

# Alabama Municipal Electric Authority

Financial Statements as of and for the  
Years Ended September 30, 2017 and 2016,  
Additional Information for the Years Ended  
September 30, 2017 and 2016, and  
Independent Auditors' Report

# ALABAMA MUNICIPAL ELECTRIC AUTHORITY

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# ALABAMA MUNICIPAL ELECTRIC AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**Corporate Structure**—The Alabama Municipal Electric Authority (AMEA or the "Authority") is a nonprofit joint action agency created on August 17, 1981, under Act No. 81-681 (the "Act"), General Laws of Alabama. The Authority is a public corporation whose primary purpose is to provide reliable and economical electric power to its 11 members.

**Joint Action**—The Authority is composed of 11 members consisting of municipalities, utilities boards, and an electric board, all located in the state of Alabama (the "Participating Members"), each of which owns and operates an electrical distribution system. Each Participating Member has signed a purchase power contract with the Authority that expires on December 31, 2035.

**Legal Authority**—The Act provides that the Authority will establish rates and charges to produce revenues sufficient to cover its costs, including debt service. The Authority is specifically authorized by the Act to undertake projects for its members and to issue tax-exempt bonds and other obligations to finance the costs of such projects.

**Overview of the Financial Statements**—This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. These financial statements are designed to provide readers with an overview of the Authority's finances in a manner similar to private sector businesses.

The statements of net position present information on all of the Authority's assets/deferred outflows and liabilities/deferred inflows, with the difference between the two being reported as net position. The Authority limits the amount of net position to amounts necessary to fund any capital assets that need to be purchased that are not funded by bond issues. All other excess funds are transferred to the Rate Stabilization account. The Rate Stabilization account funds will be used to help reduce future rate increases to the Participating Members.

The statements of revenues and expenses and changes in net position present information relative to how the Authority's net position changed during the fiscal years presented. All changes in net position are reported on the accrual basis as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in cash flow in future fiscal years.

**Proprietary Funds**—The Authority operates only one type of proprietary fund—the enterprise fund type. Enterprise funds are used to report business-type activities (as contrasted with tax-supported governmental activities).

**Notes to Financial Statements**—The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

## Financial Analysis—2017 Compared to 2016

Condensed statements of net position as of September 30, 2017 and 2016, are as follows:

	<b>2017</b>	<b>2016</b>
Assets	\$ 129,494,391	\$ 122,303,978
Deferred outflows of resources	<u>1,370,398</u>	<u>1,499,826</u>
Total assets and deferred outflows of resources	<u>130,864,789</u>	<u>123,803,804</u>
Long-term liabilities	32,723,898	33,379,382
Current liabilities	33,318,910	30,382,976
Deferred inflows of resources	<u>37,826,671</u>	<u>35,063,061</u>
Total liabilities and deferred inflows of resources	<u>103,869,479</u>	<u>98,825,419</u>
Net position	<u>\$ 26,995,310</u>	<u>\$ 24,978,385</u>

**Total Assets and Deferred Outflows of Resources**—Total assets and deferred outflows of resources increased by \$7,060,985 during FY2017. Property and equipment, net, decreased by \$1,116,394, which resulted from an asset increase of \$820,718 and an increase of \$1,937,112 in accumulated depreciation. The property increases came from the purchase of land adjacent to the Authority's headquarters building and the purchase of materials to be used in Members' community solar parks, which are in Construction Work in Progress at the end of FY 2017. Other long-term assets increased by \$569,092. The biggest factor in this change is a \$575,000 increase in Capital fund program receivable. Special funds invested increased by \$506,025, resulting from a \$525,000 increase in the reserve and contingency fund, which is holding funds for extraordinary maintenance at the AMEA-Sylacauga Plant, and offset by a slight decrease in the debt service fund. Current assets increased by \$6,599,136. The revenue fund and the operations and maintenance fund increased by \$3,001,477 and \$13,335,467, respectively, as a result of additional cash on hand available for payment of Smart Grid Initiative as well as decreased receivables from members. Receivables from participating members decreased by \$9,408,632. This decrease is due to an anomaly in member payments being delayed from a mailing process within the postal service in FY 2016. Short-term Capital Fund Program Receivable decreased by \$375,000, as receivables due within the next twelve 12 months were received. Other receivables, materials and supplies, and prepaid expenses all increased. Regulatory assets, net, increased by \$632,554 due to an increase in pension valuation and was offset by normal amortization. Deferred outflows of resources decreased by \$129,428 due to the amortization of the loss on refunding debt and current-year pension expenses.

**Total Liabilities and Deferred Inflows of Resources**—Total liabilities and deferred inflows of resources increased by \$5,044,060. Total long-term liabilities decreased by \$655,484 due to a portion of bonds nearing maturity and was partially offset by an increase in pension liability. Current liabilities increased by \$2,935,934. This increase is mainly due to additional money being transferred to the Smart Grid Initiative (the "Initiative"), which was approved by the AMEA Board of Directors in FY 2016. In FY 2017, \$6,100,000 was transferred to the Initiative while \$2,397,238 was paid out for Member improvements. Deferred inflows of resources increased by \$2,763,610, mostly due to a \$3,000,000 increase in the rate stabilization account. Total net position increased by \$2,016,925.

A summary of operations for the years ended September 30, 2017 and 2016, is as follows:

	<b>2017</b>	<b>2016</b>
Gross operating revenues	\$ 202,297,332	\$ 198,351,665
Changes in net costs to be refunded to Participating Members	<u>(2,763,610)</u>	<u>(2,669,967)</u>
Operating revenues	<u>199,533,722</u>	<u>195,681,698</u>
Operating expenses:		
Purchased power expenses, Transmission and distribution expenses	187,121,646	182,215,695
Plant operating expenses	1,707,392	2,548,968
Administrative, general, and other operating expenses	<u>7,833,712</u>	<u>8,029,072</u>
Total operating expenses	<u>196,662,750</u>	<u>192,793,735</u>
Net operating income	2,870,972	2,887,963
Other expense—net	<u>(854,047)</u>	<u>(887,963)</u>
Excess of revenues over expenses	2,016,925	2,000,000
Net position—beginning of year	<u>24,978,385</u>	<u>22,978,385</u>
Net position—end of year	<u>\$ 26,995,310</u>	<u>\$ 24,978,385</u>

**Gross Operating Revenues**—Gross operating revenues increased by \$3,945,667. Capacity sales were down \$782,822, and energy sales were up \$155,507. The transfer of Smart Grid Initiative money created the largest difference, \$4,555,921, as annual revenues were decreased to fund this initiative \$6,100,000 in FY 2017 and \$10,655,921 in FY 2016.

**Changes in Net Costs to be Refunded to Participating Members**—The change in this account was \$93,643 due mostly to standard monthly recordings (see Note 6).

**Operating Expenses**—Total operating expenses increased by \$3,869,015. Purchased power expenses increased by \$2,603,094, made up of an increase in capacity costs of \$3,037,615 and partially offset by an energy cost decrease of \$434,520. Transmission and distribution costs increased by \$2,302,857. In addition, plant operating expenses decreased by \$841,576. Other expenses in this category decreased by \$195,359.

**Other Expense—Net**—Other expense—net decreased by \$33,916. Interest expense and amortization of bond discounts, issuance costs, and excess costs of bond refunding decreased by \$43,613 and \$6,550, respectively. Interest income increased by \$60,653 while investment (loss)/gains swung negatively by \$182,007 due largely to market valuations. Other income increased by \$105,106.

**Liquidity and Capital Resources**—On September 30, 2017, the Authority had cash and cash equivalents of \$49,572,225, an increase of \$11,951,216 from the prior year. Cash receipts for operating activities were \$20,464,584 more than cash paid for operating expenses. An amount of \$3,836,323 was paid out for capital and related financing activities, and \$4,677,044 was paid out for investing activities. Cash and cash equivalents balances are composed of the Working Capital account, including the Operating and Maintenance fund, and the Rate Stabilization account, which is included in the Revenue fund.

The Authority's debt classified as long-term as of September 30, 2017, is \$30,249,279. This debt was issued in 2013 to refinance the 2003 bonds, which created funds for the construction of the AMEA-Sylacauga plant. Future revenues from the sale of electricity to members are expected to be sufficient to fully retire this debt at scheduled maturity dates through 2033 (see Note 7).

**Financial Analysis**—2016 Compared to 2015

Condensed statements of net position as of September 30, 2016 and 2015, are as follows:

	<b>2016</b>	<b>2015</b>
Assets	\$ 122,303,978	\$ 107,584,122
Deferred outflows of resources	<u>1,499,826</u>	<u>1,645,056</u>
Total assets and deferred outflows of resources	<u>123,803,804</u>	<u>109,229,178</u>
Long-term liabilities - net	33,379,382	34,938,745
Current liabilities	30,382,976	18,918,954
Deferred inflows of resources	<u>35,063,061</u>	<u>32,393,093</u>
Total liabilities and deferred inflows of resources	<u>98,825,419</u>	<u>86,250,792</u>
Net position	<u>\$ 24,978,385</u>	<u>\$ 22,978,386</u>

**Total Assets and Deferred Outflows of Resources**—Total assets and deferred outflows of resources increased by \$15,771,332 during FY2015. Property and equipment decreased by \$1,673,436. This was caused by asset depreciation of \$1,950,083 and capital purchases totaling \$276,647. The largest of these purchases was a \$228,766 reverse osmosis system at the AMEA-Sylacauga plant. Other long-term assets showed little change other than a \$200,000 increase in capital fund programs receivable as another economic development loan was approved this year. Current assets increased by \$16,857,696. The revenue fund and the operations and maintenance fund increased by \$17,009,049 and \$2,421,018, respectively, as a result of higher revenues and lower operating expenses throughout the year. These increases are offset by a \$2,623,846 decrease in receivables from participating members, which is due to more payments being received before the September 30, 2015, year-end. In addition, the September billings were down by more than 1 million dollars from the previous year, thus creating lower receivables. Regulatory assets decreased by \$385,041 due to normal amortization and was countered by an increase in pension as created by Governmental Accounting Standards Board (GASB) Statement No. 68. Deferred outflows of resources decreased by \$31,401 due to the amortization of the loss on refunding debt and the implementation of GASB Statement No. 68, which created a deferred outflow of resources for current-year pension expenses.

**Total Liabilities and Deferred Inflows of Resources**—Total liabilities and deferred inflows of resources increased by \$15,771,332. The biggest contributing factor to this increase was \$16,611,363 positive change in net costs to be refunded to participating members. This was a result of a \$17,000,000 transfer to rate stabilization account, which created the deferred inflow; deferred depreciation and amortization offset the transfer by \$388,637. Other notable changes in liabilities include a \$1,627,878 decrease in amounts payable under power supply contracts, which was due to decreased September energy usage and cost; a \$1,526,464 decrease in long-term liabilities, which was mainly a result of bonds nearing maturity; and a \$240,445 increase in other current liabilities, which was incurred from a higher quantity of gas purchases in September compared to last year.

A summary of operations for the years ended September 30, 2016 and 2015, is as follows:

	<b>2016</b>	<b>2015</b>
Gross operating revenues	\$ 198,351,665	\$ 227,925,698
Changes in net costs to be refunded to Participating Members	<u>(2,669,967)</u>	<u>(16,611,363)</u>
Operating revenues	<u>195,681,698</u>	<u>211,314,335</u>
Operating expenses:		
Purchased power expenses, Transmission and distribution expenses	182,215,695	197,378,235
Plant operating expenses	2,548,968	2,950,657
Administrative, general, and other operating expenses	8,029,072	7,656,445
Total operating expenses	<u>192,793,735</u>	<u>207,985,337</u>
Net operating income	2,887,963	3,328,998
Other expense—net	<u>(887,963)</u>	<u>(1,296,620)</u>
Excess of revenues over expenses	2,000,000	2,032,377
Net position—beginning of year	<u>22,978,385</u>	<u>20,946,008</u>
Net position—end of year	<u>\$ 24,978,385</u>	<u>\$ 22,978,385</u>

**Gross Operating Revenues**—Gross operating revenues decreased by \$29,574,033. Capacity sales were down \$8,725,889 and energy sales were down \$10,188,398. The Smart Grid Initiative also decreased revenues by \$10,655,921 to return to members as an investment in their systems.

**Changes in Net Costs to be Refunded to Participating Members**—The change in this account was \$13,941,396 due mostly to the difference in year-end rate stabilization account fund transfers. In FY2016, \$3,000,000 was transferred into the account. In FY2015, \$17,000,000 was transferred to rate stabilization account. The differing portion is due to standard monthly recordings (see Note 6).

**Operating Expenses**—Total operating expenses decreased by \$15,191,602. Purchased power expenses account for most of this change with a \$15,162,540 decrease. Of this amount, capacity costs decreased by \$4,405,185 due to contractually calculated factors, while energy costs decreased \$10,398,007 due to low fuel costs and decreased kWh sales and transmission expenses were down by \$359,348. In addition, plant operating expenses decreased by \$401,689. A \$169,600 loss was taken on the disposition of property in FY 2016, and other expenses in this category increased by \$203,026.

**Other Expense—Net**—Other expense—net decreased by \$408,657. Interest expense and amortization of bond discounts, issuance costs, and excess costs of bond refunding decreased. Interest income increased and other income increased by \$146,494 and \$142,525, respectively, due to higher balances in investment accounts and rental income associated with the new headquarters. Investment gains increased by \$71,029 from FY2015 to FY2016

**Liquidity and Capital Resources**—On September 30, 2016, the Authority had cash and cash equivalents of \$37,621,009, an increase of \$1,789,743 from the prior year. Cash receipts for operating activities were \$10,589,132 more than cash paid for operating expenses. An amount of \$6,079,432 was paid out for capital and related financing activities and \$2,719,957 was paid out for investing activities. Cash and cash equivalents balances are composed of the Working Capital account, including the Operating and Maintenance fund, and the Rate Stabilization account, which is included in the Revenue fund.

The Authority's debt classified as long term as of September 30, 2016, is \$31,780,283. This debt was issued in 2013 to refinance the 2003 bonds, which created funds for the construction of the AMEA-Sylacauga plant. Future revenues from the sale of electricity to members are expected to be sufficient to fully retire this debt at scheduled maturity dates through 2033 (see Note 7).

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Alabama Municipal Electric Authority  
Montgomery, Alabama

We have audited the accompanying financial statements of Alabama Municipal Electric Authority (the "Authority"), which comprise the statements of net position as of September 30, 2017 and 2016; the related statements of revenues and expenses and changes in net position and cash flows for the years then ended; and the related notes to financial statements.

### **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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Authority'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 Authority'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 Authority as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information from pages 31 through 33 is presented for the purpose of additional analysis and is not a required part of the financial statements. This supplementary information is the responsibility of the Authority's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis from pages 1 through 6 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.

*Deloitte + Touche LLP*

February 15, 2018

# ALABAMA MUNICIPAL ELECTRIC AUTHORITY

## STATEMENTS OF NET POSITION AS OF SEPTEMBER 30, 2017 AND 2016

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	2017	2016
<b>ASSETS</b>		
PROPERTY AND EQUIPMENT—Net	\$ 22,952,828	\$ 24,069,222
OTHER LONG-TERM ASSETS:		
Investments	534,193	530,872
Capital fund program receivable	1,175,000	600,000
Notes receivable	375,000	375,000
Prepaid expenses	87,933	97,162
Total other long-term assets	<u>2,172,126</u>	<u>1,603,034</u>
SPECIAL FUNDS INVESTED:		
Debt service fund (restricted)	2,714,912	2,733,887
Reserve and contingency fund	2,795,000	2,270,000
Total special funds invested	<u>5,509,912</u>	<u>5,003,887</u>
CURRENT ASSETS:		
Funds invested:		
Revenue fund	41,012,432	38,010,955
Operation and maintenance fund	30,947,143	17,611,676
Special funds—debt service fund (restricted)	227,560	227,547
Total funds invested	72,187,135	55,850,178
Receivables from participating members	20,466,264	29,874,896
Other receivables	108,712	76,083
Materials and supplies	333,662	329,002
Capital fund program receivable	175,000	550,000
Prepaid expenses	112,197	103,675
Total current assets	<u>93,382,970</u>	<u>86,783,834</u>
REGULATORY ASSETS—Net	<u>5,476,555</u>	<u>4,844,001</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Loss on Refunding Debt	1,217,084	1,344,824
Pension	153,314	155,002
Total deferred outflows of resources	<u>1,370,398</u>	<u>1,499,826</u>
TOTAL	<u>\$ 130,864,789</u>	<u>\$ 123,803,804</u>

(Continued)

# ALABAMA MUNICIPAL ELECTRIC AUTHORITY

## STATEMENTS OF NET POSITION AS OF SEPTEMBER 30, 2017 AND 2016

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	2017	2016
<b>LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>		
LONG-TERM LIABILITIES:		
Revenue bonds—net of unamortized discounts	\$ 30,249,279	\$ 31,780,283
Pension liability	<u>2,474,619</u>	<u>1,599,099</u>
Total long-term liabilities	<u>32,723,898</u>	<u>33,379,382</u>
CURRENT LIABILITIES:		
Current maturities of revenue bonds	1,540,000	1,495,000
Amounts payable under power supply contracts	16,485,530	16,562,147
Special funds—accrued interest on revenue bonds	99,227	102,964
Members—Smart Grid Initiative	14,358,683	10,655,921
Other current liabilities	<u>835,470</u>	<u>1,566,944</u>
Total current liabilities	<u>33,318,910</u>	<u>30,382,976</u>
Total liabilities	<u>66,042,808</u>	<u>63,762,358</u>
DEFERRED INFLOWS OF RESOURCES—Net costs to be refunded to participating members	<u>37,826,671</u>	<u>35,063,061</u>
NET POSITION:		
Invested in capital assets—net of related debt	(8,836,452)	(9,206,060)
Restricted for debt service	2,942,472	2,961,434
Unrestricted	<u>32,889,290</u>	<u>31,223,011</u>
Total net position	<u>26,995,310</u>	<u>24,978,385</u>
TOTAL	<u>\$ 130,864,789</u>	<u>\$ 123,803,804</u>

See notes to financial statements.

(Concluded)

# ALABAMA MUNICIPAL ELECTRIC AUTHORITY

## STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES:		
Sales of electricity to participating members	\$ 202,073,128	\$ 198,144,522
Sales of electricity—other	<u>224,204</u>	<u>207,143</u>
Gross operating revenues	202,297,332	198,351,665
Changes in net costs to be refunded to participating members	<u>(2,763,610)</u>	<u>(2,669,967)</u>
Operating revenues	<u>199,533,722</u>	<u>195,681,698</u>
OPERATING EXPENSES:		
Partial requirements services:		
Purchased power	168,479,312	165,876,218
Transmission and distribution	18,642,334	16,339,477
Plant operating expenses	1,707,392	2,548,968
Other operating and maintenance expenses	856,444	1,045,790
Administrative and general expenses	4,748,939	4,799,977
Amortization and depreciation	<u>2,228,329</u>	<u>2,183,305</u>
Total operating expenses	<u>196,662,750</u>	<u>192,793,735</u>
NET OPERATING INCOME	<u>2,870,972</u>	<u>2,887,963</u>
OTHER INCOME (EXPENSE):		
Interest expense	(1,231,831)	(1,275,444)
Interest income	338,192	277,539
Investment gain (loss)—net	(87,334)	94,673
Other income	312,961	207,854
Amortization of bond discounts, issuance costs, and excess costs of bond refunding	<u>(186,035)</u>	<u>(192,585)</u>
Total other expense—net	<u>(854,047)</u>	<u>(887,963)</u>
EXCESS OF REVENUES OVER EXPENSES	2,016,925	2,000,000
NET POSITION:		
Balance—beginning of year	<u>24,978,385</u>	<u>22,978,385</u>
Balance—end of year	<u>\$ 26,995,310</u>	<u>\$ 24,978,385</u>

See notes to financial statements.

# ALABAMA MUNICIPAL ELECTRIC AUTHORITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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	2017	2016
OPERATING ACTIVITIES:		
Cash received from sales of electricity	\$ 218,117,976	\$ 200,672,768
Cash paid under power supply contracts	(187,190,413)	(181,991,233)
Cash paid to other suppliers and employees	(11,072,832)	(8,708,064)
Other cash receipts	<u>609,853</u>	<u>615,661</u>
Net cash provided by operating activities	<u>20,464,584</u>	<u>10,589,132</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payment for acquisition of property and equipment	(1,105,755)	(3,192,658)
Principal paid on revenue bond maturities	(1,495,000)	(1,450,000)
Interest paid on revenue bonds	(1,235,569)	(1,279,069)
Proceeds from sale of property	-	125,000
Other financing costs	<u>-</u>	<u>(282,705)</u>
Net cash used in capital and related financing activities	<u>(3,836,324)</u>	<u>(6,079,432)</u>
INVESTING ACTIVITIES:		
Payments for purchases of funds invested	(7,630,931)	(5,708,086)
Proceeds from sale of funds invested	2,508,521	2,634,496
Interest income received	<u>445,366</u>	<u>353,633</u>
Net cash used in investing activities	<u>(4,677,044)</u>	<u>(2,719,957)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,951,216	1,789,743
CASH AND CASH EQUIVALENTS—Beginning of year	<u>37,621,009</u>	<u>35,831,266</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 49,572,225</u>	<u>\$ 37,621,009</u>

(Continued)

# ALABAMA MUNICIPAL ELECTRIC AUTHORITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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	2017	2016
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	<u>\$ 2,870,972</u>	<u>\$ 2,887,963</u>
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Changes in net costs to be refunded to participating members	2,763,610	2,669,967
Amortization and depreciation	2,228,329	2,183,305
Other cash receipts	309,854	210,564
Loss on disposition of property		169,600
Changes in assets and liabilities:		
Receivables	9,208,977	(8,609,068)
Prepaid expenses	(8,522)	(1,119)
Materials and supplies	(4,660)	(163,408)
Deferred outflow of resources—Pension	1,688	12,994
Amounts payable under power supply contracts	(76,618)	232,189
Amounts payable under Smart Grid Initiative	3,702,762	10,655,921
Other liabilities	<u>(531,808)</u>	<u>340,224</u>
Total adjustments	<u>17,593,612</u>	<u>7,701,169</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 20,464,584</u>	<u>\$ 10,589,132</u>

See notes to financial statements.

(Concluded)

# ALABAMA MUNICIPAL ELECTRIC AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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### 1. ORGANIZATION AND OPERATIONS

Alabama Municipal Electric Authority (AMEA or the "Authority") is a public corporation in the state of Alabama. The Authority was created on August 17, 1981, pursuant to the provisions of Act No. 81-681 of the State of Alabama Legislature for the purpose of securing an adequate, dependable, and economical power supply for its participating members. The Authority's power supply is provided under the terms of contractual arrangements, generation at the AMEA-Sylacauga plant, or purchased in the open market (see Note 4). The Authority sells power pursuant to Power Sales Contracts (see Note 3) to each of its 11 participating members (the "Participating Members"), which consist of municipalities, utility boards, and an electric board. Each Participating Member owns and operates its own electric distribution system.

The activities of the Authority are formally promulgated by and financed under The Power Supply System Revenue Bond Resolution (the "Resolution"), as supplemented and amended, adopted by the board of directors (the "Board"). The Resolution established special funds to hold proceeds from debt issuances; such proceeds are restricted and are to be used for development and acquisition costs and to maintain certain reserves. The Resolution also established additional special funds in which revenues from participating members are to be deposited and from which operating costs, debt service, and other specified payments are to be made.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting**—The accounting records of the Authority are maintained on an accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting and the Financial Accounting Standards Board (FASB) that does not conflict with accounting standards issued by the GASB. The Authority also complies with policies and practices prescribed by its Board and practices common in the utility industry. Also, the accounts of the Authority are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC).

**New Accounting Standards**—In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement became effective for the Authority for FY2017 and did not have a material impact on the Authority's financial statements.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. This statement became effective for the Authority for FY2017 and did not have a material impact on the Authority's financial statements.

In December 2015, the GASB issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. These statements became effective for the Authority for FY2017 and did not have a material impact on the Authority's financial statements.

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement became effective for the Authority for FY2017 and did not have a material impact on the Authority's financial statements.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. This statement will become effective for the Authority for FY2019. Management has not yet determined the impact it will have on the Authority's financial statements.

In March 2017, the GASB issued GASB Statement No. 85, *Omnibus 2017*. This statement will become effective for the Authority for FY2018. Management has not yet determined the impact it will have on the Authority's financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. This statement will become effective for the Authority for FY2018. Management has not yet determined the impact it will have on the Authority's financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This statement will become effective for the Authority for FY2020. Management has not yet determined the impact it will have on the Authority's financial statements.

**Regulatory Assets and Liabilities**—As the Board has the authority to set rates, the Authority follows GASB Statement No. 62, which provides for the reporting of assets and liabilities consistent with the economic effect of the rate structure. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the rate-making process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the rate-making process.

Regulatory assets reflected in the Authority's statements of net position as of September 30, 2017 and 2016, relate to the following:

	<b>2017</b>	<b>2016</b>	<b>Note</b>
Power supply agreements implementation costs	\$ 817,242	\$ 921,348	(a)
Delivery point development costs	1,802,915	1,901,705	(b)
Unamortized bond issuance costs	381,779	421,849	(c)
Pension	<u>2,474,619</u>	<u>1,599,099</u>	(d)
	<u>\$ 5,476,555</u>	<u>\$ 4,844,001</u>	

- (a) Power supply agreements (PSAs) implementation costs were incurred by the Authority for the current agreement with Alabama Power Company, the contract with Santee Cooper, and the costs of negotiating the Amended and Restated PSA (the "Amended and Restated PSA") with Alabama Power Company. The Authority's Board directed the Authority to defer and amortize these costs over the terms of the agreements. The recorded amounts are presented net of accumulated amortization of \$1,141,900 and \$1,037,794 for 2017 and 2016, respectively.



guaranteed by, the United States of America, including obligations of any of the federal agencies.

**Receivables from Participating Members**—Receivables derived from sales of electricity to Participating Members represent a substantial portion of the total receivables balance.

**Capital Fund Program**—In 2000, the Authority established the capital fund program. The objective of this program is to assist its member communities in the development or improvement of sites and facilities available for economic development. If a member meets the criteria of the program, it would be eligible for the noninterest bearing loan. The maximum total amount of loans that can be made from this program is \$3,000,000 as of September 30, 2017, and was approved by the Budget/Audit/Rate (BAR) Committee of the Board. The Authority’s BAR Committee administers this program. The loans are payable based on terms established by this committee.

**Materials and Supplies**—Materials and supplies include the historical costs of the AMEA-Sylacauga plant materials. Materials are either expensed or capitalized to plant when placed into service and then reconciled with a physical inventory at year end.

**Property and Equipment**—All property and equipment is recorded at cost and depreciation is computed using the straight-line method over the estimated useful lives of 3 to 35 years. Depreciation expense was \$2,025,433 and \$1,966,640 for the years ended September 30, 2017 and 2016, respectively. Property and equipment at September 30, 2017 and 2016, consisted of the following items:

	<b>2017</b>	<b>2016</b>
Electric plant	\$ 42,520,920	\$ 42,552,334
Building	1,996,213	1,952,262
Land	1,055,010	580,010
Solar park	306,500	307,500
Equipment	741,110	682,618
Transportation equipment	167,528	150,759
Load management and SCADA system	324,246	324,246
Construction Work in Progress	<u>258,921</u>	<u>-</u>
	47,370,447	46,549,729
Accumulated depreciation	<u>24,417,619</u>	<u>22,480,507</u>
Property and equipment—net	<u><u>\$ 22,952,828</u></u>	<u><u>\$ 24,069,222</u></u>

**Taxes**—As an agency of the state of Alabama, the Authority’s income is exempt from federal and state income taxes. The Authority is exempt from property and franchise or other privilege taxes; however, the Authority is subject to a statutory requirement to make a payment in lieu of property, sales, and certain other taxes.

**Revenue Recognition**—Operating revenues are recognized in the period that electricity is supplied to Participating Members and others. All other revenues are reflected in other income.

**Accounting Estimates**—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

### **3. POWER SALES CONTRACTS**

Each Participating Member has entered into an Amended and Restated Power Sales Contract (the "Sales Contracts") with the Authority, which extends through December 31, 2035. The Sales Contracts require that the Authority furnish, and each Participating Member take and pay for, all power and energy requirements of the Participating Member ("full requirements services") in excess of that supplied by the Southeastern Power Administration (SEPA) and any excluded power supply resources, as defined. Initially, the Participating Members were required to purchase all of their full requirements services from the Authority. Beginning January 1, 2001, the power supply requirements may be limited by either the Participating Member or the Authority to equal the Participating Members' "Contract Rate of Delivery," which is defined as the highest billing demand of the Participating Member during the 24 billing periods preceding the effective date of the limitation, adjusted up or down by not more than 10%, to provide for optimal utilization of the Authority's resources.

Under the terms of the Sales Contracts, each Participating Member may acquire excluded power supply resources under certain conditions that include a provision that the total power obtained from such resources, excluding its SEPA allocation, cannot exceed 10% of the Participating Member's adjusted maximum demand (as defined) in any preceding calendar year.

Retail electric rates charged by the Participating Members to their local consumers are not subject to the regulatory control of the Alabama Public Service Commission (PSC or the "Commission"). The Sales Contracts stipulate that each Participating Member maintain retail rates sufficient to enable it to pay all amounts due to the Authority.

### **4. POWER SUPPLY AGREEMENTS**

The Authority's power supply is provided under the terms of contractual arrangements, generation at the AMEA-Sylacauga plant, or purchased in the open market.

Currently and in the past, the Authority has entered into PSAs with Alabama Power Company (the "Company"), a subsidiary of Southern Company. On December 20, 2001, the Authority entered into its most recent PSA with the Company. The PSA began on January 1, 2006. Under the PSA, the Company will deliver the capacity and energy sold to the Authority at the high voltage side of the transformers at the various generating units of the Company that provide capacity and energy under the PSA. The Company will provide 100% of the Authority's capacity and energy needs, as determined by the Authority, during the contract period, unless the Authority provided the Company notice to supply up to 20% of its 2006 forecasted capacity needs during years 2007–2015. The Company will provide all of the Authority's load growth during the contract period.

Pursuant to the provisions of Section 11-50A-25, Code of Alabama 1975, as amended, the Authority was required to file the PSA with PSC. On May 7, 2002, PSC ordered that "the Agreement and the rates to be charged by the Authority pursuant to the provisions of the Agreement are not disapproved by the Commission." The PSA, pursuant to the FERC regulations, does not require PSC approval.

On June 7, 2012, the Authority further amended and restated the PSA with the Company. The Amended and Restated PSA is a modification of the PSA entered into on December 20, 2001, with the Company. The Amended and Restated PSA began on January 1, 2013, and continues each calendar year, unless and until terminated by either the Authority or the Company providing a three-year notice. The supply term cannot be terminated prior to December 31, 2025. Under the Amended and Restated PSA, the Company will continue to deliver the capacity and energy sold to the Authority at the high voltage side of the transformers at the various generating units of the Company that provide capacity and energy under the Amended and Restated PSA. The Company will provide 100% of the Authority's capacity and energy needs, based on a formulary approach accounting for actual usage, as determined by the Company, during the contract period, unless the Authority provides the Company notice to supply up to 220 MW of its capacity needs during the years 2016–2020 and up to 320 MW of its capacity needs during the years 2021–2025.

Pursuant to the provisions of Section 11-50A-25, Code of Alabama 1975, as amended, the Authority was required to file the Amended and Restated PSA with the PSC. On July 10, 2012, the PSC ordered that "the Amended and Restated PSA and the rates to be charged by the Authority pursuant thereto are not disapproved by the Commission." The Amended and Restated PSA, pursuant to the FERC regulations, does not require PSC approval.

In order for the Authority to obtain transmission service to deliver the capacity and energy to the Authority's metering points with its Participating Members, the Authority entered into the agreement for Network Integration Transmission Service and the Network Operating Agreement, both dated December 29, 2005, with Southern Company Services, an affiliate of the Company. These agreements provide the transmission services required by the Authority to allow it to deliver the output of the resources defined in the PSA, the output of the AMEA-Sylacauga plant (see further discussion below), the output of the Santee Cooper resource (see further discussion below), and to deliver certain nonfirm energy transactions. Both agreements were renewed for a 10-year period in December 2015.

On December 15, 2010, the Authority entered into an agreement for 50 MW of base load capacity and energy through a 10-year contract with the South Carolina Public Service Authority (Santee Cooper). This agreement began on January 1, 2014, and terminates on December 31, 2023. Under the agreement, Santee Cooper will deliver 50 MW of capacity and energy to the Southern Company Transmission System—Santee Cooper interface. The transmission at the interface to Southern Company was approved per the Southern Company Open Access Transmission Tariff procedures.

The AMEA-Sylacauga plant is a 95 MW gas-fired peaking generation facility located within the city limits of the city of Sylacauga, Alabama. The AMEA-Sylacauga Plant was financed with the \$45,550,000 Power Supply System Revenue Bonds, 2003 Series A. The interconnection of the AMEA-Sylacauga Plant to the 115 kV transmission systems was agreed to by the Company. Gas and water supply are provided by the Utilities Board of the City of Sylacauga.

On May 29, 2013, the Authority entered into a letter agreement with Tenaska Power Services Co. This agreement provides the Authority the opportunity to buy replacement energy on an hour-to-hour, daily, weekly, and monthly basis under the provisions of the Amended and Restated PSA.

On March 13, 2015, the Authority entered into an agreement for 25 MW of intermediate load capacity and energy through an 8- year contract with Southern Power Company ("Southern Power"), an affiliate of the Company. This agreement begins on January 1, 2018, and terminates on December 31, 2025. Under the agreement, Southern Power will deliver 25 MW of capacity and energy to the Southern Company Transmission system. The resource was noticed as a new Network Resource per the Southern Company Open Access Transmission Tariff procedures.

On October 7, 2015, the Authority entered into an agreement for 100 MW of intermediate load capacity and energy through a five-year contract with the Company. This agreement begins on January 1, 2021, and terminates on December 31, 2025. Under the agreement, the Company will deliver 100 MW of capacity and energy to the Southern Company Transmission system. The resource was noticed as a new Network Resource per the Southern Company Open Access Transmission Tariff procedures.

Pursuant to the provisions of Section 11-50-A, Code of Alabama 1975, as amended, the Authority was required to file the Agreement for the Purchase and Sale of Capacity and Energy (the "Purchase Agreement") with the PSC. On December 2, 2015, the PSC ordered that "the Purchase Agreement, and the rates to be charged by the Authority pursuant thereto, to be reasonable and consistent with the public interest and, therefore, that the Purchase Agreement, as well as the rates to be charged by the Authority pursuant thereto, should not be, and are not, disapproved by the Commission." The Purchase Agreement, pursuant to the FERC regulations, does not require PSC approval.

## 5. FUNDS INVESTED

The Authority's cash and other funds invested as of September 30, 2017 and 2016, are summarized as follows:

<b>2017</b>	<b>Fair Value</b>	<b>Cost</b>
U.S. government Treasury bonds and agency certificates—held by trustee in the Authority's name (uninsured and unregistered)	\$ 2,714,912	\$ 2,730,719
Money market instruments—mutual funds composed of U.S. Treasury obligations	<u>3,022,560</u>	<u>3,022,560</u>
	5,737,472	5,753,279
Cash and cash equivalent accounts	49,572,225	49,412,953
U.S. government bonds and agency certificates	22,374,918	22,534,190
Accrued interest and other	<u>12,432</u>	<u>12,432</u>
Total funds invested	<u>\$ 77,697,047</u>	<u>\$ 77,712,854</u>
Consisting of:		
Special funds invested	\$ 5,509,912	
Current assets—funds invested	<u>72,187,135</u>	
	<u>\$ 77,697,047</u>	

<b>2016</b>	<b>Fair Value</b>	<b>Cost</b>
U.S. government Treasury bonds and agency certificates—held by trustee in the Authority’s name (uninsured and unregistered)	\$ 2,733,887	\$ 2,730,719
Money market instruments—mutual funds composed of U.S. Treasury obligations	<u>2,497,547</u>	<u>2,497,547</u>
	5,231,434	5,228,266
Cash and cash equivalent accounts	37,621,009	37,601,304
U.S. government bonds and agency certificates	17,990,667	18,010,372
Accrued interest and other	<u>10,955</u>	<u>10,955</u>
Total funds invested	<u>\$60,854,065</u>	<u>\$60,850,898</u>
Consisting of:		
Special funds invested	\$ 5,003,887	
Current assets—funds invested	<u>55,850,178</u>	
	<u>\$60,854,065</u>	

Investments included in the funds invested categories are stated at fair value, plus any accrued interest.

**Credit and Interest Rate Risk**—The Authority’s policy regarding credit risk on investments is governed by the Resolution, which authorizes the Authority to invest in (1) direct obligations of, or obligations, which the principal and interest are unconditionally guaranteed by the United States of America; (2) direct and general obligations of any state in the United States of America, or of any agency or local government unit thereof whose obligations are fully secured as to principal and interest by cash or obligations of the character described in (1) above; (3) obligations of or guaranteed by any agency or corporation of the United States of America; (4) new housing authority bonds or project notes issued by the public agencies and fully secured as to principal and interest by certain agreements with the United States of America; (5) obligations of any state, territory, or possession of the United States of America or of any political subdivision thereof whose securities are rated by a nationally recognized bond-rating agency in either of its two highest rating categories; (6) certificates of deposit issued by a bank, trust company, or similar institution (the Authority’s deposits in any such institution cannot exceed 5% of the institution’s capital stock, surplus, and undivided profits, unless fully insured by the FDIC or secured to the extent not insured by certain obligations acceptable under the Resolution); (7) obligations issued or guaranteed by any corporation, which are rated similarly to that described in (5) above; (8) repurchase agreements with a member of the Federal Reserve System, which are collateralized by the types of obligations described above; and (9) interest in a portfolio of money market instruments containing specified types of obligations.

All instruments held by the Authority are in compliance with the Resolution.

The Resolution states that funds will be reinvested to the fullest extent practicable in investment securities, which mature no later than at such time when funds are required for payments to be made from each account. The Resolution also states that all funds held by depositories must be held in accounts that are available for use at the time when needed.

## 6. NET COSTS TO BE REFUNDED TO PARTICIPATING MEMBERS

Power rates charged to Participating Members are designed to cover the Authority's "costs" as defined by the Resolution and the Sales Contracts. The Authority's rates are structured to systematically provide for debt service requirements, operating funds, and reserves specified by the Resolution. Recognition of "expenses" (defined according to GAAP), which are not included as "costs," is deferred to such period as it is intended that such "expenses" will be covered by rates. Recognition of the "revenues," which under the Resolution and the Sales Contracts are collected to cover "costs" that are not "expenses," is deferred to such period as it is intended that such "revenues" cover "expenses."

The Authority is required by the Resolution to review and, if necessary, revise its rate structure upon the occurrence of a material change in circumstances, but in any event, at least once every year. The Resolution also permits the Authority to implement rate stabilization practices whereby revenues collected currently may be deposited in a special account to provide for reductions in possible future rate increases that will be required in future years to cover the Authority's costs and other funds requirements mentioned above. Rates charged by the Authority are not subject to the regulatory control of the PSC or FERC.

Net costs to be refunded to Participating Members include the following:

	<u>Year Ended September 30</u>		<u>From Inception to September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
GAAP items not included in billings to participants:				
Amortization of prepaid purchase power contracts	\$ -	\$ -	\$ 152,900,000	\$ 152,900,000
Amortization of development costs	-	-	\$ 3,200,000	3,200,000
Amortization of bond discounts and issuance costs	58,296	60,348	\$ 11,510,464	11,452,168
Amortization of excess costs of bond refundings	127,740	132,237	\$ 15,538,342	15,410,602
Interest on revenue bonds	-	-	\$ 17,063,216	17,063,216
Expenses paid with bond proceeds	-	-	\$ 3,449,602	3,449,602
(Increase) decrease in fair value of funds invested	18,975	(2,757)	\$ 15,807	(3,168)
Deferred depreciation on plant	1,530,130	1,593,955	\$ 22,405,364	20,875,234
Other	-	-	2,695,345	2,695,345
	<u>1,735,140</u>	<u>1,783,783</u>	<u>228,778,138</u>	<u>227,042,998</u>
Bond resolution requirements included in billings to participants:				
Debt service	1,498,750	1,453,750	224,543,416	223,044,666
Increase in special funds deposits	3,000,000	3,000,000	40,958,594	37,958,594
Investment income not available for operating purposes	-	-	1,102,799	1,102,799
	<u>4,498,750</u>	<u>4,453,750</u>	<u>266,604,809</u>	<u>262,106,059</u>
	<u>\$ (2,763,610)</u>	<u>\$ (2,669,967)</u>	<u>\$ (37,826,671)</u>	<u>\$ (35,063,061)</u>

## 7. LONG-TERM DEBT

Long-term debt as of September 30, 2017, consists of the following serial bonds:

<b>Maturity September 1</b>	<b>2013 Bonds Effective Interest Rate</b>	<b>Amount</b>
2018	3.00 %	\$ 1,540,000
2019	4.00	1,585,000
2020	2.25	1,645,000
2021	3.00	1,685,000
2022	3.00	1,735,000
2023	3.13	1,785,000
2024	3.38	1,840,000
2025	3.50	1,905,000
2026	3.63	1,970,000
2027	4.00	2,040,000
2028	4.00	2,125,000
2029	4.13	2,210,000
2030	4.25	2,300,000
2031	4.30	2,400,000
2032	4.38	2,500,000
2033	4.50	2,610,000
2034		
		<hr/>
		31,875,000
Less current maturities		1,540,000
Less unamortized bond discount		<hr/> 85,721
		<hr/> <u>\$ 30,249,279</u>

Interest on all of the bond issues is payable semiannually.

The Authority's bonds are secured by a pledge of all revenues of the Authority and all special funds established by the Resolution subject to certain terms and conditions set forth therein. The Resolution requires that reserve deposits be maintained in the debt service fund equal to 10% of the principal amount of a bond series outstanding or the highest annual debt service payment required under a series, calculated with respect to each series as of the date of issuance. The Resolution contains certain restrictive financial and operational covenants. At September 30, 2017, the Authority was in compliance with its debt covenants. The carrying value and fair values of the 2013 Bonds for 2017 and 2016 are summarized in the table below. Fair value of the bonds is estimated based on quoted market prices.

	<u>September 30, 2017</u>		<u>September 30, 2016</u>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Series 2013 Bonds	<u>\$31,875,000</u>	<u>\$33,672,664</u>	<u>\$33,370,000</u>	<u>\$35,769,762</u>

On October 17, 2013, the Authority's Board authorized the issuance of the 2013 A Bonds. This bond issue was made for the purpose of refunding and retiring the 2003 Bonds. On November 6, 2013, the 2003 Bonds were called with a premium equal to 1% of the principal and the 2013 Bonds were issued in the aggregate principal amount of \$37,590,000 and have a final maturity date of September 1, 2033.

On June 30, 2016, the Authority entered into a line-of-credit agreement with Regions Bank. This agreement provided a maximum borrowing capacity of \$5,000,000 through June 30, 2017. The line of credit agreement was not renewed in 2017. During the year ended September 30, 2017, no amounts were outstanding under this agreement.

## **8. RETIREMENT PLAN**

### **General Information about the Pension Plan**

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

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

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.

- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
  - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
  - b. Two vested active state employees.
  - c. Two vested active employees of an employer participating in ERS pursuant to § 36-27-6.

**Benefits provided.** State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

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

As of September 30, 2016, the Authority's membership in the Plan consisted of:

Retired Members or Beneficiaries Currently Receiving Benefits	4
Vested Inactive Members	1
Nonvested Inactive Members	-
Active Members	13
Post-DROP Retired Members Still in Active Service	<u>-</u>
 Total	 <u>18</u>

**Contributions**—Participation in the Plan is mandatory for all employees. Employees are classified as either Tier I, those processed in the RSA before January 1, 2013, or Tier II, those processed on or after January 1, 2013. The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the established amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the preretirement death benefit, and administrative expenses of the Plan. For the years ended September 30, 2017 and 2016, the employee and the Authority contribution rates as a percentage of covered employee payroll and pensionable pay respectively were as follows:

Contributor	September 30, 2017		September 30, 2016	
	Tier 1	Tier 2	Tier 1	Tier 2
Employee	5.00 %	6.00 %	5.00 %	6.00 %
The Authority	9.31	7.89	10.84	8.54

**Net Pension Liability**—The Authority's net pension liability was measured as of September 30, 2016, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2015, rolled forward to September 30, 2016, using standard roll-forward techniques as shown in the following table:

	Expected	Actual
(a) TPL as of September 30, 2015	\$ 4,987,926	\$ 5,008,146
(b) Entry age normal cost for the period October 1, 2015–September 30, 2016	142,876	142,876
(c) Difference between expected and actual experience gain October 1, 2015–September 30, 2016	<u>(256,149)</u>	<u>(256,149)</u>
(d) TPL as of September 30, 2016 =[( a ) x (1.08)] + ( b ) - [( c ) x 1.04]	<u>\$ 5,263,441</u>	<u>\$ 5,285,279</u>
(e) Difference between Expected and Actual Experience (Gain) Loss		<u>\$ 21,838</u>

**Actuarial Assumptions**—The total pension liability as of September 30, 2016 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 %
Salary increases	3.25%–5.00 %
Investment rate of return *	7.75 %

\* Net of pension plan investment expense.

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

The actuarial assumptions used in the September 30, 2015 valuation were based on the results of a study of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The ERS Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of FY2012.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return*</b>
Fixed income	17.00 %	4.40 %
U.S. large stocks	32.00	8.00
U.S. mid stocks	9.00	10.00
U.S. small stocks	4.00	11.00
International developed market stocks	12.00	9.50
International emerging market stocks	3.00	11.00
Alternatives	10.00	10.10
Real estate	10.00	7.50
Cash	<u>3.00</u>	1.50
Total	<u>100.00 %</u>	

\* Includes assumed rate of inflation of 2.50%.

**Discount Rate**—The discount rate used to measure the total pension liability was the long-term rate of return of 7.75%. The projection of cash flows used to determine the

discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balance—September 30, 2015	<u>\$ 4,987,926</u>	<u>\$ 3,388,827</u>	<u>\$ 1,599,099</u>
Changes for the year:			
Service cost	142,876	-	142,876
Interest	388,788	-	388,788
Changes of assumptions	895,586	-	895,586
Difference between expected and actual experience	21,838	-	21,838
Contributions—employer	-	149,174	(149,174)
Contributions—employee	-	80,614	(80,614)
Net investment income	-	343,780	(343,780)
Benefit payments, including refunds of employee contributions	(256,149)	(256,149)	-
Administrative expense	-	-	-
Transfers among employers	-	-	-
Net changes	<u>1,192,939</u>	<u>317,419</u>	<u>875,520</u>
Balance—September 30, 2015	<u>\$ 6,180,865</u>	<u>\$ 3,706,246</u>	<u>\$ 2,474,619</u>

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**—The following table presents the Authority's net pension liability calculated using the discount rate of 7.75%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
Plan's net pension liability	<u>\$ 3,081,336</u>	<u>\$ 2,474,619</u>	<u>\$ 1,953,975</u>

**Pension Plan Fiduciary Net Position**—Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2016. The auditor’s report dated September 18, 2017 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**—Based on guidance in GASB Statement No. 71, the related annual retirement expense is shown as a deferred outflow of resources. The Authority’s retirement expense for the year ended September 30, 2017, was \$153,314.

## **9. RELATED-PARTY TRANSACTIONS**

In addition to sales of electricity to Participating Members as discussed in Note 3, the Authority has entered into a Natural Gas Purchase Agreement with the Utilities Board of the City of Sylacauga (“Sylacauga”), one of the Participating Members. The purpose of this agreement is to provide the natural gas requirements for the AMEA-Sylacauga Plant. The Authority also purchases water and sewer services and internet services for the plant from Sylacauga. During the years ended September 30, 2017 and 2016, the Authority’s costs to Sylacauga were \$1,066,395 and \$1,986,187, respectively, under the provisions of this agreement.

## **10. SUBSEQUENT EVENTS**

The Authority has evaluated all events or transactions that occurred after September 30, 2017, through the date the accompanying financial statements were available to be issued, February 15, 2018. All subsequent events have been disclosed within previous notes.

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**ADDITIONAL INFORMATION FOR THE YEARS ENDED  
SEPTEMBER 30, 2017 AND 2016**

# ALABAMA MUNICIPAL ELECTRIC AUTHORITY

## STATEMENT OF CHANGES IN ASSETS OF FUNDS INVESTED FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Funds Invested September 30, 2016	Power Billing Receipts	Income from Other Electricity Sales	Other Income	Investment Income	Disbursements	Transfers	Funds Invested September 30, 2017
DEBT SERVICE FUND:								
Debt service account	\$ 227,547	\$ -	\$ -	\$ -	\$ 5,187	\$ (2,730,569)	\$ 2,725,394	\$ 227,560
Debt service reserve account	<u>2,733,887</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,787</u>	<u>-</u>	<u>(32,762)</u>	<u>2,714,912</u>
	<u>2,961,434</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,974</u>	<u>(2,730,569)</u>	<u>2,692,632</u>	<u>2,942,472</u>
GENERAL RESERVE FUND								
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
RESERVE AND CONTINGENCY FUND								
	<u>2,270,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,022</u>	<u>-</u>	<u>517,978</u>	<u>2,795,000</u>
REVENUE FUND:								
Revenue account	10,955	217,901,622	216,354	394,540	(98,862)	-	(218,412,178)	12,432
Rate stabilization account	<u>38,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>41,000,000</u>
	<u>38,010,955</u>	<u>217,901,622</u>	<u>216,354</u>	<u>394,540</u>	<u>(98,862)</u>	<u>-</u>	<u>(215,412,178)</u>	<u>41,012,432</u>
OPERATION AND MAINTENANCE FUND:								
Operation and maintenance account	-	-	-	-	-	(198,981,808)	198,981,808	-
Working capital account	<u>17,611,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>115,707</u>	<u>-</u>	<u>13,219,760</u>	<u>30,947,143</u>
	<u>17,611,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>115,707</u>	<u>(198,981,808)</u>	<u>212,201,568</u>	<u>30,947,143</u>
	<u>\$ 60,854,065</u>	<u>\$ 217,901,622</u>	<u>\$ 216,354</u>	<u>\$ 394,540</u>	<u>\$ 42,842</u>	<u>\$ (201,712,377)</u>	<u>\$ -</u>	<u>\$ 77,697,047</u>

# ALABAMA MUNICIPAL ELECTRIC AUTHORITY

## STATEMENT OF CHANGES IN ASSETS OF FUNDS INVESTED FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Funds Invested September 30, 2015	Power Billing Receipts	Income from Other Electricity Sales	Other Income	Investment Income	Disbursements	Transfers	Funds Invested September 30, 2016
DEBT SERVICE FUND:								
Debt service account	\$ 227,422	\$ -	\$ -	\$ -	\$ 1,556	\$ (2,729,069)	\$ 2,727,638	\$ 227,547
Debt service reserve account	<u>2,731,129</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,928</u>	<u>-</u>	<u>(33,171)</u>	<u>2,733,887</u>
	<u>2,958,552</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,484</u>	<u>(2,729,069)</u>	<u>2,694,467</u>	<u>2,961,434</u>
GENERAL RESERVE FUND								
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
RESERVE AND CONTINGENCY FUND								
	<u>1,370,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>194</u>	<u>-</u>	<u>899,806</u>	<u>2,270,000</u>
REVENUE FUND:								
Revenue account	10,931	200,465,350	207,418	863,504	45,973	-	(201,582,220)	10,955
Rate stabilization account	<u>35,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>38,000,000</u>
	<u>35,010,931</u>	<u>200,465,350</u>	<u>207,418</u>	<u>863,504</u>	<u>45,973</u>	<u>-</u>	<u>(198,582,220)</u>	<u>38,010,955</u>
OPERATION AND MAINTENANCE FUND:								
Operation and maintenance account	-	-	-	-	-	(194,149,777)	194,149,777	-
Working capital account	<u>16,705,636</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,281</u>	<u>-</u>	<u>837,759</u>	<u>17,611,676</u>
	<u>16,705,636</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,281</u>	<u>(194,149,777)</u>	<u>194,987,537</u>	<u>17,611,676</u>
	<u>\$ 56,045,119</u>	<u>\$ 200,465,350</u>	<u>\$ 207,418</u>	<u>\$ 863,504</u>	<u>\$ 151,931</u>	<u>\$ (196,878,846)</u>	<u>\$ (411)</u>	<u>\$ 60,854,065</u>

# ALABAMA MUNICIPAL ELECTRIC AUTHORITY

## SCHEDULES OF REVENUES AND EXPENSES PER BOND RESOLUTION FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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	<b>2017</b>	<b>2016</b>
REVENUES:		
Sales of electricity to participating members	\$ 202,073,128	\$ 198,144,522
Sales of electricity—other	224,204	207,143
Investment revenues available for operations	269,833	369,454
Withdrawal from working capital		-
Other income	<u>312,960</u>	<u>207,854</u>
Total revenues	<u>202,880,126</u>	<u>198,928,973</u>
EXPENSES:		
Partial requirements services:		
Purchased power	168,479,312	165,876,218
Transmission and distribution	18,642,334	16,339,477
Other operating and maintenance expenses	1,554,643	1,635,140
Administrative and general expenses	6,456,331	7,348,944
Deposit to rate stabilization	3,000,000	3,000,000
Debt service	<u>2,730,581</u>	<u>2,729,194</u>
Total expenses	<u>200,863,201</u>	<u>196,928,973</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 2,016,925</u>	<u>\$ 2,000,000</u>