



2017

ANNUAL REPORT





Quality. Safety. Rates.

Providing safe, reliable utility service at the lowest possible rate is our mission. Delivering on that mission statement requires the dedication of more than 165 employees who are here to serve you.



Ray Hardin
General Manager

In the public utility industry, we live by benchmarks that help us set goals and measure productivity. Some of the most important benchmarks we use address how safely we perform daily tasks related to all of our utility service areas.

In 2017, Decatur Utilities had one of the most successful safety records in recent years. We ended the fiscal year with only one recordable incident and just two minor vehicle incidents.

This accomplishment is reflective of the serious approach our leadership team and employees take regarding safe work practices. I am extremely proud of their diligence and congratulate our team on a job well - *and safely* - done.

Another important series of benchmarks revolve around the quality of service we provide. Whether it's delivering clean drinking water that exceeds state and federal standards, keeping the number of leaks on our natural gas system to a minimum, or maintaining the 99.995% reliability of our electric distribution grid, our goal is to deliver the best possible service in the safest means possible.

Maintaining quality also requires the close attention of our entire employee team - from managers and supervisors to crews in the field and at our plants.

I am also very proud that DU has been able to safely deliver outstanding reliability and quality without adversely impacting rates for our customers.

In fact, DU still has the lowest combined utility bill among all municipalities in the State of Alabama. This is an incredible testament to both our current team as well as the men and women who preceded us since DU was formed in 1939.

Your DU board has been instrumental in these accomplishments as well. In 2017, Richard Grace completed his nine-year term on the board. His seat was filled by local businessman Tom Counts, CEO of 3-GIS.

Then last fall, former board member Skip Thompson was nominated by President Donald Trump to represent North Alabama on the board of directors of the Tennessee Valley Authority. Mr. Thompson's place on the DU board was filled by Al Cheatham, Chief Operating Officer for Alabama Farmer's Cooperative.

We sincerely appreciate the leadership and guidance that Mr. Thompson and Mr. Grace provided during their tenure on the board. And we welcome Mr. Counts and Mr. Cheatham as they join Board Chairman Neal A. Holland Jr. in helping lead DU in years to come.

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OUR VISION

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

Front Row, L-R:
Paul Nosal, Director, Customer and Employee Relations
Gary Borden, Operations Manager
Ray Hardin, General Manager
Steve Pirkle, Business Manager & Chief Financial Officer

Back Row, L-R:
Glenn Boyles, Manager, Electric Department
Tom Cleveland, Manager, Water Resources
Jimmy Evans, Manager, G/W/WW Operations
Kim Baker, Manager, Customer Service
Janice Armor, Executive Assistant
John Kuhlman, Manager, Information Systems

OUR MISSION

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



Neal A. Holland, Jr. | Chairman, Board of Directors

Neal A. Holland, Jr. has served on the Municipal Utilities Board of the City of Decatur since 1996 and as Chairman since 2002. He is the Chief Executive Officer of Alliance Sand and Aggregates, LLC, the President and Chief Executive Officer of Holland Company, Inc. and the owner and operator of Miracle Mountain Ranch, LLC.

As a business owner and entrepreneur, Mr. Holland has more than 40 years of experience in business operations, general contracting, transportation logistics, and fiscal management. Mr. Holland is also very active in local civic, educational, and church organizations.



Tom Counts | Secretary, Board of Directors

Tom Counts joined the board in July of 2017 and was elected Secretary of the board in January of 2018. Mr. Counts is Chief Executive Officer of 3-GIS, a leading provider of Geographic Information Solutions for the telecommunications and utility industries.

Mr. Counts has more than 30 years of experience and education in product development, project management, and organizational operations management. He also serves on the board of directors of the Decatur-Morgan Entrepreneurial Center business incubator, Alabama Robotics Technology Park, Decatur Downtown Redevelopment, and several private business boards. Mr. Counts is also involved in many local, educational, and civic organizations.



Al Cheatham | Director

Al Cheatham joined the board in January of 2018. Mr. Cheatham is Executive Vice President and Chief Operating Officer of Alabama Farmers Cooperative, Inc (AFC) and a director on the boards of AFC's various other entities including Bonnie Plants, Inc., Agri-AFC, LLC, and SouthFresh Aquaculture, LLC.

Mr. Cheatham, a Certified Public Accountant, is experienced in project management, corporate finance, and manufacturing. He has implemented systems integration projects, overseen financial and securities regulatory compliance, and led mergers and acquisitions.



Ray Hardin | General Manager

Ray Hardin joined Decatur Utilities as General Manager in March of 2008. Prior to coming to DU, Mr. Hardin held various positions with Alabama Gas Corp. (Alagasco) including General Manager of the company's 155,000-customer Birmingham Division.

Mr. Hardin holds a B.S. in Mechanical Engineering from Auburn University and has more than 25 years experience in utility operations, system planning, budgeting, and safety. He is a Tennessee Valley Public Power Association Certified Power Executive, a Rotarian, and active in local community service efforts.

Electricity



A lot has changed since Decatur Utilities began delivering power to the residents of Decatur back in 1939. One thing hasn't: DU is committed to keeping the lights on and making sure you have the power to live life to the fullest.

Electricity powers every aspect of our life - from health to jobs to education to entertainment. Electricity connects us with family, friends, customers, and coworkers while also keeping us warm in the winter and cool in the summer!

Here in Decatur, we are blessed to have the fifth-lowest electric rates among all of the Tennessee Valley Authority's local power companies and our electric system reliability was 99.995% in 2017. That means you pay less for electricity than just about anywhere else in the country - while still enjoying an electric system that rarely has an interruption of service.

DU continues to invest wisely in new equipment and technology that helps us maintain that reliability while keeping rates low. However, when outages do occur, our line crews, dispatchers and support personnel are committed to restoring service as quickly and safely as possible.

So whether our crews are maintaining security lights around town, installing a new service or working through the night to restore power after a storm, we are here to serve you.

Key 2017 projects:

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

Completed construction of electric facilities for new Decatur and Austin High Schools.

Completed construction and relocation of existing power lines along Spring Ave.

Continued deployment of Advanced Metering Infrastructure (AMI) pilot.

2017 Stats:

Replaced 106 defective poles

Repaired 460 street lights and 179 security lights

Completed tree trimming on 112.5 miles of circuit

Replaced 2,500 feet of direct buried underground cable

Performed maintenance on nine substations and two industrial substations.

KWH SALES
1.2 BILLION

CUSTOMERS
>26,500

RELIABILITY
99.995%



Natural Gas



Decatur Utilities provides natural gas to its customers as an economical, alternative energy source for heating homes and water, as well as fueling many of the business processes used by local industries.

Since 1950, DU has made natural gas available to homes and businesses in Decatur - and today more than 13,500 customers make it their fuel of choice. DU's management team works diligently to secure the lowest possible wholesale gas and transportation pricing so we can keep natural gas rates among the lowest in the state.

But that doesn't mean we compromise on safety! DU recently completed replacing all cast iron natural gas piping on our system with high-density polyethylene (HDPE) pipe that will be less susceptible to leaks in the future. DU received the American Public Gas Association Safety Award for 2017 in recognition of successful efforts made to keep employees and customers safe.

We also perform a leak detection survey on the DU natural gas system each year to identify and repair any problems, aggressively promote the 811 Alabama OneCall program, and present our "Safety in a Sniff" natural gas safety education program for hundreds of area elementary school students each year.

Key 2017 projects:

- Installed stand-by generator at 10th Ave Service Center.
- Completed relocation of natural gas mains and services along Spring Ave. SW as part of highway widening project.
- Sponsored 2017 Alabama Pipeline Awareness Cooperative Training (APACT) safety/training meeting.

2017 Stats:

Installed more than 15,000 feet of new natural gas mains.

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:

- Don't use anything that could spark and cause an explosion.
- Evacuate, get to a safe place and call DU at 256-552-1400.
- Alert others to avoid entering the suspected leak area.



GAS SALES
6.2 BILLION
MCF*



CUSTOMERS
>13,500



Know what's below.
Call before you dig.

Always call at least 48 hours before you plan to dig. It's the law and it applies to large and small projects requiring excavation.

* Million Cubic Feet

Water



Clean drinking water is one of life's necessities. Decatur Utilities is proud to deliver water that exceeds the quality standards set by the U.S. Environmental Protection Agency (EPA) and the Alabama Dept. of Environmental Management (ADEM).

Doing so involves the dedicated work of DU's Water Resources Group and Water Department crews from the 10th Ave. Service Center.

DU's raw water supply comes from the Tennessee River and goes through a multi-stage treatment process at the DU Water Treatment Plant (WTP) on Market St. These steps include screening, sedimentation, filtration, and the introduction of chemicals that purify and disinfect the water.

Before, during and after the treatment process, DU performs more than 1.5 million tests each year in-house and at third-party laboratories to ensure that the water being delivered to homes and businesses is safe - and that it exceeds state and federal mandates for quality.

Water Department crews make certain that the almost 500 miles of underground water mains are functioning properly so customers can rely on water quality, pressure, and availability. That includes flushing hydrants to keep the water supply fresh and repairing water mains when they break.

Key 2017 projects:

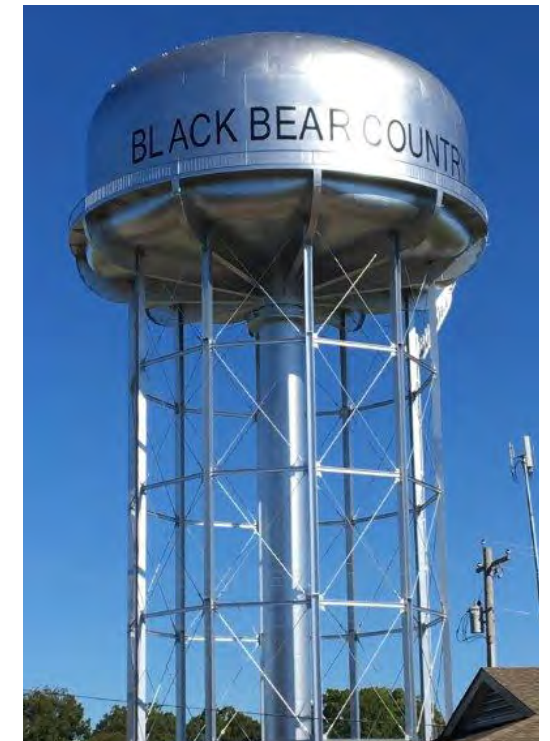
- Mallard Fox Water Main upgrade to serve continued commercial and industrial growth.
- Relocation of water lines along Spring Ave. SW and Indian Hills Rd. SW in support of highway widening projects.
- Resurfaced Boys and Girls Club Water Tank on 3rd St. SW.
- Replaced Programmable Logic Controllers on WTP filter consoles to improve system performance and reliability.

2017 Awards:

- 2017 Best Operated Plant - (25,001 - 50,000 meters) & Three-Year Best Operated Plant Award (2015-2017) Alabama Water Pollution Control Association
- 2017 Award of Excellence - Surface Water Plants > 60 MGD Alabama Water Environment Association
- 2013-2016 Four-Year Optimized Plant Award - Alabama Department of Environmental Management



GALLONS SOLD
10 BILLION

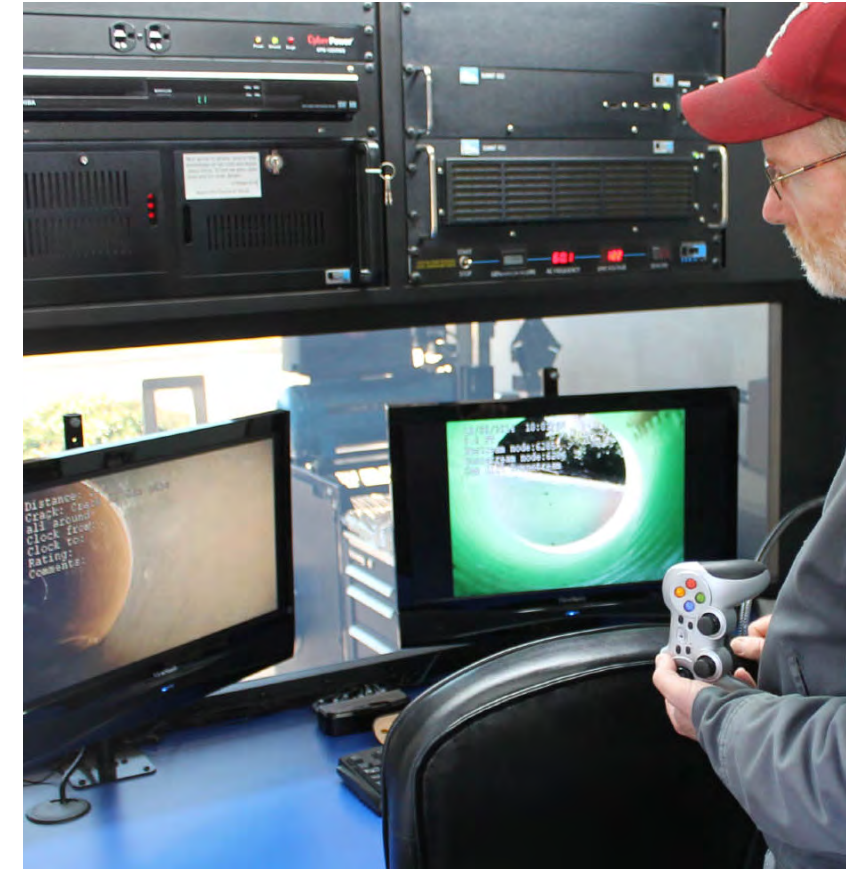


CUSTOMERS
>25,000

Wholesale Customers:

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

Wastewater



Proper treatment of wastewater and its re-introduction into the environment are vital to the health and wellbeing of Decatur's residents. Decatur Utilities takes this responsibility very seriously and strives to operate the best wastewater system possible.

Making sure wastewater is treated properly is the task of our Water Resources Group - including utility engineers, the Wastewater Treatment Plant on Hwy. 20, and Wastewater Department crews from the 10th Ave. Service Center.

10th Ave. crews maintain more than 350 miles of sewer main throughout the city while the WTP treats more than 7.5 billion gallons of wastewater each year using a series of processes that include screening, anaerobic digestion, and chemical disinfection.

DU's board and management has invested in capital upgrades for the wastewater system over the past several years, including new lift stations and sewer mains that have reduced system overflows by collecting and processing wastewater from all areas of the city much more efficiently.

Upgrades at the WWTP continue to improve the treatment process and ensure that the water DU returns to the Tennessee River meets the standards of its discharge permit issued and monitored by the Alabama Department of Environmental Management.

Key 2017 projects:

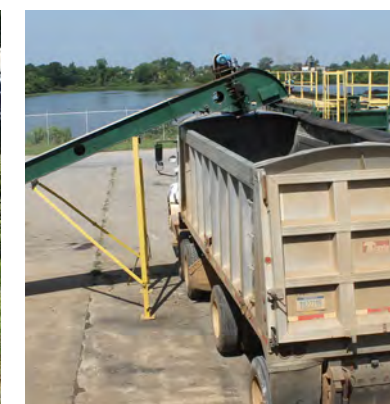
- Completed Riverview Lift Station.
- Completed Beltline Lift Station.
- Completed Beltline Sewer Phases II and IV.
- Began construction on Stratford Rd. Lift Station.
- Installed booster lift stations in Flint community.

Key 2017 stats:

- Replaced 4,565 feet of sewer main.
- Inspected 89,985 feet of sewer mains via CCTV.
- Reached milestone of one million feet of main cleaned.

2017 Awards:

- 2017 Best Operated Plant - (>10 Million Gallons/Day (MGD) & Three-Year Best Operated Plant Award (2015-2017) Alabama Water Pollution Control Association
- 2017 Award of Excellence - Mechanical Plants > 10 MGD Alabama Water Environment Association



BEST OPERATED PLANT - AWPCA

GALLONS TREATED >7.5 BILLION

CUSTOMERS >20,000

Community Crew



We believe in giving back. While it's easy to say that - DU puts it into action. DU's Community Crew is made up of the men and women of Decatur Utilities who "pull together" to serve the area we call home.

Working in public utility service is more than just a job for the 165-plus employees of Decatur Utilities - it's a calling. We are here to provide you, our customer, with outstanding service in every area. Whether it's helping set up a new account, transferring an existing service, getting your service back up and running after an interruption, or alerting you to a possible problem due to a higher-than-normal meter reading...we are here to serve.

But beyond that, we're here to serve our local community as a whole. Each year, our employees spend hundreds of hours in volunteer service, raising funds for local non-profits, and serving in leadership roles with local agency boards, civic clubs, churches, and other service organizations.

Key 2017 activities:

- United Way Employee Campaign - \$42K raised
- First Place Dragon Boat Fundraising - \$11K raised
- Relay for Life Fundraising - \$5K raised
- Led Barrels of Love Non-Perishable Food Drive
- Chamber of Commerce EQUIP Student tours
- Community Action Partnership Block Makeover Project
- Safety in a Flash - Elementary School Electric Safety
- Safety in a Sniff - Elementary School Natural Gas Safety
- Decatur High, Calhoun and UNA Career Fairs
- Endless Opportunities Career Day
- Chamber, Rotary, Kiwanis and other civic involvement
- Multiple employees serving on local non-profit boards
- Day of Caring snack drive for Child Advocacy Center
- Day of Caring building upgrades for Arc of Morgan County
- Day of Caring landscaping for Hospice of the Valley

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 116,000 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.

Key 2017 projects:

Installation of fiber to improve communication and data transfer between Main Administrative Office, 10th Ave. Gas/Water/Wastewater Service Center, Water Treatment Plant and Wastewater Treatment Plant.

2017 Stats:

- Answered 86.7% of 65,790 customer service phone calls within 60 sec.
- Processed 12,269 walk-in customers with average wait time of 4.6 min.
- Accepted 116,670 lobby/drive thru payments
- Processed 22,482 self-service kiosk payments and 47,239 by phone/online

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.

2017 Stats:

- Meters read - 821,744
- Accuracy - 99.93%
- Miles traveled - 104,742
- Tickets worked - 21,514

Supporting departments at Decatur Utilities ensure that we have the resources, systems and tools in place to deliver on our mission statement.

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

UTILITY 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 SERVICES

- 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, 2017

**MUNICIPAL UTILITIES BOARD OF DECATUR
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**MUNICIPAL UTILITIES BOARD OF DECATUR, MORGAN COUNTY, ALABAMA
D/B/A DECATUR UTILITIES
INTRODUCTORY SECTION
September 30, 2017**

DIRECTORY

BOARD OF DIRECTORS

Neal A. Holland, Jr., Chairman
James R. “Skip” Thompson, III, Secretary
Tom Counts, 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
John Kuhlman, Information Systems Manager
Janice Armor, Executive Assistant

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION

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, 2017, 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, 2017, 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, 2017, the changes in its financial position or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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, 2017 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, 2017

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, 2017. 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 \$233 million (*Net Position*).
- Operating revenues were \$139 million, an increase from fiscal year 2016 in the amount of \$2 million or 1.51%.
- Operating expenses were \$126 million, an increase from fiscal year 2016 in the amount of \$1 million or 1.09%.
- The operating income for the year was \$13 million as compared to a \$13 million income for fiscal year 2016.

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 \$1.10 million for the fiscal year ended September 30, 2017. 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		Increase (Decrease)	
	September 30, 2017	September 30, 2016	\$	%
Current assets	\$ 33,580,243	\$ 25,798,246	\$ 7,781,997	30.16%
Restricted assets	2,942,143	2,519,097	423,046	16.79%
Capital assets	42,401,396	42,165,291	236,105	0.56%
Other assets	2,607,810	2,446,586	161,224	6.59%
Total assets	81,531,591	72,929,220	8,602,371	11.80%
Deferred outflows of resources	1,056,865	1,022,493	34,372	3.36%
Current liabilities	16,026,090	9,113,477	6,912,613	75.85%
Long term liabilities	9,976,511	9,369,777	606,734	6.48%
Other liabilities	2,870,680	2,771,341	99,339	3.58%
Total liabilities	28,873,282	21,254,595	7,618,687	35.84%
Deferred inflows of resources	283,010	361,785	(78,775)	-21.77%
Investment in capital assets	42,401,396	42,165,291	236,105	0.56%
Restricted	2,942,143	2,519,097	423,046	16.79%
Unrestricted	8,088,625	7,650,945	437,680	5.72%
Total net position	\$ 53,432,164	\$ 52,335,333	\$ 1,096,831	2.10%

The most significant changes from fiscal year 2016 to 2017 were in current assets due to increases in cash and cash equivalents and in current liabilities due to increases in accounts payable. Cash and cash equivalents increased by \$8.45 million and accounts payable increased \$6.94 million. The August TVA bill for \$7.9 million, which would typically be paid on September 30th, was not paid until October 3rd. Restricted assets increased due to additional cash set aside to fund post-employment benefits other than pensions (OPEB).

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, 2017.

Table 1B
ELECTRIC SYSTEM

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
			Increase (Decrease)	
	September 30, 2017	September 30, 2016	\$	%
Operating revenues	\$ 91,740,396	\$ 92,196,471	\$ (456,075)	-0.49%
Purchased power	79,365,208	79,499,196	(133,988)	-0.17%
Gross margin	12,375,189	12,697,275	(322,086)	-2.54%
Other operating expenses	9,681,702	9,779,393	(97,691)	-1.00%
Operating income	2,693,487	2,917,882	(224,395)	-7.69%
Other revenue (expenses)	106,807	45,008	61,799	137.31%
Income before transfers	2,800,293	2,962,890	(162,597)	-5.49%
Tax equivalents	(1,703,462)	(1,698,713)	4,749	0.28%
Change in net position	1,096,831	1,264,177	(167,346)	-13.24%
Net position - beginning	52,335,333	51,071,156	1,264,177	2.48%
Net position - ending	\$ 53,432,164	\$ 52,335,333	\$ 1,096,831	2.10%

From fiscal year 2016 to 2017, operating revenues decreased 0.49% due to lower volumes in the Residential and Commercial customer classes as compared to the prior year. Net position increased 2.10% from the prior year due to a positive operating income.

The Gas System's total Net Position decreased by \$320 thousand for the fiscal year ended September 30, 2017. 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

CONDENSED STATEMENT OF NET POSITION				
			Increase (Decrease)	
	September 30, 2017	September 30, 2016	\$	%
Current assets	\$ 5,615,633	\$ 6,085,232	\$ (469,599)	-7.72%
Restricted assets	1,075,747	934,536	141,211	15.11%
Capital assets	20,559,693	20,402,140	157,553	0.77%
Other assets	482,150	208,438	273,712	131.32%
Total assets	27,733,223	27,630,346	102,877	0.37%
Deferred outflows of resources	305,606	295,966	9,640	3.26%
Current liabilities	1,222,184	1,152,048	70,136	6.09%
Long term liabilities	3,463,945	3,275,051	188,894	5.77%
Other liabilities	274,968	80,003	194,965	243.70%
Total liabilities	4,961,097	4,507,102	453,995	10.07%
Deferred inflows of resources	102,097	123,798	(21,701)	-17.53%
Investment in capital assets	20,559,693	20,402,140	157,553	0.77%
Restricted	1,075,747	934,536	141,211	15.11%
Unrestricted	1,340,195	1,958,736	(618,541)	-31.58%
Total net position	\$ 22,975,635	\$ 23,295,412	\$ (319,777)	-1.37%

The most significant changes from fiscal year 2016 to 2017 were in current assets primarily due to a decrease in cash and cash equivalents. Cash and cash equivalents decreased \$1.258 million while utility plant increased \$158 thousand. The unearned gas revenue account, as described in paragraph 1 of Note 3J to the financial statements, increased by \$272 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, 2017.

Table 2B
GAS SYSTEM

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
	September 30, 2017	September 30, 2016	Increase (Decrease)	
			\$	%
Operating revenues	\$ 14,198,279	\$ 13,333,262	\$ 865,017	6.49%
Purchased gas	10,932,346	9,490,692	1,441,654	15.19%
Gross margin	3,265,933	3,842,570	(576,637)	-15.01%
Other operating expenses	3,617,478	3,606,040	11,438	0.32%
Operating income (loss)	(351,545)	236,530	(588,075)	-248.63%
Other revenue (expenses)	21,443	18,560	2,883	15.53%
Income (loss) before transfers	(330,102)	255,090	(585,192)	-229.41%
Transfer to Decatur general fund	-	(127,545)	(127,545)	-100.00%
Aid in construction	10,325	138,288	(127,963)	-92.53%
Change in net position	(319,777)	265,833	(585,610)	-220.29%
Net position - beginning	23,295,412	23,029,579	265,833	1.15%
Net position - ending	\$ 22,975,635	\$ 23,295,412	\$ (319,777)	-1.37%

From fiscal year 2016 to 2017, operating revenues increased 6.49% from higher rates in all classes. Transfers to the City were down due to the decrease in income. Net position decreased in the current year by 1.37%. The decrease was due to a negative operating income caused by an unseasonably warm winter.

The Water System's total Net Position increased by \$3.64 million for the fiscal year ended September 30, 2017. 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

CONDENSED STATEMENT OF NET POSITION				
	September 30, 2017	September 30, 2016	Increase (Decrease)	
			\$	%
Current assets	\$ 6,392,677	\$ 5,144,528	\$ 1,248,149	24.26%
Restricted assets	8,399,346	10,033,959	(1,634,613)	-16.29%
Capital assets	71,114,595	68,720,810	2,393,785	3.48%
Other assets	17,053	22,879	(5,826)	-25.46%
Total assets	85,923,672	83,922,176	2,001,496	2.38%
Deferred outflows of resources	620,851	601,384	19,467	3.24%
Current liabilities	1,467,385	870,343	597,042	68.60%
Liabilities payable from restricted assets	2,955,197	2,906,873	48,324	1.66%
Long term liabilities	21,705,837	23,973,062	(2,267,225)	-9.46%
Other liabilities	300,236	249,289	50,947	20.44%
Total liabilities	26,428,656	27,999,567	(1,570,911)	-5.61%
Deferred inflows of resources	182,761	226,587	(43,826)	-19.34%
Net investment in capital assets	54,058,596	49,681,182	4,377,414	8.81%
Restricted	8,179,149	9,787,086	(1,607,937)	-16.43%
Unrestricted	(2,304,639)	(3,170,862)	866,223	27.32%
Total net position	\$ 59,933,106	\$ 56,297,406	\$ 3,635,700	6.46%

The most significant changes from fiscal year 2016 to 2017 were in capital assets, restricted assets, long term liabilities, net investment in capital assets and restricted net position. The restricted assets, 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 restricted net position were primarily due to a positive operating income as well as principal payments on 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, 2017.

Table 3B
WATER SYSTEM

	CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
	September 30, 2017	September 30, 2016	Increase (Decrease)	
			\$	%
Operating revenues	\$ 15,875,358	\$ 14,795,250	\$ 1,080,108	7.30%
Treatment expense	4,806,322	4,536,432	269,890	5.95%
Gross margin	11,069,036	10,258,818	810,218	7.90%
Other operating expenses	7,169,038	7,141,774	27,264	0.38%
Operating income	3,899,997	3,117,044	782,953	25.12%
Other revenue (expenses)	(646,590)	(748,821)	(102,231)	-13.65%
Income before transfers	3,253,408	2,368,223	885,185	37.38%
Transfer to Decatur general fund	(617,616)	(609,657)	7,959	1.31%
Aid in construction	999,908	1,861,449	(861,541)	-46.28%
Change in net position	3,635,700	3,620,015	15,685	0.43%
Net position - beginning	56,297,406	52,677,391	3,620,015	6.87%
Net position - ending	\$ 59,933,106	\$ 56,297,406	\$ 3,635,700	6.46%

From fiscal year 2016 to 2017, operating revenues increased 7.30% as a result of volumetric increases coming from all customer classes, except Residential, as well as continued implementation of Residential access fee increases approved in 2015. Other revenue (expenses) decreased due to higher interest income and lower interest expense. Net position increased 6.46% due primarily to the above mentioned items resulting in a positive operating income.

The Wastewater System's total Net Position increased by \$5.04 million for the fiscal year ended September 30, 2017. 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

	CONDENSED STATEMENT OF NET POSITION			
	September 30, 2017	September 30, 2016	Increase (Decrease)	
			\$	%
Current assets	\$ 19,786,721	\$ 18,044,644	\$ 1,742,077	9.65%
Restricted assets	10,873,405	15,553,951	(4,680,546)	-30.09%
Capital assets	112,398,375	106,717,790	5,680,585	5.32%
Other assets	419,844	1,035,991	(616,147)	-59.47%
Total assets	143,478,344	141,352,376	2,125,968	1.50%
Deferred outflows of resources	530,167	511,760	18,407	3.60%
Current liabilities	1,625,426	1,625,491	(65)	0.00%
Liabilities payable from				
restricted assets	3,284,602	3,400,412	(115,810)	-3.41%
Long term liabilities	45,362,875	48,106,932	(2,744,057)	-5.70%
Other liabilities	3,565	-	3,565	100.00%
Total liabilities	50,276,468	53,132,835	(2,856,367)	-5.38%
Deferred inflows of resources	134,132	175,571	(41,439)	-23.60%
Net investment in capital assets	68,935,115	60,102,167	8,832,948	14.70%
Restricted	10,643,803	15,308,539	(4,664,736)	-30.47%
Unrestricted	14,018,993	13,145,024	873,969	6.65%
Total net position	\$ 93,597,911	\$ 88,555,730	\$ 5,042,181	5.69%

The most significant changes from fiscal year 2016 to 2017 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, 2017.

Table 4B
WASTEWATER SYSTEM

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
	September 30, 2017	September 30, 2016	Increase (Decrease)	
			\$	%
Operating revenues	\$ 17,267,097	\$ 16,691,283	\$ 575,814	3.45%
Treatment expense	3,259,454	3,332,103	(72,649)	-2.18%
Gross margin	14,007,642	13,359,180	648,462	4.85%
Other operating expenses	7,011,541	7,101,350	(89,809)	-1.26%
Operating income	6,996,102	6,257,830	738,272	11.80%
Other revenue (expenses)	(1,316,355)	(1,495,068)	(178,713)	-11.95%
Income before transfers	5,679,746	4,762,762	916,984	19.25%
Transfer to Decatur general fund	(823,166)	(692,161)	131,005	18.93%
Aid in construction	185,600	2,485,712	(2,300,112)	-92.53%
Change in net position	5,042,181	6,556,313	(1,514,132)	-23.09%
Net position - beginning	88,555,730	81,999,417	6,556,313	8.00%
Net position - ending	\$ 93,597,911	\$ 88,555,730	\$ 5,042,181	5.69%

From fiscal year 2016 to 2017, operating revenues increased 3.45% due to higher sales volumes and increased Industrial surcharges. Aid in construction was significantly lower than 2016. Net position increased 5.69% 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, 2017. The analysis below focuses on the System's Net Position (Table 5A).

Table 5A
ADMINISTRATIVE
CONDENSED STATEMENT OF NET POSITION

	September 30, 2017	September 30, 2016	Increase (Decrease)	
			\$	%
Current assets	\$ 6,498,858	\$ 6,318,056	\$ 180,802	2.86%
Restricted assets	216,054	90,005	126,049	140.05%
Capital assets	2,479,484	2,503,612	(24,128)	-0.96%
Total assets	9,194,396	8,911,673	282,723	3.17%
Current liabilities	4,945,026	4,815,520	129,506	2.69%
Long term liabilities	494,033	458,213	35,820	7.82%
Other liabilities	202,400	85,004	117,396	138.11%
Total liabilities	5,641,459	5,358,737	282,722	5.28%
Investment in capital assets	2,479,484	2,503,612	(24,128)	-0.96%
Restricted	216,054	90,005	126,049	140.05%
Unrestricted	857,398	959,319	(101,921)	-10.62%
Total net position	\$ 3,552,936	\$ 3,552,936	\$ -	0.00%

The most significant changes from fiscal year 2016 to 2017 were in current and restricted assets. Current assets increased primarily due to increases in cash and cash equivalents. Restricted assets increased due to growth in the sewer enhancement fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2017, the Utility had \$249 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 \$8.44 million or 3.51% 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, 2017 and 2016. These changes are presented in detail in Note 3D to the financial statements.

Table 1C
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

			Increase (Decrease)	
	September 30, 2017	September 30, 2016	\$	%
Electric System				
Land	\$ 723,496	\$ 721,209	\$ 2,287	0.32%
Utility plant	82,191,801	79,959,977	2,231,824	2.79%
Construction in progress	1,320,088	1,933,109	(613,021)	-31.71%
Less: Accumulated depreciation	(41,833,989)	(40,449,004)	1,384,985	3.42%
Net electric plant	<u>42,401,396</u>	<u>42,165,291</u>	<u>236,105</u>	<u>0.56%</u>
Gas System				
Land	124,816	124,816	0	0.00%
Utility plant	36,544,122	35,603,361	940,761	2.64%
Construction in progress	1,163,049	1,078,646	84,403	7.82%
Less: Accumulated depreciation	(17,272,294)	(16,404,683)	867,611	5.29%
Net gas plant	<u>20,559,693</u>	<u>20,402,140</u>	<u>157,553</u>	<u>0.77%</u>
Water System				
Land	483,281	479,808	3,473	0.72%
Utility plant	122,022,336	118,111,460	3,910,876	3.31%
Construction in progress	2,254,597	1,055,696	1,198,901	113.56%
Less: Accumulated depreciation	(53,645,619)	(50,926,154)	2,719,465	5.34%
Net water plant	<u>71,114,595</u>	<u>68,720,810</u>	<u>2,393,785</u>	<u>3.48%</u>
Wastewater System				
Land	1,578,323	1,578,323	-	0.00%
Utility plant	150,983,702	137,364,169	13,619,533	9.91%
Construction in progress	12,066,817	17,751,920	(5,685,103)	-32.03%
Less: Accumulated depreciation	(52,230,467)	(49,976,622)	2,253,845	4.51%
Net wastewater plant	<u>112,398,375</u>	<u>106,717,790</u>	<u>5,680,585</u>	<u>5.32%</u>
Administrative System				
Land	71,407	71,407	-	0.00%
Buildings	6,244,395	6,143,225	101,170	1.65%
Construction in progress	199,811	10,294	189,517	1841.04%
Less: Accumulated depreciation	(4,036,129)	(3,721,314)	314,815	8.46%
Net administration system	<u>\$ 2,479,484</u>	<u>\$ 2,503,612</u>	<u>\$ (24,128)</u>	<u>-0.96%</u>

Debt Administration

The Utility has outstanding debt payable of \$61 million as of September 30, 2017. 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, 2017

	Electric	Gas	Water	Wastewater	Administrative	(Memo Only) Total
Assets						
Current assets						
Cash and cash equivalents	\$ 22,350,592	\$ 3,877,470	\$ 3,846,384	\$ 17,842,701	\$ 5,755,782	\$ 53,672,929
Receivables						
Accounts (net of allowance)	7,602,484	669,727	1,124,377	1,209,216	596,727	11,202,531
Other accounts receivable	90,196	5,903	18,039	22,882	39,599	176,619
City of Decatur	351,918	568,742	940,744	25,395	21,494	1,908,293
Current note receivable - other funds	-	-	-	600,000	-	600,000
Stored natural gas	-	320,475	-	-	-	320,475
Materials and supplies	1,078,083	97,576	355,029	35,499	-	1,566,186
Accrued utility revenue	1,990,954	-	-	-	-	1,990,954
Other current assets	116,016	75,740	108,104	51,029	85,256	436,145
Total current assets	33,580,243	5,615,633	6,392,677	19,786,721	6,498,857	71,874,132
Noncurrent assets						
Restricted cash and equivalents	2,942,143	1,075,747	8,399,346	10,873,405	216,054	23,506,695
Capital assets, not being depreciated						
Land	723,496	124,816	483,281	1,578,323	71,407	2,981,323
Work in process	1,320,088	1,163,049	2,254,597	12,066,817	199,811	17,004,363
Capital assets, net of accumulated depreciation						
Utility plant	40,357,812	19,271,828	68,376,717	98,753,234	2,208,266	228,967,857
Total capital assets	42,401,396	20,559,693	71,114,595	112,398,375	2,479,484	248,953,543
Other assets						
Energy service loans receivable	2,606,403	-	-	-	-	2,606,403
Long term note receivable - other funds	-	-	-	400,000	-	400,000
Other unearned credits	-	476,616	-	-	-	476,616
Other charges receivable	1,406	5,533	17,053	19,844	-	43,836
Total other assets	2,607,810	482,150	17,053	419,844	-	3,526,856
Total assets	81,531,591	27,733,223	85,923,672	143,478,344	9,194,395	347,861,226
Deferred outflows of resources						
Pension contributions subsequent to the measurement date	1,056,865	305,606	620,851	530,167	-	2,513,488
Total deferred outflows of resources	1,056,865	305,606	620,851	530,167	-	2,513,488
Combined assets and deferred outflows of resources	\$ 82,588,456	\$ 28,038,829	\$ 86,544,523	\$ 144,008,511	\$ 9,194,395	\$ 350,374,714

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

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

September 30, 2017

	Electric	Gas	Water	Wastewater	Administrative	(Memo Only) Total
Liabilities						
Current liabilities						
Accounts payable	\$ 15,242,162	\$ 993,642	\$ 963,291	\$ 1,203,761	\$ 371,907	\$ 18,774,763
Due to City of Decatur general fund	183,632	31	106,000	93,817	658,547	1,042,028
Accrued payroll and other expense	600,296	228,510	398,094	327,849	29,882	1,584,630
Customer deposits	-	-	-	-	3,884,690	3,884,690
Total current liabilities	<u>16,026,090</u>	<u>1,222,184</u>	<u>1,467,385</u>	<u>1,625,426</u>	<u>4,945,026</u>	<u>25,286,111</u>
Liabilities payable from restricted assets						
Current maturities of revenue warrants	-	-	2,135,000	3,055,000	-	5,190,000
Current notes payable - other funds	-	-	600,000	-	-	600,000
Interest payable	-	-	220,197	229,602	-	449,799
Total liabilities payable from restricted assets	<u>-</u>	<u>-</u>	<u>2,955,197</u>	<u>3,284,602</u>	<u>-</u>	<u>6,239,799</u>
Noncurrent liabilities						
Long term debt payable, net of costs	-	-	14,920,999	40,408,260	-	55,329,259
Long term note payable - other funds	-	-	400,000	-	-	400,000
Compensated absences	209,406	1,181	96,843	88,696	494,033	890,159
Energy service loans payable	2,606,403	-	-	-	-	2,606,403
Postemployment benefits	2,423,159	871,185	1,632,702	1,303,389	-	6,230,434
Net pension liability	7,343,947	2,591,580	4,655,293	3,562,530	-	18,153,350
Other unearned credits	264,277	274,968	300,236	3,565	202,400	1,045,447
Total noncurrent liabilities	<u>12,847,192</u>	<u>3,738,913</u>	<u>22,006,073</u>	<u>45,366,440</u>	<u>696,434</u>	<u>84,655,052</u>
Total liabilities	<u>28,873,282</u>	<u>4,961,097</u>	<u>26,428,656</u>	<u>50,276,468</u>	<u>5,641,459</u>	<u>116,180,962</u>
Deferred inflows of resources						
Net difference between projected and actual earnings on pension plan investments	283,010	102,097	182,761	134,132	-	702,000
Combined liabilities and deferred inflows of resources	<u>29,156,292</u>	<u>5,063,194</u>	<u>26,611,417</u>	<u>50,410,601</u>	<u>5,641,459</u>	<u>116,882,962</u>
Net position						
Net investment in capital assets	42,401,396	20,559,693	54,058,596	68,935,115	2,479,484	188,434,284
Restricted	2,942,143	1,075,747	8,179,149	10,643,803	216,054	23,056,896
Unrestricted (deficit)	8,088,625	1,340,195	(2,304,639)	14,018,993	857,398	22,000,571
Total net position	<u>\$ 53,432,164</u>	<u>\$ 22,975,635</u>	<u>\$ 59,933,106</u>	<u>\$ 93,597,911</u>	<u>\$ 3,552,936</u>	<u>\$ 233,491,752</u>
Total liabilities and net position	<u>\$ 82,588,456</u>	<u>\$ 28,038,829</u>	<u>\$ 86,544,523</u>	<u>\$ 144,008,511</u>	<u>\$ 9,194,395</u>	<u>\$ 350,374,714</u>

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, 2017

	Electric	Gas	Water	Wastewater	Administrative	(Memo Only) Total
Operating revenues						
Charges for sales and services (net of adjustments and allowances)	\$ 90,683,732	\$ 14,037,172	\$ 14,681,093	\$ 15,559,667	\$ -	\$ 134,961,664
Other revenue	1,056,664	161,107	1,194,265	1,707,430	-	4,119,467
Total operating revenues	<u>91,740,396</u>	<u>14,198,279</u>	<u>15,875,358</u>	<u>17,267,097</u>	<u>-</u>	<u>139,081,130</u>
Operating expenses						
Costs of sales and services	79,365,208	10,932,346	4,806,322	3,259,454	-	98,363,330
Operations expenses	1,923,034	777,980	786,942	1,091,673	-	4,579,629
Maintenance expenses	1,484,328	385,475	500,020	361,275	-	2,731,098
Customer service expenses	697,952	336,012	649,819	255,509	-	1,939,291
Administrative expenses	3,141,563	1,245,990	2,247,347	1,745,573	-	8,380,473
Depreciation expense	2,434,825	872,022	2,984,911	3,557,511	-	9,849,269
Total operating expenses	<u>89,046,910</u>	<u>14,549,824</u>	<u>11,975,361</u>	<u>10,270,995</u>	<u>-</u>	<u>125,843,090</u>
Operating income (loss)	<u>2,693,486</u>	<u>(351,545)</u>	<u>3,899,997</u>	<u>6,996,102</u>	<u>-</u>	<u>13,238,040</u>
Non-operating revenues (expenses)						
Interest income	120,459	34,588	65,249	146,350	-	366,646
Other non-operating revenue	5	5	1,565	5	-	1,580
Amortization expense	-	-	(76,370)	(2,637)	-	(79,007)
Interest expense	(926)	(313)	(635,856)	(1,456,748)	-	(2,093,843)
Miscellaneous income deduction	(12,731)	(13,040)	(1,177)	(3,324)	-	(30,272)
Gain (loss) on sale	-	204	-	-	-	204
Total non-operating revenues (expenses)	<u>106,807</u>	<u>21,443</u>	<u>(646,589)</u>	<u>(1,316,355)</u>	<u>-</u>	<u>(1,834,694)</u>
Income (loss) before transfers and contributions	<u>\$ 2,800,293</u>	<u>\$ (330,102)</u>	<u>\$ 3,253,408</u>	<u>\$ 5,679,746</u>	<u>\$ -</u>	<u>\$ 11,403,346</u>

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, 2017

	Electric	Gas	Water	Wastewater	Administrative	(Memo Only) Total
Transfers and capital contributions						
Transfers to City of Decatur - in lieu of taxes	\$ (1,703,462)	\$ -	\$ (617,616)	\$ (823,166)	\$ -	\$ (3,144,244)
Income (loss) before contributions	1,096,831	(330,102)	2,635,792	4,856,581	-	8,259,102
Capital contributions	-	10,325	999,908	185,600	-	1,195,833
Change in net position	1,096,831	(319,777)	3,635,700	5,042,181	-	9,454,935
Total net position - beginning	52,335,333	23,295,412	56,297,406	88,555,730	3,552,936	224,036,817
Total net position - ending	<u>\$ 53,432,164</u>	<u>\$ 22,975,635</u>	<u>\$ 59,933,106</u>	<u>\$ 93,597,911</u>	<u>\$ 3,552,936</u>	<u>\$ 233,491,752</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, 2017

	Electric	Gas	Water	Wastewater	Administrative	(Memo Only) Totals
Cash flows from operating activities:						
Cash received from consumers	\$ 92,671,836	\$ 14,139,291	\$ 15,913,171	\$ 17,209,661	\$ -	\$ 139,933,959
Cash paid to suppliers for goods and services	(73,450,327)	(12,094,277)	(4,649,879)	(3,128,267)	544,851	(92,777,899)
Cash paid to employees for services	(5,890,070)	(2,115,267)	(4,297,312)	(3,249,246)	-	(15,551,895)
Net change in energy service loans payable	166,647	-	-	-	-	166,647
Net change in energy service loans receivable	(166,647)	-	-	-	-	(166,647)
Interest paid on customer deposits	-	-	-	-	1,425	1,425
Net change in customer deposits	-	-	-	-	50,508	50,508
Net cash provided (used) by operating activities	<u>13,331,439</u>	<u>(70,253)</u>	<u>6,965,980</u>	<u>10,832,148</u>	<u>596,784</u>	<u>31,656,098</u>
Cash flows from non-capital related financing activities						
Advances between funds	-	-	(600,000)	600,000	-	-
Operating transfer out - City of Decatur & tax equivalents	(1,703,462)	-	(617,616)	(823,166)	-	(3,144,244)
Net cash provided (used) by non-capital financing activities	<u>(1,703,462)</u>	<u>-</u>	<u>(1,217,616)</u>	<u>(223,166)</u>	<u>-</u>	<u>(3,144,244)</u>
Cash flows from capital and related financing activities:						
Construction and acquisition of capital assets	(2,866,100)	(1,078,224)	(5,418,676)	(9,333,923)	(325,335)	(19,022,258)
Capital contributed by customers	-	10,325	999,908	185,600	-	1,195,833
Principal paid on debt	-	-	(2,060,000)	(3,155,000)	-	(5,215,000)

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, 2017

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Wastewater</u>	<u>Administrative</u>	<u>(Memo Only) Totals</u>
Interest paid on debt	(926)	(313)	(662,532)	(1,472,558)	-	(2,136,329)
Net cash provided (used) by capital and related financing activities	(2,867,026)	(1,068,212)	(7,141,300)	(13,775,881)	(325,335)	(25,177,754)
Cash flows from investing activities:						
Decrease (increase) in restricted assets	(423,045)	(141,212)	1,634,613	4,680,547	(126,049)	5,624,854
Income (expense) from other non-operating revenue	(12,726)	(12,831)	389	(3,319)	-	(28,487)
Interest received	120,459	34,588	65,249	146,350	-	366,646
Net cash provided (used) by investing activities	(315,312)	(119,455)	1,700,251	4,823,578	(126,049)	5,963,014

Net increase (decrease) in cash and cash equivalents

8,445,639 **(1,257,920)** **307,315** **1,656,679** **145,400** **9,297,113**

Cash and cash equivalents - beginning
Cash and cash equivalents - ending

13,904,953 5,135,390 3,539,069 16,186,022 5,610,382 44,375,816
\$ 22,350,592 \$ 3,877,470 \$ 3,846,384 \$ 17,842,701 \$ 5,755,782 \$ 53,672,929

Cash and cash equivalents
Unrestricted cash and cash equivalent
Total cash and cash equivalents

22,350,592 3,877,470 3,846,384 17,842,701 5,755,782 53,672,929
\$ 22,350,592 \$ 3,877,470 \$ 3,846,384 \$ 17,842,701 \$ 5,755,782 \$ 53,672,929

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, 2017

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Wastewater</u>	<u>Administrative</u>	<u>(Memo Only) Totals</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	\$ 2,693,486	\$ (351,545)	\$ 3,899,997	\$ 6,996,102	\$ -	\$ 13,238,040
Operating income (loss)	2,629,996	920,671	3,024,891	3,653,338	349,463	10,578,359
Adjustments to reconcile operating income to net cash provided by operating activities	80,953	22,130	44,693	42,258	-	190,034
Depreciation expense	755,844	(58,988)	37,813	(57,436)	8,758	685,991
Pension contributions in excess of actuarially determined pension expense	(181,114)	(564,677)	(908,594)	(12,879)	(12,081)	(1,679,345)
Changes in assets and liabilities:	175,594	-	-	-	-	175,594
Receivables	(28,495)	(147,063)	(11,307)	1,932	-	(184,933)
Due from City	(166,647)	-	-	-	-	(166,647)
Unbilled revenues	166,647	-	-	-	-	166,647
Materials and supplies	(58,188)	(289,187)	(58,746)	(17,016)	(32,078)	(455,215)
Energy service loans receivable	5,424	(2,118)	5,826	16,147	-	25,278
Energy service loans payable	7,179,959	239,374	834,062	204,654	(216,049)	8,242,000
Other current assets (prepaid)	145,288	(33,815)	46,398	1,483	333,283	492,637
Other charges	-	-	-	-	48,092	48,092
Accounts payable and other accruals	(67,308)	194,965	50,947	3,565	117,396	299,565
Due to City	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-
Other credits	-	-	-	-	-	-
Net cash provided (used) by operating activities	\$ 13,331,439	\$ (70,253)	\$ 6,965,990	\$ 10,832,148	\$ 596,784	\$ 31,656,098

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

**MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
September 30, 2017**

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, 2017**

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, 2017

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, 2017

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 \$77,168,973. The bank balances were \$77,244,391, 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
September 30, 2017**

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 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	\$7,742,312	\$737,081	\$1,147,813	\$1,247,201	\$596,727
Allowance	(139,828)	(67,354)	(23,436)	(37,985)	-
Net accounts receivable	<u>\$7,602,484</u>	<u>\$669,727</u>	<u>\$1,124,377</u>	<u>\$1,209,216</u>	<u>\$596,727</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 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, 2017 is \$211,054.

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.

**MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
September 30, 2017**

	<u>Due from City</u>	<u>Due to City</u>
Electric	\$351,918	\$183,632
Gas	568,742	31
Water	940,744	106,000
Sewer	25,395	93,817
Administrative (Garbage)	21,494	658,547
Total	<u>\$1,908,293</u>	<u>\$1,042,028</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>\$1,000,000</u>	<u>\$1,000,000</u>

D. Capital Assets

Capital asset activity for the year ended September 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Electric System				
Land	\$721,209	\$2,287	\$-	\$723,496
Utility Plant	79,959,977	3,202,125	(970,301)	82,191,801
Construction in progress	1,933,109	7,833,159	(8,446,180)	1,320,088
Less: Accumulated depreciation	(40,449,004)	(2,237,077)	852,092	(41,833,989)
Net Electric Plant	<u>\$42,165,291</u>	<u>\$8,800,494</u>	<u>\$(8,564,389)</u>	<u>\$42,401,396</u>
Gas System				
Land	\$124,816	\$-	\$-	\$124,816
Utility Plant	35,603,361	1,006,822	(66,061)	36,544,122
Construction in progress	1,078,646	4,690,340	(4,605,937)	1,163,049
Less: Accumulated depreciation	(16,404,683)	(943,570)	75,959	(17,272,294)
Net Gas Plant	<u>\$20,402,140</u>	<u>\$4,753,592</u>	<u>\$(4,596,039)</u>	<u>\$20,559,693</u>
Water System				
Land	\$479,808	\$3,472	\$-	\$483,281
Utility Plant	118,111,460	4,242,908	(332,031)	122,022,336
Construction in progress	1,055,696	14,859,110	(13,660,208)	2,254,597
Less: Accumulated depreciation	(50,926,154)	(3,051,339)	331,874	(53,645,619)
Net Water Plant	<u>\$68,720,810</u>	<u>\$16,054,151</u>	<u>\$(13,660,365)</u>	<u>\$71,114,595</u>
Wastewater System				
Land	\$1,578,323	\$-	\$-	\$1,578,323
Utility Plant	137,364,169	14,941,941	(1,322,408)	150,983,702
Construction in progress	17,751,920	25,235,724	(30,920,827)	12,066,817
Less: Accumulated depreciation	(49,976,622)	(3,682,465)	1,428,620	(52,230,467)
Net Wastewater Plant	<u>\$106,717,790</u>	<u>\$36,495,200</u>	<u>\$(30,814,615)</u>	<u>\$112,398,375</u>

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Administrative System

Land	\$ 71,407	\$ -	\$ -	\$ 71,407
Buildings	6,143,225	136,318	(35,148)	6,244,395
Construction in progress	10,294	657,545	(468,028)	199,811
Less: Accumulated depreciation	(3,721,314)	(349,463)	34,648	(4,036,129)
Net Administration Plant	<u>\$ 2,503,612</u>	<u>\$ 444,400</u>	<u>\$ (468,528)</u>	<u>\$ 2,479,484</u>

Depreciation expense amounted to \$9,849,269 charged to operations and \$729,090 charged to other operating accounts and construction in progress in 2017.

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>\$2,434,825</u>	<u>\$872,022</u>	<u>\$2,984,911</u>	<u>\$ 3,557,511</u>	<u>\$ -</u>
Depreciation allocated to other operating accounts and construction in progress	<u>195,171</u>	<u>48,649</u>	<u>39,980</u>	<u>95,827</u>	<u>349,463</u>
Depreciation expense per the Statement of Cash Flows	<u>\$2,629,996</u>	<u>\$920,671</u>	<u>\$3,024,891</u>	<u>\$ 3,653,338</u>	<u>\$ 349,463</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, 2017 were \$14,435,000 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, 2017 was \$264,001.

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

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\$490,000. Total bonds outstanding at September 30, 2017 were \$2,885,000. The bonds are expected to mature in 2031 and 2033.

	<u>10/1/2016</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>9/30/2017</u>	<u>Current</u>
Water Series 2009	5,930,000	-	1,905,000	4,025,000	1,975,000
Water Series 2009/SRF	2,610,000	-	135,000	2,475,000	140,000
Water Series 2012/SRF	430,000	-	20,000	410,000	20,000
Water Series 2013	10,410,000	-	-	10,410,000	-
Unamortized debt expense	(340,372)	-	76,371	(264,001)	76,371
Total	<u>19,039,628</u>	<u>-</u>	<u>2,136,371</u>	<u>17,055,999</u>	<u>2,211,371</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 2010 bonds were issued at \$10,020,000. The 2013 bonds were issued at \$37,125,000. Total bonds outstanding from Series 2010 and 2013 issues at September 30, 2017 were \$34,495,000 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, 2017 was \$34,912. The System's unamortized debt premium at September 30, 2017 was \$(178,171).

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, 2017 were \$8,105,000. 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, 2017 were \$720,000. The bonds are expected to mature in 2033.

	<u>10/1/2016</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>9/30/2017</u>	<u>Current</u>
Bonds:					
Wastewater Series 1997	200,000	-	200,000	-	-
Wastewater Series 2009/SRF	8,545,000	-	440,000	8,105,000	455,000
Wastewater Series 2010	4,140,000	-	975,000	3,165,000	1,015,000
Wastewater Series 2012/SRF	755,000	-	35,000	720,000	35,000
Wastewater Series 2013	32,835,000	-	1,505,000	31,330,000	1,550,000
Unamortized debt expense	140,623	-	3,072	143,260	3,072
Total	<u>46,615,623</u>	<u>-</u>	<u>3,158,072</u>	<u>43,463,260</u>	<u>3,058,072</u>

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Future maturities of debt across all systems are as follows;

Year ending September 30,	Principal	Interest	Total
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	3,140,000	1,395,457	4,535,457
2023-2027	17,215,000	5,452,997	22,667,997
2028-2032	19,190,000	2,526,226	21,716,226
2033	3,445,000	119,938	3,564,938
	<u>\$60,640,000</u>	<u>\$ 16,349,959</u>	<u>\$ 76,989,959</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	\$42,401,396	\$20,559,693	\$54,058,596	\$ 68,935,115	\$ 2,479,484
Restricted	2,942,143	1,075,747	8,179,149	10,643,803	216,054
Unrestricted (deficit)	8,088,625	1,340,195	(2,304,639)	14,018,993	857,398
Total net position	<u>\$53,432,164</u>	<u>\$22,975,635</u>	<u>\$59,933,106</u>	<u>\$ 93,597,911</u>	<u>\$ 3,552,936</u>

G. Restricted Assets

The restricted assets consist of the following:

Electric System	September 30, 2017
Schedule of restricted assets	
Other Post Retirement Benefits Fund, medical and life	2,942,143
Total Restricted Assets	<u>\$ 2,942,143</u>
Gas System	September 30, 2017
Schedule of restricted assets	
Other Post Retirement Benefits Fund, medical and life	1,075,747
Total Restricted Assets	<u>\$ 1,075,747</u>

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Water System	September 30, 2017
Series 2009 and 2013 Warrant Fund: U.S. Treasury Obligation Fund (variable interest rate)	\$ 4,200,839
Series 2009 Reserve Fund: U.S. Treasury Obligation Fund (variable interest rate)	1,730,150
Improvement Fund: Bank checking, included in SAFE program	500,000
Other Post Retirement Benefits Fund, medical and life	1,873,777
Series 2009 SRF/ARRA Warrant Fund: U.S. Treasury Obligation Fund (variable interest rate)	94,580
Total Restricted Assets	<u>\$ 8,399,346</u>

Wastewater System	September 30, 2017
Series 2004, 2010, & 2013 Warrant Fund Bank Investment Account (interest yield at federal fund rate)	\$ 6,203,768
Series 2009 Reserve Fund: U.S. Treasury Obligation Fund (variable interest rate)	2,553,599
Other Post Retirement Benefits Fund, medical and life	1,616,038
Replacement and Extension Fund Bank checking, included in SAFE program	500,000
Total Restricted Assets	<u>\$ 10,873,405</u>

Administrative System	September 30, 2017
Schedule of restricted assets Workman's Compensation - funds on deposit held by insurance administrator	5,000
Sewer enhancement fund	211,054
Total Restricted Assets	<u>\$ 216,054</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, 2017 is \$1,990,954.

I. Accrued Leave

Accrued PTO at September 30, 2017 is as follows

	<u>September 30, 2017</u>
Electric	\$ 209,406
Gas	1,181
Water	96,843
Wastewater	88,696
Administrative	494,033
	<u>\$ 890,159</u>

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.

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 one 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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	Utility
Retired beneficiaries currently receiving benefits	\$ 107
Terminated employees entitled to but not yet receiving benefit	26
Terminated employees not entitled to a benefit	7
Active members	172
Post-DROP retired members still in active service	-
Total	\$ 312

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, 2017, 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, 2017 was 14.26% of pensionable pay for Tier 1 employees, and 12.22% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2016, 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 \$1,453,778 for the year ended September 30, 2017.

Net Pension Liability

The Utility's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of

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September 30, 2015 rolled forward to September 30, 2016 using standard roll-forward techniques as shown in the following table:

	Expected	Actual
Total Pension Liability as of September 30, 2016 (a)	\$ 47,801,969	\$ 48,843,082
Discount Rate (b)	8.00%	7.75%
Entry Age Normal Cost for October 1, 2015 - September 30, 2016 (c)	\$ 762,211	\$ 730,191
Transfers Among Employees (d)	\$ -	\$ 6,054
Actual Benefit Payments and Refunds for October 1, 2015 - September 30, 2016 (e)	\$ 3,069,854	\$ 3,069,854
Total Pension Liability (f) as of September 30, 2016 [(a) x (1+(b))] + (c) + (d) + [e x (1+.5 x (b))]	\$ 49,195,689	\$ 50,175,855
Difference between expected and actual experience (Gain)/Loss		\$ 980,166

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

Inflation	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, 2016 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, 8.00%. 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</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
Balances at 9/30/2015	\$ 47,801,969	\$ 30,106,279	\$ 17,695,690
Changes for the year:			
Service cost	762,211	-	762,211
Interest	3,701,363	-	3,701,363
Change of assumptions	1,011,888	-	1,011,888
Differences between expected and actual experience	(37,776)	-	(37,776)
Contributions - employer	-	1,451,760	(1,451,760)
Contributions - employee	-	517,917	(517,917)
Net investment income	-	3,010,349	(3,010,348)
Benefit payments, including refunds of employee contributions	(3,069,854)	(3,069,854)	-
Administrative expense	-	-	-
Transfers among employers	6,054	6,054	-
Net changes	2,373,886	1,916,226	457,661
Balances at 9/30/2016	\$ 50,175,855	\$ 32,022,505	\$ 18,153,351

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 8.00%, 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 (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00 %)	Current Rate (8.00 %)	1% Increase (9.00 %)
Utility's net pension liability	\$ 23,647,091	\$ 18,153,350	\$ 13,482,794

(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, 2016. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2016. The auditor's report dated May 16, 2017 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.

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

For the year ended September 30, 2017, the Utility recognized pension expense of \$1,451,818. At September 30, 2017, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 702,000
Changes of assumptions	824,501	-
Net difference between projected and actual earnings on pension plan investments	273,586	-
Employer contributions subsequent to the measurement date	1,415,401	-
Total	<u>\$ 2,513,488</u>	<u>\$ 702,000</u>

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:	
2018	\$ 24,457
2019	24,458
2020	245,401
2021	29,614
2022	72,157
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

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September 30, 2017, 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.

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 \$2,606,403 and the outstanding balance due to TVA for collection of the loans was also \$2,606,403.

Occasionally, the Gas System enters into natural gas purchase commitments to purchase minimum volumes of gas at fixed prices for up to five years in advance. 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, 2017 contract commitments total \$1,161,714 for fiscal year 2018, \$967,200 for fiscal year 2019, \$967,200 for fiscal year 2020, \$967,200 for fiscal year 2021 and \$748,800 for fiscal year 2022. At December 31, 2017, no purchase commitments extended beyond October 2022 and additional outstanding commitments were \$890,200 for fiscal year 2018, \$948,600 for fiscal year 2019, \$948,600 for fiscal year 2020, \$948,600 for fiscal year 2021, \$887,400 for fiscal year 2022 and \$61,200 for fiscal year 2023.

D. Other Post Employment Benefits

Decatur Utilities medical and life post-employment benefits were unfunded at September 30, 2017. 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, 2017 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, 2017

Annual required contribution	2015/2016	2016/2017
Normal cost	\$ 587,443	\$ 616,815
Amortization	1,234,381	1,307,345
Interest	<u>36,079</u>	<u>38,106</u>
Total annual required contribution	1,857,903	1,962,266
 Net OPEB Obligation		
Net OPEB obligation - October 1	<u>4,179,463</u>	<u>5,187,544</u>
Annual required contribution	1,857,903	1,962,266
Interest on Net OPEB obligation	167,179	207,502
Adjustment to annual required contribution	<u>(186,809)</u>	<u>(234,422)</u>
Annual OPEB cost	1,838,273	1,935,346
Annual required contribution	<u>(830,192)</u>	<u>(892,456)</u>
Increase in Net OPEB obligation	<u>1,008,081</u>	<u>1,042,890</u>
Net OPEB Obligation - September 30	<u>\$ 5,187,544</u>	<u>\$ 6,230,434</u>
 Present Value of Future Benefits as of October 1		
Active employees	\$ 18,769,572	\$ 19,491,331
Retirees	<u>13,626,891</u>	<u>13,337,591</u>
Total	<u>\$ 32,396,463</u>	<u>\$ 32,828,922</u>

Actual contributions made by plan members during the current year were \$253,703; and actual contributions made by the company were \$1,732,900.

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.

**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, 2017

REQUIRED SUPPLEMENTARY INFORMATION

	2016	2015	2014
Total pension liability			
Service cost	\$ 762,211	\$ 735,009	\$ 719,118
Interest	3,701,363	3,669,670	3,551,873
Changes in benefit terms	-	-	-
Differences between actual & expected experience	(37,776)	(1,104,264)	-
Change of assumptions	1,011,888	-	-
Benefit payments, including refunds of employee contributions	(3,069,854)	(2,738,647)	(2,858,415)
	6,054	-	-
Net change in total pension liability	2,373,886	561,768	1,412,576
Total pension liability - beginning	47,801,969	47,240,201	45,827,625
Total pension liability - ending (a)	<u>50,175,855</u>	<u>47,801,969</u>	<u>47,240,201</u>
Plan fiduciary net position			
Contributions - employer	1,451,760	1,481,898	1,439,683
Contributions - employee	517,917	588,751	478,274
Net investment income	3,010,349	357,511	3,314,923
Benefit payments, including refunds of employee contributions	(3,069,854)	(2,738,647)	(2,858,415)
Administrative expense	6,054	(103,901)	96,722
Net change in plan fiduciary net position - beginning	1,916,226	(414,388)	2,471,187
Plan fiduciary net position - beginning	30,106,279	30,520,667	28,049,480
Plan fiduciary net position - ending (b)	<u>32,022,505</u>	<u>30,106,279</u>	<u>30,520,667</u>
Net pension liability (asset) - ending (a) - (b)	18,153,350	17,695,690	16,719,534
Plan fiduciary net position as a percentage of total pension liability	63.82%	62.98%	64.61%
Covered - employee payroll	10,397,431	9,916,527	9,655,596
Net pension liability (asset) as a percentage of covered - employee payroll	174.59%	178.45%	173.16%

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.

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, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 1,415,401	\$ 1,451,818	\$ 1,481,882	\$ 1,439,683
Contributions in relation to the actuarially determined contribution	<u>1,415,401</u>	<u>1,451,818</u>	<u>1,481,882</u>	<u>1,439,683</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 10,665,563	\$ 10,397,431	\$ 9,916,527	\$ 9,655,596
Contributions as a percentage of covered - employee payroll	13.27%	13.96%	14.94%	14.91%

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, 2017

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, 2017

Post-Employment Schedule of Funding Progress

Fiscal Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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, 2017

Year Ended September 30,	2009 Series SRF/ARRA Wastewater Warrants		2010 Series Wastewater Warrants		2012 Series SRF Wastewater Warrants		2013 Series Wastewater Warrants	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
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
	\$ 8,105,000	\$ 2,289,525	\$ 3,165,000	\$ 167,302	\$ 720,000	\$ 180,402	\$ 31,330,000	\$ 9,318,959

See independent auditor's report.

**MUNICIPAL UTILITIES BOARD OF DECATUR
SCHEDULE OF LONG-TERM DEBT**

September 30, 2017

Year Ended	Water System						Total Requirements			
	2009 Series Water Warrant		2009 Series/SRF Water Warrant		2012 Series/SRF Water Warrant		2013 Series Water Warrant		Total Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	1,975,000	161,000	140,000	86,625	20,000	11,275	5,190,000	1,964,826	7,154,826	7,154,826
2019	2,050,000	82,000	145,000	81,725	20,000	10,725	5,370,000	1,790,497	7,160,497	7,160,497
2020	-	-	150,000	76,650	20,000	10,175	4,045,000	1,610,074	5,655,074	5,655,074
2021	-	-	155,000	71,400	25,000	9,625	3,045,000	1,489,944	4,534,944	4,534,944
2022	-	-	160,000	65,975	25,000	8,938	3,140,000	1,395,457	4,535,457	4,535,457
2023	-	-	165,000	60,375	25,000	8,250	3,235,000	1,297,994	4,532,994	4,532,994
2024	-	-	170,000	54,600	25,000	7,563	3,340,000	1,197,557	4,537,557	4,537,557
2025	-	-	180,000	48,650	25,000	6,875	3,445,000	1,093,857	4,538,857	4,538,857
2026	-	-	185,000	42,350	25,000	6,188	3,545,000	986,857	4,531,857	4,531,857
2027	-	-	190,000	35,875	25,000	5,500	3,650,000	876,732	4,526,732	4,526,732
2028	-	-	200,000	29,225	25,000	4,813	3,775,000	763,332	4,538,332	4,538,332
2029	-	-	205,000	22,225	30,000	4,125	3,900,000	639,856	4,539,856	4,539,856
2030	-	-	210,000	15,050	30,000	3,300	4,025,000	511,319	4,536,319	4,536,319
2031	-	-	220,000	7,700	30,000	2,475	4,160,000	375,869	4,535,869	4,535,869
2032	-	-	-	-	30,000	1,650	3,330,000	235,850	3,565,850	3,565,850
2033	-	-	-	-	30,000	825	3,445,000	119,938	3,564,938	3,564,938
	\$ 4,025,000	\$ 243,000	\$ 2,475,000	\$ 698,425	\$ 410,000	\$ 102,302	\$ 60,640,000	\$ 16,349,959	\$ 76,989,959	\$ 76,989,959

See independent auditor's report.

MUNICIPAL UTILITIES BOARD OF DECATUR
SCHEDULE OF OPERATING STATISTICS, ELECTRIC - UNAUDITED
 September 30, 2017

	For The Fiscal Years Ended September 30,				
	2017	2016	2015	2014	2013
Revenue					
Residential (net of bad debt)	\$ 29,817,588	\$ 30,621,555	\$ 32,188,961	\$ 32,250,841	\$ 30,000,453
Commercial	7,061,415	7,044,689	7,238,405	7,098,808	6,766,444
Industrial	53,024,425	52,300,510	53,963,746	56,448,547	55,740,205
Street and outdoor lighting	955,899	945,825	960,276	937,452	936,100
Unbilled revenue	(175,594)	185,881	(498,153)	167,355	(27,250)
Other operating	1,056,664	1,098,012	1,691,465	1,583,036	1,532,186
Interest and other revenue	107,733	46,086	66,528	42,845	91,139
	<u>\$ 91,848,129</u>	<u>\$ 92,242,558</u>	<u>\$ 95,611,228</u>	<u>\$ 98,528,884</u>	<u>\$ 95,039,277</u>
Expense					
Electric power costs	\$ 79,365,208	\$ 79,499,196	\$ 82,504,546	\$ 86,383,317	\$ 83,189,202
Other operating expenses	7,246,877	7,437,347	7,027,572	6,906,313	6,763,670
Provision for depreciation	2,434,825	2,342,047	2,241,946	2,202,007	2,180,486
Transfer out - tax equivalent	1,703,462	1,698,713	1,686,102	1,662,525	1,674,766
Interest and other expense	926	1,078	775	710	1,578
	<u>90,751,298</u>	<u>90,978,381</u>	<u>93,460,941</u>	<u>97,154,872</u>	<u>93,809,702</u>
Net income (loss)	<u>\$ 1,096,831</u>	<u>\$ 1,264,177</u>	<u>\$ 2,150,287</u>	<u>\$ 1,374,012</u>	<u>\$ 1,229,575</u>
Financial					
Plant in service (net)	\$ 42,401,396	\$ 42,165,291	\$ 41,138,756	\$ 40,378,569	\$ 39,492,857
Power in use - KWH					
Residential	310,302,470	327,232,862	349,083,207	354,982,105	335,641,384
Commercial	67,325,402	68,364,970	69,215,844	69,160,759	66,989,598
Industrial	789,139,768	787,466,736	797,374,329	815,033,832	785,497,291
Other customers	7,192,137	7,280,742	7,233,098	7,162,224	7,249,276
Accrued unbilled kWh	(3,680,273)	4,365,236	(3,263,921)	224,632	(3,761,928)
Total	<u>1,170,279,504</u>	<u>1,194,710,546</u>	<u>1,219,642,557</u>	<u>1,246,563,552</u>	<u>1,191,615,621</u>
Number of customers					
Residential	22,528	22,517	22,489	22,471	22,483
Small commercial	3,359	3,358	3,322	3,303	3,347
Large commercial	541	538	549	552	535
Street and athletic	109	108	101	98	88
Outdoor lighting - code 78	62	61	64	63	62
	<u>26,599</u>	<u>26,582</u>	<u>26,525</u>	<u>26,487</u>	<u>26,515</u>
Line loss	<u>2.34%</u>	<u>2.91%</u>	<u>3.08%</u>	<u>2.91%</u>	<u>3.06%</u>
Miles of line	594	593	593	593	593

See independent auditor's report.

MUNICIPAL UTILITIES BOARD OF DECATUR
SCHEDULE OF OPERATING STATISTICS, GAS - UNAUDITED
 September 30, 2017

	For The Fiscal Years Ended September 30,				
	2017	2016	2015	2014	2013
Revenue					
Residential (net of bad debt)	\$ 3,554,367	\$ 3,456,807	\$ 4,580,909	\$ 5,321,267	\$ 4,728,467
Commercial	2,916,580	2,831,132	3,893,977	4,695,727	4,125,070
Industrial	7,566,226	6,876,132	8,002,527	10,820,674	8,871,649
Other operating	161,107	169,191	186,178	142,429	122,006
Contributed capital	10,325	138,288	81,518	284,471	358,367
Interest and other revenue	21,757	18,925	19,304	20,814	20,253
	<u>\$ 14,230,361</u>	<u>\$ 13,490,475</u>	<u>\$ 16,764,413</u>	<u>\$ 21,285,382</u>	<u>\$ 18,225,812</u>
Expense					
Gas purchased	\$ 10,932,346	\$ 9,490,692	\$ 12,809,361	\$ 16,069,536	\$ 13,733,336
Other operating expenses	2,745,456	2,732,770	2,698,584	2,600,204	2,529,809
Provision for depreciation	872,022	873,270	843,794	821,620	811,864
Transfer out - tax equivalent	-	127,545	165,447	754,655	395,951
Interest and other expense	313	365	262	240	534
	<u>14,550,137</u>	<u>13,224,642</u>	<u>16,517,448</u>	<u>20,246,255</u>	<u>17,471,494</u>
Net income (loss)	<u>\$ (319,777)</u>	<u>\$ 265,833</u>	<u>\$ 246,965</u>	<u>\$ 1,039,127</u>	<u>\$ 754,318</u>
Financial					
Plant in service (net)	\$ 20,559,693	\$ 20,402,140	\$ 19,615,617	\$ 18,494,001	\$ 18,289,999
MCF's sold					
Residential	322,226	361,326	502,581	543,646	471,484
Commercial	412,283	427,242	524,976	566,669	479,802
Industrial	888,995	963,163	1,013,603	954,524	915,644
Flex	802,970	740,752	819,805	913,427	939,468
Transportation	3,780,405	3,732,368	3,670,212	3,686,898	3,422,345
Total	<u>6,206,879</u>	<u>6,224,851</u>	<u>6,531,177</u>	<u>6,665,164</u>	<u>6,228,743</u>
Number of customers					
Residential	11,880	11,948	11,961	11,906	11,995
Commercial	1,642	1,650	1,656	1,662	1,649
Industrial	27	27	31	32	33
Flex	2	2	2	1	1
Transportation	10	10	11	12	12
	<u>13,561</u>	<u>13,637</u>	<u>13,661</u>	<u>13,613</u>	<u>13,690</u>
Loss percentage	<u>0.40%</u>	<u>0.27%</u>	<u>0.17%</u>	<u>0.02%</u>	<u>0.48%</u>
Miles of mains	421	420	420	418	418

See independent auditor's report.

MUNICIPAL UTILITIES BOARD OF DECATUR
SCHEDULE OF OPERATING STATISTICS, WATER - UNAUDITED
September 30, 2017

	For The Fiscal Years Ended September 30,				
	2017	2016	2015	2014	2013
Revenue					
Residential (net of bad debt)	\$ 5,790,376	\$ 5,145,729	\$ 3,888,354	\$ 3,614,808	\$ 3,429,913
Commercial	1,897,043	1,792,369	1,584,953	1,563,592	1,614,493
Industrial	4,691,792	4,510,906	4,065,104	4,059,201	3,567,864
Resale	2,168,199	2,122,410	1,754,994	1,550,542	1,419,355
Other operating	1,327,948	1,223,836	1,196,156	1,071,111	923,426
Capital contributions	999,908	1,861,449	608,413	99,106	220,731
Capital contributions - SRF	-	-	-	-	-
Interest and other revenue	65,637	23,019	20,083	25,086	21,914
	<u>\$ 16,940,903</u>	<u>\$ 16,679,718</u>	<u>\$ 13,118,057</u>	<u>\$ 11,983,446</u>	<u>\$ 11,197,696</u>
Expense					
Treatment expense	4,806,322	4,536,432	4,333,174	4,372,768	3,938,116
Other operating expenses	4,184,128	4,320,734	4,066,382	3,863,095	3,778,248
Provision for depreciation	2,984,911	2,821,040	2,737,898	2,689,556	2,684,308
Transfer out - tax equivalent	617,616	609,657	565,018	550,689	451,978
Interest and other expense	712,226	771,840	834,034	884,812	734,471
	<u>13,305,203</u>	<u>13,059,703</u>	<u>12,536,506</u>	<u>12,360,920</u>	<u>11,587,121</u>
Net income (loss)	<u>\$ 3,635,700</u>	<u>\$ 3,620,015</u>	<u>\$ 581,551</u>	<u>\$ (377,474)</u>	<u>\$ (389,425)</u>
Financial					
Plant in service (net)	<u>\$ 71,114,595</u>	<u>\$ 68,720,810</u>	<u>\$ 67,544,064</u>	<u>\$ 67,578,150</u>	<u>\$ 66,164,202</u>
Gallons sold (1000's)					
Residential	1,550,592	1,576,645	1,485,204	1,503,192	1,442,274
Commercial	1,010,070	1,000,720	954,374	985,466	1,080,901
Industrial	5,207,498	5,091,172	4,942,493	4,992,736	4,519,323
Resale	2,253,213	2,223,963	1,922,236	1,940,328	1,907,497
Total	<u>10,021,373</u>	<u>9,892,500</u>	<u>9,304,307</u>	<u>9,421,722</u>	<u>8,949,995</u>
Number of customers					
Residential	22,060	22,054	22,034	21,989	22,013
Commercial	3,212	3,202	3,201	3,198	3,155
Industrial	95	97	96	97	83
Resale	8	9	9	11	9
	<u>25,375</u>	<u>25,362</u>	<u>25,340</u>	<u>25,295</u>	<u>25,260</u>
Loss percentage	<u>8.21%</u>	<u>3.13%</u>	<u>3.93%</u>	<u>6.36%</u>	<u>4.27%</u>
Miles of mains	490	487	487	484	484
Fire hydrants in service	2,048	2,039	2,032	2,028	2,026
Capacity of storage tanks (1000's)	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, 2017

	For The Fiscal Years Ended September 30,				
	2017	2016	2015	2014	2013
Revenue					
Residential (net of bad debt)	\$ 4,767,727	\$ 4,562,962	\$ 4,582,892	\$ 4,700,816	\$ 4,678,067
Commercial	2,796,298	2,717,217	2,623,931	2,669,924	2,845,431
Industrial	7,865,044	7,724,714	7,385,112	6,764,161	5,967,903
Government agencies	130,596	132,372	253,934	260,112	218,400
Other Operating	1,707,430	1,554,018	1,457,723	1,394,264	1,399,022
Capital contributions	185,600	2,485,712	399,065	22,336	61,250
Capital contributions - SRF	-	-	-	-	100,000
Interest and other revenue	143,030	57,137	56,512	74,669	59,963
	<u>\$ 17,595,727</u>	<u>\$ 19,234,132</u>	<u>\$ 16,759,169</u>	<u>\$ 15,886,282</u>	<u>\$ 15,330,036</u>
Expense					
Treatment expense	3,259,454	3,332,103	3,143,772	3,101,386	3,084,291
Other operating expenses	3,454,030	3,832,292	3,708,071	3,639,724	3,711,084
Provision for depreciation	3,557,511	3,269,058	3,099,084	2,956,611	3,004,088
Transfer out - tax equivalent	823,166	692,161	610,585	602,341	575,030
Interest and other expense	1,459,386	1,552,205	1,629,857	1,697,678	1,177,575
	<u>12,553,547</u>	<u>12,677,819</u>	<u>12,191,369</u>	<u>11,997,740</u>	<u>11,552,068</u>
Net income (loss)	<u>\$ 5,042,181</u>	<u>\$ 6,556,313</u>	<u>\$ 4,567,800</u>	<u>\$ 3,888,542</u>	<u>\$ 3,777,968</u>
Financial					
Plant in service (net)	<u>\$ 112,398,375</u>	<u>\$ 106,717,790</u>	<u>\$ 93,197,147</u>	<u>\$ 89,464,920</u>	<u>\$ 78,913,808</u>
Gallons billed (1000's)					
Residential	960,426	953,999	957,690	991,558	977,116
Commercial	761,640	740,484	710,384	725,722	779,400
Industrial	2,206,526	2,128,748	2,095,428	1,991,381	1,791,050
Government agencies	75,620	81,311	163,088	164,916	149,472
Total	<u>4,004,212</u>	<u>3,904,542</u>	<u>3,926,590</u>	<u>3,873,577</u>	<u>3,697,038</u>
Number of customers					
Residential	18,136	18,099	18,070	18,005	18,024
Commercial	2,233	2,237	2,240	2,232	2,201
Industrial	78	79	77	81	71
Government agencies	1	1	1	1	1
	<u>20,448</u>	<u>20,416</u>	<u>20,388</u>	<u>20,319</u>	<u>20,297</u>
Miles of mains	358	350	348	342	342

See independent auditor's report.



Alexander Thompson Arnold PLLC

227 Oil Well Road, Jackson, TN 38305
 ☎ 731.427.8571 ☎ 731.424.5701
 www.atacpa.net

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

INTERNAL CONTROL AND COMPLIANCE SECTION

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, 2017, 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, 2017.

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*.

MUNICIPAL UTILITIES BOARD OF DECATUR
SCHEDULE OF FINDINGS
September 30, 2017

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.

No current year findings reported.



Jackson, Tennessee
December 31, 2017

**MUNICIPAL UTILITIES BOARD OF DECATUR
SCHEDULE OF PRIOR YEAR FINDINGS
September 30, 2017**

No prior year findings reported.

Connect with us!

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

Connect with us to receive ongoing updates via Facebook and Twitter. You can also visit 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!



Website:
www.decaturutilities.com

Social Media
Facebook: [DecaturUtilitiesAlabama](https://www.facebook.com/DecaturUtilitiesAlabama)
Twitter: [@decaturutility](https://twitter.com/decaturutility)
LinkedIn: [decaturutilities](https://www.linkedin.com/company/decaturutilities)

FY2017 Safety Report

DU Safety Record
FY 2017 (10/1/16 through 9/30/17)

Lost Work Days
Goal: 0 Actual: 141

Vehicle Incidents
Goal: 0 Actual: 2

Days Without Recordable Incident
Central Parkway Service Center: 120
10th Ave. Service Center: 575
Wastewater Treatment Plant: 1342
Water Treatment Plant: 1831
Administrative Office: 2823



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.

2017 Employee Honor Roll

The employees listed below were specifically recognized by one of our customers during 2017 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.

G/W/WW Department

Brad Irwin Mark Cupps
Andy Nash Dan Reisdorfer
Jimmy Evans Tony Barnes
David McKinnon

Customer Service

Julie Shell Kim Powell
Stacey Lucas

Field Services

Keisha Sivley Greg Gillespie
Gilbert McCutcheon

Electric Department

Steven Williams David Garner
Greg Moody Matthew Cheatham
Colton Stewart Craig Etheredge
Jeffrey Brown Len Cox
Hayden Dye David Evans
Derrick Moore Ethan Powers
Dennis Roberts

Water Resources

Tom Cleveland
B.J. Strobel

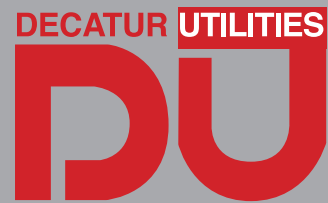
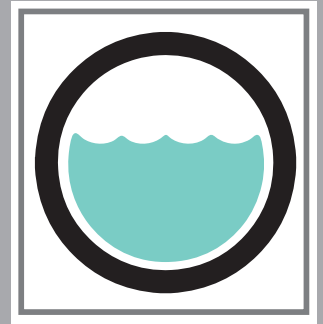
Electric Engineering

Meagan Terry

Dispatch

Heath Reed

Plus a huge thank you to all DU employees who helped with our elementary school electric and natural gas safety programs and career day demonstrations for Endless Opportunities and the Decatur/Morgan County Chamber of Commerce EQUIP Class.



We connect the River City!

Main Office:
1002 Central Parkway SW
Decatur, AL 35601

Mailing Address:
P.O. Box 2232
Decatur, AL 35609-2232

Customer Service • Outage Calls • Utility Emergencies
256-552-1400



www.deaturutilities.com