

*We connect the River City!*

**2016 Annual Report**



# DECATUR UTILITIES

## Our Mission

Provide **SAFE, RELIABLE UTILITY SERVICES** at the **LOWEST POSSIBLE RATE** and to **MEET THE NEEDS** of our customers and employees.

## Our Vision

Be the **SUPPLIER OF CHOICE** for customers across **ALL RATE CLASSES**.

# NEW ADVANCEMENTS IN UTILITY TECHNOLOGY ARE KEY TO MAINTAINING QUALITY SERVICE WHILE KEEPING RATES LOW



**Ray Hardin**  
General Manager

Automated Metering Infrastructure (AMI). Distributed Energy Resources (DER). These terms and acronyms may not be familiar to every DU customer, but they represent technologies that will change the landscape of the utility industry across America in the years ahead. In short, these and other advancements in utility technology are evolving changes that DU has committed to study and to consider how they best fit into our electric distribution system.

Over the past year, we have installed more than 800 AMI meters at residences across our service area. This pilot is allowing us to test the technology in the field and verify the benefits we expect to see. Among those projected benefits is the ability to measure usage in more frequent intervals.

An AMI system is the foundational technology that will enable DU to be ready for new rate structures from TVA. It will also provide significant operational efficiencies and add customer service benefits. Those could include items such as eliminating the monthly meter reading process, providing customers real-time information about their usage, providing the option of “pre-pay” utility service, and reducing outage restoration times. AMI will also give us the ability to operate some meters remotely - reducing the cost of physical trips by crews and trucks.

Distributed Energy Resources (DER) refers to smaller generation facilities that generate electricity to serve a subset of customers within the larger, conventional utility grid. For the past 75 years, DU has operated a traditional grid made up of poles and lines that deliver electricity produced by TVA at huge generation facilities like Wilson Dam or the Browns Ferry Nuclear Plant. Under the DER model, smaller generation facilities operate independently but connect to our grid. If a customer generates more electricity than they need, the excess power can be sold back to TVA.

Solar Energy is one DER concept you have probably heard of. Solar generation has been around for decades - but only in recent years has it become more feasible from a cost standpoint. Solar can range from individual customers installing solar panels on the roof of their home to the use of ground-mounted solar arrays that generate several megawatts of electricity - enough to power hundreds of homes.

While DU will continue to look at these technologies in the months and years to come, we are also committed to maintaining the grid that serves our 26,000 electric customers. In most cases even customers who opt for distributed energy or solar generation will want to be connected to the local utility’s grid for backup.

Lastly, DU customers have benefited from and continue to enjoy reliable service while having the lowest utility bills in the State of Alabama. A strong industrial presence and high customer density are the major drivers. AMI technology will provide us with the tools to ensure that continues far into the future. Whether it’s supporting the recruitment and growth of large industries or providing fixed income customers new options for managing their utility bills, DU exists to serve our community.



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# Leadership

## Municipal Utilities Board



**Board Chairman**  
Neal Holland, Jr.



**Board Secretary**  
Richard Grace



**Board Member**  
Skip Thompson

## DU Management Team



**Ray Hardin**  
General Manager



**Gary Borden**  
Operations Manager



**Steve Pirkle**  
Business Manager &  
Chief Financial Officer



**Paul Nosal**  
Director, Customer  
and Employee Relations



**Janice Armor**  
Executive Assistant



**Kim Baker**  
Manager,  
Customer Service



**John Kuhlman**  
Manager,  
Information Systems



**Glenn Boyles**  
Manager,  
Electric Department



**Tom Cleveland**  
Manager,  
Water Resources



**Jimmy Evans**  
Manager,  
G/W/WW Operations

# Safety

## DU Safety Record

FY 2016 (10/1/15 through 9/30/16)

### Lost Work Days

▶ Goal: 0      ▶ Actual: 35

### Vehicle Incidents

▶ Goal: 0      ▶ Actual: 7

### Days Without Recordable Incident

- ▶ Central Parkway Service Center: 48
- ▶ 10th Ave. Service Center: 210
- ▶ Wastewater Treatment Plant: 977
- ▶ Water Treatment Plant: 1,466
- ▶ Administrative Office: 2,458

## Safety is our top priority.

Decatur Utilities takes safety seriously. It is our ultimate goal that every employee works safely, without incident and never suffers a serious work-related injury while on the job.



Every month, crews at our work sites gather for safety meetings that reinforce best safety practices and discuss ways to avoid becoming a safety statistic.

Added to that is a commitment to providing each employee with protective equipment, tools, training and resources needed to perform their job safely.

DU is also active in area elementary schools where we present safety programs on electricity and natural gas. These interactive, visually stimulating presentations drive home what to do if the students find themselves in life-threatening situations.

Safety tips are included throughout the year with customer billing statements and are communicated via social media and traditional outlets.



# Electric System



## Background

As a local distributor for The Tennessee Valley Authority (TVA), Decatur Utilities has delivered electricity to residents, businesses and industries in Decatur for more than 75 years.

DU customers pay less per kWh than consumers in most parts of the country - which contributes to an overall combined utility bill that is the lowest among all municipalities in the State of Alabama.

And while DU takes a conservative fiscal approach to managing its operations, customers still enjoy one of the most reliable electric systems in the nation. At 99.995% reliability, DU's customers aren't in the dark very often.

However, when those occasional outages occur, DU's line crews are standing by, ready to respond at a moment's notice. Using the latest in geographic information and outage management technology, DU's dispatchers can quickly identify where to send crews so they can safely restore power as quickly as possible.

And because we care about the future and wellbeing of upcoming generations, you'll also find our Electric crews presenting safety classes and career day demonstrations for local students.



## 2016 Highlights

*Completed engineering and project management for new Cook's Museum of Natural Science.*

*Completed engineering packages for new Austin and Decatur High Schools.*

*Completed engineering design package for Spring Ave. widening & utility relocation.*

*Continued implementation of Advanced Metering Infrastructure (AMI) pilot to field test two-way data communication and capture of time-of-day usage data.*

*Continued conversion of distribution circuits from original voltage of 4kV to modern standard of 12kV.*

## 2016 By the Numbers

*Customers: > 26,500*

*Second lowest residential rate among TVA's 155 distributors*

*Electricity sold: 1.2 billion kWh*

*System reliability: 99.995%*

*Replaced 194 defective poles*

*Repaired 522 street lights*

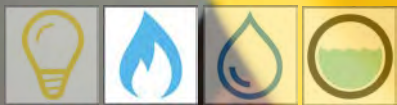
*Repaired 224 security lights*

*Completed 105 circuit miles of tree trimming*

*Replaced 3,200 feet of direct buried underground cable*

*Performed maintenance on six distribution substations and one primary substation*





# Natural Gas System



Know what's below.  
Call before you dig.



2016 Annual Report



## Background

For many customers on the Decatur Utilities system, natural gas is the fuel of choice for heating their home, heating water and/or fueling industrial processes.

DU first made natural gas available in 1950 and 500 customers quickly signed up. Today, DU serves more than 13,600 customers across 400 miles of main distribution lines.

Natural gas safety is our top priority - both for employees and customers.

DU employees are provided with training and safety equipment that allows them to work safe around natural gas equipment.

DU continually communicates with its residential and commercial customer base to provide info on identifying potential natural gas leaks, steps to take to remain safe and how to report the leak.

We also aggressively promote the "Alabama 811" one call system. Alabama 811 coordinates location of all underground utility lines so customers can dig safely and without damaging utility infrastructure.

We also survey all natural gas mains and a portion of residential and commercial services annually to identify and repair leaks.

## 2016 Highlights

*Negotiated and signed new 10-year transportation contract with Southern Natural Gas Company.*

*Completed replacing all cast iron piping in the DU natural gas system with high density polyethylene plastic.*

*Installed 2,310 feet of new 2" main.*

*Sponsored the Alabama Pipeline Awareness Cooperative Training (APACT) meeting for North Alabama.*

*Completed annual natural gas leak survey.*

*Distributed gas and pipeline safety information to all DU natural gas customers.*

## 2016 By The Numbers

*Customers: > 13,600*

*Natural Gas Sold: 6.2 billion cubic feet*

*Natural Gas Mains: > 400 miles*

## How to detect a possible leak

*Smell - Distinct rotten egg odor*

*Sight - Dirt being disturbed, water bubbling*

*Sound - Hissing or blowing sound*

## What to do if you smell gas

*Evacuate the area and get to a safe place.*

*Don't use matches, equipment or anything that can spark and cause an explosion.*

*Once you are safe, call DU's Dispatch Center at 256-552-1400 to report the leak.*

*Call 911 if there is a fire or explosion.*

*Alert others to avoid entering the leak area.*





# Water System



## Background

The lifeblood of any community is an ample supply of safe drinking water. The Tennessee River provides Decatur Utilities with a virtually limitless supply of raw water and DU's award-winning Water Treatment Plant (WTP) treatment process exceeds state and federal mandates for safety and quality.

DU's WTP is certified as "Optimized" by the U.S. Environmental Protection Agency. That means DU has taken steps to meet goals established by the Alabama Department of Environmental Management that go "above and beyond" to provide its customers with drinking water that is safe from water-borne bacteria.

In addition, the plant - which is manned and operated 24/7/365 - continues to be recognized for excellence in operations and efficiency by industry associations.

Delivering water to DU's retail and wholesale customers is tasked to DU's 10th Ave. Gas/Water/Wastewater Service Center and field crews who maintain more than 500 miles of distribution line.

## 2016 Plant Highlights

*Received the "Best Operated Plant Award" for 2016 from the Alabama Water and Pollution Control Association (AWPCA) for Distribution Systems 25,001 - 50,000 meters.*

*Received the AWPCA "Award of Excellence" for Surface Water Plants - Greater than 60 MGD.*

*Received 2016 "Plant Optimization" Certification from the Environmental Protection Agency for meeting goals set by the Alabama Dept. of Environmental Management.*

*Signed new contract with Limestone County Water and Sewer Authority to provide up to seven million gallons of water per day pending completion of new water main under the Tennessee River.*

## 2016 System Highlights

*Completed Phase III of Mallard Fox Water Reinforcement project.*

*Completed connecting water main between Deerfoot and City View subdivisions.*

*Completed new water mains for Johnston Street alley, Woodtrail Addition III and Watermark Business Park.*

## 2016 By The Numbers

*Retail customers: > 25,000*

*Wholesale customers:*

- ▶ *City of Hartselle*
- ▶ *NE Morgan County Water Authority*
- ▶ *Limestone County Water & Sewer Authority*
- ▶ *Town of Trinity*

*DU's WTP processed more than 9.8 billion gallons of water in FY 2016 - an average of about 27 millions gallons/day.*

*DU's water distribution network includes 10 water tanks, more than 2,000 fire hydrants and almost 500 miles of water mains.*





# Wastewater System



## Background

The collection and treatment of wastewater is vital to the health and wellbeing of Decatur's residents. Decatur Utilities provides this important service through its wastewater system which includes underground collection pipelines and lift stations that collect and transport wastewater to DU's Wastewater Treatment Plant (WWTP) located on Hwy. 20.

DU treats about 24 million gallons of wastewater every day - and each gallon goes through a multi-stage process that removes solids, kills harmful bacteria and disinfects the water prior to its return to the Tennessee River.

The process never stops. DU's WWTP operates 24/7/365 - with at least two employees staffing the plant at all times - including every holiday.

DU continues to invest in upgrades to the plant's technology and equipment to improve performance and meet increasingly stringent state and federal requirements for discharged water quality.

As with the water distribution system, DU's 10th Ave. Gas/Water/Wastewater Service Center maintains the network of sewer mains and services that collect wastewater from Decatur residents and businesses.



## 2016 Plant Highlights

*Received the "Best Operated Plant" Award for 2016 from the Alabama Water and Pollution Control Association for treatment plants > 10 Million Gallons per Day (MGD).*

*Received 2016 "Certificate of Excellence" from Alabama Water Environment Association (AWEA) for plants greater than 10 MGD.*

*Wastewater Plant Superintendent John Beard recognized with the 2016 "Bolton-Crockett-Beck Award" for his career contributions to the wastewater industry.*

*Began Phases I-III for Residuals Management Process Improvements.*

*Began Chlorine Contact Basin improvements.*

## 2016 System Highlights

*Completed new lift station at Country Club Rd.*

*Began construction of the Riverview lift station on Riverview Ave. near Bunge and the Beltline lift station at intersection of Hwy. 67 and Hwy. 20.*

*Began additional phases of Beltline sewer main project to spur future economic development.*

*Completed Riverview sewer main project.*

*Completed Stratford Rd. sewer main project.*

*Surpassed the "Million Mile" mark in number of miles cleaned since 2013.*

## 2016 By The Numbers

*Customers: > 20,000*

*DU's WWTP treated more than 8.7 billion gallons of water in FY 2016 - an average of about 24 million gallons/day*

*Miles of main: 348*

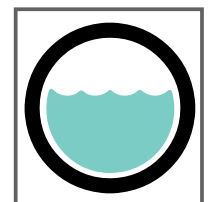
*Miles of main inspected by CCTV: 24*

*Miles of main cleaned: 70*

*Feet of main replaced: 3,427*

*Sewer services replaced: 127*

*Point repairs completed: 63*





# Community Service

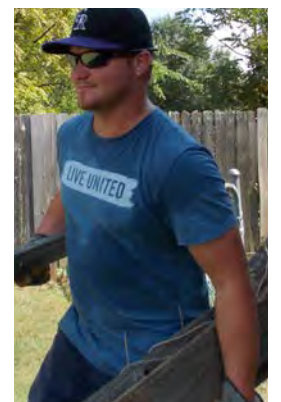
## Background

The DU Community Crew is our collective employee group that gives back to the local community we call home.

Community Crew members come from all areas of DU's operation and you'll see them helping with volunteer events, fundraisers and other community service efforts throughout the year.

Among our FY2016 Crew activities were:

- ▶ TVO canned food drive & Thanksgiving meal
- ▶ United Way Employee Campaign - \$45K raised
- ▶ Christmas party for Mental Health Association
- ▶ Decatur Christmas Parade
- ▶ Energy Efficiency Classes for new homebuyers
- ▶ Women's Leadership Girlfriend's Gala
- ▶ United Way Spirit Bowl Fundraiser
- ▶ Barrels of Love Canned Food Drive
- ▶ Chamber of Commerce EQUIP Class Tours
- ▶ Kiwanis Pancake Day
- ▶ Volunteer Center Taste of the Valley
- ▶ American Cancer Society Relay for Life
- ▶ Parents and Children Together Touch-A-Truck
- ▶ Pilot Club Fashion Show Fundraiser
- ▶ Dragon Boat Race and Festival - \$15K raised
- ▶ Leadercast marketing support
- ▶ CAPNA Block Makeover Project
- ▶ Mental Health Association ADHD Camp Tour
- ▶ United Way Get on the Bus Tours
- ▶ Electricity & Natural Gas Safety Training Decatur FD
- ▶ Elementary school Electricity Safety Program
- ▶ United Way Day of Caring Service Projects
- ▶ Breast Cancer Awareness Month
- ▶ Decatur City Schools Career Day
- ▶ Endless Opportunities Career Day
- ▶ Chamber, Rotary, Kiwanis & other civic involvement
- ▶ And much more!





*Pulling Together.*



# Supporting Departments

## Customer Service

Our goal is to deliver outstanding service to our customers with every transaction processed.

Our payment representatives processed more than 123,000 payments last year and customer service representatives are responsible for taking new service applications, handling account transfers, working with customers to resolve high bill situations, as well as addressing any other service related issues that arise.

Customer service also dispatches orders for DU's Field Services crews.

## Field Services

DU's Field Services personnel take more than 820,000 readings from electric, gas and water meters each year to ensure customers are billed correctly for their usage.

Field service representatives (FSRs) also investigate possible leaks, analyze equipment problems and perform meter sets, disconnects and reconnects.

### 2016 By the Numbers

Meters read: 820,794

Accuracy rate: 99.85%

Miles traveled: 121,067

Tickets worked: 23,821

### 2016 Highlights

*Completed renovation of the main lobby to enhance privacy and safety for customers and employees.*

*Implemented three self-service kiosks allowing customers to make payments 24/7/365.*

*Provided improved online and IVR payment options for customers.*

*Upgraded the online customer portal.*

### 2016 By the Numbers

*Cashier payments: 123,846*

*Kiosk payments: 9,133*

*Walk-in customers served: 13,459*

*Average wait time: 5.3 minutes*

*Phone calls processed: 69,331*



## Others

These supporting departments ensure that Decatur Utilities has the resources, systems and tools needed to deliver on our mission statement every day.

### Human Resources

- ▶ Employee recruitment and retainment
- ▶ Employee & retiree benefits coordination
- ▶ State & federal hiring compliance
- ▶ Payroll processing

### Communications and Public Relations

- ▶ External customer communications
- ▶ Internal employee communications
- ▶ Public relations & community service
- ▶ Safety and efficiency presentations

### Finance and Accounting

- ▶ Tracking and analysis of income & expenses
- ▶ Procurement of equipment & materials
- ▶ State & federal financial compliance
- ▶ Accounts receivable and payable

### Geographic Information Technology

- ▶ Maintain electronic maps of DU service areas
- ▶ Integration with mobile field computers
- ▶ Integration of GIS and Outage Management
- ▶ Support of long-term system planning

### Engineering

- ▶ Design of utility system infrastructure
- ▶ Long-term system planning
- ▶ Multiple engineering disciplines represented
- ▶ WTP/WWTP plant facility/equipment upgrades

### Dispatch

- ▶ Process incoming outage calls
- ▶ Dispatch responding trouble crews
- ▶ Perform daily Electric system switching
- ▶ Dispatch G/W/WW service crews

### Information Technology

- ▶ Manage internal software systems
- ▶ Manage internal network and hardware
- ▶ Manage DU facility interconnectivity
- ▶ Maintain mobile computing hardware



**MUNICIPAL UTILITIES BOARD OF DECATUR,  
MORGAN COUNTY, ALABAMA  
D/B/A DECATUR UTILITIES**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2016**

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**MUNICIPAL UTILITIES BOARD OF DECATUR, MORGAN COUNTY, ALABAMA  
D/B/A DECATUR UTILITIES  
INTRODUCTORY SECTION  
September 30, 2016**

**DIRECTORY**

**BOARD OF DIRECTORS**

Neal A. Holland, Jr., Chairman  
Richard Grace, Secretary  
James R. "Skip" Thompson, III, Member

**MANAGEMENT TEAM**

Ray Hardin, General Manager  
Steve Pirkle, CPA, CGMA, Business Manager & CFO  
Paul Nosal, SPHR, SHRM-SCP, Director - Customer & Employee Relations  
Gary Borden, Operations Manager  
Glenn Boyles, Electric Manager  
Jimmy Evans, Gas, Water & Wastewater Operations Manager  
Tom Cleveland, P.E., Water Resources Manager  
Kim Baker, Customer Service Manager  
Janice Armor, Administrative Assistant

**INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Alexander Thompson Arnold PLLC  
Jackson, Tennessee

# FINANCIAL SECTION

**Members of:**

American Institute of Certified Public Accountants  
AICPA Center for Public Company Audit Firms  
AICPA Governmental Audit Quality Center  
AICPA Employee Benefit Plan Audit Quality Center  
Tennessee Society of Certified Public Accountants  
Kentucky Society of Certified Public Accountants



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## Independent Auditor's Report

Board of Directors  
Municipal Utilities Board of Decatur, Morgan County, Alabama  
Decatur, Alabama

### Report on the Financial Statements

We have audited the accompanying financial statements of the Municipal Utilities Board of Decatur, Morgan County, Alabama, a component unit of the City of Decatur, Alabama, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Utilities Board of Decatur, as of September 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in note 1, the financial statements present only the Municipal Utilities Board of Decatur's enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Decatur, Alabama, as of September 30, 2016, the changes in its financial position or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Schedule of Funding Progress - Other Post Employment Benefits, Schedule of Changes in Net Position Liability (Asset) and Related Ratios Based on Participation in the Public Employee Pension Plan, Schedule of Contributions Based on Participation in the Public Employee Pension Plan and Notes to Required Supplementary Information as noted in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Municipal Utilities Board of Decatur's basic financial statements. The introductory section and the supplementary and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The directory and supplementary and other information schedules, which have been marked "unaudited", have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2016 on our consideration of the Municipal Utilities Board of Decatur's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipal Utilities Board of Decatur's internal control over financial reporting and compliance.

*Alexander Thompson Aundt PLLC*

Jackson, Tennessee  
December 31, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Municipal Utilities Board of Decatur, Morgan County, Alabama, we offer readers of the Utility's financial statements this narrative overview and analysis of the financial activities of the Utility for the fiscal year ended September 30, 2016. All amounts, unless otherwise indicated, are expressed in actual dollars.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Municipal Utilities Board of Decatur exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$224 million (*Net Position*).
- Operating revenues were \$137 million, a decrease from fiscal year 2015 in the amount of \$4 million or 2.83%.
- Operating expenses were \$124 million, a decrease from fiscal year 2015 in the amount of \$5 million or 3.66%.
- The operating income for the year was \$13 million as compared to a \$12 million income for fiscal year 2015.

### OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the Utility's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Utility's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Supplementary Information are made up of four sections: 1) the introductory section, 2) the financial section, 3) the supplementary and other information section, and 4) the internal control and compliance section. The introductory section includes the Utility's directory. The financial section includes the independent auditor's report, this MD&A, the financial statements with accompanying notes, and the required supplementary information. The supplementary and other information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

### REQUIRED FINANCIAL STATEMENTS

Proprietary Funds are used to account for the operations of the Utility, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

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

The Statement of Net Position presents the financial position of the Utility on a full accrual historical cost basis. The statement includes all of the Utility's assets, liabilities, and deferred outflows/inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Utility's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Utility, and assessing the liquidity and financial flexibility of the Utility.

The Statement of Revenues, Expenses, and Changes in Net Position present the results of the business activities over the course of the fiscal year and information as to how the Net Position changed during the year. All changes in Net Position are reported as soon as the underlying event



giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the Utility's operations and can be used to determine whether the Utility has successfully recovered all of its costs. This statement also aids in the evaluation of income sufficiency and credit worthiness.

The Statement of Cash Flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The Notes to the Financial Statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

## FINANCIAL ANALYSIS

One of the most important questions asked about the Utility's finances is "Is the Utility, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Utility's activities in a way that will help answer this question. These two statements report the Net Position of the Utility and the changes in the Net Position. Net Position is one way to measure the financial health or financial position of the Utility. Over time, increases or decreases in the Utility's Net Position are an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The Electric System's total Net Position increased by \$1.26 million for the fiscal year ended September 30, 2016. The analysis below focuses on the System's Net Position (Table 1A) and changes in Net Position (Table 1B) during the year.

Table 1A  
ELECTRIC SYSTEM

CONDENSED STATEMENT OF NET POSITION				
	September 30, 2016	September 30, 2015	Increase (Decrease)	
			\$	%
Current assets	\$ 25,798,246	\$ 24,840,771	\$ 957,475	3.85%
Restricted assets	2,519,097	2,126,800	392,297	18.45%
Capital assets	42,165,291	41,138,756	1,026,535	2.50%
Other assets	2,446,586	2,105,413	341,173	16.20%
Total assets	<u>72,929,220</u>	<u>70,211,740</u>	<u>2,717,480</u>	3.87%
Deferred outflows of resources	<u>1,022,493</u>	<u>615,204</u>	<u>407,289</u>	66.20%
Current liabilities	9,113,477	8,541,547	571,930	6.70%
Long term liabilities	9,369,777	8,559,466	810,311	9.47%
Other liabilities	2,771,341	2,294,638	476,703	20.77%
Total liabilities	<u>21,254,595</u>	<u>19,395,651</u>	<u>1,858,944</u>	9.58%
Deferred inflows of resources	<u>361,785</u>	<u>360,137</u>	<u>1,648</u>	0.46%
Investment in capital assets	42,165,291	41,138,756	1,026,535	2.50%
Restricted	2,519,097	2,126,800	392,297	18.45%
Unrestricted	7,650,945	7,805,600	(154,655)	-1.98%
Total net position	<u>\$ 52,335,333</u>	<u>\$ 51,071,156</u>	<u>\$ 1,264,177</u>	2.48%

The most significant changes from fiscal year 2015 to 2016 were in capital assets and investment in capital assets primarily due to expansion and upgrade of electric system infrastructure. Cash and cash equivalents increased by \$487 thousand due to the positive change in net position. Utility Plant increased by \$1 million.

Changes in the Electric System's Net Position can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Net Position for the year then ended September 30, 2016.

Table 1B  
ELECTRIC SYSTEM

	September 30, 2016	September 30, 2015	Increase (Decrease)	
			\$	%
Operating revenues	\$ 92,196,471	\$ 95,544,700	\$(3,348,229)	-3.50%
Purchased power	79,499,196	82,504,546	(3,005,350)	-3.64%
Gross margin	12,697,275	13,040,154	(342,879)	-2.63%
Other operating expenses	9,779,393	9,269,518	509,875	5.50%
Operating income	2,917,882	3,770,636	(852,754)	-22.62%
Other revenue (expenses)	45,008	65,753	(20,745)	-31.55%
Income before transfers	2,962,890	3,836,389	(873,499)	-22.77%
Tax equivalents	(1,698,713)	(1,686,102)	12,611	0.75%
Change in net position	1,264,177	2,150,287	(886,110)	-41.21%
Net position - beginning	51,071,156	55,510,178	(4,439,022)	-8.00%
Restatement of net position	-	(6,589,309)	6,589,309	100.00%
Net position - ending	\$ 52,335,333	\$ 51,071,156	\$ 1,264,177	2.48%

From fiscal year 2015 to 2016, operating revenues decreased 3.50% due to lower volumes in the Residential and Industrial customer classes as compared to the prior year. A very mild winter was only partially offset by the hot, dry summer. Net position increased 2.48% from the prior year due to a positive operating income.

The Gas System's total Net Position increased by \$266 thousand for the fiscal year ended September 30, 2016. The analysis below focuses on the System's Net Position (Table 2A) and changes in Net Position (Table 2B) during the year.

Table 2A

**GAS SYSTEM**

<b>CONDENSED STATEMENT OF NET POSITION</b>				
	September 30, 2016	September 30, 2015	Increase (Decrease)	
			\$	%
Current assets	\$ 6,085,232	\$ 7,338,231	\$ (1,252,999)	-17.07%
Restricted assets	934,536	809,410	125,126	15.46%
Capital assets	20,402,140	19,615,617	786,523	4.01%
Other assets	208,438	5,106	203,332	3982.22%
Total assets	<u>27,630,346</u>	<u>27,768,364</u>	<u>(138,018)</u>	-0.50%
Deferred outflows of resources	<u>295,966</u>	<u>191,087</u>	<u>104,879</u>	54.89%
Current liabilities	1,152,048	1,046,420	105,628	10.09%
Long term liabilities	3,275,051	3,026,678	248,373	8.21%
Other liabilities	80,003	733,488	(653,485)	-89.09%
Total liabilities	<u>4,507,102</u>	<u>4,806,586</u>	<u>(299,484)</u>	-6.23%
Deferred inflows of resources	<u>123,798</u>	<u>123,286</u>	<u>512</u>	0.42%
Investment in capital assets	20,402,140	19,615,617	786,523	4.01%
Restricted	934,536	809,410	125,126	15.46%
Unrestricted	1,958,736	2,604,552	(645,816)	-24.80%
Total net position	<u>\$ 23,295,412</u>	<u>\$ 23,029,579</u>	<u>\$ 265,833</u>	1.15%

The most significant changes from fiscal year 2015 to 2016 were in current assets primarily due to a decrease in cash and cash equivalents. Cash and cash equivalents decreased \$1 million while utility plant increased \$787 thousand. The unearned gas revenue account, as described in paragraph 1 of Note 3J to the financial statements, decreased by \$847 thousand.

Changes in the Gas System's Net Position can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Net Position for the year then ended September 30, 2016.

Table 2B  
GAS SYSTEM

			Increase (Decrease)	
	September 30, 2016	September 30, 2015	\$	%
Operating revenues	\$ 13,333,262	\$ 16,663,591	\$(3,330,329)	-19.99%
Purchased gas	9,490,692	12,809,361	(3,318,669)	-25.91%
Gross margin	3,842,570	3,854,230	(11,660)	-0.30%
Other operating expenses	3,606,040	3,542,378	63,662	1.80%
Operating income	236,530	311,852	(75,322)	-24.15%
Other revenue (expenses)	18,560	19,042	(482)	-2.53%
Income before transfers	255,090	330,894	(75,804)	-22.91%
Transfer to Decatur general fund	(127,545)	(165,447)	(37,902)	-22.91%
Aid in construction	138,288	81,518	56,770	69.64%
Change in net position	265,833	246,965	18,868	7.64%
Net position - beginning	23,029,579	25,141,690	(2,112,111)	-8.40%
Restatement of net position	-	(2,359,076)	2,359,076	100.00%
Net position - ending	\$ 23,295,412	\$ 23,029,579	\$ 265,833	1.15%

From fiscal year 2015 to 2016, operating revenues decreased 19.99% from lower volumes in all classes due primarily to a very mild winter. Transfers to the City were down due to the decrease in income. Net position increased in the current year by 1.15%. The majority of the increase was due to a positive operating income.

The Water System's total Net Position increased by \$3.62 million for the fiscal year ended September 30, 2016. The analysis below focuses on the System's Net Position (Table 3A) and changes in Net Position (Table 3B) during the year.

Table 3A  
**WATER SYSTEM**

			Increase (Decrease)	
	September 30, 2016	September 30, 2015	\$	%
Current assets	\$ 5,144,528	\$ 4,218,810	\$ 925,718	21.94%
Restricted assets	10,033,959	10,543,593	(509,634)	-4.83%
Capital assets	68,720,810	67,544,064	1,176,746	1.74%
Other assets	22,879	18,042	4,837	26.81%
<b>Total assets</b>	<b>83,922,176</b>	<b>82,324,509</b>	<b>1,597,667</b>	<b>1.94%</b>
Deferred outflows of resources	601,384	391,462	209,922	53.63%
Current liabilities	870,343	743,263	127,080	17.10%
Liabilities payable from restricted assets	2,906,873	2,860,723	46,150	1.61%
Long term liabilities	23,973,062	26,053,621	(2,080,559)	-7.99%
Other liabilities	249,289	155,435	93,854	60.38%
<b>Total liabilities</b>	<b>27,999,567</b>	<b>29,813,042</b>	<b>(1,813,475)</b>	<b>-6.08%</b>
Deferred inflows of resources	226,587	225,538	1,049	0.47%
Net investment in capital assets	49,681,182	46,590,807	3,090,375	6.63%
Restricted	9,787,086	10,272,870	(485,784)	-4.73%
Unrestricted	(3,170,862)	(4,186,286)	1,015,424	24.26%
<b>Total net position</b>	<b>\$ 56,297,406</b>	<b>\$ 52,677,391</b>	<b>\$ 3,620,015</b>	<b>6.87%</b>

The most significant changes from fiscal year 2015 to 2016 were in capital assets, long term liabilities, net investment in capital assets and unrestricted net position. The capital assets and net investment in capital assets activity was primarily due to major capital projects funded by the 2013 series water warrants. Changes in long term liabilities and unrestricted net position were primarily due to a positive operating income as well as continued draws on the 2013 warrants for completed and ongoing projects.

Changes in the Water System's Net Position can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Net Position for the year then ended September 30, 2016.

Table 3B  
**WATER SYSTEM**

	CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		Increase (Decrease)	
	September 30, 2016	September 30, 2015	\$	%
Operating revenues	\$ 14,795,250	\$ 12,489,561	\$ 2,305,689	18.46%
Treatment expense	4,536,432	4,333,174	203,258	4.69%
Gross margin	10,258,818	8,156,387	2,102,431	25.78%
Other operating expenses	7,141,774	6,804,281	337,493	4.96%
Operating income	<u>3,117,044</u>	<u>1,352,106</u>	<u>1,764,938</u>	130.53%
Other revenue (expenses)	<u>(748,821)</u>	<u>(813,950)</u>	<u>(65,129)</u>	-8.00%
Income before transfers	2,368,223	538,156	1,830,067	340.06%
Transfer to Decatur general fund	(609,657)	(565,018)	44,639	7.90%
Aid in construction	<u>1,861,449</u>	<u>608,413</u>	<u>1,253,036</u>	205.95%
Change in net position	3,620,015	581,551	3,038,464	-522.48%
Net position - beginning	52,677,391	56,288,032	(3,610,641)	-6.41%
Restatement of net position	-	(4,192,192)	4,192,192	100.00%
Net position - ending	<u>\$ 56,297,406</u>	<u>\$ 52,677,391</u>	<u>\$ 3,620,015</u>	6.87%

From fiscal year 2015 to 2016, operating revenues increased 18.46% as a result of volumetric increases coming from all customer classes, except Industrial, as well as continued implementation of Residential access fee increases approved in 2015. Volumetric increases were due primarily to the hot dry summer. Net position increased 6.87% due primarily to the above mentioned items resulting in a positive operating income.

The Wastewater System's total Net Position increased by \$6.56 million for the fiscal year ended September 30, 2016. The analysis below focuses on the System's Net Position (Table 4A) and changes in Net Position (Table 4B) during the year.

Table 4A  
**WASTEWATER SYSTEM**

			Increase (Decrease)	
	September 30, 2016	September 30, 2015	\$	%
Current assets	\$ 18,044,644	\$ 14,986,300	\$ 3,058,344	20.41%
Restricted assets	15,553,951	27,117,688	(11,563,737)	-42.64%
Capital assets	106,717,790	93,197,147	13,520,643	14.51%
Other assets	1,035,991	1,610,626	(574,635)	-35.68%
Total assets	<u>141,352,376</u>	<u>136,911,761</u>	<u>4,440,615</u>	3.24%
Deferred outflows of resources	<u>511,760</u>	<u>284,130</u>	<u>227,630</u>	80.11%
Current liabilities	1,625,491	867,177	758,314	87.45%
Liabilities payable from restricted assets	3,400,412	3,315,724	84,688	2.55%
Long term liabilities	48,106,932	50,820,863	(2,713,931)	-5.34%
Other liabilities	-	17,900	(17,900)	-100.00%
Total liabilities	<u>53,132,835</u>	<u>55,021,664</u>	<u>(1,888,829)</u>	-3.43%
Deferred inflows of resources	<u>175,571</u>	<u>174,810</u>	<u>761</u>	0.44%
Net investment in capital assets	60,102,167	43,529,596	16,572,571	38.07%
Restricted	15,308,539	26,856,964	(11,548,425)	-43.00%
Unrestricted	13,145,024	11,612,857	1,532,167	13.19%
Total net position	<u>\$ 88,555,730</u>	<u>\$ 81,999,417</u>	<u>\$ 6,556,313</u>	8.00%

The most significant changes from fiscal year 2015 to 2016 were in restricted assets, capital assets, net investment in capital assets, and restricted net position. The change in restricted assets, capital assets, net investment in capital assets, and restricted net position was primarily due to major capital projects funded by the 2013 series wastewater warrants.

Changes in the Wastewater System's Net Position can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Net Position for the year then ended September 30, 2016.

Table 4B  
**WASTEWATER SYSTEM**

			Increase (Decrease)	
	September 30, 2016	September 30, 2015	\$	%
Operating revenues	\$ 16,691,283	\$ 16,303,592	\$ 387,691	2.38%
Treatment expense	3,332,103	3,143,772	188,331	5.99%
Gross margin	13,359,180	13,159,820	199,360	1.51%
Other operating expenses	7,101,350	6,807,155	294,195	4.32%
Operating income	6,257,830	6,352,665	(94,835)	-1.49%
Other revenue (expenses)	(1,495,068)	(1,573,345)	(78,277)	-4.98%
Income before transfers	4,762,762	4,779,320	(16,558)	-0.35%
Transfer to Decatur general fund	(692,161)	(610,585)	81,576	13.36%
Aid in construction	2,485,712	399,065	2,086,647	522.88%
Change in net position	6,556,313	4,567,800	1,988,513	43.53%
Net position - beginning	81,999,417	80,629,505	1,369,912	1.70%
Restatement of net position	-	(3,197,888)	3,197,888	100.00%
Net position - ending	\$ 88,555,730	\$ 81,999,417	\$ 6,556,313	8.00%

From fiscal year 2015 to 2016, operating revenues increased 2.38% due primarily to increased Industrial surcharges. Wastewater treatment total volume was down slightly from 2015. Net position increased 8.00% over the prior year.



The Administrative System of Decatur Utilities receives no revenues other than interest and dividend income. Income and expenses are allocated to the other four Systems. The Administrative System's total Net Position remained consistent with the prior year for the fiscal year ended September 30, 2016. The analysis below focuses on the System's Net Position (Table 5A).

Table 5A  
ADMINISTRATIVE

CONDENSED STATEMENT OF NET POSITION				
	September 30, 2016	September 30, 2015	Increase (Decrease)	
			\$	%
Current assets	\$ 6,318,056	\$ 6,731,635	\$ (413,579)	-6.14%
Restricted assets	90,005	5,000	85,005	1700.10%
Capital assets	2,503,612	2,229,456	274,156	12.30%
Other assets	-	5,672	(5,672)	-100.00%
Total assets	<u>8,911,673</u>	<u>8,971,763</u>	<u>(60,090)</u>	-0.67%
Current liabilities	4,815,520	4,975,544	(160,024)	-3.22%
Long term liabilities	458,213	443,283	14,930	3.37%
Other liabilities	85,004	-	85,004	100.00%
Total liabilities	<u>5,358,737</u>	<u>5,418,827</u>	<u>(60,090)</u>	-1.11%
Investment in capital assets	2,503,612	2,229,456	274,156	12.30%
Restricted	90,005	-	90,005	100.00%
Unrestricted	959,319	1,323,480	(364,161)	-27.52%
Total net position	<u>\$ 3,552,936</u>	<u>\$ 3,552,936</u>	<u>\$ -</u>	0.00%

The most significant changes from fiscal year 2015 to 2016 were in current and capital assets. The changes were primarily due to a decrease in cash and cash equivalents changes coupled with the renovation of the administrative office

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2016, the Utility had \$241 million (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, land rights, distribution, transmission, and treatment systems and their related equipment, and various other types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as general plant, distribution plant, treatment plant, and construction in progress. This investment represents an overall increase of \$16.78 million or 7.50% compared to last year.

The following table summarizes the Utility's capital assets, net of accumulated depreciation, and changes therein, for the years ended September 30, 2015 and 2016. These changes are presented in detail in Note 3D to the financial statements.

Table 1C  
**CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION**

	September 30, 2016	September 30, 2015	Increase (Decrease)	
			\$	%
<b>Electric System</b>				
Land	\$ 721,209	\$ 721,209	\$ -	0.00%
Utility plant	79,959,977	77,515,642	2,444,335	3.15%
Construction in progress	1,933,109	1,866,132	66,977	3.59%
Less: Accumulated depreciation	(40,449,004)	(38,964,227)	1,484,777	3.81%
Net electric plant	<u>42,165,291</u>	<u>41,138,756</u>	<u>1,026,535</u>	2.50%
<b>Gas System</b>				
Land	124,816	124,816	-	0.00%
Utility plant	35,603,361	34,930,206	673,155	1.93%
Construction in progress	1,078,646	156,802	921,844	587.90%
Less: Accumulated depreciation	(16,404,683)	(15,596,207)	808,476	5.18%
Net gas plant	<u>20,402,140</u>	<u>19,615,617</u>	<u>786,523</u>	4.01%
<b>Water System</b>				
Land	479,808	479,809	(1)	0.00%
Utility plant	118,111,460	113,895,037	4,216,423	3.70%
Construction in progress	1,055,696	1,962,578	(906,882)	-46.21%
Less: Accumulated depreciation	(50,926,154)	(48,793,360)	2,132,794	4.37%
Net water plant	<u>68,720,810</u>	<u>67,544,064</u>	<u>1,176,746</u>	1.74%
<b>Wastewater System</b>				
Land	1,578,323	1,210,086	368,237	30.43%
Utility plant	137,364,169	126,932,889	10,431,280	8.22%
Construction in progress	17,751,920	13,287,948	4,463,972	33.59%
Less: Accumulated depreciation	(49,976,622)	(48,233,776)	1,742,846	3.61%
Net wastewater plant	<u>106,717,790</u>	<u>93,197,147</u>	<u>13,520,643</u>	14.51%
<b>Administrative System</b>				
Land	71,407	71,407	-	0.00%
Buildings	6,143,225	5,482,773	660,452	12.05%
Construction in progress	10,294	333,334	(323,040)	-96.91%
Less: Accumulated depreciation	(3,721,314)	(3,658,058)	63,256	1.73%
Net administration system	<u>\$ 2,503,612</u>	<u>\$ 2,229,456</u>	<u>\$ 274,156</u>	12.30%

### Debt Administration

The Utility has outstanding debt payable of \$66 million as of September 30, 2016. Principal payments are due in the upcoming fiscal year in the amount of \$5 million with interest payments totaling approximately \$2 million also due. Details relating to the debt can be found in Note 3E to the financial statements. The Utility also has no current plans to issue new debt.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board will continue to maintain and upgrade existing systems in order to efficiently serve its rate payers. The Board will strive to monitor operation and maintenance cost in an effort to operate as efficiently as possible resulting in quality service while maintaining competitive rates.

## **CONTACTING THE BOARD'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Utility's finances for all those with an interest in the Utility's finances and to demonstrate the Utility's accountability for the funds it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the Business Manager and CFO of the Municipal Utilities Board of Decatur, 1002 Central Parkway SW, PO Box 2232 Decatur, AL 35609-2232.

# BASIC FINANCIAL STATEMENTS

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**STATEMENT OF NET POSITION**  
September 30, 2016

	Electric	Gas	Water	Wastewater	Administrative	(Memo Only) Total
<b>Assets</b>						
Current assets						
Cash and cash equivalents	\$ 13,904,953	\$ 5,135,390	\$ 3,539,069	\$ 16,186,022	\$ 5,610,382	\$ 44,375,816
Receivables						
Accounts (net of allowance)	8,320,788	612,214	1,162,675	1,172,397	616,537	11,884,611
Other accounts receivable	127,737	4,428	17,555	2,266	28,546	180,532
City of Decatur	170,803	4,066	32,149	12,516	9,413	228,947
Current note receivable - other funds	-	-	-	600,000	-	600,000
Stored natural gas	-	165,027	-	-	-	165,027
Materials and supplies	1,049,588	105,960	343,722	37,430	-	1,536,700
Accrued utility revenue	2,166,549	-	-	-	-	2,166,549
Other current assets	57,828	58,147	49,358	34,013	53,178	252,524
Total current assets	<u>25,798,246</u>	<u>6,085,232</u>	<u>5,144,528</u>	<u>18,044,644</u>	<u>6,318,056</u>	<u>61,390,706</u>
Noncurrent assets						
Restricted cash and equivalents	2,519,097	934,536	10,033,959	15,553,951	90,005	29,131,548
Capital assets, not being depreciated						
Land	721,209	124,816	479,808	1,578,323	71,407	2,975,563
Work in process	1,933,109	1,078,646	1,055,696	17,751,920	10,294	21,829,665
Capital assets, net of accumulated depreciation						
Utility plant	39,510,973	19,198,678	67,185,306	87,387,547	2,421,911	215,704,415
Total capital assets	<u>42,165,291</u>	<u>20,402,140</u>	<u>68,720,810</u>	<u>106,717,790</u>	<u>2,503,612</u>	<u>240,509,643</u>
Other assets						
Energy service loans receivable	2,439,756	-	-	-	-	2,439,756
Long term note receivable - other funds	-	-	-	1,000,000	-	1,000,000
Other unearned credits	-	205,023	-	-	-	205,023
Other charges receivable	6,830	3,415	22,879	35,991	-	69,115
Total other assets	<u>2,446,586</u>	<u>208,438</u>	<u>22,879</u>	<u>1,035,991</u>	<u>-</u>	<u>3,713,894</u>
<b>Total assets</b>	<b><u>72,929,220</u></b>	<b><u>27,630,346</u></b>	<b><u>83,922,176</u></b>	<b><u>141,352,376</u></b>	<b><u>8,911,673</u></b>	<b><u>334,745,791</u></b>
<b>Deferred outflows of resources</b>						
Pension contributions subsequent to the measurement date	1,022,493	295,966	601,384	511,760	-	2,431,603
<b>Total deferred outflows of resources</b>	<b><u>1,022,493</u></b>	<b><u>295,966</u></b>	<b><u>601,384</u></b>	<b><u>511,760</u></b>	<b><u>-</u></b>	<b><u>2,431,603</u></b>
<b>Combined assets and deferred outflows of resources</b>	<b><u>\$ 73,951,713</u></b>	<b><u>\$ 27,926,312</u></b>	<b><u>\$ 84,523,560</u></b>	<b><u>\$ 141,864,136</u></b>	<b><u>\$ 8,911,673</u></b>	<b><u>\$ 337,177,394</u></b>

*The accompanying notes are an integral part of the financial statements.*

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**STATEMENT OF NET POSITION**

September 30, 2016

	Electric	Gas	Water	Wastewater	Administrative	(Memo Only) Total
<b>Liabilities</b>						
Current liabilities						
Accounts payable	\$ 8,304,746	\$ 837,249	\$ 298,528	\$ 1,119,388	\$ 581,075	\$ 11,140,986
Due to City of Decatur general fund	38,344	33,846	59,602	92,334	325,264	549,390
Accrued payroll and other expense	770,387	280,953	512,213	413,769	72,583	2,049,905
Customer deposits	-	-	-	-	3,836,598	3,836,598
Total current liabilities	<u>9,113,477</u>	<u>1,152,048</u>	<u>870,343</u>	<u>1,625,491</u>	<u>4,815,520</u>	<u>17,576,879</u>
Liabilities payable from restricted assets						
Current maturities of revenue warrants	-	-	2,060,000	3,155,000	-	5,215,000
Current note payable - other funds	-	-	600,000	-	-	600,000
Interest payable	-	-	246,873	245,412	-	492,285
Total liabilities payable from restricted assets	<u>-</u>	<u>-</u>	<u>2,906,873</u>	<u>3,400,412</u>	<u>-</u>	<u>6,307,285</u>
Noncurrent liabilities						
Long term debt payable, net of costs	-	-	16,979,628	43,460,623	-	60,440,251
Long term note payable - other funds	-	-	1,000,000	-	-	1,000,000
Compensated absences	199,335	876	101,044	100,082	458,213	859,550
Energy service loans payable	2,439,756	-	-	-	-	2,439,756
Postemployment benefits	2,020,595	736,066	1,345,083	1,085,801	-	5,187,545
Net pension liability	7,149,847	2,538,109	4,547,307	3,460,426	-	17,695,689
Other unearned credits	331,585	80,003	249,289	-	85,004	745,881
Total noncurrent liabilities	<u>12,141,118</u>	<u>3,355,054</u>	<u>24,222,351</u>	<u>48,106,932</u>	<u>543,217</u>	<u>88,368,672</u>
<b>Total liabilities</b>	<b><u>21,254,595</u></b>	<b><u>4,507,102</u></b>	<b><u>27,999,567</u></b>	<b><u>53,132,835</u></b>	<b><u>5,358,737</u></b>	<b><u>112,252,836</u></b>
<b>Deferred inflows of resources</b>						
Net difference between projected and actual earnings on pension plan investments	361,785	123,798	226,587	175,571	-	887,741
<b>Combined liabilities and deferred inflows of resources</b>	<b><u>21,616,380</u></b>	<b><u>4,630,900</u></b>	<b><u>28,226,154</u></b>	<b><u>53,308,406</u></b>	<b><u>5,358,737</u></b>	<b><u>113,140,577</u></b>
<b>Net position</b>						
Net investment in capital assets	42,165,291	20,402,140	49,681,182	60,102,167	2,503,612	174,854,392
Restricted	2,519,097	934,536	9,787,086	15,308,539	90,005	28,639,263
Unrestricted	7,650,945	1,958,736	(3,170,862)	13,145,024	959,319	20,543,162
<b>Total net position</b>	<b><u>\$52,335,333</u></b>	<b><u>\$23,295,412</u></b>	<b><u>\$56,297,406</u></b>	<b><u>\$88,555,730</u></b>	<b><u>\$3,552,936</u></b>	<b><u>\$224,036,817</u></b>
<b>Total liabilities and net position</b>	<b><u>\$73,951,713</u></b>	<b><u>\$27,926,312</u></b>	<b><u>\$84,523,560</u></b>	<b><u>\$141,864,136</u></b>	<b><u>\$8,911,673</u></b>	<b><u>\$337,177,394</u></b>

*The accompanying notes are an integral part of the financial statements.*

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

For the Year Ended September 30, 2016

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Wastewater</u>	<u>Administrative</u>	<u>(Memo Only) Total</u>
<b>Operating revenues</b>						
Charges for sales and services (net of adjustments and allowances)	\$ 91,098,459	\$ 13,164,071	\$ 13,703,672	\$ 15,137,265	\$ -	\$ 133,103,467
Other revenue	1,098,012	169,191	1,091,578	1,554,018	-	3,912,799
Total operating revenues	92,196,471	13,333,262	14,795,250	16,691,283	-	137,016,266
<b>Operating expenses</b>						
Costs of sales and services	79,499,196	9,490,692	4,536,432	3,332,103	-	96,858,423
Operations expenses	1,815,662	698,627	794,327	1,162,665	-	4,471,281
Maintenance expenses	1,413,894	319,929	485,747	392,720	-	2,612,290
Customer service expenses	709,451	342,268	647,373	258,743	-	1,957,835
Administrative expenses	3,498,339	1,371,946	2,393,287	2,018,164	-	9,281,736
Depreciation expense	2,342,047	873,270	2,821,040	3,269,058	-	9,305,415
Total operating expenses	89,278,589	13,096,732	11,678,206	10,433,453	-	124,486,980
Operating income (loss)	2,917,882	236,530	3,117,044	6,257,830	-	12,529,286
<b>Non-operating revenues (expenses)</b>						
Interest income	45,143	16,023	21,331	56,009	-	138,506
Other non-operating revenue	943	484	888	377	-	2,692
Amortization expense	-	-	(76,371)	(3,071)	-	(79,442)
Interest expense	(1,078)	(365)	(695,469)	(1,549,134)	-	(2,246,046)
Gain (loss) on sale	-	2,418	800	751	-	3,969
Total non-operating revenues (expenses)	45,008	18,560	(748,821)	(1,495,068)	-	(2,180,321)
Income (loss) before transfers and contributions	\$ 2,962,890	\$ 255,090	\$ 2,368,223	\$ 4,762,762	\$ -	\$ 10,348,965

*The accompanying notes are an integral part of the financial statements.*

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

For the Year Ended September 30, 2016

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Wastewater</u>	<u>Administrative</u>	<u>(Memo Only) Total</u>
Transfers and capital contributions						
Transfers to City of Decatur - in lieu of taxes	\$ (1,698,713)	\$ (127,545)	\$ (609,657)	\$ (692,161)	\$ -	\$ (3,128,076)
Income (loss) before contributions	1,264,177	127,545	1,758,566	4,070,601	-	7,220,889
Capital contributions	-	138,288	1,861,449	2,485,712	-	4,485,449
<b>Change in net position</b>	<b>1,264,177</b>	<b>265,833</b>	<b>3,620,015</b>	<b>6,556,313</b>	<b>-</b>	<b>11,706,338</b>
Total net position - beginning	51,071,156	23,029,579	52,677,391	81,999,417	3,552,936	212,330,479
Total net position - ending	<u>\$ 52,335,333</u>	<u>\$ 23,295,412</u>	<u>\$ 56,297,406</u>	<u>\$ 88,555,730</u>	<u>\$ 3,552,936</u>	<u>\$ 224,036,817</u>

*The accompanying notes are an integral part of the financial statements.*



**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**STATEMENT OF CASH FLOWS**

For the Year Ended September 30, 2016

	Electric	Gas	Water	Wastewater	Administrative	(Memo Only) Totals
Cash flows from operating activities:						
Cash received from consumers	\$ 91,842,294	\$ 13,248,848	\$ 15,160,910	\$ 16,654,100	-	\$ 136,906,152
Cash paid to suppliers of goods and services	(80,183,314)	(10,694,589)	(4,142,726)	(2,891,176)	178,706	(97,733,099)
Cash paid to employees for services	(5,607,219)	(1,952,764)	(4,159,314)	(3,247,396)	-	(14,966,693)
Net change in energy service loans payable	344,553	-	-	-	-	344,553
Net change in energy service loans receivable	(344,553)	-	-	-	-	(344,553)
Interest paid on customer deposits	-	-	-	-	1,153	1,153
Net change in customer deposits	-	-	-	-	130,215	130,215
Net cash provided (used) by operating activities	<u>6,051,761</u>	<u>601,495</u>	<u>6,858,870</u>	<u>10,515,528</u>	<u>310,074</u>	<u>24,337,728</u>
Cash flows from non-capital financing activities						
Advances between funds	-	-	(600,000)	600,000	-	-
Operating transfer out - City of Decatur & tax equivalents	<u>(1,698,713)</u>	<u>(127,545)</u>	<u>(609,657)</u>	<u>(692,161)</u>	<u>-</u>	<u>(3,128,076)</u>
Net cash provided (used) by non-capital financing activities	<u>(1,698,713)</u>	<u>(127,545)</u>	<u>(1,209,657)</u>	<u>(92,161)</u>	<u>-</u>	<u>(3,128,076)</u>
Cash flows from capital and related financing activities:						
Construction and acquisition of capital assets	(3,517,123)	(1,709,896)	(4,032,540)	(16,878,227)	(643,278)	(26,781,064)
Capital contributed by customers	-	138,288	1,861,449	2,485,712	-	4,485,449
Principal paid on debt	-	-	(1,990,000)	(3,054,999)	-	(5,044,999)

*The accompanying notes are an integral part of the financial statements.*

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**STATEMENT OF CASH FLOWS**

For the Year Ended September 30, 2016

	Electric	Gas	Water	Wastewater	Administrative	(Memo Only) Totals
Interest paid on debt	(1,078)	(365)	(719,319)	(1,564,446)	-	(2,285,208)
Net cash provided (used) by capital and related financing activities	(3,518,201)	(1,571,973)	(4,880,410)	(19,011,960)	(643,278)	(29,625,822)
Cash flows from investing activities:						
Decrease (increase) in restricted assets	(392,297)	(125,126)	509,634	11,563,737	(85,005)	11,470,943
Income (expense) from other non-operating revenue	943	2,902	1,688	1,128	-	6,661
Interest received	45,143	16,023	21,331	56,009	-	138,506
Net cash provided (used) by investing activities	(346,211)	(106,201)	532,653	11,620,874	(85,005)	11,616,110
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>488,636</b>	<b>(1,204,224)</b>	<b>1,301,456</b>	<b>3,032,281</b>	<b>(418,209)</b>	<b>3,199,940</b>
Cash and cash equivalents - beginning	13,416,317	6,339,614	2,237,613	13,153,741	6,028,591	41,175,876
Cash and cash equivalents - ending	<u>\$ 13,904,953</u>	<u>\$ 5,135,390</u>	<u>\$ 3,539,069</u>	<u>\$ 16,186,022</u>	<u>\$ 5,610,382</u>	<u>\$ 44,375,816</u>
Cash and cash equivalents	13,904,953	5,135,390	3,539,069	16,186,022	5,610,382	44,375,816
Unrestricted cash and cash equivalent	<u>\$ 13,904,953</u>	<u>\$ 5,135,390</u>	<u>\$ 3,539,069</u>	<u>\$ 16,186,022</u>	<u>\$ 5,610,382</u>	<u>\$ 44,375,816</u>
<b>Total cash and cash equivalents</b>						

*The accompanying notes are an integral part of the financial statements.*

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**STATEMENT OF CASH FLOWS**

For the Year Ended September 30, 2016

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Wastewater</u>	<u>Administrative</u>	<u>(Memo Only)</u> <u>Totals</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities						
Operating income (loss)	\$ 2,917,882	\$ 236,530	\$ 3,117,044	\$ 6,257,830	\$ -	\$ 12,529,286
Adjustments to reconcile operating income to net cash provided by operating activities						
Depreciation expense	2,490,588	923,373	2,855,794	3,357,584	369,122	9,996,461
Pension contributions in excess of actuarially determined pension expense	(390)	21,507	48,993	(39,705)	-	30,405
Changes in assets and liabilities:						
receivables						
Due from City	(168,296)	(84,414)	365,660	(37,183)	(13,944)	61,823
Unbilled revenues	(15,180)	595	(1,066)	10,188	543	(4,920)
Materials and supplies	(185,881)	-	-	-	-	(185,881)
Energy service loans receivable	(102,041)	148,260	2,404	(1,613)	-	47,010
Energy service loans payable	(344,553)	-	-	-	-	(344,553)
Other current assets (prepaid)	344,553	-	-	-	-	344,553
Other charges	2,559	(220,689)	8,740	2,545	8,771	(198,074)
Accounts payable and other accruals	3,380	1,691	(4,837)	(25,365)	5,672	(19,459)
Due to City	938,646	228,127	372,284	1,009,147	(275,748)	2,272,456
Customer deposits	38,344	-	-	-	-	-
Other credits	-	-	-	-	130,654	130,654
Net cash provided (used) by operating activities	<u>132,150</u>	<u>(653,485)</u>	<u>93,854</u>	<u>(17,900)</u>	<u>85,004</u>	<u>(360,377)</u>
	<u>\$ 6,051,761</u>	<u>\$ 601,495</u>	<u>\$ 6,858,870</u>	<u>\$ 10,515,528</u>	<u>\$ 310,074</u>	<u>\$ 24,337,728</u>

*The accompanying notes are an integral part of the financial statements.*

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

In evaluating how to define the Municipal Utilities Board of Decatur, Morgan County, Alabama, D/B/A Decatur Utilities (the Utility) for financial reporting purposes, management has considered the criteria set forth in the Governmental Accounting Standards Board (GASB), Codification of Governmental Accounting and Financial Reporting Standards.

The criteria for including organizations as component units of a reporting entity are as follows:

- The organization is legally separate (can sue and be sued in their own name.)
- The City holds the corporate powers of the organization.
- The City appoints a voting majority of the organization's board.
- The City is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the City.
- There is fiscal dependency by the organization on the City.

Based on these criteria, there are no component units of the Utility. However, the Utility is considered to be proprietary funds of the City of Decatur, Alabama (the City), because the Utility has the potential to provide financial benefits or impose financial burdens on the City and because the City has the ability to impose its will on the Utility as set forth in its charter. The Utility is not a legally separate organization from the City.

These are proprietary fund financial statements and include only the financial activities of the Utility.

**B. Measurement Focus, Basis of Accounting, and Financial Statements Presentation**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The Utility's financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting policies of the Utility conform to applicable accounting principles generally accepted in the United States of America as defined by the Governmental Accounting Standards Board (GASB).

Enterprise funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the enterprise fund's principal ongoing operations. The principal operating revenues of the Utility are charges for sales to customers for sales and service. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2016

**C. Pensions**

The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

**D. Assets, Liabilities, and Net Position**

**Revenue Recognition**

Revenue and the related costs are recognized when billed to the ultimate customer. Decatur Utilities accrues unbilled revenues from the most recent meter reading dates to the end of the year in the Electric System only. Non-operating revenues are defined as those not under provision for services provided as described above.

**Deposits and investments**

The Utility's cash and cash equivalents are considered to be cash on hand, demand deposits, and highly liquid investments with original maturities of three months or less.

**Receivables and payables**

Trade receivables result from unpaid billings for utility service to customers and from unpaid billings related to work performed for or materials sold to certain entities. All trade receivables are shown net of an allowance for uncollectible accounts. The allowances for uncollectible customer accounts recorded in the proprietary funds are based on past history of uncollectible accounts and management's analysis of current accounts. Bad debts in the proprietary funds are recorded by the direct write-off method.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

**Materials and Supplies**

Inventories are valued at lower of average cost or market, using the first-in/first-out (FIFO) method.

**Other Current Assets**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements as other current assets.

**Stored Natural Gas**

Natural gas is recorded at its cost when injected into the system and removed at its average cost when withdrawn from storage.

**Restricted assets**

Restricted assets include trust accounts held per bond indentures. The indentures state the requirements for accumulation and disbursement. Other restricted assets come from a variety of sources, including amounts to fund post-employment benefits and insurance policy requirements.

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2016

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Capital Contributions - Aid in Construction**

It is the Gas, Water and Wastewater Systems' policy to record grants in aid of construction and other amounts received as capital contributions in the Statement of Revenues, Expenses and Changes in Net Position.

As permitted by industry practice it is the Electric System's policy not to record amounts received as grants in aid of construction as capital contributions. The substance of this accounting treatment reduces construction work in progress and the cost of operating the Electric System by reducing depreciation expense and tax equivalents.

**Capital assets**

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed on the straight-line basis over the related estimated useful life of the asset, ranging from 5 to 50 years. Direct costs, such as labor, material charges, payroll taxes, insurance, transportation, depreciation, pensions and other related expenses are capitalized. These costs are accumulated in work-in-process accounts and are capitalized to the proper plant accounts at the completion of the construction activity. Retirements of units of property from service are charged to the accumulated depreciation accounts at the original cost of the units plus cost of removal. Salvage value of the units is credited to the accumulated depreciation account. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense as incurred.

Depreciation expense allowed for transportation equipment and communication equipment is allocated to operating accounts and to construction work in progress as overhead is incurred.

**Compensated absences**

Employees are permitted to accumulate earned but unused Paid Time Off (PTO). PTO is accrued when incurred and reported as a liability. Employees may accrue a maximum of 350 hours. When 200 hours are accrued, hourly employees have the option of cashing out any hours over 200 at 75% of the hourly pay up to a maximum of 50 hours per calendar year. Upon separation or retirement from service, employees receive full payment for unpaid PTO.

**Long-term obligations**

Decatur Utilities may from time to time issue revenue bonds for system improvements. Bond issue repayment terms are stated by trust agreements and restricted assets are maintained per the trust indentures. These obligations are reported as liabilities in the proprietary fund type Statement of Net Position. Debt premiums and discounts, as well as issuance costs, are amortized over the life of the debt using the effective interest method. Debt is reported net of the applicable premium or discount. The Utility will continue to report bond cost as an asset and amortize those over the life of the bonds instead of expensing those costs in the current year in accordance with certain provisions included in GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This regulatory option as part of GASB Statement No. 65 is available due to the above mentioned cost being used for rate setting by the utility.

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2016

**Net Position Flow Assumption**

Sometimes the Board will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as Restricted – Net Position and Unrestricted – Net Position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Board's policy to consider Restricted – Net Position to have been depleted before Unrestricted – Net Position is applied.

**Net Position**

Equity is classified as Net Position and displayed in the following three components:

- Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that is attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
- Restricted – Consists of Net Position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities.
- Unrestricted – All other Net Position that do not meet the description of the above categories.

**Memo Totals**

Memo total columns in the financial statements are captioned “memo total” to indicate that they are presented to facilitate financial statement analysis. Data in these columns do not present financial positions, activities, or changes in net position in conformity with accounting principles generally accepted in the United States of America. The “memo total” is also not comparable to a combination or consolidation. Inter-system eliminations have not been made in the aggregation of this data.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Information**

The Utility adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Utility's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest, and general functions and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contributions, special assessments, grant borrowings, and certain revenues for capital projects.

**NOTE 3 - DETAILED NOTES ON ALL FUNDS**

**A. Custodial credit risk**

Decatur Utilities pools cash bank deposits for all systems. At fiscal year end, the carrying amount of book balance was \$73,507,364. The bank balances were \$73,582,811, including restricted cash in the Improvement Fund and the Replacement and Extension Fund. Of the bank balances, \$500,000 was covered by federal depository insurance. The remaining balance was covered by the State of Alabama through the Security for Alabama Funds Enhancement Act (SAFE) program.

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**NOTES TO FINANCIAL STATEMENTS**  
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The Series 2009 and 2013 Water System, and Series 2009 and 2012 SRF/ARRA Water System US Treasury Obligation Funds listed in Note 3E were held by Decatur Utilities' financial institutions' trust department or agent in Decatur Utilities' name as restricted assets for the bond indentures. At year-end the investments' carrying amounts are stated at their approximate fair value. The Funds are invested in US Treasury Obligations and are secured by trust agreements associated with the bond issues.

The Series 1997, 2010 and 2013 Wastewater System Warrant Funds are invested in a bank investment account, which is covered by the State of Alabama through the Security for Alabama Funds Enhancement Act (SAFE) program. Additionally, the Warrant Fund is a trust account held in Decatur Utilities' name as required by the bond indenture.

**B. Receivables**

Receivables as of the year end for the Utility, including the applicable allowances for uncollectible accounts are as follows:

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Wastewater</u>	<u>Administrative</u>
Customer accounts receivable	\$ 8,442,876	\$ 673,628	\$ 1,176,250	\$ 1,207,193	\$ 616,537
Allowance	(122,088)	(61,414)	(13,575)	(34,796)	-
Net accounts receivable	<u>\$ 8,320,788</u>	<u>\$ 612,214</u>	<u>\$ 1,162,675</u>	<u>\$ 1,172,397</u>	<u>\$ 616,537</u>

**C. Inter-fund Receivables and Payables and Transfers**

The Electric System pays a tax equivalent to the City of Decatur based on net capital asset values at September 30 (excluding any spare transformers). The asset values are separated into two categories based on geographic location. For assets located in the City, a tax rate of \$.0453 is paid. For assets located outside the city limits, Decatur Utilities pays a tax rate of \$.0344.

Current City ordinances require the Gas System to pay a monthly sum equal to one-twelfth of the estimated one-half of the annual fiscal year net revenues of the Gas System to the City of Decatur. Net revenue is defined per the ordinance and a mechanism to adjust estimated net revenue to actual at year-end is incorporated.

In order to comply with resolutions passed by the City of Decatur, the Water System collects and pays a monthly sum equal to \$.0505 per 1000 gallons of water charged to retail customers, and \$.1000 per 1000 gallons of water charged to wholesale customers. The Wastewater System collects and pays a monthly sum equal to \$.0205 per 1000 gallons of wastewater charged to all customers to the City General fund. In addition, the Wastewater System collects and pays \$.1350 per 1000 gallons of wastewater charged to customers to the Sewer Revolving Fund, a City Debt Service fund as well as \$.0500 per 1000 gallons for the recently created Sewer Enhancement Fund. The Sewer Enhancement Fund is held on the books of the Utilities' Administrative System. It is to be used for the enhancement and/or expansion of the sewer infrastructure and facilities operated by the Utility upon request of either the Municipal Utilities Board and/or the City Council of Decatur, with the written consent by resolution of the other. The balance in the Sewer Enhancement Fund at September 30, 2016 is \$85,005.

The following amounts are due from/due to the City of Decatur. These amounts include balances due for utility services provided by Decatur Utilities to the City.



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	<u>Due from City</u>	<u>Due to City</u>
Electric	\$ 170,803	\$ 38,344
Gas	4,066	33,846
Water	32,149	59,602
Sewer	12,516	92,334
Administrative (Garbage)	9,413	325,264
Total	<u>\$ 228,947</u>	<u>\$ 549,390</u>

The following amounts are due from/due to Water and Wastewater Systems. These amounts include balances for notes payable to Wastewater from Water.

<u>Due to Wastewater</u>	<u>Due from Water</u>
<u>\$ 1,600,000</u>	<u>\$ 1,600,000</u>

**D. Capital Assets**

Capital asset activity for the year ended September 30, 2016, was as follows:

	<b>Beginning</b>			
	<b>Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
<b>Electric System</b>				
Land	\$ 721,209	\$ -	\$ -	\$ 721,209
Utility Plant	77,515,642	3,269,118	(824,783)	79,959,977
Construction in progress	1,866,132	9,329,620	(9,262,643)	1,933,109
Less: Accumulated depreciation	(38,964,227)	(2,202,713)	717,936	(40,449,004)
Net Electric Plant	<u>\$ 41,138,756</u>	<u>\$ 10,396,025</u>	<u>\$ (9,369,490)</u>	<u>\$ 42,165,291</u>
<b>Gas System</b>				
Land	\$ 124,816	\$ -	\$ -	\$ 124,816
Utility Plant	34,930,206	803,936	(130,781)	35,603,361
Construction in progress	156,802	3,992,239	(3,070,395)	1,078,646
Less: Accumulated depreciation	(15,596,207)	(970,052)	161,576	(16,404,683)
Net Gas Plant	<u>\$ 19,615,617</u>	<u>\$ 3,826,123</u>	<u>\$ (3,039,600)</u>	<u>\$ 20,402,140</u>
<b>Water System</b>				
Land	\$ 479,809	\$ -	\$ (1)	\$ 479,808
Utility Plant	113,895,037	5,065,767	(849,344)	118,111,460
Construction in progress	1,962,578	11,267,174	(12,174,056)	1,055,696
Less: Accumulated depreciation	(48,793,360)	(3,118,829)	986,035	(50,926,154)
Net Water Plant	<u>\$ 67,544,064</u>	<u>\$ 13,214,112</u>	<u>\$ (12,037,366)</u>	<u>\$ 68,720,810</u>
<b>Wastewater System</b>				
Land	\$ 1,210,086	\$ 368,237	\$ -	\$ 1,578,323
Utility Plant	126,932,889	12,105,601	(1,674,321)	137,364,169
Construction in progress	13,287,948	45,036,567	(40,572,595)	17,751,920
Less: Accumulated depreciation	(48,233,776)	(3,477,036)	1,734,190	(49,976,622)
Net Wastewater Plant	<u>\$ 93,197,147</u>	<u>\$ 54,033,369</u>	<u>\$ (40,512,726)</u>	<u>\$ 106,717,790</u>

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**Administrative System**

Land	\$ 71,407	\$ -	\$ -	\$ 71,407
Buildings	5,482,773	968,222	(307,770)	6,143,225
Construction in progress	333,334	1,907,234	(2,230,274)	10,294
Less: Accumulated depreciation	<u>(3,658,058)</u>	<u>(393,360)</u>	<u>330,104</u>	<u>(3,721,314)</u>
Net Administration Plant	<u>\$ 2,229,456</u>	<u>\$ 2,482,096</u>	<u>\$ (2,207,940)</u>	<u>\$ 2,503,612</u>

Depreciation expense amounted to \$9,305,415 charged to operations and \$691,046 charged to other operating accounts and construction in progress in 2016.

Reconciliation of depreciation expense with cash flow information:

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Wastewater</u>	<u>Administrative</u>
Depreciation expense per Statement of Revenues, Expenses and Changes in Net Position	<u>\$2,342,047</u>	<u>\$873,270</u>	<u>\$2,821,040</u>	<u>\$ 3,269,058</u>	<u>\$ -</u>
Depreciation allocated to other operating accounts and construction in progress	<u>148,541</u>	<u>50,103</u>	<u>34,754</u>	<u>88,526</u>	<u>369,122</u>
Depreciation expense per the Statement of Cash Flows	<u>\$2,490,588</u>	<u>\$923,373</u>	<u>\$2,855,794</u>	<u>\$ 3,357,584</u>	<u>\$ 369,122</u>

**E. Long-term Debt**

**Electric and Gas Systems**

Currently, the Electric and Gas Systems do not have outstanding long-term debt.

**Water System Debt**

Decatur Utilities and the City issues revenue bonds primarily to finance improvements to the Water System. These bonds are being repaid from revenues derived by Decatur Utilities from the operation of the System after payment of the reasonable and necessary expenses of maintaining the operating system. The 2009 bonds were issued in the amount of \$17,915,000. The 2013 bonds were issued at \$10,410,000. Total bonds outstanding at September 30, 2016 were \$16,340,000 at interest rates ranging from 2.0% to 4.0%. The bonds are expected to mature in 2019 and 2033. The System's unamortized debt expense at September 30, 2016 was \$340,372.

The Alabama Drinking Water Finance Authority (the "Authority") loaned to the Water System \$7,367,402 with funds made available to the Authority by the American Recovery and Reinvestment Act (the "ARRA"). Of this amount, \$3,662,402 was previously forgiven pursuant to the ARRA and recorded as capital contributions on the Statement of Revenues, Expenses, and Changes in Net Position. The Authority required that Decatur Utilities issue a water warrant in the amount of the loan less the ARRA forgiveness portion. The 2009 Series SRF Water Warrants were issued in the amount of \$3,215,000. The 2012 Series SRF Water Warrants were issued in the amount of \$490,000. Total bonds outstanding at September 30, 2016 were \$3,040,000. The bonds are expected to mature in 2031 and 2033.

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	<u>10/1/2015</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>9/30/2016</u>	<u>Current</u>
Water Series 2009	7,770,000	-	1,840,000	5,930,000	1,905,000
Water Series 2009/SRF	2,740,000	-	130,000	2,610,000	135,000
Water Series 2012/SRF	450,000	-	20,000	430,000	20,000
Water Series 2013	10,410,000	-	-	10,410,000	-
Unamortized debt expense	(416,743)	-	76,371	(340,372)	76,371
<b>Total</b>	<u>20,953,257</u>	<u>-</u>	<u>2,066,371</u>	<u>19,039,628</u>	<u>2,136,371</u>

**Wastewater System Debt**

Decatur Utilities and the City issues revenue bonds primarily to finance improvements to the Wastewater System. The bonds are being repaid from revenues derived by Decatur Utilities from the operation of the System after payment of the reasonable and necessary expenses of maintaining the operating system. The 1997 bonds were issued in the amount of \$2,850,000. The 2010 bonds were issued at \$10,020,000. The 2013 bonds were issued at \$37,125,000. Total bonds outstanding from Series 1997, 2010 and 2013 issues at September 30, 2016 were \$37,175,000 at interest rates ranging from 2.00% to 3.95%. The bonds are expected to mature in 2017, 2020 and 2033. The System's unamortized debt expense at September 30, 2016 was \$48,756. The System's unamortized debt premium at September 30, 2016 was \$(189,379).

The Alabama Water Pollution Control Authority (the "Authority") loaned to the Wastewater System \$15,665,364, with funds made available to the Authority by the American Recovery and Reinvestment Act (the "ARRA"). Of this amount, \$5,135,364 was previously forgiven pursuant to the ARRA and recorded as capital contributions on the Statement of Revenues, Expenses, and Changes in Net Position. The Authority required that Decatur Utilities issue a sewer warrant in the amount of the loan less the ARRA forgiveness portion. The 2009 Series SRF/ARRA Wastewater Warrants were issued in the amount of \$10,530,000. Total bonds outstanding at September 30, 2016 were \$8,545,000. The bonds are expected to mature in 2031.

The Alabama Water Pollution Control Authority (the "Authority") loaned to the Wastewater System \$955,000, with funds made available to the Authority. Of this amount, \$100,000 was previously forgiven and recorded as capital contributions on the Statement of Revenues, Expenses, and Changes in Net Position. The Authority required that Decatur Utilities issue a sewer warrant in the amount of the loan less the forgiveness portion. The 2012 Series SRF Wastewater Warrants were issued in the amount of \$855,000. Total bonds outstanding at September 30, 2016 were \$755,000. The bonds are expected to mature in 2033.

	<u>10/1/2015</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>9/30/2016</u>	<u>Current</u>
<b>Bonds:</b>					
Wastewater Series 1997	395,000	-	195,000	200,000	200,000
Wastewater Series 2009/SRF	8,970,000	-	425,000	8,545,000	440,000
Wastewater Series 2010	5,080,000	-	940,000	4,140,000	975,000
Wastewater Series 2012/SRF	790,000	-	35,000	755,000	35,000
Wastewater Series 2013	34,295,000	-	1,460,000	32,835,000	1,505,000
Unamortized debt expense	137,551	-	3,072	140,623	3,072
<b>Total</b>	<u>49,667,551</u>	<u>-</u>	<u>3,058,072</u>	<u>46,615,623</u>	<u>3,158,072</u>

Future maturities of debt across all systems are as follows;

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Year ending September 30,	Principal	Interest	Total
2017	\$ 5,215,000	\$ 2,126,874	\$ 7,341,874
2018	5,190,000	1,964,826	7,154,826
2019	5,370,000	1,790,497	7,160,497
2020	4,045,000	1,610,074	5,655,074
2021	3,045,000	1,489,944	4,534,944
2022-2026	16,705,000	5,971,722	22,676,722
2027-2031	19,510,000	3,167,108	22,677,108
2032-2033	6,775,000	355,788	7,130,788
	<u>\$ 65,855,000</u>	<u>\$ 18,476,833</u>	<u>\$ 84,331,833</u>

**F. Net Position**

Net Position represents the differences between assets and liabilities. The Net Positions were as follows:

	Electric	Gas	Water	Wastewater	Administrative
Net invested in capital assets	\$ 42,165,291	\$ 20,402,140	\$ 49,681,182	\$ 60,102,167	\$ 2,503,612
Restricted	2,519,097	934,536	9,787,086	15,308,539	90,005
Unrestricted	7,650,945	1,958,736	(3,170,862)	13,145,024	959,319
Total net position	<u>\$ 52,335,333</u>	<u>\$ 23,295,412</u>	<u>\$ 56,297,406</u>	<u>\$ 88,555,730</u>	<u>\$ 3,552,936</u>

**G. Restricted Assets**

The restricted assets consist of the following:

<b>Electric System</b>	<b>September 30, 2016</b>
Schedule of restricted assets	
Other Post Retirement Benefits Fund, medical and life	2,519,097
Total Restricted Assets	<u>\$ 2,519,097</u>
<b>Gas System</b>	<b>September 30, 2016</b>
Schedule of restricted assets	
Other Post Retirement Benefits Fund, medical and life	934,536
Total Restricted Assets	<u>\$ 934,536</u>

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<b>Water System</b>	<b><u>September 30, 2016</u></b>
Series 2009 and 2013 Warrant Fund:	
U.S. Treasury Obligation Fund	
(variable interest rate)	\$ 6,085,109
Series 2009 Reserve Fund:	
U.S. Treasury Obligation Fund	
(variable interest rate)	1,726,314
Improvement Fund:	
Bank checking, included in SAFE program	500,000
Other Post Retirement Benefits Fund, medical and life	1,680,155
Series 2009 SRF/ARRA Warrant Fund:	
U.S. Treasury Obligation Fund	
(variable interest rate)	42,381
Total Restricted Assets	<u>\$ 10,033,959</u>
<b>Wastewater System</b>	<b><u>September 30, 2016</u></b>
Series 1997, 2004, 2010, & 2013 Warrant Fund	
Bank Investment Account	
(interest yield at federal fund rate)	\$ 11,172,548
Series 2009 Reserve Fund:	
U.S. Treasury Obligation Fund	
(variable interest rate)	2,547,937
Other Post Retirement Benefits Fund, medical and life	1,333,466
Replacement and Extension Fund	
Bank checking, included in SAFE program	500,000
Total Restricted Assets	<u>\$ 15,553,951</u>
<b>Administrative System</b>	<b><u>September 30, 2016</u></b>
Schedule of restricted assets	
Workman's Compensation - funds on	
deposit held by insurance administrator	5,000
Sewer enhancement fund	85,005
Total Restricted Assets	<u>\$ 90,005</u>

**H. Unbilled Revenue**

The Electric System, upon recommendation from TVA, records unbilled revenue as of September 30 each year to record kWh which have been charged to Decatur Utilities but not yet billed to the consumers. This unbilled revenue adjustment enables Decatur Utilities to more adequately match revenue and expenses relating to this purchased power. Decatur Utilities will leave the unbilled

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revenue accrual throughout the fiscal year and will adjust the amount annually at September 30th of each successive year. The balance at September 30, 2016 is \$2,166,549.

**I. Accrued Leave**

Accrued PTO at September 30, 2016 is as follows

	<b>September 30, 2016</b>
Electric	\$ 199,335
Gas	876
Water	101,044
Wastewater	100,082
Administrative	458,213
	\$ 859,550

**J. Other Charges and Credits**

Due to the volatility of the cost of natural gas, the Gas System maintains an other charges and credits account to accumulate the difference between monthly estimated gas rates and the rates based on actual cost for residential and commercial customers. Each month, Decatur Utilities estimates residential and commercial gas rates based on the anticipated cost of gas, plus an adjustment for the balance in the deferred account, plus a markup. A rolling average of 12 months is maintained. The intent of this policy is to smooth the cost of natural gas sold to customers each month.

The Gas System accrues net gains from natural gas firm take-or-pay contracts to a liability account. These funds are usually applied against residential and commercial customer rates in winter months when market rates for natural gas are generally higher.

The Gas System also maintains an annualized demand account for most firm (non-interruptible) customers. By December 1 each year, projected natural gas sales volumes and pipeline demand costs are used to calculate a unit demand price. The unit demand price is applied to the subsequent 12 months as the demand cost component of gas to firm pricing take-or-pay contracts (excludes interruptible customers). The balance in the account at December 1 is used to adjust the subsequent year's price.

**NOTE 4 – OTHER INFORMATION**

**A. Pension Plan**

*Plan description:* The Employees' Retirement System of Alabama, an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at [www.rsa-al.gov](http://www.rsa-al.gov).

The ERS Board of Control consists of 13 trustees as follows:

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- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years are as follows:
  - a. Two retired members with one from the ranks of retired state employees and none from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
  - b. Two vested active state employees.
  - c. Two vested active employees of an employer participating in ERS pursuant § 36-27-6.

*Benefits provided:* State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after attaining age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after attaining age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are calculated based on a retirement formula. In order to receive disability retirement, the member must have at least 10 years of creditable service and be actively in service. The member is offered several options for the monthly benefit distribution. Under this formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after attaining age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are calculated based on a retirement formula. In order to receive disability retirement, the member must have at least 10 years of creditable service and be actively in service. The member is offered several options for the monthly benefit distribution. Under this formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement.

The ERS serves approximately 846 local participating employers. These participating employers include 287 cities, 65 counties, and 494 other public entities. The ERS membership includes approximately 84,393 participants. As of September 30, 2015, membership consisted of:

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	<u>Plan Total</u>	<u>Utility</u>
Retired beneficiaries currently receiving benefits	\$ 22,211	\$ 105
Terminated employees entitled to but not yet receiving benefit	1,353	26
Terminated employees not entitled to a benefit	5,451	7
Active members	55,164	167
Post-DROP retired members still in active service	214	2
<b>Total</b>	<b><u>\$ 84,393</u></b>	<b><u>\$ 307</u></b>

Contributions: Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon 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 additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2016, the Utility's active employee contribution rate was 5% of covered employee payroll for tier 1 employees and 6% of covered employee payroll for tier 2 employees, and the Utility's average contribution rate to fund the normal and accrued liability costs was 178.45 percent of covered employee payroll.

The Utility's contractually required contribution rate for the year ended September 30, 2016 was 14.95% of pensionable pay for Tier 1 employees, and 12.35% of pensionable pay for Tier 2 employees.. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$1,489,298 for the year ended September 30, 2016.

*Net Pension Liability*

The Utility's net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of



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September 30, 2014 rolled forward to September 30, 2015 using standard roll-forward techniques as shown in the following table:

	Expected	Actual
<b>Total Pension Liability</b>		
as of September 30, 2014 (a)	\$ 47,240,201	\$ 46,217,734
<b>Entry Age Normal Cost for</b>		
October 1, 2014 - September 30, 2015 (b)	\$ 735,009	\$ 735,009
<b>Actual Benefit Payments and Refunds for</b>		
October 1, 2014 - September 30, 2015 (c)	\$ 2,738,647	\$ 2,738,647
<b>Total Pension Liability</b>		
as of September 30, 2015		
[(a) x (1.08)] + (b) - [(c) x (1.04)]	\$ 48,906,233	\$ 47,801,969
<b>Difference between expected and actual</b>		
experience (Gain)/Loss		\$ (1,104,264)

Actuarial assumptions: The total pension liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75% - 7.25%
Investment rate of return*	8.00%

\* Net of pension plan expense

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2014 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participation data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis 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 asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

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	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return*</u>
Fixed Income	25.00%	5.00%
U.S. Large Stocks	34.00%	9.00%
U.S. Mid Stocks	8.00%	12.00%
U.S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%

\*Includes assumed rate of inflation of 2.50%

Discount rate: The discount rate used to measure the total pension liability was the long term rate of return, 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. 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 Net Pension Liability:*

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
<b>Balances at 9/30/2014</b>	\$ 47,240,201	\$ 30,520,667	\$ 16,719,534
Changes for the year:			
Service cost	735,009	-	735,009
Interest	3,669,670	-	3,669,670
Differences between expected and actual experience	(1,104,264)	-	(1,104,264)
Contributions - employer	-	1,481,898	(1,481,898)
Contributions - employee	-	588,751	(588,751)
Net investment income	-	357,511	(357,511)
Benefit payments, including refunds of employee contributions	(2,738,647)	(2,738,647)	-
Administrative expense	-	-	-
Transfers among employers	-	(103,900)	103,900
Net changes	561,768	(414,387)	976,155
<b>Balances at 9/30/2015</b>	\$ 47,801,969	\$ 30,106,280	\$ 17,695,689

*Sensitivity of the net pension liability to changes in the discount rate:* The following table presents the Utility's net pension liability calculated using the discount rate of 8%, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2016

	1% Decrease (7.00 %)	Current Rate (8.00 %)	1% Increase (9.00 %)
Utility's net pension liability	\$ 22,721,931	\$ 17,695,689	\$ 13,407,057

(Dollar amounts in thousands)

*Pension plan fiduciary net position:* Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2015. The auditor's report dated June 3, 2015 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions*

For the year ended September 30, 2016, the Utility recognized pension expense of \$1,482,240. At September 30, 2016, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 887,741
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	979,785	-
Employer contributions subsequent to the measurement date	1,451,818	-
Total	\$ 2,431,603	\$ 887,741

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

Year ended September 30:		
2017	\$	(26,812)
2018		(26,812)
2019		(26,811)
2020		194,132
2021		(21,654)
Thereafter	\$	-

**B. Risk Management**

The Utility is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2016, the Utility purchased commercial insurance for all the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in insurance coverage during the year.

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2016

**C. Commitments and Contingencies**

Under its wholesale power agreement, the Electric System is committed to purchase its electric power and energy requirement from the Tennessee Valley Authority (TVA). The rates for such purchases are subject to review periodically. Additionally, the Electric System has entered into a TVA agreement that allows customers to finance new and/or replacement HVAC units and repay on their monthly utility bill. DU serves as the collection agent for repayment of these loans. The outstanding balance of these loans receivable was \$2,439,756 and the outstanding balance due to TVA for collection of the loans was also \$2,439,756.

Occasionally, the Gas System enters into natural gas purchase commitments to purchase minimum volumes of gas at fixed prices over a one to three year period. These futures can either be held for use in the contracted future month or cashed out at a profit and the proceeds used to reduce the cost of gas in future months. At September 30, 2016, contract commitments total \$514,500 for fiscal year 2017 and \$87,600 for fiscal year 2018. At December 31, 2016, no purchase commitments extended beyond December 2017 and additional outstanding commitments were \$683,383 for fiscal year 2017.

**D. Other Post Employment Benefits**

Decatur Utilities medical and life post-employment benefits were unfunded at September 30, 2016. Management chose to restrict cash to fund post-employment benefits payable as calculated by an actuarial study to fund these benefits. The plan will be funded based upon the calculation of the annual required contribution as calculated based on the actuarial assumptions stated below. Actuarial calculations are based on actuarial cost methods and amortization methods. A stand alone report is available by contacting Steve Pirkle, Decatur Utilities.

Decatur Utilities provides post-employment benefits other than pension to all full time employees who retire as an eligible participant in the retirement plan described in Note 4A. These benefits are approved by the board of directors. Contribution funding is also approved by the board. Benefits provided to retirees at September 30, 2016 include:

1. Retiree group health/dental benefits to age 65. Retiree contributes to the premium.
2. Retiree Medicare Supplement policy at age 65. Retiree contributes to the premium.
3. Dependent group health/dental benefits to age 65. Retiree contributes to the premium.
4. Spouse Medicare Supplement policy at age 65. Retiree contributes to the premium. Benefit lapses at date of death of the retiree.
5. Retirees who have a hire date on or after 1/1/04 and are 55 or older have group health/dental for a reduced 10-year period and contribute to the premium.
6. Early Retirement Medical Option - Employees retiring under age 55 have a reduced 10-year benefit period and contribute to the premium.
7. Life insurance based upon an amount agreed upon prior to retirement. Not restricted to those who retire at age 55 or older. Employees hired after January 1, 2003 do not have this benefit.

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2016

<b>Annual required contribution</b>	<u><b>2014/2015</b></u>	<u><b>2015/2016</b></u>
Normal cost	\$ 555,364	\$ 587,443
Amortization	1,027,987	1,234,381
Interest	31,357	36,079
Total annual required contribution	<u>1,614,708</u>	<u>1,857,903</u>
<b>Net OPEB Obligation</b>		
<b>Net OPEB obligation - October 1</b>	<u>3,430,247</u>	<u>4,179,463</u>
Annual required contribution	1,614,708	1,857,903
Interest on Net OPEB obligation	137,210	167,179
Adjustment to annual required contribution	<u>(142,044)</u>	<u>(186,809)</u>
Annual OPEB cost	1,609,874	1,838,273
Annual required contribution	<u>(860,658)</u>	<u>(830,192)</u>
Increase in Net OPEB obligation	<u>749,216</u>	<u>1,008,081</u>
Net OPEB Obligation - September 30	<u>\$ 4,179,463</u>	<u>\$ 5,187,544</u>
<b>Present Value of Future Benefits as of October 1</b>		
Active employees	\$ 17,112,079	\$ 18,769,572
Retirees	12,203,724	13,626,891
Total	<u>\$ 29,315,803</u>	<u>\$ 32,396,463</u>

Actual contributions made by plan members during the current year were \$246,116; and actual contributions made by the company were \$1,716,782.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Projections of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefits costs between the employer and plan members to that point. Actuarial calculations reflect long-term perspective and actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

## REQUIRED SUPPLEMENTARY INFORMATION

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**SCHEDULE OF CHANGES IN NET POSITION LIABILITY (ASSET) AND RELATED**  
**RATIOS BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN**  
**RETIREMENT SYSTEMS OF ALABAMA**

September 30, 2016

<b>Total pension liability</b>	<u>2014</u>	<u>2015</u>
Service cost	\$ 719,118	\$ 735,009
Interest	3,551,873	3,669,670
Changes in benefit terms	-	-
Differences between actual & expected experience	-	(1,104,264)
Change of assumptions	-	-
Benefit payments, including refunds of employee contributions	<u>(2,858,415)</u>	<u>(2,738,647)</u>
<b>Net change in total pension liability</b>	<b>1,412,576</b>	<b>561,768</b>
Total pension liability - beginning	<u>45,827,625</u>	<u>47,240,201</u>
Total pension liability - ending	<u>47,240,201</u>	<u>47,801,969</u>
<b>Plan fiduciary net position</b>		
Contributions - employer	1,439,683	1,481,898
Contributions - employee	478,274	588,751
Net investment income	3,314,923	357,511
Benefit payments, including refunds of employee contributions	(2,858,415)	(2,738,647)
Administrative expense	<u>96,722</u>	<u>(103,901)</u>
<b>Net change in plan fiduciary net position - beginning</b>	<b>2,471,187</b>	<b>(414,388)</b>
Plan fiduciary net position - beginning	<u>28,049,480</u>	<u>30,520,667</u>
Plan fiduciary net position - ending (b)	<u>30,520,667</u>	<u>30,106,279</u>
<b>Net pension liability (asset) - ending (a) - (b)</b>	<b>16,719,534</b>	<b>17,695,690</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<b>64.61%</b>	<b>62.98%</b>
<b>Covered - employee payroll</b>	<b>9,655,596</b>	<b>9,916,527</b>
<b>Net pension liability (asset) as a percentage of covered - employee payroll</b>	<b>173.16%</b>	<b>178.45%</b>

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.*

*See independent auditor's report.*

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION IN THE PUBLIC**  
**EMPLOYEE PENSION PLAN OF RETIREMENT SYSTEMS OF ALABAMA**

For the Year Ended September 30, 2016

	<u>2014</u>	<u>2015</u>
Actuarially determined contribution	\$ 1,439,683	\$ 1,481,882
Contributions in relation to the actuarially determined contribution	<u>1,439,683</u>	<u>1,481,882</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 9,655,596	\$ 9,916,527
Contributions as a percent of covered - employee payroll	14.91%	14.94%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

*See independent auditor's report.*





**MUNICIPAL UTILITIES BOARD OF DECATUR  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
RETIREMENT SYSTEMS OF ALABAMA**

For the Year Ended September 30, 2016

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	27 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75 - 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

**MUNICIPAL UTILITIES BOARD OF DECATUR  
SCHEDULES OF FUNDING PROGRESS - OTHER  
POST-EMPLOYMENT BENEFITS**

September 30, 2016

**Post-Employment Schedule of Funding Progress**

<b>Fiscal Year</b>	<b>Actuarial Value of Assets ( a )</b>	<b>Actuarial Accrued Liability (AAL) ( b )</b>	<b>Unfunded AL (UAAL) ( b ) - ( a )</b>	<b>Funded Ratio ( a/b )</b>	<b>Covered Payroll ( c )</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
2016-2017	-	26,437,292	26,437,292	0.00%	9,484,773	278.7%
2015-2016	-	25,633,222	25,633,222	0.00%	9,253,437	277.0%
2014-2015	-	22,930,269	22,930,269	0.00%	8,976,397	255.5%

## **SUPPLEMENTARY AND OTHER INFORMATION SECTION**

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**SCHEDULE OF LONG-TERM DEBT**  
 September 30, 2016

Year Ended	Wastewater System											
	1997 Series		2009 Series SRF/ARRA		2010 Series		2012 Series SRF		2013 Series			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	200,000	7,900	440,000	299,075	975,000	108,054	35,000	20,763	1,505,000	1,036,681		
2018	-	-	455,000	283,675	1,015,000	82,607	35,000	19,800	1,550,000	991,531		
2019	-	-	470,000	267,750	1,055,000	56,115	35,000	18,838	1,595,000	945,031		
2020	-	-	490,000	251,300	1,095,000	28,580	40,000	17,875	1,645,000	897,181		
2021	-	-	505,000	234,150	-	-	40,000	16,775	1,695,000	847,831		
2022	-	-	525,000	216,475	-	-	40,000	15,675	1,745,000	796,981		
2023	-	-	545,000	198,100	-	-	40,000	14,575	1,795,000	744,631		
2024	-	-	565,000	179,025	-	-	45,000	13,475	1,850,000	690,781		
2025	-	-	585,000	159,250	-	-	45,000	12,238	1,905,000	635,281		
2026	-	-	605,000	138,775	-	-	45,000	11,000	1,960,000	578,131		
2027	-	-	625,000	117,600	-	-	45,000	9,763	2,020,000	519,331		
2028	-	-	650,000	95,725	-	-	50,000	8,525	2,080,000	458,731		
2029	-	-	670,000	72,975	-	-	50,000	7,150	2,150,000	391,131		
2030	-	-	695,000	49,525	-	-	50,000	5,775	2,220,000	321,256		
2031	-	-	720,000	25,200	-	-	50,000	4,400	2,295,000	246,331		
2032	-	-	-	-	-	-	55,000	3,025	2,370,000	168,875		
2033	-	-	-	-	-	-	55,000	1,513	2,455,000	85,925		
	<b>\$ 200,000</b>	<b>\$ 7,900</b>	<b>\$ 8,545,000</b>	<b>\$ 2,588,600</b>	<b>\$ 4,140,000</b>	<b>\$ 275,356</b>	<b>\$ 755,000</b>	<b>\$ 201,165</b>	<b>\$ 32,835,000</b>	<b>\$ 10,355,640</b>		

See independent auditor's report.

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**SCHEDULE OF LONG-TERM DEBT**  
September 30, 2016

Year Ended	Water System											
	2009 Series		2009 Series/SRF		2012 Series/SRF		2013 Series		2012 Series/SRF		2013 Series	
	Water Warrant	Interest	Water Warrant	Interest	Water Warrant	Interest	Water Warrant	Interest	Water Warrant	Interest	Water Warrant	Interest
2017	1,905,000	222,913	135,000	91,350	20,000	11,825	-	328,313	5,215,000	2,126,874	7,341,874	
2018	1,975,000	161,000	140,000	86,625	20,000	11,275	-	328,313	5,190,000	1,964,826	7,154,826	
2019	2,050,000	82,000	145,000	81,725	20,000	10,725	-	328,313	5,370,000	1,790,497	7,160,497	
2020	-	-	150,000	76,650	20,000	10,175	605,000	328,313	4,045,000	1,610,074	5,655,074	
2021	-	-	155,000	71,400	25,000	9,625	625,000	310,163	3,045,000	1,489,944	4,534,944	
2022	-	-	160,000	65,975	25,000	8,938	645,000	291,413	3,140,000	1,395,457	4,535,457	
2023	-	-	165,000	60,375	25,000	8,250	665,000	272,063	3,235,000	1,297,994	4,532,994	
2024	-	-	170,000	54,600	25,000	7,563	685,000	252,113	3,340,000	1,197,557	4,537,557	
2025	-	-	180,000	48,650	25,000	6,875	705,000	231,563	3,445,000	1,093,857	4,538,857	
2026	-	-	185,000	42,350	25,000	6,188	725,000	210,413	3,545,000	986,857	4,531,857	
2027	-	-	190,000	35,875	25,000	5,500	745,000	188,663	3,650,000	876,732	4,526,732	
2028	-	-	200,000	29,225	25,000	4,813	770,000	166,313	3,775,000	763,332	4,538,332	
2029	-	-	205,000	22,225	30,000	4,125	795,000	142,250	3,900,000	639,856	4,539,856	
2030	-	-	210,000	15,050	30,000	3,300	820,000	116,413	4,025,000	511,319	4,536,319	
2031	-	-	220,000	7,700	30,000	2,475	845,000	89,763	4,160,000	375,869	4,535,869	
2032	-	-	-	-	30,000	1,650	875,000	62,300	3,330,000	235,850	3,565,850	
2033	-	-	-	-	30,000	825	905,000	31,675	3,445,000	119,938	3,564,938	
	<b>\$ 5,930,000</b>	<b>\$ 465,913</b>	<b>\$ 2,610,000</b>	<b>\$ 789,775</b>	<b>\$ 430,000</b>	<b>\$ 114,127</b>	<b>\$ 10,410,000</b>	<b>\$ 3,678,357</b>	<b>\$ 65,855,000</b>	<b>\$ 18,476,833</b>	<b>\$ 84,331,833</b>	

See independent auditor's report.

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**SCHEDULE OF OPERATING STATISTICS, ELECTRIC - UNAUDITED**  
September 30, 2016

	<b>For The Fiscal Years Ended September 30,</b>				
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Revenue</b>					
Residential	\$ 30,621,555	\$ 32,188,961	\$ 32,250,841	\$ 30,000,453	\$ 30,467,480
Commercial	7,044,689	7,238,405	7,098,808	6,766,444	6,923,773
Industrial	52,300,510	53,963,746	56,448,547	55,740,205	57,108,543
Street and outdoor lighting	945,825	960,276	937,452	936,100	947,157
Unbilled revenue	185,881	(498,153)	167,355	(27,250)	(452,872)
Other operating	1,098,012	1,691,465	1,583,036	1,532,186	1,550,602
Interest and other revenue	46,086	66,528	42,845	91,139	61,216
	<u>\$ 92,242,558</u>	<u>\$ 95,611,228</u>	<u>\$ 98,528,884</u>	<u>\$ 95,039,277</u>	<u>\$ 96,605,899</u>
<b>Expense</b>					
Electric power costs	\$ 79,499,196	\$ 82,504,546	\$ 86,383,317	\$ 83,189,202	\$ 84,674,943
Other operating expenses	7,437,347	7,027,572	6,906,313	6,763,670	6,044,651
Provision for depreciation	2,342,047	2,241,946	2,202,007	2,180,486	2,066,840
Transfer out - tax equivalent	1,698,713	1,686,102	1,662,525	1,674,766	1,659,473
Interest and other expense	1,078	775	710	1,578	1,225
	<u>90,978,381</u>	<u>93,460,941</u>	<u>97,154,872</u>	<u>93,809,702</u>	<u>94,447,132</u>
Net income (loss)	<u>\$ 1,264,177</u>	<u>\$ 2,150,287</u>	<u>\$ 1,374,012</u>	<u>\$ 1,229,575</u>	<u>\$ 2,158,767</u>
<b>Financial</b>					
Plant in service (net)	<u>\$ 42,165,291</u>	<u>\$ 41,138,756</u>	<u>\$ 40,378,569</u>	<u>\$ 39,492,857</u>	<u>\$ 39,999,224</u>
<b>Power in use - KWH</b>					
Residential	327,232,862	349,083,207	354,982,105	335,641,384	336,651,489
Commercial	68,364,970	69,215,844	69,160,759	66,989,598	67,912,406
Industrial	787,466,736	797,374,329	815,033,832	785,497,291	801,907,186
Other customers	7,280,742	7,233,098	7,162,224	7,249,276	7,282,899
Accrued unbilled kWh	4,365,236	(3,263,921)	224,632	(3,761,928)	1,271,039
Total	<u>1,194,710,546</u>	<u>1,219,642,557</u>	<u>1,246,563,552</u>	<u>1,191,615,621</u>	<u>1,215,025,019</u>
<b>Number of customers</b>					
Residential	22,517	22,489	22,471	22,483	22,591
Small commercial	3,358	3,322	3,303	3,347	3,314
Large commercial	538	549	552	535	549
Street and athletic	108	101	98	88	85
Outdoor lighting - code 78	61	64	63	62	79
	<u>26,582</u>	<u>26,525</u>	<u>26,487</u>	<u>26,515</u>	<u>26,618</u>
Line loss	<u>2.91%</u>	<u>3.08%</u>	<u>2.91%</u>	<u>3.06%</u>	<u>3.17%</u>
Miles of line	593	593	593	593	593

*See independent auditor's report.*

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**SCHEDULE OF OPERATING STATISTICS, GAS - UNAUDITED**  
September 30, 2016

	<b>For The Fiscal Years Ended September 30,</b>				
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Revenue</b>					
Residential	\$ 3,456,807	\$ 4,580,909	\$ 5,321,267	\$ 4,728,467	\$ 4,055,386
Commercial	2,831,132	3,893,977	4,695,727	4,125,070	3,537,097
Industrial	6,876,132	8,002,527	10,820,674	8,871,649	7,996,461
Other operating	169,191	186,178	142,429	122,006	112,397
Contributed capital	138,288	81,518	284,471	358,367	31,965
Interest and other revenue	18,925	19,304	20,814	20,253	29,643
	<u>\$ 13,490,475</u>	<u>\$ 16,764,413</u>	<u>\$ 21,285,382</u>	<u>\$ 18,225,812</u>	<u>\$ 15,762,949</u>
<b>Expense</b>					
Gas purchased	\$ 9,490,692	\$ 12,809,361	\$ 16,069,536	\$ 13,733,336	\$ 12,278,391
Other operating expenses	2,732,770	2,698,584	2,600,204	2,529,809	2,500,228
Provision for depreciation	873,270	843,794	821,620	811,864	726,491
Transfer out - tax equivalent	127,545	165,447	754,655	395,951	112,666
Interest and other expense	365	262	240	534	542
	<u>13,224,642</u>	<u>16,517,448</u>	<u>20,246,255</u>	<u>17,471,494</u>	<u>15,618,318</u>
Net income (loss)	<u>\$ 265,833</u>	<u>\$ 246,965</u>	<u>\$ 1,039,127</u>	<u>\$ 754,318</u>	<u>\$ 144,631</u>
<b>Financial</b>					
Plant in service (net)	<u>\$ 20,402,140</u>	<u>\$ 19,615,617</u>	<u>\$ 18,494,001</u>	<u>\$ 18,289,999</u>	<u>\$ 17,919,366</u>
<b>MCF's sold</b>					
Residential	361,326	502,581	543,646	471,484	361,654
Commercial	427,242	524,976	566,669	479,802	380,827
Industrial	963,163	1,013,603	954,524	915,644	919,713
Flex	740,752	819,805	913,427	939,468	915,873
Transportation	3,732,368	3,670,212	3,686,898	3,422,345	3,519,010
Total	<u>6,224,851</u>	<u>6,531,177</u>	<u>6,665,164</u>	<u>6,228,743</u>	<u>6,097,077</u>
<b>Number of customers</b>					
Residential	11,948	11,961	11,906	11,995	11,943
Commercial	1,650	1,656	1,662	1,649	1,648
Industrial	27	31	32	33	36
Flex	2	2	1	1	1
Transportation	10	11	12	12	12
	<u>13,637</u>	<u>13,661</u>	<u>13,613</u>	<u>13,690</u>	<u>13,640</u>
<b>Loss percentage</b>	<u>0.27%</u>	<u>0.17%</u>	<u>0.02%</u>	<u>0.48%</u>	<u>0.62%</u>
<b>Miles of mains</b>	420	420	418	418	415

*See independent auditor's report.*

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**SCHEDULE OF OPERATING STATISTICS, WATER - UNAUDITED**  
September 30, 2016

	For The Fiscal Years Ended September 30,				
	2016	2015	2014	2013	2012
<b>Revenue</b>					
Residential	\$ 5,145,729	\$ 3,888,354	\$ 3,614,808	\$ 3,429,913	\$ 3,704,809
Commercial	1,792,369	1,584,953	1,563,592	1,614,493	1,703,007
Industrial	4,510,906	4,065,104	4,059,201	3,567,864	3,644,719
Resale	2,122,410	1,754,994	1,550,542	1,419,355	1,513,321
Other operating	1,223,836	1,196,156	1,071,111	923,426	946,526
Capital contributions	1,861,449	608,413	99,106	220,731	690,789
Capital contributions - SRF	-	-	-	-	3,662,402
Interest and other revenue	23,019	20,083	25,086	21,914	21,865
	<u>\$ 16,679,718</u>	<u>\$ 13,118,057</u>	<u>\$ 11,983,446</u>	<u>\$ 11,197,696</u>	<u>\$ 15,887,438</u>
<b>Expense</b>					
Treatment expense	4,536,432	4,333,174	4,372,768	3,938,116	3,987,684
Other operating expenses	4,320,734	4,066,382	3,863,095	3,778,248	3,261,267
Provision for depreciation	2,821,040	2,737,898	2,689,556	2,684,308	2,434,989
Transfer out - tax equivalent	609,657	565,018	550,689	451,978	491,456
Interest and other expense	771,840	834,034	884,812	734,471	650,634
	<u>13,059,703</u>	<u>12,536,506</u>	<u>12,360,920</u>	<u>11,587,121</u>	<u>10,826,030</u>
Net income (loss)	<u>\$ 3,620,015</u>	<u>\$ 581,551</u>	<u>\$ (377,474)</u>	<u>\$ (389,425)</u>	<u>\$ 5,061,408</u>
<b>Financial</b>					
Plant in service (net)	<u>\$ 68,720,810</u>	<u>\$ 67,544,064</u>	<u>\$ 67,578,150</u>	<u>\$ 66,164,202</u>	<u>\$ 67,471,571</u>
<b>Gallons sold (1000's)</b>					
Residential	1,576,645	1,485,204	1,503,192	1,442,274	1,699,839
Commercial	1,000,720	954,374	985,466	1,080,901	1,198,494
Industrial	5,091,172	4,942,493	4,992,736	4,519,323	4,746,083
Resale	2,223,963	1,922,236	1,940,328	1,907,497	2,087,128
Total	<u>9,892,500</u>	<u>9,304,307</u>	<u>9,421,722</u>	<u>8,949,995</u>	<u>9,731,544</u>
<b>Number of customers</b>					
Residential	22,054	22,034	21,989	22,013	21,958
Commercial	3,202	3,201	3,198	3,155	3,149
Industrial	97	96	97	83	78
Resale	9	9	11	9	9
	<u>25,362</u>	<u>25,340</u>	<u>25,295</u>	<u>25,260</u>	<u>25,194</u>
<b>Loss percentage</b>	<u>3.13%</u>	<u>3.93%</u>	<u>6.36%</u>	<u>4.27%</u>	<u>2.32%</u>
<b>Miles of mains</b>	487	487	484	484	484
<b>Fire hydrants in service</b>	2,039	2,032	2,028	2,026	2,019
<b>Capacity of storage tanks (1000's)</b>	24,000	24,000	24,000	24,000	24,000

*See independent auditor's report.*



**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**SCHEDULE OF OPERATING STATISTICS, WASTEWATER - UNAUDITED**  
September 30, 2016

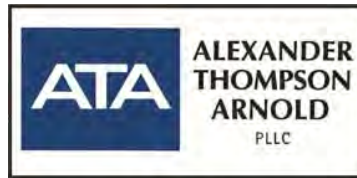
	For The Fiscal Years Ended September 30,				
	2016	2015	2014	2013	2012
<b>Revenue</b>					
Residential	\$ 4,562,962	\$ 4,582,892	\$ 4,700,816	\$ 4,678,067	\$ 4,801,393
Commercial	2,717,217	2,623,931	2,669,924	2,845,431	2,905,344
Industrial	7,724,714	7,385,112	6,764,161	5,967,903	6,288,609
Government agencies	132,372	253,934	260,112	218,400	136,658
Other operating	1,554,018	1,457,723	1,394,264	1,399,022	1,203,236
Capital contributions	2,485,712	399,065	22,336	61,250	270,059
Capital contributions - SRF	-	-	-	100,000	5,135,364
Interest and other revenue	57,137	56,512	74,669	59,963	47,499
	<u>\$ 19,234,132</u>	<u>\$ 16,759,169</u>	<u>\$ 15,886,282</u>	<u>\$ 15,330,036</u>	<u>\$ 20,788,162</u>
<b>Expense</b>					
Treatment expense	3,332,103	3,143,772	3,101,386	3,084,291	2,912,892
Other operating expenses	3,832,292	3,708,071	3,639,724	3,711,084	4,071,672
Provision for depreciation	3,269,058	3,099,084	2,956,611	3,004,088	2,702,094
Transfer out - tax equivalent	692,161	610,585	602,341	575,030	592,393
Interest and other expense	1,552,205	1,629,857	1,697,678	1,177,575	635,640
	<u>12,677,819</u>	<u>12,191,369</u>	<u>11,997,740</u>	<u>11,552,068</u>	<u>10,914,691</u>
Net income (loss)	<u>\$ 6,556,313</u>	<u>\$ 4,567,800</u>	<u>\$ 3,888,542</u>	<u>\$ 3,777,968</u>	<u>\$ 9,873,471</u>
<b>Financial</b>					
Plant in service (net)	<u>\$ 106,717,790</u>	<u>\$ 93,197,147</u>	<u>\$ 89,464,920</u>	<u>\$ 78,913,808</u>	<u>\$ 80,028,707</u>
<b>Gallons billed (1000's)</b>					
Residential	953,999	957,690	991,558	977,116	1,016,578
Commercial	740,484	710,384	725,722	779,400	800,116
Industrial	2,128,748	2,095,428	1,991,381	1,791,050	1,898,262
Government agencies	81,311	163,088	164,916	149,472	94,612
Total	<u>3,904,542</u>	<u>3,926,590</u>	<u>3,873,577</u>	<u>3,697,038</u>	<u>3,809,568</u>
<b>Number of customers</b>					
Residential	18,099	18,070	18,005	18,024	17,985
Commercial	2,237	2,240	2,232	2,201	2,191
Industrial	79	77	81	71	68
Government agencies	1	1	1	1	1
	<u>20,416</u>	<u>20,388</u>	<u>20,319</u>	<u>20,297</u>	<u>20,245</u>
<b>Miles of mains</b>	350	348	342	342	341

*See independent auditor's report.*

## INTERNAL CONTROL AND COMPLIANCE SECTION

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## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

Board of Directors  
Municipal Utilities Board of Decatur, Morgan County, Alabama  
Decatur, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Municipal Utilities Board of Decatur, Morgan County, Alabama, a component unit of the City of Decatur Alabama, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Municipal Utilities Board of Decatur's basic financial statements, and have issued our report thereon dated December 31, 2016.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Municipal Utilities Board of Decatur's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Utilities Board of Decatur's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipal Utilities Board of Decatur's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipal Utilities Board of Decatur's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Alexander Thompson Arnold PLLC*

Jackson, Tennessee  
December 31, 2016

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**SCHEDULE OF FINDINGS**  
September 30, 2016

No current year findings reported.

**MUNICIPAL UTILITIES BOARD OF DECATUR**  
**SCHEDULE OF PRIOR YEAR FINDINGS**  
September 30, 2016

No prior year findings reported.

# Stay Connected!

Decatur Utilities is committed to providing its customers with timely information regarding service interruptions, utility projects, impacts to local traffic flow, energy efficiency and utility safety.

Connect with us to receive ongoing updates via Facebook and Twitter. You can also visit [www.decaturutilities.com](http://www.decaturutilities.com) for detailed information about our services, employment openings, bid opportunities and more.

Periodically, you will receive an insert in your DU billing statement. These inserts are important notifications - so make sure to read them before throwing away!

We also rely on traditional media sources like local newspapers, radio stations and television stations to help us spread the word concerning important projects, large power outages and any other utility emergencies that could arise.

So whether you log on or tune in, connect with DU today and stay informed!



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# 2016 Honor Roll

The employees listed at right were specifically recognized by one of our customers during 2016 for going “above and beyond” the call of duty to provide outstanding customer service.

We appreciate the dedication of the more than 160 DU employees who work hard every day to serve our customers with safe, reliable utility services at the lowest possible rate.



## Field Services Dispatch

Makeba Lockett

## G/W/WW Department

Greg Blunier  
Shane Haynes  
Ricky Fields  
Mark Jones  
Travis Clarkson  
Rodney Terry  
Chase Chenault  
James Nicholas

## Electric Department

Dennis Roberts  
Derrick Moore  
Jake Wallace

## Customer Service

Julie Shell  
Stacey Lucas  
Sandy Ray

## Field Services

Jeremy Hardin  
Jerry Johnson  
Tracy Boteler  
Keith Hammonds  
Gilbert McCutcheon  
Sheri Jenkins  
Jerry Johnson

## Water Treatment Plant

Hagler Wiley  
Ricky Blackwood  
Jeannie Fillenwarth  
Curtis Hester  
Robert Hill  
Leon Lyle  
Steve Osborne  
Matthew Webster  
Nathan Pitt  
Bradley Pitts  
Kody Etheridge  
Billy Vest  
Mike Youngblood

## Wastewater Plant

John Beard  
Shannon Bailey  
Josh Aldridge  
Mike Love  
Jeff McGuire  
Mike Sons  
Harley Unterseher  
David Vinson  
Tonnice Wallace  
Adam Bolding  
Danny Jones  
Ronnie Warren  
Andre Carr  
Bobby Sapp  
Jeff Miller



*We connect the River City!*

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**Mailing Address:**  
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