



We connect the River City!

Annual Report
2014



Mission & Vision

The mission of Decatur Utilities is to provide **safe, reliable utility services** at the **lowest possible rate** and to **meet the needs** of our customers and employees.

Our vision is to be the **supplier of choice** for customers across **all rate classes**.





Ray Hardin
General Manager



DU's anniversary celebration is in the books. Now it's time to look to the next 75.

During 2014 the employees of Decatur Utilities celebrated 75 years of service to customers in the Decatur area. Now, with 2015 well underway, it's time that we begin looking toward the future - and laying the groundwork for the next 75 years.

It has been said many times that we are blessed to live in a wonderful part of the United States. Here in the Southeast, we enjoy some of the lowest utility rates in the country. In fact, if you receive electricity, natural gas, water and wastewater service from DU, your combined bill is the lowest in the state.

Why is that the case? And how can we keep rates affordable in the future?

First, we are fortunate to have the Tennessee Valley Authority (TVA) as our wholesale provider of electricity. TVA uses a mix of hydro, fossil and nuclear generation to keep our wholesale rates affordable. We pass those savings on to our customers in the form of lower retail rates.

Second, DU has a very compact electric system and high customer density. In simple terms, that means we average almost 45 customers for every mile of distribution line on our system. The more customers a utility has per mile of line, the greater the efficiency of the system.

On the natural gas side, DU was proactive in the 1980s and began replacing aging cast iron pipes with more durable polyethylene. Only one percent of our natural gas system is still composed of cast iron and that will be replaced over the next few years.

By being proactive, DU now has a stable natural gas distribution system that will be reliable for many years to come. That means fewer leaks and lower maintenance costs.

Our water and wastewater treatment plants rank among the best in the industry. The teams at each plant are dedicated to keeping our water supply safe and making certain that wastewater is properly treated before being returned to its natural source - the Tennessee River.

While our water distribution system is in very good condition, we are continuing to upgrade older portions and adding capacity in certain areas to meet continued industrial expansion.

We will also continue to treat wastewater in a safe and reliable manner that meets or exceeds all state and federal environmental requirements.

In short, your utility system is in great shape because of the hard work of 170 current employees and the hundreds of retirees who came before them.

By aggressively managing the operation of DU with an eye on efficiency, we will continue our mission of providing safe, reliable utility service at the lowest possible rates.

I hope that many years from now, when future DU employees are poring through the archives in preparation of the 150th Anniversary, they will come across this report and take note of how hard their predecessors worked to keep it that way.



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Municipal Utilities Board



Skip Thompson
Member

Neal Holland, Jr.
Chairman

Richard Grace
Secretary

DU Management Team



Glenn Boyles
Electric Manager

Tom Cleveland
Water Resources Manager

Jimmy Evans
Gas, Water and Wastewater
Operations Manager

Janice Armor
Administrative Asst.

Kim Baker
Customer Service Manager

Gary Borden
Mgr, Business Development
and Operations Support

Ray Hardin
General Manager

Steve Pirkle
Business
Manager and CFO

Paul Nosal
Director, Employee and
Customer Relations

Workplace Safety

DU completes third year with zero lost days

FY 2014 (10/1/13 through 9/30/14)

Lost Work Days

▶ Goal: 0 ▶ Actual: 0

Vehicle Incidents

▶ Goal: 0 ▶ Actual: 5

Days Without Recordable Incident

- ▶ Central Parkway Service Center: 774
- ▶ 10th Ave. Service Center: 337
- ▶ Wastewater Treatment Plant: 246
- ▶ Water Treatment Plant: 735
- ▶ Administrative Office: 1,727

Decatur Utilities is committed to maintaining a safe workplace for its employees and providing them with the tools and training needed to work safe every day.

From field crews to office personnel, all DU employees receive monthly safety training concerning topics related to their specific work area.

In addition, field crews train on safety practices like pole top rescue, the safe use of augers and backhoes and operation of forklifts and other heavy equipment. We also constantly inspect PPE (Personal Protective Equipment) to ensure it complies with industry safety standards.

DU's focus on safety extends to our customer base as well. DU offers electric and natural gas safety demonstrations for elementary schools and other organizations and makes safety tips and best practices available via Facebook and Twitter, the DU website and other traditional media outlets.



Above: Pole-top rescue training. Above right: Safety meeting at 10th Ave. Service Center. Below right: Proper use of Personal Protective Equipment.

2014 DU Honor Roll



The following DU employees were recognized by our customers in 2014 for going "above and beyond" to provide outstanding service:

Annette Ashworth
Cindy Bracken
Dana Lindsey
Kim Powell
Makeba Luckett
Lisa Smith
Sandy Ray
Janice Armor
Dan Gibbs
Belinda Owens
Ken Lindsey

Jay Jenkins
Andy Nash
Devon Baker
James Nicholas
Jeff Strickland
Josh Anders
Mark Jones
Rodney Terry
Shane Haynes
Thomas Russell
Barry Knox

Chase Atkins
Colton Stewart
Craig Etheredge
David Evans
David Garner
Derrick Moore
Donald Orr
Donnie Sandlin
Dennis Roberts
Garrett Hayes
Greg Moody

Hayden Dye
Keith Drake
Matthew Cheatham
Luke Smith
Steven Williams
Larry Naylor
Keith Hammonds
Sheri Jenkins
Len Cox
Jerry Johnson

Community Service

From local service projects to free pics with Santa, the DU Community Crew had a very busy year!

The employees of Decatur Utilities love to give back to the community they call home. That's why we formed the "DU Community Crew." You'll find "Crew" members volunteering at local non-profits like Habitat for Humanity, raising more than \$10K for the Decatur-Morgan Hospital Foundation as part of the Dragon Boat Race and Festival, supporting United Way with personal contributions and much, much more!



▲ Free Photos with Santa



◀ Safety Talk
FirstGrace Daycare

Salvation Army
Holiday Bell Ringers ▶



Top Fund Raiser
2014 Dragon
Boat Race & Fest ▶



American Red Cross
Blood Drive ▶



◀ Endless Opportunities
Career Day





Electric System



Background

Since it was incorporated in 1939, Decatur Utilities has delivered reliable, cost-efficient electricity to residents of the City of Decatur. As a distributor for the Tennessee Valley Authority (TVA), DU is able to provide electricity at some of the lowest retail rates in the United States.

We take great pride in maintaining a reliable distribution system, which means shorter, less frequent outages for our customers. When trouble does occur, our crews are dedicated to safely restoring service as soon as possible - regardless of the weather conditions they must face in the process.

While the fundamentals of electricity have not changed in the past 75 years, advancements in SCADA and outage management technology give our dispatchers and trouble crews more real-time information than ever before. This information is used to make well-informed decisions while restoring service and to keep our crews safe.

2014 Highlights

Completed conversion of Riverview Substation circuits from original 2400 voltage to modern standard of 7200 volts

Replaced aging transformer at Hickory Hills Substation to improve system reliability

Replaced transformers at the Water Treatment Plant to improve efficiency and reliability

Provided assistance to neighboring utilities following rash of spring tornadoes

Refurbished electric safety display and launched "Safety in a Flash" program for elementary students

2014 Quick Facts

Customers: > 26,000

Third lowest residential rate among TVA's 155 distributors

More than 1.25 billion kilowatt hours of electricity sold

Near-perfect system reliability of 99.9998%

Replaced 158 defective poles

Repaired 774 street lights

Repaired 226 security lights

Completed 105 circuit miles of tree trimming

Replaced 3,300 feet of direct buried underground cable

Performed maintenance on 12 distribution substations and one primary substation



Natural Gas System



Background

Back in 1950, Decatur Utilities established a natural gas department to provide 500 customers with an alternative energy source for heating, cooking, producing hot water and fueling industrial processes.

In the years that followed, the DU Natural Gas system grew from an initial 12 miles of distribution line to more than 400 miles of gas mains. Today, more than 13,600 customers make natural gas their choice and enjoy some of the lowest rates in the State of Alabama.

We aggressively promote the “811 Alabama One Call” system for underground utility line locates prior to excavation on public or private property.

All DU customers receive information each year regarding pipeline safety, how to recognize natural gas leaks and what to do in the event of an emergency.

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

2014 Highlights

Remodeled the 10th Ave. G/W/WW Service Center to add engineering offices, training facility and conference room

Replaced 1,805 feet of cast and ductile iron

Completed the annual Leak Detection Survey for 2013-2014

2014 Quick Facts

Customers: > 13,600

In FY 2014, DU sold 6.65 billion cubic feet of natural gas to its industrial, commercial and residential customers

DU maintains more than 400 miles of natural gas main lines

Due to an aggressive replacement program in place since the 1980s, DU has only 1% (less than four miles) of cast iron main remaining in its service area

DU takes an active role in the Alabama Natural Gas Association (ANGA) and actively promotes natural gas safety, 811 One Call and customer pipeline awareness



Water System



Background

A dependable supply of clean water is vital to economic growth and the wellbeing of the area's residents. Decatur is blessed with a tremendous natural resource - the Tennessee River - and the Decatur Utilities Water Treatment Plant (WTP) has treated water from the river's Wheeler Reservoir and delivered it to residents, businesses and plants for more than 75 years.

Water quality regulations have grown more stringent over the years, but DU employs the latest treatment techniques to ensure that our water supply meets or surpasses each federal and state mandate.

DU's WTP employees man the facility at 1900 Market St. NE around the clock – 24 hours a day, 365 days per year – and strive to operate the plant at maximum efficiency. Their efforts have paid off with numerous awards for outstanding plant operation.

Installation of a Supervisory Control and Data Acquisition (SCADA) system in 2013-2014 now allows plant operators to view all plant and water tank operations at a glance and to remotely operate certain equipment from a central operations control room.



2014 Highlights

Completed Phase I of the Mallard Fox Water Main upgrade project to meet projected demand from future industrial growth

Installed a booster station on Vestavia Drive to improve water pressure for residents in the area

Began replacement of water mains along Hwy. 72 (Wilson St.) NE as part of ALDOT highway project

Continued replacement of aging fire hydrants originally installed in the 1960s and 1970s

Installed new chlorine system

Passed triennial ADEM audit

Two employees earned Grade IV ADEM operator certification

Installed enhanced operation controls including valves and pumps

2014 Quick Facts

Retail customers: > 25,000

Wholesale customers:

- ▶ *City of Hartselle*
- ▶ *NE Morgan County Water Authority*
- ▶ *Limestone County Water and Sewer Authority*

DU's WTP processed more than 9.4 billion gallons of water in FY 2014 - an average of about 25 millions gallons/day

DU's water distribution network includes nine water tanks and 500 miles of water mains



Wastewater System



Background

Before returning it to the Tennessee River, the Dry Creek Wastewater Treatment Plant (WWTP) processes about 21 million gallons of wastewater every day of the year.

Using a complex network of collection pipelines and booster lift stations, Decatur Utilities collects wastewater from residential, commercial and industrial customers and carries it to the WWTP located at 902 Wilson St. NW.

From there, the sewage is stepped through a methodical process that removes solids and kills harmful bacteria. The final result is water that meets or exceeds all ADEM and EPA quality requirements.



DU is also constantly investing upgrades to the WWTP's facility and technology to improve operational and energy efficiency. Installation of a SCADA system began in 2014 and will give plant operators greater access to facility information.

The WWTP has also received numerous awards from state associations for its excellence in operation.



2014 Highlights

Began upgrade of sewer lines for the Mallard Fox Creek Industrial Park to meet projected demand from future industrial growth

Rehabilitated >300 manholes - extending their useful life

Replaced 11,500 feet of clay pipe with High Density Polyethylene (HDPE) using a pipe-bursting technique that reduces impact on property and infrastructure

Installed new chlorine system

Installed energy efficient external lighting

Two employees earned Grade IV ADEM operator certification

2014 Quick Facts

Customers: > 20,000

DU's WWTP treats about 21 million gallons of wastewater each day - a total of 7.6 billion each year

DU worked with other North Alabama utilities and Calhoun Workforce Solutions to develop a water/wastewater operator class that prepares current and prospective employees to take the ADEM operator certification exam

Supporting Departments

Customer Service

The Decatur Utilities Customer Service group is responsible for many customer-facing transactions each month - including accepting and processing payments, setting up applications for new service, working with high bill complaints and handling a multitude of other “utility business” activities that occur from day to day.

The Customer Service group also dispatches service orders for Field Services personnel and assists with customer notifications using an Interactive Voice Response program.

Field Services

DU’s meter readers spend much of each day on foot taking readings from electric, gas and water meters in every weather condition imaginable. Then there are the locked gates, stray dogs and other impediments that keep the job from ever becoming dull or routine.

Field service reps are tasked with a variety of jobs on a daily basis. From setting, disconnecting and re-setting meters, to identifying the source of a suspected leak or equipment malfunction, field service reps are constantly on the go from one side of Decatur to the other.

2014 Highlights

Transitioned to new online payment processing system to provide better customer experience

Implemented outage phone/ email notification to customers of planned service interruptions

2014 Quick Facts

Payments accepted: 129,000

Walk-in customers served: 13,000

Average wait time: 7 minutes

Phone calls answered: 69,000

Answered within 60 seconds: 83%



2014 Quick Facts

Meters read: 819,484

Accuracy rate: 99.95%

Miles traveled: 80,091

Tickets worked: 26,554

Others

Human Resources

The Human Resources department coordinates employee recruitment, employee benefits and compliance with state and federal hiring laws in addition to other services including processing payroll.

Communications and Public Relations

The Communications and PR department informs DU’s customers about work projects, safety, efficiency and outages. It also coordinates employee communications and community involvement efforts.

Finance and Accounting

The Finance and Accounting department tracks and analyzes income and expenses, procures equipment and materials and makes certain DU complies with state and federal financial guidelines.

Geographic Information Technology

DU’s GIS department develops and maintains electronic maps of the service area for engineering, dispatch, outage response and long-term system planning.

Engineering

DU’s employs engineers across multiple disciplines that plan, evaluate and design new facilities for the electric, natural gas, water and wastewater systems.

Dispatch

Dispatchers coordinate DU’s response to electric outages and support gas, water and wastewater crews with daily service work orders.

Information Technology

The Information Technology team manages software needs and internal information systems. The team also designs and maintains DU’s computer network, workstations and mobile computing devices.

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2014

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INTRODUCTORY SECTION

**MUNICIPAL UTILITIES BOARD OF DECATUR, MORGAN COUNTY, ALABAMA
D/B/A DECATUR UTILITIES
DIRECTORY
September 30, 2014**

BOARD OF DIRECTORS

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

MANAGEMENT TEAM

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

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION

Members of:

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



Certified Public Accountants
Offices in Tennessee & Kentucky

227 Oil Well Rd.
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Municipal Utilities Board of Decatur, Morgan County, Alabama, a component unit of the City of Decatur, Alabama, as of and for the year ended September 30, 2014, 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, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress on pages 5-14 and 37 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 including the schedule of expenditures of federal awards as required by the office of management and budget circular A-133, audits of States, Local Governments, and non-profit organizations, 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 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, 2014 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 Arnold PLLC

Jackson, Tennessee
December 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Municipal Utilities Board of Decatur, 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, 2014. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

- The assets of the Municipal Utilities Board of Decatur exceeded its liabilities at the close of the most recent fiscal year by \$221 million (*Net Position*).
- Operating revenues were \$147 million, a increase over the fiscal year 2013 in the amount of \$8 million or 5.95%.
- Operating expenses were \$135 million, an increase over fiscal year 2013 in the amount of \$6 million or 4.79%.
- The operating income for the year was \$12 million as compared to a \$9 million income during the 2013 fiscal year.

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 MD&A, the independent auditor's report, 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 and liabilities 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 Utility presently has no deferred outflows/inflows of resources to report.

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 \$1.374 million for the fiscal year ended September 30, 2014. 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, 2014	September 30, 2013	\$	%
Current assets	\$ 23,790,433	\$ 22,975,548	\$ 814,885	3.55%
Capital assets	40,378,569	39,492,857	885,712	2.24%
Other assets	2,001,988	2,038,571	(36,583)	-1.79%
Total assets	66,170,990	64,506,976	1,664,014	2.58%
Current liabilities	8,442,555	8,049,429	393,126	4.88%
Long term liabilities	168,535	245,089	(76,554)	-31.24%
Other liabilities	2,049,722	2,076,292	(26,570)	-1.28%
Total liabilities	10,660,812	10,370,810	290,002	2.80%
Investment in capital assets	40,378,569	39,492,857	885,712	2.24%
Unrestricted	15,131,609	14,643,309	488,300	3.33%
Total net position	\$ 55,510,178	\$ 54,136,166	\$ 1,374,012	2.54%

The most significant changes from fiscal year 2013 to 2014 were in current and capital assets. Cash and cash equivalents increased by \$456 thousand due to the positive change in net position. Utility Plant increased by almost \$886 thousand.

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, 2014.

Table 1B
ELECTRIC SYSTEM

	September 30, 2014	September 30, 2013	Increase (Decrease)	
			\$	%
Operating revenues	\$ 98,306,039	\$ 94,768,138	\$ 3,537,901	3.73%
Purchased power	86,383,317	83,189,202	3,194,115	3.84%
Gross margin	11,922,722	11,578,936	343,786	2.97%
Other operating expenses	8,928,320	8,764,156	164,164	1.87%
Operating income	2,994,402	2,814,780	179,622	6.38%
Other revenue (expenses)	42,135	89,561	(47,426)	-52.95%
Income before transfers	3,036,537	2,904,341	132,196	4.55%
Tax equivalents	(1,662,525)	(1,674,766)	12,241	-0.73%
Change in net position	1,374,012	1,229,575	144,437	11.75%
Net position - beginning	54,136,166	53,383,145	753,021	1.41%
Prior period adjustment	-	(476,554)	476,554	100.00%
Net position - ending	\$ 55,510,178	\$ 54,136,166	\$ 1,374,012	2.54%

From fiscal year 2013 to 2014, operating revenues increased 3.73% with volumes increasing in all customer classes. High volumes during the extremely cold winter were offset by the mild summer. Net position increased 2.54% over the prior year.

The Gas System's total Net Position increased by \$1 million for the fiscal year ended September 30, 2014. 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, 2014	September 30, 2013	\$	%
Current assets	\$ 8,220,218	\$ 6,912,737	\$ 1,307,481	18.91%
Capital assets	18,494,001	18,289,999	204,002	1.12%
Other assets	430,682	278,887	151,795	54.43%
Total assets	27,144,901	25,481,623	1,663,278	6.53%
Current liabilities	1,344,937	1,039,096	305,841	29.43%
Long term liabilities	1,465	117,616	(116,151)	-98.75%
Other liabilities	656,809	222,347	434,462	195.40%
Total liabilities	2,003,211	1,379,059	624,152	45.26%
Investment in capital assets	18,494,001	18,289,999	204,002	1.12%
Unrestricted	6,647,689	5,812,565	835,124	14.37%
Total net position	\$ 25,141,690	\$ 24,102,564	\$ 1,039,126	4.31%

The most significant changes from fiscal year 2013 to 2014 were in current assets, current liabilities and other liabilities. Cash and cash equivalents increased \$1.34 million due to the positive change in net position. Due to City of Decatur general fund increased \$321 thousand. The unearned gas revenue account, as described in paragraph 1 of Note 3J to the financial statements, increased by \$434 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, 2014.

Table 2B
GAS SYSTEM

	CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		Increase (Decrease)	
	September 30, 2014	September 30, 2013	\$	%
Operating revenues	\$ 20,956,097	\$ 17,835,792	\$ 3,120,305	17.49%
Purchased gas	16,069,536	13,733,336	2,336,200	17.01%
Gross margin	4,886,561	4,102,456	784,105	19.11%
Other operating expenses	3,397,824	3,330,273	67,551	2.03%
Operating income	1,488,737	772,183	716,554	92.80%
Other revenue (expenses)	20,574	19,719	855	4.34%
Income before transfers	1,509,311	791,902	717,409	90.59%
Transfer to Decatur general fund	(754,655)	(395,951)	(358,704)	90.59%
Aid in construction	284,471	358,367	(73,896)	-20.62%
Change in net position	1,039,127	754,318	284,809	37.76%
Net position - beginning	24,102,563	23,393,947	708,616	3.03%
Prior period adjustment	-	(45,702)	45,702	100.00%
Net position - ending	\$ 25,141,690	\$ 24,102,563	\$ 1,039,127	4.31%

From fiscal year 2013 to 2014, operating revenues increased 17.49% due to the extremely cold winter. Residential and Commercial volumes were up significantly. Transfers to the City were up 90.59% due to the positive change in net position, which increased 4.31% over the prior year.

The Water System's total Net Position decreased by \$377 thousand for the fiscal year ended September 30, 2014. 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		Increase (Decrease)	
	September 30, 2014	September 30, 2013	\$	%
Current assets	\$ 3,734,918	\$ 3,116,261	\$ 618,657	19.85%
Restricted assets	12,018,311	13,916,672	(1,898,361)	-13.64%
Capital assets	67,578,150	66,164,202	1,413,948	2.14%
Other assets	13,150	6,222	6,928	111.35%
Total assets	<u>83,344,529</u>	<u>83,203,357</u>	<u>141,172</u>	0.17%
Current liabilities	1,000,809	371,849	628,960	169.14%
Liabilities payable from restricted assets	2,823,857	2,395,170	428,687	17.90%
Long term liabilities	23,164,849	23,737,652	(572,803)	-2.41%
Other liabilities	66,982	33,180	33,802	101.87%
Total liabilities	<u>27,056,497</u>	<u>26,537,851</u>	<u>518,646</u>	1.95%
Net investment in capital assets	44,771,264	41,558,925	3,212,339	7.73%
Restricted	12,018,311	13,916,672	(1,898,361)	-13.64%
Unrestricted	(501,543)	1,189,909	(1,691,452)	-142.15%
Total net position	<u>\$ 56,288,032</u>	<u>\$ 56,665,506</u>	<u>\$ (377,474)</u>	-0.67%

The most significant changes from fiscal year 2013 to 2014 were in restricted assets, capital assets and current liabilities. The asset activity was primarily due to major capital projects funded by the 2013 series water warrants. Accounts payables increased almost \$615 thousand.

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, 2014.

Table 3B
WATER SYSTEM

			Increase (Decrease)	
	September 30, 2014	September 30, 2013	\$	%
Operating revenues	\$ 11,841,254	\$ 10,935,251	\$ 906,003	8.29%
Treatment expense	4,372,768	3,938,116	434,652	11.04%
Gross margin	7,468,486	6,997,135	471,351	6.74%
Other operating expenses	6,534,651	6,442,756	91,895	1.43%
Operating income	933,835	554,379	379,456	68.45%
Other revenue (expenses)	(859,726)	(712,557)	(147,169)	20.65%
Income before transfers	74,109	(158,178)	232,287	-146.85%
Transfer to Decatur general fund	(550,689)	(451,978)	(98,711)	21.84%
Aid in construction	99,106	220,731	(121,625)	-55.10%
Change in net position	(377,474)	(389,425)	11,951	3.07%
Net position - beginning	56,665,506	57,084,580	(419,074)	-0.73%
Prior period adjustment	-	(29,649)	29,649	100.00%
Net position - ending	\$ 56,288,032	\$ 56,665,506	\$ (377,474)	-0.67%

From fiscal year 2013 to 2014, operating revenues increased 8.29% with most of the volumetric increase coming from Industrial customers. Treatment expenses were up 11.04% due mainly to increased chemical usage. The extremely cold winter weather caused high turbidity levels with increased organic carbon in the raw water. Net position decreased 0.67% from the prior year.

The Wastewater System's total Net Position increased by \$3.9 million for the fiscal year ended September 30, 2014. 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, 2014	September 30, 2013	Increase (Decrease)	
			\$	%
Current assets	\$ 11,126,834	\$ 11,534,690	\$ (407,856)	-3.54%
Restricted assets	32,304,694	41,829,502	\$ (9,524,808)	-22.77%
Capital assets	89,464,920	78,913,808	10,551,112	13.37%
Other assets	2,200,000	800,000	1,400,000	175.00%
Total assets	<u>135,096,448</u>	<u>133,078,000</u>	<u>2,018,448</u>	1.52%
Current liabilities	1,462,528	377,876	1,084,652	287.04%
Liabilities payable from restricted assets	3,238,198	3,156,357	81,841	2.59%
Long term liabilities	49,766,217	52,799,268	(3,033,051)	-5.74%
Other liabilities	-	3,536	(3,536)	-100.00%
Total liabilities	<u>54,466,943</u>	<u>56,337,037</u>	<u>(1,870,094)</u>	-3.32%
Net investment in capital assets	36,835,441	23,412,312	13,423,129	57.33%
Restricted	32,304,694	41,829,502	(9,524,808)	-22.77%
Unrestricted	11,489,370	11,499,149	(9,779)	-0.09%
Total net position	<u>\$ 80,629,505</u>	<u>\$ 76,740,963</u>	<u>\$ 3,888,542</u>	5.07%

The most significant changes from fiscal year 2013 to 2014 were in restricted assets and capital assets. The activity 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, 2014.

Table 4B
WASTEWATER SYSTEM

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
	September 30, 2014	September 30, 2013	Increase (Decrease)	
			\$	%
Operating revenues	\$ 15,759,277	\$ 15,078,823	\$ 680,454	4.51%
Treatment expense	3,101,386	3,084,291	17,095	0.55%
Gross margin	12,657,891	11,994,532	663,359	5.53%
Other operating expenses	6,566,335	6,685,172	(118,837)	-1.78%
Operating income	<u>6,091,556</u>	<u>5,309,360</u>	<u>782,196</u>	14.73%
Other revenue (expenses)	<u>(1,623,009)</u>	<u>(1,117,612)</u>	<u>(505,397)</u>	45.22%
Income before transfers	4,468,547	4,191,748	276,799	6.60%
Transfer to Decatur general fund	(602,341)	(575,030)	(27,311)	4.75%
Aid in construction	22,336	61,250	(38,914)	-63.53%
Capital Contributions - SRF	-	100,000	(100,000)	-100.00%
Change in net position	3,888,542	3,777,968	110,574	2.93%
Net position - beginning	76,740,963	73,051,187	3,689,776	5.05%
Prior period adjustment	-	(88,192)	88,192	100.00%
Net position - ending	<u>\$ 80,629,505</u>	<u>\$ 76,740,963</u>	<u>\$ 3,888,542</u>	5.07%

From fiscal year 2013 to 2014, operating revenues increased 4.51% with most of the volumetric increase coming from Industrial customers. Other operating expenses were down due to several maintenance items being postponed until 2015. Net position increased 5.07% 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, 2014. The analysis below focuses on the System's Net Position (Table 5A).

Table 5A
ADMINISTRATIVE

		September 30, 2014		September 30, 2013		Increase (Decrease)	
						\$	%
CONDENSED STATEMENT OF NET POSITION							
Current assets	\$	7,659,946	\$	7,180,025	\$	479,921	6.68%
Restricted assets		3,450,014		2,542,756		907,258	35.68%
Capital assets		2,048,904		2,260,290		(211,386)	-9.35%
Total assets		<u>13,158,864</u>		<u>11,983,071</u>		<u>1,175,793</u>	9.81%
Current liabilities		5,742,637		5,901,552		(158,915)	-2.69%
Long term liabilities		433,045		-		433,045	100.00%
Other liabilities		3,430,246		2,528,583		901,663	35.66%
Total liabilities		<u>9,605,928</u>		<u>8,430,135</u>		<u>1,175,793</u>	13.95%
Net investment in capital assets		2,048,904		2,260,290		(211,386)	-9.35%
Unrestricted		<u>1,504,032</u>		<u>1,292,646</u>		<u>211,386</u>	16.35%
Total net position	\$	<u>3,552,936</u>	\$	<u>3,552,936</u>	\$	<u>-</u>	0.00%

The most significant changes from fiscal year 2013 to 2014 were in restricted assets and other liabilities. Both items changed primarily due to Management internally restricting an additional \$907 thousand during 2014 to cover post-employment benefits other than pensions (OPEB) as described in Note 4D to the financial statements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2014, the Utility had \$218 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 \$13 million or 6.26% 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, 2013 and 2014. These changes are presented in detail in Note 3D to the financial statements.

Table 1C
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	September 30, 2014	September 30, 2013	Increase (Decrease)	
			\$	%
Electric System				
Land	\$ 723,709	\$ 715,209	\$ 8,500	1.19%
Utility plant	76,352,340	73,769,788	2,582,552	3.50%
Construction in progress	986,758	1,349,057	(362,299)	-26.86%
Less: Accumulated depreciation	(37,684,238)	(36,341,197)	(1,343,041)	3.70%
Net electric plant	<u>40,378,569</u>	<u>39,492,857</u>	<u>885,712</u>	<u>2.24%</u>
Gas System				
Land	124,816	124,816	-	0.00%
Utility plant	33,170,698	32,357,400	813,298	2.51%
Construction in progress	107,683	76,610	31,073	40.56%
Less: Accumulated depreciation	(14,909,196)	(14,268,827)	(640,369)	4.49%
Net gas plant	<u>18,494,001</u>	<u>18,289,999</u>	<u>204,002</u>	<u>1.12%</u>
Water System				
Land	480,614	480,614	-	0.00%
Utility plant	109,574,394	108,644,273	930,121	0.86%
Construction in progress	4,095,474	1,061,944	3,033,530	285.66%
Less: Accumulated depreciation	(46,572,332)	(44,022,629)	(2,549,703)	5.79%
Net water plant	<u>67,578,150</u>	<u>66,164,202</u>	<u>1,413,948</u>	<u>2.14%</u>
Wastewater System				
Land	1,210,086	1,210,086	-	0.00%
Utility plant	119,834,496	119,033,454	801,042	0.67%
Construction in progress	14,144,377	1,503,515	12,640,862	840.75%
Less: Accumulated depreciation	(45,724,039)	(42,833,247)	(2,890,792)	6.75%
Net wastewater plant	<u>89,464,920</u>	<u>78,913,808</u>	<u>10,551,112</u>	<u>13.37%</u>
Administrative System				
Land	71,407	71,407	-	0.00%
Buildings	5,458,317	5,619,268	(160,951)	-2.86%
Construction in progress	75,890	64,641	11,249	17.40%
Less: Accumulated depreciation	(3,556,710)	(3,495,026)	(61,684)	1.76%
Net administration system	<u>\$ 2,048,904</u>	<u>\$ 2,260,290</u>	<u>\$ (211,386)</u>	<u>-9.35%</u>

Debt Administration

The Utility has outstanding debt payable of \$76 million as of September 30, 2014. 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, 2014

	Electric	Gas	Water	Wastewater	Administrative	(Memo Only) Total
Assets						
Current assets						
Cash and cash equivalents	\$ 11,580,257	\$ 6,996,465	\$ 2,369,686	\$ 9,230,056	\$ 7,020,991	\$ 37,197,455
Receivables						
Accounts (net of allowance)	8,480,853	790,540	915,749	1,081,151	563,745	11,832,038
Other accounts receivable	96,618	46,767	19,143	155,035	24,986	342,549
City of Decatur	175,007	5,039	28,229	18,189	9,477	235,941
Current note receivable - other funds	-	-	-	600,000	-	600,000
Stored natural gas	-	230,039	-	-	-	230,039
Materials and supplies	961,451	106,584	386,239	36,532	-	1,490,806
Accrued utility revenue	2,478,821	-	-	-	-	2,478,821
Other current assets	17,426	44,784	15,872	5,871	40,747	124,700
Total current assets	<u>23,790,433</u>	<u>8,220,218</u>	<u>3,734,918</u>	<u>11,126,834</u>	<u>7,659,946</u>	<u>54,532,349</u>
Noncurrent assets						
Restricted cash and equivalents	-	-	12,018,311	32,304,694	3,450,014	47,773,019
Capital assets, not being depreciated						
Land	723,709	124,816	480,614	1,210,086	71,407	2,610,632
Work in process	986,758	107,683	4,095,474	14,144,377	75,890	19,410,182
Capital assets, net of accumulated depreciation						
Utility plant	38,668,102	18,261,502	63,002,062	74,110,457	1,901,607	195,943,730
Total capital assets	<u>40,378,569</u>	<u>18,494,001</u>	<u>67,578,150</u>	<u>89,464,920</u>	<u>2,048,904</u>	<u>217,964,544</u>
Other assets:						
Energy service loans receivable	2,001,488	-	-	-	-	2,001,488
Long term note receivable - other funds	-	-	-	2,200,000	-	2,200,000
Other charges receivable	500	430,682	13,150	-	-	444,332
Total other assets	<u>2,001,988</u>	<u>430,682</u>	<u>13,150</u>	<u>2,200,000</u>	<u>-</u>	<u>4,645,820</u>
Total assets	<u>\$ 66,170,990</u>	<u>\$ 27,144,901</u>	<u>\$ 83,344,529</u>	<u>\$ 135,096,448</u>	<u>\$ 13,158,864</u>	<u>\$ 324,915,732</u>

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

MUNICIPAL UTILITIES BOARD OF DECATUR
STATEMENT OF NET POSITION

September 30, 2014

	Electric	Gas	Water	Wastewater	Administrative	(Memo Only) Total
Liabilities						
Current liabilities						
Accounts payable	\$ 8,442,555	\$ 965,144	\$ 945,700	\$ 1,384,825	\$ 1,839,873	\$ 13,578,097
Due to City of Decatur general fund	-	379,793	55,109	77,703	277,197	789,802
Customer deposits	-	-	-	-	3,625,567	3,625,567
Total current liabilities	<u>8,442,555</u>	<u>1,344,937</u>	<u>1,000,809</u>	<u>1,462,528</u>	<u>5,742,637</u>	<u>17,993,466</u>
Liabilities payable from restricted assets						
Current maturities of revenue warrants	-	-	1,930,000	2,965,000	-	4,895,000
Current note payable - other funds	-	-	600,000	-	-	600,000
Interest payable	-	-	293,857	273,198	-	567,055
Total liabilities payable from restricted assets	<u>-</u>	<u>-</u>	<u>2,823,857</u>	<u>3,238,198</u>	<u>-</u>	<u>6,062,055</u>
Noncurrent liabilities						
Long term debt payable, net of costs	-	-	20,876,886	49,664,479	-	70,541,365
Long term note payable - other funds	-	-	2,200,000	-	-	2,200,000
Compensated absences	168,535	1,465	87,963	101,738	433,045	792,746
Energy service loans payable	2,001,488	-	-	-	-	2,001,488
Postemployment benefits	-	-	-	-	3,430,246	3,430,246
Other unearned credits	48,234	656,809	66,982	-	-	772,025
Total noncurrent liabilities	<u>2,218,257</u>	<u>658,274</u>	<u>23,231,831</u>	<u>49,766,217</u>	<u>3,863,291</u>	<u>79,737,870</u>
Total Liabilities	<u>\$ 10,660,812</u>	<u>\$ 2,003,211</u>	<u>\$ 27,056,497</u>	<u>\$ 54,466,943</u>	<u>\$ 9,605,928</u>	<u>\$ 103,793,391</u>
Net Position						
Net investment in capital assets						
Restricted	\$ 40,378,569	\$ 18,494,001	\$ 44,771,264	\$ 36,835,441	\$ 2,048,904	\$ 142,528,179
Unrestricted	-	-	12,018,311	32,304,694	-	44,323,005
Total net position	<u>15,131,609</u>	<u>6,647,689</u>	<u>(501,543)</u>	<u>11,489,370</u>	<u>1,504,032</u>	<u>34,271,157</u>
	<u>55,510,178</u>	<u>25,141,690</u>	<u>56,288,032</u>	<u>80,629,505</u>	<u>3,552,936</u>	<u>221,122,341</u>
Total liabilities and net position	<u>\$ 66,170,990</u>	<u>\$ 27,144,901</u>	<u>\$ 83,344,529</u>	<u>\$ 135,096,448</u>	<u>\$ 13,158,864</u>	<u>\$ 324,915,732</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, 2014

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Wastewater</u>	<u>Administrative</u>	<u>(Memo Only)</u> <u>Total</u>
Operating revenues						
Charges for sales and services (net of adjustments and allowances)	\$ 96,723,003	\$ 20,813,668	\$ 10,900,576	\$ 14,365,013	\$ -	\$ 142,802,260
Other revenue	1,583,036	142,429	940,678	1,394,264	-	4,060,407
Total operating revenues	<u>\$ 98,306,039</u>	<u>\$ 20,956,097</u>	<u>\$ 11,841,254</u>	<u>\$ 15,759,277</u>	<u>\$ -</u>	<u>\$ 146,862,667</u>
Operating expenses						
Costs of sales and services	\$ 86,383,317	\$ 16,069,536	\$ 4,372,768	\$ 3,101,386	\$ -	\$ 109,927,007
Operations expenses	1,762,425	658,064	684,095	1,202,920	-	4,307,504
Maintenance expenses	1,256,003	307,920	354,676	437,001	-	2,355,600
Customer service expenses	635,072	313,514	569,585	232,658	-	1,750,829
Administrative expenses	3,072,813	1,296,706	2,236,739	1,737,145	-	8,343,403
Depreciation expense	2,202,007	821,620	2,689,556	2,956,611	-	8,669,794
Total operating expenses	<u>95,311,637</u>	<u>19,467,360</u>	<u>10,907,419</u>	<u>9,667,721</u>	<u>-</u>	<u>135,354,137</u>
Operating income (loss)	<u>2,994,402</u>	<u>1,488,737</u>	<u>933,835</u>	<u>6,091,556</u>	<u>-</u>	<u>11,508,530</u>
Non-operating revenues (expenses)						
Interest income	42,829	20,813	25,085	74,669	-	163,396
Other non-operating revenue	16	1	-	-	-	18
Amortization expense	-	-	(76,609)	(2,982)	-	(79,591)
Interest expense	(710)	(240)	(808,203)	(1,694,696)	-	(2,503,849)
Total non-operating revenues (expenses)	<u>42,135</u>	<u>20,574</u>	<u>(859,726)</u>	<u>(1,623,009)</u>	<u>-</u>	<u>(2,420,026)</u>
Income (loss) before transfers and contributions	<u>3,036,537</u>	<u>1,509,311</u>	<u>74,109</u>	<u>4,468,547</u>	<u>-</u>	<u>9,088,504</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, 2014

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Wastewater</u>	<u>Administrative</u>	<u>(Memo Only) Total</u>
Transfers and capital contributions						
Transfers to City of Decatur - in lieu of taxes	(1,662,525)	(754,655)	(550,689)	(602,341)	-	(3,570,210)
Income (loss) before contributions	1,374,012	754,656	(476,580)	3,866,206	-	5,518,294
Aid in construction	-	284,471	99,106	22,336	-	405,913
Change in net position	\$ 1,374,012	\$ 1,039,127	\$ (377,474)	\$ 3,888,542	\$ -	\$ 5,924,207
Total net position - beginning	\$ 54,136,166	\$ 24,102,563	\$ 56,665,506	\$ 76,740,963	\$ 3,552,936	\$ 215,198,134
Total net position - ending	<u>\$ 55,510,178</u>	<u>\$ 25,141,690</u>	<u>\$ 56,288,032</u>	<u>\$ 80,629,505</u>	<u>\$ 3,552,936</u>	<u>\$ 221,122,341</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, 2014

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Wastewater</u>	<u>Administrative</u>	<u>(Memo Only) Totals</u>
Cash flows from operating activities:						
Cash received from consumers	\$ 97,914,936	\$ 21,438,425	\$ 12,062,266	\$ 15,881,816	\$ 1,470,297	\$ 148,767,740
Cash paid to suppliers of goods and services	(88,219,574)	(16,764,936)	(4,103,330)	(2,631,747)	-	(111,719,587)
Cash paid to employees for services	(4,398,877)	(1,817,170)	(3,633,149)	(2,979,446)	-	(12,828,642)
Net change in energy service loans payable	(37,083)	-	-	-	-	(37,083)
Net change in energy service loans receivable	37,083	-	-	-	-	37,083
Interest paid on customer deposits	-	-	-	-	1,092	1,092
Net change in customer deposits	-	-	-	-	35,986	35,986
Net cash provided (used) by operating activities	<u>5,296,485</u>	<u>2,856,319</u>	<u>4,325,787</u>	<u>10,270,623</u>	<u>1,507,375</u>	<u>24,256,589</u>
Cash flows from non-capital financing activities:						
Advances between funds	-	-	1,800,000	(1,800,000)	-	-
Operating transfer out - City of Decatur & tax equivalents	<u>(1,662,525)</u>	<u>(754,655)</u>	<u>(550,689)</u>	<u>(602,341)</u>	-	<u>(3,570,210)</u>
Net cash provided (used) by non-capital financing activities	<u>(1,662,525)</u>	<u>(754,655)</u>	<u>1,249,311</u>	<u>(2,402,341)</u>	-	<u>(3,570,210)</u>
Cash flows from capital and related financing activities:						
Construction and acquisition of capital assets	(3,219,752)	(1,069,640)	(4,129,858)	(13,594,755)	(130,777)	(22,144,782)
Capital contributed by customers	-	284,471	99,106	22,336	-	405,913
Principal paid on debt	-	-	(1,875,000)	(2,875,000)	-	(4,750,000)

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, 2014

	Electric	Gas	Water	Wastewater	Administrative	(Memo Only) Totals
Cost of debt issuance	-	-	-	-	-	-
Premiums on debt issuance	-	-	-	-	-	-
Interest paid on debt	(709)	(240)	(834,516)	(1,702,855)	-	(2,538,320)
Net cash provided (used) by capital and related financing activities	(3,220,461)	(785,409)	(6,740,268)	(18,150,274)	(130,777)	(29,027,189)
Cash flows from investing activities:						
Decrease (increase) in restricted assets	-	-	1,898,361	9,524,806	(907,258)	10,515,909
Income (expense) from other non-operating revenue	16	1	1	-	-	18
Interest received	42,829	20,813	25,085	74,669	-	163,396
Net cash provided (used) by investing activities	42,845	20,814	1,923,447	9,599,475	(907,258)	10,679,323
Net increase (decrease) in cash and cash equivalents	\$ 456,344	\$ 1,337,069	\$ 758,277	\$ (682,517)	\$ 469,340	\$ 2,338,513
Cash and cash equivalents - beginning	\$ 11,123,913	\$ 5,659,396	\$ 1,611,409	\$ 9,912,573	\$ 6,551,651	\$ 34,858,942
Cash and cash equivalents - ending	<u>11,580,257</u>	<u>6,996,465</u>	<u>2,369,686</u>	<u>9,230,056</u>	<u>7,020,991</u>	<u>37,197,455</u>
Cash and cash equivalents	11,580,257	6,996,465	2,369,686	9,230,056	7,020,991	37,197,455
Unrestricted cash on hand	<u>\$ 11,580,257</u>	<u>\$ 6,996,465</u>	<u>\$ 2,369,686</u>	<u>\$ 9,230,056</u>	<u>\$ 7,020,991</u>	<u>\$ 37,197,455</u>
Total cash and cash equivalents	\$ 11,580,257	\$ 6,996,465	\$ 2,369,686	\$ 9,230,056	\$ 7,020,991	\$ 37,197,455

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, 2014

	<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						
Operating income (loss)	\$ 2,994,402	\$ 1,488,737	\$ 933,835	\$ 6,091,556	\$ -	\$ 11,508,530
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation expense	2,334,043	865,639	2,715,906	3,043,643	365,837	9,325,068
Prior period adjustment	-	-	-	-	-	-
Changes in assets and liabilities:						
Receivables	(197,177)	47,865	187,210	126,073	(39,556)	124,415
Unbilled revenues	(167,355)	-	-	-	-	(167,355)
Materials and supplies	6,105	(33,506)	(44,837)	(1,546)	-	(73,784)
Energy service loans receivable	37,083	-	-	-	-	37,083
Energy service loans payable	(37,083)	-	-	-	-	(37,083)
Other current assets (prepaid)	(618)	15,228	(2,749)	815	5,301	17,977
Other charges	-	(151,795)	(6,928)	(71,034)	-	(229,757)
Accounts payable and other accruals	316,572	189,690	509,548	1,084,652	1,140,711	3,241,173
Customer deposits	-	-	-	-	35,082	35,082
Other credits	10,513	434,461	33,802	(3,536)	-	475,240
Net cash provided (used) by operating activities	<u>\$ 5,296,485</u>	<u>\$ 2,856,319</u>	<u>\$ 4,325,787</u>	<u>\$ 10,270,623</u>	<u>\$ 1,507,375</u>	<u>\$ 24,256,589</u>

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

MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

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), Statement No. 14, The Financial Reporting Entity*. The elements of the financial reporting entity are the primary government and, under certain circumstances, a component unit. In general, a primary government has a separately elected governing body, is legally separate, and is fiscally independent. The basic criterion for including a potential component unit within the reporting entity is whether the primary government is financially accountable for the component unit.

The primary government is financially accountable if it appoints a voting majority of a component unit's governing body and either: 1) has the ability to impose its will on the component unit or 2) there is potential for the component unit to provide financial benefits or impose financial burdens on the primary government.

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.

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, 2014

C. 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 a term of less than three months.

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.

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.

MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

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. Debt issuance costs are treated as regulatory assets and amortized over the term of the related debt.

Impact of Recently Issued Accounting Pronouncements

In March of 2012, the GASB issued statement no. 65 – Items previously reported as assets and liabilities. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for financial periods beginning after December 15, 2012. As of June 30, 2014, the Utility has no items affected by the changes. The Utility will continue to report bond issuance costs 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 65 is available due to the above mentioned cost being used for rate setting by the utility.

In June 2012, the GASB issued Statement 67, Financial Reporting for Pension Plans, an amendment of GASB Statement 25, and Statement 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. Statement 67, effective for fiscal years

MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

beginning after June 15, 2013, revises existing standards of financial reporting by state and local government pension plans and will be adopted by the pension plan itself. Statement 68 will affect the governments that participate as employers in these plans and are effective for fiscal years beginning after June 15, 2014. For governments to adopt Statement 68, the underlying pension plans must first adopt Statement 67. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligations. Management is currently evaluating the impact that the adoption of Statement 68 will have on the Entity's financial statements.

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.

MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

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 \$84,970,474. The bank balances were \$84,891,152, 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.

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

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

B. Receivables

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

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Wastewater</u>	<u>Administrative</u>
Customer accounts receivable	\$ 8,684,756	\$ 825,474	\$ 934,317	\$ 1,112,598	\$ 563,745
Allowance	(203,903)	(34,934)	(18,568)	(31,447)	-
Net accounts receivable	<u>\$ 8,480,853</u>	<u>\$ 790,540</u>	<u>\$ 915,749</u>	<u>\$ 1,081,151</u>	<u>\$ 563,745</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.

MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
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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 \$.10 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.

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.

	Due from City	Due to City
Electric	\$ 175,007	\$ -
Gas	5,039	379,793
Water	28,229	55,109
Sewer	18,189	77,703
Administrative (Garbage)	9,477	277,197
Total	\$ 235,941	\$ 789,802

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

	Due to Wastewater	Due from Water
	\$ 2,800,000	\$ 2,800,000

D. Capital Assets

Capital asset activity for the year ended September 30, 2014, was as follows:

	Beginning				Ending
	Balance	Additions	Deletions	Reclassification	Balance
Electric System					
Land	715,209	8,500	-	-	723,709
Utility Plant	73,769,788	3,490,510	(907,958)	-	76,352,340
Construction in progress	1,349,057	(362,299)	-	-	986,758
Less: Accumulated depreciation	(36,341,197)	(2,516,802)	1,173,761	-	(37,684,238)
Net Electric Plant	39,492,857	619,909	265,803	-	40,378,569
Gas System					
Land	124,816	-	-	-	124,816
Utility Plant	32,357,400	1,027,359	(214,061)	-	33,170,698
Construction in progress	76,610	31,073	-	-	107,683
Less: Accumulated depreciation	(14,268,827)	(891,239)	250,870	-	(14,909,196)
Net Gas Plant	18,289,999	167,193	36,809	-	18,494,001

MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

Water System

Land	480,614	-	-	-	480,614
Utility Plant	108,644,272	1,146,959	(216,837)	-	109,574,394
Construction in progress	1,061,944	3,033,530	-	-	4,095,474
Less: Accumulated depreciation	<u>(44,022,629)</u>	<u>(2,798,071)</u>	<u>248,368</u>	-	<u>(46,572,332)</u>
Net Water Plant	<u>66,164,201</u>	<u>1,382,418</u>	<u>31,531</u>	-	<u>67,578,150</u>

Wastewater System

Land	1,210,086	-	-	-	1,210,086
Utility Plant	119,033,454	974,982	(173,940)	-	119,834,496
Construction in progress	1,503,515	12,640,862	-	-	14,144,377
Less: Accumulated depreciation	<u>(42,833,247)</u>	<u>(3,075,430)</u>	<u>184,638</u>	-	<u>(45,724,039)</u>
Net Wastewater Plant	<u>78,913,808</u>	<u>10,540,414</u>	<u>10,698</u>	-	<u>89,464,920</u>

Administrative System

Land	71,407	-	-	-	71,407
Buildings	5,619,268	143,202	(304,153)	-	5,458,317
Construction in progress	64,641	11,249	-	-	75,890
Less: Accumulated depreciation	<u>(3,495,026)</u>	<u>(366,752)</u>	<u>305,068</u>	-	<u>(3,556,710)</u>
Net Administration Plant	<u>2,260,290</u>	<u>(212,301)</u>	<u>915</u>	-	<u>2,048,904</u>

Depreciation expense amounted to \$8,669,793 charged to operations in 2014 and \$9,706,224 in 2013.

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 assets	<u>\$ 2,202,007</u>	<u>\$ 821,620</u>	<u>\$ 2,689,556</u>	<u>\$ 2,956,611</u>	<u>\$ -</u>
Depreciation allocated to other operating accounts and construction in progress	<u>132,036</u>	<u>44,019</u>	<u>26,350</u>	<u>87,032</u>	<u>365,837</u>
Depreciation expense per the statement of cash flows	<u>\$ 2,334,043</u>	<u>\$ 865,639</u>	<u>\$ 2,715,906</u>	<u>\$ 3,043,643</u>	<u>\$ 365,837</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

MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

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, 2014 were \$19,965,000 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, 2014 was \$493,113.

The Alabama Drinking Water Finance Authority (the "Authority") loaned to the Water System \$7,367,402 with funds made available to the Authority by the American Recovery and Reinvestment Act (the "ARRA"). Of this amount, \$3,662,402 was previously forgiven pursuant to the ARRA and recorded as capital contributions on the Statement of Revenues, Expenses, and Changes in Net Position. The Authority required that Decatur Utilities issue a water warrant in the amount of the loan less the ARRA forgiveness portion. The 2009 Series SRF Water Warrants were issued in the amount of \$3,215,000. The 2012 Series SRF Water Warrants were issued in the amount of \$490,000. Total bonds outstanding at September 30, 2014 were \$3,335,000. The bonds are expected to mature in 2031 and 2033.

	<u>10/1/2013</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>9/30/2014</u>	<u>Current</u>
Water Series 2009	11,290,000	-	1,735,000	9,555,000	1,785,000
Water Series 2009/SRF	2,985,000	-	120,000	2,865,000	125,000
Water Series 2012/SRF	490,000	-	20,000	470,000	20,000
Water Series 2013	10,410,000	-	-	10,410,000	-
Total	<u>25,175,000</u>	<u>-</u>	<u>1,875,000</u>	<u>23,300,000</u>	<u>1,930,000</u>

Wastewater System Debt

Decatur Utilities and the City issues revenue bonds primarily to finance improvements to the Wastewater System. The bonds are being repaid from revenues derived by Decatur Utilities from the operation of the System after payment of the reasonable and necessary expenses of maintaining the operating system. The 1997 bonds were issued in the amount of \$2,850,000. The 2010 bonds were issued at \$10,020,000. The 2013 bonds were issued at \$37,125,000. Total bonds outstanding from Series 1997, 2010, and 2013 issues at September 30, 2014 were \$42,290,000 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, 2014 was \$77,315. The System's unamortized debt premium at September 30, 2014 was \$(211,794).

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, 2014 were \$9,380,000. 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, 2014 were \$825,000. The bonds are expected to mature in 2033.

MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

	<u>10/1/2013</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>9/30/2014</u>	<u>Current</u>
Bonds:					
Wastewater Series 1997	760,000	-	180,000	580,000	185,000
Wastewater Series 2009/SRF	9,775,000	-	395,000	9,380,000	410,000
Wastewater Series 2010	6,855,000	-	870,000	5,985,000	905,000
Wastewater Series 2012/SRF	855,000	-	30,000	825,000	35,000
Wastewater Series 2013	<u>37,125,000</u>	-	<u>1,400,000</u>	<u>35,725,000</u>	<u>1,430,000</u>
Total	<u>55,370,000</u>	-	<u>2,875,000</u>	<u>52,495,000</u>	<u>2,965,000</u>

Future maturities of debt across all systems are as follows;

Year ending				
September 30,	Principal	Interest	Total	
2015	\$ 4,895,000	\$ 2,412,364	\$ 7,307,364	
2016	5,045,000	2,279,046	7,324,046	
2017	5,215,000	2,126,873	7,341,873	
2018	5,190,000	1,964,825	7,154,825	
2019	5,370,000	1,790,496	7,160,496	
2020-2024	16,805,000	6,991,022	23,796,022	
2025-2029	18,315,000	4,360,630	22,675,630	
2030-2033	<u>14,960,000</u>	<u>1,242,975</u>	<u>16,202,975</u>	
	<u>\$ 75,795,000</u>	<u>\$ 23,168,231</u>	<u>\$ 98,963,231</u>	

F. Net Position

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

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Wastewater</u>	<u>Administrative</u>
Net invested in capital assets	\$ 40,378,569	\$ 18,494,001	\$ 44,771,264	\$ 36,835,441	\$ 2,048,904
Restricted	-	-	12,018,311	32,304,694	-
Unrestricted	<u>15,131,609</u>	<u>6,647,689</u>	<u>(501,543)</u>	<u>11,489,370</u>	<u>1,504,032</u>
Total net position	<u>\$ 55,510,178</u>	<u>\$ 25,141,690</u>	<u>\$ 56,288,032</u>	<u>\$ 80,629,505</u>	<u>\$ 3,552,936</u>

MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

G. Restricted Assets

The restricted assets consist of the following:

Water System	<u>September 30, 2014</u>
Series 2009 and 2013 Warrant Fund:	
U.S. Treasury Obligation Fund	
(variable interest rate)	\$ 9,749,914
Series 2009 Reserve Fund:	
U.S. Treasury Obligation Fund	
(variable interest rate)	1,726,451
Improvement Fund:	
Bank checking, included in SAFE program	500,000
Series 2009 SRF/ARRA Warrant Fund:	
U.S. Treasury Obligation Fund	
(variable interest rate)	41,946
Total Restricted Assets	<u>\$ 12,018,311</u>
Wastewater System	<u>September 30, 2014</u>
Series 1997, 2004, 2010, & 2013 Warrant Fund	
Bank Investment Account	
(interest yield at federal fund rate)	\$ 29,256,551
Series 2009 Reserve Fund:	
U.S. Treasury Obligation Fund	
(variable interest rate)	2,548,143
Replacement and Extension Fund	
Bank checking, included in SAFE program	500,000
Total Restricted Assets	<u>\$ 32,304,694</u>
Administrative System	<u>September 30, 2014</u>
Schedule of restricted assets	
Workman's Compensation - Funds on Deposit	
Held by insurance administrator	\$ 5,000
Other Post Retirement Benefits Fund	3,445,014
Total Restricted Assets	<u>\$ 3,450,014</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

MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

revenue accrual throughout the fiscal year and will adjust the amount annually at September 30th of each successive year. The balance at September 30, 2014 is \$2,478,821.

I. Accrued Leave

Accrued PTO at September 30, 2014 is as follows

		<u>September 30, 2014</u>
Electric	\$	168,535
Gas		1,465
Water		87,963
Wastewater		101,738
Admin		433,045

J. Other Charges and Credits

Due to the volatility of the cost of natural gas, the Gas System maintains a 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 a 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. Risk Management

The Utility is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2014, 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.

B. 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. The rates for such purchases are subject to review periodically. Additionally, the Electric System has entered into a TVA

MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

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 \$2,001,488 and the outstanding balance due to TVA for collection of the loans was also \$2,001,488.

Occasionally, the Gas System enters into natural gas purchase commitments to purchase minimum volumes of gas at fixed prices over a one to three year period. These futures can either be held for use in the contracted future month or cashed out at a profit and the proceeds used to reduce the cost of gas in future months. At September 30, 2014, contract commitments total \$1,335,815 for fiscal year 2015 and \$37,800 for fiscal year 2016. At December 31, 2014, no purchase commitments extended beyond March 2016. Additional outstanding commitments were \$1,458,865 for fiscal year 2015 and \$419,800 for fiscal year 2016.

C. Defined Benefit Pension Plan

Plan Description

Decatur Utilities contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the various state agencies and departments.

Substantially all employees are members of the Employees' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the Utility. Benefits vest after 10 years of creditable service. For employees hired prior to January 1, 2013, vested employees may retire with full benefits at age 60 or after 25 years of service. Retirees are allowed up to 2.0125% of their average final salary (highest three of the last ten years) for each year of service, with four other reduced amount options. For employees hired after January 1, 2013, vested employees may retire with full benefits at age 62. Retirees are allowed 1.65% of their average highest five years out of the last ten fiscal years (October-September) with four other reduced benefit options. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to active employees in the plan.

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 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 general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Municipal Utilities Board of Decatur authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 201 South Union Street, Montgomery, Alabama 36104 or P.O. Box 302150, Montgomery, Alabama 36130-2150.

MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

Required Employer Contribution Rates

Beginning	October 1, 2014	October 1, 2015
Normal costs	2.42%	2.64%
Accrued liability	13.02%	11.94%
Pre-retirement death benefit	0.14%	0.02%
Administrative benefit	0.21%	0.35%
Total	15.79%	14.95%

Valuation date	9/30/2013
Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	27 years
Asset valuation method	5 - year smoothed market
Actuarial assumptions:	
Ultimate investment rate of return (discount rate)**	8.00%
Projected salary increase**	3.75 - 7.25%
**includes inflation at	3.00%
Cost of living adjustments	None

Schedule of Funding Progress for Decatur Utilities

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2013	26,742,883	44,275,998	17,533,115	60.40%	9,334,632	187.83%

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2011	1,545,500	100%	-
9/30/2012	1,345,599	100%	-
9/30/2013	1,450,652	100%	-

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.

D. Other Post Employment Benefits

Decatur Utilities medical and life post-employment benefits were unfunded at September 30, 2014. 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

MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

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 4D. These benefits are approved by the board of directors. Contribution funding is also approved by the board. Benefits provided to retirees at September 30, 2014 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.

Annual required contribution	2012/2013	2013/2014
Normal cost	\$ 503,731	\$ 528,918
Amortization	912,423	1,116,867
Interest	<u>28,045</u>	<u>32,593</u>
Total annual required contribution	1,444,199	1,678,378
Net OPEB Obligation		
Net OPEB obligation - October 1	<u>1,845,712</u>	<u>2,551,206</u>
Annual required contribution	1,444,199	1,678,378
Interest on Net OPEB obligation	73,828	102,048
Adjustment to annual required contribution	<u>(88,107)</u>	<u>(89,712)</u>
Annual OPEB cost	1,429,920	1,690,714
Annual required contribution	<u>(737,876)</u>	<u>(796,906)</u>
Increase in Net OPEB obligation	<u>692,044</u>	<u>893,808</u>
Net OPEB Obligation - September 30	<u><u>2,537,756</u></u>	<u><u>3,445,014</u></u>
Present Value of Future Benefits as of October 1, 2013		
Active employees	15,821,079	16,453,922
Retirees	<u>12,787,160</u>	<u>12,531,256</u>
Total	<u><u>\$ 28,608,239</u></u>	<u><u>\$ 28,985,178</u></u>

Actual contributions made by plan members during the current year were \$206,544; and actual contributions made by the company were \$1,696,267.

MUNICIPAL UTILITIES BOARD OF DECATUR
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

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

REQUIRED SUPPLEMENTARY INFORMATION

**MUNICIPAL UTILITIES BOARD OF DECATUR
SCHEDULES OF FUNDING PROGRESS - EMPLOYEE RETIREMENT SYSTEM
AND OTHER POST-EMPLOYMENT BENEFITS**

September 30, 2014

Defined Pension Plan Schedule of Funding Progress						
Actuarial Valuation Date	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)
9/30/2011	25,839,783	43,315,003	17,475,220	59.66%	8,897,976	196.40%
9/30/2012	25,265,153	41,523,297	16,258,144	60.85%	8,339,323	194.96%
9/30/2013	26,742,883	44,275,998	17,533,115	60.40%	9,334,632	187.83%

Post-Employment Schedule of Funding Progress						
Actuarial Valuation Date	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)
9/30/2012	-	17,775,704	17,775,704	0.00%	8,125,125	218.77%
9/30/2013	-	21,692,149	21,692,149	0.00%	8,714,949	248.91%

SUPPLEMENTARY AND OTHER INFORMATION SECTION

MUNICIPAL UTILITIES BOARD OF DECATUR
SCHEDULE OF LONG-TERM DEBT
September 30, 2014

Year Ended September 30,	Wastewater System											
	1997 Series Wastewater Warrants		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	Principal	Interest	Principal	Interest
2015	185,000	22,910	410,000	328,300	905,000	156,209	35,000	22,688	1,430,000	1,109,081	-	-
2016	195,000	15,601	425,000	313,950	940,000	132,588	35,000	21,725	1,460,000	1,080,481	-	-
2017	200,000	7,900	440,000	299,075	975,000	108,054	35,000	20,763	1,505,000	1,036,681	-	-
2018	-	-	455,000	283,675	1,015,000	82,607	35,000	19,800	1,550,000	991,531	-	-
2019	-	-	470,000	267,750	1,055,000	56,115	35,000	18,838	1,595,000	945,031	-	-
2020	-	-	490,000	251,300	1,095,000	28,580	40,000	17,875	1,645,000	897,181	-	-
2021	-	-	505,000	234,150	-	-	40,000	16,775	1,695,000	847,831	-	-
2022	-	-	525,000	216,475	-	-	40,000	15,675	1,745,000	796,981	-	-
2023	-	-	545,000	198,100	-	-	40,000	14,575	1,795,000	744,631	-	-
2024	-	-	565,000	179,025	-	-	45,000	13,475	1,850,000	690,781	-	-
2025	-	-	585,000	159,250	-	-	45,000	12,238	1,905,000	635,281	-	-
2026	-	-	605,000	138,775	-	-	45,000	11,000	1,960,000	578,131	-	-
2027	-	-	625,000	117,600	-	-	45,000	9,763	2,020,000	519,331	-	-
2028	-	-	650,000	95,725	-	-	50,000	8,525	2,080,000	458,731	-	-
2029	-	-	670,000	72,975	-	-	50,000	7,150	2,150,000	391,131	-	-
2030	-	-	695,000	49,525	-	-	50,000	5,775	2,220,000	321,256	-	-
2031	-	-	720,000	25,200	-	-	50,000	4,400	2,295,000	246,331	-	-
2032	-	-	-	-	-	-	55,000	3,025	2,370,000	168,875	-	-
2033	-	-	-	-	-	-	55,000	1,513	2,455,000	85,925	-	-
2034	-	-	-	-	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-	-	-	-	-
	\$ 580,000	\$ 46,411	\$ 9,380,000	\$ 3,230,850	\$ 5,985,000	\$ 564,152	\$ 825,000	\$ 245,576	\$ 35,725,000	\$ 12,545,202		

See independent auditor's report.

MUNICIPAL UTILITIES BOARD OF DECATUR
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2014

	Grant Number	Federal CFDA No.	Expenditures
Federal Awards			
United States Department of Homeland Security			
Federal Emergency Management Agency:			
Passed through the State of Alabama			
Emergency Management Agency:			
Hazard Mitigation Grant Program	DR 1971-366	97.039	\$ 52,943
Hazard Mitigation Grant Program	DR 1971-367	97.039	62,623
Total United States Department of Homeland Security			<u>115,566</u>
United States Environmental Protection Agency			
Passed through the State of Alabama			
Department of Environmental Management			
Clean Water State Revolving Funds	CS010248-10	66.458	855,163
Drinking Water State Revolving Funds	FS010118-02	66.468	675,706
Total United States Environmental Protection Agency			<u>1,530,869</u>
Total Federal Awards			<u><u>1,646,435</u></u>

The above is reported under the modified accrual basis of accounting whereby revenues are recorded when measurable and expenses are recorded when the liability is incurred.

See independent auditor's report.

MUNICIPAL UTILITIES BOARD OF DECATUR
SCHEDULE OF OPERATING STATISTICS, ELECTRIC - UNAUDITED
September 30, 2014

	For The Fiscal Years Ended September 30,			
	2014	2013	2012	2011
Revenue				
Residential	\$ 32,250,841	\$ 30,000,453	\$ 30,467,480	\$ 31,804,214
Commercial	7,098,808	6,766,444	6,923,773	6,727,488
Industrial	56,448,547	55,740,205	57,108,543	57,278,548
Street and outdoor lighting	937,452	936,100	947,157	919,456
Unbilled Revenue	167,355	(27,250)	(452,872)	(38,180)
Other operating	1,583,036	1,532,186	1,550,602	1,178,431
Interest and other revenue	42,845	91,139	61,216	230,148
	<u>\$ 98,528,884</u>	<u>\$ 95,039,277</u>	<u>\$ 96,605,899</u>	<u>\$ 98,100,105</u>
Expense				
Electric power costs	\$ 86,383,317	\$ 83,189,202	\$ 84,674,943	\$ 88,479,318
Other operating expenses	6,906,313	6,763,670	6,044,651	6,130,432
Provision for depreciation and amortization	2,202,007	2,180,486	2,066,840	2,043,296
Transfer out - tax equivalent	1,662,525	1,674,766	1,659,473	1,642,292
Interest and other expense	710	1,578	1,225	584
	<u>97,154,872</u>	<u>93,809,702</u>	<u>94,447,132</u>	<u>98,295,922</u>
Net Income (Loss)	<u>\$ 1,374,012</u>	<u>\$ 1,229,575</u>	<u>\$ 2,158,767</u>	<u>\$ (195,817)</u>
Financial				
Plant in service	<u>\$ 40,378,569</u>	<u>\$ 39,492,857</u>	<u>\$ 39,999,224</u>	<u>\$ 39,438,737</u>
Power in use - KWH				
Residential	354,982,105	335,641,384	336,651,489	369,721,277
Commercial	69,160,759	66,989,598	67,912,406	68,168,820
Industrial	815,033,832	785,497,291	801,907,186	783,148,104
Other Customers	7,162,224	7,249,276	7,282,899	7,158,224
Accrued unbilled kWh	224,632	(3,761,928)	1,271,039	(553,270)
Total	<u>1,246,563,552</u>	<u>1,191,615,621</u>	<u>1,215,025,019</u>	<u>1,227,643,155</u>
Number of customers				
Residential	22,471	22,483	22,591	22,518
Small commercial	3,303	3,347	3,314	3,263
Large commercial	552	535	549	571
Street and athletic	98	88	85	82
Outdoor lighting - Code 78	63	62	79	79
	<u>26,487</u>	<u>26,515</u>	<u>26,618</u>	<u>26,513</u>
Line Loss	<u>2.91%</u>	<u>3.06%</u>	<u>3.17%</u>	<u>2.79%</u>
Miles of Line	593	593	593	592

See independent auditor's report.

MUNICIPAL UTILITIES BOARD OF DECATUR
SCHEDULE OF OPERATING STATISTICS, GAS - UNAUDITED
September 30, 2014

	For The Fiscal Years Ended September 30,			
	2014	2013	2012	2011
Revenue				
Residential	\$ 5,321,267	\$ 4,728,467	\$ 4,055,386	\$ 5,110,494
Commercial	4,695,727	4,125,070	3,537,097	4,345,506
Industrial	10,820,674	8,871,649	7,996,461	9,867,708
Other operating	142,429	122,006	112,397	132,542
Contributed capital	284,471	358,367	31,965	7,621
Interest and other revenue	20,814	20,253	29,643	30,074
	<u>\$ 21,285,382</u>	<u>\$ 18,225,812</u>	<u>\$ 15,762,949</u>	<u>\$ 19,493,945</u>
Expense				
Gas purchased	\$ 16,069,536	\$ 13,733,336	\$ 12,278,391	\$ 15,521,932
Other operating expenses	2,600,204	2,529,809	2,500,228	2,556,871
Provision for depreciation and amortization	821,620	811,864	726,491	729,843
Transfer out - tax equivalent	754,655	395,951	112,666	338,705
Interest and other expense	240	534	542	268
	<u>20,246,255</u>	<u>17,471,494</u>	<u>15,618,318</u>	<u>19,147,619</u>
Net Income (Loss)	<u>\$ 1,039,127</u>	<u>\$ 754,318</u>	<u>\$ 144,631</u>	<u>\$ 346,326</u>
Financial				
Plant in service	<u>\$ 18,494,001</u>	<u>\$ 18,289,999</u>	<u>\$ 17,919,366</u>	<u>\$ 17,641,679</u>
MCF's sold				
Residential	543,646	471,484	361,654	502,630
Commercial	566,669	479,802	380,827	490,939
Industrial	954,524	915,644	919,713	909,639
Flex	913,427	939,468	915,873	907,685
Transportation	3,686,898	3,422,345	3,519,010	3,347,768
Total	<u>6,665,164</u>	<u>6,228,743</u>	<u>6,097,077</u>	<u>6,158,661</u>
Number of customers				
Residential	11,906	11,995	11,943	12,005
Commercial	1,662	1,649	1,648	1,639
Industrial	32	33	36	34
Flex	1	1	1	1
Transportation	12	12	12	12
	<u>13,613</u>	<u>13,690</u>	<u>13,640</u>	<u>13,691</u>
Loss percentage	<u>0.02%</u>	<u>0.48%</u>	<u>0.62%</u>	<u>1.32%</u>
Miles of mains	418	418	415	414

See independent auditor's report.

MUNICIPAL UTILITIES BOARD OF DECATUR
SCHEDULE OF OPERATING STATISTICS, WATER - UNAUDITED
September 30, 2014

	<u>For The Fiscal Years Ended September 30,</u>			
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenue				
Residential	\$ 3,614,808	\$ 3,429,913	\$ 3,704,809	\$ 3,388,147
Commercial	1,563,592	1,614,493	1,703,007	1,607,633
Industrial	4,059,201	3,567,864	3,644,719	3,205,910
Resale	1,550,542	1,419,355	1,513,321	1,185,900
Other operating	1,071,111	923,426	946,526	873,170
Capital contributions	99,106	220,731	690,789	193,447
Capital contributions - SRF	-	-	3,662,402	-
Interest and other revenue	25,086	21,914	21,865	15,476
	<u>\$ 11,983,446</u>	<u>\$ 11,197,696</u>	<u>\$ 15,887,438</u>	<u>\$ 10,469,683</u>
Expense				
Treatment expense	4,372,768	3,938,116	3,987,684	4,114,352
Other operating expenses	3,863,095	3,778,248	3,261,267	3,394,659
Provision for depreciation and amortization	2,689,556	2,684,308	2,434,989	2,310,943
Transfer out - tax equivalent	550,689	451,978	491,456	477,480
Interest and other expense	884,812	734,471	650,634	563,723
	<u>12,360,920</u>	<u>11,587,121</u>	<u>10,826,030</u>	<u>10,861,157</u>
Net Income (Loss)	<u>\$ (377,474)</u>	<u>\$ (389,425)</u>	<u>\$ 5,061,408</u>	<u>\$ (391,474)</u>
Financial				
Plant in service	<u>\$ 67,578,150</u>	<u>\$ 66,164,202</u>	<u>\$ 67,471,571</u>	<u>\$ 68,010,362</u>
Gallons sold (1000's)				
Residential	1,503,192	1,442,274	1,699,839	1,718,845
Commercial	985,466	1,080,901	1,198,494	1,296,871
Industrial	4,992,736	4,519,323	4,746,083	4,635,907
Resale	1,940,328	1,907,497	2,087,128	1,803,422
Total	<u>9,421,722</u>	<u>8,949,995</u>	<u>9,731,544</u>	<u>9,455,045</u>
Number of customers				
Residential	21,989	22,013	21,958	22,049
Commercial	3,198	3,155	3,149	3,110
Industrial	97	83	78	76
Resale	11	9	9	9
	<u>25,295</u>	<u>25,260</u>	<u>25,194</u>	<u>25,244</u>
Loss percentage	<u>6.36%</u>	<u>4.27%</u>	<u>2.32%</u>	<u>8.25%</u>
Miles of mains	484	484	484	481
Fire hydrants in service	2,028	2,026	2,019	2,011
Capacity of storage tanks (1000's)	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, 2014

	For The Fiscal Years Ended September 30,			
	2014	2013	2012	2011
Revenue				
Residential	\$ 4,700,816	\$ 4,678,067	\$ 4,801,393	\$ 4,473,786
Commercial	2,669,924	2,845,431	2,905,344	2,703,292
Industrial	6,764,161	5,967,903	6,288,609	5,822,636
Government agencies	260,112	218,400	136,658	125,084
Other operating	1,394,264	1,399,022	1,203,236	1,216,992
Capital contributions	22,336	61,250	270,059	213,505
Capital contributions - SRF	-	100,000	5,135,364	-
Interest and other revenue	74,669	59,963	47,499	29,395
	<u>\$ 15,886,282</u>	<u>\$ 15,330,036</u>	<u>\$ 20,788,162</u>	<u>\$ 14,584,690</u>
Expense				
Treatment expense	3,101,386	3,084,291	2,912,892	3,051,740
Other operating expenses	3,639,724	3,711,084	4,071,672	3,701,346
Provision for depreciation and amortization	2,956,611	3,004,088	2,702,094	2,551,590
Transfer out - tax equivalent	602,341	575,030	592,393	557,350
Interest and other expense	1,697,678	1,177,575	635,640	404,966
	<u>11,997,740</u>	<u>11,552,068</u>	<u>10,914,691</u>	<u>10,266,992</u>
Net Income (Loss)	<u>\$ 3,888,542</u>	<u>\$ 3,777,968</u>	<u>\$ 9,873,471</u>	<u>\$ 4,317,698</u>
Financial				
Plant in service	<u>\$ 89,464,920</u>	<u>\$ 78,913,808</u>	<u>\$ 80,028,707</u>	<u>\$ 80,824,778</u>
Gallons billed (1000's)				
Residential	991,558	977,116	1,016,578	1,060,630
Commercial	725,722	779,400	800,116	821,035
Industrial	1,991,381	1,791,050	1,898,262	1,873,565
Government agencies	164,916	149,472	94,612	86,487
Total	<u>3,873,577</u>	<u>3,697,038</u>	<u>3,809,568</u>	<u>3,841,717</u>
Number of customers				
Residential	18,005	18,024	17,985	18,057
Commercial	2,232	2,201	2,191	2,200
Industrial	81	71	68	69
Government agencies	1	1	1	1
	<u>20,319</u>	<u>20,297</u>	<u>20,245</u>	<u>20,327</u>
Miles of mains	342	342	341	340

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Municipal Utilities Board of Decatur, Morgan County, Alabama, a component unit of the City of Decatur Alabama, as of and for the year ended September 30, 2014, 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, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Alexander Thompson Arnold PLLC

Jackson, Tennessee
December 31, 2014

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
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Independent Auditor's Reports on Compliance For Each Major Federal Program and on Internal Control Over Compliance as Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited Municipal Utilities Board of Decatur's, Morgan County, Alabama, a component unit of the City of Decatur, Alabama, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Municipal Utilities Board of Decatur's major federal programs for the year ended September 30, 2014. Municipal Utilities Board of Decatur's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Municipal Utilities Board of Decatur's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipal Utilities Board of Decatur's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Municipal Utilities Board of Decatur's compliance.

Opinion on Each Major Federal Program

In our opinion, Municipal Utilities Board of Decatur complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Report on Internal Control Over Compliance

Management of Municipal Utilities Board of Decatur is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipal Utilities Board of Decatur's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipal Utilities Board of Decatur's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Jackson, Tennessee
December 1, 2014

MUNICIPAL UTILITIES BOARD OF DECATUR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:		Unmodified
Internal control over financial reporting:		
Material weaknesses identified?	<u> </u> yes	<u> X </u> none
Significant deficiencies identified	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> none

Federal Awards

Internal Control over major programs:		
Material weaknesses identified?	<u> </u> yes	<u> X </u> none
Significant deficiencies identified	<u> </u> yes	<u> X </u> none reported

Type of auditor's report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u> </u> yes	<u> X </u> none
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Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
66.458	Clean Water State Revolving Funds
66.468	Drinking Water State Revolving Funds

Dollar threshold used to distinguish between

Type A and Type B programs:	\$ <u> 300,000 </u>
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Auditee qualified as a low-risk auditee?	<u> </u> yes	<u> X </u> no
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MUNICIPAL UTILITIES BOARD OF DECATUR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Current Year Findings:

None reported.

Prior Year Findings:

None reported.

Section III – Federal Award Findings and Questioned Costs

Current Year Findings:

None reported.

Prior Year Findings:

None reported.

Connect With Us!

“New Media” has forever changed the way we communicate with customers

The digital age has significantly changed how we interact with each other on a daily basis. It’s no different at Decatur Utilities, where we embrace new communications platforms and technologies that allow us to reach our customers quickly with vital information regarding outages, safety, traffic alerts and other information.

Connect with us online and you can stay up-to-date on what is happening at your utility!

Of course, we still use traditional methods too.

Yes, we still use local print publications, appear on Huntsville television and radio stations and communicate directly with customers using bill stuffers and the “DU Currents” customer newsletter.

We believe in a balanced approach that reaches all stakeholders. That means we use a combination of new and traditional media outlets - depending on the message, the urgency and the target audience.

For example, when large outages occur, you can find updates using Facebook and Twitter, posted on our website, at online media outlets like decaturdaily.com and al.com and from our network of local radio and television stations.

The bottom line? However you like to receive information, DU will be there.

So whether you enjoy your morning cup of coffee over a newspaper or a tablet, you can stay connected with DU at all times!



UTILITY LINES
The DU Blog

Online

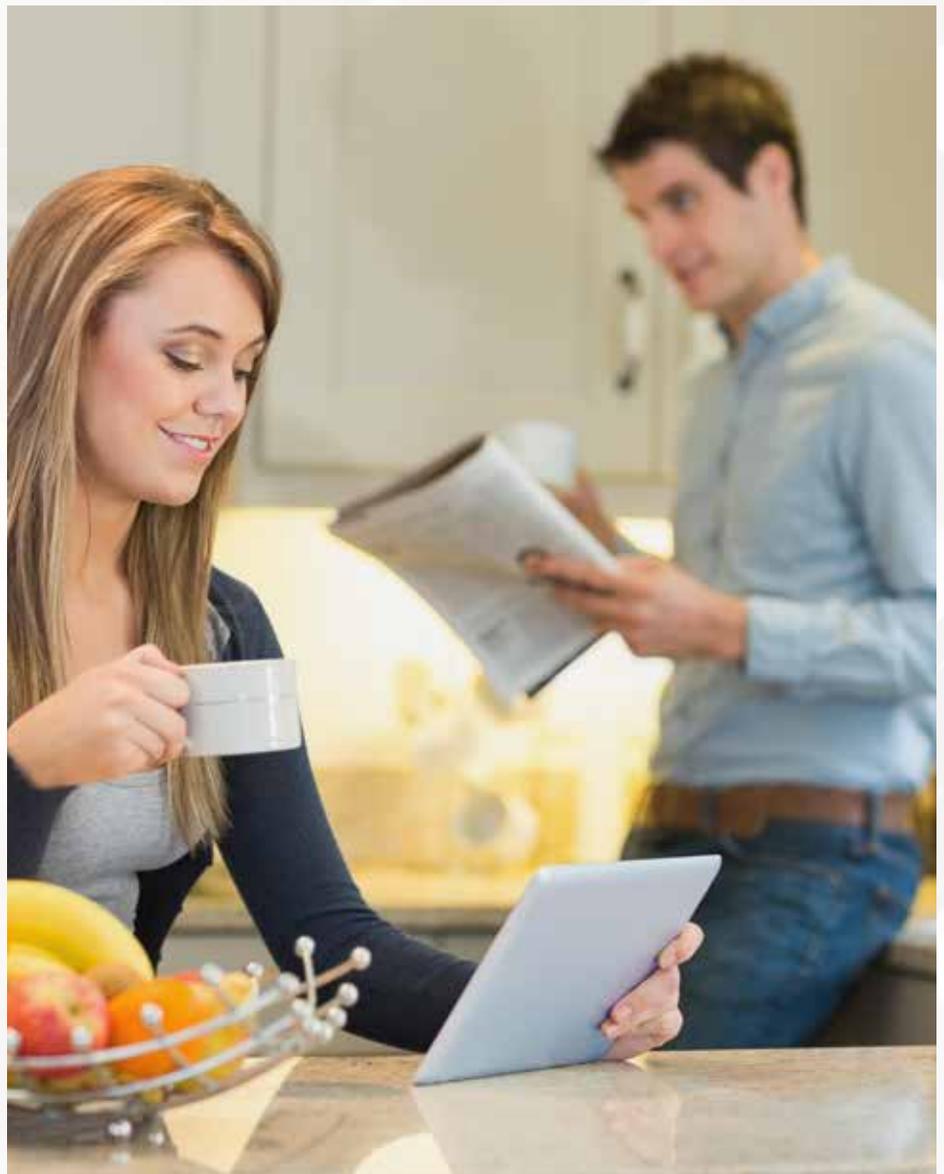
www.decaturutilities.com

Social Media

<https://www.facebook.com/DecaturUtilitiesAlabama>

<https://www.twitter.com/decaturutility>

<https://www.linkedin.com/company/decaturutilities>





We connect the River City!



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