

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND
WATER AND WASTEWATER DEPARTMENTS
FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019**



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

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Florence, Alabama Electricity, Gas, and Water and Wastewater Departments

We have audited the accompanying financial statements of the Electricity, Gas, and Water and Wastewater Departments of the City of Florence, Alabama, as of and for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and other postemployment benefits schedules on pages 3 through 14 and pages 50 through 55 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.



The Watkins Johnsey Professional Group, P.C.
Florence, Alabama
November 18, 2020

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2020**

FINANCIAL HIGHLIGHTS

- The individual enterprise funds experienced the following changes in net position: Electricity increased \$3.1 million or 3.9%; Gas increased \$0.5 million or 1.2%; Water and Wastewater increased \$2.8 million or 3.2%.
- The individual enterprise funds experienced the following changes in net utility plant: Electricity increased \$1.8 million or 2.1%; Gas decreased \$0.5 million or 1.6%; Water and Wastewater decreased \$1.8 million or 1.6%.
- The individual enterprise funds experienced the following changes in operating revenues: Electricity decreased \$4.9 million or 3.9%; Gas decreased \$2.3 million or 14.5%; Water and Wastewater increased \$79,000 or 0.4%.
- The individual enterprise funds experienced the following changes in operating expenses: Electricity decreased \$4.2 million or 3.4%; Gas decreased \$1.4 million or 9.8%; Water and Wastewater increased \$0.5 million or 3.3%.
- The individual enterprise funds experienced the following changes in nonoperating revenues: Electricity decreased about \$105,900 or 29.1%; Gas decreased about \$92,700 or 37.6%; Water and Wastewater decreased about \$71,500 or 26.9%.
- The individual enterprise funds experienced the following changes in nonoperating expenses: Electricity decreased \$23,900 or 9.7%; Gas remained at zero; Water and Wastewater decreased \$127,900 or 9.0%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

REQUIRED FINANCIAL STATEMENTS

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

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

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

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

FINANCIAL ANALYSIS OF FLORENCE UTILITIES

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

Electricity Department

The Electricity Department's net position increased from last year by \$3,090,400 or about 3.9%. 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 2020	FY 2019	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 35,691,914	\$ 35,249,860	\$ 442,054	1.25%
Capital Assets, Net	89,612,068	87,769,917	1,842,151	2.10%
Other Noncurrent Assets	2,145,682	2,795,882	(650,200)	-23.26%
Total Assets	<u>\$ 127,449,664</u>	<u>\$ 125,815,659</u>	<u>\$ 1,634,005</u>	<u>1.30%</u>
Deferred Outflows of Resources	\$ 4,707,069	\$ 2,378,870	\$ 2,328,199	97.87%
Current Liabilities	\$ 26,436,922	\$ 27,162,785	\$ (725,863)	-2.67%
Noncurrent Liabilities	21,785,553	20,239,470	1,546,083	7.64%
Total Liabilities	<u>\$ 48,222,475</u>	<u>\$ 47,402,255</u>	<u>\$ 820,220</u>	<u>1.73%</u>
Deferred Inflows of Resources	\$ 1,148,470	\$ 1,096,886	\$ 51,584	4.70%
Net Investment in Capital Assets	\$ 83,643,256	\$ 81,415,804	\$ 2,227,452	2.74%
Restricted for Debt Service	948,213	953,065	(4,852)	-0.51%
Unrestricted	(1,805,681)	(2,673,481)	867,800	-32.46%
Total Net Position	<u>\$ 82,785,788</u>	<u>\$ 79,695,388</u>	<u>\$ 3,090,400</u>	<u>3.88%</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 decreased approximately \$4.9 million or about 3.9% from FY 2019. Cost of sales decreased by approximately \$6.9 million or about 7%. During FY 2020, 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 4.1% decrease in kilowatt-hours sold in FY 2020 compared to FY 2019. Operations expenses increased \$839,054 or 8.8% due to overhead line expenses and pension costs. Maintenance Costs increased approximately \$1.4 million or 22.4% due mainly to tree trimming expenses. The Electricity Department experienced a decrease in nonoperating revenues of \$105,893 or 29.1% and a decrease in nonoperating expenses by \$23,878 or about 9.7%.

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

	FY 2020	FY 2019	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	\$ 122,177,564	\$ 127,077,219	\$ (4,899,655)	-3.86%
Operating Expenses				
Cost of Sales	\$ 91,591,557	\$ 98,457,381	\$ (6,865,824)	-6.97%
Operations	10,413,582	9,574,528	839,054	8.76%
Maintenance	7,395,911	6,042,774	1,353,137	22.39%
Depreciation	5,785,622	5,407,027	378,595	7.00%
Taxes and Tax Equivalents	3,937,755	3,876,921	60,834	1.57%
Total Operating Expenses	\$ 119,124,427	\$ 123,358,631	\$ (4,234,204)	-3.43%
Operating Income	\$ 3,053,137	\$ 3,718,588	\$ (665,451)	17.90%
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 258,558	\$ 364,451	\$ (105,893)	-29.06%
Nonoperating Expenses	(221,295)	(245,173)	23,878	-9.74%
Total Nonoperating Revenues (Exp)	\$ 37,263	\$ 119,278	\$ (82,015)	68.76%
Change in Net Position	\$ 3,090,400	\$ 3,837,866	\$ (747,466)	19.48%
Total Net Position - Beginning	79,695,388	75,857,522	3,837,866	5.06%
Total Net Position - Ending	\$ 82,785,788	\$ 79,695,388	\$ 3,090,400	3.88%

Gas Department

The Gas Department's net position increased from last year by \$461,962 or about 1.2%. 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 2020	FY 2019	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 20,981,219	\$ 19,838,999	\$ 1,142,220	5.76%
Capital Assets, Net	30,551,762	31,045,614	(493,852)	-1.59%
Total Assets	<u>\$ 51,532,981</u>	<u>\$ 50,884,613</u>	<u>\$ 648,368</u>	<u>1.27%</u>
Deferred Outflows of Resources	\$ 1,960,655	\$ 1,394,083	\$ 566,572	40.64%
Current Liabilities	\$ 914,734	\$ 903,202	\$ 11,532	1.28%
Noncurrent Liabilities	11,663,741	11,402,451	261,290	2.29%
Total Liabilities	<u>\$ 12,578,475</u>	<u>\$ 12,305,653</u>	<u>\$ 272,822</u>	<u>2.22%</u>
Deferred Inflows of Resources	\$ 1,202,554	\$ 722,398	\$ 480,156	66.47%
Net Investment in Capital Assets	\$ 30,551,762	\$ 31,045,614	\$ (493,852)	-1.59%
Unrestricted	9,160,845	8,205,031	955,814	11.65%
Total Net Position	<u>\$ 39,712,607</u>	<u>\$ 39,250,645</u>	<u>\$ 461,962</u>	<u>1.18%</u>

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

As the following table indicates, operating revenues decreased approximately \$2.3 million or about 14.5% from FY 2019. The Department had two rate changes in FY 2020. The Gas Department experienced an approximate 8.1% decrease in overall sales volume in FY 2020 compared to FY 2019. Cost of sales decreased by \$1.7 million or about 27.4% due to decreased sales caused by a milder winter. The Gas Department experienced a decrease in nonoperating revenues of \$92,679 or about 37.6% due to fewer sales of obsolete assets.

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

	FY 2020	FY 2019	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	\$ 13,410,292	\$ 15,678,598	\$ (2,268,306)	-14.47%
Operating Expenses				
Cost of Sales	\$ 4,515,388	\$ 6,218,686	\$ (1,703,298)	-27.39%
Operations	3,184,969	3,261,325	(76,356)	-2.34%
Maintenance	2,218,962	1,968,695	250,267	12.71%
Depreciation and Amortization	1,662,617	1,571,022	91,595	5.83%
Taxes and Tax Equivalents	1,520,367	1,505,265	15,102	1.00%
Total Operating Expenses	<u>\$ 13,102,303</u>	<u>\$ 14,524,993</u>	<u>\$ (1,422,690)</u>	<u>-9.79%</u>
Operating Income	<u>\$ 307,989</u>	<u>\$ 1,153,605</u>	<u>\$ (845,616)</u>	<u>-73.30%</u>
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 153,973	\$ 246,652	\$ (92,679)	-37.57%
Nonoperating Expenses	-	-	-	-
Total Nonoperating Revenues (Exp)	<u>\$ 153,973</u>	<u>\$ 246,652</u>	<u>\$ (92,679)</u>	<u>-37.57%</u>
Change in Net Position	\$ 461,962	\$ 1,400,257	\$ (938,295)	-67.01%
Total Net Position - Beginning	<u>39,250,645</u>	<u>37,850,388</u>	<u>1,400,257</u>	<u>3.70%</u>
Total Net Position - Ending	<u><u>\$ 39,712,607</u></u>	<u><u>\$ 39,250,645</u></u>	<u><u>\$ 461,962</u></u>	<u><u>1.18%</u></u>

Water and Wastewater Department

The Water and Wastewater Department's net position increased from last year by \$2,752,137 or about 3.2%. 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 2020	FY 2019	Increase / (Decrease)	
			Dollars	Percent
Current Assets	\$ 16,090,341	\$ 15,797,955	\$ 292,386	1.85%
Capital Assets, Net	108,912,715	110,691,945	(1,779,230)	-1.61%
Other Noncurrent Assets	6,024,590	5,940,947	83,643	1.41%
Total Assets	<u>\$ 131,027,646</u>	<u>\$ 132,430,847</u>	<u>\$ (1,403,201)</u>	<u>-1.06%</u>
Deferred Outflows of Resources	\$ 3,468,493	\$ 3,203,633	\$ 264,860	8.27%
Current Liabilities	\$ 7,487,958	\$ 6,585,150	\$ 902,808	13.71%
Noncurrent Liabilities	38,597,091	43,600,259	(5,003,168)	-11.48%
Total Liabilities	<u>\$ 46,085,049</u>	<u>\$ 50,185,409</u>	<u>\$ (4,100,360)</u>	<u>-8.17%</u>
Deferred Inflows of Resources	\$ 567,353	\$ 357,471	\$ 209,882	58.71%
Net Investment in Capital Assets	\$ 72,032,763	\$ 68,740,057	\$ 3,292,706	4.79%
Restricted for Debt Service	5,489,300	5,310,468	178,832	3.37%
Unrestricted	10,321,674	11,041,075	(719,401)	-6.52%
Total Net Position	<u>\$ 87,843,737</u>	<u>\$ 85,091,600</u>	<u>\$ 2,752,137</u>	<u>3.23%</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 \$78,860 or about 0.4% from FY 2019 revenues. Operating expenses increased \$532,686 or about 3.3%. The Water and Wastewater Department experienced a decrease in nonoperating revenues of \$71,479 or 26.9% due to lower interest rates. The Water and Wastewater Department experienced a decrease in nonoperating expenses of \$127,901 or about 9% due to a decrease in bond related costs.

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

	FY 2020	FY 2019	Increase / (Decrease)	
			Dollars	Percent
Operating Revenues	\$ 20,328,927	\$ 20,250,067	\$ 78,860	0.39%
Operating Expenses				
Water Treatment and Pumping	\$ 3,257,614	\$ 3,245,027	\$ 12,587	0.39%
Sewage Disposal	2,217,276	2,086,737	130,539	6.26%
Transmission and Distribution	1,529,080	1,486,521	42,559	2.86%
Accounting and Collections	1,156,643	1,096,873	59,770	5.45%
Administrative and General	2,538,127	2,310,861	227,266	9.83%
Depreciation	4,066,164	4,020,570	45,594	1.13%
Taxes and Tax Equivalents	1,714,089	1,699,718	14,371	0.85%
Total Operating Expenses	\$ 16,478,993	\$ 15,946,307	\$ 532,686	3.34%
Operating Income	\$ 3,849,934	\$ 4,303,760	\$ (453,826)	-10.54%
Nonoperating Revenues (Expenses)				
Nonoperating Revenues	\$ 194,106	\$ 265,585	\$ (71,479)	-26.91%
Nonoperating Expenses	(1,291,903)	(1,419,804)	127,901	-9.01%
Total Nonoperating Revenues (Exp)	\$ (1,097,797)	\$ (1,154,219)	\$ 56,422	-4.89%
Income Before Contributions	\$ 2,752,137	\$ 3,149,541	\$ (397,404)	-12.62%
Capital Contributions	-	508,500	(508,500)	-100.00%
Change in Net Position	\$ 2,752,137	\$ 3,658,041	\$ (905,904)	-24.76%
Total Net Position - Beginning	85,091,600	81,433,559	3,658,041	4.49%
Total Net Position - Ending	\$ 87,843,737	\$ 85,091,600	\$ 2,752,137	3.23%

BUDGETARY HIGHLIGHTS

As required, the City Council adopts a budget for each enterprise fund comprising the Florence Utilities. The FY 2020 original budgets for the Gas and Water and Wastewater Departments were adopted on June 18, 2019. The original budget for the Electricity Department was adopted on August 6, 2019. The FY 2020 amended budgets for the Electricity Department, Gas Department, and the Water and Wastewater Department were adopted on October 1, 2019. 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, 2020

	Final		Variance	
	Budget	Actual	Dollars	Percent
Operating Revenues	\$ 128,195,000	\$ 122,177,564	\$ (6,017,436)	-4.69%
Operating Expenses	127,104,450	119,124,427	7,980,023	6.28%
Operating Income	\$ 1,090,550	\$ 3,053,137	\$ 1,962,587	179.96%
Nonoperating Revenues (Expenses)	159,500	37,263	(122,237)	-76.64%
Change in Net Position	\$ 1,250,050	\$ 3,090,400	\$ 1,840,350	147.22%
Total Net Position - Beginning	79,695,388	79,695,388		
Total Net Position - Ending	\$ 80,945,438	\$ 82,785,788	\$ 1,840,350	2.27%

As the above budget report shows, the Electricity Department exceeded the budgeted Change in Net Position by \$1,840,350 or approximately 147.2%. 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, cost of sales, pension expense, and overhead line maintenance expenses.

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, 2020

	Final		Variance	
	Budget	Actual	Dollars	Percent
Operating Revenues	\$ 17,020,000	\$ 13,410,292	\$ (3,609,708)	-21.21%
Operating Expenses	16,711,100	13,102,303	3,608,797	21.60%
Operating Income	\$ 308,900	\$ 307,989	\$ (911)	-0.29%
Nonoperating Revenues (Expenses)	122,000	153,973	31,973	26.21%
Change in Net Position	\$ 430,900	\$ 461,962	\$ 31,062	7.21%
Total Net Position - Beginning	39,250,645	39,250,645		
Total Net Position - Ending	\$ 39,681,545	\$ 39,712,607	\$ 31,062	0.08%

The Gas Department exceeded the budgeted Change in Net Position by \$31,062, or approximately 7.2%. 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 most significant variances were decreases in sales revenues and cost of sales and an increase in employee benefits.

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, 2020

	Final		Variance	
	Budget	Actual	Dollars	Percent
Operating Revenues	\$ 20,837,100	\$ 20,328,927	\$ (508,173)	-2.44%
Operating Expenses	16,590,200	16,478,993	111,207	0.67%
Operating Income	\$ 4,246,900	\$ 3,849,934	\$ (396,966)	-9.35%
Nonoperating Revenues (Expenses)	(1,161,800)	(1,097,797)	64,003	5.51%
Change in Net Position	\$ 3,085,100	\$ 2,752,137	\$ (332,963)	-10.79%
Total Net Position - Beginning	85,091,600	85,091,600		
Total Net Position - Ending	\$ 88,176,700	\$ 87,843,737	\$ (332,963)	-0.38%

The Water and Wastewater Department did not meet the budgeted Change in Net Position by \$332,963, or approximately 10.8%. As you can see on the budget schedule in the required supplementary information, there was a combination of positive and negative variances for many accounts. The more significant variances were operating revenues and administrative and general expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY 2020, 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 2020

	FY 2020	FY 2019	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 185,197,910	\$ 181,104,143	\$ 4,093,767	2.26%
Construction in Progress	1,612,068	624,903	987,165	157.97%
Less: Accumulated Depreciation	(97,197,910)	(93,959,129)	(3,238,781)	3.45%
Net Utility Plant	\$ 89,612,068	\$ 87,769,917	\$ 1,842,151	2.10%

As the above table shows, the Electricity Department experienced a 2.1% increase in net utility plant. The Department plans to finance capital expenditures in FY 2021 through cash generated from current operations and cash reserves.

Gas Department

Gas Department
Capital Assets, Net
FY 2020

	FY 2020	FY 2019	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 59,350,992	\$ 58,871,060	\$ 479,932	0.82%
Acquisition Adjustment (net of amortization)	115,496	126,158	(10,662)	-8.45%
Construction in Progress	130,070	27,192	102,878	378.34%
Less: Accumulated Depreciation	(29,044,796)	(27,978,796)	(1,066,000)	3.81%
Net Utility Plant	<u>\$ 30,551,762</u>	<u>\$ 31,045,614</u>	<u>\$ (493,852)</u>	<u>-1.59%</u>

As the above table shows, the Gas Department decreased net utility plant by 1.6%. The Department plans to finance capital expenditures in FY 2021 through cash reserves and cash generated from current operations.

Water and Wastewater Department

Water and Wastewater Department
Capital Assets, Net
FY 2020

	FY 2020	FY 2019	Increase / (Decrease)	
			Dollars	Percent
Utility Plant in Service (at Cost)	\$ 181,107,106	\$ 180,485,879	\$ 621,227	0.34%
Construction in Progress	1,819,357	299,872	1,519,485	506.71%
Less: Accumulated Depreciation	(74,013,748)	(70,093,806)	(3,919,942)	5.59%
Net Utility Plant	<u>\$ 108,912,715</u>	<u>\$ 110,691,945</u>	<u>\$ (1,779,230)</u>	<u>-1.61%</u>

As the above table shows, the Water and Wastewater Department decreased net utility plant by 1.6%. The Department plans to finance capital expenditures in FY 2021 with cash reserves, cash generated from current operations, and SRF loan proceeds.

Long-term Debt

During FY 2020, the Electricity and Water and 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 2020.

Electricity Department

The Electricity Department has one warrant issue as described in the notes to financial statements, outstanding at year-end. The Electric Revenue Warrants, Series 2013, were issued in March 2013. Their interest rates range from 1.75% to 4.00%. It was issued with an underlying rating of Aa2 and AA-/ Stable by Moody's and Standard & Poor's, respectively. This issue requires that the Electricity Department's Annual Net Income (as defined in the indenture) be at least 1.25 times the maximum Annual Debt Service Requirement. For FY 2020, the Electricity Department exceeded that requirement at about 21.67 times. The Department does not anticipate issuing new debt in FY 2021.

Gas Department

The Gas Department did not have any outstanding debt issues in FY 2020. The Department does not have any plans to issue any new debt in FY 2021.

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 Standard & Poor's. 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 2020, the Water and Wastewater Department exceeded that requirement at about 1.47 times. The Department does anticipate borrowing SRF funds in FY 2021.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Florence MSA's unemployment rate was 5.3% for August 2020 and 3.2% for August 2019. The State of Alabama's unemployment rate was 5.6% for August 2020 and 3.1% for August 2019. 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 2021 through October 2020 for electricity have decreased from the same period last year by 8.6%. Sales in dekatherms to natural gas customers for the period from July 2020 through October 2020 as compared to sales for the same period in the previous fiscal year, have decreased approximately 5.2%. FY 2021 sales revenues from water and wastewater operations through October 2020 have decreased about 3.7% from the same period in FY 2020.

The City Council adopted the Gas Department's and the Water and Wastewater Department's FY 2021 budgets on May 19, 2020. The City Council adopted the Electricity Department's FY 2021 budget on August 18, 2020. These budgets have not been amended to date.

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

The Gas Department's rate ordinance allows for gas rate changes without further City Council action. The Department last implemented a rate change in January 2020. 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, 2020 and 2019**

ASSETS	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 14,391,867	\$ 12,471,536
Accounts receivable (net)	12,190,220	12,090,312
Accrued interest receivable	652	5,644
Inventories	1,893,198	1,544,146
Prepaid expenses	<u>7,215,977</u>	<u>9,138,222</u>
Total current assets	<u>\$ 35,691,914</u>	<u>\$ 35,249,860</u>
Noncurrent assets:		
Restricted cash and cash equivalents	\$ 963,080	\$ 968,494
Capital assets:		
Utility plant in service (at cost)	185,197,910	181,104,143
Construction in progress	1,612,068	624,903
Less: accumulated depreciation	97,197,910	93,959,129
Receivables from customers for conservation loans	<u>1,182,602</u>	<u>1,827,388</u>
Total noncurrent assets	<u>\$ 91,757,750</u>	<u>\$ 90,565,799</u>
Total assets	<u>\$ 127,449,664</u>	<u>\$ 125,815,659</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	\$ 4,297,389	\$ 2,199,195
OPEB obligations	<u>409,680</u>	<u>179,675</u>
Total deferred outflows of resources	<u>\$ 4,707,069</u>	<u>\$ 2,378,870</u>

LIABILITIES	<u>2020</u>	<u>2019</u>
Current liabilities:		
Accounts payable	\$ 15,386,637	\$ 16,946,368
Retainage payable	30,947	64,759
Customer deposits	9,462,137	8,787,601
Compensated absences	651,777	640,058
Accrued taxes and expenses	500,256	323,269
	<hr/>	<hr/>
Total current liabilities	\$ 26,031,754	\$ 26,762,055
Liabilities payable from restricted assets:		
Revenue warrants–payable within one year	\$ 390,000	\$ 385,000
Unamortized debt premium (discount)	301	301
Accrued interest	14,867	15,429
	<hr/>	<hr/>
Total liabilities payable from restricted assets	\$ 405,168	\$ 400,730
Noncurrent liabilities:		
Revenue warrants–payable after one year	\$ 5,575,000	\$ 5,965,000
Unamortized debt premium (discount)	3,511	3,812
Advances from TVA for conservation loans	1,242,088	1,899,589
Compensated absences	977,666	960,087
Net pension liability	9,842,990	7,054,806
Total OPEB liability	4,144,298	4,356,176
	<hr/>	<hr/>
Total noncurrent liabilities	\$ 21,785,553	\$ 20,239,470
Total liabilities	<hr/>	<hr/>
	\$ 48,222,475	\$ 47,402,255
DEFERRED INFLOWS OF RESOURCES		
Pensions	\$ 564,567	\$ 888,752
OPEB obligations	583,903	208,134
	<hr/>	<hr/>
Total deferred inflows of resources	\$ 1,148,470	\$ 1,096,886
NET POSITION		
Net investment in capital assets	\$ 83,643,256	\$ 81,415,804
Restricted for debt service	948,213	953,065
Unrestricted	(1,805,681)	(2,673,481)
	<hr/>	<hr/>
Total net position	<hr/>	<hr/>
	\$ 82,785,788	\$ 79,695,388

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, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Electric sales:		
<i>Residential</i>	\$ 65,805,706	\$ 67,320,031
<i>Small commercial</i>	13,812,379	13,930,110
<i>Large commercial</i>	37,727,366	40,550,073
<i>Public street and highway lighting</i>	2,129,282	2,249,296
Forfeited discounts	855,058	1,120,096
Rents from electric property	1,358,098	1,316,338
Other operating revenues	489,675	591,275
	<u> </u>	<u> </u>
Total operating revenues	\$ 122,177,564	\$ 127,077,219
	<u> </u>	<u> </u>
Operating expenses:		
Costs of sales	\$ 91,591,557	\$ 98,457,381
Operations	10,413,582	9,574,528
Maintenance	7,395,911	6,042,774
Depreciation	5,785,622	5,407,027
Taxes and tax equivalents	3,937,755	3,876,921
	<u> </u>	<u> </u>
Total operating expenses	\$ 119,124,427	\$ 123,358,631
	<u> </u>	<u> </u>
Operating income	\$ 3,053,137	\$ 3,718,588
	<u> </u>	<u> </u>
Nonoperating revenues (expenses):		
Interest revenues	\$ 175,538	\$ 213,258
Merchandising revenues (net of costs)	60,505	124,192
Miscellaneous nonoperating income	22,214	16,064
Gain on disposition of assets	(36,714)	10,937
Interest expense	(184,581)	(214,418)
Amortization of debt related costs	301	(30,755)
	<u> </u>	<u> </u>
Total nonoperating revenues (expenses)	\$ 37,263	\$ 119,278
	<u> </u>	<u> </u>
Change in net position	\$ 3,090,400	\$ 3,837,866
	<u> </u>	<u> </u>
Total net position—beginning	79,695,388	75,857,522
	<u> </u>	<u> </u>
Total net position—ending	<u>\$ 82,785,788</u>	<u>\$ 79,695,388</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, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Receipts from customers and users	\$ 122,160,375	\$ 128,214,363
Receipts from interfund services provided	2,581,111	3,442,316
Payments to suppliers	(98,286,467)	(106,804,348)
Payments to employees for services and benefits—exclusive of capitalized costs	(12,100,686)	(11,625,374)
Payments for interfund services used	(3,917,783)	(3,650,200)
Net cash provided by operating activities	\$ 10,436,550	\$ 9,576,757
Cash flows from noncapital financing activities:		
Change in receivables from customers for conservation loans	\$ 644,786	\$ 811,939
Change in advances from TVA for conservation loans	(657,501)	(844,964)
Net cash used for noncapital financing activities	\$ (12,715)	\$ (33,025)
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (7,283,634)	\$ (5,478,469)
Proceeds from disposition of assets	19,546	40,331
Removal costs of retirements of capital assets	(885,173)	(888,606)
Salvage value of retirements of capital assets	29,957	
Principal paid on capital debt	(385,000)	(875,000)
Interest paid on capital debt	(185,144)	(217,080)
Net cash used for capital and related financing activities	\$ (8,689,448)	\$ (7,418,824)
Cash flows from investing activities:		
Interest on investments	\$ 180,530	\$ 212,264
Net cash provided by investing activities	\$ 180,530	\$ 212,264
Net increase (decrease) in cash and cash equivalents	\$ 1,914,917	\$ 2,337,172
Balances—beginning of the year	13,440,030	11,102,858
Balances—end of the year	\$ 15,354,947	\$ 13,440,030
<i>Classified as:</i>		
Current assets	\$ 14,391,867	\$ 12,471,536
Restricted assets	963,080	968,494
Totals	\$ 15,354,947	\$ 13,440,030

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, 2020 and 2019
(Continued)**

	2020	2019
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>		
Operating income (loss)	\$ 3,053,137	\$ 3,718,588
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	\$ 6,240,440	\$ 5,862,297
Income from merchandising revenues (net of costs)	60,505	124,192
Miscellaneous nonoperating income	22,214	16,064
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Receivables (net)	(99,908)	996,887
Inventories	(349,052)	139,203
Prepaid expenses	1,922,245	(90,069)
Deferred outflows of resources	(2,328,199)	968,174
Accounts and other payables	(1,387,258)	(1,357,152)
Customer deposits	674,536	251,294
Net pension liability	2,788,184	(674,405)
Total OPEB liability	(211,878)	(23,123)
Deferred inflows of resources	51,584	(355,193)
Total adjustments	\$ 7,383,413	\$ 5,858,169
Net cash provided by operating activities	\$ 10,436,550	\$ 9,576,757

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, 2020 and 2019**

ASSETS	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 18,390,507	\$ 16,994,042
Accounts receivable (net)	635,222	612,727
Accrued interest receivable	22,066	58,913
Inventories	760,522	947,160
Prepaid expenses	<u>1,172,902</u>	<u>1,226,157</u>
Total current assets	<u>\$ 20,981,219</u>	<u>\$ 19,838,999</u>
Noncurrent assets:		
Capital assets:		
Utility plant in service (at cost)	\$ 59,350,992	\$ 58,871,060
Acquisition adjustment (net of amortization)	115,496	126,158
Construction in progress	130,070	27,192
Less: accumulated depreciation	<u>29,044,796</u>	<u>27,978,796</u>
Total noncurrent assets	<u>\$ 30,551,762</u>	<u>\$ 31,045,614</u>
Total assets	<u>\$ 51,532,981</u>	<u>\$ 50,884,613</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	\$ 1,280,160	\$ 1,097,127
OPEB obligations	<u>680,495</u>	<u>296,956</u>
Total deferred outflows of resources	<u>\$ 1,960,655</u>	<u>\$ 1,394,083</u>

LIABILITIES	2020	2019
Current liabilities:		
Accounts payable	\$ 592,669	\$ 593,505
Compensated absences	238,186	228,441
Accrued taxes and expenses	83,879	81,256
	<hr/>	<hr/>
Total current liabilities	\$ 914,734	\$ 903,202
	<hr/>	<hr/>
Noncurrent liabilities:		
Compensated absences	\$ 357,278	\$ 342,661
Net pension liability	4,411,315	3,860,177
Total OPEB liability	6,895,148	7,199,613
	<hr/>	<hr/>
Total noncurrent liabilities	\$ 11,663,741	\$ 11,402,451
	<hr/>	<hr/>
Total liabilities	\$ 12,578,475	\$ 12,305,653
	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES		
Pensions	\$ 172,815	\$ 272,645
OPEB obligations	1,029,739	449,753
	<hr/>	<hr/>
Total deferred inflows of resources	\$ 1,202,554	\$ 722,398
	<hr/>	<hr/>
NET POSITION		
Net investment in capital assets	\$ 30,551,762	\$ 31,045,614
Unrestricted	9,160,845	8,205,031
	<hr/>	<hr/>
Total net position	\$ 39,712,607	\$ 39,250,645
	<hr/>	<hr/>

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

**CITY OF FLORENCE, ALABAMA
GAS DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Gas sales:		
<i>Residential</i>	\$ 6,066,245	\$ 6,604,643
<i>Commercial</i>	4,241,291	4,727,036
<i>Industrial</i>	2,040,346	3,003,136
<i>Resale and transportation</i>	931,949	1,187,727
Service fees	71,137	63,972
Forfeited discounts	48,874	80,845
Other operating revenues	<u>10,450</u>	<u>11,239</u>
Total operating revenues	<u>\$ 13,410,292</u>	<u>\$ 15,678,598</u>
Operating expenses:		
Costs of sales	\$ 4,515,388	\$ 6,218,686
Operations	3,184,969	3,261,325
Maintenance	2,218,962	1,968,695
Depreciation	1,651,956	1,560,361
Amortization of acquisition adjustment	10,661	10,661
Taxes and tax equivalents	<u>1,520,367</u>	<u>1,505,265</u>
Total operating expenses	<u>\$ 13,102,303</u>	<u>\$ 14,524,993</u>
Operating income	<u>\$ 307,989</u>	<u>\$ 1,153,605</u>
Nonoperating revenues (expenses):		
Interest revenues	\$ 126,207	\$ 122,928
Gain (loss) on disposition of assets	15,975	110,922
Miscellaneous nonoperating income	<u>11,791</u>	<u>12,802</u>
Total nonoperating revenues (expenses)	<u>\$ 153,973</u>	<u>\$ 246,652</u>
Change in net position	\$ 461,962	\$ 1,400,257
Total net position—beginning	<u>39,250,645</u>	<u>37,850,388</u>
Total net position—ending	<u><u>\$ 39,712,607</u></u>	<u><u>\$ 39,250,645</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, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 13,399,588	\$ 15,849,058
Receipts from interfund services provided	174,419	173,301
Payments to suppliers	(5,277,335)	(7,251,656)
Payments to employees for services and benefits—exclusive of capitalized costs	(3,485,917)	(3,129,865)
Payments for interfund services used	<u>(2,424,554)</u>	<u>(2,720,190)</u>
Net cash provided by operating activities	<u>\$ 2,386,201</u>	<u>\$ 2,920,648</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (1,154,201)	\$ (1,164,430)
Proceeds from disposition of assets	66,412	112,551
Removal costs of retirements of capital assets	<u>(65,001)</u>	<u>(112,624)</u>
Net cash used for capital and related financing activities	<u>\$ (1,152,790)</u>	<u>\$ (1,164,503)</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 163,054</u>	<u>\$ 84,853</u>
Net cash provided by investing activities	<u>\$ 163,054</u>	<u>\$ 84,853</u>
Net increase in cash and cash equivalents	\$ 1,396,465	\$ 1,840,998
Balances—beginning of the year	<u>16,994,042</u>	<u>15,153,044</u>
Balances—end of the year	<u>\$ 18,390,507</u>	<u>\$ 16,994,042</u>
<i>Classified as:</i>		
Current assets	<u>\$ 18,390,507</u>	<u>\$ 16,994,042</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, 2020 and 2019
(Continued)**

	<u>2020</u>	<u>2019</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>		
Operating income	\$ 307,989	\$ 1,153,605
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	\$ 1,651,956	\$ 1,560,361
Amortization of acquisition adjustment	10,661	10,661
Miscellaneous nonoperating income	11,791	12,802
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Receivables (net)	(22,495)	157,658
Inventories	186,638	(96,281)
Prepaid expenses	53,255	87,556
Deferred outflows of resources	(566,572)	53,750
Accounts and other payables	26,149	(300,155)
Net pension liability	551,138	297,771
Total OPEB liability	(304,465)	(64,727)
Deferred inflows of resources	480,156	47,647
	<u>2,078,212</u>	<u>1,767,043</u>
Total adjustments	\$	\$
Net cash provided by operating activities	<u>2,386,201</u>	<u>2,920,648</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, 2020 and 2019**

ASSETS	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 12,950,849	\$ 12,789,755
Accounts receivable (net)	1,818,510	1,799,099
Accrued interest receivable	18,105	44,903
Inventories	780,747	765,233
Prepaid expenses	<u>522,130</u>	<u>398,965</u>
Total current assets	<u>\$ 16,090,341</u>	<u>\$ 15,797,955</u>
Noncurrent assets:		
Restricted cash and cash equivalents	\$ 5,907,709	\$ 5,777,042
Capital assets:		
Utility plant in service (at cost)	181,107,106	180,485,879
Construction in progress	1,819,357	299,872
Less: accumulated depreciation	74,013,748	70,093,806
Prepaid debt related costs (net)	<u>116,881</u>	<u>163,905</u>
Total noncurrent assets	<u>\$ 114,937,305</u>	<u>\$ 116,632,892</u>
Total assets	<u>\$ 131,027,646</u>	<u>\$ 132,430,847</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	\$ 1,828,938	\$ 1,980,483
Pensions	1,516,887	1,162,038
OPEB obligations	<u>122,668</u>	<u>61,112</u>
Total deferred outflows of resources	<u>\$ 3,468,493</u>	<u>\$ 3,203,633</u>

LIABILITIES	2020	2019
Current liabilities:		
Accounts payable	\$ 990,629	\$ 333,640
Retainage payable	41,501	
Customer deposits	1,500	3,066
Compensated absences	362,033	316,180
Accrued taxes and expenses	275,406	242,210
	<hr/>	<hr/>
Total current liabilities	\$ 1,671,069	\$ 895,096
Liabilities payable from restricted assets:		
Revenue warrants—payable within one year	\$ 5,360,000	\$ 5,185,000
Unamortized debt premium (discount)	38,480	38,480
Accrued interest	418,409	466,574
	<hr/>	<hr/>
Total liabilities payable from restricted assets	\$ 5,816,889	\$ 5,690,054
Noncurrent liabilities:		
Revenue warrants—payable after one year	\$ 32,730,000	\$ 38,090,000
Unamortized debt premium (discount)	580,410	618,891
Compensated absences	543,051	474,270
Net pension liability	3,558,074	2,935,466
Total OPEB liability	1,185,556	1,481,632
	<hr/>	<hr/>
Total noncurrent liabilities	\$ 38,597,091	\$ 43,600,259
Total liabilities	<hr/>	<hr/>
	\$ 46,085,049	\$ 50,185,409
DEFERRED INFLOWS OF RESOURCES		
Pensions	\$ 218,896	\$ 342,165
OPEB obligations	348,457	15,306
	<hr/>	<hr/>
Total deferred inflows of resources	\$ 567,353	\$ 357,471
NET POSITION		
Net investment in capital assets	\$ 72,032,763	\$ 68,740,057
Restricted for debt service	5,489,300	5,310,468
Unrestricted	10,321,674	11,041,075
	<hr/>	<hr/>
Total net position	<hr/>	<hr/>
	\$ 87,843,737	\$ 85,091,600

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Water sales:		
<i>Residential</i>	\$ 7,180,747	\$ 7,086,767
<i>Commercial</i>	3,450,534	3,465,249
<i>Resale</i>	1,646,835	1,591,807
Sewer service sales:		
<i>Residential</i>	4,454,398	4,406,783
<i>Commercial</i>	3,327,411	3,378,099
Forfeited discounts	126,497	161,315
Other operating revenues	142,505	160,047
	<u>20,328,927</u>	<u>20,250,067</u>
Total operating revenues	\$	\$
Operating expenses:		
Water treatment and pumping	\$ 3,257,614	\$ 3,245,027
Sewage disposal	2,217,276	2,086,737
Transmission and distribution	1,529,080	1,486,521
Accounting and collections	1,156,643	1,096,873
Administrative and general	2,538,127	2,310,861
Depreciation	4,066,164	4,020,570
Taxes and tax equivalents	1,714,089	1,699,718
	<u>16,478,993</u>	<u>15,946,307</u>
Total operating expenses	\$	\$
Operating income	<u>3,849,934</u>	<u>4,303,760</u>
Nonoperating revenues (expenses):		
Interest revenues	\$ 171,904	\$ 198,275
Gain (loss) on disposition of assets	22,202	67,310
Interest expense	(1,131,813)	(1,259,714)
Amortization of debt related costs	(160,090)	(160,090)
	<u>(1,097,797)</u>	<u>(1,154,219)</u>
Total nonoperating revenues (expenses)	\$	\$
Income before contributions	\$ 2,752,137	\$ 3,149,541
Capital contributions	<u>508,500</u>	<u>508,500</u>
Change in net position	\$ 2,752,137	\$ 3,658,041
Total net position—beginning	<u>85,091,600</u>	<u>81,433,559</u>
Total net position—ending	<u>\$ 87,843,737</u>	<u>\$ 85,091,600</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, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 19,979,080	\$ 20,155,981
Receipts from interfund services provided	225,589	398,144
Payments to suppliers	(3,161,406)	(4,473,678)
Payments to employees for services and benefits—exclusive of capitalized costs	(5,120,376)	(4,794,061)
Payments for interfund services used	<u>(3,092,646)</u>	<u>(3,183,882)</u>
Net cash provided by operating activities	<u>\$ 8,830,241</u>	<u>\$ 8,102,504</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets (net)	\$ (2,397,304)	\$ (1,515,295)
Proceeds from disposition of assets	25,100	70,525
Proceeds from capital contributions		508,500
Principal paid on capital debt	(5,185,000)	(5,015,000)
Interest paid on capital debt	<u>(1,179,978)</u>	<u>(1,306,260)</u>
Net cash used for capital and related financing activities	<u>\$ (8,737,182)</u>	<u>\$ (7,257,530)</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 198,702</u>	<u>\$ 177,894</u>
Net cash provided by investing activities	<u>\$ 198,702</u>	<u>\$ 177,894</u>
Net increase in cash and cash equivalents	\$ 291,761	\$ 1,022,868
Balances—beginning of the year	<u>18,566,797</u>	<u>17,543,929</u>
Balances—end of the year	<u><u>\$ 18,858,558</u></u>	<u><u>\$ 18,566,797</u></u>
<i>Classified as:</i>		
Current assets	\$ 12,950,849	\$ 12,789,755
Restricted assets	<u>5,907,709</u>	<u>5,777,042</u>
Totals	<u><u>\$ 18,858,558</u></u>	<u><u>\$ 18,566,797</u></u>

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

CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 and 2019
(Continued)

	<u>2020</u>	<u>2019</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>		
Operating income	\$ 3,849,934	\$ 4,303,760
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	\$ 4,173,635	\$ 4,118,124
Change in assets and liabilities:		
Receivables (net)	(19,411)	225,183
Inventories	(15,514)	(39,488)
Prepaid expenses	(123,165)	(113,088)
Deferred outflows of resources	(416,405)	365,562
Accounts and other payables	846,319	(436,143)
Customer deposits	(1,566)	816
Net pension liability	622,608	(167,902)
Total OPEB liability	(296,076)	1,074
Deferred inflows of resources	209,882	(155,394)
	<u>4,980,307</u>	<u>3,798,744</u>
Total adjustments	\$	\$
	<u>8,830,241</u>	<u>8,102,504</u>
Net cash provided by operating activities	<u>\$ 8,830,241</u>	<u>\$ 8,102,504</u>

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

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019

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, 2020 and 2019
(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, 2020 and 2019
(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 2020 totaled \$6,240,440 of which \$5,785,622 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts based on vehicle usage, totaled \$454,818 for the year ended June 30, 2020. Depreciation for the fiscal year 2019 totaled \$5,862,297 of which \$5,407,027 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts based on vehicle usage, totaled \$455,270 for the year ended June 30, 2019.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019
(Continued)

NOTE 2—UTILITY PLANT (Continued)

As of June 30, 2020 and 2019, nondepreciable capital assets consist of land, land rights, and rights-of-way in the amount of \$1,261,933 and \$1,233,380, respectively.

A summary of utility plant in service is presented below:

	<i>Balance Beginning of Year</i>	<i>Additions and Reclassifications</i>	<i>Retirements and Reclassifications</i>	<i>Balance End of Year</i>
Transmission plant	\$ 42,664,662	\$ 193,955	\$ 67,182	\$ 42,791,435
Distribution plant	116,279,528	4,516,319	1,626,802	119,169,045
General plant	22,159,953	1,586,195	508,718	23,237,430
Totals	<u>\$ 181,104,143</u>	<u>\$ 6,296,469</u>	<u>\$ 2,202,702</u>	<u>\$ 185,197,910</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, 2020 and 2019, accumulated depreciation amounted to \$356,898 and \$317,243, 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 \$1,651,956 for fiscal year 2020 and \$1,560,361 for fiscal year 2019.

As of June 30, 2020 and 2019, nondepreciable capital assets consist of land, land rights, and rights-of-way in the amount of \$493,723.

A summary of utility plant in service is presented below:

	<i>Balance Beginning of Year</i>	<i>Additions and Reclassifications</i>	<i>Retirements and Reclassifications</i>	<i>Balance End of Year</i>
Transmission plant	\$ 10,173,145	\$ 34,150	\$ -	\$ 10,207,295
Distribution plant	40,530,897	480,087	255,714	40,755,270
General plant	8,167,018	537,086	315,677	8,388,427
Totals	<u>\$ 58,871,060</u>	<u>\$ 1,051,323</u>	<u>\$ 571,391</u>	<u>\$ 59,350,992</u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019
(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, 2020 and 2019, accumulated amortization amounted to \$239,877 and \$229,215, 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 2020 totaled \$4,173,635 of which \$4,066,164 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts based on vehicle usage, totaled \$107,471 for the year ended June 30, 2020. Depreciation for the fiscal year 2019 totaled \$4,118,124 of which \$4,020,570 was charged against income. Amounts applicable to certain transportation equipment, which was allocated to various accounts based on vehicle usage, totaled \$97,554 for the year ended June 30, 2019.

As of June 30, 2020 and 2019, nondepreciable capital assets consist of land, land rights, and rights-of-way in the amount of \$1,140,765.

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	\$ 175,957,024	\$ 625,821	\$ 1,412	\$ 176,581,433
General plant	4,528,855	251,998	255,180	4,525,673
Totals	<u>\$ 180,485,879</u>	<u>\$ 877,819</u>	<u>\$ 256,592</u>	<u>\$ 181,107,106</u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019
(Continued)

NOTE 3—RECEIVABLES AND PAYABLES

Receivables at June 30, 2020 and 2019 were as follows for each department:

Electricity Department

	<u>2020</u>	<u>2019</u>
Customer accounts	\$ 10,265,619	\$ 10,362,299
Other governments	439,781	274,202
Miscellaneous	171,306	206,141
Secured customer deposits	1,137,631	1,114,574
Accrued rents	425,307	412,415
Less: allowance for doubtful accounts	<u>(249,424)</u>	<u>(279,319)</u>
Net receivables	<u>\$ 12,190,220</u>	<u>\$ 12,090,312</u>

Gas Department

	<u>2020</u>	<u>2019</u>
Customer accounts	\$ 587,017	\$ 563,805
Other governments	27,497	51,585
Miscellaneous	32,799	12,516
Less: allowance for doubtful accounts	<u>(12,091)</u>	<u>(15,179)</u>
Net receivables	<u>\$ 635,222</u>	<u>\$ 612,727</u>

Water and Wastewater Department

	<u>2020</u>	<u>2019</u>
Customer accounts	\$ 1,835,808	\$ 1,801,879
Other governments	18,525	33,270
Less: allowance for doubtful accounts	<u>(35,823)</u>	<u>(36,050)</u>
Net receivables	<u>\$ 1,818,510</u>	<u>\$ 1,799,099</u>

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019
(Continued)**

NOTE 3—RECEIVABLES AND PAYABLES (Continued)

Payables at June 30, 2020 and 2019 were as follows for each department:

Electricity Department

	<u>2020</u>	<u>2019</u>
Vendors	\$ 15,390,135	\$ 17,012,696
Salaries and benefits	427,745	306,403
Other governments	99,960	15,297
Totals	<u>\$ 15,917,840</u>	<u>\$ 17,334,396</u>

Gas Department

	<u>2020</u>	<u>2019</u>
Vendors	\$ 409,480	\$ 384,163
Salaries and benefits	83,879	81,256
Other governments	183,189	209,342
Totals	<u>\$ 676,548</u>	<u>\$ 674,761</u>

Water and Wastewater Department

	<u>2020</u>	<u>2019</u>
Vendors	\$ 719,274	\$ 153,201
Salaries and benefits	147,996	114,406
Other governments	440,266	308,243
Totals	<u>\$ 1,307,536</u>	<u>\$ 575,850</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. As of June 30, 2020 and 2019, the Department had \$391,194 and \$601,295, 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, 2020 and 2019
(Continued)

NOTE 5—RESTRICTED ASSETS

Revenue warrants issued by the Utilities require that certain amounts from debt proceeds and debt service outlays be deposited into restricted funds, which are expended for their specified purposes. These funds are invested in government securities that are carried at fair value.

Electricity Department

Special funds created for capital construction and debt service by the Series 2013 Warrant Indenture are invested in short-term U.S. Government obligations, as follows:

	<u>2020</u>	<u>2019</u>
Series 2009 Warrant Funds	\$ -	\$ 17,818
Series 2013 Debt Service Reserve Fund	573,253	934,046
Series 2013 Warrant Funds	389,827	16,630
Total restricted cash and cash equivalents	<u>\$ 963,080</u>	<u>\$ 968,494</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>2020</u>	<u>2019</u>
Warrant Funds-All SRF Series	\$ 4,560,730	\$ 4,435,263
Series 2011 Warrant Funds	45,163	60,503
Series 2017 Warrant Funds	1,301,816	1,281,276
Total restricted cash and cash equivalents	<u>\$ 5,907,709</u>	<u>\$ 5,777,042</u>

NOTE 6—TVA POWER AND CONSERVATION PROGRAMS

Electricity Department

Conservation Program

The Department has entered into a contract with TVA to establish a joint home energy conservation program that provides eligible customers with arranged financing for home energy conservation improvements. As a part of this contract, the Department is a fiscal intermediary for the conservation loans provided by the program. During the 2016 fiscal year, TVA discontinued this Energy Right program. Subsequently, TVA established the eScore program, which gave the Department the option to continue on-bill financing or choose off-bill financing. The Department elected the off-bill financing option; thus the Department will act as a fiscal intermediary only for existing conservation loans until all are paid in full. The Department had at June 30, 2020 and 2019, a total of \$1,182,602 and \$1,827,388, respectively, of energy conservation loans due from customers participating in the program. These loans are to be repaid in monthly installments by the customer over a 10-year period at an interest rate established by TVA. Under the terms of the contract, as amended, the Department has received advances on these conservation loans in the amount of \$1,242,088 and \$1,899,589 as of June 30, 2020 and 2019, 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 \$6,992,493 and \$8,901,704 as of June 30, 2020 and 2019, respectively, are reflected as prepayments in the financial statements.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019
(Continued)

NOTE 7—LONG-TERM OBLIGATIONS

Electricity Department

Long-term obligations activity for the year ended June 30, 2020 was as follows:

	<i>Electric Revenue Warrants, Series 2013</i>
Balance—beginning of year	\$ 6,350,000
Less: principal paid on debt	385,000
Balance—end of year	\$ 5,965,000

The Department issued Electric Revenue Refunding Warrants, Series 2009, dated June 1, 2009, in the amount of \$7,250,000 with interest rates ranging from 1.50% to 3.65% for the current refunding of the Electric Revenue Warrants, Series 1999. The net revenues of the system are irrevocably pledged for payment of the principal and interest of the warrants. Principal is payable annually on June 1. Interest is payable semi-annually on each June 1 and December 1. These warrants were fully satisfied on June 1, 2019.

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

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

<i>Fiscal Year Ending June 30</i>	<i>Principal Maturities and Scheduled Mandatory Redemption Payments</i>	<i>Interest Payable</i>	<i>Total Debt Service</i>
2021	\$ 390,000	\$ 178,405	\$ 568,405
2022	400,000	170,605	570,605
2023	410,000	162,205	572,205
2024	420,000	152,980	572,980
2025	430,000	142,480	572,480
2026–2030	2,330,000	528,000	2,858,000
2031–2033	1,585,000	128,600	1,713,600
Totals	\$ 5,965,000	\$ 1,463,275	\$ 7,428,275
Less: portion due within one year	390,000		
Long-term debt—end of year	\$ 5,575,000		

All interest costs were expensed for the fiscal years presented.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019
(Continued)

NOTE 7—LONG-TERM OBLIGATIONS (Continued)

Water and Wastewater Department

Long-term obligations activity for the year ended June 30, 2020 was as follows:

	<i>Water and Sewer Revenue Warrants, SRF Series 2010-A</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2010-B</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2010-C</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2010-D</i>
Balance—beginning of year	\$ 1,775,000	\$ 2,985,000	\$ 2,850,000	\$ 720,000
Less: principal paid on debt	870,000	1,465,000	1,400,000	355,000
Balance—end of year	<u>\$ 905,000</u>	<u>\$ 1,520,000</u>	<u>\$ 1,450,000</u>	<u>\$ 365,000</u>

	<i>Water and Sewer Revenue Warrants, Series 2011</i>	<i>Water and Sewer Revenue Warrants, SRF Series 2013</i>	<i>Water and Sewer Revenue Warrants, Series 2017</i>	<i>Totals</i>
Balance—beginning of year	\$ 490,000	\$ 5,360,000	\$ 29,095,000	\$ 43,275,000
Less: principal paid on debt		240,000	855,000	5,185,000
Balance—end of year	<u>\$ 490,000</u>	<u>\$ 5,120,000</u>	<u>\$ 28,240,000</u>	<u>\$ 38,090,000</u>

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

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

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

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

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019
(Continued)

NOTE 7—LONG-TERM OBLIGATIONS (Continued)

The Department issued Water and Sewer Revenue Warrants, Series 2011, dated June 1, 2011, in the amount of \$20,600,000 with interest rates ranging from 3.25% to 5.00%. The warrants were issued for capital improvements to upgrade the water treatment plants and the replacement of the Cypress Creek electrical system. The net revenues of the system are pledged for payment of the principal and interest of these warrants. Principal is payable annually beginning on August 15, 2021. Interest is payable semi-annually on each February 15 and August 15. On October 12, 2017, \$20,110,000 principal portion of these warrants were advanced refunded and redeemed with the issuance of the Water and Sewer Revenue Warrants, Series 2017.

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

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.

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019
(Continued)

NOTE 7—LONG-TERM OBLIGATIONS (Continued)

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

<i>Fiscal Year Ending June 30</i>	<i>Principal Maturities and Scheduled Mandatory Redemption Payments</i>	<i>Interest Payable</i>	<i>Total Debt Service</i>
2021	\$ 5,360,000	\$ 1,049,342	\$ 6,409,342
2022	1,635,000	962,951	2,597,951
2023	1,680,000	925,591	2,605,591
2024	1,710,000	890,509	2,600,509
2025	1,745,000	851,068	2,596,068
2026–2030	9,655,000	3,336,231	12,991,231
2031–2035	11,265,000	1,733,479	12,998,479
2036–2037	5,040,000	159,301	5,199,301
Totals	\$ 38,090,000	\$ 9,908,472	\$ 47,998,472
Less: portion due within one year	<u>5,360,000</u>		
Long-term debt—end of year	<u>\$ 32,730,000</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
JUNE 30, 2020 and 2019
(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	<p>The monthly amount accrued or purchased under the employer’s retirement annuity plan in effect prior to October 1, 1966, plus for each month of credited service, an amount calculated as follows:</p> <ul style="list-style-type: none"> • Before July 1, 1957, 1/24th of 1% of first \$350 of monthly earnings on October 1, 1966, plus 3/24ths of 1% of the excess; • From July 1, 1957 to October 1, 1966, 1/12th of .58% of first \$350 of monthly earnings on October 1, 1966, plus 1/12th of 1.66% of the excess; • From October 1, 1966 to October 1, 1979, 1/12th of 1.58% of first \$350 of monthly earnings, plus 1/12th of 3.16% of the excess; • From October 1, 1979 to October 1, 1988, 1/12th of 2.10% of first \$350 of monthly earnings, plus 1/12th of 3.26% of the excess; • After October 1, 1988, 1/12th of 2.31% of first \$350 of monthly earnings, plus 1/12th of 3.586% of the excess. <p>Effective October 1, 1992, participant accrued benefits were increased by 10%.</p>
Early Retirement	<p>Monthly benefit determined in same manner as normal retirement benefit, based on participant’s accrued benefit as of early retirement date, and reduced by 1/180th for each of the first 24 months and 1/360th for each additional month that the early retirement date precedes age 62. However, a participant who has attained age 62 with 5 years of credited service, or age 57 with 30 years of total service, or age 52 with 25 years of total service may retire early and receive normal retirement benefit with no reduction for early commencement.</p>
Disability Benefit	<p>Monthly benefit equal to the accrued benefit as of the disability retirement date.</p>
Death Benefit	<p>A lump sum cash payment equal to the excess (if any) of the participant’s contributions plus credited interest over the pension payments (if any) received by the participant.</p>
Termination Benefit	<p>An amount equal to the participant’s accrued benefit. Instead of a deferred benefit, a participant may withdraw contributions with interest.</p>

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

- 120 months certain and life annuity.
- Contingent annuitant option with either 100%, 66.67%, or 50% of the annuity being payable to the contingent annuitant for life after the participant’s death.
- Lump-sum cash payment (only available if attained age 55 with 5 years of credited service early retirement or attained age 65 normal retirement).

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019
(Continued)

NOTE 8—PENSION AND DEFERRED COMPENSATION PLANS (Continued)

Employees Covered by Benefit Terms—At September 30, 2019, the following employees were covered by the benefit terms:

Active participants who have not reached age 65	626
Active participants attaining normal retirement age 65	18
Inactive participants (55 in pay status)	118
Total participants	762

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, 2019, 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, 2019, 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, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.20%
Salary increases	3.00%
Investment rate of return	7.50%, net of investment expenses

Mortality rates were based on the Pub-2010 mortality table, amount-weighted, with generational morality improvement based on the MP-2019 projection scale.

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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ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
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(Continued)

NOTE 8—PENSION AND DEFERRED COMPENSATION PLANS (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash Equivalents	1.50%	1.10%
US Core Fixed Income	17.00%	1.70%
High Yield Fixed Income	7.50%	2.00%
US Large Cap Growth Equity	7.00%	4.80%
US Large Cap Value Equity	7.00%	7.40%
US Large Cap Core Equity	17.00%	5.60%
US Mid Cap Growth Equity	2.00%	3.70%
US Mid Cap Value Equity	2.00%	9.10%
US Mid Cap Core Equity	2.00%	6.30%
US Small Cap Growth Equity	2.00%	6.50%
US Small Cap Value Equity	2.00%	11.50%
US Small Cap Core Equity	2.00%	8.80%
International Equity	14.00%	8.00%
Emerging Markets Equity	3.00%	9.70%
Real Estate Investment Trusts	4.00%	8.80%
Core Private Real Estate Funds	10.00%	8.90%

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:

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance as of September 30, 2019 *	\$ 114,816,998	\$ 88,482,509	\$ 26,334,489
Changes for the year:			
Service cost	2,898,609		2,898,609
Interest on total pension liability	8,498,888		8,498,888
Effect of economic/demographic gain/losses	4,434,107		4,434,107
Effect of assumption changes/inputs	410,054		410,054
Benefit payments	(8,956,126)	(8,956,126)	-
Employer contributions		4,334,831	(4,334,831)
Member contributions		1,576,302	(1,576,302)
Net investment income		755,848	(755,848)
Administrative expenses		(473,594)	473,594
Balance as of September 30, 2020 *	<u>\$ 122,102,530</u>	<u>\$ 85,719,770</u>	<u>\$ 36,382,760</u>

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

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019
(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>
	<i>(6.50%)</i>	<i>(7.50%)</i>	<i>(8.50%)</i>
Total pension liability	\$ 131,684,900	\$ 122,102,530	\$ 113,429,795
Fiduciary net position	85,719,770	85,719,770	85,719,770
Net pension liability	<u>\$ 45,965,130</u>	<u>\$ 36,382,760</u>	<u>\$ 27,710,025</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—For the year ended September 30, 2019, the City recognized pension expense of \$6,194,223. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<i>Deferred</i>	<i>Deferred</i>
	<i>Outflows of</i>	<i>Inflows of</i>
	<i>Resources</i>	<i>Resources</i>
Contributions made subsequent to the measurement date	\$ 4,143,783	\$ -
Differences between expected and actual experience	6,059,918	
Changes in assumptions	1,062,953	219,758
Net difference between projected and actual earnings	4,623,837	1,908,465

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>	
<i>September 30</i>	<i>Amount</i>
2021	\$ 990,748
2022	1,384,571
2023	2,141,892
2024	2,134,153
2025	983,998
Thereafter *	1,983,123

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

Deferred outflows of resources resulting from employer contributions made subsequent to the measurement date in the amount of \$4,143,783 will be recognized as a reduction of the net pension liability in the fiscal year ending September 30, 2021.

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

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

Deferred Compensation Plan

The City offers its employees access to deferred compensation plans created in accordance with Internal Revenue Code Section 457. These plans, available to all City employees, permit them to defer a portion of their salary until future years. Participation in the plans is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. As required by Federal regulations, these plan assets are held in trust for the exclusive benefit of participants and their beneficiaries.

The City has no fiduciary relationship with the trust. In accordance with professional standards, the assets of these plans are not reported in the City's financial statements.

NOTE 9—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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

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

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

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

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ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
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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, 2019, the following employees were covered by the benefit terms:

Retirees and covered spouses	
currently receiving benefits	90
Active employees	<u>741</u>
Total	<u><u>831</u></u>

Total OPEB Liability—The City's total OPEB liability was measured as of September 30, 2019 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
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(Continued)

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

Actuarial Assumptions and Other Inputs—The total OPEB liability in the September 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

Inflation	2.20%
Salary increases	3.00%, including inflation
Discount rate	2.66%
Healthcare cost trend rates:	
Medical costs prior to age 65	6.30% initially, adjusting to an ultimate rate of 3.90% for 2087 and later years
Dental costs	3.93% initially, adjusting to an ultimate rate of 3.68% for 2076 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-2019. 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, 2019	\$ 16,939,392
Changes for the year:	
Service cost	802,578
Interest on total OPEB liability	727,162
Effect of economic/demographic gains or losses	(2,629,361)
Effect of assumption changes or inputs	393,577
Benefit payments	(698,684)
Balance as of September 30, 2020 *	<u>\$ 15,534,664</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 4.18% to 2.66%.

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 2.66%, 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 (1.66%) or 1-percentage-point higher (3.66%) than the current rate:

	<i>Current</i>		
	<i>1% Decrease</i>	<i>Discount Rate</i>	<i>1% Increase</i>
	<i>(1.66%)</i>	<i>(2.66%)</i>	<i>(3.66%)</i>
Total OPEB Liability	<u>\$ 16,549,860</u>	<u>\$ 15,534,664</u>	<u>\$ 14,558,989</u>

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
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JUNE 30, 2020 and 2019
(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	\$ 14,172,058	\$ 15,534,664	\$ 17,118,358

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB—For the year ended September 30, 2019, the City recognized OPEB expense of \$1,139,217. At September 30, 2019, 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	\$ 1,200,000	\$ -
Differences between expected and actual experience		2,337,210
Changes of assumptions or inputs	349,846	806,846

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>
2021	\$ (390,523)
2022	(390,523)
2023	(390,523)
2024	(390,523)
2025	(390,523)
Thereafter *	(841,595)

* 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 \$1,200,000 will be recognized as a reduction of the total OPEB liability in the fiscal year ending September 30, 2021.

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, 2020 and 2019
(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>
2021	\$ 201,372
2022	201,372
2023	201,372
2024	201,372
2025	201,372
Total	<u>\$ 1,006,860</u>

NOTE 11—DEPOSITS AND INVESTMENTS

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

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

CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019
(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, 2020, open contracts for construction totaled \$50,000 of which \$0 had been recorded as cumulative construction in progress. As of June 30, 2020, open contracts for system maintenance totaled \$3,230,881 of which \$189,400 had been recorded as current maintenance expense. As of June 30, 2019, open contracts for construction totaled \$223,440 of which \$39,455 had been recorded as cumulative construction in progress. As of June 30, 2019, open contracts for system maintenance totaled \$3,291,231 of which \$897,740 had been recorded as current maintenance expense.

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, 2020 and 2019, the Department had made purchase commitments amounting to \$2,512,650 and \$3,086,803, 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, 2020 and 2019
(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, 2020, open contracts for construction totaled \$1,963,383 of which \$865,567 had been recorded as cumulative construction in progress. As of June 30, 2020, open contracts for system maintenance totaled \$222,779 of which \$56,045 had been recorded as current maintenance expense. As of June 30, 2019, open contracts for construction totaled \$170,657 of which \$4,750 had been recorded as cumulative construction in progress. As of June 30, 2019, open contracts for system maintenance totaled \$218,765 of which \$101,478 had been recorded as current maintenance expense.

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 as of June 30, 2020 and 2019 was \$20,110,000.

NOTE 14—SUBSEQUENT EVENTS

The Utilities evaluated its financial statements for subsequent events through the date the financial statements were available to be issued. In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. The extent of the impact of COVID-19 on the operational and financial performance of the Utilities will depend on certain developments including the duration and spread of the outbreak and the impact on its customers, workforce, and suppliers all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Utilities' financial condition or results of operations remains uncertain.

Water and Wastewater Department

Subsequent to year-end, the Department was approved for loan funding in the maximum amount of \$45,030,000 from the Drinking Water State Revolving Loan Program and \$22,540,000 from the Clean Water State Revolving Loan Program, both of which are administered by the Alabama Department of Environmental Management. The Department plans to borrow these funds over a four-year period for capital improvements to the water and wastewater systems.



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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF FLORENCE, ALABAMA
ELECTRICITY DEPARTMENT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION—
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2020**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating revenues:				
Electric sales:				
<i>Residential</i>	\$ 68,115,000	\$ 68,115,000	\$ 65,805,706	\$ (2,309,294)
<i>Small commercial</i>	13,500,000	13,500,000	13,812,379	312,379
<i>Large commercial</i>	41,210,000	41,210,000	37,727,366	(3,482,634)
<i>Public street and highway lighting</i>	2,290,000	2,290,000	2,129,282	(160,718)
Forfeited discounts	1,155,000	1,155,000	855,058	(299,942)
Rents	1,320,000	1,320,000	1,358,098	38,098
Other operating revenues	605,000	605,000	489,675	(115,325)
Total operating revenues	<u>\$ 128,195,000</u>	<u>\$ 128,195,000</u>	<u>\$ 122,177,564</u>	<u>\$ (6,017,436)</u>
Operating expenses:				
Costs of sales	\$ 100,405,000	\$ 100,305,000	\$ 91,591,557	\$ 8,713,443
Operations:				
<i>Transmission</i>	341,500	344,450	326,672	17,778
<i>Distribution</i>	3,031,900	3,233,500	3,132,529	100,971
<i>Customer accounts</i>	2,206,900	2,301,900	2,186,551	115,349
<i>Customer service and information assistance and instruction</i>	102,800	104,100	69,465	34,635
<i>Sales</i>	5,500	5,500	10,188	(4,688)
<i>Administrative and general</i>	4,599,300	4,579,900	4,688,177	(108,277)
Maintenance:				
<i>Transmission</i>	317,500	317,500	253,647	63,853
<i>Distribution</i>	5,828,000	5,868,200	6,620,200	(752,000)
<i>Administrative and general</i>	453,300	480,900	522,064	(41,164)
Depreciation	5,585,500	5,585,500	5,785,622	(200,122)
Taxes and tax equivalents	3,936,000	3,978,000	3,937,755	40,245
Total operating expenses	<u>\$ 126,813,200</u>	<u>\$ 127,104,450</u>	<u>\$ 119,124,427</u>	<u>\$ 7,980,023</u>
Operating income (loss)	<u>\$ 1,381,800</u>	<u>\$ 1,090,550</u>	<u>\$ 3,053,137</u>	<u>\$ 1,962,587</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 180,000	\$ 180,000	\$ 175,538	\$ (4,462)
Merchandising revenues (net of costs)	150,000	150,000	60,505	(89,495)
Miscellaneous nonoperating income	20,000	20,000	22,214	2,214
Gain on disposition of assets			(36,714)	(36,714)
Interest expense	(185,200)	(185,200)	(184,581)	619
Amortization of debt related costs	(5,300)	(5,300)	301	5,601
Total nonoperating revenues (expenses)	<u>\$ 159,500</u>	<u>\$ 159,500</u>	<u>\$ 37,263</u>	<u>\$ (122,237)</u>
Change in net position	<u>\$ 1,541,300</u>	<u>\$ 1,250,050</u>	<u>\$ 3,090,400</u>	<u>\$ 1,840,350</u>
Total net position—beginning	<u>79,695,388</u>	<u>79,695,388</u>	<u>79,695,388</u>	
Total net position—ending	<u>\$ 81,236,688</u>	<u>\$ 80,945,438</u>	<u>\$ 82,785,788</u>	<u>\$ 1,840,350</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, 2020**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Operating revenues:				
Gas sales:				
<i>Residential</i>	\$ 6,348,200	\$ 6,348,200	\$ 6,066,245	\$ (281,955)
<i>Commercial</i>	4,595,700	4,595,700	4,241,291	(354,409)
<i>Industrial</i>	4,528,400	4,528,400	2,040,346	(2,488,054)
<i>Resale and transportation</i>	1,377,100	1,377,100	931,949	(445,151)
Service fees	65,700	65,700	71,137	5,437
Forfeited discounts	93,800	93,800	48,874	(44,926)
Other operating revenues	11,100	11,100	10,450	(650)
Total operating revenues	<u>\$ 17,020,000</u>	<u>\$ 17,020,000</u>	<u>\$ 13,410,292</u>	<u>\$ (3,609,708)</u>
Operating expenses:				
Costs of sales	\$ 8,402,000	\$ 8,302,000	\$ 4,515,388	\$ 3,786,612
Operations:				
<i>Transmission</i>	161,400	176,300	150,666	25,634
<i>Distribution</i>	322,200	330,800	283,020	47,780
<i>Customer accounts</i>	435,900	435,900	461,089	(25,189)
<i>Sales</i>	42,600	42,600	42,482	118
<i>Administrative and general</i>	2,164,100	2,190,200	2,247,712	(57,512)
Maintenance:				
<i>Transmission</i>	2,000	2,000	499	1,501
<i>Distribution</i>	1,839,900	1,934,800	2,107,286	(172,486)
<i>Administrative and general</i>	107,700	107,700	111,177	(3,477)
Depreciation	1,611,000	1,611,000	1,651,956	(40,956)
Amortization of acquisition adjustment	11,000	11,000	10,661	339
Taxes and tax equivalents	1,555,700	1,566,800	1,520,367	46,433
Total operating expenses	<u>\$ 16,655,500</u>	<u>\$ 16,711,100</u>	<u>\$ 13,102,303</u>	<u>\$ 3,608,797</u>
Operating income	<u>\$ 364,500</u>	<u>\$ 308,900</u>	<u>\$ 307,989</u>	<u>\$ (911)</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 87,000	\$ 87,000	\$ 126,207	\$ 39,207
Gain (loss) on disposition of assets	22,000	22,000	15,975	(6,025)
Miscellaneous nonoperating income	13,000	13,000	11,791	(1,209)
Total nonoperating revenues (expenses)	<u>\$ 122,000</u>	<u>\$ 122,000</u>	<u>\$ 153,973</u>	<u>\$ 31,973</u>
Change in net position	\$ 486,500	\$ 430,900	\$ 461,962	\$ 31,062
Total net position—beginning	<u>39,250,645</u>	<u>39,250,645</u>	<u>39,250,645</u>	
Total net position—ending	<u>\$ 39,737,145</u>	<u>\$ 39,681,545</u>	<u>\$ 39,712,607</u>	<u>\$ 31,062</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, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Operating revenues:				
Water sales:				
<i>Residential</i>	\$ 7,292,600	\$ 7,292,600	\$ 7,180,747	\$ (111,853)
<i>Commercial</i>	3,610,800	3,610,800	3,450,534	(160,266)
<i>Resale</i>	1,619,900	1,619,900	1,646,835	26,935
Sewer service sales:				
<i>Residential</i>	4,446,800	4,446,800	4,454,398	7,598
<i>Commercial</i>	3,532,600	3,532,600	3,327,411	(205,189)
Forfeited discounts	170,700	170,700	126,497	(44,203)
Other operating revenues	163,700	163,700	142,505	(21,195)
Total operating revenues	<u>\$ 20,837,100</u>	<u>\$ 20,837,100</u>	<u>\$ 20,328,927</u>	<u>\$ (508,173)</u>
Operating expenses:				
Water treatment and pumping	\$ 3,331,800	\$ 3,327,700	\$ 3,257,614	\$ 70,086
Sewage disposal	2,119,100	2,163,100	2,217,276	(54,176)
Transmission and distribution	1,504,000	1,561,600	1,529,080	32,520
Accounting and collections	1,092,500	1,092,500	1,156,643	(64,143)
Administrative and general	2,621,300	2,602,600	2,538,127	64,473
Depreciation	4,067,800	4,067,800	4,066,164	1,636
Taxes and tax equivalents	1,760,000	1,774,900	1,714,089	60,811
Total operating expenses	<u>\$ 16,496,500</u>	<u>\$ 16,590,200</u>	<u>\$ 16,478,993</u>	<u>\$ 111,207</u>
Operating income	<u>\$ 4,340,600</u>	<u>\$ 4,246,900</u>	<u>\$ 3,849,934</u>	<u>\$ (396,966)</u>
Nonoperating revenues (expenses):				
Interest revenues	\$ 178,300	\$ 178,300	\$ 171,904	\$ (6,396)
Gain (loss) on disposition of assets			22,202	22,202
Interest expense	(1,180,000)	(1,180,000)	(1,131,813)	48,187
Amortization of debt related costs	(160,100)	(160,100)	(160,090)	10
Total nonoperating revenues (expenses)	<u>\$ (1,161,800)</u>	<u>\$ (1,161,800)</u>	<u>\$ (1,097,797)</u>	<u>\$ 64,003</u>
Change in net position	<u>\$ 3,178,800</u>	<u>\$ 3,085,100</u>	<u>\$ 2,752,137</u>	<u>\$ (332,963)</u>
Total net position—beginning	<u>85,091,600</u>	<u>85,091,600</u>	<u>85,091,600</u>	
Total net position—ending	<u>\$ 88,270,400</u>	<u>\$ 88,176,700</u>	<u>\$ 87,843,737</u>	<u>\$ (332,963)</u>

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
TOTAL PENSION LIABILITY										
Service cost	\$ 2,898,609	\$ 2,942,609	\$ 2,830,614	\$ 2,888,380	\$ 2,825,270	\$ 2,854,759	\$ -	\$ -	\$ -	\$ -
Interest	8,498,888	8,422,824	8,207,619	7,880,999	7,721,152	7,603,781				
Effect of plan changes			840,263							
Effect of economic/demographic gains or losses	4,434,107	69,847	63,177	1,690,662	558,626	1,537,047				
Effect of assumption changes or inputs	410,054	(74,689)	(73,548)	(188,107)	1,286,192					
Benefit payments	(8,956,126)	(11,600,854)	(6,709,051)	(8,968,541)	(11,629,512)	(9,216,405)				
Net change in total pension liability	\$ 7,285,532	\$ (240,263)	\$ 5,159,074	\$ 3,303,393	\$ 761,728	\$ 2,779,182	\$ -	\$ -	\$ -	\$ -
Total pension liability, beginning	114,816,998	115,057,261	109,898,187	106,594,794	105,833,066	103,053,884				
Total pension liability, ending (a)	<u>\$ 122,102,530</u>	<u>\$ 114,816,998</u>	<u>\$ 115,057,261</u>	<u>\$ 109,898,187</u>	<u>\$ 106,594,794</u>	<u>\$ 105,833,066</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FIDUCIARY NET POSITION										
Contributions—employer	\$ 4,334,831	\$ 4,111,326	\$ 4,056,029	\$ 4,309,829	\$ 4,052,968	\$ 3,710,391	\$ -	\$ -	\$ -	\$ -
Contributions—employee	1,576,302	1,495,028	1,474,920	1,567,210	1,473,806	1,349,233				
Investment income, net of investment expenses	755,848	6,366,786	9,759,245	7,565,914	(1,028,142)	7,950,048				
Benefit payments	(8,956,126)	(11,600,854)	(6,709,051)	(8,968,541)	(11,629,512)	(9,216,405)				
Administrative expenses	(473,594)	(469,888)	(421,537)	(384,687)	(353,852)	(378,171)				
Net change in plan fiduciary net position	\$ (2,762,739)	\$ (97,602)	\$ 8,159,606	\$ 4,089,725	\$ (7,484,732)	\$ 3,415,096	\$ -	\$ -	\$ -	\$ -
Fiduciary net position, beginning	88,482,509	88,580,111	80,420,505	76,330,780	83,815,512	80,400,416				
Fiduciary net position, ending (b)	<u>\$ 85,719,770</u>	<u>\$ 88,482,509</u>	<u>\$ 88,580,111</u>	<u>\$ 80,420,505</u>	<u>\$ 76,330,780</u>	<u>\$ 83,815,512</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net pension liability, ending (a-b)	<u>\$ 36,382,760</u>	<u>\$ 26,334,489</u>	<u>\$ 26,477,150</u>	<u>\$ 29,477,682</u>	<u>\$ 30,264,014</u>	<u>\$ 22,017,554</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fiduciary net position as a percentage of total pension liability	70.20%	77.06%	76.99%	73.18%	71.61%	79.20%				
Covered payroll	\$ 32,147,389	\$ 30,779,896	\$ 30,855,953	\$ 30,035,187	\$ 29,475,065	\$ 29,557,478	\$ -	\$ -	\$ -	\$ -
Net pension liability as a percentage of covered payroll	113.17%	85.56%	85.81%	98.14%	102.68%	74.49%				

CITY OF FLORENCE, ALABAMA
Schedule of Employer Contributions

Employees' Retirement Plan						
<i>Fiscal Year Ended September 30</i>	<i>Actuarially Determined Contribution</i>	<i>Actual Employer Contribution</i>	<i>Contribution Deficiency (Excess)</i>	<i>Covered Payroll</i>	<i>Contribution as a Percentage of Covered Payroll</i>	
2011	\$ 2,920,660	\$ 3,888,126	\$ (967,466)	\$ 28,074,105	13.85%	
2012	3,377,314	3,765,076	(387,762)	28,743,659	13.10%	
2013	3,764,645	3,878,051	(113,406)	27,759,757	13.97%	
2014	4,139,524	3,710,391	429,133	29,562,601	12.55%	
2015	4,023,027	4,052,968	(29,941)	29,557,478	13.71%	
2016	4,276,605	4,309,829	(33,224)	29,475,065	14.62%	
2017	4,453,606	4,056,029	397,577	30,035,187	13.50%	
2018	4,720,081	4,111,326	608,755	30,855,953	13.32%	
2019	4,770,478	4,334,831	435,647	30,779,896	14.08%	
2020	5,208,728	4,143,783	1,064,945	32,147,389	12.89%	

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: 21 years

Asset valuation method: 3-year smoothed market

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

Inflation: 2.50%

Salary increases: 3.00%, based on plan sponsor expectations

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

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

Cost of living adjustments: None

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

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

Mortality: Pub-2010 mortality table, amount-weighted, with generational mortality improvement based on the MP-2019 projection scale

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
TOTAL OPEB LIABILITY										
Service cost	\$ 802,578	\$ 783,223	\$ 840,770	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on total OPEB liability	727,162	630,625	539,050							
Effect of plan changes										
Effect of economic/demographic gains or losses	(2,629,361)									
Effect of assumption changes or inputs	393,577	(522,925)	(646,697)							
Benefit payments	(698,684)	(977,623)	(980,229)							
Net change in total OPEB liability	\$ (1,404,728)	\$ (86,700)	\$ (247,106)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total OPEB liability, beginning	16,939,392	17,026,092	17,273,198							
Total OPEB liability, ending	<u>\$ 15,534,664</u>	<u>\$ 16,939,392</u>	<u>\$ 17,026,092</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 38,368,054	\$ 38,846,611	\$ 30,855,953	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total OPEB liability as a percentage of covered-employee payroll	40.49%	43.61%	55.18%							

Notes to Schedule

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

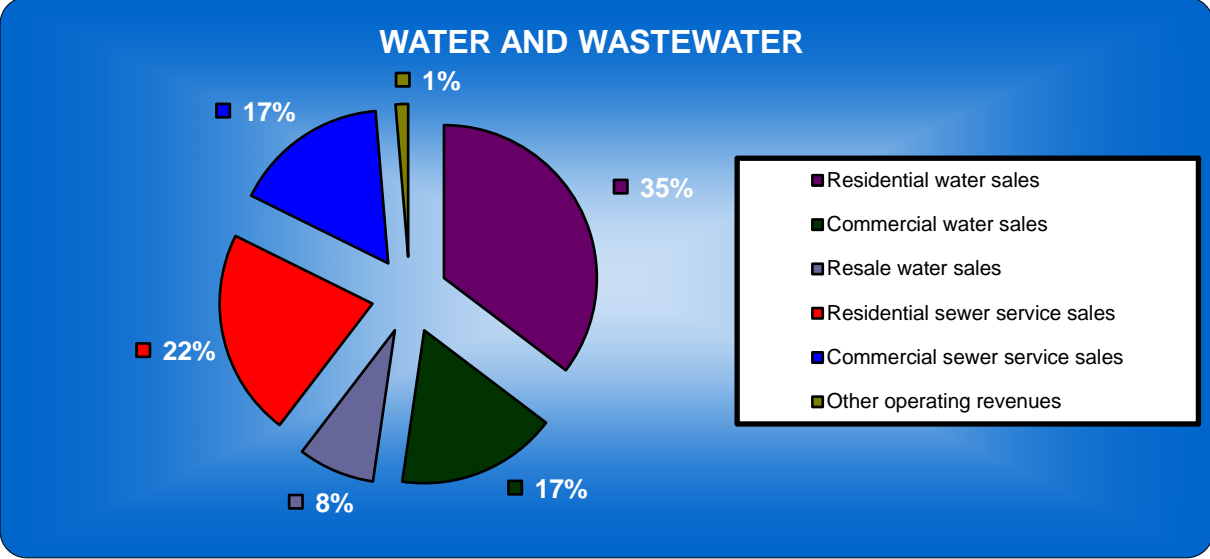
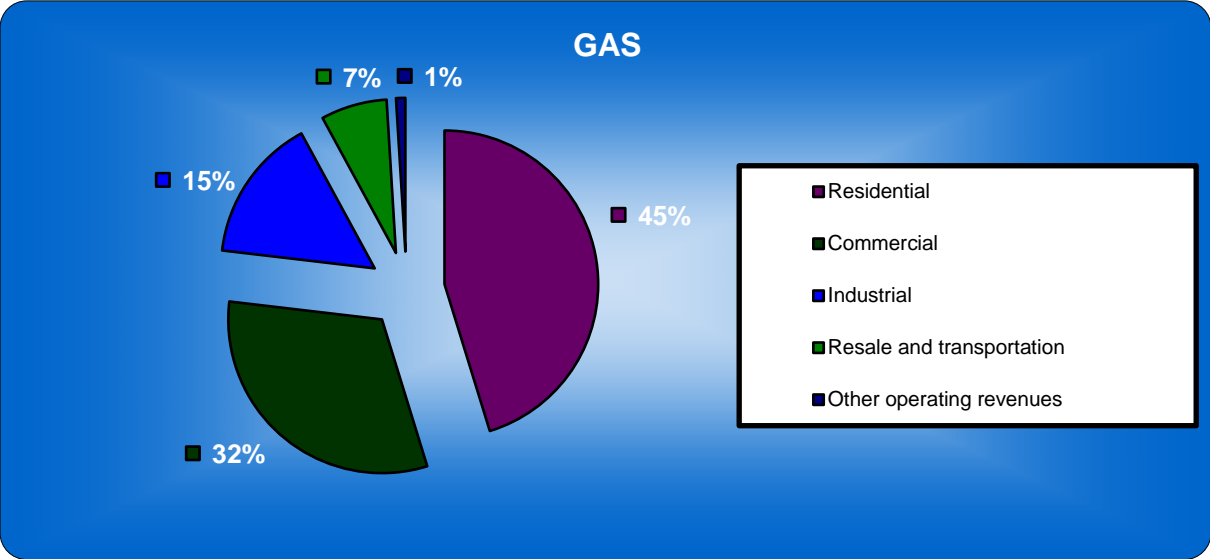
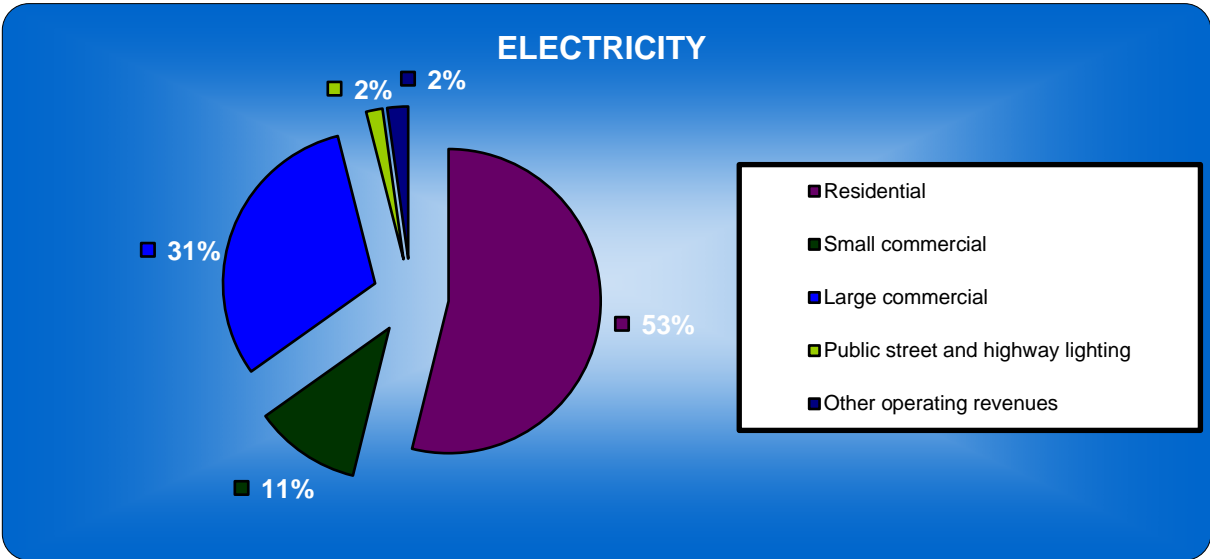
Changes of assumptions—

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

2019	2.660%
2018	4.180%
2017	3.640%
2016	3.058%
2015	-
2014	-
2013	-
2012	-
2011	-
2010	-

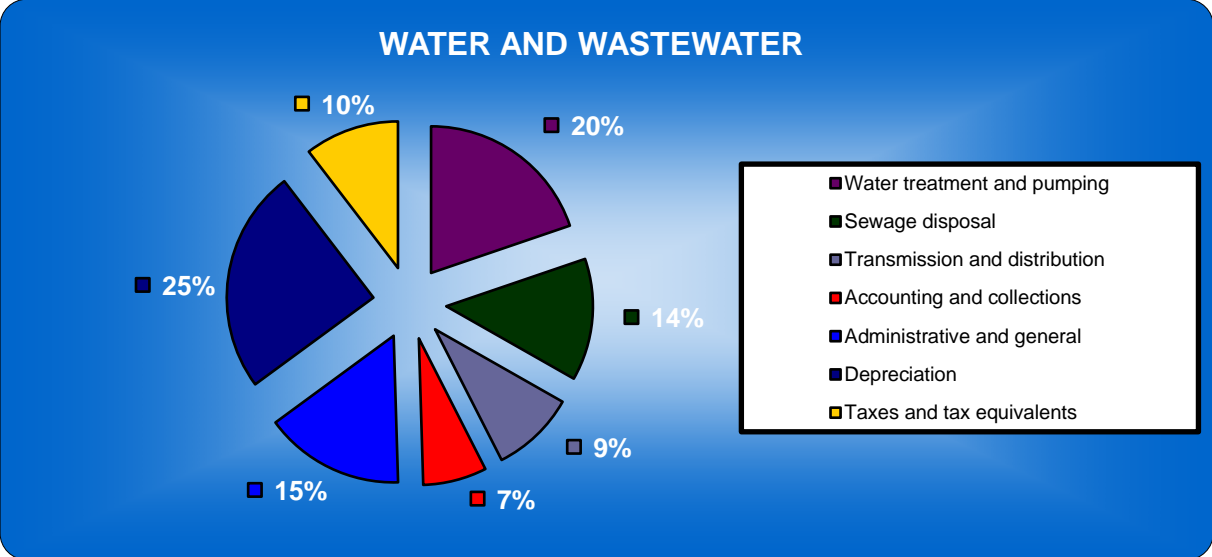
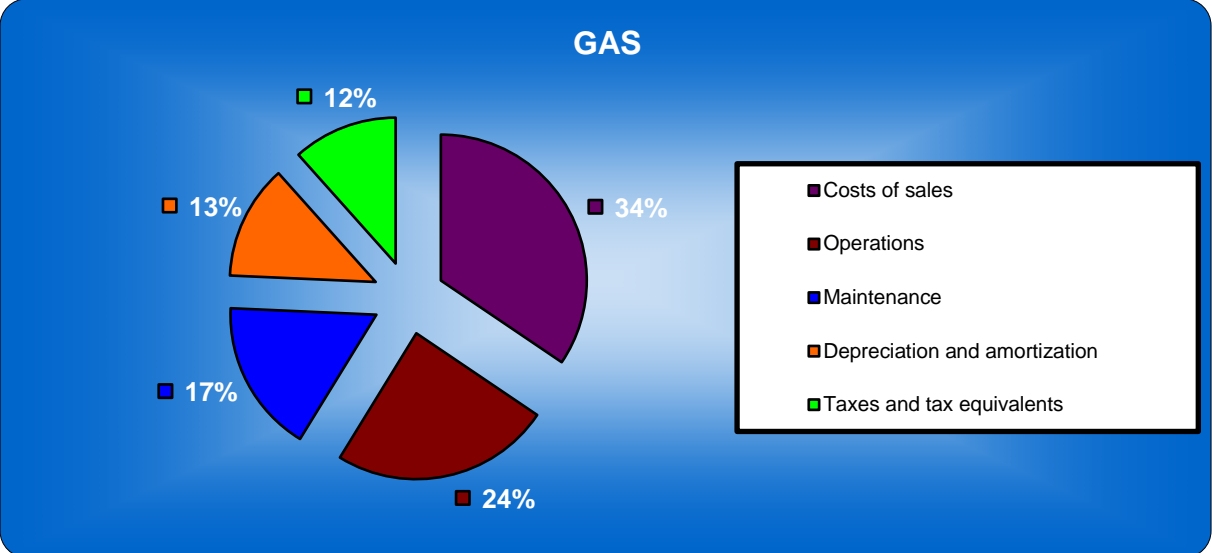
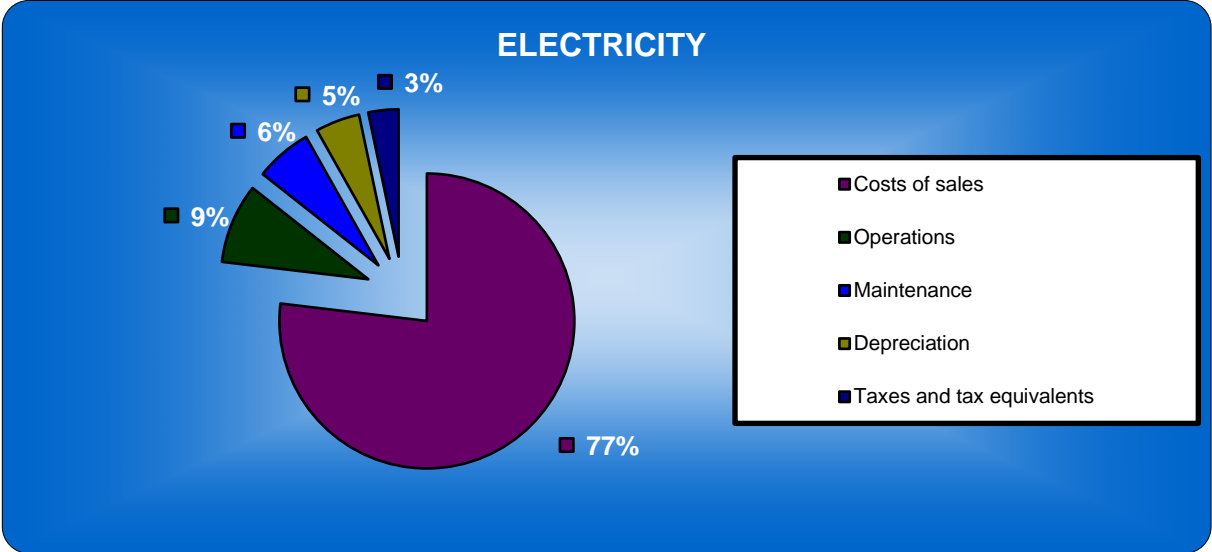
SUPPLEMENTARY SCHEDULES SECTION

**CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENT
SOURCE OF FUNDS
JUNE 30, 2020**



Percentages in graphs may not add up to 100 percent due to rounding.
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CITY OF FLORENCE, ALABAMA
ELECTRICITY, GAS, AND WATER AND WASTEWATER DEPARTMENT
USE OF FUNDS
JUNE 30, 2020



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

**CITY OF FLORENCE, ALABAMA
ELECTRICITY DEPARTMENT
SCHEDULE OF UTILITY PLANT IN SERVICE
AND ACCUMULATED DEPRECIATION
JUNE 30, 2020**

<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	27,935,785	35,939	14,785	27,956,939
Towers and fixtures	32,266			32,266
Poles and fixtures	6,814,456	107,976	16,363	6,906,069
Overhead conductors and devices	7,115,667	50,040	36,034	7,129,673
Total transmission plant	<u>\$ 42,664,662</u>	<u>\$ 193,955</u>	<u>\$ 67,182</u>	<u>\$ 42,791,435</u>
Distribution plant:				
Land and land rights	\$ 72,040	\$ -	\$ -	\$ 72,040
Station equipment	2,396,878		302,067	2,094,811
Poles, towers, and fixtures	24,999,413	1,371,886	81,207	26,290,092
Overhead conductors and devices	22,584,147	217,751	75,682	22,726,216
Underground conduit	3,259,345	23,725	247	3,282,823
Underground conductors and devices	12,187,987	430,148	41,445	12,576,690
Line transformers	26,073,179	609,989	34,169	26,648,999
Services	9,574,178	216,669	92,266	9,698,581
Meters	4,483,637	380,122	603,687	4,260,072
Installation on customer premises	2,797,581	141,672	75,976	2,863,277
Street lighting and signal systems	7,851,143	1,124,357	320,056	8,655,444
Total distribution plant	<u>\$ 116,279,528</u>	<u>\$ 4,516,319</u>	<u>\$ 1,626,802</u>	<u>\$ 119,169,045</u>
General plant:				
Land and land rights	\$ 465,254	\$ 28,553	\$ -	\$ 493,807
Structures and improvements	5,693,173	187,728	124,281	5,756,620
Office furniture and equipment	3,656,568	128,192	133,504	3,651,256
Transportation equipment	8,089,421	1,154,091	153,898	9,089,614
Stores equipment	54,282			54,282
Tools, shop, and garage equipment	2,727,079	59,214	26,586	2,759,707
Laboratory equipment	90,061	10,668	8,047	92,682
Power operated equipment	388,361	5,822		394,183
Communication equipment	632,956		500	632,456
Miscellaneous equipment	362,798	11,927	61,902	312,823
Total general plant	<u>\$ 22,159,953</u>	<u>\$ 1,586,195</u>	<u>\$ 508,718</u>	<u>\$ 23,237,430</u>
Total utility plant in service	<u><u>\$ 181,104,143</u></u>	<u><u>\$ 6,296,469</u></u>	<u><u>\$ 2,202,702</u></u>	<u><u>\$ 185,197,910</u></u>

ACCUMULATED DEPRECIATION

<u>Balance Beginning of Year</u>	<u>Accrual</u>	<u>Retirements- Original Cost</u>	<u>Removal Costs</u>	<u>Salvage/ Adjustments</u>	<u>Balance End of Year</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-					-
54,960	1,408				56,368
15,618,762	977,667	14,785	8,836		16,572,808
32,266					32,266
4,297,692	273,312	16,363	9,778		4,544,863
4,664,829	213,266	36,034	21,535		4,820,526
<u>\$ 24,668,509</u>	<u>\$ 1,465,653</u>	<u>\$ 67,182</u>	<u>\$ 40,149</u>	<u>\$ -</u>	<u>\$ 26,026,831</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,087,076	86,462	302,067	180,521		1,690,950
8,469,212	767,942	81,207	47,567	611	9,108,991
16,673,402	623,842	75,682	45,290	67	17,176,339
2,413,941	130,983	247	148		2,544,529
6,557,733	494,169	41,445	21,157		6,989,300
6,678,560	593,537	34,169	20,803	497	7,217,622
3,936,598	289,257	92,266	54,073	109	4,079,625
264,945	331,424	603,687	359,661		(366,979)
2,018,496	141,321	75,976	44,964	265	2,039,142
7,586,570	273,740	320,056	70,840	28,408	7,497,822
<u>\$ 56,686,533</u>	<u>\$ 3,732,677</u>	<u>\$ 1,626,802</u>	<u>\$ 845,024</u>	<u>\$ 29,957</u>	<u>\$ 57,977,341</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,652,065	152,100	95,523			1,708,642
2,742,009	237,805	129,825			2,849,989
5,170,719	475,820	138,955			5,507,584
45,880	808				46,688
2,216,404	83,405	25,651			2,274,158
46,287	4,147	4,547			45,887
224,385	30,290				254,675
290,142	34,797	177			324,762
216,196	22,938	57,781			181,353
<u>\$ 12,604,087</u>	<u>\$ 1,042,110</u>	<u>\$ 452,459</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,193,738</u>
<u>\$ 93,959,129</u>	<u>\$ 6,240,440</u>	<u>\$ 2,146,443</u>	<u>\$ 885,173</u>	<u>\$ 29,957</u>	<u>\$ 97,197,910</u>

GAS DEPARTMENT

**CITY OF FLORENCE, ALABAMA
GAS DEPARTMENT
SCHEDULE OF UTILITY PLANT IN SERVICE
AND ACCUMULATED DEPRECIATION
JUNE 30, 2020**

<u>Description</u>	UTILITY PLANT			
	<u>Balance Beginning of Year</u>	<u>Additions and Reclassifications</u>	<u>Retirements and Reclassifications</u>	<u>Balance End of Year</u>
Transmission plant:				
Land and land rights	\$ 120,691	\$ -	\$ -	\$ 120,691
Structures and improvements	142,993			142,993
Mains	7,232,692	34,150		7,266,842
Measuring and regulating equipment	2,676,769			2,676,769
Total transmission plant	<u>\$ 10,173,145</u>	<u>\$ 34,150</u>	<u>\$ -</u>	<u>\$ 10,207,295</u>
Distribution plant:				
Land and land rights	\$ 42,911	\$ -	\$ -	\$ 42,911
Structures and improvements	154,621			154,621
Mains	20,163,781	183,758	143,532	20,204,007
Corrosion	705,776	139		705,915
Measuring and regulating equipment	5,868,483	110,102	48,003	5,930,582
Services	13,579,704	186,088	64,179	13,701,613
Other distribution equipment	15,621			15,621
Total distribution plant	<u>\$ 40,530,897</u>	<u>\$ 480,087</u>	<u>\$ 255,714</u>	<u>\$ 40,755,270</u>
General plant:				
Land and land rights	\$ 330,121	\$ -	\$ -	\$ 330,121
Structures and improvements	2,828,324	107,493		2,935,817
Office furniture and equipment	529,929	46,049	80,961	495,017
Transportation equipment	1,716,495	29,670	74,825	1,671,340
Stores equipment	17,798		2,063	15,735
Tools, shop and garage equipment	23,838			23,838
Laboratory equipment	39,665			39,665
Power operated equipment	2,133,756	269,565	154,391	2,248,930
Communication equipment	41,209		2,005	39,204
Miscellaneous equipment	505,883	84,309	1,432	588,760
Total general plant	<u>\$ 8,167,018</u>	<u>\$ 537,086</u>	<u>\$ 315,677</u>	<u>\$ 8,388,427</u>
Total utility plant in service	<u>\$ 58,871,060</u>	<u>\$ 1,051,323</u>	<u>\$ 571,391</u>	<u>\$ 59,350,992</u>

ACCUMULATED DEPRECIATION

Balance Beginning of Year	Accrual	Retirements- Original Cost	Removal Costs	Balance End of Year
\$ -	\$ -	\$ -	\$ -	\$ -
142,993				142,993
3,099,441	145,021			3,244,462
2,177,654	80,303			2,257,957
<u>\$ 5,420,088</u>	<u>\$ 225,324</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,645,412</u>
\$ -	\$ -	\$ -	\$ -	\$ -
154,621				154,621
6,886,445	403,678	143,532	4,930	7,141,661
705,776	139		19	705,896
1,665,358	176,986	48,003		1,794,341
6,679,532	409,220	64,179	60,052	6,964,521
15,621				15,621
<u>\$ 16,107,353</u>	<u>\$ 990,023</u>	<u>\$ 255,714</u>	<u>\$ 65,001</u>	<u>\$ 16,776,661</u>
\$ -	\$ -	\$ -	\$ -	\$ -
2,828,325	107,492			2,935,817
485,860	25,438	80,008		431,290
1,286,110	126,636	74,825		1,337,921
16,881	788	2,063		15,606
20,195	596			20,791
33,466	1,481			34,947
1,340,911	152,661	104,908		1,388,664
41,181	27	2,005		39,203
398,426	21,490	1,432		418,484
<u>\$ 6,451,355</u>	<u>\$ 436,609</u>	<u>\$ 265,241</u>	<u>\$ -</u>	<u>\$ 6,622,723</u>
<u>\$ 27,978,796</u>	<u>\$ 1,651,956</u>	<u>\$ 520,955</u>	<u>\$ 65,001</u>	<u>\$ 29,044,796</u>

WATER AND WASTEWATER DEPARTMENT

**CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF UTILITY PLANT IN SERVICE
AND ACCUMULATED DEPRECIATION
JUNE 30, 2020**

Description	UTILITY PLANT			
	Balance Beginning of Year	Additions and Reclassifications	Retirements and Reclassifications	Balance End of Year
Transmission and distribution plant:				
Land and land rights	\$ 1,140,765	\$ -	\$ -	\$ 1,140,765
Supply source	3,327,037			3,327,037
Pumping structures	6,463,051	10,871		6,473,922
Sewer plant and system	95,039,035	137,314		95,176,349
Reservoirs and standpipes	1,768,911	26,796	1,412	1,794,295
Purification building and equipment	35,921,056	71,267		35,992,323
Transmission mains and appurtenances	6,210,473			6,210,473
Distribution mains and appurtenances	16,431,760	45,652		16,477,412
Customer services	8,492,319	203,439		8,695,758
Fire hydrants	570,961			570,961
Miscellaneous structures and improvements	591,656	130,482		722,138
Total transmission and distribution plant	<u>\$ 175,957,024</u>	<u>\$ 625,821</u>	<u>\$ 1,412</u>	<u>\$ 176,581,433</u>
General plant:				
Office furniture and equipment	\$ 580,250	\$ 30,597	\$ 11,418	\$ 599,429
Transportation equipment	2,140,024	57,874	144,160	2,053,738
Tools and equipment	1,632,910	163,527	99,602	1,696,835
Communication equipment	82,136			82,136
Laboratory equipment	93,535			93,535
Total general plant	<u>\$ 4,528,855</u>	<u>\$ 251,998</u>	<u>\$ 255,180</u>	<u>\$ 4,525,673</u>
Total utility plant in service	<u>\$ 180,485,879</u>	<u>\$ 877,819</u>	<u>\$ 256,592</u>	<u>\$ 181,107,106</u>

ACCUMULATED DEPRECIATION

Balance Beginning of Year	Additions and Reclassifications	Retirements and Reclassifications	Balance End of Year
\$ -	\$ -	\$ -	\$ -
1,130,380	66,910		1,197,290
1,994,355	196,316		2,190,671
34,692,768	1,837,479		36,530,247
1,272,413	38,736	424	1,310,725
13,384,421	962,546		14,346,967
2,935,043	105,271		3,040,314
7,319,411	347,616		7,667,027
2,943,553	359,524		3,303,077
351,703	12,207		363,910
366,368	18,589		384,957
<u>\$ 66,390,415</u>	<u>\$ 3,945,194</u>	<u>\$ 424</u>	<u>\$ 70,335,185</u>
\$ 511,742	\$ 28,055	\$ 11,156	\$ 528,641
1,666,063	107,470	144,160	1,629,373
1,388,036	80,625	97,953	1,370,708
70,802	6,051		76,853
66,748	6,240		72,988
<u>\$ 3,703,391</u>	<u>\$ 228,441</u>	<u>\$ 253,269</u>	<u>\$ 3,678,563</u>
<u>\$ 70,093,806</u>	<u>\$ 4,173,635</u>	<u>\$ 253,693</u>	<u>\$ 74,013,748</u>

CITY OF FLORENCE, ALABAMA
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF REVENUES AND EXPENSES—KILLEN SYSTEM
FOR THE YEARS ENDED JUNE 30, 2020 and 2019

	2020	2019
Operating revenues:		
Water sales:		
<i>Residential</i>	\$ 1,521,500	\$ 1,497,392
<i>Commercial</i>	503,441	454,753
Forfeited discounts	16,091	19,907
Other operating revenues	15,372	15,768
Total operating revenues	\$ 2,056,404	\$ 1,987,820
Operating expenses:		
Water treatment and pumping	\$ 499,772	\$ 475,224
Transmission and distribution	229,136	243,043
Accounting and collections	100,670	94,805
Administrative and general	209,429	188,252
Depreciation	74,349	67,063
Taxes and tax equivalents	22,765	21,052
Total operating expenses	\$ 1,136,121	\$ 1,089,439
Operating income	\$ 920,283	\$ 898,381
Nonoperating revenues (expenses):		
Interest revenues	\$ 13,753	\$ 15,862
Gain (loss) on disposition of assets		(2,100)
Interest expense	(101,898)	(104,303)
Amortization of debt related costs	(13,185)	(13,185)
Total nonoperating revenues (expenses)	\$ (101,330)	\$ (103,726)
Income before capital contributions	\$ 818,953	\$ 794,655