

Alabama Municipal Electric Authority

Financial Statements as of and for the
Years Ended September 30, 2018 and 2017,
Additional Information for the Years Ended
September 30, 2018 and 2017, and
Independent Auditors' Report

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

TABLE OF CONTENTS

	Page
MANAGEMENT'S DISCUSSION AND ANALYSIS	1-6
INDEPENDENT AUDITORS' REPORT	7-8
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017:	
Statements of Net Position	9-10
Statements of Revenues and Expenses and Changes in Net Position	11
Statements of Cash Flows	12-13
Notes to Financial Statements	14-30
Required Supplementary Information	31-33
ADDITIONAL INFORMATION FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017:	34
Statements of Changes in Assets of Funds Invested	35-36
Schedules of Revenues and Expenses per Bond Resolution	37

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, 2045.

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—2018 Compared to 2017

Condensed statements of net position as of September 30, 2018 and 2017, are as follows:

	2018	2017
Long-term assets	\$ 34,265,365	\$ 36,338,981
Current assets	101,645,891	93,155,410
Deferred outflows of resources	1,249,176	1,370,398
Total assets and deferred outflows of resources	<u>137,160,432</u>	<u>130,864,789</u>
Long-term liabilities	30,992,747	32,723,898
Current liabilities	37,462,532	33,318,910
Deferred inflows of resources	39,619,923	37,826,671
Total liabilities and deferred inflows of resources	<u>108,075,202</u>	<u>103,869,479</u>
Net position	<u>\$ 29,085,230</u>	<u>\$ 26,995,310</u>

Total Assets and Deferred Outflows of Resources—Total assets and deferred outflows of resources increased by \$6,295,643 during FY2018. Property and equipment, net, decreased by \$1,601,935, which resulted from an asset increase of \$442,327 and offset by an increase of \$2,044,261 in accumulated depreciation. The property increases largely resulted from the construction of Members' community solar parks, as well as smaller improvements at the AMEA-Sylacauga Plant and the AMEA headquarters building. Other long-term assets decreased by \$793,087. Three main factors make up this change. An investment change in Hometown Connections resulted in a decrease of \$184,193. Capital fund long-term receivables decreased by \$225,000 and long-term notes receivable decreased by \$375,000 as loans become current. Special funds invested increased by \$608,856, resulting from a \$600,000 increase in the reserve and contingency fund, which is holding funds for extraordinary maintenance at the AMEA-Sylacauga Plant, as well as a small increase in the debt service fund. Current assets increased by \$1,820,436. The revenue fund increased by \$2,003,321 and the operations and maintenance fund decreased by \$182,785. Receivables from participating members increased by \$6,033,245 due to a change in due dates of August 2018 power bills as well as higher sales in September 2018 compared to September 2017. Short-term Capital Fund Program Receivable increased by \$250,000, as receivables become due within the next twelve 12 months. Short-term notes receivables increased by \$375,000 as owner-financed payment for the sale of property becomes due. Other receivables and prepaid expenses increased while materials and supplies decreased. Regulatory assets, net, decreased by \$287,450 due to a decrease in pension valuation as well as normal amortization of assets. Deferred outflows of resources decreased by \$121,222 due to the amortization of the loss on refunding debt and changes in current-year pension expenses.

Total Liabilities and Deferred Inflows of Resources—Total liabilities and deferred inflows of resources increased by \$4,205,723. Total long-term liabilities decreased by \$1,731,151 due to a portion of bonds nearing maturity as well as a slight decrease in pension liability. Current liabilities increased by \$4,143,622. This increase is mostly due to a \$1,941,454 increase in amounts payable under power supply contracts as well as 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 2018, \$3,244,079 was transferred to the Initiative while \$1,434,473 was paid out for Member improvements. Deferred inflows of

resources increased by \$1,793,252, mostly due to a \$2,000,000 increase in the rate stabilization account. Total net position increased by \$2,089,920.

A summary of operations for the years ended September 30, 2018 and 2017, is as follows:

	2018	2017
Gross operating revenues	\$ 218,118,730	\$ 202,297,332
Changes in net costs to be refunded to Participating Members	<u>(1,793,252)</u>	<u>(2,763,610)</u>
Operating revenues	<u>216,325,478</u>	<u>199,533,722</u>
Operating expenses:		
Purchased power expenses, Transmission and distribution expenses	203,866,269	187,121,646
Plant operating expenses	1,526,066	1,707,392
Administrative, general, and other operating expenses	<u>8,271,885</u>	<u>7,833,712</u>
Total operating expenses	<u>213,664,220</u>	<u>196,662,750</u>
Net operating income	2,661,258	2,870,972
Other expense—net	<u>(571,338)</u>	<u>(854,047)</u>
Excess of revenues over expenses	2,089,920	2,016,925
Net position—beginning of year	<u>26,995,310</u>	<u>24,978,385</u>
Net position—end of year	<u><u>\$ 29,085,230</u></u>	<u><u>\$ 26,995,310</u></u>

Gross Operating Revenues—Gross operating revenues increased by \$15,821,398. Capacity sales were up \$4,169,539, and energy sales were up \$8,793,168. The difference in funds allocated to the Smart Grid Initiative contributed to the change as well. \$3,244,079 of revenues were used to fund this initiative in FY 2018 while \$6,100,000 was used in FY 2017.

Changes in Net Costs to be Refunded to Participating Members—The difference in this account was \$970,358 mostly due to a \$1,000,000 change in the annual transfer to rate stabilization (see Note 6).

Operating Expenses—Total operating expenses increased by \$17,001,470. Purchased power expenses increased by \$17,319,260, made up of an increase in capacity costs of \$6,836,369 and energy costs of \$10,482,891. Transmission and distribution costs decreased by \$574,638. Plant operating expenses decreased by \$181,326. Other expenses in this category increased by \$438,173.

Other Expense—Net—Other expense—net decreased by \$282,709. Interest expense and amortization of bond discounts, issuance costs, and excess costs of bond refunding decreased by \$44,963 and \$6,753, respectively. Interest income increased by \$471,097 as interest rates were raised across all investments. Investment loss increased by \$198,018 due to market valuations and a loss on an investment in Hometown Connections. Other income decreased by \$42,085.

Liquidity and Capital Resources—On September 30, 2018, the Authority had cash and cash equivalents of \$48,868,772, a decrease of \$703,453 from the prior year. Cash receipts for operating activities were \$5,087,338 more than cash paid for operating expenses. An amount of \$3,302,184 was paid out for capital and related financing activities, and \$2,488,607 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, 2018, is \$28,672,950. 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—2017 Compared to 2016

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

	2017	2016
Current assets	\$ 93,155,410	\$ 86,783,834
Long-term assets	36,338,981	35,520,144
Deferred outflows of resources	1,370,398	1,499,826
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Total assets and deferred outflows of resources	130,864,789	123,803,804
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Long-term liabilities	32,723,898	33,379,382
Current liabilities	33,318,910	30,382,976
Deferred inflows of resources	37,826,671	35,063,061
	<hr/>	<hr/>
Total liabilities and deferred inflows of resources	103,869,479	98,825,419
	<hr/>	<hr/>
Net position	\$ 26,995,310	\$ 24,978,385
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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:

	2017	2016
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><u>\$ 26,995,310</u></u>	<u><u>\$ 24,978,385</u></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 \$195,360.

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).

Mayer W. Aldridge, CPA (1883–1970)
 John R. Borden, CPA (1916–1994)

SHAREHOLDERS

Dave G. Borden, CPA, ABV, CFF
 William L. Cox, CPA, CVA
 Rhonda L. Sibley, CPA, AEP®
 W. Dane Floyd, CPA, CVA, ABV, CFF
 Jeffrey T. Windham, CPA, ABV, CFF, CVA

B. David Chandler, CPA, CVA
 Bonnee Barrow Bailey, CPA, CVA
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 Jason A. Westbrook, CPA, CVA
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PRINCIPALS

Leigh McCalla Dykes, CPA
 Ashley Conner Lough, CPA
 Caterina Ardon Mozingo, CPA, PFS
 Tracy C. Cleckler, CPA, CVA

Independent Auditors' Report

Board of Directors
 Alabama Municipal Electric Authority
 Montgomery, Alabama

We have audited the accompanying financial statements of the business-type activities of the Alabama Municipal Electric Authority, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Alabama Municipal Electric Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Alabama Municipal Electric Authority, as of September 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in the Net Pension Liability, and Schedule of Employer Contributions information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Prior Period Financial Statements

The financial statements of the Alabama Municipal Electric Authority, as of September 30, 2017, were audited by other auditors whose report dated February 15, 2018, expressed an unmodified opinion on those statements.

Albridge, Borden and Company, P.C.

Montgomery, Alabama
February 21, 2019

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF NET POSITION AS OF SEPTEMBER 30, 2018 AND 2017

	2018	2017
ASSETS		
PROPERTY AND EQUIPMENT—Net	\$ 21,350,893	\$ 22,952,828
OTHER LONG-TERM ASSETS:		
Investments	350,000	534,193
Capital fund program receivable	950,000	1,175,000
Notes receivable		375,000
Prepaid expenses	79,039	87,933
Total other long-term assets	1,379,039	2,172,126
SPECIAL FUNDS INVESTED (restricted):		
Debt service fund	2,951,328	2,942,472
Reserve and contingency fund	3,395,000	2,795,000
Total special funds invested	6,346,328	5,737,472
CURRENT ASSETS:		
Funds invested:		
Revenue fund	43,015,753	41,012,432
Operation and maintenance fund	30,764,358	30,947,143
Total funds invested	73,780,111	71,959,575
Receivables from participating members	26,499,509	20,466,264
Other receivables	155,040	108,712
Notes receivables	375,000	
Materials and supplies	283,015	333,662
Capital fund program receivable	425,000	175,000
Prepaid expenses	128,216	112,197
Total current assets	101,645,891	93,155,410
REGULATORY ASSETS—Net	5,189,105	5,476,555
DEFERRED OUTFLOWS OF RESOURCES:		
Loss on Refunding Debt	1,093,981	1,217,084
Pension	155,195	153,314
Total deferred outflows of resources	1,249,176	1,370,398
TOTAL	\$ 137,160,432	\$ 130,864,789

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF NET POSITION AS OF SEPTEMBER 30, 2018 AND 2017

	2018	2017
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
LONG-TERM LIABILITIES:		
Revenue bonds—net of unamortized discounts	\$ 28,672,950	\$ 30,249,279
Pension liability	2,319,797	2,474,619
Total long-term liabilities	<u>30,992,747</u>	<u>32,723,898</u>
PAYABLE FROM RESTRICTED ASSETS:		
Current maturities of revenue bonds	1,585,000	1,540,000
Special funds—accrued interest on revenue bonds	95,377	99,227
Total payable from restricted assets	<u>1,680,377</u>	<u>1,639,227</u>
CURRENT LIABILITIES:		
Amounts payable under power supply contracts	18,426,984	16,485,530
Members - Smart Grid Initiative	16,168,289	14,358,683
Other current liabilities	1,186,882	835,470
Total current liabilities	<u>35,782,155</u>	<u>31,679,683</u>
Total liabilities	<u>68,455,279</u>	<u>66,042,808</u>
DEFERRED INFLOWS OF RESOURCES—Net costs to be refunded to participating members	<u>39,619,923</u>	<u>37,826,671</u>
NET POSITION:		
Invested in capital assets—net of related debt	(7,322,057)	(7,296,451)
Restricted for debt service	4,665,951	4,098,245
Unrestricted	31,741,336	30,193,516
Total net position	<u>29,085,230</u>	<u>26,995,310</u>
TOTAL	<u><u>\$ 137,160,432</u></u>	<u><u>\$ 130,864,789</u></u>

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

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES:		
Sales of electricity to participating members	\$ 217,891,756	\$ 202,073,128
Sales of electricity—other	226,974	224,204
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Gross operating revenues	218,118,730	202,297,332
Changes in net costs to be refunded to participating members	(1,793,252)	(2,763,610)
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Operating revenues	216,325,478	199,533,722
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OPERATING EXPENSES:		
Partial requirements services:		
Purchased power	185,798,573	168,479,312
Transmission and distribution	18,067,696	18,642,334
Plant operating expenses	1,526,066	1,707,392
Other operating and maintenance expenses	884,563	856,444
Administrative and general expenses	5,125,671	4,748,939
Amortization and depreciation	2,261,651	2,228,329
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Total operating expenses	213,664,220	196,662,750
	<hr/>	<hr/>
NET OPERATING INCOME	2,661,258	2,870,972
	<hr/>	<hr/>
OTHER INCOME (EXPENSE):		
Interest expense	(1,186,869)	(1,231,831)
Interest income	809,289	338,192
Investment gain (loss)—net	(285,352)	(87,334)
Other income	270,876	312,961
Amortization of bond discounts, issuance costs, and excess costs of bond refunding	(179,282)	(186,035)
	<hr/>	<hr/>
Total other expense—net	(571,338)	(854,047)
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EXCESS OF REVENUES OVER EXPENSES	2,089,920	2,016,925
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NET POSITION:		
Balance—beginning of year	26,995,310	24,978,385
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Balance—end of year	\$ 29,085,230	\$ 26,995,310
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The accompanying notes are an integral part of these financial statements.

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
OPERATING ACTIVITIES:		
Cash received from sales of electricity	\$ 216,277,846	\$ 218,117,976
Cash paid under power supply contracts	(201,901,054)	(187,190,413)
Cash paid to other suppliers and employees	(9,803,449)	(11,072,832)
Other cash receipts	513,995	609,853
	<u>5,087,338</u>	<u>20,464,584</u>
Net cash provided by operating activities	5,087,338	20,464,584
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payment for acquisition of property and equipment	(456,796)	(1,105,755)
Principal paid on revenue bond maturities	(1,540,000)	(1,495,000)
Interest paid on revenue bonds	(1,190,719)	(1,235,569)
Other financing costs	(114,669)	-
	<u>(3,302,184)</u>	<u>(3,836,324)</u>
Net cash used in capital and related financing activities	(3,302,184)	(3,836,324)
INVESTING ACTIVITIES:		
Payments for purchases of funds invested	(5,950,485)	(7,630,931)
Proceeds from sale of funds invested	2,655,668	2,508,521
Interest income received	806,210	445,366
	<u>(2,488,607)</u>	<u>(4,677,044)</u>
Net cash used in investing activities	(2,488,607)	(4,677,044)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(703,453)	11,951,216
CASH AND CASH EQUIVALENTS—Beginning of year	<u>49,572,225</u>	<u>37,621,009</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 48,868,772</u>	<u>\$ 49,572,225</u>
Displayed as:		
Revenue fund	\$ 43,015,753	\$ 41,012,432
Operation and maintenance fund	30,764,358	30,947,143
Less: investments and accrued interest	<u>(24,911,339)</u>	<u>(22,387,350)</u>
Cash and cash equivalents - End of year	<u>\$ 48,868,772</u>	<u>\$ 49,572,225</u>

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	\$ 2,661,258	\$ 2,870,972
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Changes in net costs to be refunded to participating members	1,793,252	2,763,610
Amortization and depreciation	2,261,651	2,228,329
Other cash receipts	288,349	309,854
Changes in assets and liabilities:		
Receivables	(6,058,202)	9,208,977
Prepaid expenses	(16,019)	(8,522)
Materials and supplies	50,646	(4,660)
Deferred outflow of resources—Pension	(1,881)	1,688
Amounts payable under power supply contracts	1,941,454	(76,618)
Amounts payable under Smart Grid Initiative	1,809,606	3,702,762
Other liabilities	357,224	(531,808)
Total adjustments	2,426,080	17,593,612
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 5,087,338	\$ 20,464,584

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

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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 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 became effective for the Authority for FY2018 and did not have a material impact on the Authority's financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. This statement became effective for the Authority for FY2018 and did not have a material impact 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.

In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. 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 June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement will become effective for the Authority for FY2021. Management has not yet determined the impact it will have on the Authority's financial statements.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. 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, 2018 and 2017, relate to the following:

	2018	2017	Note
Power supply agreements implementation costs	\$ 713,137	\$ 817,242	(a)
Delivery point development costs	1,813,008	1,802,915	(b)
Unamortized bond issuance costs	343,163	381,779	(c)
Pension	2,319,797	2,474,619	(d)
	<u>\$ 5,189,105</u>	<u>\$ 5,476,555</u>	

- (a) Power supply agreements (PSAs) implementation costs were incurred by the Authority for the former 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 \$1,246,006 and \$1,141,900 for 2018 and 2017, respectively.
- (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 Participating Member or the life of the asset, whichever is shorter. The recorded amounts are presented net of accumulated amortization of \$945,155 and \$840,579 for 2018 and 2017, respectively.

- (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 \$199,213 and \$160,598 for 2018 and 2017, respectively.
- (d) GASB Statement No. 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 (RSA). 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, 2018 and 2017, as follows:

	2018	2017
Revenue fund—rate stabilization	<u>\$ 48,868,772</u>	<u>\$ 49,572,225</u>

The carrying amount of the Authority's deposits in Regions Bank public funds accounts as of September 30, 2018 and 2017, was \$48,347,590 and \$46,706,476, respectively. Of this amount, \$500,000 was insured by the Federal Deposit Insurance Corporation (FDIC) and \$37,897,590 and \$35,666,476, 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. As of September 30, 2018 and 2017, \$9,950,000 and \$10,540,000, respectively, of the deposits in Regions Bank public funds account were invested in Morgan Stanley Government Institution mutual funds, which meet collateralization requirements. \$521,182 and \$2,865,749 of the Authority's cash and cash equivalents was invested in a trust account with Regions Bank for 2018 and 2017, respectively. In 2018, this cash was invested in money market funds. In 2017, this investment account cash was made up of \$1,500,000 in individual certificates of deposit, not exceeding \$250,000 individually, which are insured by the FDIC and the remainder is made up of cash.

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, 2018 and 2017, the fair value of investments in the debt service fund totaled \$2,723,868 and \$2,714,912, respectively. At September 30, 2018 and 2017, the fair value of investments in the revenue fund totaled \$24,895,586 and \$22,374,918, 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 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, 2018, 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 \$2,052,969 and \$2,025,433 for the years ended September 30, 2018 and 2017, respectively. Property and equipment at September 30, 2018 and 2017, consisted of the following items:

	2018	2017
Electric plant	\$ 42,171,438	\$ 42,120,920
Building	2,047,963	1,996,213
Land	1,293,009	1,455,010
AMEA solar park	306,499	306,500
Member solar parks	482,886	
Equipment	743,167	741,109
Transportation equipment	167,528	167,528
Load management and SCADA system	324,246	324,246
Construction Work in Progress	114,037	258,921
	<hr/>	<hr/>
	47,650,773	47,370,447
Accumulated depreciation	<hr/> 26,461,880	<hr/> 24,417,619
Property and equipment—net	<hr/> <hr/> \$ 21,188,893	<hr/> <hr/> \$ 22,952,828

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.

Reclassifications – certain prior year amounts were reclassified to conform to the current year presentation.

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. As of December 20, 2018, all Members have extended their contracts with a rolling ten year extension beyond 2035. These contracts will go before the Alabama Public Service Commission in early 2019. 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 the Alabama Public Service Commission (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 the PSC's 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 formula 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 the PSC's 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 non-firm 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 resource was noticed as an Alternate Resource per the PSA with the Company and a new Network Resource 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. The resource was noticed as a resource per the Partial Requirements

Agreement with the Company in 2004. The resource was later noticed as an Alternate Resource per the PSA with the Company and new Network Resource per the Southern Company Open Access Transmission Tariff procedures beginning January 1, 2006.

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 October 11, 2013, the Authority executed an amendment to the Amended and Restated PSA with the Company. This amendment modified among other things the capacity pricing and the amount of capacity that the Authority was required to purchase from the Company. Under the amendment the Authority could now provide the Company notice to supply up to 145 MW of its capacity needs during the years 2014–2015, up to 170 MW of its capacity needs during the years 2016-2020, and up to 270 MW of its capacity needs during the years 2021–2025.

Pursuant to the provisions of Section 11-50-A, Code of Alabama 1975, as amended, the Authority was required to file the amendment to the Amended and Restated PSA (the "Power Supply Agreement Amendment No. 1") with the PSC. On November 5, 2013, the PSC ordered that "the Power Supply Agreement Amendment No. 1 and the rates to be charged by the Authority pursuant thereto are not disapproved by the Commission". The Power Supply Agreement Amendment No. 1, pursuant to the FERC regulations, does not require the PSC's approval.

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 an Alternate Resource per the Amended and Restated PSA with the Company and 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 up to 100 MW of capacity and energy to the Southern Company Transmission system. The resource was noticed as an Alternate Resource per the Amended and Restated PSA with the Company and 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 the PSC's approval.

On August 22, 2018, the Authority executed a second amendment to the Amended and Restated PSA with the Company. This amendment modifies certain provisions of the

Amended and Restated PSA to allow and account for solar energy purchased by the Authority. Under this agreement, the Authority can purchase solar energy from Qualified Facilities (QF) solar projects under the requirements of the Public Utility Regulatory Policies Act of 1978 (“PURPA”) and FERC regulations, and up to 100MW of non-QF solar projects. None of the solar energy purchased pursuant to this amendment can offset the capacity that is purchased from the Company under the Amended and Restated PSA.

Pursuant to the provisions of Section 11-50-A, Code of Alabama 1975, as amended, the Authority was required to file the second amendment to the Amended and Restated PSA (the “Power Supply Agreement Amendment”) with the PSC. On October 3, 2018, the PSC ordered that “the Power Supply Agreement Amendment and the rates to be charged by the Authority pursuant thereto are not disapproved by the Commission”. The Power Supply Agreement Amendment, pursuant to the FERC regulations, does not require the PSC's approval.

5. FUNDS INVESTED

The Authority's cash and other funds invested as of September 30, 2018 and 2017, are summarized as follows:

2018	Fair Value	Cost
U.S. government Treasury bonds and agency certificates—held by trustee in the Authority's name (uninsured and unregistered)	\$ 2,723,868	\$ 2,730,720
Money market instruments—mutual funds composed of U.S. Treasury obligations	3,622,460	3,622,460
	<u>6,346,328</u>	<u>6,353,180</u>
Cash and cash equivalent accounts	48,868,772	48,868,513
U.S. government bonds and agency certificates	24,895,586	25,052,052
Accrued interest and other	15,753	15,753
	<u>80,126,439</u>	<u>\$ 80,289,498</u>
Total funds invested	\$ 80,126,439	\$ 80,289,498
Consisting of:		
Special funds invested	\$ 6,118,868	
Current assets—funds invested	74,007,571	
	<u>\$ 80,126,439</u>	

2017	Fair Value	Cost
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	3,022,560	3,022,560
	<u>5,737,472</u>	<u>5,753,279</u>
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	12,432	12,432
	<u>77,697,047</u>	<u>77,712,854</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	72,187,135	
	<u>\$ 77,697,047</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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</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	56,180	58,296	11,566,644	11,510,464
Amortization of excess costs of bond refundings	123,103	127,740	15,661,445	15,538,342
Interest on revenue bonds	-	-	17,063,216	17,063,216
Expenses paid with bond proceeds	-	-	3,449,601	3,449,602
(Increase) decrease in fair value of funds invested	(8,955)	18,975	6,852	15,807
Deferred depreciation on plant	1,580,170	1,530,130	23,985,534	22,405,364
Other	-	-	2,695,345	2,695,345
	<u>1,750,498</u>	<u>1,735,140</u>	<u>230,528,636</u>	<u>228,778,138</u>
Bond resolution requirements included in billings to participants:				
Debt service	1,543,750	1,498,750	226,087,166	224,543,416
Increase in special funds deposits	2,000,000	3,000,000	42,958,594	40,958,594
Investment income not available for operating purposes	-	-	1,102,799	1,102,799
	<u>3,543,750</u>	<u>4,498,750</u>	<u>270,148,559</u>	<u>266,604,809</u>
	<u>\$ (1,793,252)</u>	<u>\$ (2,763,610)</u>	<u>\$ (39,619,923)</u>	<u>\$ (37,826,671)</u>

7. LONG-TERM DEBT

Long-term debt as of September 30, 2018, consists of the following serial bonds:

Maturity September 1	2013 Bonds Effective Interest Rate	Amount
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/>
		30,335,000
Less current maturities		1,585,000
Less unamortized bond discount		<hr/> 77,050
		<hr/> <hr/>
		\$ 28,672,950

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, 2018, the Authority was in compliance with its debt covenants. The carrying value and fair values of the 2013 Bonds for 2018 and 2017 are summarized in the table below. Fair value of the bonds is estimated based on quoted market prices.

	September 30, 2018		September 30, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Series 2013 Bonds	\$ 30,335,000	\$ 31,060,160	\$ 31,875,000	\$ 33,672,664

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.

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.

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, 2017, 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	14
Post-DROP Retired Members Still in Active Service	<hr/>
Total	<hr/> <hr/> <u>19</u>

Contributions—Participation in the Plan is mandatory for all Authority 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 estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the preretirement death benefit, and administrative expenses of the Plan. For the years ended September 30, 2018 and 2017, the employee and the Authority contribution rates as a percentage of covered employee payroll and pensionable pay respectively were as follows:

Contributor	September 30, 2018		September 30, 2017	
	Tier 1	Tier 2	Tier 1	Tier 2
Employee	5.00 %	6.00 %	5.00 %	6.00 %
The Authority	9.30	7.21	9.31	7.89

Net Pension Liability—The Authority’s net pension liability was measured as of September 30, 2017, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2016, rolled forward to September 30, 2017, using standard roll-forward techniques as shown in the following table:

	Expected	Actual
(a) TPL as of September 30, 2016	\$ 6,180,865	\$ 6,115,389
(b) Discount rate	7.75%	7.75%
(c) Entry age normal cost for the period October 1, 2016–September 30, 2017	155,137	155,137
(d) Transfers Among Employers:	0	0
(e) Actual Benefit Payments and Refunds for the period October 1, 2016–September 30, 2017	(251,558)	(251,558)
(f) TPL as of September 30, 2017 =[(a) x (1+(b))] + (c) + (d) + [(e) x (1+0.5*(b))]	<u>\$ 6,553,713</u>	<u>\$ 6,483,163</u>
(g) Difference between Expected and Actual Experience (Gain) Loss		\$ (70,550)
(h) Less Liability Transferred for Immediate Recognition:		0
(i) Experience (Gain)/Loss = (g) - (h)		(70,550)

Actuarial Assumptions— The total pension liability as of September 30, 2017 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2016 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 were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages 78 and older. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the actuarial valuation as of September 30, 2016, 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, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

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	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	3.00	1.50
	<hr/>	
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, 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 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, 2016	\$ 6,180,865	\$ 3,706,246	\$ 2,474,619
Changes for the year:			
Service cost	155,137	-	155,137
Interest	469,269	-	469,269
Changes of assumptions	-	-	-
Difference between expected and actual experience	(70,550)	-	(70,550)
Contributions—employer	-	147,035	(147,035)
Contributions—employee	-	88,142	(88,142)
Net investment income	-	473,501	(473,501)
Benefit payments, including refunds of employee contributions	(251,558)	(251,558)	-
Administrative expense	-	-	-
Transfers among employers	-	-	-
Net changes	302,298	457,120	(154,822)
Balance—September 30, 2017	\$ 6,483,163	\$ 4,163,366	\$ 2,319,797

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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Plan's net pension liability	\$ 2,953,313	\$ 2,319,797	\$ 1,783,103

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, 2017. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2017. The auditor's report dated August 31, 2018 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—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, 2018, was \$155,195.

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, 2018 and 2017, the Authority's costs to Sylacauga were \$1,004,743 and \$1,066,395, respectively, under the provisions of this agreement.

10. SUBSEQUENT EVENTS

The Authority has evaluated all events or transactions that occurred after September 30, 2018, through the date the accompanying financial statements were available to be issued, February 21, 2019. All subsequent events have been disclosed within previous notes.

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Required Supplementary Information
Schedule of Employer Contributions
Fiscal Years Ending September 30

	2018	2017	2016	2015
Actuarially determined contribution*	\$ 155,195	\$ 153,314	\$ 155,002	\$ 167,373
Contributions in relation to the actuarially determined contribution	155,195	\$ 153,314	\$ 155,002	\$ 167,373
Contribution deficiency	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll**	\$ 1,828,936	\$ 1,791,041	\$ 1,684,701	\$ 1,664,962
Contributions as a percentage of covered-employee payroll	8.49%	8.56%	9.20%	10.05%

*The amount of employer contributions related to normal and accrued liability components of employer rate net any refunds or error service payments.

The Schedule of Employer Contributions is based on the 12 month period of the underlying financial statement

**Employer's covered payroll for FY 2018 is the total covered payroll for the 12 month period of the underlying financial statement.

Notes to Schedule

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2018 were based on the September 30, 2015 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2017 to September 30, 2018*:

Actuarial cost method Entry Age
Amortization method Level percent closed
Remaining amortization period 29.6 years
Asset valuation method Five year smoothed market
Inflation 3.00%
Salary increases 3.75 – 7.25%, including inflation
Investment rate of return 8.00%, net of pension plan investment expense, including inflation

*If the employer's financial reporting period end is other than September 30, 2018, additional assumptions should be reported for the basis of determining the portion of the contribution prior to or subsequent to this period. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Schedules of Required Supplementary Information
Schedule of Changes in the Net Pension Liability
Fiscal Years Ending September 30

	2017	2016	2015	2014
Total pension liability				
Service Cost	\$ 155,137	\$ 142,876	\$ 143,049	\$ 150,269
Interest	469,269	388,788	390,427	369,856
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(70,550)	21,838	(325,444)	-
Changes in assumptions	-	895,586	-	-
Benefit payments, including refunds of employee contributions	(251,558)	(256,149)	(200,883)	(325,092)
Transfers among employers	-	-	-	-
Net change in total pension liability	302,298	1,192,939	7,149	195,033
Total pension liability - beginning	6,180,865	4,987,926	4,980,777	4,785,744
Total pension liability - ending (a)	\$ 6,483,163	\$ 6,180,865	\$ 4,987,926	\$ 4,980,777
Plan fiduciary net position				
Contributions - employer	\$ 147,035	\$ 149,174	\$ 162,684	\$ 166,646
Contributions - employee	88,142	80,614	79,535	81,026
Net investment income	473,501	343,780	39,490	358,538
Benefit payments, including refunds of employee contributions	(251,558)	(256,149)	(200,883)	(325,092)
Transfers among employers	-	-	-	-
Net change in plan fiduciary net position	457,120	317,419	80,826	281,118
Plan net position - beginning	3,706,246	3,388,827	3,308,001	3,026,883
Plan net position - ending (b)	\$ 4,163,366	\$ 3,706,246	\$ 3,388,827	\$ 3,308,001
Net pension liability - ending (a) - (b)	\$ 2,319,797	\$ 2,474,619	\$ 1,599,099	\$ 1,672,776
Plan fiduciary net position as a percentage of the total pension liability	64.22%	59.96%	67.94%	66.42%
Covered-employee payroll	1,791,041	1,684,701	1,664,962	1,705,967
Net pension liability as a percentage of covered-employee payroll	129.52%	146.89%	96.04%	98.05%

**ADDITIONAL INFORMATION FOR THE YEARS ENDED
SEPTEMBER 30, 2018 AND 2017**

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENT OF CHANGES IN ASSETS OF FUNDS INVESTED FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Funds Invested September 30, 2017	Power Billing Receipts	Income from Other Electricity Sales	Other Income	Investment Income	Disbursements	Transfers	Funds Invested September 30, 2018
DEBT SERVICE FUND:								
Debt service account	\$ 227,560	\$	\$	\$	\$ 14,225	\$ (2,730,719)	\$ 2,716,393	\$ 227,460
Debt service reserve account	2,714,912				41,723		(32,767)	2,723,868
	2,942,472				55,948	(2,730,719)	2,683,626	2,951,328
GENERAL RESERVE FUND								
	-							
RESERVE AND CONTINGENCY FUND								
	2,795,000				34,275		565,725	3,395,000
REVENUE FUND:								
Revenue account	12,432	216,078,675	199,171	840,361	(107,222)		(217,007,663)	15,753
Rate stabilization account	41,000,000						2,000,000	43,000,000
	41,012,432	216,078,675	199,171	840,361	(107,222)		(215,007,663)	43,015,753
OPERATION AND MAINTENANCE FUND:								
Operation and maintenance account	-					(212,289,027)	212,289,027	
Working capital account	30,947,143				347,930		(530,715)	30,764,358
	30,947,143				347,930	(212,289,027)	211,758,312	30,764,358
	\$ 77,697,047	\$ 216,078,675	\$ 199,171	\$ 840,361	\$ 330,931	\$ (215,019,746)	\$	\$ 80,126,439

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	2,733,887				13,787		(32,762)	2,714,912
	2,961,434				18,974	(2,730,569)	2,692,632	2,942,472
GENERAL RESERVE FUND								
	-							
RESERVE AND CONTINGENCY FUND								
	2,270,000				7,022		517,978	2,795,000
REVENUE FUND:								
Revenue account	10,955	217,901,622	216,354	394,540	(98,862)		(218,412,178)	12,432
Rate stabilization account	38,000,000						3,000,000	41,000,000
	38,010,955	217,901,622	216,354	394,540	(98,862)		(215,412,178)	41,012,432
OPERATION AND MAINTENANCE FUND:								
Operation and maintenance account	-					(198,981,808)	198,981,808	
Working capital account	17,611,676				115,707		13,219,760	30,947,143
	17,611,676				115,707	(198,981,808)	212,201,568	30,947,143
	\$ 60,854,065	\$ 217,901,622	\$ 216,354	\$ 394,540	\$ 42,842	\$ (201,712,377)	\$ (0)	\$ 77,697,047

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

SCHEDULES OF REVENUES AND EXPENSES PER BOND RESOLUTION FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
REVENUES:		
Sales of electricity to participating members	\$ 217,891,756	\$ 202,073,128
Sales of electricity—other	226,974	224,204
Investment revenues available for operations	514,982	269,833
Withdrawal from working capital		
Other income	270,876	312,960
	<hr/>	<hr/>
Total revenues	218,904,587	202,880,126
	<hr/>	<hr/>
EXPENSES:		
Partial requirements services:		
Purchased power	185,798,573	168,479,312
Transmission and distribution	18,067,696	18,642,334
Other operating and maintenance expenses	1,566,044	1,554,643
Administrative and general expenses	6,651,736	6,456,331
Deposit to rate stabilization	2,000,000	3,000,000
Debt service	2,730,619	2,730,581
	<hr/>	<hr/>
Total expenses	216,814,667	200,863,201
	<hr/>	<hr/>
EXCESS OF REVENUES OVER EXPENSES	\$ 2,089,920	\$ 2,016,925
	<hr/> <hr/>	<hr/> <hr/>