balances—end of the year	<u>\$ 16,994,042</u>	<u>\$ 15,153,044</u>
<i>Classified as:</i>		
Current assets	<u>\$ 16,994,042</u>	<u>\$ 15,153,044</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, 2019 and 2018
(Continued)**

	<u>2019</u>	<u>2018</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>		
Operating income	\$ 1,153,605	\$ 2,743,615
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	\$ 1,560,361	\$ 1,533,131
Amortization of acquisition adjustment	10,661	10,661
Miscellaneous nonoperating income	12,802	50,622
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Receivables (net)	157,658	11,881
Inventories	(96,281)	194,558
Prepaid expenses	87,556	79,987
Deferred outflows of resources	53,750	(145,632)
Accounts and other payables	(300,155)	65,321
Net pension liability	297,771	(244,060)
Total OPEB liability	(64,727)	(135,303)
Deferred inflows of resources	47,647	460,842
 Total adjustments	 <u>\$ 1,767,043</u>	 <u>\$ 1,882,008</u>
 Net cash provided by operating activities	 <u>\$ 2,920,648</u>	 <u>\$ 4,625,623</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, 2019 and 2018**

ASSETS	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 12,789,755	\$ 11,932,348
Accounts receivable (net)	1,799,099	2,024,282
Accrued interest receivable	44,903	24,522
Inventories	765,233	725,745
Prepaid expenses	<u>398,965</u>	<u>285,877</u>
Total current assets	<u>\$ 15,797,955</u>	<u>\$ 14,992,774</u>
Noncurrent assets:		
Restricted cash and cash equivalents	\$ 5,777,042	\$ 5,611,581
Capital assets:		
Utility plant in service (at cost)	180,485,879	177,963,740
Construction in progress	299,872	1,480,071
Less: accumulated depreciation	70,093,806	66,145,822
Prepaid debt related costs (net)	<u>163,905</u>	<u>210,930</u>
Total noncurrent assets	<u>\$ 116,632,892</u>	<u>\$ 119,120,500</u>
Total assets	<u>\$ 132,430,847</u>	<u>\$ 134,113,274</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	\$ 1,980,483	\$ 2,132,029
Pensions	1,162,038	1,508,669
OPEB obligations	<u>61,112</u>	<u>80,043</u>
Total deferred outflows of resources	<u>\$ 3,203,633</u>	<u>\$ 3,720,741</u>

LIABILITIES	<u>2019</u>	<u>2018</u>
Current liabilities:		
Accounts payable	\$ 333,640	\$ 802,854
Retainage payable		4,421
Customer deposits	3,066	2,250
Compensated absences	316,180	288,213
Accrued taxes and expenses	<u>242,210</u>	<u>274,637</u>
Total current liabilities	<u>\$ 895,096</u>	<u>\$ 1,372,375</u>
Liabilities payable from restricted assets:		
Revenue warrants—payable within one year	\$ 5,185,000	\$ 5,015,000
Unamortized debt premium (discount)	38,480	38,480
Accrued interest	<u>466,574</u>	<u>513,120</u>
Total liabilities payable from restricted assets	<u>\$ 5,690,054</u>	<u>\$ 5,566,600</u>
Noncurrent liabilities:		
Revenue warrants—payable after one year	\$ 38,090,000	\$ 43,275,000
Unamortized debt premium (discount)	618,891	657,371
Compensated absences	474,270	432,319
Net pension liability	2,935,466	3,103,368
Total OPEB liability	<u>1,481,632</u>	<u>1,480,558</u>
Total noncurrent liabilities	<u>\$ 43,600,259</u>	<u>\$ 48,948,616</u>
Total liabilities	<u>\$ 50,185,409</u>	<u>\$ 55,887,591</u>
DEFERRED INFLOWS OF RESOURCES		
Pensions	\$ 342,165	\$ 497,524
OPEB obligations	<u>15,306</u>	<u>15,341</u>
Total deferred inflows of resources	<u>\$ 357,471</u>	<u>\$ 512,865</u>
NET POSITION		
Net investment in capital assets	\$ 68,740,057	\$ 66,444,167
Restricted for debt service	5,310,468	5,098,461
Unrestricted	<u>11,041,075</u>	<u>9,890,931</u>
Total net position	<u>\$ 85,091,600</u>	<u>\$ 81,433,559</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Water sales:		
<i>Residential</i>	\$ 7,086,767	\$ 7,058,412
<i>Commercial</i>	3,465,249	3,458,349
<i>Resale</i>	1,591,807	1,580,372
Sewer service sales:		
<i>Residential</i>	4,406,783	4,393,143
<i>Commercial</i>	3,378,099	3,409,400
Forfeited discounts	161,315	169,890
Other operating revenues	<u>160,047</u>	<u>131,545</u>
Total operating revenues	<u>\$ 20,250,067</u>	<u>\$ 20,201,111</u>
Operating expenses:		
Water treatment and pumping	\$ 3,245,027	\$ 2,826,584
Sewage disposal	2,086,737	1,984,615
Transmission and distribution	1,486,521	1,417,151
Accounting and collections	1,096,873	1,054,937
Administrative and general	2,310,861	2,483,019
Depreciation	4,020,570	3,958,103
Taxes and tax equivalents	<u>1,699,718</u>	<u>1,713,495</u>
Total operating expenses	<u>\$ 15,946,307</u>	<u>\$ 15,437,904</u>
Operating income	<u>\$ 4,303,760</u>	<u>\$ 4,763,207</u>
Nonoperating revenues (expenses):		
Interest revenues	\$ 198,275	\$ 89,311
Gain (loss) on disposition of assets	67,310	(7,036)
Interest expense	(1,259,714)	(1,324,876)
Debt issuance costs		(396,657)
Amortization of debt related costs	<u>(160,090)</u>	<u>(131,229)</u>
Total nonoperating revenues (expenses)	<u>\$ (1,154,219)</u>	<u>\$ (1,770,487)</u>
Income before contributions	\$ 3,149,541	\$ 2,992,720
Capital contributions	<u>508,500</u>	<u>593,513</u>
Change in net position	\$ 3,658,041	\$ 3,586,233
Total net position—beginning	<u>81,433,559</u>	<u>77,847,326</u>
Total net position—ending	<u>\$ 85,091,600</u>	<u>\$ 81,433,559</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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 20,155,981	\$ 19,593,366
Receipts from interfund services provided	398,144	365,202
Payments to suppliers	(4,473,678)	(3,370,960)
Payments to employees for services and benefits—exclusive of capitalized costs	(4,794,061)	(4,924,790)
Payments for interfund services used	<u>(3,183,882)</u>	<u>(2,933,072)</u>
Net cash provided by operating activities	<u>\$ 8,102,504</u>	<u>\$ 8,729,746</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (1,515,295)	\$ (1,764,955)
Proceeds from disposition of assets	70,525	
Proceeds from capital contributions	508,500	593,513
Principal paid on capital debt	(5,015,000)	(4,440,000)
Interest paid on capital debt	<u>(1,306,260)</u>	<u>(1,528,943)</u>
Net cash used for capital and related financing activities	<u>\$ (7,257,530)</u>	<u>\$ (7,140,385)</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 177,894</u>	<u>\$ 72,355</u>
Net cash provided by investing activities	<u>\$ 177,894</u>	<u>\$ 72,355</u>
Net increase in cash and cash equivalents	\$ 1,022,868	\$ 1,661,716
Balances—beginning of the year	<u>17,543,929</u>	<u>15,882,213</u>
Balances—end of the year	<u><u>\$ 18,566,797</u></u>	<u><u>\$ 17,543,929</u></u>
<i>Classified as:</i>		
Current assets	\$ 12,789,755	\$ 11,932,348
Restricted assets	<u>5,777,042</u>	<u>5,611,581</u>
Totals	<u><u>\$ 18,566,797</u></u>	<u><u>\$ 17,543,929</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, 2019 and 2018
(Continued)

	<u>2019</u>	<u>2018</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>		
Operating income	\$ 4,303,760	\$ 4,763,207
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	\$ 4,118,124	\$ 4,040,882
Change in assets and liabilities:		
Receivables (net)	225,183	(312,845)
Inventories	(39,488)	991
Prepaid expenses	(113,088)	(2,960)
Deferred outflows of resources	365,562	(224,722)
Accounts and other payables	(436,143)	165,375
Customer deposits	816	(1,000)
Net pension liability	(167,902)	76,623
Total OPEB liability	1,074	(12,086)
Deferred inflows of resources	<u>(155,394)</u>	<u>236,281</u>
Total adjustments	<u>\$ 3,798,744</u>	<u>\$ 3,966,539</u>
Net cash provided by operating activities	<u>\$ 8,102,504</u>	<u>\$ 8,729,746</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, 2019 and 2018

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 consists 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, 2019 and 2018
(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, 2019 and 2018
(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 2019 totaled \$5,862,297 of which \$5,407,027 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts based on vehicle usage, totaled \$455,270 for the year ended June 30, 2019. Depreciation for the fiscal year 2018 totaled \$5,931,906 of which \$5,503,890 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts based on vehicle usage, totaled \$428,016 for the year ended June 30, 2018.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018
(Continued)

NOTE 2—UTILITY PLANT (Continued)

As of June 30, 2019 and 2018, nondepreciable capital assets consist of land, land rights, and rights-of-way in the amount of \$1,233,380 and \$1,155,380, 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	\$ 42,037,582	\$ 732,869	\$ 105,789	\$ 42,664,662
Distribution plant	113,129,576	3,849,221	699,269	116,279,528
General plant	21,513,531	1,085,974	439,552	22,159,953
Totals	<u>\$ 176,680,689</u>	<u>\$ 5,668,064</u>	<u>\$ 1,244,610</u>	<u>\$ 181,104,143</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, 2019 and 2018, accumulated depreciation amounted to \$317,243 and \$277,587, 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 \$1,560,361 for fiscal year 2019 and \$1,533,131 for fiscal year 2018.

As of June 30, 2019 and 2018, nondepreciable capital assets consist of land, land rights, and rights-of-way in the amount of \$493,723 and \$493,877, 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	\$ 10,173,145	\$ -	\$ -	\$ 10,173,145
Distribution plant	39,999,393	708,740	177,236	40,530,897
General plant	8,422,298	558,622	813,902	8,167,018
Totals	<u>\$ 58,594,836</u>	<u>\$ 1,267,362</u>	<u>\$ 991,138</u>	<u>\$ 58,871,060</u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018
(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, 2019 and 2018, accumulated amortization amounted to \$229,215 and \$218,554, 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 2019 totaled \$4,118,124 of which \$4,020,570 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts based on vehicle usage, totaled \$97,554 for the year ended June 30, 2019. Depreciation for the fiscal year 2018 totaled \$4,040,882 of which \$3,958,103 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts based on vehicle usage, totaled \$82,779 for the year ended June 30, 2018.

As of June 30, 2019 and 2018, nondepreciable capital assets consist of land, land rights, and rights-of-way in the amount of \$1,140,765 and \$1,140,937, 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 and distribution plant	\$ 173,524,866	\$ 2,435,887	\$ 3,729	\$ 175,957,024
General plant	4,438,874	259,779	169,798	4,528,855
Totals	<u>\$ 177,963,740</u>	<u>\$ 2,695,666</u>	<u>\$ 173,527</u>	<u>\$ 180,485,879</u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018
(Continued)

NOTE 3—RECEIVABLES AND PAYABLES

Receivables at June 30, 2019 and 2018 were as follows for each department:

Electricity Department

	<u>2019</u>	<u>2018</u>
Customer accounts	\$ 10,362,299	\$ 10,844,520
Other governments	274,202	850,128
Miscellaneous	206,141	156,314
Secured customer deposits	1,114,574	1,108,454
Accrued rents	412,415	412,415
Less: allowance for doubtful accounts	<u>(279,319)</u>	<u>(284,632)</u>
Net receivables	<u>\$ 12,090,312</u>	<u>\$ 13,087,199</u>

Gas Department

	<u>2019</u>	<u>2018</u>
Customer accounts	\$ 563,805	\$ 732,266
Other governments	51,585	52,187
Miscellaneous	12,516	3,960
Less: allowance for doubtful accounts	<u>(15,179)</u>	<u>(18,028)</u>
Net receivables	<u>\$ 612,727</u>	<u>\$ 770,385</u>

Water and Wastewater Department

	<u>2019</u>	<u>2018</u>
Customer accounts	\$ 1,801,879	\$ 1,739,427
Other governments	33,270	323,720
Less: allowance for doubtful accounts	<u>(36,050)</u>	<u>(38,865)</u>
Net receivables	<u>\$ 1,799,099</u>	<u>\$ 2,024,282</u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018
(Continued)

NOTE 3—RECEIVABLES AND PAYABLES (Continued)

Payables at June 30, 2019 and 2018 were as follows for each department:

Electricity Department

	<u>2019</u>	<u>2018</u>
Vendors	\$ 17,012,696	\$ 18,309,534
Salaries and benefits	306,403	300,238
Other governments	15,297	105,539
Totals	<u>\$ 17,334,396</u>	<u>\$ 18,715,311</u>

Gas Department

	<u>2019</u>	<u>2018</u>
Vendors	\$ 384,163	\$ 509,402
Salaries and benefits	81,256	79,334
Other governments	209,342	419,083
Totals	<u>\$ 674,761</u>	<u>\$ 1,007,819</u>

Water and Wastewater Department

	<u>2019</u>	<u>2018</u>
Vendors	\$ 153,201	\$ 337,385
Salaries and benefits	114,406	145,714
Other governments	308,243	598,813
Totals	<u>\$ 575,850</u>	<u>\$ 1,081,912</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, 2019 and 2018, the Department had \$601,295 and \$492,524, respectively, in storage gas that is valued using the weighted average method.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018
(Continued)

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 2013 Warrant Indenture are invested in short-term U.S. Government obligations, as follows:

	<u>2019</u>	<u>2018</u>
Series 2009 Debt Service Reserve Fund	\$ -	\$ 725,000
Series 2009 Warrant Funds	17,818	85,343
Series 2013 Debt Service Reserve Fund	934,046	193,771
Series 2013 Warrant Funds	16,630	15,818
Total restricted cash and cash equivalents	<u>\$ 968,494</u>	<u>\$ 1,019,932</u>

Water and Wastewater Department

Special funds created for capital construction and debt service by the Series 2011, Series 2017, and all SRF Warrant Indentures are invested in short-term U.S. Government obligations, as follows:

	<u>2019</u>	<u>2018</u>
Warrant Funds-All SRF Series	\$ 4,435,263	\$ 4,285,125
Series 2011 Warrant Funds	60,503	75,330
Series 2017 Warrant Funds	1,281,276	1,251,126
Total restricted cash and cash equivalents	<u>\$ 5,777,042</u>	<u>\$ 5,611,581</u>

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, 2019 and 2018, a total of \$1,827,388 and \$2,639,327, 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 \$1,899,589 and \$2,744,553 as of June 30, 2019 and 2018, 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 \$8,901,704 and \$8,801,154 as of June 30, 2019 and 2018, respectively, are reflected as prepayments in the financial statements.

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NOTE 7—LONG-TERM OBLIGATIONS

Electricity Department

Long-term obligations activity for the year ended June 30, 2019 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	\$ 875,000	\$ 6,350,000	\$ 7,225,000
Less: principal paid on debt	875,000		875,000
Balance—end of year	<u>\$ -</u>	<u>\$ 6,350,000</u>	<u>\$ 6,350,000</u>

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. These warrants were fully satisfied on June 1, 2019.

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>
2020	\$ 385,000	\$ 185,143	\$ 570,143
2021	390,000	178,405	568,405
2022	400,000	170,605	570,605
2023	410,000	162,205	572,205
2024	420,000	152,980	572,980
2025–2029	2,265,000	592,230	2,857,230
2030–2033	2,080,000	206,850	2,286,850
Totals	<u>\$ 6,350,000</u>	<u>\$ 1,648,418</u>	<u>\$ 7,998,418</u>
Less: portion due within one year	<u>385,000</u>		
Long-term debt—end of year	<u>\$ 5,965,000</u>		

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, 2019 was as follows:

	<i>Water and Sewer Revenue Warrants, SRF Series 2010-A</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2010-B</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2010-C</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2010-D</i>
Balance—beginning of year	\$ 2,610,000	\$ 4,395,000	\$ 4,205,000	\$ 1,055,000
Less: principal paid on debt	835,000	1,410,000	1,355,000	335,000
Balance—end of year	<u>\$ 1,775,000</u>	<u>\$ 2,985,000</u>	<u>\$ 2,850,000</u>	<u>\$ 720,000</u>

	<i>Water and Sewer Revenue Warrants, Series 2011</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2013</i>	<i>Water and Sewer Revenue Warrants, Series 2017</i>	<i>Totals</i>
Balance—beginning of year	\$ 490,000	\$ 5,595,000	\$ 29,940,000	\$ 48,290,000
Less: principal paid on debt		235,000	845,000	5,015,000
Balance—end of year	<u>\$ 490,000</u>	<u>\$ 5,360,000</u>	<u>\$ 29,095,000</u>	<u>\$ 43,275,000</u>

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.

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NOTE 7—LONG-TERM OBLIGATIONS (Continued)

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. On October 12, 2017, \$20,110,000 principal portion of these warrants were advanced refunded and redeemed with the issuance of the Water and Sewer Revenue Warrants, Series 2017.

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. 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.

The Department issued Water and Sewer Revenue Warrants, Series 2017, dated October 12, 2017, in the amount of \$29,940,000 with interest rates ranging from 2.00% to 4.00%. The warrants were issued for the purposes of providing funds for (1) the advance refunding and redemption of a \$20,110,000 principal portion of the outstanding Water and Sewer Revenue Warrants, Series 2011, on February 15, 2021, (2) the current refunding and redemption of the Series 2006 SRF Warrants, (3) the current refunding and redemption of the Series 2007 SRF Warrants, (4) the purchase of municipal bond and debt service reserve insurance policies, and (5) the payment of issuance expenses. 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. As a result of the advance refunding, \$20,110,000 of the 2011 Series Warrants are considered to be defeased and the liability for those warrants has been removed from the Department's Statement of Net Position. Although the advance refunding resulted in the recognition of an accounting loss of \$2,136,613 for the year ended June 30, 2018, the Department in effect reduced its aggregate debt service payments by \$2,597,372 over the next 20 years and obtained an economic gain (the difference between the present values of the old and new debt service payments) of \$2,028,153.

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NOTE 7—LONG-TERM OBLIGATIONS (Continued)

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

<i>Fiscal Year Ending June 30</i>	<i>Principal Maturities and Scheduled Mandatory Redemption Payments</i>	<i>Interest Payable</i>	<i>Total Debt Service</i>
2020	\$ 5,185,000	\$ 1,179,978	\$ 6,364,978
2021	5,360,000	1,049,342	6,409,342
2022	1,635,000	962,951	2,597,951
2023	1,680,000	925,591	2,605,591
2024	1,710,000	890,509	2,600,509
2025–2029	9,350,000	3,640,834	12,990,834
2030–2034	10,915,000	2,081,714	12,996,714
2035–2037	7,440,000	357,529	7,797,529
Totals	\$ 43,275,000	\$ 11,088,448	\$ 54,363,448
Less: portion due within one year	<u>5,185,000</u>		
Long-term debt—end of year	<u>\$ 38,090,000</u>		

All interest costs were expensed for the fiscal years presented.

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
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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	<p>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:</p> <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	<p>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.</p>
Disability Benefit	<p>Monthly benefit equal to the accrued benefit as of the disability retirement date.</p>
Death Benefit	<p>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.</p>
Termination Benefit	<p>An amount equal to the participant’s accrued benefit. Instead of a deferred benefit, a participant may withdraw contributions with interest.</p>

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%, 66.67%, 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
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(Continued)**

NOTE 8—PENSION AND DEFERRED COMPENSATION PLANS (Continued)

Employees Covered by Benefit Terms—At September 30, 2018, the following employees were covered by the benefit terms:

Active employees who have not reached age 65	634
Active participants attaining normal retirement age 65	14
Inactive participants (42 in pay status)	101
Total participants	749

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, 2018, 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, 2018, 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, 2018 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, adjusted to 2006 using MP-2014, with generational projection using MP-2018.

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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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	27.00%	3.90%
US Large Cap Growth Equity	15.50%	8.60%
US Large Cap Value Equity	15.50%	8.90%
Europe Equity	8.90%	8.20%
Real Estate Investment Trusts	5.00%	8.10%
Core Private Real Estate Funds	5.00%	6.80%
Japan Equity	3.40%	8.10%
US Mid Cap Growth Equity	3.00%	9.70%
US Mid Cap Value Equity	3.00%	9.70%
US Small Cap Growth Equity	3.00%	8.50%
US Small Cap Value Equity	3.00%	9.70%
Emerging Markets Equity	3.00%	11.00%
Ultra-Short Fixed Income	2.00%	2.90%
Asia Pacific ex Japan Equity	1.70%	11.00%
High Yield Fixed Income	1.00%	5.80%

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, 2018 *	\$ 115,057,261	\$ 88,580,111	\$ 26,477,150
Changes for the year:			
Service cost	2,942,609		2,942,609
Interest on total pension liability	8,422,824		8,422,824
Effect of economic/demographic gain/losses	69,847		69,847
Effect of assumption changes/inputs	(74,689)		(74,689)
Benefit payments	(11,600,854)	(11,600,854)	-
Employer contributions		4,111,326	(4,111,326)
Member contributions		1,495,028	(1,495,028)
Net investment income		6,366,786	(6,366,786)
Administrative expenses		(469,888)	469,888
Balance as of September 30, 2019 *	<u>\$ 114,816,998</u>	<u>\$ 88,482,509</u>	<u>\$ 26,334,489</u>

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

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(Continued)

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>
	<u> </u>	<u> </u>	<u> </u>
Total pension liability	\$ 123,752,777	\$ 114,816,998	\$ 106,688,402
Fiduciary net position	<u>88,482,509</u>	<u>88,482,509</u>	<u>88,482,509</u>
Net pension liability	<u>\$ 35,270,268</u>	<u>\$ 26,334,489</u>	<u>\$ 18,205,893</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—For the year ended September 30, 2018, the City recognized pension expense of \$4,249,063. At September 30, 2018, 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>
	<u><i>Resources</i></u>	<u><i>Resources</i></u>
Contributions made subsequent to the measurement date	\$ 3,963,301	\$ -
Differences between expected and actual experience	2,482,737	
Changes in assumptions	815,060	254,847
Net difference between projected and actual earnings	1,446,264	3,059,608

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 Ending</i>	
<u><i>September 30</i></u>	<u><i>Amount</i></u>
2020	\$ 731,645
2021	(683,668)
2022	(289,845)
2023	467,476
2024	459,738
Thereafter *	744,260

* 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 \$3,963,301 will be recognized as a reduction of the net pension liability in the fiscal year ending September 30, 2020.

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.

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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—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description—The City's defined benefit other postemployment benefit (OPEB) plan, City of Florence Postretirement Benefits Plan (CFPBP), provides medical, dental, and life insurance benefits to eligible retired City employees and their covered dependents. CFPBP is a single-employer defined benefit OPEB plan. Benefit provisions are established and may be amended by the City Council. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Benefits Provided—Participation begins on the date that an eligible employee becomes employed by the City. Retirees and their covered dependents who voluntarily allow medical coverage to lapse are not eligible to elect coverage at a later date. Active employees are eligible to enroll in the CFPBP when they retire or become disabled. A requirement of coverage is that the employee meets the eligibility requirements for a service or disability retirement benefit under the City's pension plan, as follows:

<i>Type of Retirement</i>	<i>Eligibility Requirements</i>
Normal Retirement	Age 65
Early Retirement	Age 55 with 5 or more years of creditable service or Age 52 with 25 or more years of creditable service
Disability Retirement	Permanent and total disability after the completion of 5 years of credited service

The CFPBP provides for continued participation in the City's group rated and self-insured medical coverage, group rated dental coverage, and group rated life insurance coverage. In addition to the benefits listed above, non-disabled retirees may continue to receive benefits dispensed at a CareHere clinic contracted with the City. Eligibility for Medicare is determined separately for retirees and their beneficiaries. Benefits provided under the OPEB plan are provided until the earlier of age 65, or the date a retired participant allows coverage to lapse.

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NOTE 9—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Annual Retiree Cost Sharing:

<i>Annual premium for the first 36 months of coverage after retirement</i>	<i>Retiree</i>	<i>City</i>	<i>Total</i>
Healthy retiree with single coverage	\$ -	\$ 6,324	\$ 6,324
Disabled retiree with single coverage		6,324	6,324
Healthy retiree with family coverage	9,348	6,324	15,672
Disabled retiree with family coverage	9,348	6,324	15,672

<i>Annual premium after the first 36 months of coverage after retirement</i>	<i>Retiree</i>	<i>City</i>	<i>Total</i>
Healthy retiree with single coverage	\$ 6,324	\$ -	\$ 6,324
Disabled retiree with single coverage		6,324	6,324
Healthy retiree with family coverage	15,672		15,672
Disabled retiree with family coverage	9,348	6,324	15,672

Past plan administration practice has permitted a married and retired couple to enroll in two (2) single coverage policies rather than requiring them to enroll at the family coverage tier. Coverage for access to the CareHere clinic contracted by the City is charged at \$12 per participant per month. The City pays all contract costs associated with the CareHere clinic.

Life Insurance Coverage:

Healthy retirees are covered by a temporary life insurance benefit. Coverage ceases at the earlier of three (3) years after retirement or age 65. Disabled retirees are covered by a temporary life insurance benefit. Coverage ceases at the earlier of commencement of City pension benefits or age 65. Life insurance benefits are not contingent upon the participant continuing medical coverage through the City. The full cost of premium for life insurance coverage is paid by the City. The amount of coverage is 100% of final salary, rounded up to the nearest \$5,000; however, coverage will be no less than \$20,000 and no more than \$125,000.

Employees Covered by Benefit Terms—At September 30, 2018, the following employees were covered by the benefit terms:

Retirees and covered spouses	
currently receiving benefits	151
Active employees	<u>683</u>
Total	<u><u>834</u></u>

Total OPEB Liability—The City's total OPEB liability was measured as of September 30, 2018 and was determined by an actuarial valuation as of that date.

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
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NOTE 9—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Actuarial Assumptions and Other Inputs—The total OPEB liability in the September 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.00%, including inflation
Discount rate	4.18%
Healthcare cost trend rates:	
Medical costs prior to age 65	6.20% initially, adjusting to an ultimate rate of 4.10% for 2076 and later years
Dental costs	4.53% initially, adjusting to an ultimate rate of 3.87% for 2075 and later years
CareHere costs	3.00%

The discount rate was based on the General Obligation 20-year Municipal Bond Index published by The Bond Buyer. Mortality rates were based on the SOA RP-2014 mortality table adjusted to 2006 and projected with generational improvements using Scale MP-2017. The plan has not had a formal actuarial experience study performed.

Changes in the Total OPEB Liability—The following table shows the components of the changes in the total OPEB liability:

	<i>Total OPEB Liability</i>
Balance as of September 30, 2018 *	\$ 17,026,092
Changes for the year:	
Service cost	783,223
Interest on total OPEB liability	630,625
Effect of assumption changes or inputs	(522,925)
Benefit payments	(977,623)
Balance as of September 30, 2019 *	<u>\$ 16,939,392</u>

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

Changes of assumptions and other inputs reflect a change in the discount rate from 3.64% to 4.18%.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate—The following presents the total OPEB liability of the City, calculated using the current discount rate of 4.18%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.18%) or 1-percentage-point higher (5.18%) than the current rate:

	<i>Current</i>		
	<i>1% Decrease</i>	<i>Discount Rate</i>	<i>1% Increase</i>
	<i>(3.18%)</i>	<i>(4.18%)</i>	<i>(5.18%)</i>
Total OPEB Liability	<u>\$ 18,034,522</u>	<u>\$ 16,939,392</u>	<u>\$ 15,917,867</u>

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018
(Continued)**

NOTE 9—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate—The following presents the total OPEB liability of the City, calculated using the current healthcare cost trend rates, as well as what the City's total OPEB liability would be if it were calculated using trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current trend rate:

	<i>1% Decrease</i>	<i>Current Trend Rate</i>	<i>1% Increase</i>
Total OPEB Liability	\$ 15,583,796	\$ 16,939,392	\$ 18,508,110

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB—For the year ended September 30, 2018, the City recognized OPEB expense of \$1,271,745. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Contributions made subsequent to the measurement date	\$ 698,684	\$ -
Changes of assumptions or inputs		(948,949)

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

<i>Year Ending September 30</i>	<i>Amount</i>
2020	\$ (142,103)
2021	(142,103)
2022	(142,103)
2023	(142,103)
2024	(142,103)
Thereafter *	(238,434)

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

Deferred outflows of resources resulting from contributions made subsequent to the measurement date in the amount of \$698,684 will be recognized as a reduction of the total OPEB liability in the fiscal year ending September 30, 2020.

The Utilities have recorded their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense based on the actuarial valuation of the CFPBP.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018
(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>
2020	\$ 201,372
2021	201,372
2022	201,372
2023	201,372
2024	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. 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, 2019 and 2018
(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, 2019, open contracts for construction totaled \$223,440 of which \$39,455 had been recorded as cumulative construction in progress. As of June 30, 2019, open contracts for system maintenance totaled \$3,291,231 of which \$897,740 had been recorded as current maintenance expense. As of June 30, 2018, open contracts for construction totaled \$96,909 of which \$34,531 had been recorded as cumulative construction in progress. As of June 30, 2018, open contracts for system maintenance totaled \$5,847,357 of which \$5,642,230 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, 2019 and 2018, the Department had made purchase commitments amounting to \$3,086,803 and \$4,048,400, 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, 2019 and 2018
(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, 2019, open contracts for construction totaled \$170,657 of which \$4,750 had been recorded as cumulative construction in progress. As of June 30, 2019, open contracts for system maintenance totaled \$218,765 of which \$101,478 had been recorded as current maintenance expense. As of June 30, 2018, open contracts for construction totaled \$680,826 of which \$124,328 had been recorded as cumulative construction in progress. As of June 30, 2018, open contracts for system maintenance totaled \$8,533 of which \$1,656 had been recorded as current maintenance expense.

During the 2018 fiscal year, the Department advance refunded \$20,110,000 of the Water and Sewer Revenue Warrants, Series 2011 by issuing Water and Sewer Revenue Warrants, Series 2017. Subsequently, the Department defeased these warrants by depositing funds into an irrevocable trust with an escrow agent to provide for the future debt service payments on the old warrants when they mature on February 15, 2021. Accordingly, the trust account assets and the liability for the defeased warrants are not included in the Department's financial statements. The outstanding balance of this defeased debt at June 30, 2019 and 2018 was \$20,110,000.



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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF FLORENCE, ALABAMA
ELECTRICITY DEPARTMENT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION—
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating revenues:				
Electric sales:				
<i>Residential</i>	\$ 65,607,000	\$ 65,607,000	\$ 67,320,031	\$ 1,713,031
<i>Small commercial</i>	12,873,500	12,873,500	13,930,110	1,056,610
<i>Large commercial</i>	39,883,500	39,883,500	40,550,073	666,573
<i>Public street and highway lighting</i>	2,375,000	2,375,000	2,249,296	(125,704)
Forfeited discounts	1,120,000	1,120,000	1,120,096	96
Rents	1,290,000	1,290,000	1,316,338	26,338
Other operating revenues	610,000	610,000	591,275	(18,725)
Total operating revenues	<u>\$ 123,759,000</u>	<u>\$ 123,759,000</u>	<u>\$ 127,077,219</u>	<u>\$ 3,318,219</u>
Operating expenses:				
Costs of sales	\$ 95,792,000	\$ 95,792,000	\$ 98,457,381	\$ (2,665,381)
Operations:				
<i>Transmission</i>	345,200	346,700	343,885	2,815
<i>Distribution</i>	2,822,500	2,889,900	2,841,181	48,719
<i>Customer accounts</i>	2,141,900	2,204,250	2,146,033	58,217
<i>Customer service and information assistance and instruction</i>	100,300	101,800	85,131	16,669
<i>Sales</i>	8,000	8,000	5,796	2,204
<i>Administrative and general</i>	4,391,700	4,412,000	4,152,502	259,498
Maintenance:				
<i>Transmission</i>	320,000	324,400	301,310	23,090
<i>Distribution</i>	6,002,600	6,064,500	5,283,009	781,491
<i>Administrative and general</i>	465,000	470,650	458,455	12,195
Depreciation	5,600,000	5,600,000	5,407,027	192,973
Taxes and tax equivalents	3,901,000	3,901,000	3,876,921	24,079
Total operating expenses	<u>\$ 121,890,200</u>	<u>\$ 122,115,200</u>	<u>\$ 123,358,631</u>	<u>\$ (1,243,431)</u>
Operating income (loss)	<u>\$ 1,868,800</u>	<u>\$ 1,643,800</u>	<u>\$ 3,718,588</u>	<u>\$ 2,074,788</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 96,000	\$ 96,000	\$ 213,258	\$ 117,258
Merchandising revenues (net of costs)	265,000	265,000	124,192	(140,808)
Miscellaneous nonoperating income	20,000	20,000	16,064	(3,936)
Gain on disposition of assets			10,937	10,937
Interest expense	(214,500)	(214,500)	(214,418)	82
Amortization of debt related costs	(48,600)	(48,600)	(30,755)	17,845
Total nonoperating revenues (expenses)	<u>\$ 117,900</u>	<u>\$ 117,900</u>	<u>\$ 119,278</u>	<u>\$ 1,378</u>
Change in net position	<u>\$ 1,986,700</u>	<u>\$ 1,761,700</u>	<u>\$ 3,837,866</u>	<u>\$ 2,076,166</u>
Total net position—beginning	<u>75,857,522</u>	<u>75,857,522</u>	<u>75,857,522</u>	
Total net position—ending	<u>\$ 77,844,222</u>	<u>\$ 77,619,222</u>	<u>\$ 79,695,388</u>	<u>\$ 2,076,166</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, 2019**

	<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:				
Gas sales:				
<i>Residential</i>	\$ 6,328,000	\$ 6,328,000	\$ 6,604,643	\$ 276,643
<i>Commercial</i>	4,497,900	4,497,900	4,727,036	229,136
<i>Industrial</i>	5,073,700	5,073,700	3,003,136	(2,070,564)
<i>Resale and transportation</i>	1,428,300	1,428,300	1,187,727	(240,573)
Service fees	63,100	63,100	63,972	872
Forfeited discounts	72,300	72,300	80,845	8,545
Other operating revenues	11,100	11,100	11,239	139
Total operating revenues	<u>\$ 17,474,400</u>	<u>\$ 17,474,400</u>	<u>\$ 15,678,598</u>	<u>\$ (1,795,802)</u>
Operating expenses:				
Costs of sales	\$ 9,064,600	\$ 9,064,600	\$ 6,218,686	\$ 2,845,914
Operations:				
<i>Transmission</i>	140,500	143,600	239,828	(96,228)
<i>Distribution</i>	480,200	484,000	302,321	181,679
<i>Customer accounts</i>	456,500	456,500	444,941	11,559
<i>Sales</i>	35,000	35,000	49,973	(14,973)
<i>Administrative and general</i>	1,918,700	1,928,700	2,224,262	(295,562)
Maintenance:				
<i>Transmission</i>	3,400	3,400		3,400
<i>Distribution</i>	1,638,600	1,671,600	1,845,265	(173,665)
<i>Administrative and general</i>	72,500	72,500	123,430	(50,930)
Depreciation	1,535,000	1,535,000	1,560,361	(25,361)
Amortization of acquisition adjustment	10,700	10,700	10,661	39
Taxes and tax equivalents	1,536,500	1,540,400	1,505,265	35,135
Total operating expenses	<u>\$ 16,892,200</u>	<u>\$ 16,946,000</u>	<u>\$ 14,524,993</u>	<u>\$ 2,421,007</u>
Operating income	<u>\$ 582,200</u>	<u>\$ 528,400</u>	<u>\$ 1,153,605</u>	<u>\$ 625,205</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 36,000	\$ 36,000	\$ 122,928	\$ 86,928
Gain (loss) on disposition of assets	5,000	5,000	110,922	105,922
Miscellaneous nonoperating income	14,500	14,500	12,802	(1,698)
Total nonoperating revenues (expenses)	<u>\$ 55,500</u>	<u>\$ 55,500</u>	<u>\$ 246,652</u>	<u>\$ 191,152</u>
Change in net position	<u>\$ 637,700</u>	<u>\$ 583,900</u>	<u>\$ 1,400,257</u>	<u>\$ 816,357</u>
Total net position—beginning	<u>37,850,388</u>	<u>37,850,388</u>	<u>37,850,388</u>	
Total net position—ending	<u>\$ 38,488,088</u>	<u>\$ 38,434,288</u>	<u>\$ 39,250,645</u>	<u>\$ 816,357</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, 2019

	<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>	\$ 7,242,600	\$ 7,242,600	\$ 7,086,767	\$ (155,833)
<i>Commercial</i>	3,511,500	3,511,500	3,465,249	(46,251)
<i>Resale</i>	1,646,100	1,646,100	1,591,807	(54,293)
Sewer service sales:				
<i>Residential</i>	4,436,000	4,436,000	4,406,783	(29,217)
<i>Commercial</i>	3,372,700	3,372,700	3,378,099	5,399
Forfeited discounts	174,200	174,200	161,315	(12,885)
Other operating revenues	133,400	133,400	160,047	26,647
Total operating revenues	<u>\$ 20,516,500</u>	<u>\$ 20,516,500</u>	<u>\$ 20,250,067</u>	<u>\$ (266,433)</u>
Operating expenses:				
Water treatment and pumping	\$ 3,268,300	\$ 3,294,800	\$ 3,245,027	\$ 49,773
Sewage disposal	2,212,300	2,238,700	2,086,737	151,963
Transmission and distribution	1,613,500	1,633,900	1,486,521	147,379
Accounting and collections	1,016,900	1,016,900	1,096,873	(79,973)
Administrative and general	2,612,300	2,622,100	2,310,861	311,239
Depreciation	4,116,000	4,116,000	4,020,570	95,430
Taxes and tax equivalents	1,750,900	1,757,300	1,699,718	57,582
Total operating expenses	<u>\$ 16,590,200</u>	<u>\$ 16,679,700</u>	<u>\$ 15,946,307</u>	<u>\$ 733,393</u>
Operating income	<u>\$ 3,926,300</u>	<u>\$ 3,836,800</u>	<u>\$ 4,303,760</u>	<u>\$ 466,960</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 63,600	\$ 63,600	\$ 198,275	\$ 134,675
Gain (loss) on disposition of assets			67,310	67,310
Interest expense	(1,306,300)	(1,306,300)	(1,259,714)	46,586
Amortization of debt related costs	(160,200)	(160,200)	(160,090)	110
Total nonoperating revenues (expenses)	<u>\$ (1,402,900)</u>	<u>\$ (1,402,900)</u>	<u>\$ (1,154,219)</u>	<u>\$ 248,681</u>
Income before contributions	<u>\$ 2,523,400</u>	<u>\$ 2,433,900</u>	<u>\$ 3,149,541</u>	<u>\$ 715,641</u>
Capital contributions			508,500	508,500
Change in net position	\$ 2,523,400	\$ 2,433,900	\$ 3,658,041	\$ 1,224,141
Total net position—beginning	<u>81,433,559</u>	<u>81,433,559</u>	<u>81,433,559</u>	
Total net position—ending	<u>\$ 83,956,959</u>	<u>\$ 83,867,459</u>	<u>\$ 85,091,600</u>	<u>\$ 1,224,141</u>

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
TOTAL PENSION LIABILITY										
Service cost	\$ 2,942,609	\$ 2,830,614	\$ 2,888,380	\$ 2,825,270	\$ 2,854,759	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	8,422,824	8,207,619	7,880,999	7,721,152	7,603,781					
Effect of plan changes		840,263								
Effect of economic/demographic gains or losses	69,847	63,177	1,690,662	558,626	1,537,047					
Effect of assumption changes or inputs	(74,689)	(73,548)	(188,107)	1,286,192						
Benefit payments	(11,600,854)	(6,709,051)	(8,968,541)	(11,629,512)	(9,216,405)					
Net change in total pension liability	\$ (240,263)	\$ 5,159,074	\$ 3,303,393	\$ 761,728	\$ 2,779,182	\$ -	\$ -	\$ -	\$ -	\$ -
Total pension liability, beginning	115,057,261	109,898,187	106,594,794	105,833,066	103,053,884					
Total pension liability, ending (a)	<u>\$ 114,816,998</u>	<u>\$ 115,057,261</u>	<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>
FIDUCIARY NET POSITION										
Contributions—employer	\$ 4,111,326	\$ 4,056,029	\$ 4,309,829	\$ 4,052,968	\$ 3,710,391	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions—employee	1,495,028	1,474,920	1,567,210	1,473,806	1,349,233					
Investment income, net of investment expenses	6,366,786	9,759,245	7,565,914	(1,028,142)	7,950,048					
Benefit payments	(11,600,854)	(6,709,051)	(8,968,541)	(11,629,512)	(9,216,405)					
Administrative expenses	(469,888)	(421,537)	(384,687)	(353,852)	(378,171)					
Net change in plan fiduciary net position	\$ (97,602)	\$ 8,159,606	\$ 4,089,725	\$ (7,484,732)	\$ 3,415,096	\$ -	\$ -	\$ -	\$ -	\$ -
Fiduciary net position, beginning	88,580,111	80,420,505	76,330,780	83,815,512	80,400,416					
Fiduciary net position, ending (b)	<u>\$ 88,482,509</u>	<u>\$ 88,580,111</u>	<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>
Net pension liability, ending (a-b)	<u>\$ 26,334,489</u>	<u>\$ 26,477,150</u>	<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>
Fiduciary net position as a percentage of total pension liability	77.06%	76.99%	73.18%	71.61%	79.20%					
Covered payroll	\$ 30,779,896	\$ 30,855,953	\$ 30,035,187	\$ 29,475,065	\$ 29,557,478	\$ -	\$ -	\$ -	\$ -	\$ -
Net pension liability as a percentage of covered payroll	85.56%	85.81%	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>	
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	4,056,029	397,577	30,035,187	13.50%	
2018	4,720,081	4,111,326	608,755	30,855,953	13.32%	
2019	4,770,478	3,963,301	807,177	30,779,896	12.88%	

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: 22 years

Asset valuation method: 3-year smoothed market

Corridor: 90.00% to 110.00% of market value of assets

Inflation: 2.50%

Salary increases: 3.00%, based on plan sponsor expectations

Lump sum interest rate: 3.50%, based on plan provisions

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, adjusted to 2006 using MP-2014, with generational projection using MP-2018

**CITY OF FLORENCE, ALABAMA
POSTRETIREMENT BENEFITS PLAN
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
TOTAL OPEB LIABILITY										
Service cost	\$ 783,223	\$ 840,770	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on total OPEB liability	630,625	539,050								
Effect of plan changes										
Effect of economic/demographic gains or losses										
Effect of assumption changes or inputs	(522,925)	(646,697)								
Benefit payments	(977,623)	(980,229)								
Net change in total OPEB liability	\$ (86,700)	\$ (247,106)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total OPEB liability, beginning	17,026,092	17,273,198								
Total OPEB liability, ending	<u>\$ 16,939,392</u>	<u>\$ 17,026,092</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 38,846,611	\$ 30,855,953	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total OPEB liability as a percentage of covered-employee payroll	43.61%	55.18%								

Notes to Schedule

No assets are accumulated in a trust that meets the criteria in GASB No. 75, paragraph 4 to pay related benefits.

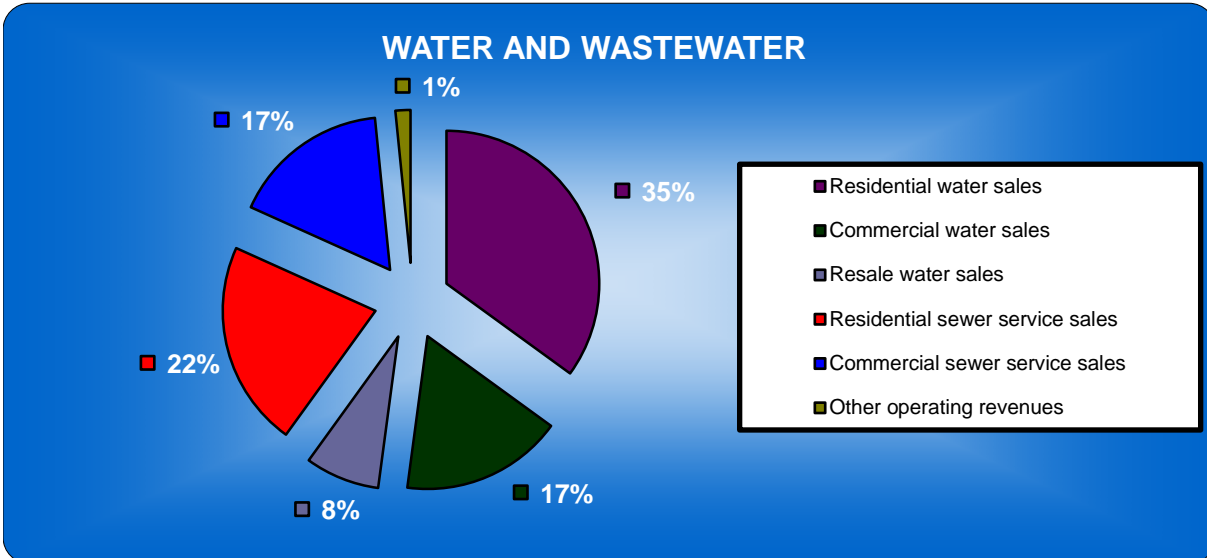
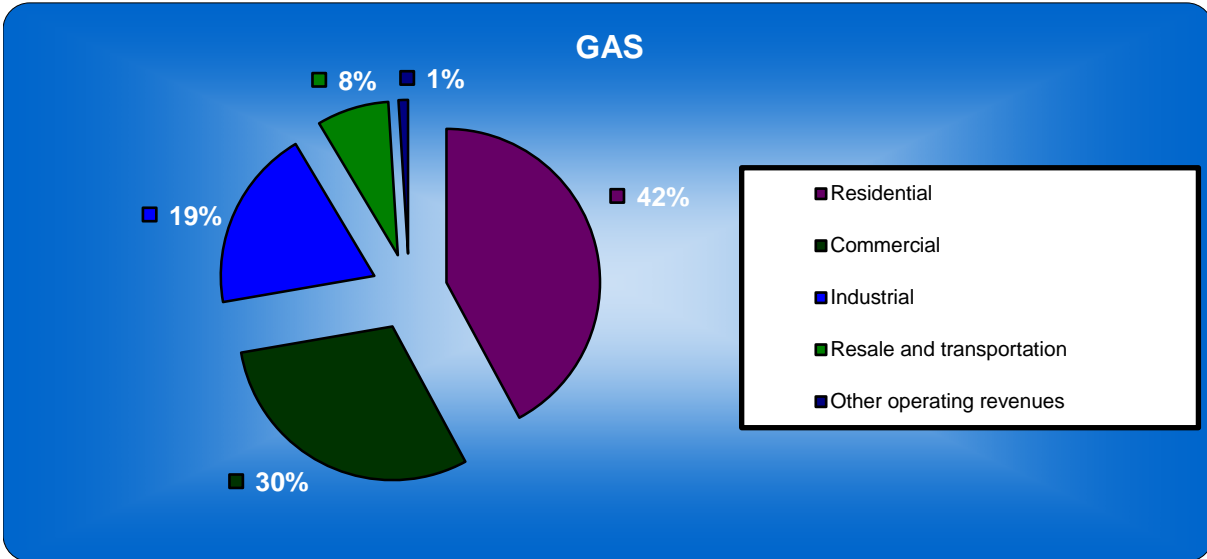
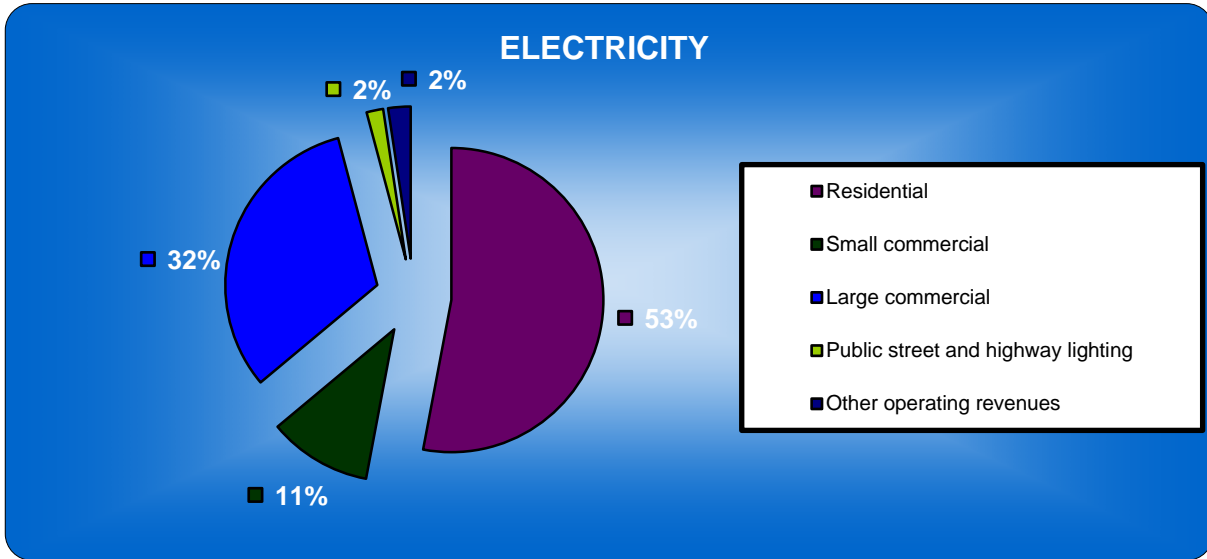
Changes of assumptions—

Changes of assumptions or inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2018	4.180%
2017	3.640%
2016	3.058%
2015	-
2014	-
2013	-
2012	-
2011	-
2010	-
2009	-

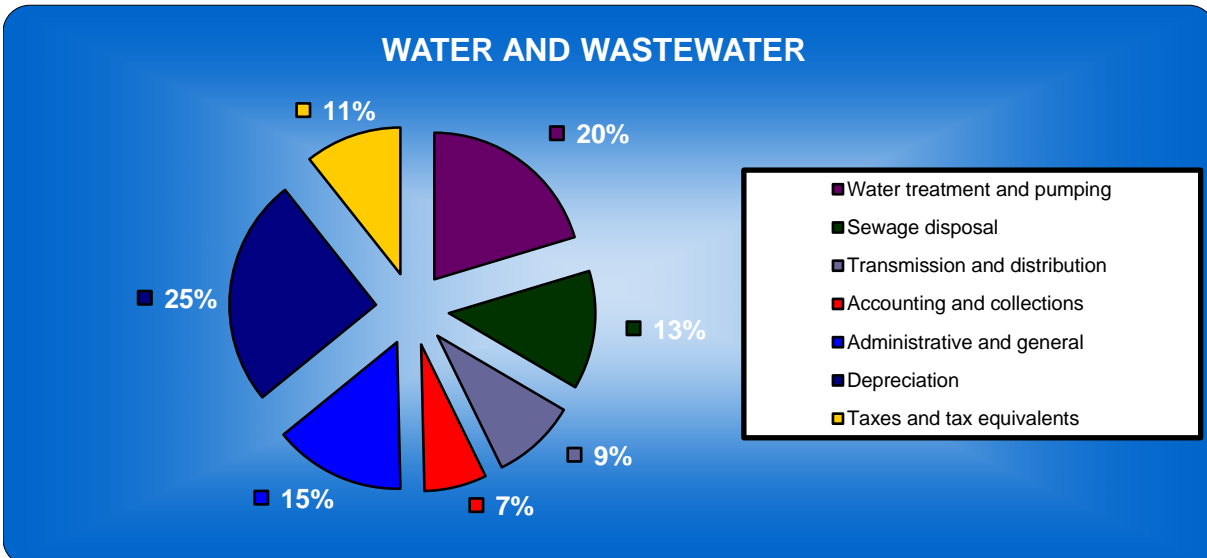
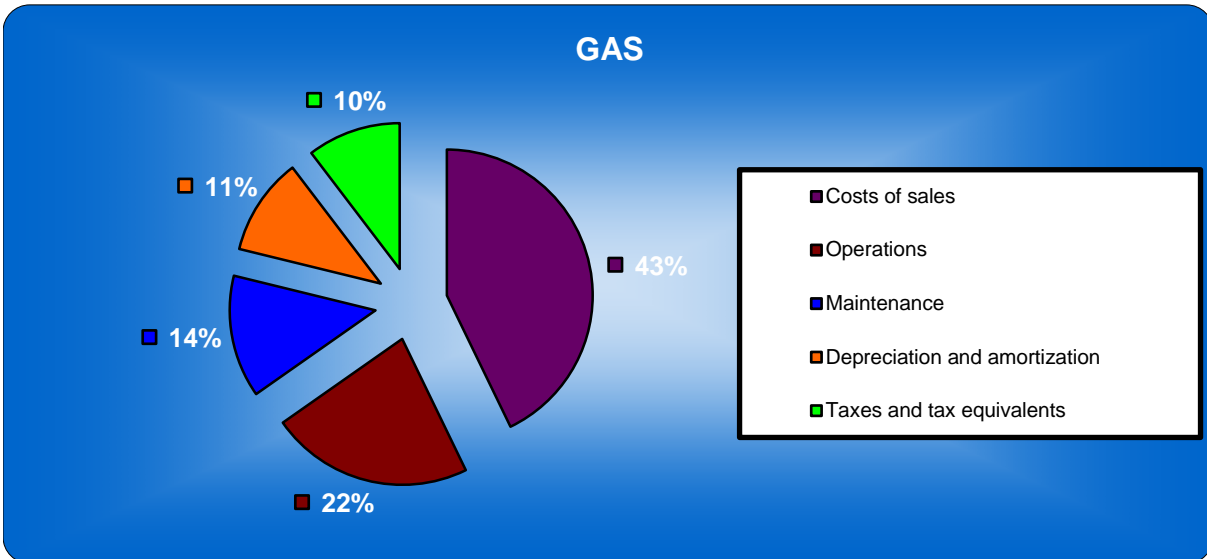
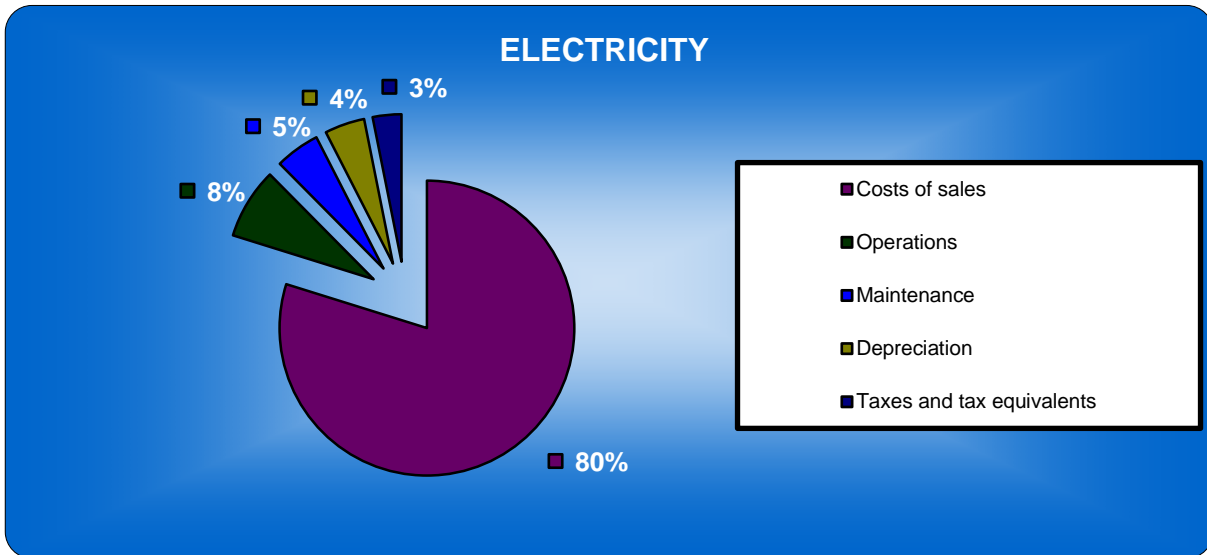
SUPPLEMENTARY SCHEDULES SECTION

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENT
SOURCE OF FUNDS
JUNE 30, 2019**



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, 2019**



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, 2019**

<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	\$ 605,708	\$ -	\$ -	\$ 605,708
Clearing land and right of ways	90,378			90,378
Structures and improvements	70,402			70,402
Station equipment	27,407,902	594,740	66,857	27,935,785
Towers and fixtures	32,266			32,266
Poles and fixtures	6,702,566	130,460	18,570	6,814,456
Overhead conductors and devices	7,128,360	7,669	20,362	7,115,667
Total transmission plant	<u>\$ 42,037,582</u>	<u>\$ 732,869</u>	<u>\$ 105,789</u>	<u>\$ 42,664,662</u>
Distribution plant:				
Land and land rights	\$ 69,040	\$ 3,000	\$ -	\$ 72,040
Station equipment	2,396,878			2,396,878
Poles, towers, and fixtures	23,614,650	1,469,911	85,148	24,999,413
Overhead conductors and devices	22,468,778	250,841	135,472	22,584,147
Underground conduit	3,210,018	49,389	62	3,259,345
Underground conductors and devices	11,668,665	535,753	16,431	12,187,987
Line transformers	25,397,650	835,682	160,153	26,073,179
Services	9,409,961	232,816	68,599	9,574,178
Meters	4,236,417	297,516	50,296	4,483,637
Installation on customer premises	2,722,165	126,546	51,130	2,797,581
Street lighting and signal systems	7,935,354	47,767	131,978	7,851,143
Total distribution plant	<u>\$ 113,129,576</u>	<u>\$ 3,849,221</u>	<u>\$ 699,269</u>	<u>\$ 116,279,528</u>
General plant:				
Land and land rights	\$ 390,254	\$ 75,000	\$ -	\$ 465,254
Structures and improvements	5,646,492	46,681		5,693,173
Office furniture and equipment	3,605,762	299,737	248,931	3,656,568
Transportation equipment	7,703,035	529,444	143,058	8,089,421
Stores equipment	54,282			54,282
Tools, shop, and garage equipment	2,753,704	19,789	46,414	2,727,079
Laboratory equipment	62,911	27,150		90,061
Power operated equipment	316,625	71,736		388,361
Communication equipment	620,243	12,713		632,956
Miscellaneous equipment	360,223	3,724	1,149	362,798
Total general plant	<u>\$ 21,513,531</u>	<u>\$ 1,085,974</u>	<u>\$ 439,552</u>	<u>\$ 22,159,953</u>
Total utility plant in service	<u><u>\$ 176,680,689</u></u>	<u><u>\$ 5,668,064</u></u>	<u><u>\$ 1,244,610</u></u>	<u><u>\$ 181,104,143</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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-					-
53,552	1,408				54,960
14,795,935	974,130	66,857	84,446		15,618,762
32,266					32,266
4,070,616	269,101	18,570	23,455		4,297,692
4,497,101	213,809	20,362	25,719		4,664,829
<u>\$ 23,449,470</u>	<u>\$ 1,458,448</u>	<u>\$ 105,789</u>	<u>\$ 133,620</u>	<u>\$ -</u>	<u>\$ 24,668,509</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,991,201	95,875				2,087,076
7,937,894	724,015	85,148	107,549		8,469,212
16,360,280	619,707	135,472	171,113		16,673,402
2,285,220	128,862	62	79		2,413,941
6,118,733	476,184	16,431	20,753		6,557,733
6,464,156	576,844	160,153	202,287		6,678,560
3,807,421	284,423	68,599	86,647		3,936,598
260,678	118,091	50,296	63,528		264,945
1,996,692	137,516	51,130	64,582		2,018,496
7,558,598	198,398	131,978	38,448		7,586,570
<u>\$ 54,780,873</u>	<u>\$ 3,359,915</u>	<u>\$ 699,269</u>	<u>\$ 754,986</u>	<u>\$ -</u>	<u>\$ 56,686,533</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,503,333	148,732				1,652,065
2,767,458	221,791	248,931		1,691	2,742,009
4,828,511	467,008	143,058		18,258	5,170,719
44,228	1,652				45,880
2,146,090	107,623	46,414		9,105	2,216,404
42,477	3,810				46,287
198,978	25,407				224,385
250,943	39,199				290,142
188,294	28,712	1,149		339	216,196
<u>\$ 11,970,312</u>	<u>\$ 1,043,934</u>	<u>\$ 439,552</u>	<u>\$ -</u>	<u>\$ 29,393</u>	<u>\$ 12,604,087</u>
<u>\$ 90,200,655</u>	<u>\$ 5,862,297</u>	<u>\$ 1,244,610</u>	<u>\$ 888,606</u>	<u>\$ 29,393</u>	<u>\$ 93,959,129</u>

GAS DEPARTMENT

**CITY OF FLORENCE, ALABAMA
GAS DEPARTMENT
SCHEDULE OF UTILITY PLANT IN SERVICE
AND ACCUMULATED DEPRECIATION
JUNE 30, 2019**

<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	7,232,692			7,232,692
Measuring and regulating equipment	2,676,769			2,676,769
Total transmission plant	<u>\$ 10,173,145</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,173,145</u>
Distribution plant:				
Land and land rights	\$ 42,893	\$ 18	\$ -	\$ 42,911
Structures and improvements	154,621			154,621
Mains	20,040,898	165,790	42,907	20,163,781
Corrosion	705,666	110		705,776
Measuring and regulating equipment	5,763,277	180,009	74,803	5,868,483
Services	13,276,417	362,813	59,526	13,579,704
Other distribution equipment	15,621			15,621
Total distribution plant	<u>\$ 39,999,393</u>	<u>\$ 708,740</u>	<u>\$ 177,236</u>	<u>\$ 40,530,897</u>
General plant:				
Land and land rights	\$ 330,293	\$ -	\$ 172	\$ 330,121
Structures and improvements	2,784,483	43,841		2,828,324
Office furniture and equipment	550,071	16,343	36,485	529,929
Transportation equipment	1,860,393	235,412	379,310	1,716,495
Stores equipment	17,798			17,798
Tools, shop and garage equipment	23,838			23,838
Laboratory equipment	32,258	7,407		39,665
Power operated equipment	2,304,445	224,160	394,849	2,133,756
Communication equipment	41,209			41,209
Miscellaneous equipment	477,510	31,459	3,086	505,883
Total general plant	<u>\$ 8,422,298</u>	<u>\$ 558,622</u>	<u>\$ 813,902</u>	<u>\$ 8,167,018</u>
Total utility plant in service	<u>\$ 58,594,836</u>	<u>\$ 1,267,362</u>	<u>\$ 991,138</u>	<u>\$ 58,871,060</u>

ACCUMULATED DEPRECIATION

Balance Beginning of Year	Accrual	Retirements- Original Cost	Removal Costs	Balance End of Year
\$ -	\$ -	\$ -	\$ -	\$ -
142,993				142,993
2,954,761	144,680			3,099,441
2,097,351	80,303			2,177,654
<u>\$ 5,195,105</u>	<u>\$ 224,983</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,420,088</u>
\$ -	\$ -	\$ -	\$ -	\$ -
154,621				154,621
6,527,329	402,047	42,907	24	6,886,445
705,666	110			705,776
1,565,685	174,476	74,803		1,665,358
6,448,816	402,842	59,526	112,600	6,679,532
15,621				15,621
<u>\$ 15,417,738</u>	<u>\$ 979,475</u>	<u>\$ 177,236</u>	<u>\$ 112,624</u>	<u>\$ 16,107,353</u>
\$ -	\$ -	\$ -	\$ -	\$ -
2,784,483	43,842			2,828,325
492,583	29,762	36,485		485,860
1,533,214	132,164	379,268		1,286,110
15,875	1,006			16,881
19,279	916			20,195
32,258	1,208			33,466
1,606,454	127,719	393,262		1,340,911
40,269	912			41,181
383,138	18,374	3,086		398,426
<u>\$ 6,907,553</u>	<u>\$ 355,903</u>	<u>\$ 812,101</u>	<u>\$ -</u>	<u>\$ 6,451,355</u>
<u>\$ 27,520,396</u>	<u>\$ 1,560,361</u>	<u>\$ 989,337</u>	<u>\$ 112,624</u>	<u>\$ 27,978,796</u>

WATER AND WASTEWATER DEPARTMENT

**CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF UTILITY PLANT IN SERVICE
AND ACCUMULATED DEPRECIATION
JUNE 30, 2019**

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	\$ 1,140,937	\$ -	\$ 172	\$ 1,140,765
Supply source	3,327,037			3,327,037
Pumping structures	6,167,700	295,351		6,463,051
Sewer plant and system	94,497,657	541,378		95,039,035
Reservoirs and standpipes	1,755,855	15,606	2,550	1,768,911
Purification building and equipment	35,812,930	108,126		35,921,056
Transmission mains and appurtenances	6,210,473			6,210,473
Distribution mains and appurtenances	15,104,982	1,326,778		16,431,760
Customer services	8,345,693	147,633	1,007	8,492,319
Fire hydrants	569,946	1,015		570,961
Miscellaneous structures and improvements	591,656			591,656
Total transmission and distribution plant	<u>\$ 173,524,866</u>	<u>\$ 2,435,887</u>	<u>\$ 3,729</u>	<u>\$ 175,957,024</u>
General plant:				
Office furniture and equipment	\$ 582,745	\$ 21,277	\$ 23,772	\$ 580,250
Transportation equipment	2,082,678	167,358	110,012	2,140,024
Tools and equipment	1,625,468	43,456	36,014	1,632,910
Communication equipment	82,136			82,136
Laboratory equipment	65,847	27,688		93,535
Total general plant	<u>\$ 4,438,874</u>	<u>\$ 259,779</u>	<u>\$ 169,798</u>	<u>\$ 4,528,855</u>
Total utility plant in service	<u><u>\$ 177,963,740</u></u>	<u><u>\$ 2,695,666</u></u>	<u><u>\$ 173,527</u></u>	<u><u>\$ 180,485,879</u></u>

ACCUMULATED DEPRECIATION

Balance Beginning of Year	Additions and Reclassifications	Retirements and Reclassifications	Balance End of Year
\$ -	\$ -	\$ -	\$ -
1,063,471	66,909		1,130,380
1,802,633	191,722		1,994,355
32,851,786	1,840,982		34,692,768
1,235,904	36,960	451	1,272,413
12,420,890	963,531		13,384,421
2,829,772	105,271		2,935,043
6,992,688	326,723		7,319,411
2,591,532	352,340	319	2,943,553
339,513	12,190		351,703
351,020	15,348		366,368
<u>\$ 62,479,209</u>	<u>\$ 3,911,976</u>	<u>\$ 770</u>	<u>\$ 66,390,415</u>
\$ 511,336	\$ 24,124	\$ 23,718	\$ 511,742
1,658,015	97,554	89,506	1,666,063
1,371,304	72,878	56,146	1,388,036
64,581	6,221		70,802
61,377	5,371		66,748
<u>\$ 3,666,613</u>	<u>\$ 206,148</u>	<u>\$ 169,370</u>	<u>\$ 3,703,391</u>
<u>\$ 66,145,822</u>	<u>\$ 4,118,124</u>	<u>\$ 170,140</u>	<u>\$ 70,093,806</u>

CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF REVENUES AND EXPENSES—KILLEN SYSTEM
FOR THE YEARS ENDED JUNE 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Water sales:		
<i>Residential</i>	\$ 1,497,392	\$ 1,476,732
<i>Commercial</i>	454,753	434,326
Forfeited discounts	19,907	20,088
Other operating revenues	<u>15,768</u>	<u>16,038</u>
Total operating revenues	<u>\$ 1,987,820</u>	<u>\$ 1,947,184</u>
Operating expenses:		
Water treatment and pumping	\$ 475,224	\$ 476,301
Transmission and distribution	243,043	250,457
Accounting and collections	94,805	88,742
Administrative and general	188,252	201,087
Depreciation	67,063	56,349
Taxes and tax equivalents	<u>21,052</u>	<u>21,897</u>
Total operating expenses	<u>\$ 1,089,439</u>	<u>\$ 1,094,833</u>
Operating income	<u>\$ 898,381</u>	<u>\$ 852,351</u>
Nonoperating revenues (expenses):		
Interest revenues	\$ 15,862	\$ 7,145
Gain (loss) on disposition of assets	(2,100)	
Interest expense	(104,303)	(97,497)
Debt issuance costs		(31,733)
Amortization of debt related costs	<u>(13,185)</u>	<u>(10,101)</u>
Total nonoperating revenues (expenses)	<u>\$ (103,726)</u>	<u>\$ (132,186)</u>
Income before capital contributions	<u><u>\$ 794,655</u></u>	<u><u>\$ 720,165</u></u>