

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND
WATER AND WASTEWATER DEPARTMENTS
FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017**



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

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

Member of
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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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, 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 51 through 56 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
January 31, 2019

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2018**

FINANCIAL HIGHLIGHTS

- The individual enterprise funds experienced the following changes in net position: Electricity decreased \$5.6 million or 6.9%; Gas decreased \$4.6 million or 10.8%; Water and Wastewater increased \$2.1 million or 2.6%.
- The individual enterprise funds experienced the following changes in net utility plant: Electricity increased \$0.2 million or .3%; Gas decreased \$.3 million or 1.0%; Water and Wastewater decreased \$2.3 million or 2.0%.
- The individual enterprise funds experienced the following changes in operating revenues: Electricity increased \$1.4 million or 1.2%; Gas increased \$3.3 million or 23.6%; Water and Wastewater increased \$7,700 or .04%.
- The individual enterprise funds experienced the following changes in operating expenses: Electricity increased \$3.5 million or 2.9%; Gas increased \$0.4 million or 2.5%; Water and Wastewater increased \$0.4 million or 2.5%.
- The individual enterprise funds experienced the following changes in nonoperating revenues: Electricity increased about \$47,000 or 22.5%; Gas decreased about \$30,500 or 24.1%; Water and Wastewater increased about \$64,800 or 264.6%.
- The individual enterprise funds experienced the following changes in nonoperating expenses: Electricity decreased \$28,700 or 9.4%; Gas increased \$800 or 302.9%; Water and Wastewater decreased \$23,600 or 1.3%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

REQUIRED FINANCIAL STATEMENTS

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

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

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

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

FINANCIAL ANALYSIS OF FLORENCE UTILITIES

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

Electricity Department

The Electricity Department's net position decreased from last year by \$5,582,687 or about 6.9%. 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 2018	FY 2017	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 33,906,277	\$ 33,743,801	\$ 162,476	0.48%
Capital Assets, Net	87,294,532	87,066,751	227,781	0.26%
Other Noncurrent Assets	3,659,259	4,697,673	(1,038,414)	-22.10%
Total Assets	<u>\$ 124,860,068</u>	<u>\$ 125,508,225</u>	<u>\$ (648,157)</u>	<u>-0.52%</u>
Deferred Outflows of Resources	\$ 3,373,441	\$ 3,767,723	\$ (394,282)	-10.46%
Current Liabilities	\$ 28,770,902	\$ 26,555,899	\$ 2,215,003	8.34%
Noncurrent Liabilities	22,153,006	20,568,891	1,584,115	7.70%
Total Liabilities	<u>\$ 50,923,908</u>	<u>\$ 47,124,790</u>	<u>\$ 3,799,118</u>	<u>8.06%</u>
Deferred Inflows of Resources	\$ 1,452,079	\$ 710,949	\$ 741,130	104.25%
Net Investment in Capital Assets	\$ 80,096,174	\$ 79,049,148	\$ 1,047,026	1.32%
Restricted for Debt Service	1,001,842	989,547	12,295	1.24%
Unrestricted	(5,240,494)	1,401,514	(6,642,008)	-473.92%
Total Net Position	<u>\$ 75,857,522</u>	<u>\$ 81,440,209</u>	<u>\$ (5,582,687)</u>	<u>-6.85%</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 \$1.4 million or about 1.2% from FY 2017. During FY 2018, TVA had twelve rate changes to its distributors under its Total Monthly Fuel Cost Adjustment provisions. Florence Utilities passed these rate changes along to our customers. Our corresponding rate changes were revenue neutral for us. The Electricity Department experienced an approximate 2.1% increase in kilowatt-hours sold in FY 2018 compared to FY 2017. The Electricity Department experienced an increase in nonoperating revenues of \$47,074 or 22.5% due to higher interest rates. The Electricity Department experienced a decrease in nonoperating expenses by \$28,698 or about 9.4%. The Electricity Department's restated beginning net position reflects the cumulative effect of a \$4,443,519 decrease due to the implementation of GASB Statement No. 75.

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

	FY 2018	FY 2017	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	\$ 123,153,904	\$ 121,718,018	\$ 1,435,886	1.18%
Operating Expenses				
Cost of Sales	\$ 98,243,755	\$ 97,233,123	\$ 1,010,632	1.04%
Operations	9,646,038	9,154,696	491,342	5.37%
Maintenance	7,128,374	5,553,101	1,575,273	28.37%
Depreciation	5,503,890	5,255,576	248,314	4.72%
Taxes and Tax Equivalents	3,751,245	3,553,432	197,813	5.57%
Total Operating Expenses	\$ 124,273,302	\$ 120,749,928	\$ 3,523,374	2.92%
Operating Income (Loss)	\$ (1,119,398)	\$ 968,090	\$ (2,087,488)	-215.63%
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 256,116	\$ 209,042	\$ 47,074	22.52%
Nonoperating Expenses	(275,886)	(304,584)	28,698	-9.42%
Total Nonoperating Revenues (Exp)	\$ (19,770)	\$ (95,542)	\$ 75,772	-79.31%
Change in Net Position	\$ (1,139,168)	\$ 872,548	\$ (2,011,716)	-230.56%
Total Net Position - Beginning, as Restated	76,996,690	80,567,661	(3,570,971)	-4.43%
Total Net Position - Ending	\$ 75,857,522	\$ 81,440,209	\$ (5,582,687)	-6.85%

Gas Department

The Gas Department's net position decreased from last year by \$4,560,815 or about 10.8%. 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 2018	FY 2017	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 18,108,859	\$ 14,965,691	\$ 3,143,168	21.00%
Capital Assets, Net	31,341,211	31,644,383	(303,172)	-0.96%
Total Assets	<u>\$ 49,450,070</u>	<u>\$ 46,610,074</u>	<u>\$ 2,839,996</u>	<u>6.09%</u>
Deferred Outflows of Resources	\$ 1,447,833	\$ 1,302,201	\$ 145,632	11.18%
Current Liabilities	\$ 1,223,099	\$ 1,128,222	\$ 94,877	8.41%
Noncurrent Liabilities	11,149,665	4,158,941	6,990,724	168.09%
Total Liabilities	<u>\$ 12,372,764</u>	<u>\$ 5,287,163</u>	<u>\$ 7,085,601</u>	<u>134.02%</u>
Deferred Inflows of Resources	\$ 674,751	\$ 213,909	\$ 460,842	215.44%
Net Investment in Capital Assets	\$ 31,341,211	\$ 31,644,383	\$ (303,172)	-0.96%
Unrestricted	6,509,177	10,766,820	(4,257,643)	-39.54%
Total Net Position	<u>\$ 37,850,388</u>	<u>\$ 42,411,203</u>	<u>\$ (4,560,815)</u>	<u>-10.75%</u>

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

As the following table indicates, operating revenues increased approximately \$3.3 million or about 23.6% from FY 2017. The Department had one rate change in FY 2018. The Gas Department experienced an approximate 17.1% increase in overall sales volume in FY 2018 compared to FY 2017. Cost of sales increased by \$.3 million or about 5.1% due to increased sales caused by a colder winter. The Gas Department experienced a decrease in nonoperating revenues of \$30,568 or about 24.1%. The Gas Department experienced an increase in nonoperating expenses by \$830 or about 302.9%. The Gas Department's restated beginning net position reflects the cumulative effect of a \$7,399,643 decrease due to the implementation of GASB Statement No. 75.

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

	FY 2018	FY 2017	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	<u>\$ 17,426,154</u>	<u>\$ 14,096,954</u>	<u>\$ 3,329,200</u>	<u>23.62%</u>
Operating Expenses				
Cost of Sales	\$ 6,994,911	\$ 6,658,476	\$ 336,435	5.05%
Operations	2,960,022	3,046,738	(86,716)	-2.85%
Maintenance	1,671,394	1,620,249	51,145	3.16%
Depreciation and Amortization	1,543,792	1,478,154	65,638	4.44%
Taxes and Tax Equivalents	1,512,420	1,518,788	(6,368)	-0.42%
Total Operating Expenses	<u>\$ 14,682,539</u>	<u>\$ 14,322,405</u>	<u>\$ 360,134</u>	<u>2.51%</u>
Operating Income (Loss)	<u>\$ 2,743,615</u>	<u>\$ (225,451)</u>	<u>\$ 2,969,066</u>	<u>1316.95%</u>
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 96,317	\$ 126,885	\$ (30,568)	-24.09%
Nonoperating Expenses	(1,104)	(274)	(830)	302.92%
Total Nonoperating Revenues (Exp)	<u>\$ 95,213</u>	<u>\$ 126,611</u>	<u>\$ (31,398)</u>	<u>-24.80%</u>
Change in Net Position	\$ 2,838,828	\$ (98,840)	\$ 2,937,668	2972.14%
Total Net Position - Beginning, as Restated	<u>35,011,560</u>	<u>42,510,043</u>	<u>(7,498,483)</u>	<u>-17.64%</u>
Total Net Position - Ending	<u>\$ 37,850,388</u>	<u>\$ 42,411,203</u>	<u>\$ (4,560,815)</u>	<u>-10.75%</u>

Water and Wastewater Department

The Water and Wastewater Department's net position increased from last year by \$2,093,589 or about 2.6%. 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 2018	FY 2017	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 14,992,774	\$ 13,917,215	\$ 1,075,559	7.73%
Capital Assets, Net	113,297,989	115,580,952	(2,282,963)	-1.98%
Other Noncurrent Assets	5,822,511	4,863,787	958,724	19.71%
Total Assets	<u>\$ 134,113,274</u>	<u>\$ 134,361,954</u>	<u>\$ (248,680)</u>	<u>-0.19%</u>
Deferred Outflows of Resources	<u>\$ 3,720,741</u>	<u>\$ 1,482,590</u>	<u>\$ 2,238,151</u>	<u>150.96%</u>
Current Liabilities	\$ 6,938,975	\$ 6,547,786	\$ 391,189	5.97%
Noncurrent Liabilities	48,948,616	49,680,204	(731,588)	-1.47%
Total Liabilities	<u>\$ 55,887,591</u>	<u>\$ 56,227,990</u>	<u>\$ (340,399)</u>	<u>-0.61%</u>
Deferred Inflows of Resources	<u>\$ 512,865</u>	<u>\$ 276,584</u>	<u>\$ 236,281</u>	<u>85.43%</u>
Net Investment in Capital Assets	\$ 66,444,167	\$ 64,819,245	\$ 1,624,922	2.51%
Restricted for Debt Service	5,098,461	4,013,035	1,085,426	27.05%
Unrestricted	9,890,931	10,507,690	(616,759)	-5.87%
Total Net Position	<u>\$ 81,433,559</u>	<u>\$ 79,339,970</u>	<u>\$ 2,093,589</u>	<u>2.64%</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 \$7,716 or about .04% from FY 2017 revenues. Operating expenses increased \$373,714 or about 2.5%. The Water and Wastewater Department experienced an increase in nonoperating revenues of \$64,813 or 264.6%. The Water and Wastewater Department experienced a decrease in nonoperating expenses of \$23,551 or less than 1.3%. The Water and Wastewater Department's restated beginning net position reflects the cumulative effect of a \$1,492,644 decrease due to the implementation of GASB Statement No. 75.

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

	FY 2018	FY 2017	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	\$ 20,201,111	\$ 20,193,395	\$ 7,716	0.04%
Operating Expenses				
Water Treatment and Pumping	\$ 2,826,584	\$ 2,910,524	\$ (83,940)	-2.88%
Sewage Disposal	1,984,615	1,923,893	60,722	3.16%
Transmission and Distribution	1,417,151	1,538,259	(121,108)	-7.87%
Accounting and Collections	1,054,937	1,022,105	32,832	3.21%
Administrative and General	2,483,019	2,114,967	368,052	17.40%
Depreciation	3,958,103	3,842,203	115,900	3.02%
Taxes and Tax Equivalents	1,713,495	1,712,239	1,256	0.07%
Total Operating Expenses	<u>\$ 15,437,904</u>	<u>\$ 15,064,190</u>	<u>\$ 373,714</u>	<u>2.48%</u>
Operating Income	<u>\$ 4,763,207</u>	<u>\$ 5,129,205</u>	<u>\$ (365,998)</u>	<u>-7.14%</u>
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 89,311	\$ 24,498	\$ 64,813	264.56%
Nonoperating Expenses	(1,859,798)	(1,883,349)	23,551	-1.25%
Total Nonoperating Revenues (Exp)	<u>\$ (1,770,487)</u>	<u>\$ (1,858,851)</u>	<u>\$ 88,364</u>	<u>-4.75%</u>
Income Before Contributions	\$ 2,992,720	\$ 3,270,354	\$ (277,634)	-8.49%
Capital Contributions	<u>593,513</u>	<u>-</u>	<u>593,513</u>	<u>N/A</u>
Change in Net Position	\$ 3,586,233	\$ 3,270,354	\$ 315,879	9.66%
Total Net Position - Beginning, as Restated	<u>77,847,326</u>	<u>76,069,616</u>	<u>1,777,710</u>	<u>2.34%</u>
Total Net Position - Ending	<u>\$ 81,433,559</u>	<u>\$ 79,339,970</u>	<u>\$ 2,093,589</u>	<u>2.64%</u>

BUDGETARY HIGHLIGHTS

As required, the City Council adopts a budget for each enterprise fund comprising the Florence Utilities. The FY 2018 original budgets for the Gas and Water and Wastewater Departments were adopted on May 16, 2017. The original budget for the Electricity Department was adopted on August 1, 2017. The FY 2018 budgets for the Electricity Department, Gas Department, and the Water and Wastewater Department were not amended in FY 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, 2018

	Final		Variance	
	Budget	Actual	Dollars	Percent
Operating Revenues	\$ 123,767,500	\$ 123,153,904	\$ (613,596)	-0.50%
Operating Expenses	122,561,000	124,273,302	(1,712,302)	-1.40%
Operating Income (Loss)	\$ 1,206,500	\$ (1,119,398)	\$ (2,325,898)	-192.78%
Nonoperating Revenues (Expenses)	(123,800)	(19,770)	104,030	84.03%
Change in Net Position	\$ 1,082,700	\$ (1,139,168)	\$ (2,221,868)	-205.22%
Total Net Position - Beginning, as Restated	76,996,690	76,996,690		
Total Net Position - Ending	\$ 78,079,390	\$ 75,857,522	\$ (2,221,868)	-2.85%

As the above budget report shows, the Electricity Department did not meet the budgeted Change in Net Position by \$2,221,868 or approximately 205.2%. 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, employee benefits, 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, 2018

	Final		Variance	
	Budget	Actual	Dollars	Percent
Operating Revenues	\$ 17,692,500	\$ 17,426,154	\$ (266,346)	-1.51%
Operating Expenses	17,286,000	14,682,539	2,603,461	15.06%
Operating Income	\$ 406,500	\$ 2,743,615	\$ 2,337,115	574.94%
Nonoperating Revenues (Expenses)	117,000	95,213	(21,787)	-18.62%
Change in Net Position	\$ 523,500	\$ 2,838,828	\$ 2,315,328	442.28%
Total Net Position - Beginning, as Restated	35,011,560	35,011,560		
Total Net Position - Ending	\$ 35,535,060	\$ 37,850,388	\$ 2,315,328	6.52%

The Gas Department exceeded the budgeted Change in Net Position by \$2,315,328, or approximately 442.3%. 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 most significant variance was primarily accounted for by a decrease in cost of sales.

Water and Wastewater Department

Water and Wastewater Department
 Schedule of Revenues, Expenses, and Changes in Fund Net Position
 Budget and Actual (GAAP Budgetary Basis)
 For the Year Ended June 30, 2018

	Final		Variance	
	Budget	Actual	Dollars	Percent
Operating Revenues	\$ 20,385,600	\$ 20,201,111	\$ (184,489)	-0.90%
Operating Expenses	16,070,800	15,437,904	632,896	3.94%
Operating Income	\$ 4,314,800	\$ 4,763,207	\$ 448,407	10.39%
Nonoperating Revenues (Expenses)	(1,784,300)	(1,770,487)	13,813	0.77%
Capital Contributions	-	593,513	593,513	N/A
Change in Net Position	\$ 2,530,500	\$ 3,586,233	\$ 1,055,733	41.72%
Total Net Position - Beginning, as Restated	77,847,326	77,847,326		
Total Net Position - Ending	<u>\$ 80,377,826</u>	<u>\$ 81,433,559</u>	<u>\$ 1,055,733</u>	<u>1.31%</u>

The Water and Wastewater Department exceeded the budgeted Change in Net Position by \$1,055,733, or approximately 41.7%. 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 equipment maintenance, debt issuance costs, and capital contributions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY 2018, 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 2018

	FY 2018	FY 2017	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 176,680,689	\$ 172,536,195	\$ 4,144,494	2.40%
Construction in Progress	814,498	1,129,989	(315,491)	-27.92%
Less: Accumulated Depreciation	(90,200,655)	(86,599,433)	(3,601,222)	4.16%
Net Utility Plant	<u>\$ 87,294,532</u>	<u>\$ 87,066,751</u>	<u>\$ 227,781</u>	<u>0.26%</u>

As the above table shows, the Electricity Department experienced a .26% increase in net utility plant. The Department plans to finance capital expenditures in FY 2019 through cash generated from current operations and cash reserves.

Gas Department

Gas Department
Capital Assets, Net
FY 2018

	FY 2018	FY 2017	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 58,594,836	\$ 57,675,243	\$ 919,593	1.59%
Acquisition Adjustment (net of amortization)	136,819	147,480	(10,661)	-7.23%
Construction in Progress	129,952	158,395	(28,443)	-17.96%
Less: Accumulated Depreciation	(27,520,396)	(26,336,735)	(1,183,661)	4.49%
Net Utility Plant	<u>\$ 31,341,211</u>	<u>\$ 31,644,383</u>	<u>\$ (303,172)</u>	<u>-0.96%</u>

As the above table shows, the Gas Department decreased net utility plant by .96%. The Department plans to finance capital expenditures in FY 2019 through cash reserves and cash generated from current operations.

Water and Wastewater Department

Water and Wastewater Department
Capital Assets, Net
FY 2018

	FY 2018	FY 2017	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 177,963,740	\$ 177,039,821	\$ 923,919	0.52%
Construction in Progress	1,480,071	682,033	798,038	117.01%
Less: Accumulated Depreciation	(66,145,822)	(62,140,902)	(4,004,920)	6.44%
Net Utility Plant	<u>\$ 113,297,989</u>	<u>\$ 115,580,952</u>	<u>\$ (2,282,963)</u>	<u>-1.98%</u>

As the above table shows, the Water and Wastewater Department decreased net utility plant by 1.98%. The Department plans to finance capital expenditures in FY 2019 with cash reserves, cash generated from current operations, and a grant.

Long-term Debt

During FY 2018, 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 2018.

Electricity Department

The Electricity Department has two warrant issues as described in the notes to financial statements, outstanding at year-end. The first is the Electric Revenue Refunding Warrants, Series 2009, with interest rates ranging from 1.50% to 3.65%. It was issued with an underlying rating of A1 and AA- by Moody's and Standard & Poor's, respectively. The Electric Revenue Warrants, Series 2013, were issued in March 2013. Their interest rates range from 1.75% to 4.00%. It was issued with an underlying rating of Aa2 and AA-/ Stable by Moody's and Standard & Poor's, respectively. These issues require that the Electricity Department's Annual Net Income (as defined in the indenture) be at least 1.25 times the maximum Annual Debt Service Requirement. For FY 2018, the Electricity Department exceeded that requirement at about 7.12 times. The Department does not anticipate issuing new debt in FY 2019.

Gas Department

The Gas Department did not have any outstanding debt issues in FY 2018. The Department does not have any plans to issue any new debt in FY 2019.

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 2018, the Water and Wastewater Department exceeded that requirement at about 1.52 times. The Department does not anticipate issuing new debt in FY 2019.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Florence MSA's unemployment rate was 3.6% for November 2018 and 3.7% for November 2017. The State of Alabama's unemployment rate was 4.0% for November 2018 and 3.8% for November 2017. 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 2019 through November 2018 for electricity have increased from the same period last year by 5.8%. Sales in dekatherms to natural gas customers for the period from July 2018 through November 2018, as compared to sales for the same period in the previous fiscal year, have decreased approximately 11.5%. FY 2019 sales revenues from water and wastewater operations through November 2018 have increased about 2.3% over the same period in FY 2018.

The City Council adopted the Gas Department's and the Water and Wastewater Department's FY 2019 budgets on June 19, 2018. The City Council adopted the Electricity Department's FY 2019 budget on August 21, 2018. These budgets were amended on October 16, 2018 to reflect a general wage increase for employees to match the percentage raise given to the City's General Fund employees approved at the October 2, 2018 meeting.

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

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

The current rate ordinance includes a provision to increase the water and sewer rates annually based upon increase in Consumer Price Index, subject to certain restrictions. The Water and Wastewater Department 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, 2018 and 2017**

ASSETS	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 10,082,926	\$ 13,025,719
Accounts receivable (net)	13,087,199	11,683,572
Accrued interest receivable	4,650	6,852
Inventories	1,683,349	1,434,954
Prepaid expenses	<u>9,048,153</u>	<u>7,592,704</u>
Total current assets	<u>\$ 33,906,277</u>	<u>\$ 33,743,801</u>
Noncurrent assets:		
Restricted cash and cash equivalents	\$ 1,019,932	\$ 1,010,186
Capital assets:		
Utility plant in service (at cost)	176,680,689	172,536,195
Construction in progress	814,498	1,129,989
Less: accumulated depreciation	90,200,655	86,599,433
Receivables from customers for conservation loans	<u>2,639,327</u>	<u>3,687,487</u>
Total noncurrent assets	<u>\$ 90,953,791</u>	<u>\$ 91,764,424</u>
Total assets	<u>\$ 124,860,068</u>	<u>\$ 125,508,225</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	\$ 26,397	\$ 52,794
Pensions	3,110,286	3,714,929
OPEB obligations	<u>236,758</u>	<u></u>
Total deferred outflows of resources	<u>\$ 3,373,441</u>	<u>\$ 3,767,723</u>

LIABILITIES	<u>2018</u>	<u>2017</u>
Current liabilities:		
Accounts payable	\$ 18,260,070	\$ 16,521,835
Retainage payable	67,141	38,098
Customer deposits	8,536,307	8,180,938
Compensated absences	630,553	637,259
Accrued taxes and expenses	388,100	311,489
	<hr/>	<hr/>
Total current liabilities	\$ 27,882,171	\$ 25,689,619
Liabilities payable from restricted assets:		
Revenue warrants—payable within one year	\$ 875,000	\$ 850,000
Unamortized debt premium (discount)	(4,359)	(4,359)
Accrued interest	18,090	20,639
	<hr/>	<hr/>
Total liabilities payable from restricted assets	\$ 888,731	\$ 866,280
Noncurrent liabilities:		
Revenue warrants—payable after one year	\$ 6,350,000	\$ 7,225,000
Unamortized debt premium (discount)	4,114	(244)
Advances from TVA for conservation loans	2,744,553	3,800,330
Compensated absences	945,829	955,888
Net pension liability	7,729,211	8,587,917
Net OPEB liability	4,379,299	
	<hr/>	<hr/>
Total noncurrent liabilities	\$ 22,153,006	\$ 20,568,891
Total liabilities	<u>\$ 50,923,908</u>	<u>\$ 47,124,790</u>
DEFERRED INFLOWS OF RESOURCES		
Pensions	\$ 1,325,013	\$ 710,949
OPEB obligations	127,066	
	<hr/>	<hr/>
Total deferred inflows of resources	<u>\$ 1,452,079</u>	<u>\$ 710,949</u>
NET POSITION		
Net investment in capital assets	\$ 80,096,174	\$ 79,049,148
Restricted for debt service	1,001,842	989,547
Unrestricted	(5,240,494)	1,401,514
	<hr/>	<hr/>
Total net position	<u>\$ 75,857,522</u>	<u>\$ 81,440,209</u>

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

**CITY OF FLORENCE, ALABAMA
ELECTRICITY DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Electric sales:		
<i>Residential</i>	\$ 64,728,150	\$ 63,007,954
<i>Small commercial</i>	13,213,915	12,968,466
<i>Large commercial</i>	39,880,004	40,420,616
<i>Public street and highway lighting</i>	2,313,287	2,371,122
Forfeited discounts	1,119,637	1,089,083
Rents from electric property	1,303,623	1,251,575
Other operating revenues	595,288	609,202
	<u>\$ 123,153,904</u>	<u>\$ 121,718,018</u>
Operating expenses:		
Costs of sales	\$ 98,243,755	\$ 97,233,123
Operations	9,646,038	9,154,696
Maintenance	7,128,374	5,553,101
Depreciation	5,503,890	5,255,576
Taxes and tax equivalents	3,751,245	3,553,432
	<u>\$ 124,273,302</u>	<u>\$ 120,749,928</u>
Total operating expenses		
	<u>\$ (1,119,398)</u>	<u>\$ 968,090</u>
Operating income (loss)		
Nonoperating revenues (expenses):		
Interest revenues	\$ 102,477	\$ 43,673
Merchandising revenues (net of costs)	139,452	86,695
Miscellaneous nonoperating income	9,191	14,766
Gain on disposition of assets	4,996	63,908
Interest expense	(245,130)	(273,828)
Amortization of debt related costs	(30,756)	(30,756)
	<u>\$ (19,770)</u>	<u>\$ (95,542)</u>
Total nonoperating revenues (expenses)		
Change in net position	\$ (1,139,168)	\$ 872,548
Total net position—beginning, as restated	<u>76,996,690</u>	<u>80,567,661</u>
Total net position—ending	<u>\$ 75,857,522</u>	<u>\$ 81,440,209</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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 121,898,920	\$ 122,788,446
Receipts from interfund services provided	2,528,741	3,650,843
Payments to suppliers	(105,038,171)	(104,843,603)
Payments to employees for services and benefits—exclusive of capitalized costs	(11,641,399)	(11,508,837)
Payments for interfund services used	<u>(3,525,829)</u>	<u>(3,337,047)</u>
Net cash provided by operating activities	<u>\$ 4,222,262</u>	<u>\$ 6,749,802</u>
Cash flows from noncapital financing activities:		
Change in receivables from customers for conservation loans	\$ 1,048,160	\$ 1,202,533
Change in advances from TVA for conservation loans	<u>(1,055,777)</u>	<u>(1,226,457)</u>
Net cash provided (used) by noncapital financing activities	<u>\$ (7,617)</u>	<u>\$ (23,924)</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (5,246,928)	\$ (6,896,619)
Proceeds from disposition of assets	25,543	136,433
Removal costs of retirements of capital assets	(933,306)	(836,357)
Principal paid on capital debt	(850,000)	(815,000)
Interest paid on capital debt	<u>(247,680)</u>	<u>(276,205)</u>
Net cash used for capital and related financing activities	<u>\$ (7,252,371)</u>	<u>\$ (8,687,748)</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 104,679</u>	<u>\$ 39,381</u>
Net cash provided by investing activities	<u>\$ 104,679</u>	<u>\$ 39,381</u>
Net increase (decrease) in cash and cash equivalents	\$ (2,933,047)	\$ (1,922,489)
Balances—beginning of the year	<u>14,035,905</u>	<u>15,958,394</u>
Balances—end of the year	<u><u>\$ 11,102,858</u></u>	<u><u>\$ 14,035,905</u></u>
<i>Classified as:</i>		
Current assets	\$ 10,082,926	\$ 13,025,719
Restricted assets	<u>1,019,932</u>	<u>1,010,186</u>
Totals	<u><u>\$ 11,102,858</u></u>	<u><u>\$ 14,035,905</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, 2018 and 2017
(Continued)**

	<u>2018</u>	<u>2017</u>
<i>Reconciliation of operating income to net cash provided (used)</i>		
<i>by operating activities:</i>		
Operating income (loss)	\$ (1,119,398)	\$ 968,090
Adjustments to reconcile operating income to net cash provided (used)		
<i>by operating activities:</i>		
Depreciation	\$ 5,931,906	\$ 5,679,572
Income from merchandising revenues (net of costs)	139,452	86,695
Miscellaneous nonoperating income	9,191	14,766
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Receivables (net)	(1,403,627)	968,967
Inventories	(248,395)	125,942
Prepaid expenses	(1,455,449)	(592,410)
Deferred outflows of resources	367,885	(48,454)
Accounts and other payables	1,827,124	(1,201,936)
Customer deposits	355,369	491,895
Net pension liability	(858,706)	(94,729)
Net OPEB liability	(64,220)	
Deferred inflows of resources	741,130	351,404
	<u>5,341,660</u>	<u>5,781,712</u>
Total adjustments	\$	\$
Net cash provided by operating activities	<u>\$ 4,222,262</u>	<u>\$ 6,749,802</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, 2018 and 2017**

ASSETS	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 15,153,044	\$ 11,737,095
Accounts receivable (net)	770,385	782,266
Accrued interest receivable	20,838	7,193
Inventories	850,879	1,045,437
Prepaid expenses	<u>1,313,713</u>	<u>1,393,700</u>
Total current assets	<u>\$ 18,108,859</u>	<u>\$ 14,965,691</u>
Noncurrent assets:		
Capital assets:		
Utility plant in service (at cost)	\$ 58,594,836	\$ 57,675,243
Acquisition adjustment (net of amortization)	136,819	147,480
Construction in progress	129,952	158,395
Less: accumulated depreciation	<u>27,520,396</u>	<u>26,336,735</u>
Total noncurrent assets	<u>\$ 31,341,211</u>	<u>\$ 31,644,383</u>
Total assets	<u>\$ 49,450,070</u>	<u>\$ 46,610,074</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	\$ 1,055,102	\$ 1,302,201
OPEB obligations	<u>392,731</u>	<u> </u>
Total deferred outflows of resources	<u>\$ 1,447,833</u>	<u>\$ 1,302,201</u>

LIABILITIES	2018	2017
Current liabilities:		
Accounts payable	\$ 928,485	\$ 812,427
Compensated absences	215,280	234,983
Accrued taxes and expenses	79,334	80,812
Total current liabilities	<u>\$ 1,223,099</u>	<u>\$ 1,128,222</u>
Noncurrent liabilities:		
Compensated absences	\$ 322,919	\$ 352,475
Net pension liability	3,562,406	3,806,466
Net OPEB liability	7,264,340	
Total noncurrent liabilities	<u>\$ 11,149,665</u>	<u>\$ 4,158,941</u>
Total liabilities	<u>\$ 12,372,764</u>	<u>\$ 5,287,163</u>
DEFERRED INFLOWS OF RESOURCES		
Pensions	\$ 409,163	\$ 213,909
OPEB obligations	265,588	
Total deferred inflows of resources	<u>\$ 674,751</u>	<u>\$ 213,909</u>
NET POSITION		
Net investment in capital assets	\$ 31,341,211	\$ 31,644,383
Unrestricted	6,509,177	10,766,820
Total net position	<u><u>\$ 37,850,388</u></u>	<u><u>\$ 42,411,203</u></u>

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

CITY OF FLORENCE, ALABAMA
GAS DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Gas sales:		
<i>Residential</i>	\$ 7,154,322	\$ 5,263,492
<i>Commercial</i>	5,113,067	3,952,945
<i>Industrial</i>	3,813,280	3,721,102
<i>Resale and transportation</i>	1,181,179	1,023,002
Service fees	62,798	62,239
Forfeited discounts	90,883	65,456
Other operating revenues	<u>10,625</u>	<u>8,718</u>
Total operating revenues	<u>\$ 17,426,154</u>	<u>\$ 14,096,954</u>
Operating expenses:		
Costs of sales	\$ 6,994,911	\$ 6,658,476
Operations	2,960,022	3,046,738
Maintenance	1,671,394	1,620,249
Depreciation	1,533,131	1,467,493
Amortization of acquisition adjustment	10,661	10,661
Taxes and tax equivalents	<u>1,512,420</u>	<u>1,518,788</u>
Total operating expenses	<u>\$ 14,682,539</u>	<u>\$ 14,322,405</u>
Operating income (loss)	<u>\$ 2,743,615</u>	<u>\$ (225,451)</u>
Nonoperating revenues (expenses):		
Interest revenues	\$ 45,695	\$ 18,109
Gain (loss) on disposition of assets	(1,104)	(274)
Miscellaneous nonoperating income	<u>50,622</u>	<u>108,776</u>
Total nonoperating revenues (expenses)	<u>\$ 95,213</u>	<u>\$ 126,611</u>
Change in net position	<u>\$ 2,838,828</u>	<u>\$ (98,840)</u>
Total net position—beginning, as restated	<u>35,011,560</u>	<u>42,510,043</u>
Total net position—ending	<u><u>\$ 37,850,388</u></u>	<u><u>\$ 42,411,203</u></u>

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

**CITY OF FLORENCE, ALABAMA
GAS DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 17,488,943	\$ 14,130,165
Receipts from interfund services provided	206,083	179,069
Payments to suppliers	(7,378,053)	(6,575,951)
Payments to employees for services and benefits—exclusive of capitalized costs	(3,199,578)	(3,167,802)
Payments for interfund services used	<u>(2,491,772)</u>	<u>(2,921,526)</u>
Net cash provided by operating activities	<u>\$ 4,625,623</u>	<u>\$ 1,643,955</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (1,197,435)	\$ (1,215,088)
Proceeds from disposition of assets	2,429	150
Removal costs of retirements of capital assets	<u>(46,718)</u>	<u>(40,121)</u>
Net cash used for capital and related financing activities	<u>\$ (1,241,724)</u>	<u>\$ (1,255,059)</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 32,050</u>	<u>\$ 14,406</u>
Net cash provided by investing activities	<u>\$ 32,050</u>	<u>\$ 14,406</u>
Net increase (decrease) in cash and cash equivalents	\$ 3,415,949	\$ 403,302
Balances—beginning of the year	<u>11,737,095</u>	<u>11,333,793</u>
Balances—end of the year	<u>\$ 15,153,044</u>	<u>\$ 11,737,095</u>
<i>Classified as:</i>		
Current assets	<u>\$ 15,153,044</u>	<u>\$ 11,737,095</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, 2018 and 2017
(Continued)**

	<u>2018</u>	<u>2017</u>
<i>Reconciliation of operating income (loss) to net cash provided (used)</i>		
<i>by operating activities:</i>		
Operating income (loss)	\$ 2,743,615	\$ (225,451)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	\$ 1,533,131	\$ 1,467,493
Amortization of acquisition adjustment	10,661	10,661
Miscellaneous nonoperating income	50,622	108,776
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Receivables (net)	11,881	(75,565)
Inventories	194,558	(36,153)
Prepaid expenses	79,987	178,891
Deferred outflows of resources	(145,632)	205,761
Accounts and other payables	65,321	16,512
Net pension liability	(244,060)	(93,986)
Net OPEB liability	(135,303)	
Deferred inflows of resources	460,842	87,016
	<u>1,882,008</u>	<u>1,869,406</u>
Total adjustments	\$	\$
Net cash provided by operating activities	<u>\$ 4,625,623</u>	<u>\$ 1,643,955</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, 2018 and 2017

ASSETS	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 11,932,348	\$ 11,188,559
Accounts receivable (net)	2,024,282	1,711,437
Accrued interest receivable	24,522	7,566
Inventories	725,745	726,736
Prepaid expenses	<u>285,877</u>	<u>282,917</u>
Total current assets	<u>\$ 14,992,774</u>	<u>\$ 13,917,215</u>
Noncurrent assets:		
Restricted cash and cash equivalents	\$ 5,611,581	\$ 4,693,654
Capital assets:		
Utility plant in service (at cost)	177,963,740	177,039,821
Construction in progress	1,480,071	682,033
Less: accumulated depreciation	66,145,822	62,140,902
Prepaid debt related costs (net)	<u>210,930</u>	<u>170,133</u>
Total noncurrent assets	<u>\$ 119,120,500</u>	<u>\$ 120,444,739</u>
Total assets	<u>\$ 134,113,274</u>	<u>\$ 134,361,954</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	\$ 2,132,029	\$ 118,600
Pensions	1,508,669	1,363,990
OPEB obligations	<u>80,043</u>	<u> </u>
Total deferred outflows of resources	<u>\$ 3,720,741</u>	<u>\$ 1,482,590</u>

LIABILITIES	<u>2018</u>	<u>2017</u>
Current liabilities:		
Accounts payable	\$ 802,854	\$ 640,073
Retainage payable	4,421	48,067
Customer deposits	2,250	3,250
Compensated absences	288,213	276,849
Accrued taxes and expenses	<u>274,637</u>	<u>256,807</u>
Total current liabilities	<u>\$ 1,372,375</u>	<u>\$ 1,225,046</u>
Liabilities payable from restricted assets:		
Revenue warrants—payable within one year	\$ 5,015,000	\$ 4,640,000
Unamortized debt premium (discount)	38,480	2,121
Accrued interest	<u>513,120</u>	<u>680,619</u>
Total liabilities payable from restricted assets	<u>\$ 5,566,600</u>	<u>\$ 5,322,740</u>
Noncurrent liabilities:		
Revenue warrants—payable after one year	\$ 43,275,000	\$ 46,200,000
Unamortized debt premium (discount)	657,371	38,186
Compensated absences	432,319	415,273
Net pension liability	3,103,368	3,026,745
Net OPEB liability	<u>1,480,558</u>	<u></u>
Total noncurrent liabilities	<u>\$ 48,948,616</u>	<u>\$ 49,680,204</u>
Total liabilities	<u>\$ 55,887,591</u>	<u>\$ 56,227,990</u>
DEFERRED INFLOWS OF RESOURCES		
Pensions	\$ 497,524	\$ 276,584
OPEB obligations	<u>15,341</u>	<u></u>
Total deferred inflows of resources	<u>\$ 512,865</u>	<u>\$ 276,584</u>
NET POSITION		
Net investment in capital assets	\$ 66,444,167	\$ 64,819,245
Restricted for debt service	5,098,461	4,013,035
Unrestricted	<u>9,890,931</u>	<u>10,507,690</u>
Total net position	<u>\$ 81,433,559</u>	<u>\$ 79,339,970</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, 2018 and 2017

	2018	2017
Operating revenues:		
Water sales:		
<i>Residential</i>	\$ 7,058,412	\$ 7,223,203
<i>Commercial</i>	3,458,349	3,430,196
<i>Resale</i>	1,580,372	1,650,679
Sewer service sales:		
<i>Residential</i>	4,393,143	4,314,419
<i>Commercial</i>	3,409,400	3,270,774
Forfeited discounts	169,890	166,522
Other operating revenues	131,545	137,602
Total operating revenues	\$ 20,201,111	\$ 20,193,395
Operating expenses:		
Water treatment and pumping	\$ 2,826,584	\$ 2,910,524
Sewage disposal	1,984,615	1,923,893
Transmission and distribution	1,417,151	1,538,259
Accounting and collections	1,054,937	1,022,105
Administrative and general	2,483,019	2,114,967
Depreciation	3,958,103	3,842,203
Taxes and tax equivalents	1,713,495	1,712,239
Total operating expenses	\$ 15,437,904	\$ 15,064,190
Operating income	\$ 4,763,207	\$ 5,129,205
Nonoperating revenues (expenses):		
Interest revenues	\$ 89,311	\$ 24,498
Gain (loss) on disposition of assets	(7,036)	(65,793)
Interest expense	(1,324,876)	(1,772,625)
Debt issuance costs	(396,657)	
Amortization of debt related costs	(131,229)	(44,931)
Total nonoperating revenues (expenses)	\$ (1,770,487)	\$ (1,858,851)
Income before contributions	\$ 2,992,720	\$ 3,270,354
Capital contributions	593,513	
Change in net position	\$ 3,586,233	\$ 3,270,354
Total net position—beginning, as restated	77,847,326	76,069,616
Total net position—ending	\$ 81,433,559	\$ 79,339,970

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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 19,593,366	\$ 19,985,495
Receipts from interfund services provided	365,202	333,309
Payments to suppliers	(3,370,960)	(3,306,016)
Payments to employees for services and benefits—exclusive of capitalized costs	(4,924,790)	(4,802,850)
Payments for interfund services used	<u>(2,933,072)</u>	<u>(2,985,069)</u>
Net cash provided by operating activities	<u>\$ 8,729,746</u>	<u>\$ 9,224,869</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (1,764,955)	\$ (3,981,802)
Proceeds from capital contributions	593,513	
Principal paid on capital debt	(4,440,000)	(4,255,000)
Interest paid on capital debt	<u>(1,528,943)</u>	<u>(1,762,106)</u>
Net cash used for capital and related financing activities	<u>\$ (7,140,385)</u>	<u>\$ (9,998,908)</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 72,355</u>	<u>\$ 20,152</u>
Net cash provided by investing activities	<u>\$ 72,355</u>	<u>\$ 20,152</u>
Net increase (decrease) in cash and cash equivalents	\$ 1,661,716	\$ (753,887)
Balances—beginning of the year	<u>15,882,213</u>	<u>16,636,100</u>
Balances—end of the year	<u>\$ 17,543,929</u>	<u>\$ 15,882,213</u>
<i>Classified as:</i>		
Current assets	\$ 11,932,348	\$ 11,188,559
Restricted assets	<u>5,611,581</u>	<u>4,693,654</u>
Totals	<u>\$ 17,543,929</u>	<u>\$ 15,882,213</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, 2018 and 2017
(Continued)**

	<u>2018</u>	<u>2017</u>
<i>Reconciliation of operating income to net cash provided (used)</i>		
<i>by operating activities:</i>		
Operating income	\$ 4,763,207	\$ 5,129,205
Adjustments to reconcile operating income to net cash provided (used)		
<i>by operating activities:</i>		
Depreciation	\$ 4,040,882	\$ 3,936,121
Change in assets and liabilities:		
Receivables (net)	(312,845)	104,258
Inventories	991	41,676
Prepaid expenses	(2,960)	(7,084)
Deferred outflows of resources	(224,722)	(306,754)
Accounts and other payables	165,375	(111,052)
Customer deposits	(1,000)	750
Net pension liability	76,623	287,220
Net OPEB liability	(12,086)	
Deferred inflows of resources	236,281	150,529
	<u>3,966,539</u>	<u>4,095,664</u>
Total adjustments	\$	\$
	<u>8,729,746</u>	<u>9,224,869</u>
Net cash provided by operating activities	\$	\$

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

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017

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, 2018 and 2017
(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, 2018 and 2017
(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 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. Depreciation for the fiscal year 2017 totaled \$5,679,572 of which \$5,255,576 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts based on vehicle usage, totaled \$423,996 for the year ended June 30, 2017.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017
(Continued)

NOTE 2—UTILITY PLANT (Continued)

As of June 30, 2018 and 2017, nondepreciable capital assets consist of land, land rights, and rights-of-way in the amount of \$1,155,380.

A summary of utility plant in service is presented below:

	<i>Balance Beginning of Year</i>	<i>Additions and Reclassifications</i>	<i>Retirements and Reclassifications</i>	<i>Balance End of Year</i>
Transmission plant	\$ 41,635,628	\$ 567,743	\$ 165,789	\$ 42,037,582
Distribution plant	110,053,840	3,840,644	764,908	113,129,576
General plant	20,846,727	1,154,032	487,228	21,513,531
Totals	<u>\$ 172,536,195</u>	<u>\$ 5,562,419</u>	<u>\$ 1,417,925</u>	<u>\$ 176,680,689</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, 2018 and 2017, accumulated depreciation amounted to \$277,587 and \$237,931, 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 \$1,533,131 for fiscal year 2018 and \$1,467,493 for fiscal year 2017.

As of June 30, 2018 and 2017, nondepreciable capital assets consist of land, land rights, and rights-of-way in the amount of \$493,877 and \$320,954, 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	\$ 10,173,436	\$ -	\$ 291	\$ 10,173,145
Distribution plant	39,490,159	802,189	292,955	39,999,393
General plant	8,011,648	423,980	13,330	8,422,298
Totals	<u>\$ 57,675,243</u>	<u>\$ 1,226,169</u>	<u>\$ 306,576</u>	<u>\$ 58,594,836</u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017
(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, 2018 and 2017, accumulated amortization amounted to \$218,554 and \$207,893, 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 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. Depreciation for the fiscal year 2017 totaled \$3,936,121 of which \$3,842,203 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts based on vehicle usage, totaled \$93,918 for the year ended June 30, 2017.

As of June 30, 2018 and 2017, nondepreciable capital assets consist of land, land rights, and rights-of-way in the amount of \$1,140,937 and \$968,039, 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	\$ 172,854,501	\$ 757,235	\$ 86,870	\$ 173,524,866
General plant	4,185,320	288,798	35,244	4,438,874
Totals	<u>\$ 177,039,821</u>	<u>\$ 1,046,033</u>	<u>\$ 122,114</u>	<u>\$ 177,963,740</u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017
(Continued)

NOTE 3—RECEIVABLES AND PAYABLES

Receivables at June 30, 2018 and 2017 were as follows for each department:

Electricity Department

	<u>2018</u>	<u>2017</u>
Customer accounts	\$ 10,844,520	\$ 9,896,364
Other governments	850,128	354,497
Miscellaneous	156,314	206,223
Secured customer deposits	1,108,454	1,099,607
Accrued rents	412,415	392,690
Less: allowance for doubtful accounts	<u>(284,632)</u>	<u>(265,809)</u>
Net receivables	<u>\$ 13,087,199</u>	<u>\$ 11,683,572</u>

Gas Department

	<u>2018</u>	<u>2017</u>
Customer accounts	\$ 732,266	\$ 769,689
Other governments	52,187	29,801
Miscellaneous	3,960	947
Less: allowance for doubtful accounts	<u>(18,028)</u>	<u>(18,171)</u>
Net receivables	<u>\$ 770,385</u>	<u>\$ 782,266</u>

Water and Wastewater Department

	<u>2018</u>	<u>2017</u>
Customer accounts	\$ 1,739,427	\$ 1,740,614
Other governments	323,720	16,601
Less: allowance for doubtful accounts	<u>(38,865)</u>	<u>(45,778)</u>
Net receivables	<u>\$ 2,024,282</u>	<u>\$ 1,711,437</u>

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017
(Continued)**

NOTE 3—RECEIVABLES AND PAYABLES (Continued)

Payables at June 30, 2018 and 2017 were as follows for each department:

Electricity Department

	<u>2018</u>	<u>2017</u>
Vendors	\$ 18,309,534	\$ 16,582,212
Salaries and benefits	300,238	266,135
Other governments	105,539	23,075
Totals	<u>\$ 18,715,311</u>	<u>\$ 16,871,422</u>

Gas Department

	<u>2018</u>	<u>2017</u>
Vendors	\$ 509,402	\$ 565,763
Salaries and benefits	79,334	62,235
Other governments	419,083	265,241
Totals	<u>\$ 1,007,819</u>	<u>\$ 893,239</u>

Water and Wastewater Department

	<u>2018</u>	<u>2017</u>
Vendors	\$ 337,385	\$ 342,992
Salaries and benefits	145,714	133,877
Other governments	598,813	471,328
Totals	<u>\$ 1,081,912</u>	<u>\$ 948,197</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, 2018 and 2017, the Department had \$492,524 and \$726,557, 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, 2018 and 2017
(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 2009 and Series 2013 Warrant Indentures are invested in short-term U.S. Government obligations, as follows:

	<u>2018</u>	<u>2017</u>
Series 2009 Debt Service Reserve Fund	\$ 725,000	\$ 725,000
Series 2009 Warrant Funds	85,343	76,627
Series 2013 Debt Service Reserve Fund	193,771	193,042
Series 2013 Warrant Funds	15,818	15,517
Total restricted cash and cash equivalents	<u>\$ 1,019,932</u>	<u>\$ 1,010,186</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>2018</u>	<u>2017</u>
Warrant Funds-All SRF Series	\$ 4,285,125	\$ 4,288,694
Series 2011 Warrant Funds	75,330	404,960
Series 2017 Warrant Funds	1,251,126	
Total restricted cash and cash equivalents	<u>\$ 5,611,581</u>	<u>\$ 4,693,654</u>

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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, 2018 and 2017, a total of \$2,639,327 and \$3,687,487, 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 \$2,744,553 and \$3,800,330 as of June 30, 2018 and 2017, 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 \$8,801,154 and \$7,336,257 as of June 30, 2018 and 2017, respectively, are reflected as prepayments in the financial statements.

NOTE 7—LONG-TERM OBLIGATIONS

Electricity Department

Long-term obligations activity for the year ended June 30, 2018 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	\$ 1,725,000	\$ 6,350,000	\$ 8,075,000
Less: principal paid on debt	850,000		850,000
Balance—end of year	<u>\$ 875,000</u>	<u>\$ 6,350,000</u>	<u>\$ 7,225,000</u>

CITY OF FLORENCE, ALABAMA
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NOTE 7—LONG-TERM OBLIGATIONS (Continued)

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

The Department issued Electric Revenue Warrants, Series 2013, dated March 1, 2013, in the amount of \$6,350,000 with interest rates ranging from 1.75% to 4.00% for the purpose of purchasing and constructing capital improvements to the system. The net revenues of the system are irrevocably pledged for payment of the principal and interest of the warrants. Principal is payable annually beginning on June 1, 2020. Interest is payable semi-annually on each June 1 and December 1.

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

<i>Fiscal Year Ending June 30</i>	<i>Principal Maturities and Scheduled Mandatory Redemption Payments</i>	<i>Interest Payable</i>	<i>Total Debt Service</i>
2019	\$ 875,000	\$ 217,080	\$ 1,092,080
2020	385,000	185,143	570,143
2021	390,000	178,405	568,405
2022	400,000	170,605	570,605
2023	410,000	162,205	572,205
2024–2028	2,205,000	652,560	2,857,560
2029–2033	2,560,000	299,500	2,859,500
Totals	\$ 7,225,000	\$ 1,865,498	\$ 9,090,498
Less: portion due within one year	875,000		
Long-term debt—end of year	<u>\$ 6,350,000</u>		

All interest costs were expensed for the fiscal years presented.

CITY OF FLORENCE, ALABAMA
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NOTE 7—LONG-TERM OBLIGATIONS (Continued)

Water and Wastewater Department

Long-term obligations activity for the year ended June 30, 2018 was as follows:

	<i>Water and Sewer Revenue Warrants, SRF Series 2006</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2007</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2010-A</i>
Balance—beginning of year	\$ 2,340,000	\$ 6,010,000	\$ 3,415,000
Add: proceeds from debt			
Less: principal paid on debt	2,340,000	6,010,000	805,000
Balance—end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,610,000</u>

	<i>Water and Sewer Revenue Warrants, SRF Series 2010-B</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2010-C</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2010-D</i>
Balance—beginning of year	\$ 5,755,000	\$ 5,510,000	\$ 1,385,000
Add: proceeds from debt			
Less: principal paid on debt	1,360,000	1,305,000	330,000
Balance—end of year	<u>\$ 4,395,000</u>	<u>\$ 4,205,000</u>	<u>\$ 1,055,000</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	\$ 20,600,000	\$ 5,825,000	\$ -	\$ 50,840,000
Add: proceeds from debt			29,940,000	29,940,000
Less: principal paid on debt	20,110,000	230,000		32,490,000
Balance—end of year	<u>\$ 490,000</u>	<u>\$ 5,595,000</u>	<u>\$ 29,940,000</u>	<u>\$ 48,290,000</u>

The Department issued Water and Sewer Revenue Warrants, SRF Series 2006, dated January 15, 2006 in the amount of \$4,030,000 bearing an interest rate of 3.25%. The warrants were issued for constructing wastewater treatment and related facilities in connection with the sanitary sewer system. The warrants were issued under the State of Alabama Revolving Fund (SRF) and are administered jointly by the Alabama Water Pollution Control Authority (AWPCA) and the Alabama Department of Environmental Management (ADEM). The revenues of the system are pledged for payment of the principal and interest of these warrants. Principal is payable annually on February 15. Interest is payable semi-annually on each February 15 and August 15. On October 12, 2017, these warrants were currently refunded with the issuance of the Water and Sewer Revenue Warrants, Series 2017.

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ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017
(Continued)

NOTE 7—LONG-TERM OBLIGATIONS (Continued)

The Department issued Water and Sewer Revenue Warrants, SRF Series 2007, dated September 15, 2007 in the amount of \$8,825,000 bearing an interest rate of 3.50%. The warrants were issued for making certain improvements to the sanitary sewer system. The warrants were issued under the SRF and are administered jointly by the AWPCA and ADEM. The net revenues of the system are pledged for payment of the principal and interest of the warrants. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15. On October 12, 2017, these warrants were currently refunded with the issuance of the Water and Sewer Revenue Warrants, Series 2017.

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

The Department issued Water and Sewer Revenue Warrants, Series 2010-B-CWSRF-BL, dated August 13, 2010, in the amount of \$12,920,000 bearing an interest rate of 2.57% for the current refunding of the Water and Sewer Revenue Warrants, SRF Series 1998. The warrants were issued under the SRF and are administered jointly by the AWPCA and ADEM. The net revenues of the system are pledged for payment of the principal and interest of these warrants. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15.

The Department issued Water and Sewer Revenue Warrants, Series 2010-C-CWSRF-BL, dated August 13, 2010, in the amount of \$12,460,000 bearing an interest rate of 2.57% for the current refunding of the Water and Sewer Revenue Warrants, SRF Series 1999. The warrants were issued under the SRF and are administered jointly by the AWPCA and ADEM. The net revenues of the system are pledged for payment of the principal and interest of these warrants. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15.

The Department issued Water and Sewer Revenue Warrants, Series 2010-D-CWSRF-BL, dated August 13, 2010, in the amount of \$3,125,000 bearing an interest rate of 2.57% for the current refunding of the Water and Sewer Revenue Warrants, SRF Series 1999B. The warrants were issued under the SRF and are administered jointly by the AWPCA and ADEM. The net revenues of the system are pledged for payment of the principal and interest of these warrants. Principal is payable annually on August 15. Interest is payable semi-annually on each February 15 and August 15.

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

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(Continued)

NOTE 7—LONG-TERM OBLIGATIONS (Continued)

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

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.

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>
2019	\$ 5,015,000	\$ 1,306,260	\$ 6,321,260
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
2024–2028	9,065,000	3,925,868	12,990,868
2029–2033	10,585,000	2,409,869	12,994,869
2034–2037	9,765,000	634,849	10,399,849
Totals	\$ 48,290,000	\$ 12,394,708	\$ 60,684,708
Less: portion due within one year	<u>5,015,000</u>		
Long-term debt—end of year	<u>\$ 43,275,000</u>		

All interest costs were expensed for the fiscal years presented.

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

NOTE 8—PENSION AND DEFERRED COMPENSATION PLANS

Pension Plan

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

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

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

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

- 120 months certain and life annuity.
- Contingent annuitant option with either 100%, 66.67%, 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).

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NOTES TO FINANCIAL STATEMENTS
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NOTE 8—PENSION AND DEFERRED COMPENSATION PLANS (Continued)

Employees Covered by Benefit Terms—At September 30, 2017, the following employees were covered by the benefit terms:

Active employees who have not reached age 65	631
Active participants attaining normal retirement age 65	13
Inactive participants (35 in pay status)	103
Total participants	747

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, 2017, 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, 2017, 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, 2017 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-2017.

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%	4.90%
US Large Cap Growth Equity	15.50%	10.40%
US Large Cap Value Equity	15.50%	10.10%
Europe Equity	9.40%	8.70%
Real Estate Investment Trusts	5.00%	9.30%
Core Private Real Estate Funds	5.00%	7.00%
US Mid Cap Growth Equity	3.00%	11.60%
US Mid Cap Value Equity	3.00%	10.90%
US Small Cap Growth Equity	3.00%	12.50%
US Small Cap Value Equity	3.00%	11.60%
Emerging Markets Equity	3.00%	13.60%
Japan Equity	2.90%	9.40%
Ultra-Short Fixed Income	2.00%	3.40%
Asia Pacific ex Japan Equity	1.70%	12.00%
High Yield Fixed Income	1.00%	7.20%

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, 2017	\$ 109,898,187	\$ 80,420,505	\$ 29,477,682
Changes for the year:			
Service cost	2,830,614		2,830,614
Interest on total pension liability	8,207,619		8,207,619
Effect of plan changes	840,263		840,263
Effect of economic/demographic gain/losses	63,177		63,177
Effect of assumption changes/inputs	(73,548)		(73,548)
Benefit payments	(6,709,051)	(6,709,051)	-
Employer contributions		4,056,029	(4,056,029)
Member contributions		1,474,920	(1,474,920)
Net investment income		9,759,245	(9,759,245)
Administrative expenses		(421,537)	421,537
Balance as of September 30, 2018 *	\$ 115,057,261	\$ 88,580,111	\$ 26,477,150

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

CITY OF FLORENCE, ALABAMA
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NOTES TO FINANCIAL STATEMENTS
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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	\$ 123,884,846	\$ 115,057,261	\$ 107,005,259
Fiduciary net position	<u>88,580,111</u>	<u>88,580,111</u>	<u>88,580,111</u>
Net pension liability	<u>\$ 35,304,735</u>	<u>\$ 26,477,150</u>	<u>\$ 18,425,148</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—For the year ended September 30, 2017, the City recognized pension expense of \$5,159,503. At September 30, 2017, 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	\$ 3,563,953	\$ -
Differences between expected and actual experience	2,789,934	
Changes in assumptions	932,843	215,247
Net difference between projected and actual earnings	2,830,624	4,628,150

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>
2019	\$ 307,028
2020	724,427
2021	(690,886)
2022	(297,063)
2023	460,258
Thereafter *	1,206,240

* 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 \$3,563,953 will be recognized as a reduction of the net pension liability in the fiscal year ending September 30, 2019.

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.

CITY OF FLORENCE, ALABAMA
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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, 2017, 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, 2017 and was determined by an actuarial valuation as of that date.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017
(Continued)

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

Actuarial Assumptions and Other Inputs—The total OPEB liability in the September 30, 2017 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	3.64%
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, 2017	\$ 17,273,198
Changes for the year:	
Service cost	840,770
Interest on total OPEB liability	539,050
Effect of assumption changes or inputs	(646,697)
Benefit payments	(980,229)
Balance as of September 30, 2018 *	<u>\$ 17,026,092</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 3.058% to 3.64%.

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 3.64%, 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 (2.64%) or 1-percentage-point higher (4.64%) than the current rate:

	<i>Current</i>		
	<i>1% Decrease</i>	<i>Discount Rate</i>	<i>1% Increase</i>
	<i>(2.64%)</i>	<i>(3.64%)</i>	<i>(4.64%)</i>
Total OPEB Liability	<u>\$ 18,150,412</u>	<u>\$ 17,026,092</u>	<u>\$ 15,969,015</u>

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017
(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	\$ 15,738,144	\$ 17,026,092	\$ 18,512,127

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB—For the year ended September 30, 2017, the City recognized OPEB expense of \$1,301,250. At September 30, 2017, 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	\$ 920,479	\$ -
Changes of assumptions or inputs		(568,127)

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>
2019	\$ (78,570)
2020	(78,570)
2021	(78,570)
2022	(78,570)
2023	(78,570)
Thereafter *	(175,277)

* 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 \$920,479 will be recognized as a reduction of the total OPEB liability in the fiscal year ending September 30, 2019.

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, 2018 and 2017
(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>
2019	\$ 201,372
2020	201,372
2021	201,372
2022	201,372
2023	<u>201,372</u>
Total	<u>\$ 1,006,860</u>

NOTE 11—DEPOSITS AND INVESTMENTS

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

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

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017
(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, 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. As of June 30, 2017, open contracts for construction totaled \$50,000 of which \$6,386 had been recorded as cumulative construction in progress. As of June 30, 2017, open contracts for system maintenance totaled \$5,847,357 of which \$3,545,616 had been recorded as current maintenance expense.

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, 2018 and 2017, the Department had made purchase commitments amounting to \$4,048,400 and \$7,211,493, 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, 2018 and 2017
(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, 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. As of June 30, 2017, open contracts for construction totaled \$4,030,227 of which \$3,298,967 had been recorded as cumulative construction in progress. As of June 30, 2017, open contracts for system maintenance totaled \$228,661 of which \$175,362 had been recorded as current maintenance expense.

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, 2018 was \$20,110,000.

NOTE 14—RESTATEMENT

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The requirements of this GASB pronouncement are effective for fiscal years beginning after June 15, 2017. Due to the implementation of this new statement, Net Position has been restated:

Electricity Department

Net position as of June 30, 2017, as previously stated	\$ 81,440,209
Cumulative effect of the change in accounting principle related to:	
Total OPEB liability	<u>(4,443,519)</u>
Net position as of June 30, 2017, as restated	<u>\$ 76,996,690</u>

Gas Department

Net position as of June 30, 2017, as previously stated	\$ 42,411,203
Cumulative effect of the change in accounting principle related to:	
Total OPEB liability	<u>(7,399,643)</u>
Net position as of June 30, 2017, as restated	<u>\$ 35,011,560</u>

Water and Wastewater Department

Net position as of June 30, 2017, as previously stated	\$ 79,339,970
Cumulative effect of the change in accounting principle related to:	
Total OPEB liability	<u>(1,492,644)</u>
Net position as of June 30, 2017, as restated	<u>\$ 77,847,326</u>

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, 2018**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating revenues:				
Electric sales:				
<i>Residential</i>	\$ 66,425,000	\$ 66,425,000	\$ 64,728,150	\$ (1,696,850)
<i>Small commercial</i>	13,167,500	13,167,500	13,213,915	46,415
<i>Large commercial</i>	38,870,000	38,870,000	39,880,004	1,010,004
<i>Public street and highway lighting</i>	2,320,000	2,320,000	2,313,287	(6,713)
Forfeited discounts	1,100,000	1,100,000	1,119,637	19,637
Rents	1,265,000	1,265,000	1,303,623	38,623
Other operating revenues	620,000	620,000	595,288	(24,712)
Total operating revenues	<u>\$ 123,767,500</u>	<u>\$ 123,767,500</u>	<u>\$ 123,153,904</u>	<u>\$ (613,596)</u>
Operating expenses:				
Costs of sales	\$ 98,150,000	\$ 98,150,000	\$ 98,243,755	\$ (93,755)
Operations:				
<i>Transmission</i>	330,400	330,400	322,964	7,436
<i>Distribution</i>	2,892,900	2,892,900	2,695,366	197,534
<i>Customer accounts</i>	2,091,500	2,091,500	1,956,369	135,131
<i>Customer service and information assistance and instruction</i>	89,800	89,800	95,280	(5,480)
<i>Sales</i>	8,000	8,000	2,909	5,091
<i>Administrative and general</i>	3,912,500	3,912,500	4,573,150	(660,650)
Maintenance:				
<i>Transmission</i>	279,700	279,700	251,214	28,486
<i>Distribution</i>	5,402,700	5,402,700	6,473,754	(1,071,054)
<i>Administrative and general</i>	501,000	501,000	403,406	97,594
Depreciation	5,300,000	5,300,000	5,503,890	(203,890)
Taxes and tax equivalents	3,602,500	3,602,500	3,751,245	(148,745)
Total operating expenses	<u>\$ 122,561,000</u>	<u>\$ 122,561,000</u>	<u>\$ 124,273,302</u>	<u>\$ (1,712,302)</u>
Operating income (loss)	<u>\$ 1,206,500</u>	<u>\$ 1,206,500</u>	<u>\$ (1,119,398)</u>	<u>\$ (2,325,898)</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 25,000	\$ 25,000	\$ 102,477	\$ 77,477
Merchandising revenues (net of costs)	125,000	125,000	139,452	14,452
Miscellaneous nonoperating income	20,000	20,000	9,191	(10,809)
Gain on disposition of assets			4,996	4,996
Interest expense	(245,200)	(245,200)	(245,130)	70
Amortization of debt related costs	(48,600)	(48,600)	(30,756)	17,844
Total nonoperating revenues (expenses)	<u>\$ (123,800)</u>	<u>\$ (123,800)</u>	<u>\$ (19,770)</u>	<u>\$ 104,030</u>
Change in net position	<u>\$ 1,082,700</u>	<u>\$ 1,082,700</u>	<u>\$ (1,139,168)</u>	<u>\$ (2,221,868)</u>
Total net position—beginning, as restated	<u>76,996,690</u>	<u>76,996,690</u>	<u>76,996,690</u>	
Total net position—ending	<u>\$ 78,079,390</u>	<u>\$ 78,079,390</u>	<u>\$ 75,857,522</u>	<u>\$ (2,221,868)</u>

CITY OF FLORENCE, ALABAMA
GAS DEPARTMENT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION—
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating revenues:				
Gas sales:				
<i>Residential</i>	\$ 6,466,500	\$ 6,466,500	\$ 7,154,322	\$ 687,822
<i>Commercial</i>	4,389,200	4,389,200	5,113,067	723,867
<i>Industrial</i>	5,168,500	5,168,500	3,813,280	(1,355,220)
<i>Resale and transportation</i>	1,518,800	1,518,800	1,181,179	(337,621)
Service fees	63,300	63,300	62,798	(502)
Forfeited discounts	74,700	74,700	90,883	16,183
Other operating revenues	11,500	11,500	10,625	(875)
Total operating revenues	<u>\$ 17,692,500</u>	<u>\$ 17,692,500</u>	<u>\$ 17,426,154</u>	<u>\$ (266,346)</u>
Operating expenses:				
Costs of sales	\$ 9,552,100	\$ 9,552,100	\$ 6,994,911	\$ 2,557,189
Operations:				
<i>Transmission</i>	144,400	144,400	139,432	4,968
<i>Distribution</i>	510,800	510,800	363,789	147,011
<i>Customer accounts</i>	467,400	467,400	399,248	68,152
<i>Sales</i>	40,000	40,000	30,276	9,724
<i>Administrative and general</i>	1,795,700	1,795,700	2,027,277	(231,577)
Maintenance:				
<i>Transmission</i>	2,700	2,700	479	2,221
<i>Distribution</i>	1,596,800	1,596,800	1,608,180	(11,380)
<i>Administrative and general</i>	83,200	83,200	62,735	20,465
Depreciation	1,525,000	1,525,000	1,533,131	(8,131)
Amortization of acquisition adjustment	10,700	10,700	10,661	39
Taxes and tax equivalents	1,557,200	1,557,200	1,512,420	44,780
Total operating expenses	<u>\$ 17,286,000</u>	<u>\$ 17,286,000</u>	<u>\$ 14,682,539</u>	<u>\$ 2,603,461</u>
Operating income (loss)	<u>\$ 406,500</u>	<u>\$ 406,500</u>	<u>\$ 2,743,615</u>	<u>\$ 2,337,115</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 15,000	\$ 15,000	\$ 45,695	\$ 30,695
Gain (loss) on disposition of assets	5,000	5,000	(1,104)	(6,104)
Miscellaneous nonoperating income	97,000	97,000	50,622	(46,378)
Total nonoperating revenues (expenses)	<u>\$ 117,000</u>	<u>\$ 117,000</u>	<u>\$ 95,213</u>	<u>\$ (21,787)</u>
Change in net position	\$ 523,500	\$ 523,500	\$ 2,838,828	\$ 2,315,328
Total net position—beginning, as restated	<u>35,011,560</u>	<u>35,011,560</u>	<u>35,011,560</u>	
Total net position—ending	<u>\$ 35,535,060</u>	<u>\$ 35,535,060</u>	<u>\$ 37,850,388</u>	<u>\$ 2,315,328</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, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating revenues:				
Water sales:				
<i>Residential</i>	\$ 7,184,800	\$ 7,184,800	\$ 7,058,412	\$ (126,388)
<i>Commercial</i>	3,503,100	3,503,100	3,458,349	(44,751)
<i>Resale</i>	1,693,000	1,693,000	1,580,372	(112,628)
Sewer service sales:				
<i>Residential</i>	4,298,300	4,298,300	4,393,143	94,843
<i>Commercial</i>	3,404,200	3,404,200	3,409,400	5,200
Forfeited discounts	174,100	174,100	169,890	(4,210)
Other operating revenues	128,100	128,100	131,545	3,445
Total operating revenues	<u>\$ 20,385,600</u>	<u>\$ 20,385,600</u>	<u>\$ 20,201,111</u>	<u>\$ (184,489)</u>
Operating expenses:				
Water treatment and pumping	\$ 3,524,500	\$ 3,524,500	\$ 2,826,584	\$ 697,916
Sewage disposal	2,053,100	2,053,100	1,984,615	68,485
Transmission and distribution	1,630,200	1,630,200	1,417,151	213,049
Accounting and collections	1,037,900	1,037,900	1,054,937	(17,037)
Administrative and general	2,167,200	2,167,200	2,483,019	(315,819)
Depreciation	3,865,600	3,865,600	3,958,103	(92,503)
Taxes and tax equivalents	1,792,300	1,792,300	1,713,495	78,805
Total operating expenses	<u>\$ 16,070,800</u>	<u>\$ 16,070,800</u>	<u>\$ 15,437,904</u>	<u>\$ 632,896</u>
Operating income	<u>\$ 4,314,800</u>	<u>\$ 4,314,800</u>	<u>\$ 4,763,207</u>	<u>\$ 448,407</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 16,700	\$ 16,700	\$ 89,311	\$ 72,611
Gain (loss) on disposition of assets			(7,036)	(7,036)
Interest expense	(1,756,000)	(1,756,000)	(1,324,876)	431,124
Debt issuance costs			(396,657)	(396,657)
Amortization of debt related costs	(45,000)	(45,000)	(131,229)	(86,229)
Total nonoperating revenues (expenses)	<u>\$ (1,784,300)</u>	<u>\$ (1,784,300)</u>	<u>\$ (1,770,487)</u>	<u>\$ 13,813</u>
Income before contributions	<u>\$ 2,530,500</u>	<u>\$ 2,530,500</u>	<u>\$ 2,992,720</u>	<u>\$ 462,220</u>
Capital contributions			593,513	593,513
Change in net position	<u>\$ 2,530,500</u>	<u>\$ 2,530,500</u>	<u>\$ 3,586,233</u>	<u>\$ 1,055,733</u>
Total net position—beginning, as restated	<u>77,847,326</u>	<u>77,847,326</u>	<u>77,847,326</u>	
Total net position—ending	<u><u>\$ 80,377,826</u></u>	<u><u>\$ 80,377,826</u></u>	<u><u>\$ 81,433,559</u></u>	<u><u>\$ 1,055,733</u></u>

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
TOTAL PENSION LIABILITY										
Service cost	\$ 2,830,614	\$ 2,888,380	\$ 2,825,270	\$ 2,854,759	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	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	63,177	1,690,662	558,626	1,537,047						
Effect of assumption changes or inputs	(73,548)	(188,107)	1,286,192							
Benefit payments	(6,709,051)	(8,968,541)	(11,629,512)	(9,216,405)						
Net change in total pension liability	\$ 5,159,074	\$ 3,303,393	\$ 761,728	\$ 2,779,182	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total pension liability, beginning	109,898,187	106,594,794	105,833,066	103,053,884						
Total pension liability, ending (a)	<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>	<u>\$ -</u>
FIDUCIARY NET POSITION										
Contributions—employer	\$ 4,056,029	\$ 4,309,829	\$ 4,052,968	\$ 3,710,391	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions—employee	1,474,920	1,567,210	1,473,806	1,349,233						
Investment income, net of investment expenses	9,759,245	7,565,914	(1,028,142)	7,950,048						
Benefit payments	(6,709,051)	(8,968,541)	(11,629,512)	(9,216,405)						
Administrative expenses	(421,537)	(384,687)	(353,852)	(378,171)						
Net change in plan fiduciary net position	\$ 8,159,606	\$ 4,089,725	\$ (7,484,732)	\$ 3,415,096	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fiduciary net position, beginning	80,420,505	76,330,780	83,815,512	80,400,416						
Fiduciary net position, ending (b)	<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>	<u>\$ -</u>
Net pension liability, ending (a-b)	<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>	<u>\$ -</u>
Fiduciary net position as a percentage of total pension liability	76.99%	73.18%	71.61%	79.20%						
Covered payroll	\$ 30,855,953	\$ 30,035,187	\$ 29,475,065	\$ 29,557,478	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net pension liability as a percentage of covered payroll	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>
2009	\$ 2,315,374	\$ 4,029,198	\$ (1,713,824)	\$ 26,289,687	15.33%
2010	2,260,178	3,563,874	(1,303,696)	26,775,834	13.31%
2011	2,920,660	3,888,126	(967,466)	28,074,105	13.85%
2012	3,377,314	3,765,076	(387,762)	28,743,659	13.10%
2013	3,764,645	3,878,051	(113,406)	27,759,757	13.97%
2014	4,139,524	3,710,391	429,133	29,562,601	12.55%
2015	4,023,027	4,052,968	(29,941)	29,557,478	13.71%
2016	4,276,605	4,309,829	(33,224)	29,475,065	14.62%
2017	4,453,606	4,056,029	397,577	30,035,187	13.50%
2018	4,720,081	3,563,953	1,156,128	30,855,953	11.55%

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: 23 years

Asset valuation method: 4-year smoothed market

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

Inflation: 2.50%

Salary increases: 3.00%

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-2017

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
TOTAL OPEB LIABILITY										
Service cost	\$ 840,770	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on total OPEB liability	539,050									
Effect of plan changes										
Effect of economic/demographic gains or losses										
Effect of assumption changes or inputs	(646,697)									
Benefit payments	(980,229)									
Net change in total OPEB liability	\$ (247,106)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total OPEB liability, beginning	17,273,198									
Total OPEB liability, ending	<u>\$ 17,026,092</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 30,855,953	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total OPEB liability as a percentage of covered-employee payroll	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.

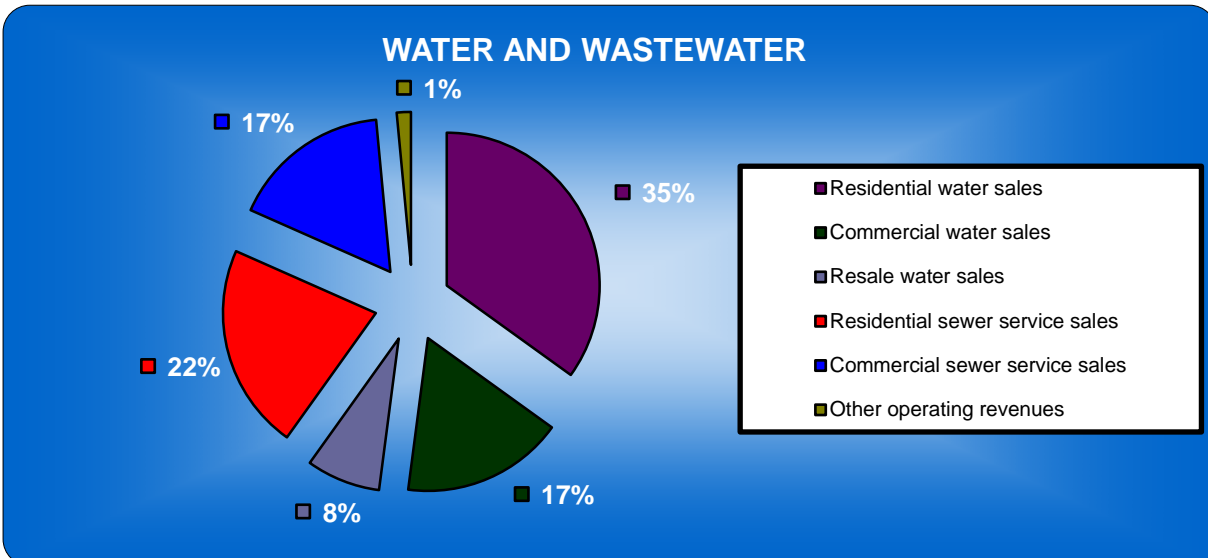
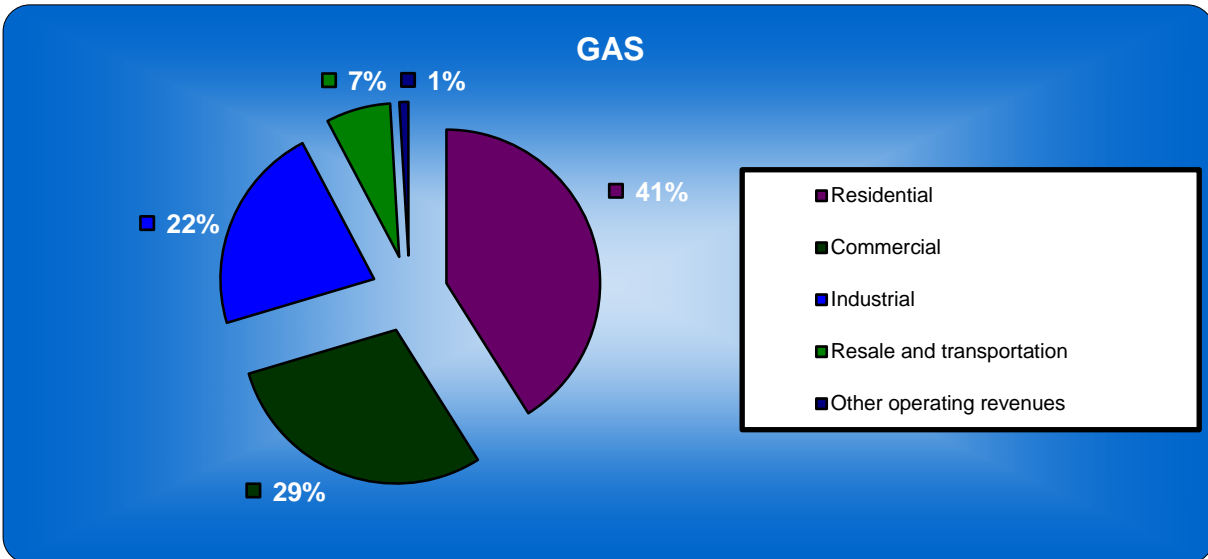
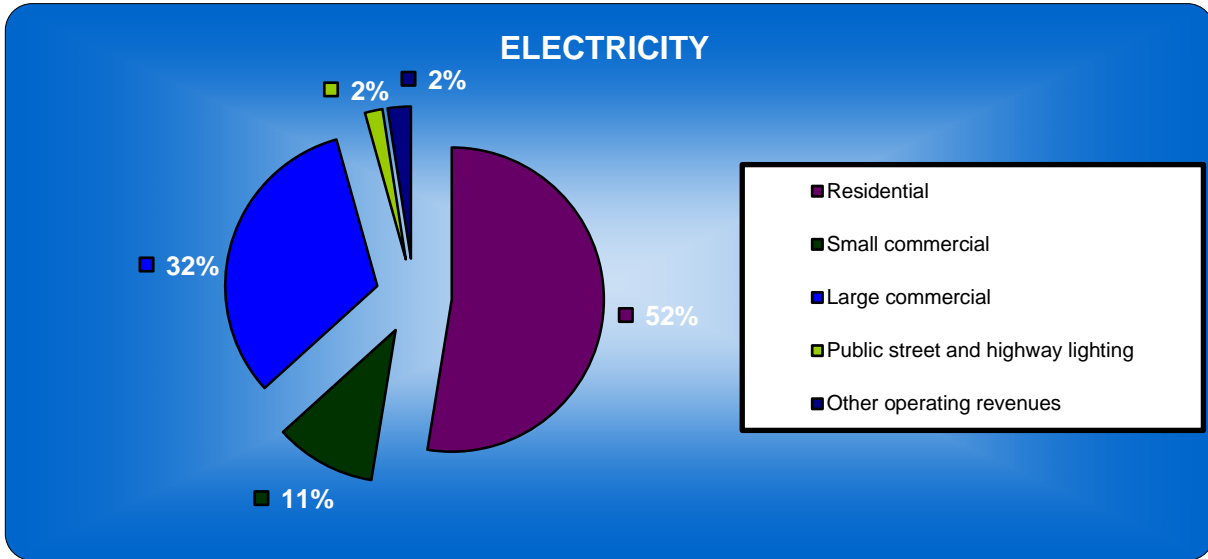
Changes of assumptions—

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:

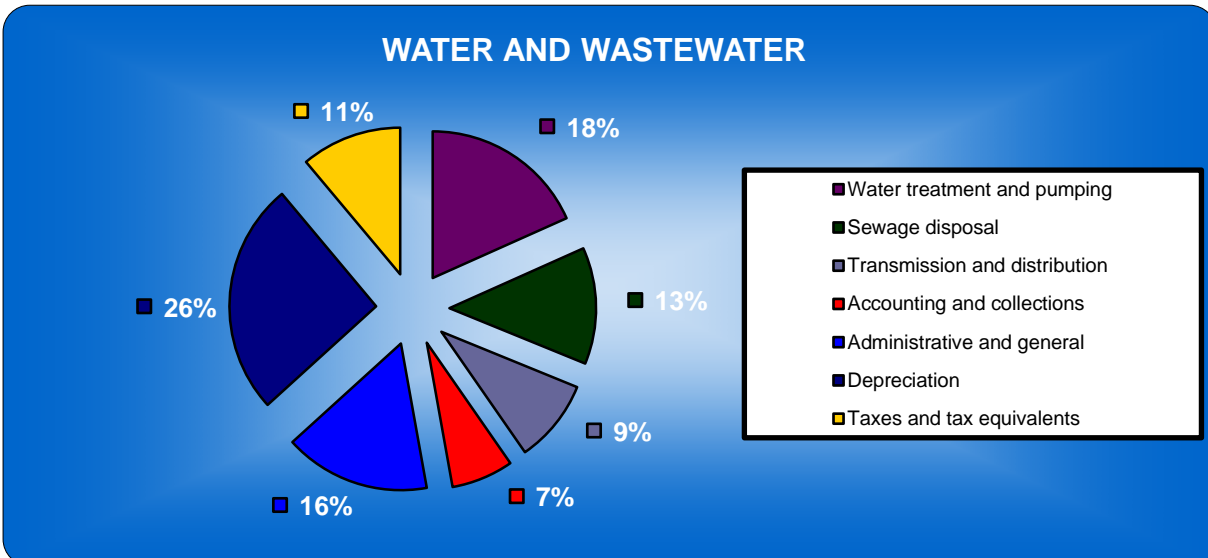
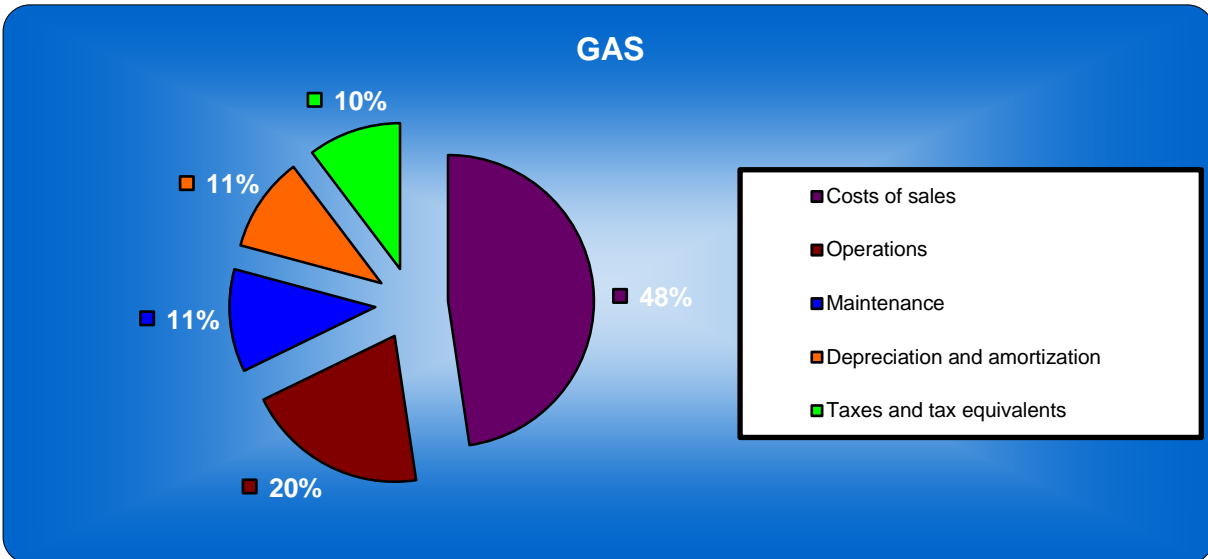
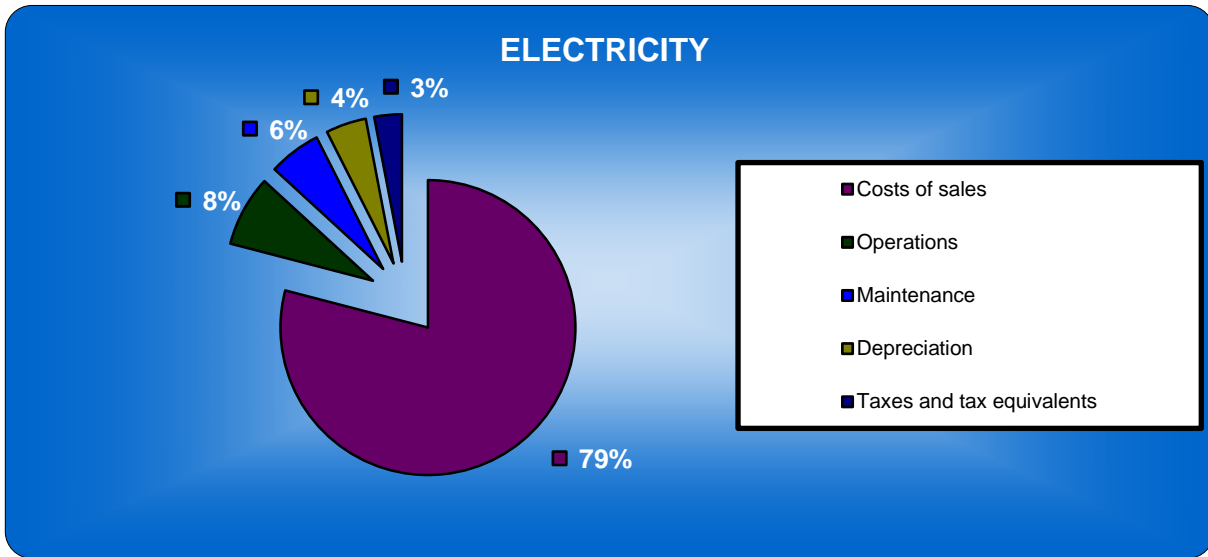
2017	3.640%
2016	3.058%
2015	-
2014	-
2013	-
2012	-
2011	-
2010	-
2009	-
2008	-

SUPPLEMENTARY SCHEDULES SECTION

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENT
SOURCE OF FUNDS
JUNE 30, 2018**



**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENT
USE OF FUNDS
JUNE 30, 2018**



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, 2018**

<u>Description</u>	<u>UTILITY PLANT</u>			
	<u>Balance Beginning of Year</u>	<u>Additions and Reclassifications</u>	<u>Retirements and Reclassifications</u>	<u>Balance End of Year</u>
Transmission plant:				
Land and land rights	\$ 605,708	\$ -	\$ -	\$ 605,708
Clearing land and right of ways	90,378			90,378
Structures and improvements	70,402			70,402
Station equipment	27,095,396	448,527	136,021	27,407,902
Towers and fixtures	32,266			32,266
Poles and fixtures	6,643,383	82,090	22,907	6,702,566
Overhead conductors and devices	7,098,095	37,126	6,861	7,128,360
Total transmission plant	<u>\$ 41,635,628</u>	<u>\$ 567,743</u>	<u>\$ 165,789</u>	<u>\$ 42,037,582</u>
Distribution plant:				
Land and land rights	\$ 69,040	\$ -	\$ -	\$ 69,040
Station equipment	2,396,878			2,396,878
Poles, towers, and fixtures	22,345,380	1,415,588	146,318	23,614,650
Overhead conductors and devices	22,303,546	204,209	38,977	22,468,778
Underground conduit	3,083,128	127,238	348	3,210,018
Underground conductors and devices	11,083,805	608,191	23,331	11,668,665
Line transformers	24,752,599	992,523	347,472	25,397,650
Services	9,130,682	347,681	68,402	9,409,961
Meters	4,315,661	23,315	102,559	4,236,417
Installation on customer premises	2,637,258	110,815	25,908	2,722,165
Street lighting and signal systems	7,935,863	11,084	11,593	7,935,354
Total distribution plant	<u>\$ 110,053,840</u>	<u>\$ 3,840,644</u>	<u>\$ 764,908</u>	<u>\$ 113,129,576</u>
General plant:				
Land and land rights	\$ 390,254	\$ -	\$ -	\$ 390,254
Structures and improvements	5,566,508	85,962	5,978	5,646,492
Office furniture and equipment	3,547,616	322,518	264,372	3,605,762
Transportation equipment	7,221,608	620,246	138,819	7,703,035
Stores equipment	54,393		111	54,282
Tools, shop, and garage equipment	2,747,089	81,063	74,448	2,753,704
Laboratory equipment	57,008	8,305	2,402	62,911
Power operated equipment	316,625			316,625
Communication equipment	620,988		745	620,243
Miscellaneous equipment	324,638	35,938	353	360,223
Total general plant	<u>\$ 20,846,727</u>	<u>\$ 1,154,032</u>	<u>\$ 487,228</u>	<u>\$ 21,513,531</u>
Total utility plant in service	<u><u>\$ 172,536,195</u></u>	<u><u>\$ 5,562,419</u></u>	<u><u>\$ 1,417,925</u></u>	<u><u>\$ 176,680,689</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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-					-
52,144	1,408				53,552
14,120,616	947,743	136,021	136,403		14,795,935
32,266					32,266
3,848,860	267,636	22,907	22,973		4,070,616
4,297,516	213,326	6,861	6,880		4,497,101
<u>\$ 22,351,402</u>	<u>\$ 1,430,113</u>	<u>\$ 165,789</u>	<u>\$ 166,256</u>	<u>\$ -</u>	<u>\$ 23,449,470</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,895,326	95,875				1,991,201
7,545,238	685,701	146,318	146,727		7,937,894
15,823,788	614,556	38,977	39,087		16,360,280
2,160,728	125,189	348	349		2,285,220
5,712,840	452,620	23,331	23,396		6,118,733
6,595,160	564,912	347,472	348,444		6,464,156
3,667,305	277,112	68,402	68,594		3,807,421
348,475	117,608	102,559	102,846		260,678
1,914,756	133,825	25,908	25,981		1,996,692
7,185,125	396,692	11,593	11,626		7,558,598
<u>\$ 52,848,741</u>	<u>\$ 3,464,090</u>	<u>\$ 764,908</u>	<u>\$ 767,050</u>	<u>\$ -</u>	<u>\$ 54,780,873</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,362,694	146,617	5,978			1,503,333
2,793,610	233,582	259,734			2,767,458
4,508,428	445,111	125,028			4,828,511
41,863	2,476	111			44,228
2,100,715	117,809	72,434			2,146,090
42,734	2,145	2,402			42,477
174,498	24,480				198,978
212,337	39,247	641			250,943
162,411	26,236	353			188,294
<u>\$ 11,399,290</u>	<u>\$ 1,037,703</u>	<u>\$ 466,681</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,970,312</u>
<u>\$ 86,599,433</u>	<u>\$ 5,931,906</u>	<u>\$ 1,397,378</u>	<u>\$ 933,306</u>	<u>\$ -</u>	<u>\$ 90,200,655</u>

GAS DEPARTMENT

**CITY OF FLORENCE, ALABAMA
GAS DEPARTMENT
SCHEDULE OF UTILITY PLANT IN SERVICE
AND ACCUMULATED DEPRECIATION
JUNE 30, 2018**

<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	7,232,983		291	7,232,692
Measuring and regulating equipment	2,676,769			2,676,769
Total transmission plant	<u>\$ 10,173,436</u>	<u>\$ -</u>	<u>\$ 291</u>	<u>\$ 10,173,145</u>
Distribution plant:				
Land and land rights	\$ 42,868	\$ 25	\$ -	\$ 42,893
Structures and improvements	154,621			154,621
Mains	19,889,787	192,943	41,832	20,040,898
Measuring and regulating equipment	5,736,007	170,079	142,809	5,763,277
Services	12,946,727	438,004	108,314	13,276,417
Other distribution equipment	15,621			15,621
Corrosion	704,528	1,138		705,666
Total distribution plant	<u>\$ 39,490,159</u>	<u>\$ 802,189</u>	<u>\$ 292,955</u>	<u>\$ 39,999,393</u>
General plant:				
Land and land rights	\$ 157,395	\$ 172,898	\$ -	\$ 330,293
Structures and improvements	2,739,975	44,508		2,784,483
Office furniture and equipment	543,400	9,700	3,029	550,071
Transportation equipment	1,794,667	65,726		1,860,393
Stores equipment	17,798			17,798
Tools, shop and garage equipment	22,339	1,499		23,838
Laboratory equipment	32,258			32,258
Power operated equipment	2,203,498	110,245	9,298	2,304,445
Communication equipment	42,212		1,003	41,209
Miscellaneous equipment	458,106	19,404		477,510
Total general plant	<u>\$ 8,011,648</u>	<u>\$ 423,980</u>	<u>\$ 13,330</u>	<u>\$ 8,422,298</u>
Total utility plant in service	<u>\$ 57,675,243</u>	<u>\$ 1,226,169</u>	<u>\$ 306,576</u>	<u>\$ 58,594,836</u>

ACCUMULATED DEPRECIATION

Balance Beginning of Year	Accrual	Retirements- Original Cost	Removal Costs	Balance End of Year
\$ -	\$ -	\$ -	\$ -	\$ -
142,993				142,993
2,810,079	144,682			2,954,761
2,017,048	80,303			2,097,351
<u>\$ 4,970,120</u>	<u>\$ 224,985</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,195,105</u>
\$ -	\$ -	\$ -	\$ -	\$ -
154,621				154,621
6,169,861	399,307	41,832	7	6,527,329
1,536,005	172,489	142,809		1,565,685
6,210,494	393,347	108,314	46,711	6,448,816
15,621				15,621
704,528	1,138			705,666
<u>\$ 14,791,130</u>	<u>\$ 966,281</u>	<u>\$ 292,955</u>	<u>\$ 46,718</u>	<u>\$ 15,417,738</u>
\$ -	\$ -	\$ -	\$ -	\$ -
2,739,975	44,508			2,784,483
461,357	32,885	1,659		492,583
1,411,847	121,367			1,533,214
14,869	1,006			15,875
18,254	1,025			19,279
32,258				32,258
1,494,087	119,703	7,336		1,606,454
39,958	1,113	802		40,269
362,880	20,258			383,138
<u>\$ 6,575,485</u>	<u>\$ 341,865</u>	<u>\$ 9,797</u>	<u>\$ -</u>	<u>\$ 6,907,553</u>
<u>\$ 26,336,735</u>	<u>\$ 1,533,131</u>	<u>\$ 302,752</u>	<u>\$ 46,718</u>	<u>\$ 27,520,396</u>

WATER AND WASTEWATER DEPARTMENT

**CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF UTILITY PLANT IN SERVICE
AND ACCUMULATED DEPRECIATION
JUNE 30, 2018**

Description	UTILITY PLANT			
	Balance Beginning of Year	Additions and Reclassifications	Retirements and Reclassifications	Balance End of Year
Transmission and distribution plant:				
Land and land rights	\$ 968,039	\$ 172,898	\$ -	\$ 1,140,937
Supply source	3,327,037			3,327,037
Pumping structures	6,146,620	21,080		6,167,700
Sewer plant and system	94,364,842	132,815		94,497,657
Reservoirs and standpipes	1,746,776	9,079		1,755,855
Purification building and equipment	35,752,883	139,162	79,115	35,812,930
Transmission mains and appurtenances	6,210,473			6,210,473
Distribution mains and appurtenances	14,942,931	162,051		15,104,982
Customer services	8,233,298	120,150	7,755	8,345,693
Fire hydrants	569,946			569,946
Miscellaneous structures and improvements	591,656			591,656
Total transmission and distribution plant	<u>\$ 172,854,501</u>	<u>\$ 757,235</u>	<u>\$ 86,870</u>	<u>\$ 173,524,866</u>
General plant:				
Office furniture and equipment	\$ 610,898	\$ 6,229	\$ 34,382	\$ 582,745
Transportation equipment	1,859,076	223,602		2,082,678
Tools and equipment	1,574,585	50,883		1,625,468
Communication equipment	77,974	4,162		82,136
Laboratory equipment	62,787	3,922	862	65,847
Total general plant	<u>\$ 4,185,320</u>	<u>\$ 288,798</u>	<u>\$ 35,244</u>	<u>\$ 4,438,874</u>
Total utility plant in service	<u><u>\$ 177,039,821</u></u>	<u><u>\$ 1,046,033</u></u>	<u><u>\$ 122,114</u></u>	<u><u>\$ 177,963,740</u></u>

ACCUMULATED DEPRECIATION

Balance Beginning of Year	Additions and Reclassifications	Retirements and Reclassifications	Balance End of Year
\$ -	\$ -	\$ -	\$ -
996,561	66,910		1,063,471
1,619,093	183,540		1,802,633
31,025,287	1,826,499		32,851,786
1,199,862	36,042		1,235,904
11,466,960	953,930		12,420,890
2,724,501	105,271		2,829,772
6,690,806	301,882		6,992,688
2,247,386	344,889	743	2,591,532
327,357	12,156		339,513
335,609	15,411		351,020
<u>\$ 58,633,422</u>	<u>\$ 3,846,530</u>	<u>\$ 743</u>	<u>\$ 62,479,209</u>
\$ 521,323	\$ 24,370	\$ 34,357	\$ 511,336
1,576,653	81,362		1,658,015
1,294,727	76,577		1,371,304
58,830	5,751		64,581
55,947	6,292	862	61,377
<u>\$ 3,507,480</u>	<u>\$ 194,352</u>	<u>\$ 35,219</u>	<u>\$ 3,666,613</u>
<u>\$ 62,140,902</u>	<u>\$ 4,040,882</u>	<u>\$ 35,962</u>	<u>\$ 66,145,822</u>

CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF REVENUES AND EXPENSES—KILLEN SYSTEM
FOR THE YEARS ENDED JUNE 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Water sales:		
<i>Residential</i>	\$ 1,476,732	\$ 1,508,054
<i>Commercial</i>	434,326	447,465
Forfeited discounts	20,088	19,782
Other operating revenues	<u>16,038</u>	<u>15,484</u>
Total operating revenues	<u>\$ 1,947,184</u>	<u>\$ 1,990,785</u>
Operating expenses:		
Water treatment and pumping	\$ 476,301	\$ 475,815
Transmission and distribution	250,457	242,027
Accounting and collections	88,742	89,846
Administrative and general	201,087	177,290
Depreciation	56,349	53,008
Taxes and tax equivalents	<u>21,897</u>	<u>21,930</u>
Total operating expenses	<u>\$ 1,094,833</u>	<u>\$ 1,059,916</u>
Operating income	<u>\$ 852,351</u>	<u>\$ 930,869</u>
Nonoperating revenues (expenses):		
Interest revenues	\$ 7,145	\$ 1,941
Interest expense	(97,497)	(137,083)
Debt issuance costs	(31,733)	
Amortization of debt related costs	<u>(10,101)</u>	<u>(888)</u>
Total nonoperating revenues (expenses)	<u>\$ (132,186)</u>	<u>\$ (136,030)</u>
Income before capital contributions	<u><u>\$ 720,165</u></u>	<u><u>\$ 794,839</u></u>