Board of Municipal Utilities
Sikeston, Missouri

Independent Auditor's Report and Financial Statements

May 31, 2018 and 2017

BKD
CPAs & Advisors

Board of Municipal Utilities
Sikeston, Missouri
May 31, 2018 and 2017

Contents

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Independent Auditor's Report

To the Directors of the
Board of Municipal Utilities
Sikeston, Missouri

We have audited the accompanying financial statements of the Board of Municipal Utilities of Sikeston, Missouri (the "Utility") as of and for the years ended May 31, 2018 and 2017, and the related notes to the financial statements which collectively comprise the Utility's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board of Municipal Utilities of Sikeston, Missouri as of May 31, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Utility's basic financial statements. The combining financial statements as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

BKD, LLP

Springfield, Missouri
August 31, 2018

Board of Municipal Utilities
Sikeston, Missouri
Management's Discussion and Analysis
May 31, 2018 and 2017

The following discussion and analysis of the Board of Municipal Utilities of Sikeston, Missouri (the "Board" or "Utility") financial performance provides an overview of the Utility's financial activities for the year ended May 31, 2018 and 2017. This discussion and analysis should be read in conjunction with the Utility's audited financial statements and accompanying notes.

Background

The Utility is a municipally owned and operated enterprise engaged in the generation, distribution and sale of electric energy to retail and wholesale customers within the city limits of the City of Sikeston, Missouri (the "City"). The Utility's primary asset is a 235 megawatt coal-fired generation station (Sikeston Power Station) located in the City. The Utility has contractual agreements with the Missouri cities of Carthage, Columbia, Fulton and West Plains to sell certain amounts of wholesale electric energy. The agreements state that each city will purchase a specified entitlement share of power at 110 percent of its proportionate share of the monthly power costs (including debt service costs related to the revenue bond issue) as defined in the agreements, for various annual periods extending through the useful life of the plant. The agreements also state that each city will pay for the capacity to which it is entitled, whether or not available, and whether or not utilized. The total plant capacity allocated to these cities is 50% of the Sikeston Power Station. The remaining capacity of the Sikeston Power Station is primarily used to serve retail electric customers located in the City. The Utility also routinely enters into short-term contractual agreements with various other municipalities or third parties to sell electric energy. Excess generation not sold to retail or wholesale customers is sold on the "spot" market at prevailing market prices.

The Utility is managed by a bi-partisan board, which consists of four members appointed by the City council for a term of four years each. The board is responsible for establishing the Utility's policies, rules and regulations that govern the day-to-day operations of the utility system. The Utility functions as a separate unit of City government. The Utility prepares annual budgets, which are approved by the Board. See *Note 1* to the financial statements for further information regarding the basis of accounting used.

Financial Statements

This report contains three basic financial statements and related notes. The *Balance Sheet* presents the Utility's financial condition, assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at May 31, 2018 and 2017. The *Statement of Revenues, Expenses and Changes in Net Position* presents the Utility's results of operations and changes in net position for the fiscal years ended May 31, 2018 and 2017. The *Statement of Cash Flows* presents the Utility's sources and uses of cash and cash equivalents for the fiscal years ended May 31, 2018 and 2017. The *Notes to Financial Statements* are an integral part of the basic financial statements and contain information on accounting principles and other matters necessary for a more complete understanding of the Utility's financial position.

Summary of Electric System Financial Position

	May 31, 2018	May 31, 2017	May 31, 2016
Assets			
Property and plant - net	$ 68,862,302	$ 77,572,984	$ 86,846,127
Restricted and other assets	13,946,872	13,913,528	15,033,131
Current assets	54,540,737	49,308,114	51,964,337
Total assets	137,349,911	140,794,626	153,843,595
Deferred Outflows of Resources			
Unamortized loss on debt refundings	7,449,309	9,062,049	10,587,837
Pension related	4,599,834	7,930,591	3,002,786
Total deferred outflows of resources	12,049,143	16,992,640	13,590,623
Total assets and deferred outflows of resources	$ 149,399,054	$ 157,787,266	$ 167,434,218
Net Position			
Net investment in capital assets	$ 3,423,405	$ 1,099,206	$ (1,793,469)
Restricted	25,951,373	25,380,598	28,112,944
Unrestricted	35,220,444	31,756,673	32,471,688
Total net position	64,595,222	58,236,477	58,791,163
Liabilities			
Long-term debt, net	60,883,703	74,068,750	86,717,093
Net pension liability	1,245,983	5,294,730	-
Current liabilities	20,263,966	19,362,937	20,898,658
Total liabilities	82,393,652	98,726,417	107,615,751
Deferred Inflows of Resources			
Pension related	2,410,180	824,372	1,027,304
Total liabilities, deferred inflows of resources and net position	$ 149,399,054	$ 157,787,266	$ 167,434,218

Summary of the Electric System

Assets

Property and Plant - Net

The Utility recorded approximately $4,913,000 in property and plant additions during the year ended May 31, 2018. The Sikeston Power Station had additions of approximately $4,056,000 including approximately $791,000 for substation improvements, $417,000 for a turbine valve overhaul, $415,000 for an ID fan rebuild, $387,000 for the cooling tower rebuild, $290,000 for transformer replacements and $253,000 for EPA compliance with the Mercury and Air Toxics Standards, Coal Combustion Residuals and Effluent Limitations Guidelines. Other major capital expenditures include well rehabilitation, boiler feed pump overhaul, electrical cable, valve and coal belt replacements. The retail system had additions of approximately $857,000 including substation improvements, GIS mapping and annual additions of transformers, meters and poles. Depreciation expense of approximately $13,623,000 was recorded during the year ended May 31, 2018.

The Utility recorded approximately $4,347,000 in property and plant additions during the year ended May 31, 2017. The Sikeston Power Station had additions of approximately $2,936,000 of which approximately $900,000 was for replacement of a section of the 161kv transmission line that was damaged by a tornado and $584,000 was for EPA compliance with the Mercury and Air Toxics Standards, Coal Combustion Residuals and Effluent Limitations Guidelines. Other major capital expenditures include pulverizer rebuilds and boiler tube and coal belt replacements. The retail system had additions of approximately $1,411,000 including a substation transformer, improvements to the NW Substation, a new billing system and annual additions of transformers, meters and poles. Depreciation expense of approximately $12,570,000 was recorded during the year ended May 31, 2017.

Additional information on the Utility's capital assets can be found in *Note 4* on pages 27-29 of this report.

Restricted and Other Assets

During 2018, restricted and other assets increased approximately $33,000 due to the increase in the required debt service reserve.

During 2017, restricted and other assets decreased approximately $1,120,000 due to the decrease in the required debt service reserve and the decrease in the net pension asset.

Current Assets

During 2018, the increase in current assets of approximately $5,233,000 was attributed to an increase in cash and cash equivalents of approximately $6,850,000 offset by a decrease in coal inventory of approximately $1,006,000 and a decrease in accounts receivable of approximately $630,000. The increase in cash and cash equivalents was a result of higher kWh sales in the retail department and market sales at the Sikeston Power Station. The remaining current assets were relatively flat over the prior year.

During 2017, the decrease in current assets of approximately $2,656,000 was attributed to a decrease in cash and cash equivalents of approximately $4,751,000 and a decrease in the debt service account due to a decrease in current long-term debt payments of approximately $1,400,000. The cash and cash equivalents decrease was offset by an increase in coal inventory of approximately $1,929,000 and an increase in accounts receivable of approximately $1,241,000 due to higher wholesale sales. The decrease in cash was due to increased coal purchases as a result of higher generation at the Sikeston Power Station. The remaining current assets were relatively flat over the prior year.

Deferred Outflows of Resources

During 2018, the decrease of approximately $4,944,000 in deferred outflows of resources was a result of a decrease in the unamortized debt costs of approximately $1,613,000 and a decrease of $3,330,000 in the pension related deferred outflows.

During 2017, the increase of approximately $3,402,000 in deferred outflows of resources was a result of a decrease in the unamortized debt costs of approximately $1,526,000 offset with an increase of $4,928,000 in the pension related deferred outflows.

Liabilities

Long-Term Debt, Net

The long-term debt reduction in the fiscal year ended May 31, 2018, of approximately $13,185,000 was due to the scheduled payment in the amount of approximately $11,365,000 of current bond maturities on the 2012 Revenue Bonds. Long-term debt was also decreased by unamortized premiums of approximately $1,200,000 and approximately $640,000 in scheduled lease payments. The long-term balance at May 31, 2018, reflects the remaining obligations on the 2012 Revenue Bonds and future capital lease obligations. The debt maturities on the capital lease obligations vary over the next 10 years and 2012 Revenue Bonds are due June 1, 2022.

The long-term debt reduction in the fiscal year ended May 31, 2017, of approximately $12,648,000 was due to the scheduled payment in the amount of approximately $10,850,000 of current bond maturities on the 2012 Revenue Bonds. Long-term debt was also decreased by unamortized premiums of approximately $1,200,000 and approximately $615,000 in scheduled lease payments. The long-term balance at May 31, 2017, reflects the remaining obligations on the 2012 Revenue Bonds and future capital lease obligations. The debt maturities on the capital lease obligations vary over the next 10 years and 2012 Revenue Bonds are due June 1, 2022.

Since the bond refunding in 2012, BMU is required to annually submit information to the Fitch Rating Agency (Fitch) for review of the bond rating. In August 2017, Fitch downgraded the bonds to BBB- with a negative outlook due to continued financial weakness and greater than expected decline in liquidity, retail rate increases projected but were not yet approved and concern for future capital needs with weaker cash balances.

In June 2018, Fitch did not change the rating, but revised the outlook up from negative to stable due to significant improvement in the 2018 financial performance because of higher retail rates, higher spot market prices and more adequate liquidity levels.

The Utility was able to establish and collect sufficient rates for the electric system to meet the 110% debt service requirement for the years ended May 31, 2018 and 2017. The electric rates applied for years ended May 31, 2018 and 2017, covered 164% and 112%, respectively, of aggregate debt service costs.

Additional information on the Utility’s long-term debt can be found in *Note 5* on pages 29-32 of this report.

Current Liabilities

Current liabilities increased approximately $901,000 at May 31, 2018. The current portion of long-term debt increased approximately $537,000, accounts payable increased approximately $571,000 offset with a decrease in accrued interest payable of approximately $257,000. The remaining current liability accounts were relatively flat over the prior year.

Current liabilities decreased approximately $1,536,000 at May 31, 2017. The current portion of long-term debt decreased approximately $1,043,000 and accrued interest payable decreased approximately $357,000. The remaining current liability accounts were relatively flat over the prior year.

At May 31, 2018 and 2017, the Utility has recorded a liability of $1,429,000 and $1,230,000, respectively, for the amount of the remaining estimated post-retirement benefits and mine reclamation costs associated with Brushy Creek which represents its 50% share of the total estimated costs. The liability increased over the prior year by approximately $199,000 due to the actuarial estimate of the post-retirement benefit obligation. The amount of funding by the Board was $365,000 for the year ended May 31, 2017, and $420,000 for the year ended May 31, 2018, for administrative costs incurred by Western Fuels-Illinois, Inc. (WFI) (see *Note 9* to the Utility's financial statements).

Other Noncurrent Liabilities

During the year ended May 31, 2018, the decrease in other noncurrent liabilities was the net pension liability of approximately $4,049,000.

During the year ended May 31, 2017, the increase in other noncurrent liabilities was the net pension liability of approximately $5,295,000.

Deferred Inflows of Resources

During the year ended May 31, 2018, the increase in deferred inflows of resources was a result of an increase in the pension related inflows of approximately $1,586,000.

During the year ended May 31, 2017, the decrease in deferred inflows of resources was a result of a decrease in the pension related inflows of approximately $203,000.

Summary of Electric Revenues, Expenses and Changes in Net Position

	May 31,		
	2018	**2017**	**2016**
Operating Revenues	$ 82,634,515	$ 75,779,967	$ 68,304,357
Operating Expenses	73,863,290	72,974,921	68,335,455
Operating Income (Loss)	8,771,225	2,805,046	(31,098)
Interest and Other Income	1,387,294	891,350	1,226,551
Interest Expense	(3,799,774)	(4,251,082)	(4,901,743)
Nonoperating Income (Expense), Net	(2,412,480)	(3,359,732)	(3,675,192)
Change in Net Position	$ 6,358,745	$ (554,686)	$ (3,706,290)

Operating Revenues

During 2018 operating revenues increased approximately $6,855,000 due to an increase in wholesale revenues of approximately $2,980,000 and an increase in retail revenues of approximately $3,875,000 from 2017. Residential kWh sold were up 9.0%, Commercial kWh sold were up .15% and Industrial kWh sold were up 6.0%. Retail rate increases went into effect on June 1, 2017. Wholesale revenues increased due to increased generation and market demand. The Utility will routinely execute physical sales in the wholesale "spot" market of generated electricity that is not purchased by retail or wholesale customers.

During 2017 operating revenues increased approximately $7,476,000 due to an increase in wholesale revenues of approximately $5,839,000 and an increase in retail revenues of approximately $1,636,000 from 2016. Residential kWh sold were down .15%, Commercial kWh were up 2.16% and Industrial kWh were down 3.12%. Retail rate increases went into effect on March 3, 2016, and January 1, 2017. Wholesale revenues increased due to increased generation and market demand. The Utility will routinely execute physical sales in the wholesale "spot" market of generated electricity that is not purchased by retail or wholesale customers.

Operating Expenses

Operating expenses increased approximately $888,000 during 2018. The Sikeston Power Station had higher operating expenses of approximately $300,000 from increased coal usage offset with lower PAC chemical costs of $147,000. General and administrative costs decreased $956,000 from prior year. This includes decreases in expenses related to the change in pension liability of approximately $430,000 and $418,000 in health insurance costs. Depreciation expense increased approximately $1,053,000 compared to 2017. In 2017, the Board implemented a formal capitalization policy which resulted in more capital expenditures and increased depreciation.

Operating expenses increased approximately $4,639,000 during 2017. The Sikeston Power Station had higher operating expenses of approximately $4,907,000 from increased coal usage and lower maintenance of $2,490,000. Electric system general and administrative costs increased $1,401,000 including expenses related to the change in pension liability of approximately $1,286,000. This was offset by a decrease of approximately $269,000 in health insurance costs. Depreciation expense increased approximately $885,000 compared to 2016. In 2017, the Board implemented a formal capitalization policy which resulted in more capital expenditures and increased depreciation.

Deferred Mine Shutdown Costs

During 2018, the Utility recorded an increase to change in net position of approximately $396,000 associated with the mine shutdown during the year as payments and changes in estimated liabilities were made for the remaining post-retirement benefits and mine reclamation costs associated with Brushy Creek mine (see *Note 9* to the Utility's financial statements).

During 2017, the Utility recorded an increase to change in net position of approximately $91,000 associated with the mine shutdown during the year as payments and changes in estimated liabilities were made for the remaining post-retirement benefits and mine reclamation costs associated with Brushy Creek mine (see *Note 9* to the Utility's financial statements).

Nonoperating Income (Expense), Net

During 2018 nonoperating income (expense), net decreased by approximately $947,000 due to lower interest expense of approximately $451,000 in the current year due to the reduction in long-term debt as scheduled bond payments were made. Interest and other income increased by approximately $496,000 mainly as a result of higher interest earned on investments.

During 2017 nonoperating income (expense), net decreased by approximately $315,000 primarily due to lower interest expense of approximately $651,000 in the current year due to the reduction in long-term debt as scheduled bond payments were made. Interest and other income decreased by approximately $335,000 mainly as a result of surplus insurance proceeds received in the prior year.

Summary of Water & Sewer Combined Financial Position

	May 31,		
	2018	**2017**	**2016**
Assets			
Property and plant - net	$ 8,724,849	$ 8,663,057	$ 7,454,955
Restricted and other assets	18,806	651,677	232,215
Current assets	4,135,532	3,747,270	3,957,894
Total assets	12,879,187	13,062,004	11,645,064
Deferred Outflows of Resources			
Pension related	954,979	1,634,477	615,029
Total assets and deferred outflows of resources	$ 13,834,166	$ 14,696,481	$ 12,260,093
Net Position			
Net investment in capital assets	$ 4,333,830	$ 3,525,159	$ 3,714,082
Restricted	199,454	1,206,664	813,777
Unrestricted	3,329,222	3,010,545	3,256,245
Total net position	7,862,506	7,742,368	7,784,104
Liabilities			
Long-term debt, net	4,210,370	4,582,913	3,371,305
Net pension liability	255,201	1,084,461	-
Current liabilities	1,012,437	1,117,892	894,272
Total liabilities	5,478,008	6,785,266	4,265,577
Deferred Inflows of Resources			
Pension related	493,652	168,847	210,412
Total liabilities, deferred inflows of resources and net position	$ 13,834,166	$ 14,696,481	$ 12,260,093

Summary of Water and Sewer

Assets

Property and Plant – Net

The Utility recorded approximately $1,094,000 of plant and property additions during the year ended May 31, 2018. These additions included water plant control panel, GIS mapping and annual routine additions. The Sewer Force Main Project of $1,672,000 was completed and moved from construction in progress to capital plant assets in the current year. Current year depreciation expense was approximately $1,032,000.

The Utility recorded approximately $1,061,000 of plant and property additions during the year ended May 31, 2017. These additions included purchase of land adjacent to the sewer plant, upgrade of the Larcel Lift Station, upgrades at the Industrial Park Lagoon and annual routine additions. During 2017, construction in progress was the year to date project balance of the Sewer Force Main Project of $1,177,000. Depreciation expense was approximately $1,030,000 for the year ended May 2017.

Additional information on the Utility's capital assets can be found in *Note 4* on pages 27-29 of this report.

Restricted Assets and Other Noncurrent Assets

Restricted assets include debt service accounts which decreased $633,000 from 2017. The decrease includes the reduction of approximately $563,000 in the Construction Fund for the Sewer Force Main Project that was completed in 2018.

Restricted assets include debt service accounts required by the bond ordinance. During 2017, other noncurrent assets include the addition of approximately $567,000 for the Construction Fund of the Sewer Force Main Project still in process.

Current Assets

During 2018, the increase of approximately $388,000 in current assets consists primarily of the increase of approximately $421,000 in the operating and maintenance cash account offset with the decrease in current long-term debt payoff of the 1997E Sewer State Revolving Fund debt. The remaining current asset accounts were relatively flat over the prior year.

During 2017, the decrease of approximately $211,000 in current assets consists primarily of the decrease of approximately $231,000 in the operating and maintenance cash account and a decrease in accounts receivable of approximately $152,000 offset with the increase in current long-term debt due to the addition of the Sewer Force Main Project of approximately $124,000. The remaining current asset accounts were relatively flat over the prior year.

Deferred Outflows of Resources

During 2018, the decrease in deferred outflows of resources was a result of a decrease in the pension related deferred outflows of $680,000.

During 2017, the increase in deferred outflows of resources was a result of an increase in the pension related deferred outflows of resources of $1,019,000.

Liabilities

Long-Term Debt, Net

Long-term debt decreased in 2018 by approximately $372,000 with the scheduled payments of current leases. The long-term debt balance at year end reflects the future capital lease obligations. The debt maturities on the capital lease obligations vary over the next 10 years.

Long-term debt increased in 2017 by approximately $1,212,000 with the addition of a lease for $1,766,000 for the Sewer Force Main project offset with the scheduled payments of current bond maturities and leases. The long-term debt balance at year end reflects the remaining obligations on the 1997E Revenue Bonds and future capital lease obligations. The debt maturities on the capital lease obligations vary over the next 10 years, the 1997 Revenue Bonds are due January 1, 2018.

Additional information on the Utility's long-term debt can be found in *Note 5* on pages 29-32 of this report.

Current Liabilities

Current liabilities decreased approximately $106,000 from 2017 to 2018 due to the decrease in current maturities of long-term debt.

Current liabilities increased approximately $224,000 from 2016 to 2017 due to the increase in current maturities of long-term debt and accounts payable.

Other Noncurrent Liabilities

During 2018, the other noncurrent liabilities decreased $830,000 due to the net pension liability.

During 2017, the other noncurrent liabilities increased $1,084,000 due to the net pension liability.

Deferred Inflows of Resources

For the year ended May 31, 2018, the increase in deferred inflows of resources was a result of an increase in the pension related inflows of $325,000.

For the year ended May 31, 2017, the decrease in deferred inflows of resources was a result of a decrease in the pension related inflows of $42,000.

Summary of Water & Sewer Revenues, Expenses and Changes in Net Position

	May 31,		
	2018	2017	2016
Operating Revenues	$ 5,055,477	$ 5,157,221	$ 5,172,834
Operating Expenses	5,299,443	5,412,475	5,132,224
Operating Income (Loss)	(243,966)	(255,254)	40,610
Interest and Other Income	527,277	337,577	281,677
Interest Expense	(163,173)	(124,059)	(122,093)
Nonoperating Income (Expense), Net	364,104	213,518	159,584
Change in Net Position	$ 120,138	$ (41,736)	$ 200,194

Operating Revenues

During 2018, consolidated water and sewer operating revenues decreased approximately $102,000. Water revenues increased in fiscal 2018 by approximately $3,150 compared to fiscal 2017. Water gallons sold were up 2.3% in fiscal 2018 compared to fiscal 2017. Sewer revenues decreased approximately $105,000. Sewer gallons treated were down .84% from fiscal 2017.

During 2017, consolidated water and sewer operating revenues decreased approximately $16,000. Water revenues decreased in fiscal 2017 by approximately $7,500 compared to fiscal 2016. Water gallons sold were down 1.27% in fiscal 2017 compared to fiscal 2016. Sewer revenues decreased approximately $8,100 as sewer gallons treated were down 3.3% from fiscal 2016.

Operating Expenses

During 2018, consolidated water and sewer operating expenses decreased approximately $113,000. General and administrative expenses decreased $110,000. This includes decreases in the pension related expense of approximately $81,000 and health insurance costs of $137,000 offset by $53,000 in consulting fees. The remaining operating expenses remained relatively flat from the prior year.

During 2017, consolidated water and sewer operating expenses increased approximately $280,000, general and administrative expenses increased $237,000, which include expenses related to the change in pension liability of approximately $284,000. This was offset by a decrease of approximately $69,000 of decreased health insurance costs. Depreciation expense increased approximately $75,000 compared to 2016. The remaining operating expenses remained relatively flat from the prior year.

Nonoperating Income (Expense), Net

During 2018, nonoperating income, net increased approximately $151,000. Miscellaneous income increased $170,000 mainly due to the recording of customer’s portion of lagoon debt payment.

During 2017, nonoperating income, net increased approximately $54,000. Miscellaneous income increased $53,000 mainly due to the recording of customer’s portion of lagoon debt payment.

Board of Municipal Utilities
Sikeston, Missouri
Balance Sheets
May 31, 2018 and 2017

Assets and Deferred Outflows of Resources

	2018	2017
Assets		
Property and Plant		
Property and plant, at original cost	$ 351,541,132	$ 345,530,815
Accumulated depreciation	(275,126,643)	(260,471,567)
	76,414,489	85,059,248
Construction work in progress	1,172,662	1,176,793
Total property and plant, net	77,587,151	86,236,041
Restricted Assets		
Debt service reserve account	14,773,588	15,020,151
Debt service account	13,136,894	13,393,094
	27,910,482	28,413,245
Less amount required to meet current obligations	(13,944,804)	(13,848,040)
Total restricted assets	13,965,678	14,565,205
Current Assets		
Cash and cash equivalents	27,556,597	20,286,461
Restricted assets - current	13,944,804	13,848,040
Accounts receivable, net	6,786,140	7,369,109
Coal inventories	4,522,217	5,527,855
Materials and supplies	5,025,871	5,106,174
Prepaid expenses and other assets	840,640	917,745
Total current assets	58,676,269	53,055,384
Total assets	150,229,098	153,856,630
Deferred Outflows of Resources		
Unamortized loss on debt refundings	7,449,309	9,062,049
Pension related	5,554,813	9,565,068
Total deferred outflows of resources	13,004,122	18,627,117
Total assets and deferred outflows of resources	$ 163,233,220	$ 172,483,747

Net Position, Liabilities and Deferred Inflows of Resources

	2018	2017
Net Position		
Net investment in capital assets	$ 7,757,235	$ 4,624,365
Restricted	26,150,827	26,587,262
Unrestricted	38,549,666	34,767,218
Total net position	72,457,728	65,978,845
Long-Term Debt	60,380,047	72,757,002
Add: Unamortized bond premium	4,777,879	5,972,449
Less: Unamortized bond discount	(63,853)	(77,788)
Total long-term debt, net	65,094,073	78,651,663
Other Noncurrent Liabilities		
Net pension liability	1,501,184	6,379,191
Current Liabilities Payable from Restricted Assets		
Current maturities of long-term debt	12,376,954	12,022,057
Accrued interest payable	1,567,850	1,825,983
	13,944,804	13,848,040
Current Liabilities Payable from Unrestricted Assets		
Accounts payable	2,543,666	1,931,903
Customer deposits	607,908	574,810
Accrued mine shutdown costs	1,429,350	1,230,050
Other accruals	2,750,675	2,896,026
	7,331,599	6,632,789
Total current liabilities	21,276,403	20,480,829
Deferred Inflows of Resources		
Pension related	2,903,832	993,219
Total net position, liabilities and deferred inflows of resources	$ 163,233,220	$ 172,483,747

Board of Municipal Utilities
Sikeston, Missouri
Statements of Revenues, Expenses and Changes in Net Position
Years Ended May 31, 2018 and 2017

	2018	2017
Operating Revenues		
Retail	$ 30,770,533	$ 26,997,317
Wholesale	56,919,459	53,939,871
Total operating revenues	87,689,992	80,937,188
Operating Expenses		
Production and operations	45,012,971	44,806,367
Purchased power	5,650,890	5,463,378
Distribution costs	2,539,661	2,659,958
Depreciation	14,655,075	13,599,912
General and administrative	9,185,928	10,251,802
Donated services	734,020	628,694
Mine shutdown costs	619,300	223,550
Other operating expenses	764,888	753,735
Total operating expenses	79,162,733	78,387,396
Operating Income	8,527,259	2,549,792
Nonoperating Income (Expense)		
Interest income	754,612	333,700
Interest expense	(3,962,947)	(4,375,141)
Miscellaneous, net	1,159,959	895,227
Net nonoperating income (expense)	(2,048,376)	(3,146,214)
Change in Net Position	6,478,883	(596,422)
Net Position		
Beginning of year	65,978,845	66,575,267
End of year	$ 72,457,728	$ 65,978,845

Board of Municipal Utilities
Sikeston, Missouri
Statements of Cash Flows
Years Ended May 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Receipts from customers and others	$ 88,306,059	$ 79,870,842
Payments to suppliers	(52,860,092)	(56,884,105)
Payments to employees	(8,651,717)	(8,332,865)
Payments for mine shutdown costs	(420,000)	(365,000)
Net cash provided by operating activities	26,374,250	14,288,872
Cash Flows from Investing Activities		
Decrease (increase) in temporary investments maintained in debt service accounts	809,810	(701,824)
Interest received	754,612	333,700
Net cash provided by (used in) investing activities	1,564,422	(368,124)
Cash Flows from Capital and Related Financing Activities		
Purchase of property and plant, net	(5,710,415)	(5,534,871)
Proceeds from issuance of long-term debt	-	1,800,000
Payment of long-term debt and capital lease obligations	(12,022,058)	(12,988,678)
Interest paid	(4,096,022)	(2,998,747)
Other nonoperating revenues	1,159,959	895,227
Net cash used in capital and related financing activities	(20,668,536)	(18,827,069)
Increase (decrease) in cash and cash equivalents	7,270,136	(4,906,321)
Cash and Cash Equivalents		
Beginning of year	20,286,461	25,192,782
End of year	$ 27,556,597	$ 20,286,461

Board of Municipal Utilities
Sikeston, Missouri
Statements of Cash Flows (Continued)
Years Ended May 31, 2018 and 2017

	2018	2017
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 8,527,259	$ 2,549,792
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	14,655,075	13,599,912
Mine shutdown costs	619,300	223,550
Payments for mine shutdown costs	(420,000)	(365,000)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources		
(Increase) decrease in accounts receivable	582,969	(1,089,023)
(Increase) decrease in coal inventories	1,005,638	(1,929,052)
(Increase) decrease in materials and supplies	80,303	(261,926)
(Increase) decrease in prepaid expenses and other assets	77,105	(111,529)
(Increase) decrease in deferred outflows related to pensions	4,010,255	(5,947,253)
(Increase) decrease in net pension asset	-	1,365,971
Increase (decrease) in accounts payable and accrued expenses	170,642	96,059
Increase (decrease) in customer deposits and other liabilities	33,098	22,677
Increase (decrease) in net pension liability	(4,878,007)	6,379,191
Increase (decrease) in deferred inflows related to pensions	1,910,613	(244,497)
Net cash provided by operating activities	$ 26,374,250	$ 14,288,872

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The Board of Municipal Utilities of Sikeston, Missouri (the "Board" or the "Utility") is a municipally owned and operated enterprise engaged in the generation, distribution and sale of electric energy to wholesale and retail customers, and the treatment, distribution and sale of water and operation of a sanitary sewer system within the city limits of the city of Sikeston, Missouri (the "City"). The Board's primary asset is a 235 megawatt coal-fired generation station (the "Sikeston Power Station") located in the City. The Utility has contractual agreements (the "Agreements") with the Missouri cities of Carthage, Columbia, Fulton and West Plains to sell certain amounts of wholesale electric energy. The Agreements state that each city will purchase a specified entitlement share of power at 110 percent of its proportionate share of the monthly power costs (including debt service costs related to the revenue bond issue) as defined in the Agreements for various annual periods extending through the useful life of the plant. Additional capacity has been negotiated at 100% in certain agreements. The Agreements also state that each city will pay for the capacity to which it is entitled, whether or not available, and whether or not utilized. The total plant capacity allocated to these cities is 50% of the Sikeston Power Station. The remaining capacity of the Sikeston Power Station is primarily used to serve retail electric customers located in the City. The Board also routinely enters into short-term contractual agreements with various municipalities and other third parties to sell electric energy. Excess generation not sold to retail or wholesale customers is sold on the "spot" market at prevailing market prices.

The Utility is managed by a bi-partisan board, which consists of four members appointed by the City council for a term of four years each. This board is responsible for establishing the Utility's policies, rules and regulations that govern the day-to-day operations of the utility system. The Utility functions as a separate unit of the City government.

Basis of Accounting and Presentation

The Utility is accounted for as a business-type entity. Significant interdepartment accounts, including interdepartment sales, have been eliminated. The Board accounts for its transactions on the flow of economic resources measurement focus and uses the accrual basis of accounting under which revenues are recognized when earned and expenses are recorded when liabilities are incurred. The financial statements are prepared in accordance with generally accepted accounting principles and follow accounting guidance provided by the Governmental Accounting Standards Board (GASB) in the regulated operations provisions of GASB Statement No. 62, which permit certain entities with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in future rates charged to its customers. This method includes the philosophy that debt service requirements, as opposed to depreciation or amortization, are a cost for rate making purposes. At May 31, 2018 and 2017, there were no regulatory assets or liabilities recorded. The Board's accounting records generally follow the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission.

Net Position Classification

Net position is required to be classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to those assets.
- Restricted – consists of those assets that have constraints placed upon their use imposed either by creditors (such as through debt covenants) or through laws, regulations or constraints imposed by law through constitutional provisions or enabling legislation, reduced by any liabilities to be paid from these assets.
- Unrestricted – consists of the net amount of assets that do not meet the definition of restricted or net investment in capital assets.

Property and Plant

The costs of additions to and betterments of units of property and plant are capitalized. Maintenance and repairs, including replacement of minor items of property, are charged to expense as incurred. When units of depreciable property are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is recorded.

Depreciation

Provisions for depreciation of property and plant are charged to expense and credited to accumulated depreciation in accordance with a policy of providing for the retirement of depreciable property and plant over its expected useful life on a straight-line basis except for the original cost of the Sikeston Power Station.

The Utility uses the sinking fund method of depreciation for the original cost of the Sikeston Power Station. Depreciation is based on the annual principal and interest requirements on the Electric System Revenue bonds. At May 31, 2018 and 2017, the original cost of the Sikeston Power Station less retirements was approximately $184,091,000 and accumulated depreciation was approximately $154,651,000 and $146,824,000, respectively.

Depreciation on additions to the Sikeston Power Station is charged to expense in the period that the related revenue is recognized. Otherwise, purchased property and plant are recorded at cost. Property and plant other than the Sikeston Power Station are depreciated over their estimated useful lives, ranging from 3 to 50 years, using the straight-line method.

Lives of major classes of depreciable property other than the Sikeston Power Station are:

Class	Years
Buildings	40-50
Plant in service	4-40
Distribution systems	20-40
Trucks and autos	4
Railcars	14
Furniture, fixtures and equipment	3-10
Telecommunications	3

Restricted Assets

Restricted assets consist of interest-bearing cash accounts and fixed income securities held at financial institutions. In accordance with the bond ordinance, certain bond proceeds have been deposited in restricted accounts for the purposes of payment of revenue bond principal and interest.

Bond Discounts, Premiums and Losses on Refunding

Premiums and discounts associated with bonds are deferred and amortized over the term of the related indebtedness and are shown in long-term debt. Losses incurred in conjunction with debt refunding are deferred and amortized over the term of the related indebtedness and are included in deferred outflows of resources.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Utility has defined cash and cash equivalents as all highly liquid investments that mature within 90 days. The carrying amount approximates fair value because of the short maturity of those instruments. Investments in restricted accounts are excluded from cash and cash equivalents. At May 31, 2018 and 2017, cash equivalents consisted of money market funds held through financial institutions.

Coal Inventories and Materials and Supplies

The Board has an agreement with Western Fuels Association, Inc. (WFA) for the procurement of coal through December 31, 2022. Under the provisions of this agreement and related coal supply agreements, the Board is required to purchase a minimum of 600,000 tons of coal per year through December 31, 2022. The price of coal is based on costs incurred by WFA to acquire and supply the coal over the life of the agreement. The Utility has an agreement for delivery of this coal with the BNSF Railway Company which extends through December 31, 2022. The cost to deliver the coal is established through a base price, which is adjusted quarterly by indices set forth in the agreement. During each calendar year, there is a Minimum Annual Volume Requirement in the agreement which will not be less than 600,000 tons. Coal inventories and material and supplies are stated at the lower of average cost or market, cost being determined on the basis of moving average price.

Revenue and Fuel Costs

The Utility records revenue as billed to its retail customers based on monthly meter readings to determine consumption, which is applied to rates approved by the City. Wholesale revenue is recorded based upon monthly consumption billed at budgeted annual production costs (including debt service and excluding depreciation) and is adjusted annually to reflect actual production costs incurred. Fuel costs are expensed as the fuel is consumed.

Accounts, Notes and Other Receivables

An estimate is made for the provision for uncollectible accounts based on an analysis of the aging of accounts receivable and historical write-offs, net of recoveries. Additional amounts may be included based upon the credit risks of significant parties. Allowance totaled approximately $119,000 and $127,000 as of May 31, 2018 and 2017, respectively.

Donated Services

The City is not charged by the Board for services rendered to the City. Such services include street lights, fire hydrants and consumption of electricity and water by other City departments. The Utility is not currently required to pay franchise or property taxes to the City. Donated services totaled approximately $734,000 and $630,000 for the years ended May 31, 2018 and 2017, respectively.

Interest Capitalization

It was the policy of the Utility to capitalize net interest cost specifically identified with the Sikeston Power Station during the period of construction through the date of commencement of commercial operation. Such costs are amortized over the life of the Electric System Revenue Bond issued using the bonds outstanding method. Subsequent to commencement of commercial operations, interest costs associated with the original Power Station have been expensed as incurred, and interest earned has been credited to the respective accounts as specified by the bond ordinance. The Utility would capitalize interest on significant construction in progress based on either weighted average rates paid for long-term borrowing or the costs of tax-exempt borrowing specifically for a project, net of interest earned on investments from the proceeds.

Vacation and Sick Leave

Under the terms of the Utility's personnel policy, employees are granted vacation and sick leave. Supervisory and management employees accrue annual leave, which can be used for both vacation and sick leave. At the end of each calendar year, any employee's unused annual leave from that year will be accumulated, up to the maximum of 960 hours. In the event of termination, the employee is paid for 75% of accumulated annual leave. Full-time hourly employees begin to accrue vacation after one year of service and can rollover up to 40 hours of unused time to the next calendar year. Hourly employees also receive sick leave which can be accumulated up to the maximum 960 hours. In the event of termination, the employee will be paid for unused and unexpired accrued vacation leave and 40% of accumulated sick leave if the employee has ever reached 500 hours. The liabilities for accrued annual leave, sick leave and vacation leave are presented as other liabilities in the accompanying balance sheets, representing the estimated amounts to be paid in future years to current employees for services rendered through the current year.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Missouri Local Government Employees Retirement System (LAGERS) and additions to/deductions from LAGERS fiduciary net position have been determined on the same basis as they are reported by LAGERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions which impact the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, 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 could differ from those estimates and assumptions.

New Accounting Pronouncements

The Board will implement GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* in fiscal year 2019. Statement No. 75 will require a liability to be reported on the face of the financial statements for the other postemployment benefits (OPEB) that is provided and will require more extensive note disclosures and required supplementary information about OPEB liabilities. The impact of applying this standard has not yet been determined.

Note 2: Deposits and Investments

The Utility maintains cash and investment securities and bond ordinance permits investments in direct obligations, in U.S. government securities and agencies, federal instrumentalities, repurchase agreements, commercial paper, money market mutual funds and interest-bearing time deposits or savings accounts as designated by the ordinance.

Custodial credit risk is the risk that in the event of a bank failure, a utility's deposits may not be returned to it. The Utilities' deposit policy for custodial risk requires compliance with the provision of the state law. State law requires collateralization of all deposits with federal insurance and other acceptable collateral in specific amounts. At May 31, 2018 and 2017, none of the Utilities' bank balances were exposed to custodial credit risk.

Sikeston Board of Municipal Utilities' investment portfolio includes securities that are either insured or registered, or for which the securities are held by Sikeston Board of Municipal Utilities' agents in Sikeston Board of Municipal Utilities' name.

The following represents Sikeston Board of Municipal Utilities' total deposits and investments at May 31, 2018 and 2017:

	2018	2017
Electric System		
U.S. government agency obligations	$ 20,510,488	$ 21,149,539
Deposits	31,920,806	24,118,647
Total deposits and investments	$ 52,431,294	$ 45,268,186
Water and Sewer System		
Guaranteed investment contracts	$ 4,227	$ 83,571
Deposits	3,031,558	3,347,949
Total deposits and investments	$ 3,035,785	$ 3,431,520

Deposits and investments are included in the following balance sheet accounts at May 31, 2018 and 2017:

	2018	2017
Electric System		
Debt service reserve account	$ 14,509,564	$ 14,503,138
Debt service account	13,009,659	12,702,612
Cash and cash equivalents	24,912,071	18,062,436
	$ 52,431,294	$ 45,268,186
Water and Sewer System		
Debt service reserve account	$ 264,024	$ 517,013
Debt service account	127,235	690,482
Cash and cash equivalents	2,644,526	2,224,025
	$ 3,035,785	$ 3,431,520

As of May 31, 2018 and 2017, Sikeston Board of Municipal Utilities held cash and investments for restricted and designated purposes as follows:

	2018	2017
Electric System		
Debt service reserve account - revenue bonds	$ 14,509,564	$ 14,503,138
Debt service account - revenue bonds	13,009,659	12,702,612
Designated funds		
Contingency fund investments	5,051,956	4,177,744
Operations and maintenance reserve	8,847,470	4,876,438
Retail rate stabilization	474,928	468,779
Mine shutdown costs	3,321,986	3,278,937
Total restricted and designated	45,215,563	40,007,648
Unrestricted and undesignated	7,215,731	5,260,538
Total cash, cash equivalents and investments	$ 52,431,294	$ 45,268,186
Water & Sewer System		
Debt service reserve account - revenue bonds	$ 264,024	$ 517,013
Designated funds		
Operations and maintenance reserve	1,761,552	1,532,740
Force main construction costs	127,235	690,484
Construction fund sewer treatment plant improvements	-	64,570
Total restricted and designated	2,152,811	2,804,807
Unrestricted and undesignated	882,974	626,713
Total cash, cash equivalents and investments	$ 3,035,785	$ 3,431,520

Interest Rate Risk – Interest rate risk is the risk that the fair value of the Utilities' fixed income investments will decrease as a result of increases in interest rates. The bond ordinance has no formal policy for interest rate risk.

As of May 31, 2018, the Utilities' investment portfolio matures as follows:

Electric System

Investment Type	Fair Value	Investment Maturities: Less than 1 year	Less than 5 years	Less than 10 years	More than 10 years
U.S. government agency obligations	$ 20,510,488	$ 20,510,488	$ -	$ -	$ -

Water & Sewer System

Investment Type	Fair Value	Investment Maturities: Less than 1 year	Less than 5 years	Less than 10 years	More than 10 years
Guaranteed investment contracts	$ 4,227	$ 4,227	$ -	$ -	$ -

As of May 31, 2017, the Utilities' investment portfolio matures as follows:

Electric System

Investment Type	Fair Value	Investment Maturities: Less than 1 year	Less than 5 years	Less than 10 years	More than 10 years
U.S. government agency obligations	$ 21,149,539	$ 21,149,539	$ -	$ -	$ -

Water & Sewer System

Investment Type	Fair Value	Investment Maturities: Less than 1 year	Less than 5 years	Less than 10 years	More than 10 years
Guaranteed investment contracts	$ 83,571	$ 83,571	$ -	$ -	$ -

Credit Risk – Credit risk is the risk that the Utility will not recover its investment due to the inability of the counterparty to fulfill its obligations. As a means of limiting credit risk, the Utilities' bond ordinance permits investments in U.S. government-backed securities with a minimum rating of "AA" by Standard and Poor's Corporation and an "Aa" by Moody's Investors Services. As of May 31, 2018, the Utilities' investment in government agencies was assigned long-term ratings of Aaa by Moody's Investors Services and AA+ by Standard and Poor's.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the Utilities' investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from this requirement. The Utility purchases investments that carry the implicit backing of the U.S. government, but are not direct obligations of the U.S. government. As of May 31, 2018 and 2017, as reported at fair value, the Utility's U.S. agency securities consisted of $20,510,488 and $21,149,539, respectively, Federal Home Loan Bank (FHLB) discount notes.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. While the Utility's investment policy does not directly address custodial credit risk, all investments held by the Utility or by an agent of the Utility are in the Utility's name.

Note 3: Disclosure About the Fair Value of Investments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

GASB Statement No. 72, *Fair Value Measurement and Application*, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in an active market for identical assets or liabilities and the lowest priority to unobservable inputs. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The three levels of fair value hierarchy defined in GASB Statement No. 72 are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. The Utility currently does not have Level 1 assets or liabilities.

Level 2 – Pricing inputs are other than quoted market prices in the active markets included in Level 1, which are either directly or indirectly observable for the asset or liability as of the reporting date. Level 2 inputs include the following:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; or
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 2 assets primarily include U.S. Treasury, federal agency securities and other U.S. government secured mortgage bonds, held in the Utility funds and certain investments in current assets.

Level 3 – Pricing inputs include significant inputs that are unobservable and cannot be corroborated by market data. Level 3 assets and liabilities are valued based on internally developed models and assumptions or methodologies using significant unobservable inputs. The Utility currently does not have Level 3 assets or liabilities.

The Utility performs an analysis annually to determine the appropriate hierarchy level classification of the assets and liabilities that are included within the scope of GASB Statement No. 72. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

Recurring Measurements

The following tables present the fair value measurement of assets recognized in the accompanying statements of net position measured at fair value on a recurring basis and the level within the fair value hierarchy in which fair value measurements fall at May 31, 2018 and 2017:

2018	Level 1	Level 2	Level 3	Total
Electric System				
Investments by Fair Value Level				
U.S. government agency securities	$ -	$ 20,510,488	$ -	$ 20,510,488
	$ -	$ 20,510,488	$ -	$ 20,510,488
Water & Sewer System				
Investments by Fair Value Level				
Guaranteed investment contracts	$ -	$ 4,227	$ -	$ 4,227
	$ -	$ 4,227	$ -	$ 4,227

2017	Level 1	Level 2	Level 3	Total
Electric System				
Investments by Fair Value Level				
U.S. government agency securities	$ -	$ 21,149,539	$ -	$ 21,149,539
	$ -	$ 21,149,539	$ -	$ 21,149,539
Water & Sewer System				
Investments by Fair Value Level				
Guaranteed investment contracts	$ -	$ 83,571	$ -	$ 83,571
	$ -	$ 83,571	$ -	$ 83,571

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Note 4: Capital Assets

Capital asset activity for the year ended May 31, 2018, is as follows:

Electric System

	2018				
	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 6,417,709	$ -	$ -	$ -	$ 6,417,709
Buildings	44,898,123	593,437	-	-	45,491,560
Plant in service	200,400,978	2,622,276	-	-	203,023,254
Distribution system	40,549,160	568,871	-	-	41,118,031
Trucks and autos	1,309,535	50,144	-	-	1,359,679
Railcars	11,672,689	-	-	-	11,672,689
Furniture, fixtures and equipment	4,718,190	230,071	-	-	4,948,261
Telecommunications equipment	1,739,260	-	-	-	1,739,260
Capitalized interest	9,003,901	-	-	-	9,003,901
Construction in progress	-	847,699	-	-	847,699
	320,709,545	4,912,498	-	-	325,622,043
Less - accumulated depreciation	(243,136,561)	(13,623,180)	-	-	(256,759,741)
	$ 77,572,984	$ (8,710,682)	$ -	$ -	$ 68,862,302

Water and Sewer System

	2018				
	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 215,851	$ -	$ -	$ -	$ 215,851
Buildings	4,839,392	32,445	-	-	4,871,837
Plant in service	10,648,410	43,855	-	-	10,692,265
Distribution system	5,620,239	72,083	-	1,672,765	7,365,087
Trucks and autos	501,153	-	-	-	501,153
Furniture, fixtures and equipment	2,985,232	124,370	-	-	3,109,602
Capitalized interest	10,993	-	-	-	10,993
Construction in progress	1,176,793	820,935	-	(1,672,765)	324,963
	25,998,063	1,093,688	-	-	27,091,751
Less - accumulated depreciation	(17,335,006)	(1,031,896)	-	-	(18,366,902)
	$ 8,663,057	$ 61,792	$ -	$ -	$ 8,724,849
Total System Combined	$ 86,236,041	$ (8,648,890)	$ -	$ -	$ 77,587,151

Capital asset activity for the year ended May 31, 2017, is as follows:

Electric System

	2017				
	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 6,417,709	$ -	$ -	$ -	$ 6,417,709
Buildings	44,808,893	89,230	-	-	44,898,123
Plant in service	198,801,777	1,599,201	-	-	200,400,978
Distribution system	38,341,750	1,350,060	-	857,350	40,549,160
Trucks and autos	1,309,535	-	-	-	1,309,535
Railcars	11,672,689	-	-	-	11,672,689
Furniture, fixtures and equipment	4,276,334	249,089	-	192,767	4,718,190
Telecommunications equipment	1,730,010	9,250	-	-	1,739,260
Capitalized interest	9,003,901	-	-	-	9,003,901
Construction in progress	1,050,117	-	-	(1,050,117)	-
	317,412,715	3,296,830	-	-	320,709,545
Less - accumulated depreciation	(230,566,588)	(12,569,973)	-	-	(243,136,561)
	$ 86,846,127	$ (9,273,143)	$ -	$ -	$ 77,572,984

Water and Sewer System

	2017				
	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 48,368	$ 167,483	$ -	$ -	$ 215,851
Buildings	4,828,041	11,351	-	-	4,839,392
Plant in service	10,359,199	289,211	-	-	10,648,410
Distribution system	5,211,796	408,443	-	-	5,620,239
Trucks and autos	501,153	-	-	-	501,153
Furniture, fixtures and equipment	2,800,472	184,760	-	-	2,985,232
Capitalized interest	10,993	-	-	-	10,993
Construction in progress	-	1,176,793	-	-	1,176,793
	23,760,022	2,238,041	-	-	25,998,063
Less - accumulated depreciation	(16,305,067)	(1,029,939)	-	-	(17,335,006)
	$ 7,454,955	$ 1,208,102	$ -	$ -	$ 8,663,057
Total System Combined	$ 94,301,082	$ (8,065,041)	$ -	$ -	$ 86,236,041

Note 5: Long-Term Debt

The Board's long-term indebtedness (excluding current maturities of long-term debt and unamortized bond discounts and premiums) as of May 31, 2018 and 2017, is comprised of the following obligations.

	2018	2017
Electric System		
Electric revenue bonds, issued July 19, 2012, 3% to 5% due in installments through June 1, 2022	$ 51,405,000	$ 62,770,000
Capital lease obligations	4,764,677	5,404,179
	$ 56,169,677	$ 68,174,179
Water and Sewer System		
Capital lease obligations	$ 4,210,370	$ 4,582,823
	$ 4,210,370	$ 4,582,823
Total System Combined	$ 60,380,047	$ 72,757,002

The summarized activity of the Board's long-term debt (including current maturities of long-term debt) during the year ended May 31, 2018, is presented below:

	2018				
	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due in One Year
Electric System					
2012 Revenue Bonds	$ 73,620,000	$ -	$ 10,850,000	$ 62,770,000	$ 11,365,000
2009 Train Car Capital Lease	3,999,315	-	273,001	3,726,314	285,315
2013 Train Car Capital Lease	2,021,936	-	344,072	1,677,864	354,186
	79,641,251	-	11,467,073	68,174,178	12,004,501
Add: Unamortized premium	5,972,359	-	(1,194,480)	4,777,879	-
Less: Unamortized discount	(77,788)	-	13,935	(63,853)	-
	$ 85,535,822	$ -	$ 12,647,618	$ 72,888,204	$ 12,004,501
Water & Sewer System					
1997 Revenue Bonds	$ 195,000	$ -	$ 195,000	$ -	$ -
2014 Sewer Improvements Lease	3,176,060	-	237,354	2,938,706	245,257
2017 Sewer Force Main Project	1,766,748	-	122,631	1,644,117	127,196
	5,137,808	-	554,985	4,582,823	372,453
Add: Unamortized premium	90	-	(90)	-	-
	$ 5,137,898	$ -	$ 555,075	$ 4,582,823	$ 372,453
Total System Combined	$ 90,673,720	$ -	$ 13,202,693	$ 77,471,027	$ 12,376,954

Board of Municipal Utilities
Sikeston, Missouri
Notes to Financial Statements
May 31, 2018 and 2017

The summarized activity of the Board's long-term debt (including current maturities of long-term debt) during the year ended May 31, 2017, is presented below:

	2017				
	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due in One Year
Electric System					
1996 Revenue Bonds	$ 11,895,000	$ -	$ 11,895,000	$ -	$ -
2012 Revenue Bonds	73,620,000	-	-	73,620,000	10,850,000
2009 Train Car Capital Lease	4,260,022	-	260,707	3,999,315	273,001
2011 Vacuum Truck Capital Lease	20,385	-	20,385	-	-
2013 Train Car Capital Lease	2,356,181	-	334,245	2,021,936	344,071
	92,151,588	-	12,510,337	79,641,251	11,467,072
Add: Unamortized premium	7,166,839	-	(1,194,480)	5,972,359	-
Less: Unamortized discount	(90,995)	-	13,207	(77,788)	-
	$ 99,227,432	$ -	$ 13,691,610	$ 85,535,822	$ 11,467,072
Water & Sewer System					
1997 Revenue Bonds	$ 390,000	$ -	$ 195,000	$ 195,000	$ 195,000
2011 Vacuum Truck Capital Lease	20,384	-	20,384	-	-
2014 Sewer Improvements Lease	3,405,765	-	229,705	3,176,060	237,354
2017 Sewer Force Main Project	-	1,800,000	33,252	1,766,748	122,631
	3,816,149	1,800,000	478,341	5,137,808	554,985
Add: Unamortized premium	244	-	(154)	90	-
	$ 3,816,393	$ 1,800,000	$ 478,495	$ 5,137,898	$ 554,985
Total System Combined	$ 103,043,825	$ 1,800,000	$ 14,170,105	$ 90,673,720	$ 12,022,057

On September 4, 2012, $85,760,000 of the 1996 Series Electric System Revenue Bonds were refunded with the proceeds from the issuance of the $73,620,000 2012 Series Electric Refunding Bonds. A bond premium of approximately $12,000,000 and debt issuance costs of $498,000 were recorded in relation to the refunding. The remaining balance of the original loss on refunding of $932,000 is included on the Utility's balance sheets in deferred outflows of resources. The amount is being amortized over the life of the bonds. At May 31, 2018 and 2017, $62,770,000 and $73,620,000, respectively, of these bonds remains outstanding.

Interest payments on the 2012 bonds are due semiannually on June 1 and December 1 at interest rates ranging from 3.0% to 5.0%. The first principal payment is due on June 1, 2017, and then principal payments are due annually on June 1 through 2022.

On February 7, 1996, $139,765,000 of the serial 1992 Series Electric System Revenue Bonds were refunded with the proceeds from the issuance of $152,895,000 serial 1996 Series Electric System Revenue Bonds. A bond discount of approximately $249,000, debt issuance costs of $2,607,000 and a deferred net loss on the refunded debt of $10,249,000 were recorded in relation to the refunding. The remaining balance of the original deferred net loss on the refunded debt is included on the Utility's balance sheets in deferred outflows of resources. The discount and deferred loss are being amortized over the life of the bonds. During 2017, the full balance of these bonds was paid.

The estimated fair value of the electric revenue bonds outstanding at May 31, 2018 and 2017, is approximately $65,244,000 and $77,863,000, respectively. Fair value, which was obtained from a broker, was estimated by calculating market premiums or discounts to face values for the issues based on rates currently available for debt with similar terms.

The debt service to maturity on the outstanding bonds and obligations as of May 31, 2018, is summarized in the following table:

	Electric System		Water and Sewer System		
	Principal	**Interest**	**Principal**	**Interest**	**Total**
Year Ending May 31,					
2019	$ 12,004,501	$ 3,062,425	$ 372,453	$ 150,795	$ 15,590,174
2020	12,587,784	2,458,293	385,211	138,038	15,569,326
2021	13,211,561	1,823,266	398,696	124,551	15,558,074
2022	13,862,026	1,155,925	412,510	110,739	15,541,200
2023	14,342,781	456,001	426,802	96,446	15,322,030
2024-2028	1,946,207	295,606	2,366,277	249,965	4,858,055
2029-2030	219,318	4,879	220,874	2,571	447,642
	$ 68,174,178	$ 9,256,395	$ 4,582,823	$ 873,105	$ 82,886,501

Note 6: Lease Obligations

The Board maintains capital leases for aluminum coal railcars and a vacuum truck with interest rates varying from 1.4% to 4.4% due through 2028, and for sewer improvements equipment with interest rates varying from 3.28% to 3.66% due through 2029. Property and equipment include the following property under capital lease:

	2018	2017
Equipment and construction in process	$ 14,950,834	$ 14,652,763
Less accumulated depreciation	5,497,735	4,936,785
	$ 9,453,099	$ 9,715,978

These amounts are included in the respective property and plant classification within *Note 4* and the future minimum lease payments are included in the schedule of debt maturities in *Note 5*.

Note 7: Bond Ordinance and Debt Service Requirements

Electric System

On February 23, 1978, the City enacted the Electric System Revenue Bond Ordinance. The bond ordinance was supplemented by the 1992, 1996 and 2012 Series Revenue Bond Ordinances. The ordinance, as updated, provides, among other things, the following:

a. The bonds will not constitute a general obligation of the City nor an indebtedness of the City.

b. The bonds will be payable solely from and secured solely by a pledge of the (i) proceeds of the bonds, (ii) the revenues derived by the City from the ownership and operation of the Electric System and (iii) all funds established under the ordinance.

c. The Utility will at all times establish and collect rates for the sale of output of the Electric System to provide revenue sufficient to cover operation and maintenance expenses, 110% of aggregate debt service costs, required deposits into accounts established by the ordinance and all other charges payable from revenues.

d. The Utility shall keep proper books of record and account relating to the Electric System in accordance with the FERC Uniform System of Accounts prescribed for Class A and Class B Public Utilities and Licensees.

In accordance with the bond ordinance, certain bond proceeds have been deposited in restricted accounts maintained by a Trustee, The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). The ordinance, as updated, provides, among other things, that the accounts be operated in the following manner:

a. Debt service account – for payment of Electric System revenue bond principal and interest.

b. Debt service reserve account – for payment of Electric System revenue bond principal and interest to the extent funds are not available in the debt service account. This account reserves for the greatest amount of aggregate debt service for any year.

In addition to the Trustee-maintained accounts established by the bond ordinance, certain other unrestricted accounts are to be maintained and operated by the Utility in accordance with the ordinance including the following:

a. Reserve account – for the deposit of all Electric System revenues.

b. General reserve account – for the deposit of all unexpended monies originally deposited in the revenue account.

c. Contingency fund – for payment of major renewals, replacements, repairs, additions, betterments, improvements, decommissionings and disposals and also payment of extraordinary operation and maintenance costs or any unusual loss or damage to prevent a loss of revenues.

The bond ordinance requires the Board to establish and collect sufficient rates for the Electric System to meet the 110% of aggregate debt service costs requirement. For the years ended May 31, 2018 and 2017, the Electric System covered 164% and 112%, respectively, of aggregate debt service costs. In the event revenues are not sufficient to make payments or meet the debt service coverage ratio, the Board is to pay funds into the Revenue Fund to meet such criterion. Management intends to increase rates to meet all bond ordinance requirements.

Note 8: Pension and Benefit Plans

Defined Benefit Pension Plan

Plan Description

The Utility's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The Utility participates in the Missouri Local Government Employees Retirement System (LAGERS). LAGERS is an agent multiple-employer defined benefit pension plan, statewide public employee pension plan established in 1967 and administered in accordance with RSMo. 70.600-70.755. As such, it is LAGERS responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401(a) and is tax exempt. The responsibility for the operations and administration of LAGERS is vested in the LAGERS Board of Trustees consisting of seven persons. LAGERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the LAGERS website at www.molagers.org.

Benefits Provided

LAGERS provides retirement, death and disability benefits. Benefit provisions are adopted by the governing body of the Utility, within the options available in the state statutes governing LAGERS. All benefits vest after 5 years of credited service. Employees who retire on or after age 60 with 5 or more years of service are entitled to an allowance for life based upon the benefit program information provided below. Employees may retire with an early retirement benefit with a minimum of 5 years of credited service and after attaining age 55 and receive a reduced allowance.

Benefit multiplier	1.5% for life, plus .50% to age 65
Final average salary	3 years
Member contributions	0%

Benefit terms provide for annual post-retirement adjustments to each member's retirement allowance subsequent to the member's retirement date. The annual adjustment is based on the increase in the Consumer Price Index and is limited to 4% per year.

Employees Covered by Benefit Terms

At June 30, 2017 and 2016, measurement dates for the net pension liability at May 31, 2018 and 2017, respectively, the following employees were covered by the benefit terms:

	2018	2017
Inactive employees or beneficiaries currently receiving benefits	121	122
Inactive employees entitled to but not yet receiving benefits	5	5
Active employees	140	137
	266	264

Contributions

The Utility is required to contribute amounts at least equal to the actuarially determined rate, as established by LAGERS. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance an unfunded accrued liability. Full-time employees of the Utility do not contribute to the pension. At May 31, 2018 and 2017, the Utility's contribution rate was 13.5% and 12.5%, respectively, of annual covered payroll. Contributions by the Utility for the years ended May 31, 2018 and 2017, were $1,473,479 and $1,251,363, respectively.

Net Pension Liability

The Utilities' net pension liability as of May 31, 2018 and 2017, was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of February 28, 2017 and 2016, respectively, rolled forward to June 30, 2017 and 2016, respectively. The roll-forward of total pension liability from February 28, 2017 and 2016, to June 30, 2017 and 2016, respectively, reflects expected service costs and interest reduced by actual benefit payments and administrative expenses.

Actuarial Assumptions

The total pension liability in the February 28, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25% wage inflation; 2.50% price inflation
Salary increase	3.25% to 6.55% including wage inflation
Investment rate of return	7.25%

The healthy retiree mortality tables, for post-retirement mortality, were the RP-2014 Healthy Annuitant mortality table for males and females. The disabled retiree mortality tables, for post-retirement mortality, were the RP-2014 disabled mortality table for males and females. The pre-retirement mortality tables used were the RP-2014 employees mortality table for males and females.

Both the post-retirement and pre-retirement tables were adjusted for mortality improvement back to the observation period base year of 2006. The base year for males was then established to be 2017. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The actuarial assumptions used in the February 28, 2017, valuation were based on the results of an actuarial experience study for the period March 1, 2010, through February 28, 2015.

The total pension liability in the February 29, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25% wage inflation; 2.50% price inflation
Salary increase	3.25% to 6.55% including wage inflation
Investment rate of return	7.25%

The actuarial assumptions used in the February 29, 2016, valuation were based on the results of an actuarial experience study for the period March 1, 2005, through February 28, 2010.

Mortality rates were based on the RP-2014 mortality tables for males and females adjusted by applying MP-2015 mortality improvement scale.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) were 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 allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	43.00%	5.29%
Fixed income	26.00%	2.23%
Real assets	21.00%	3.31%
Strategic Assets	10.00%	5.73%

Discount Rate

The discount rate used to measure the total pension liability is 7.25%. The projection of cash flows used to determine the discount rate assumes that employer contributions will be made at the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Changes in the Net Pension Liability

	2018		
		Increase (Decrease)	
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances, May 31, 2017	$ 61,501,592	$ 55,122,401	$ 6,379,191
Changes for the year			
Service cost	873,809	-	873,809
Interest	4,379,975	-	4,379,975
Difference between expected and actual experience	(2,613,331)	-	(2,613,331)
Contributions - employer	-	1,303,671	(1,303,671)
Net investment income	-	6,368,340	(6,368,340)
Benefit payments, including refunds	(3,088,843)	(3,088,843)	-
Administrative expense	-	(22,164)	22,164
Other changes	-	(131,387)	131,387
Net changes	(448,390)	4,429,617	(4,878,007)
Balances, May 31, 2018	$ 61,053,202	$ 59,552,018	$ 1,501,184

	2017		
		Increase (Decrease)	
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/ (Asset) (a) - (b)
Balances, May 31, 2016	$ 56,049,498	$ 57,415,469	$ (1,365,971)
Changes for the year			
Service cost	873,292	-	873,292
Interest	3,977,456	-	3,977,456
Difference between expected and actual experience	1,568,808	-	1,568,808
Changes of assumptions	2,324,201	-	2,324,201
Contributions - employer	-	1,331,286	(1,331,286)
Net investment income	-	(155,540)	155,540
Benefit payments, including refunds	(3,291,663)	(3,291,663)	-
Administrative expense	-	(22,371)	22,371
Other changes	-	(154,780)	154,780
Net changes	5,452,094	(2,293,068)	7,745,162
Balances, May 31, 2017	$ 61,501,592	$ 55,122,401	$ 6,379,191

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following represents the net pension liability of the Utility, calculated using the discount rate of 7.25%, as well as what the Utility's net pension liability would be using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate.

	1% Decrease 6.25%	Current Single Discount Rate Assumption 7.25%	1% Increase 8.25%
Total pension liability	$ 68,890,718	$ 61,053,202	$ 54,487,531
Plan fiduciary net position	59,552,018	59,552,018	59,552,018
Net pension liability/(asset)	$ 9,338,700	$ 1,501,184	$ (5,064,487)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

For the year ended May 31, 2018, the Utility recognized pension expense of $2,396,056. As of May 31, 2018, the Utility reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,033,926	$ 2,903,832
Changes of assumptions	1,531,769	-
Net difference between projected and actual earnings on pension plan investments	1,782,219	-
Contributions subsequent to the measurement date *	1,206,899	-
	$ 5,554,813	$ 2,903,832

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending May 31, 2019.

For the year ended May 31, 2017, the Utility recognized pension expense of $2,803,879. As of May 31, 2017, the Utility reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,301,367	$ 993,219
Changes of assumptions	1,927,985	-
Net difference between projected and actual earnings on pension plan investments	5,178,342	-
Contributions subsequent to the measurement date *	1,157,374	-
	$ 9,565,068	$ 993,219

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date was recognized as a reduction in the net pension liability for the year ending May 31, 2018.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended	
2019	$ 916,046
2020	916,047
2021	321,143
2022	(386,932)
2023	(322,222)
	$ 1,444,082

Payable to the Pension Plan

At May 31, 2018 and 2017, the Utility reported a payable of $130,640 and $92,643, respectively, for the outstanding amount of contributions to the pension plan required for the year end.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued LAGERS financial report.

Post-Retirement Benefits

The Utility currently provides post-retirement benefits to all employees meeting certain criteria, in the form of fully paid health insurance benefits (employee and spouse). Generally, if the employee is at least 60 and chooses to retire, these benefits are paid for the five-year period until the employee is eligible for Medicare. The Utility is currently funding an amount that they believe materially covers their required annual contribution, thus no liability has been included in the balance sheet as of May 31, 2018 and 2017.

Note 9: Commitments and Contingencies

Coal Contracts

The Board has an agreement with Western Fuels Association, Inc. (WFA) for the procurement of coal through December 31, 2022. Under the provisions of this agreement and related coal supply agreements, the Board is required to purchase a minimum of 600,000 tons of coal per year through December 31, 2022. The price of coal is based on costs incurred by WFA to acquire and supply the coal over the life of the agreement. The Utility has an agreement for delivery of this coal with the BNSF Railway Company which extends through December 31, 2022. The cost to deliver the coal is established through a base price, which is adjusted quarterly by indices set forth in the agreement. During each calendar year, there is a Minimum Annual Volume Requirement in the agreement which will not be less than 600,000 tons. Coal inventories and material and supplies are stated at the lower of average cost or market, cost being determined on the basis of moving average price.

Wholesale Power Contracts

The Utility has contractual agreements with the Missouri cities of Carthage, Columbia, Fulton and West Plains to sell certain amounts of wholesale electric energy. These agreements state that each city will purchase a specified entitlement share of power at 110 percent of its proportionate share of the monthly power costs (including debt service costs related to the revenue bond issue) as defined in each respective agreement, for various annual periods extending to June 1, 2022. Additional capacity has been negotiated at 100 percent in certain agreements. The agreements also state that each city will pay for the capacity to which it is entitled, whether or not available, and whether or not utilized. The total plant capacity allocated to these cities is 50% of the Sikeston Power Station.

Obligations to Purchase Power

The Board has a purchased power agreement with the Southwestern Power Administration (SWPA) effective September 1, 2016, through September 30, 2023. This agreement is for 33.8 mWhs of Hydro Capacity & Energy. Under this agreement the Board purchases a minimum of 2,028 mWhs of peaking energy each month. The Board must also purchase a minimum of 40,560 mWhs for the year. This purchase power agreement includes SWPA transmission for the delivery of the energy purchased. For the year ended May 31, 2018 and 2017, the cost under this contract was approximately $4,672,000 and $4,238,000, respectively.

Environmental Matters

The Utility is subject to various federal, state and local laws and regulations with respect to air and water quality and with respect to hazardous and toxic materials and hazardous and other wastes, including their identification, transportation, disposal, record keeping and reporting, as well as remediation of contaminated sites and other environmental matters. The Board believes that the operations are in material compliance with present environmental laws and regulations.

Environmental requirements have changed frequently and become more stringent over time. The Board expects this trend to continue. While the Board is not in a position to accurately estimate compliance costs for any new requirements, any such costs are expected to be material.

Mine Shutdown Costs

The Utility indirectly holds a 50% beneficial interest in Brushy Creek Coal Company (BC). BC was the owner and operator of a coal mine and related equipment located in Illinois (the “BC Mine”). BC is owned by WFI, a Wyoming mutual benefit nonprofit corporation that operates as a cooperative. The Class B (nonvoting) stock of WFI, representing the beneficial interest in WFI, is owned 50% by the Utility with the remaining 50% owned by the Unified Government of Wyandotte County, Kansas City, Kansas (Kansas City). The Class A (voting) stock is owned by Western Fuels Association (WFA), a Wyoming nonprofit corporation that operates as a cooperative. The Utility is a member of the WFA and has representation on the WFA board of directors. The WFI board of directors consists of one representative from each of the Utility, Kansas City and WFA.

In December 1979, the Utility and Kansas City each entered into a separate coal supply agreement with WFI. Under the terms of this agreement, the Utility was obligated to purchase a minimum amount of coal from the BC Mine, which was operated first by an unaffiliated third party and then by BC. In November 1997, the agreement expired, and the mine ceased operations in 1999. Under this legacy contract, the Utility became responsible for 50% of the mine reclamation costs and 50% of the post-retirement benefits for certain former mine workers. At May 31, 2018 and 2017, the Utility has recorded a liability of approximately $1,429,000 and $1,230,000, respectively, for the amount of the remaining estimated post-retirement benefits and mine reclamation costs. The liability represents the Utility’s 50% proportional share of the total estimated post-retirement benefits and mine reclamation costs less amounts previously funded by the Utility to WFI. The Utility records mine shutdown costs related to costs of post-retirement benefits, changes in the estimated mine reclamation costs and administrative and other costs incurred by WFI management. With the changes to the estimated liabilities, there was a net increase to the change in net position of approximately $199,300 for the year ended May 31, 2018, and a net decrease to the change in net position of approximately $141,500 during the year ended May 31, 2017. The amounts recorded for the Board's portion of the post-retirement benefits and mine reclamation costs require significant judgment and involve several estimates. The Utility has recorded its estimated obligations for each of these items using information currently available to management. The estimates could change significantly over time. For the years ended May 31, 2018 and 2017, the Utility paid $420,000 and $365,000, respectively, to WFI to fund these obligations as well as administrative and other costs incurred by WFI. Total payments through May 31, 2018 and 2017, from the Utility to WFI to fund these obligations and costs were approximately $15,870,000 and $15,450,000, respectively. The Utility expects to fund approximately an additional $240,000 during the year ending May 31, 2019. Once reclamation activities are complete, the Utility anticipates the property will be sold. Resources to be generated from this sale are not currently determinable.

Other Contingencies

The Board is involved in various claims and legal proceedings in which monetary damages and other relief is sought. The Board is vigorously contesting these claims; however the resolution is not expected to occur quickly, and the ultimate outcome cannot presently be predicted. It is the opinion of management that the ultimate resolution of these claims, legal proceedings and other contingencies, either individually or in the aggregate, will not materially affect the Board's financial position, results of operations or liquidity.

Note 10: Significant Customers and Concentration of Credit Risk

For the year ended May 31, 2018, the Utility had five wholesale customers, which individually exceeded 10% of total revenues. Approximately 93% of the Electric System's wholesale revenue during the year ended May 31, 2018, was generated through sales to these customers, in the amount of approximately $53,014,000. As of May 31, 2018, total receivables due from these customers were approximately $2,826,000. No other customer represented 10% or more of the Electric System revenue. The Electric System's receivables from retail customers are located in Sikeston, Missouri, and its wholesale receivable customers are located in the states of Missouri and Kansas.

For the year ended May 31, 2017, the Utility had four wholesale customers, which individually exceeded 10% of total revenues. Approximately 92% of the Electric System's wholesale revenue during the year ended May 31, 2017, was generated through sales to these customers, in the amount of approximately $49,755,000. As of May 31, 2017, total receivables due from these customers were approximately $4,125,000. No other customer represented 10% or more of the Electric System revenue. The Electric System's receivables from retail customers are located in Sikeston, Missouri, and its wholesale receivable customers are located in the states of Missouri and Kansas.

Required Supplementary Information

Board of Municipal Utilities
Sikeston, Missouri
Required Supplementary Information
Schedule of the Utility's Changes in Net Pension Liability and Related Ratios
May 31, 2018

	2018	2017	2016
Total Pension Liability			
Service cost	$ 873,809	$ 873,292	$ 904,619
Interest on the total pension liability	4,379,975	3,977,456	3,972,670
Difference between expected and actual experience	(2,613,331)	1,568,808	(1,482,213)
Changes of assumptions	-	2,324,201	-
Benefit payments, including refunds	(3,088,843)	(3,291,663)	(3,334,919)
Net Change in Total Pension Liability	(448,390)	5,452,094	60,157
Total Pension Liability - Beginning	61,501,592	56,049,498	55,989,341
Total Pension Liability - Ending	61,053,202	61,501,592	56,049,498
Fiduciary Net Position			
Contributions - employer	1,303,671	1,331,286	1,556,587
Net investment income	6,368,340	(155,540)	1,170,694
Benefit payments, including refunds	(3,088,843)	(3,291,663)	(3,334,919)
Pension plan administrative expense	(22,164)	(22,371)	(24,605)
Other	(131,387)	(154,780)	(26,399)
Net Change in Plan Fiduciary Net Position	4,429,617	(2,293,068)	(658,642)
Fiduciary Net Position - Beginning	55,122,401	57,415,469	58,074,111
Fiduciary Net Position - Ending	59,552,018	55,122,401	57,415,469
Net Pension Liability	$ 1,501,184	$ 6,379,191	$ (1,365,971)
Fiduciary Net Position as a Percentage of Total Pension Liability	97.54%	89.63%	102.44%
Covered Payroll	$ 10,022,113	$ 10,341,075	$ 10,006,457
Net Pension Liability as a Percentage of Covered Payroll	14.98%	61.69%	-13.65%

This schedule presents the information available to the Utility and will include ten-year trend information once available.

In accordance with GASB 68, information presented in this schedule was determined as of the measurement date (June 30) of the net pension liability.

Board of Municipal Utilities
Sikeston, Missouri
Required Supplementary Information
Schedule of the Utility's Contributions (Continued)
May 31, 2018

Fiscal Year	Actuarially Determined Contribution	Contribution in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contribution as Percentage of Covered Employee Payroll
2009	$ 1,013,495	$ 1,013,495	$ -	$ 8,760,923	11.57%
2010	979,226	953,011	26,215	8,824,978	10.80%
2011	1,326,896	1,056,101	270,795	9,026,504	11.70%
2012	1,316,564	1,238,545	78,019	9,752,321	12.70%
2013	1,414,376	1,345,622	68,754	9,822,054	13.70%
2014	1,374,676	1,374,676	-	10,182,782	13.50%
2015	1,600,817	1,568,368	32,449	10,816,330	14.50%
2016	1,336,434	1,336,435	(1)	9,826,726	13.60%
2017	1,251,364	1,251,363	1	10,010,902	12.50%
2018	1,473,479	1,353,195	120,284	10,023,667	13.50%

Notes to Schedule:

Valuation date:	February 28, 2017
Notes:	The roll-forward of total pension liability from February 28, 2017, to June 30, 2017, reflects expected service cost and interest reduced by actual benefit payments and administrative expenses.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal and modified terminal funding
Amortization method	Level percentage of payroll, closed
Remaining amortization period	Multiple bases from 12 to 15 years
Asset valuation method	5-year smoothed market; 20% corridor
Inflation	3.25% wage inflation; 2.50% price inflation
Salary increases	3.25% to 6.55% including wage inflation
Investment rate of return	7.25%, net of investment expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition

Board of Municipal Utilities
Sikeston, Missouri
Required Supplementary Information
Schedule of the Utility's Contributions (Continued)
May 31, 2018

Mortality	The healthy retiree mortality tables, for post-retirement mortality, were the RP-2014 Healthy Annuitant mortality table for males and females. The disabled retiree mortality tables, for post-retirement mortality, were the RP-2014 disabled mortality table for males and females. The pre-retirement mortality tables used were the RP-2014 employees' mortality table for males and females. Both the post-retirement and pre-retirement tables were adjusted for mortality improvement back to the observation period base year of 2006. The base year for males was then established to be 2017. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.
Other information	New assumptions adopted based on the 5-year experience study for the period March 1, 2010, through February 28, 2015.

Supplementary Information

Board of Municipal Utilities
Sikeston, Missouri
Combining Balance Sheets
May 31, 2018 and 2017

Assets and Deferred Outflows of Resources

	May 31, 2018		
	Electric System	Water and Sewer System	Combined
Assets			
Property and Plant			
Property and plant, at original cost	$ 324,774,344	$ 26,766,788	$ 351,541,132
Accumulated depreciation	(256,759,741)	(18,366,902)	(275,126,643)
	68,014,603	8,399,886	76,414,489
Construction work in progress	847,699	324,963	1,172,662
Total property and plant, net	68,862,302	8,724,849	77,587,151
Restricted Assets			
Debt service reserve account	14,509,564	264,024	14,773,588
Debt service account	13,009,659	127,235	13,136,894
	27,519,223	391,259	27,910,482
Less amount required to meet current obligations	(13,572,351)	(372,453)	(13,944,804)
Total restricted assets	13,946,872	18,806	13,965,678
Current Assets			
Cash and cash equivalents	24,912,071	2,644,526	27,556,597
Restricted cash - current	13,572,351	372,453	13,944,804
Accounts receivable, net	6,086,754	699,386	6,786,140
Coal inventories	4,522,217	-	4,522,217
Materials and supplies	4,716,408	309,463	5,025,871
Prepaid expenses and other assets	726,869	113,771	840,640
Interdepartment due from (to)	4,067	(4,067)	-
Total current assets	54,540,737	4,135,532	58,676,269
Total assets	137,349,911	12,879,187	150,229,098
Deferred Outflows of Resources			
Unamortized loss on debt refundings	7,449,309	-	7,449,309
Pension related	4,599,834	954,979	5,554,813
Total deferred outflows of resources	12,049,143	954,979	13,004,122
Total assets and deferred outflows of resources	$ 149,399,054	$ 13,834,166	$ 163,233,220

May 31, 2017		
Electric System	Water and Sewer System	Combined
$ 320,709,545	$ 24,821,270	$ 345,530,815
(243,136,561)	(17,335,006)	(260,471,567)
77,572,984	7,486,264	85,059,248
-	1,176,793	1,176,793
77,572,984	8,663,057	86,236,041
14,503,138	517,013	15,020,151
12,702,612	690,482	13,393,094
27,205,750	1,207,495	28,413,245
(13,292,222)	(555,818)	(13,848,040)
13,913,528	651,677	14,565,205
18,062,436	2,224,025	20,286,461
13,292,222	555,818	13,848,040
6,716,692	652,417	7,369,109
5,527,855	-	5,527,855
4,796,203	309,971	5,106,174
796,004	121,741	917,745
116,702	(116,702)	-
49,308,114	3,747,270	53,055,384
140,794,626	13,062,004	153,856,630
9,062,049	-	9,062,049
7,930,591	1,634,477	9,565,068
16,992,640	1,634,477	18,627,117
$ 157,787,266	$ 14,696,481	$ 172,483,747

Board of Municipal Utilities
Sikeston, Missouri
Combining Balance Sheets (Continued)
May 31, 2018 and 2017

Net Position, Liabilities and Deferred Inflows of Resources

	May 31, 2018		
	Electric System	Water and Sewer System	Combined
Net Position			
Net investment in capital assets	$ 3,423,405	$ 4,333,830	$ 7,757,235
Restricted	25,951,373	199,454	26,150,827
Unrestricted	35,220,444	3,329,222	38,549,666
Total net position	64,595,222	7,862,506	72,457,728
Long-Term Debt	56,169,677	4,210,370	60,380,047
Add: Unamortized bond premium	4,777,879	-	4,777,879
Less: Unamortized bond discount	(63,853)	-	(63,853)
Total long-term debt, net	60,883,703	4,210,370	65,094,073
Other Noncurrent Liabilities			
Net pension liability	1,245,983	255,201	1,501,184
Current Liabilities Payable from Restricted Assets			
Current maturities of long-term debt	12,004,501	372,453	12,376,954
Accrued interest payable	1,567,850	-	1,567,850
	13,572,351	372,453	13,944,804
Current Liabilities Payable from Unrestricted Assets			
Accounts payable	2,355,864	187,802	2,543,666
Customer deposits	607,908	-	607,908
Accrued mine shutdown costs	1,429,350	-	1,429,350
Other accruals	2,298,493	452,182	2,750,675
	6,691,615	639,984	7,331,599
Total current liabilities	20,263,966	1,012,437	21,276,403
Deferred Inflows of Resources			
Pension related	2,410,180	493,652	2,903,832
Total net position, liabilities and deferred inflows of resources	$ 149,399,054	$ 13,834,166	$ 163,233,220

May 31, 2017		
Electric System	Water and Sewer System	Combined
$ 1,099,206	$ 3,525,159	$ 4,624,365
25,380,598	1,206,664	26,587,262
31,756,673	3,010,545	34,767,218
58,236,477	7,742,368	65,978,845
68,174,179	4,582,823	72,757,002
5,972,359	90	5,972,449
(77,788)	-	(77,788)
74,068,750	4,582,913	78,651,663
5,294,730	1,084,461	6,379,191
11,467,072	554,985	12,022,057
1,825,150	833	1,825,983
13,292,222	555,818	13,848,040
1,784,385	147,518	1,931,903
574,810	-	574,810
1,230,050	-	1,230,050
2,481,470	414,556	2,896,026
6,070,715	562,074	6,632,789
19,362,937	1,117,892	20,480,829
824,372	168,847	993,219
$ 157,787,266	$ 14,696,481	$ 172,483,747

Board of Municipal Utilities
Sikeston, Missouri
Combining Statements of Revenues, Expenses and Changes in Net Position
Years Ended May 31, 2018 and 2017

	May 31, 2018		
	Electric System	Water and Sewer System	Combined
Operating Revenues			
Retail	$ 25,715,056	$ 5,055,477	$ 30,770,533
Wholesale	56,919,459	-	56,919,459
Total operating revenues	82,634,515	5,055,477	87,689,992
Operating Expenses			
Production and operations	43,529,372	1,483,599	45,012,971
Purchased power	5,650,890	-	5,650,890
Distribution costs	1,662,340	877,321	2,539,661
Depreciation	13,623,180	1,031,895	14,655,075
General and administrative	7,592,888	1,593,040	9,185,928
Donated services	607,704	126,316	734,020
Mine shutdown costs	619,300	-	619,300
Other operating expenses	577,616	187,272	764,888
Total operating expenses	73,863,290	5,299,443	79,162,733
Operating Income (Loss)	8,771,225	(243,966)	8,527,259
Nonoperating Income (Expense)			
Interest income	726,706	27,906	754,612
Interest expense	(3,799,774)	(163,173)	(3,962,947)
Miscellaneous, net	660,588	499,371	1,159,959
Net nonoperating income (expense)	(2,412,480)	364,104	(2,048,376)
Change in Net Position	6,358,745	120,138	6,478,883
Net Position			
Beginning of year	58,236,477	7,742,368	65,978,845
End of year	$ 64,595,222	$ 7,862,506	$ 72,457,728

May 31, 2017		
Electric System	Water and Sewer System	Combined
$ 21,840,096	$ 5,157,221	$ 26,997,317
53,939,871	-	53,939,871
75,779,967	5,157,221	80,937,188
43,355,404	1,450,963	44,806,367
5,463,378	-	5,463,378
1,742,466	917,492	2,659,958
12,569,973	1,029,939	13,599,912
8,549,093	1,702,709	10,251,802
510,527	118,167	628,694
223,550	-	223,550
560,530	193,205	753,735
72,974,921	5,412,475	78,387,396
2,805,046	(255,254)	2,549,792
325,108	8,592	333,700
(4,251,082)	(124,059)	(4,375,141)
566,242	328,985	895,227
(3,359,732)	213,518	(3,146,214)
(554,686)	(41,736)	(596,422)
58,791,163	7,784,104	66,575,267
$ 58,236,477	$ 7,742,368	$ 65,978,845

Board of Municipal Utilities
Sikeston, Missouri
Combining Statements of Cash Flows
Years Ended May 31, 2018 and 2017

	May 31, 2018		
	Electric System	Water and Sewer System	Combined
Cash Flows from Operating Activities			
Receipts from customers and others	$ 83,297,551	$ 5,008,508	$ 88,306,059
Payments to suppliers	(50,490,516)	(2,369,576)	(52,860,092)
Payments to employees	(6,901,579)	(1,750,138)	(8,651,717)
Payments for mine shutdown costs	(420,000)	-	(420,000)
Net cash provided by operating activities	25,485,456	888,794	26,374,250
Cash Flows from Investing Activities			
Decrease (increase) in temporary investment maintained in debt service accounts	(6,426)	816,236	809,810
Interest received	726,706	27,906	754,612
Net cash provided by (used in) investing activities	720,280	844,142	1,564,422
Cash Flows from Capital and Related Financing Activities			
Purchase of property and plant, net	(4,617,690)	(1,092,725)	(5,710,415)
Proceeds from the issuance of long-term debt	-	-	-
Payment of long-term debt and capital lease obligations	(11,467,073)	(554,985)	(12,022,058)
Interest paid	(3,931,926)	(164,096)	(4,096,022)
Other nonoperating revenues	660,588	499,371	1,159,959
Net cash used in capital and related financing activities	(19,356,101)	(1,312,435)	(20,668,536)
Increase (decrease) in cash and cash equivalents	6,849,635	420,501	7,270,136
Cash and Cash Equivalents			
Beginning of year	18,062,436	2,224,025	20,286,461
End of year	$ 24,912,071	$ 2,644,526	$ 27,556,597

May 31, 2017		
Electric System	Water and Sewer System	Combined
$ 74,561,570	$ 5,309,272	$ 79,870,842
(54,369,102)	(2,515,003)	(56,884,105)
(6,785,065)	(1,547,800)	(8,332,865)
(365,000)	-	(365,000)
13,042,403	1,246,469	14,288,872
(2,086)	(699,738)	(701,824)
325,108	8,592	333,700
323,022	(691,146)	(368,124)
(3,296,830)	(2,238,041)	(5,534,871)
-	1,800,000	1,800,000
(12,510,337)	(478,341)	(12,988,678)
(2,875,367)	(123,380)	(2,998,747)
566,242	328,985	895,227
(18,116,292)	(710,777)	(18,827,069)
(4,750,867)	(155,454)	(4,906,321)
22,813,303	2,379,479	25,192,782
$ 18,062,436	$ 2,224,025	$ 20,286,461

Board of Municipal Utilities
Sikeston, Missouri
Combining Statements of Cash Flows (Continued)
Years Ended May 31, 2018 and 2017

	May 31, 2018		
	Electric System	Water and Sewer System	Combined
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating income (loss)	$ 8,771,225	$ (243,966)	$ 8,527,259
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	13,623,180	1,031,895	14,655,075
Mine shutdown costs	619,300	-	619,300
Payments for mine shutdown costs	(420,000)	-	(420,000)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources			
(Increase) decrease in accounts receivable	629,938	(46,969)	582,969
(Increase) decrease in coal inventories	1,005,638	-	1,005,638
(Increase) decrease in materials and supplies	79,795	508	80,303
(Increase) decrease in prepaid expenses and other assets	69,135	7,970	77,105
(Increase) decrease in deferred outflows related to pensions	3,330,757	679,498	4,010,255
(Increase) decrease in net pension asset	-	-	-
Increase (decrease) in accounts payable and accrued expenses	93,694	76,948	170,642
Increase (decrease) in customer deposits and other liabilities	33,098	-	33,098
Increase (decrease) in deferred inflows related to pensions	1,585,808	324,805	1,910,613
Interdepartment due from (to)	112,635	(112,635)	-
Increase (decrease) in net pension liability	(4,048,747)	(829,260)	(4,878,007)
Net cash provided by operating activities	$ 25,485,456	$ 888,794	$ 26,374,250

May 31, 2017		
Electric System	Water and Sewer System	Combined
$ 2,805,046	$ (255,254)	$ 2,549,792
12,569,973	1,029,939	13,599,912
223,550	-	223,550
(365,000)	-	(365,000)
(1,241,074)	152,051	(1,089,023)
(1,929,052)	-	(1,929,052)
(266,239)	4,313	(261,926)
(109,993)	(1,536)	(111,529)
(4,927,805)	(1,019,448)	(5,947,253)
1,133,756	232,215	1,365,971
(16,831)	112,890	96,059
22,677	-	22,677
(202,932)	(41,565)	(244,497)
51,597	(51,597)	-
5,294,730	1,084,461	6,379,191
$ 13,042,403	$ 1,246,469	$ 14,288,872