Alabama Municipal Electric Authority

Financial Statements as of and for the
Years Ended September 30, 2015 and 2014,
Additional Information for the Years Ended
September 30, 2015 and 2014, and
Independent Auditors' Report

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

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ALABAMA MUNICIPAL ELECTRIC AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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—2015 Compared to 2014

Condensed statements of net position as of September 30, 2015 and 2014, are as follows:

	2015	2014
Assets	$ 107,584,122	$ 91,844,191
Deferred outflows of resources	1,645,056	1,613,655
Total assets and deferred outflows of resources	109,229,178	93,457,846
Long-term liabilities, net	34,938,745	36,465,209
Other liabilities	18,918,954	20,264,899
Deferred inflows of resources	32,393,093	15,781,730
Total liabilities and deferred inflows of resources	86,250,792	72,511,838
Net position	$ 22,978,386	$ 20,946,008

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 program 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 more than one 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") 68. Deferred outflows of resources decreased by $31,401 due to the amortization of the loss on refunding debt and the implementation of GASB 68, which creates 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, 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, 2015 and 2014, is as follows:

	2015	2014
Gross operating revenues	$ 227,925,698	$ 225,320,183
Changes in net costs to be refunded to Participating Members	(16,611,363)	(8,579,730)
Operating revenues	211,314,335	216,740,453
Operating expenses:		
Purchased power expenses	197,378,235	206,090,741
Plant operating expenses	2,950,657	1,412,336
Administrative, general, and operating expenses	7,656,445	7,110,841
Total operating expenses	207,985,337	214,613,918
Net operating income	3,328,998	2,126,535
Other expense—net	(1,296,620)	(1,126,535)
Excess of revenues over expenses	2,032,377	1,000,000
Net position—beginning of year	20,946,008	19,946,008
Net position—end of year	$ 22,978,385	$ 20,946,008

Gross Operating Revenues—Gross operating revenues increased by $2,605,515. Capacity sales were up $3,807,467. Despite higher energy usage, revenues from energy sales decreased due lower fuel/energy adjustments. Sales of electricity to others, a result of sale margin credits, decreased by $289,415.

Changes in Net Costs to Be Refunded to Participating Members—This account changed $8,031,633 mainly due to the difference in year-end fund transfers. In FY2014, $8,925,482 was transferred to working capital and rate stabilization. In FY2015, the rate stabilization transfer was $17,000,000 thus creating a difference of $8,074,518 when comparing the annual amounts. The remaining portion is due to a difference in standard monthly recordings (see Note 6).

Operating Expenses—Total operating expenses decreased by $6,628,581. Purchased power expenses account for most of this change with a $10,363,192 decrease. Of this amount, capacity costs decreased by $7,468,418 due to contractually calculated factors, and energy costs decreased $2,894,774 due to low fuel costs. Offsetting this decrease were increases in transmission expenses by $1,650,686 and plant operating expenses by $1,538,321, which were incurred by a more frequent running of the AMEA-Sylacauga plant. Other expenses in this category increased by $545,604.

Other Expense—Net—Other expense—net increased by $170,085. The single largest factor of this increase was due to incurring a full year's interest expense on the 2013 bonds. The FY2014 expense was lower than normal due to the refunding of the 2003 bonds within that year.

Liquidity and Capital Resources—On September 30, 2015 the Authority had cash and cash equivalents of $35,831,266, an increase of $3,546,648 from the prior year. Cash receipts for operating activities were $23,055,030 more than cash paid for operating expenses. $2,992,240 was paid out for capital and related financing activities, and $16,516,142 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, 2015, is $33,265,969. 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—2014 Compared to 2013

Condensed statements of net position as of September 30, 2014 and 2013, are as follows:

	2014	2013
Assets	$ 90,085,330	$ 98,777,603
Deferred outflows of resources	1,613,655	
Total assets and deferred outflows of resources	91,698,985	98,777,603
Long-term debt, net	34,706,348	35,217,732
Other liabilities	20,264,899	36,411,863
Deferred inflows of resources	15,781,730	7,202,000
Total liabilities and deferred inflows of resources	70,752,977	78,831,595
Net position	$ 20,946,008	$ 19,946,008

Total Assets and Deferred Outflows of Resources—Total assets and deferred outflows of resources decreased by $7,078,618 during FY2014. Property and equipment decreased by $976,896. This was caused by assets being depreciated by $1,917,168, which was countered by several capital purchases. The largest of these purchases was a $804,957 control system upgrade at the AMEA-Sylacauga plant. Other long-term assets stayed relatively flat, but it did see a $200,000 increase in capital fund program receivable with the approval of another economic development loan this year. Prepaid expenses decreased by $138,837 due to the refunding of the 2003 bond issue. Current assets decreased by $7,557,329. The most notable changes include a $2,756,885 decrease in funds invested and a $4,791,245 decrease in accounts receivable from members. These factors are due to the timing of the monthly billing from power providers and billing to members. In 2013, August billings were not due until October 1 of the next fiscal year. In 2014, August billings were due September 30, which fell within this fiscal year. Regulatory assets decreased by $298,444 due to normal amortization. Deferred outflows of resources increased by $1,613,655 due to the loss created by the refunding of the 2003 bond issue in November.

Total Liabilities and Deferred Inflows of Resources—Total liabilities and deferred inflows of resources decreased by $8,078,618. There were two main factors leading to this change. Amounts payable under power supply contracts decreased by $16,581,407. This is due to timing of when the Alabama Power invoice was due. In 2013, the August invoice was not due until October, which was in the next fiscal year; whereas, the August 2014 bill was due in September of the same year. Thus, in 2014 only one month was in accounts payable at year-end as opposed to two months in 2013. Net costs to be refunded to Participating Members (part of deferred inflows of resources) increased by $8,579,730, a result of a $8,925,481 transfer to working capital and rate stabilization accounts, in addition to deferred depreciation and other items normally charged to this account.

A summary of operations for the years ended September 30, 2014 and 2013, is as follows:

	2014	2013
Gross operating revenues	$ 225,320,183	$ 201,173,746
Changes in net costs to be refunded to Participating Members	(8,579,730)	4,949,963
Operating revenues	216,740,453	206,123,709
Operating expenses:		
Purchased power expenses	206,090,741	196,200,827
Plant operating expenses	1,412,336	297,318
Administrative, general, and operating expenses	7,110,841	6,847,087
Total operating expenses	214,613,918	203,345,232
Net operating income	2,126,535	2,778,477
Other expense—net	(1,126,535)	(1,778,477)
Excess of revenues over expenses	1,000,000	1,000,000
Net position—beginning of year	19,946,008	18,946,008
Net position—end of year	$ 20,946,008	$ 19,946,008

Gross Operating Revenues—Gross operating revenues increased by $24,146,437. Capacity sales and energy sales both increased sales of electricity to participating members in the amount of $23,747,931. Sales of electricity to others, a result of sale margin credits, increased by $398,506.

Changes in Net Costs to Be Refunded to Participating Members—The change of $13,529,693 in this account is largely due to the year-end fund transfer. In FY2013, $4,213,887 was transferred from working capital, whereas a $8,925,481 transfer was made to working capital and rate stabilization in FY2014. This creates the difference of $13,142,369. The remaining portion is due to a difference in standard monthly recordings (see Note 6).

Operating Expenses—Total operating expenses increased by $11,268,686. The largest portion of this increase is in purchased power expenses, which increased $9,889,914. Within this category, capacity costs decreased by $2,420,537 while net energy costs and transmission costs increased by $10,337,475 and $1,972,976, respectively, due to increased energy purchased. Plant operating expenses increased by $1,115,018 due to the AMEA-Sylacauga plant being called on to run significantly more than in the previous year. Administrative, general, and operating expenses went up by $263,754.

Other Expense—Net—Other expense—net decreased by $651,942. There were two major factors that led to this decrease. Interest expense decreased by $801,460. Amortization of bond discounts, issuance costs, and excess costs of bond refundings increased by $98,541. Both changes were due to the refunding of the 2003 bond issue.

Liquidity and Capital Resources—The Authority had cash and cash equivalents of $32,284,618 at September 30, 2014, a decrease of $217,630 from the prior year. The cash receipts during the year for operating activities were $1,138,521 more than cash paid for operating expenses. Also, $3,906,604 was paid out for capital and related financing activities. During the year, $3,413,285 was transferred from the

Investment account to the Working Capital account. 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, 2014, is $34,706,348. This debt was issued in 2013 to finance 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.)

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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, 2015 and 2014, and 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 the 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, 2015 and 2014, 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 30 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 25, 2016

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF NET POSITION
AS OF SEPTEMBER 30, 2015 AND 2014

	2015	2014
ASSETS AND DEFERRED OUTFLOWS		
PROPERTY AND EQUIPMENT—Net	$ 23,321,491	$ 24,994,927
OTHER LONG-TERM ASSETS:		
Investments	486,536	485,499
Capital fund program receivable	1,200,000	1,000,000
Prepaid expenses	106,717	116,586
Total other long-term assets	1,793,253	1,602,085
SPECIAL FUNDS INVESTED:		
Debt service fund (restricted)	2,731,129	2,725,586
Reserve and contingency fund	1,370,000	626,000
Total special funds invested	4,101,129	3,351,586
CURRENT ASSETS:		
Funds invested:		
Revenue fund	35,010,931	18,001,882
Operation and maintenance fund	16,705,636	14,284,618
Special funds—debt service fund (restricted)	227,422	227,185
Total funds invested	51,943,990	32,513,685
Receivables from participating members	21,205,975	23,829,821
Other receivables	57,016	3,839
Materials and supplies	165,594	167,454
Prepaid expenses	102,557	102,636
Total current assets	73,475,131	56,617,435
REGULATORY ASSETS—Net	4,893,117	5,278,158
DEFERRED OUTFLOWS OF RESOURCES:		
Loss on Refunding Debt	1,477,060	1,613,655
Pension	167,996	0
Total deferred outflows of resources	1,645,056	1,613,655
TOTAL	$ 109,229,178	$ 93,457,846

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ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF NET POSITION
AS OF SEPTEMBER 30, 2015 AND 2014

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	2015	2014
LONG-TERM LIABILITIES:		
Revenue bonds—net of unamortized discounts	$ 33,265,969	$ 34,706,348
Pension liability	1,672,776	1,758,861
Total long-term liabilities	34,938,745	36,465,209
CURRENT LIABILITIES:		
Current maturities of revenue bonds	1,450,000	1,405,000
Amounts payable under power supply contracts	16,329,958	17,957,836
Special funds—accrued interest on revenue bonds	106,589	110,102
Other current liabilities	1,032,406	791,961
Total current liabilities	18,918,954	20,264,899
Total liabilities	53,857,699	56,730,108
DEFERRED INFLOWS OF RESOURCES—Net costs to be refunded to participating members	32,393,093	15,781,730
NET POSITION:		
Invested in capital assets—net of related debt	(11,394,478)	(11,116,422)
Restricted for debt service	2,958,551	2,952,771
Unrestricted	31,414,313	29,109,659
Total net position	22,978,385	20,946,008
TOTAL	$ 109,229,178	$ 93,457,846

See accompanying 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, 2015 AND 2014

	2015	2014
OPERATING REVENUES:		
Sales of electricity to participating members	$ 227,714,729	$ 224,819,799
Sales of electricity—other	210,969	500,384
Gross operating revenues	227,925,698	225,320,183
Changes in net costs to be refunded to participating members	(16,611,363)	(8,579,730)
Operating revenues	211,314,335	216,740,453
OPERATING EXPENSES:		
Partial requirements services:		
Purchased power	180,679,410	191,042,602
Transmission and distribution	16,698,825	15,048,139
Plant operating expenses	2,950,657	1,412,336
Other operating and maintenance expenses	634,189	357,631
Administrative and general expenses	4,816,065	4,585,138
Amortization and depreciation	2,206,191	2,168,072
Total operating expenses	207,985,337	214,613,918
NET OPERATING INCOME	3,328,998	2,126,535
OTHER INCOME (EXPENSE):		
Interest expense	(1,317,706)	(1,073,375)
Interest income	131,045	63,878
Investment gain (loss), net	23,643	(8,019)
Other income	65,329	65,173
Amortization of bond discounts, issuance costs, and excess costs of bond refundings	(198,931)	(174,192)
Total other expense—net	(1,296,620)	(1,126,535)
EXCESS OF REVENUES OVER EXPENSES	2,032,377	1,000,000
NET POSITION:		
Balance—beginning of year	20,946,008	19,946,008
Balance—end of year	$ 22,978,385	$ 20,946,008

See accompanying notes to financial statements.

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
OPERATING ACTIVITIES:		
Cash received from sales of electricity	$ 230,839,981	$ 230,559,216
Cash paid under power supply contracts	(199,004,124)	(222,679,949)
Cash paid to other suppliers and employees	(8,833,450)	(6,781,964)
Other cash receipts	52,623	41,218
Net cash provided by operating activities	23,055,030	1,138,521
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payment for acquisition of property and equipment	(266,022)	(962,820)
Principal paid on revenue bond maturities	(1,405,000)	(37,780,000)
Interest paid on revenue bonds	(1,321,219)	(1,116,221)
Proceeds from issuing or refunding bonds	-	37,195,693
Other financing costs	-	(1,243,256)
Net cash used in capital and related financing activities	(2,992,240)	(3,906,604)
INVESTING ACTIVITIES:		
Payments for purchases of funds invested	(19,401,320)	(3,053,053)
Proceeds from sale of funds invested	2,749,063	5,504,452
Interest income received	136,116	99,054
Net cash provided by (used in) investing activities	(16,516,142)	2,550,453
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,546,648	(217,630)
CASH AND CASH EQUIVALENTS—Beginning of year	32,284,618	32,502,248
CASH AND CASH EQUIVALENTS—End of year	$ 35,831,266	$ 32,284,618

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ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	$ 3,328,998	$ 2,126,535
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Changes in net costs to be refunded to participating members	16,611,363	8,579,730
Amortization and depreciation	2,206,191	2,168,072
Other cash receipts	58,104	39,524
Changes in assets and liabilities:		
Receivables	2,414,870	4,591,672
Prepaid expenses	80	7,648
Materials and supplies	1,860	(7,801)
Deferred outflow of resources - Pension	(167,996)	-
Amounts payable under power supply contracts	(1,627,878)	(16,581,407)
Other liabilities	229,437	214,548
Total adjustments	19,726,032	(988,014)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 23,055,030	$ 1,138,521

See accompanying notes to financial statements. (Concluded)

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 on 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 to 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 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*. These statements address accounting and financial reporting for pensions. This statement became effective for the Authority for fiscal year 2015. Management has revised its presentation of the financial statements in accordance with the provisions of the new guidance. See Note 8 for further information.

In November 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This statement became effective for the Authority for fiscal year 2015. Management has revised its presentation of the financial statements in accordance with the provisions of the new guidance. See Note 8 for further information.

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. This statement will become effective for the Authority for fiscal year 2016. Management has not yet determined the impact it will have on the Authority's financial statements.

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 will become effective for the Authority for fiscal year 2017. Management has not yet determined the impact it will have on the Authority's financial statements.

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement will become effective for the Authority for fiscal year 2017. Management has not yet determined the impact it will have on the Authority's financial statements.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement will become effective for the Authority for fiscal year 2018. Management has not yet determined the impact it will have on the Authority's financial statements.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement will become effective for the Authority for fiscal year 2016. Management has not yet determined the impact it will have on the Authority's financial statements.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. This statement will become effective for the Authority for fiscal year 2017. Management has not yet determined the impact it will have 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*. This statement will become effective for the Authority for fiscal year 2017. Management has not yet determined the impact it will have on the Authority's financial statements.

In December 2015, the GASB issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement will become effective for the Authority for fiscal year 2017. 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 balance sheets as of September 30, 2015 and 2014, relate to the following:

	2015	2014	Note
Power supply agreements implementation costs	$ 1,042,285	$ 1,213,716	(a)
Delivery point development costs	1,714,727	1,799,405	(b)
Unamortized bond issuance costs	463,329	506,176	(c)
Pension	1,672,776	1,758,861	(d)
	$ 4,893,117	$ 5,278,158	

[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 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 $916,857 for 2015 and $745,427 for 2014.

[b] Delivery point development costs were incurred by the Authority in the construction of transmission substations required in order for Participating Members to efficiently receive power. The Authority's Board directed the Authority to defer and amortize these costs over the life of the contract with the Participating Member or the life of the asset, whichever is shorter. The recorded amounts are presented net of accumulated amortization of $646,062 for 2015 and $561,384 for 2014.

[c] Bond issuance costs were incurred by the Authority for the Series 2013A and 2003 Bonds. The Authority's Board directed the Authority to defer and amortize these costs over the life of the bonds. The recorded amounts are presented net of accumulated amortization of $79,047 for 2015 and $36,199 for 2014.

[d] GASB 68 requires that the funded status of defined benefit pensions be included in the Statement of Net Position. The Authority's Board directed the Authority to recognize this amount as a regulatory asset. This recorded amount will change annually based on actuarial values provided by the Retirement Systems of Alabama. See Note 8 for more details.

Cash and Cash Equivalents—The Authority considers cash and cash equivalents to be all unrestricted, highly liquid instruments, the amounts of which are included in certain funds as of September 30, 2015 and 2014, as follows:

	2015	2014
Revenue fund—rate stabilization	$ 35,000,000	$ 18,000,000
Operation and maintenance fund	831,266	14,284,618
	$ 35,831,266	$ 32,284,618

The carrying amount of the Authority's deposits in Regions Bank public funds accounts as of September 30, 2015 and 2014, was $31,687,830 and $32,284,618, respectively. Of this amount, $250,000 was insured by the Federal Deposit Insurance Corporation (FDIC) and $31,437,830 and $32,034,618, respectively, was covered by the State of Alabama Security for Alabama Funds Enhancement Act (SAFE) program for public funds. The SAFE program became effective on January 1, 2001, and in case of a failure of a financial institution in the State of Alabama, the SAFE program provides loss coverage for all public funds deposited in excess of amounts covered by the FDIC. $4,143,436 of the Authority's cash and cash equivalents was invested in a trust account with Regions Bank. This investment account is made up of $2,250,000 in individual certificates of deposit, not exceeding $250,000 individually, which are insured by the FDIC and the remainder is made up of cash. In addition to the cash and cash equivalents discussed above, at September 30, 2015, the Authority also had $15,874,370 in liquid, marketable investments that are available for use in operations.

Investments—The Authority accounts for investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this statement, investments are recorded at fair value for purposes of reporting under GAAP. Investments in the debt service fund are stated at amortized cost or cost for purposes of reporting in accordance with the terms of the Resolution. At September 30, 2015 and 2014, the fair value of investments in the debt service fund totaled $2,731,129.26 and $2,725,586, respectively. At September 30, 2015, the fair value of investments in the revenue fund totaled $15,874,370 and $0, respectively. These investment securities are bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally 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 a loan in $200,000 increments. All loans are non-interest-bearing. The maximum total amount of loans that can be made from this program is $3,000,000 as of September 30, 2015, 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 charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, when installed.

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 three to 35 years. Depreciation expense was $1,950,082.8 and $1,917,168 for the years ended September 30, 2015 and 2014, respectively. Property and equipment at September 30, 2015 and 2014, consist of the following items:

	2015	2014
Electric plant	$ 42,107,430	$ 41,865,514
Building	1,410,602	1,410,602
Equipment	753,816	752,102
Transportation equipment	151,868	149,844
Load management and SCADA system	4,373,008	4,373,008
	48,796,724	48,551,070
Accumulated depreciation	25,475,233	23,556,143
Property and equipment—net	$ 23,321,491	$ 24,994,927

Taxes—As an agency of the State of Alabama, the Authority's income is exempt from federal and state income taxes. The Authority is exempted 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results 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 Participating Members to their local consumers are not subject to the regulatory control of the Alabama Public Service Commission (PSC) (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 on 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 provides 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 the PSC. On May 7, 2002, the 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 (the "Amended and Restated 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 ten 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 begins 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 September 30, 2009, the Authority entered into a power purchase and sales agreement with Tenaska Power Services Co. This agreement provides the Authority the opportunity to buy and sell replacement energy on an hour-to-hour, daily, weekly, and monthly basis. This contract was terminated on December 31, 2012.

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, 2035. 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 5-year contract with the Company. This agreement begins on January 1, 2021, and terminates on December 31, 2035. 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, 2015 and 2014, are summarized as follows:

2015	Fair Value	Cost
U.S. government Treasury bonds and agency certificates—held by trustee in the Authority's name (uninsured and unregistered)	$ 2,731,129	$ 2,730,719
Money market instruments—mutual funds composed of U.S. Treasury obligations	1,597,422	1,597,422
	4,328,552	4,328,141
Cash and cash equivalent accounts	35,831,266	35,840,208
U.S. government bonds and agency certificates	15,874,370	15,865,428
Accrued interest and other	10,931	10,931
Total funds invested	$ 56,045,119	$ 56,044,708
Consisting of:		
Special funds invested	$ 4,101,129	
Current assets—funds invested	51,943,990	
	$ 56,045,119	

2014	Fair Value	Cost
U.S. government Treasury bonds and agency certificates—held by trustee in the Authority's name (uninsured and unregistered)	$ 2,725,586	$ 2,730,719
Money market instruments—mutual funds composed of U.S. Treasury obligations	853,185	853,185
	3,578,771	3,583,904
Cash and cash equivalent accounts	32,284,618	32,284,618
Accrued interest and other	1,882	1,882
Total funds invested	$ 35,865,271	$ 35,870,404
Consisting of:		
Special funds invested	$ 3,351,586	
Current assets—funds invested	32,513,685	
	$ 35,865,271	

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

Credit 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.

Interest Rate Risk—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:

	Year Ended September 30		From Inception to September 30	
	2015	2014	2015	2014
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	62,337	58,791	11,391,820	11,329,483
Amortization of excess costs of bond refundings	136,595	115,401	15,278,365	15,141,770
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	(5,543)	(1,419)	(411)	5,132
Deferred depreciation on plant	1,603,998	1,655,061	19,281,279	17,677,281
Other	-	-	2,695,345	2,695,345
	1,797,387	1,827,834	225,259,216	223,461,829
Bond resolution requirements included in billings to participants:				
Debt service	1,408,750	1,482,083	221,590,916	220,182,166
Increase in special funds deposits	17,000,000	8,925,481	34,958,594	17,958,594
Investment income not available for operating purposes	-	-	1,102,799	1,102,799
	18,408,750	10,407,564	257,652,309	239,243,559
	$ (16,611,363)	$ (8,579,730)	$ (32,393,093)	$ (15,781,730)

7. LONG-TERM DEBT

Long-term debt as of September 30, 2015, consists of the following serial bonds:

Maturity September 1	2013 Bonds Effective Interest Rate	Amount
2016	3.00 %	$ 1,450,000
2017	3.00	1,495,000
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
		34,820,000
Less current maturities		1,450,000
Less unamortized bond discount		104,031
		$ 33,265,969

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, 2015, the Authority was in compliance with its debt covenants. The carrying value and fair values of the 2013 Bonds for 2014 and 2015 are summarized in the table below. Fair value of the bonds is estimated based on quoted market prices.

	September 30, 2015		September 30, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Series 2013 Bonds	$ 34,820,000	$ 36,920,147	$ 36,225,000	$ 37,919,551

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, 2015, the Authority entered into a line of credit agreement with Regions Bank. This agreement provides a maximum borrowing capacity of $5,000,000 through June 30, 2016. Interest is payable monthly at a rate equal to the 30-day London InterBank Offered Rate, plus 2.570 basis points. Outstanding loans are secured by a pledge of the Authority's revenues, which is subordinate to the security interest for bonds issued pursuant to the Resolution. During the year ended September 30, 2015, no amounts were outstanding under this agreement.

8. RETIREMENT PLAN

General Information about the Pension Plan

Plan Description—The Authority's employees participate in the Employees' Retirement System of Alabama's (ERS) defined benefit pension plan (the Plan). The Plan, 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 Authority qualifies for the Plan as a quasi-public organization. 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.

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, 2014, the Authority's membership in the Plan consisted of:

Inactive members or their beneficiaries currently receiving benefits	3
Inactive members entitles to but not yet receiving benefits	1
Active members	14
Total	18

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 pre-retirement death benefit and administrative expenses of the Plan. For the years ended September 30, 2015 and September 30, 2014 the employee and Authority contribution rates as a percentage of covered employee payroll and pensionable pay respectively were as follows:

	September 30, 2015		September 30, 2014	
Contributor	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**
Employee	5.00 %	6.00 %	5.00 %	6.00 %
The Authority	9.94	8.25	10.79	8.49

Net Pension Liability—Beginning in FY2015, GASB 68 requires the future liability created from the Authority's involvement in the Plan to be recorded on the statements of net position. The Authority's net pension liability was measured as of September 30, 2014, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2013 rolled forward to September 30, 2014 using standard roll forward techniques as shown in the following table:

(a) TPL as of September 30, 2013	$ 4,785,744
(b) Entry Age Normal Cost for the period October 1, 2013–September 30, 2014	150,269
(c) Actual Benefit Payments and Refunds for period October 1, 2013–September 30, 2014	(325,092)
(d) TPL as of September 30, 2014 =[(a) x (1.08)] + (b)- [(c) x 1.04)]	$ 4,980,777

Actuarial Assumptions—The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

* Net of pension plan 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 RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an investigation 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 fiscal year 2012.

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

	Target Allocation	**Long-Term Expected Rate of Return***
Fixed income	25.00 %	5.00 %
U.S. large stocks	34.00	9.00
U.S. mid stocks	8.00	12.00
U.S. small stocks	3.00	15.00
International developed market stocks	15.00	11.00
International emerging market stocks	3.00	16.00
Real estate	10.00	7.50
Cash	2.00	1.50
Total	100.00 %	

* Includes assumed rate of inflation of 2.50%

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance—September 30, 2014	$ 4,785,744	$ 3,026,883	$ 1,758,861
Changes for the year:			
Service cost	150,269		150,269
Interest	369,856		369,856
Changes of assumptions			-
Difference between expected and actual experience			-
Contributions—employer		166,646	(166,646)
Contributions—employee		81,026	(81,026)
Net investment income		358,538	(358,538)
Benefit payments, including refunds of employee contributions	(325,092)	(325,092)	-
Administrative expense			-
Transfers among employers			-
Net changes	195,033	281,118	(86,085)
Balance—September 30, 2014	$ 4,980,777	$ 3,308,001	$ 1,672,776

The Plan fiduciary net position as a percentage of the total pension liability is 66.42% for the year ended September 30, 2014.

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 8%, 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 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Plan's net pension liability	$ 2,253,529	$ 1,672,776	$ 1,176,740

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—Based on guidance in GASB 71, beginning in fiscal year 2015, the related annual retirement expense is now shown as a deferred outflow of resources. The Authority's retirement expense for the year ended September 30, 2015 was $167,996.

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, 2015 and 2014, the Authority's costs to Sylacauga were $2,245,149 and $1,034,025, respectively, under the provisions of this agreement.

10. SUBSEQUENT EVENTS

The Authority has evaluated all events or transactions that occurred after September 30, 2015, through the date the accompanying financial statements were available to be issued, February 25, 2016. All subsequent events have been disclosed within previous notes.

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ADDITIONAL INFORMATION

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENT OF CHANGES IN ASSETS OF FUNDS INVESTED
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Funds Invested September 30, 2014	Power Billing Receipts	Income from Other Electricity Sales	Other Income	Investment Income	Disbursements	Transfers	Funds Invested September 30, 2015
DEBT SERVICE FUND:								
Debt service account	$ 227,185	$ -	$ -	$ -	$ 89	$ (2,726,219)	$ 2,726,368	$ 227,422
Debt service reserve account	2,725,586	-	-	-	20,151	-	(14,609)	2,731,129
	2,952,771	-	-	-	20,240	(2,726,219)	2,711,759	2,958,552
GENERAL RESERVE FUND	-	-	-	-	-	-	-	-
RESERVE AND CONTINGENCY FUND	626,000	-	-	-	90	-	743,910	1,370,000
REVENUE FUND:								
Revenue account	1,882	230,635,376	204,605	120,093	31,683	-	(230,982,707)	10,931
Rate stabilization account	18,000,000	-	-	-	-	-	17,000,000	35,000,000
	18,001,882	230,635,376	204,605	120,093	31,683	-	(213,982,707)	35,010,931
OPERATION AND MAINTENANCE FUND:								
Operation and maintenance account	-	-	-	-	-	(208,159,880)	208,159,880	-
Working capital account	14,284,618	-	-	-	53,859	-	2,367,159	16,705,636
	14,284,618	-	-	-	53,859	(208,159,880)	210,527,038	16,705,636
	$ 35,865,271	$ 230,635,376	$ 204,605	$ 120,093	$ 105,872	$ (210,886,098)	$ -	$ 56,045,119

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENT OF CHANGES IN ASSETS OF FUNDS INVESTED
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Funds Invested September 30, 2013	Power Billing Receipts	Income from Other Electricity Sales	Other Income	Investment Income	Disbursements	Transfers	Funds Invested September 30, 2014
DEBT SERVICE FUND:								
Debt service account	$ 243,781	$ -	$ -	$ -	$ 381	$ (2,725,002)	$ 2,708,025	$ 227,185
Debt service reserve account	2,922,449	-	-	-	13,370	(191,672)	(18,561)	2,725,586
	3,166,230	-	-	-	13,751	(2,916,674)	2,689,464	2,952,771
GENERAL RESERVE FUND	-	-	-	-	-	-	-	-
RESERVE AND CONTINGENCY FUND	338,000.00	-	-	-	47.00	-	287,953	626,000
REVENUE FUND:								
Revenue account	3,904	230,051,031	508,185	78,726	1,869	-	(230,641,833)	1,882
Rate stabilization account	14,700,000	-	-	-	-	-	3,300,000	18,000,000
	14,703,904	230,051,031	508,185	78,726	1,869	-	(227,341,833)	18,001,882
OPERATION AND MAINTENANCE FUND:								
Operation and maintenance account	-	-	-	-	-	(230,493,492)	230,493,492	-
Working capital account	20,322,885	-	-	-	90,809	-	(6,129,076)	14,284,618
	20,322,885	-	-	-	90,809	(230,493,492)	224,364,416	14,284,618
	$ 38,531,019	$ 230,051,031	$ 508,185	$ 78,726	$ 106,476	$ (233,410,166)	$ -	$ 35,865,271

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

SCHEDULES OF REVENUES AND EXPENSES PER BOND RESOLUTION
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
REVENUES:		
Sales of electricity to participating members	$ 227,714,729	$ 224,819,799
Sales of electricity—other	210,969	500,384
Investment revenues available for operations	149,145	54,440
Withdrawal from working capital	-	-
Other income	65,329	65,173
Total revenues	228,140,172	225,439,796
EXPENSES:		
Partial requirements services:		
Purchased power	180,679,410	191,042,602
Transmission and distribution	16,698,825	15,048,139
Cost of other electricity sales	-	-
Other operating and maintenance expenses	1,236,382	870,642
Administrative and general expenses	7,766,722	5,997,473
Deposit to working capital	-	5,625,482
Deposit to rate stabilization	17,000,000	3,300,000
Debt service	2,726,456	2,555,458
Total expenses	226,107,795	224,439,796
EXCESS OF REVENUES OVER EXPENSES	$ 2,032,377	$ 1,000,000