Board of Municipal Utilities
Sikeston, Missouri

Independent Auditor's Report and Financial Statements

May 31, 2016

BKD LLP
CPAs & Advisors

Board of Municipal Utilities
Sikeston, Missouri
May 31, 2016

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 basic financial statements, which are comprised of the balance sheet as of May 31, 2016, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the basic financial statements, as listed in the table of contents, of the Board of Municipal Utilities of Sikeston, Missouri (the "Utility").

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2016, the Board of Municipal Utilities of Sikeston, Missouri adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

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 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 audit was 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 listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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
September 2, 2016

Board of Municipal Utilities
Sikeston, Missouri
Management's Discussion and Analysis
May 31, 2016

The following discussion and analysis of the Board of Municipal Utilities of Sikeston, Missouri (the "Utility") financial performance provides an overview of the Utility's financial activities for the year ended May 31, 2016. 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 to June 1, 2022. 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 percent 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.

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 *Statement of Revenues, Expenses and Changes in Net Position* present the Utility's results of operations and changes in net position for the fiscal year ended May 31, 2016. 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, 2016. The *Statement of Cash Flows* presents the Utility's sources and uses of cash and cash equivalents for the fiscal year ended May 31, 2016. 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.

In 2016, the Utility adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* which revises accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts and equivalent arrangements in which specific criteria are met. This statement establishes standards for measuring and recognizing assets, liabilities, deferred outflows of resources and deferred inflows of resources and expenses. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to the actuarial present value and attribute that present value to periods of employee service. Information for the year ended May 31, 2015, has not been restated for the application of GASB Statement No. 68 as it was deemed impractical to do so.

Summary of Electric System Financial Position

	May 31,	
	2016	**2015**
Assets		
Property and plant - net	$ 86,846,127	$ 96,956,045
Restricted and other assets	15,033,131	30,016,047
Current assets	51,964,337	42,667,737
Total assets	153,843,595	169,639,829
Deferred Outflows of Resources		
Unamortized loss on debt refundings	10,587,837	12,031,701
Pension related	3,002,786	-
Total deferred outflows of resources	13,590,623	12,031,701
Total assets and deferred outflows of resources	$ 167,434,218	$ 181,671,530
Liabilities		
Long-term debt, net	$ 86,717,093	$ 100,409,398
Current liabilities	20,898,658	21,708,752
Total liabilities	107,615,751	122,118,150
Deferred Inflows of Resources		
Pension related	1,027,304	-
Net Position		
Net investment in capital assets	(1,793,469)	(3,235,934)
Restricted	28,112,944	27,497,447
Unrestricted	32,471,688	35,291,867
	58,791,163	59,553,380
Total liabilities, deferred inflows of resources and net position	$ 167,434,218	$ 181,671,530

Summary of the Electric System

Assets

Property and Plant - Net

The Utility recorded approximately $1,607,000 in property and plant additions during the year ended May 31, 2016. The Sikeston Power Station had additions of approximately $379,000 of which approximately $309,000 was for EPA compliance with the Mercury and Air Toxics Standards, Coal Combustion Residuals and Effluent Limitations Guidelines. The Retail system had additions of approximately $594,000 including a substation breaker, pole testing and annual additions of transformers, meters and poles. Construction in process includes an addition of approximately $634,000 for a new transformer at the Southwest Substation. Depreciation expense of approximately $11,685,000 was recorded during the year ended May 31, 2016.

Additional information on the Utility's capital assets can be found in *Note 3* on page 23 of this report.

Restricted and Other Assets

Restricted and other assets decreased approximately $15,000,000 due to the decrease in the required debt service reserve as the 1996 Series bonds were paid off, a decrease due to $14,700,000 of restricted assets being shown as current offset by an increase of the net pension asset of $1,100,000.

Current Assets

The increase in current assets of approximately $9,300,000 was attributed to a decrease in coal inventory of approximately $3,500,000 as coal deliveries were temporarily stopped to manage the coal on hand, a decrease in accounts receivable of approximately $1,000,000 due to lower wholesale sales and a decrease in cash of approximately $760,000 as a result of normal operations offset by an increase in restricted cash – current of approximately $14,700,000.

Deferred Outflows of Resources

The increase of approximately $1,559,000 in deferred outflows of resources was a result of a decrease in the unamortized debt costs of approximately $1,444,000 offset with an increase of $3,003,000 in the pension related deferred outflows as a result of the GASB 68 implementation.

Liabilities

Long-Term Debt, Net

The long-term debt reduction in the current fiscal year ended May 31, 2016, of approximately $13,700,000 was due to the maturity of approximately $11,895,000 of the 1996 Revenue Bonds. The long-term debt was also decreased by writing off the unamortized premiums of approximately $1,200,000 and approximately $615,000 in scheduled lease payments. The long-term balance at May 31, 2016, 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 the 2012 Revenue Bonds are due June 1, 2022.

The Utility was unable to establish and collect sufficient rates for the electric system to meet the 110% debt service requirement for the years ended May 31, 2015 and 2016. The electric rates applied for the years ended May 31, 2015 and 2016, covered 85% and 79%, respectively, of aggregate debt service costs, respectively.

Additional information on the Utility's long-term debt can be found in *Note 4* on pages 24-26 of this report.

Current Liabilities

Current liabilities decreased approximately $810,000 at May 31, 2016. The current portion of long-term debt increased approximately $696,000 and was offset by the decrease in accrued interest of approximately $337,000. Accounts payable decreased approximately $985,000 due to timing of payables. Mine shutdown cost decreased approximately $168,000. The remaining current liability accounts were relatively flat over the prior year.

At May 31, 2016 and 2015, the Utility has recorded a liability of approximately $1,300,000 and $1,450,000, 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 decreased over the prior year by approximately $18,000 due to increased reclamation activities at the mine and $150,000 reduction in the actuarial estimate of the post-retirement benefit obligation. The amount of funding by the Board was $180,000 for the year ended May 31, 2015, and $300,000 for the year ended May 31, 2016, for administrative costs incurred by Western Fuels-Illinois, Inc. (WFI) (see *Note 8* to the Utility's financial statements).

Deferred Inflows of Resources

The increase in deferred inflows of resources was a result of an increase in the pension related inflows of approximately $1,000,000 as a result of GASB 68 implementation.

Summary of Electric Revenues, Expenses and Changes in Net Position

	May 31, 2016	May 31, 2015
Operating Revenues	$ 68,304,357	$ 73,894,600
Operating Expenses	68,335,455	72,322,405
Operating Income (Loss)	(31,098)	1,572,195
Interest and Other Income	1,226,551	695,980
Interest Expense	(4,901,743)	(5,517,907)
Nonoperating Expense, Net	(3,675,192)	(4,821,927)
Change in Net Position	$ (3,706,290)	$ (3,249,732)

Operating Revenues

During 2016 operating revenues decreased approximately $5,600,000 due to a decrease in wholesale revenues of approximately $6,200,000 offset with an increase in retail revenues of approximately $560,000 from 2015. Residential kWh sold were down 10%, Commercial kWh up 0.50% and Industrial kWh down 1.4%. A retail rate increase was effective on March 3, 2016. Wholesale revenue decreased due to lower demand and market prices. 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 decreased approximately $4,000,000 during 2016. The Sikeston Power Station had lower operating expenses of approximately $2,300,000 from coal and transportation decreases and lower maintenance, labor and fuel oil costs of $1,300,000. Retail distribution costs decreased approximately $265,000. General and administrative costs decreased $380,000 while depreciation expense increased approximately $187,000 compared to 2015.

Deferred Mine Shutdown Costs

The Utility recorded an increase to change in net position of approximately $280,000 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 8* to the Utility's financial statements).

Nonoperating Expense, Net

During 2016 nonoperating expense, net decreased by approximately $1,100,000 primarily due to lower interest expense by approximately $620,000 in the current year due to the reduction in long-term debt as scheduled bond payments were made. Interest and miscellaneous income increased by approximately $530,000 mainly as a result of surplus insurance proceeds of approximately $512,000 for damaged railcars.

Summary of Water & Sewer Combined Financial Position

	May 31,	
	2016	2015
Assets		
Property and plant - net	$ 7,454,955	$ 6,947,045
Restricted and other assets	232,216	458,194
Current assets	3,957,893	4,247,019
Total assets	11,645,064	11,652,258
Deferred Outflows of Resources		
Pension related	615,029	-
Total assets and deferred outflows of resources	$ 12,260,093	$ 11,652,258
Liabilities		
Long-term debt, net	$ 3,371,305	$ 3,816,547
Current liabilities	894,272	854,804
Total liabilities	4,265,577	4,671,351
Deferred Inflows of Resources		
Pension related	210,412	-
Net Position		
Net investment in capital assets	3,714,082	3,833,788
Restricted	813,777	457,383
Unrestricted	3,256,245	2,689,736
	7,784,104	6,980,907
Total liabilities, deferred inflows of resources and net position	$ 12,260,093	$ 11,652,258

Summary of Water and Sewer

Assets

Property and Plant - Net

The Utility recorded approximately $1,463,000 of plant and property additions during the year ended May 31, 2016. These additions included annual routine upgrades, partial lagoon liner replacement and water plant controls system improvements. Prior years' construction in progress project for the Wastewaster Treatment Plant Compliance upgrades of approximately $4,012,000 was capitalized. Current year depreciation expense was $955,000.

Additional information in the Utility's capital assets can be found in *Note 3* on page 23 of this report.

Restricted Assets and Other Noncurrent Assets

Restricted assets include debt service accounts required by the bond ordinance. Other noncurrent assets include the net pension asset. There was an approximate $458,000 decrease in debt service accounts, which was partially offset by an approximate $232,000 increase in net pension asset due to the implementation of GASB 68.

Current Assets

During 2016, the decrease of approximately $290,000 in current assets consists primarily of the decrease of approximately $1,060,000 in the lease construction fund for the wastewater treatment plant and lagoon for Missouri Department of Natural Resources (DNR) mandated upgrades, offset with the increase of approximately $294,000 in the operating and maintenance cash account and an increase in restricted cash – current of approximately $432,000. The remaining current asset accounts were relatively flat over the prior year.

Deferred Outflows of Resources

The increase in deferred outflows of resources was a result of an increase in the pension related outflows of approximately $394,000 related to the implementation of GASB 68.

Liabilities

Long-Term Debt, Net

The decrease in long-term debt at May 31, 2016, of approximately $445,000 included 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.

The Utility established and collected sufficient rates for the water and sewer systems to meet the 125% debt service requirement for the years ended May 31, 2015 and 2016.

Additional information on the Utility's long-term debt can be found in *Note 4* on pages 24-26 of this report.

Current Liabilities

Current liabilities increased approximately $40,000 from 2015 to 2016 due to the increase in accrued payroll and current maturities of long-term debt offset by an increase in accounts payable.

Deferred Inflows of Resources

The increase in deferred inflows of resources was a result of an increase in the pension related inflows of approximately $210,000 as a result of GASB 68 implementation.

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

	May 31, 2016	May 31, 2015
Operating Revenues	$ 5,172,834	$ 5,419,123
Operating Expenses	5,132,224	5,078,567
Operating Income	40,610	340,556
Interest and Other Income	281,677	263,297
Interest Expense	(122,093)	(127,875)
Nonoperating Income, Net	159,584	135,422
Change in Net Position	$ 200,194	$ 475,978

Operating Revenues

During 2016, consolidated water and sewer operating revenues decreased approximately $246,000. Water revenues decreased in fiscal 2016 by approximately $147,000 compared to fiscal 2015. Water gallons sold were down 2.1% in fiscal 2016 compared to fiscal 2015. Sewer revenues decreased approximately $99,000. Sewer gallons treated were down 3.2% from fiscal 2015.

Operating Expenses

During 2016, consolidated water and sewer operating expenses increased approximately $54,000. Water operating expenses decreased approximately $111,000 between production, distribution and general and administrative costs, and increased approximately $6,000 for depreciation expense. Sewer operating expenses decreased approximately $9,000 between production, distribution and general and administrative costs, and increased approximately $185,000 for depreciation expense.

Nonoperating Income, Net

During 2016, nonoperating income net increased approximately $24,000. Interest expense decreased $6,000 due to lower debt obligations in the current year as the Utility continues to pay down its existing outstanding debt. Miscellaneous income increased $16,000 due to the recording of customer’s portion of lagoon debt payment.

Board of Municipal Utilities
Sikeston, Missouri
Balance Sheet
May 31, 2016

Assets	
Property and Plant	
Property and plant, at original cost	$ 340,122,621
Accumulated depreciation	(246,871,656)
	93,250,965
Construction work in progress	1,050,117
Total property and plant, net	94,301,082
Restricted Assets	
Debt service reserve account	14,933,289
Debt service account	14,090,662
	29,023,951
Less amount required to meet current obligations	(15,124,576)
Total restricted assets	13,899,375
Other Noncurrent Assets	
Net pension asset	1,365,971
Current Assets	
Cash and cash equivalents	25,268,302
Restricted assets - current	15,124,576
Accounts receivable, net	6,280,086
Coal inventories	3,598,803
Materials and supplies	4,844,248
Prepaid expenses and other assets	806,216
Total current assets	55,922,231
Total assets	165,488,659
Deferred Outflows of Resources	
Unamortized loss on debt refundings	10,587,837
Pension related	3,617,815
Total deferred outflows of resources	14,205,652
Total assets and deferred outflows of resources	$ 179,694,311

Liabilities, Deferred Inflows of Resources and Net Position

Net Position	
Net investment in capital assets	$ 1,920,613
Restricted	28,926,721
Unrestricted	35,727,933
Total net position	66,575,267
Long-Term Debt	83,012,310
Add: Unamortized bond premium	7,167,083
Less: Unamortized bond discount	(90,995)
Total long-term debt, net	90,088,398
Current Liabilities Payable from Restricted Assets	
Current maturities of long-term debt	12,955,427
Accrued interest payable	2,182,000
	15,137,427
Current Liabilities Payable from Unrestricted Assets	
Accounts payable	1,962,073
Customer deposits	552,133
Accrued mine shutdown costs	1,371,500
Other accruals	2,769,797
	6,655,503
Total current liabilities	21,792,930
Deferred Inflows of Resources	
Pension related	1,237,716
Total net position, liabilities and deferred inflows of resources	$ 179,694,311

Board of Municipal Utilities
Sikeston, Missouri
Statement of Revenues, Expenses and Changes in Net Position
Year Ended May 31, 2016

Operating Revenues	
Retail	$ 25,376,626
Wholesale	48,100,565
Total operating revenues	73,477,191
Operating Expenses	
Production and operations	42,411,323
Purchased power	5,635,925
Distribution costs	2,764,280
Depreciation	12,640,661
General and administrative	8,614,578
Donated services	610,250
Mine shutdown costs	132,200
Other operating expenses	658,462
Total operating expenses	73,467,679
Operating Income	9,512
Nonoperating Income (Expense)	
Interest income	266,574
Interest expense	(5,023,836)
Miscellaneous, net	1,241,654
Net nonoperating income (expense)	(3,515,608)
Change in Net Position	(3,506,096)
Net Position	
Beginning of year, as restated	70,081,363
End of year	$ 66,575,267

Board of Municipal Utilities
Sikeston, Missouri
Statement of Cash Flows
Year Ended May 31, 2016

Cash Flows from Operating Activities	
Receipts from customers and others	$ 74,543,878
Payments to suppliers	(47,304,285)
Payments to employees	(9,605,861)
Payments for mine shutdown costs	(300,000)
Net cash provided by operating activities	17,333,732
Cash Flows from Investing Activities	
Decrease in temporary investments maintained in debt service accounts	1,798,786
Interest received	266,574
Net cash provided by investing activities	2,065,360
Cash Flows from Capital and Related Financing Activities	
Purchase of property and plant, net	(3,070,633)
Proceeds from sale of property	31,980
Payment of long-term debt and capital lease obligations	(12,246,210)
Interest paid	(6,891,863)
Other nonoperating revenues	1,241,654
Net cash used in capital and related financing activities	(20,935,072)
Net decrease in cash and cash equivalents	(1,535,980)
Cash and Cash Equivalents	
Beginning of year	26,804,282
End of year	$ 25,268,302

Board of Municipal Utilities
Sikeston, Missouri
Statement of Cash Flows (Continued)
Year Ended May 31, 2016

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	$ 9,512
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	12,640,661
Mine shutdown costs	132,200
Payments for mine shutdown costs	(300,000)
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	1,038,107
(Increase) decrease in coal inventories	3,497,949
(Increase) decrease in materials and supplies	65,431
(Increase) decrease in prepaid expenses and other assets	(20,365)
(Increase) decrease in deferred outflows related to pensions	(2,155,509)
(Increase) decrease in net pension asset	718,798
Increase (decrease) in accounts payable and accrued expenses	440,652
Increase (decrease) in customer deposits and other liabilities	28,580
Increase (decrease) in deferred inflows related to pensions	1,237,716
Net cash provided by operating activities	$ 17,333,732

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 to June 1, 2022. 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 an enterprise fund. 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, 2016, 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, 2016, the original cost of the Sikeston Power Station less retirements was approximately $184,091,000 and accumulated depreciation was approximately $139,400,000.

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, 2016, cash equivalents consisted of money market funds held by brokers through a local financial institution.

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, 2021. 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, 2021. 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, 2017. 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 800,000 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 $79,000 as of May 31, 2016.

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 $610,000 for the year ended May 31, 2016.

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 must be used during the calendar year. Hourly employees also receive sick leave which can be accumulated up to the maximum 720 hours. In the event of termination, the employee will be paid for unused and unexpired accrued vacation leave and 40% of accumulated sick leave. The liabilities for accrued annual leave, sick leave and vacation leave is 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.

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 and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Change in Accounting Principle

In 2016, the Utility adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These statements established standards for measuring and recognizing assets, liabilities, deferred outflows and inflows of resources and expense for pensions that are provided to the employees of state and local governmental employers through pension plans administered through trusts.

As a result of the implementation, unrestricted and restricted net positions as of June 1, 2015, were restated as follows:

	Unrestricted	Restricted
Net position, as previously reported	$ 37,981,603	$ 27,954,830
Cumulative effect of change in accounting principle		
Net pension asset (measurement date of June 30, 2014)	-	2,084,770
Deferred outflows of resources		
Contributions during the period July 1, 2014 through May 31, 2015	1,462,306	-
accounting principle	1,462,306	2,084,770
Net position, as restated	$ 39,443,909	$ 30,039,600

New Accounting Pronouncements

The Board will implement GASB Statement 72, *Fair Value Measurement and Application*, in fiscal year 2017. Statement No. 72 will require expanded disclosures to categorize fair values of assets and liabilities according to their relative reliability. The impact of applying the statement is not expected to have a significant impact on the financial statements.

The Board will implement GASB Statement 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 OPEB that is provided and will require more extensive note disclosures and required supplementary information about OPEB liabilities. The impact of applying the statement 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, 2016, 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, 2016:

Electric System

U.S. government agencies obligations	$ 15,855,077
Deposits	35,549,940
Total deposits and investments	$ 51,405,017

Water & Sewer System

Guaranteed investment contracts	$ 84,817
Deposits	2,802,419
Total deposits and investments	$ 2,887,236

Deposits and investments are included in the following balance sheet accounts at May 31, 2016:

Electric System	
Debt service reserve account	$ 14,501,052
Debt service account	14,090,662
Cash and cash equivalents	22,813,303
	$ 51,405,017
Water and Sewer System	
Debt service reserve account	$ 432,237
Cash and cash equivalents	2,454,999
	$ 2,887,236

As of May 31, 2016, Sikeston Board of Municipal Utilities held cash and investments for restricted and designated purposes as follows:

Electric System	
Debt service reserve account - revenue bonds	$ 14,501,052
Debt service account - revenue bonds	14,090,662
Designated funds	
Contingency fund investments	5,080,860
Operations and maintenance reserve	8,635,030
Retail rate stabilization	466,686
Mine shutdown costs	3,264,282
Total restricted and designated	46,038,572
Unrestricted and undesignated	5,366,445
Total cash, cash equivalents and investments	$ 51,405,017
Water & Sewer System	
Debt service reserve account - revenue bonds	$ 432,237
Designated funds	
Operations and maintenance reserve	1,537,495
Construction fund sewer treatment plant improvements	75,520
Total restricted and designated	2,045,252
Unrestricted and undesignated	841,984
Total cash, cash equivalents and investments	$ 2,887,236

Board of Municipal Utilities
Sikeston, Missouri
Notes to Financial Statements
May 31, 2016

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, 2016, the Utilities' investment portfolio matures as follows:

Electric System

		Investment Maturities			
		Less than			
Investment Type	**Fair Value**	**1 year**	**5 years**	**10 years**	**More than 10 years**
U.S. government agencies obligations	$ 15,855,077	$ 15,855,077	$ -	$ -	$ -

Water & Sewer System

		Investment Maturities			
		Less than			
Investment Type	**Fair Value**	**1 year**	**5 years**	**10 years**	**More than 10 years**
Guaranteed investment contracts	$ 84,817	$ 84,817	$ -	$ -	$ -

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, 2016, 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, 2016, as reported at fair value, the Utility's U.S. agency securities consisted of $15,855,077 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: Capital Assets

Capital asset activity for the year ended May 31, 2016, is as follows:

Electric System

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 6,449,689	$ -	$ (31,980)	$ -	$ 6,417,709
Buildings	44,701,978	-	-	106,915	44,808,893
Plant in service	198,492,323	309,454	-	-	198,801,777
Distribution system	37,854,261	442,349	-	45,140	38,341,750
Trucks and autos	1,288,408	21,127	-	-	1,309,535
Railcars	11,672,689	-	-	-	11,672,689
Furniture, fixtures and equipment	4,228,388	47,946	-	-	4,276,334
Telecommunications equipment	1,730,010	-	-	-	1,730,010
Capitalized interest	9,003,901	-	-	-	9,003,901
Construction in progress	415,679	786,493	-	(152,055)	1,050,117
	315,837,326	1,607,369	(31,980)	-	317,412,715
Less - accumulated depreciation	(218,881,281)	(11,685,307)	-	-	(230,566,588)
	$ 96,956,045	$(10,077,938)	$ (31,980)	$ -	$ 86,846,127

Water and Sewer System

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 48,368	$ -	$ -	$ -	$ 48,368
Buildings	4,828,041	-	-	-	4,828,041
Plant in service	6,294,133	53,217	-	4,011,849	10,359,199
Distribution system	5,155,570	56,226	-	-	5,211,796
Trucks and autos	412,358	88,795	-	-	501,153
Furniture, fixtures and equipment	2,671,560	128,913	-	-	2,800,473
Capitalized interest	10,993	-	-	-	10,993
Construction in progress	2,875,736	1,136,113	-	(4,011,849)	-
	22,296,759	1,463,264	-	-	23,760,023
Less - accumulated depreciation	(15,349,714)	(955,354)	-	-	(16,305,068)
	$ 6,947,045	$ 507,910	$ -	$ -	$ 7,454,955
Total System Combined	$103,903,090	$ (9,570,028)	$ (31,980)	$ -	$ 94,301,082

Note 4: 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, 2016, is comprised of the following obligations.

Electric System

Electric revenue bonds, issued July 19, 2012, 3% to 5% due in installments through June 1, 2022	$ 73,620,000
Capital lease obligations	6,021,249
	$ 79,641,249

Water and Sewer System

Combined waterworks and sewer revenue bonds, issued December 1, 1997, 3.9% to 5.125%, due in installments through January 1, 2018	$ 195,000
Capital lease obligations	3,176,061
	$ 3,371,061
Total System Combined	$ 83,012,310

The summarized activity of the Board's long-term debt (including current maturities of long-term debt) during the year ended May 31, 2016, is presented below:

Electric System

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due in One Year
1996 Revenue Bonds	$ 23,115,000	$ -	$ 11,220,000	$ 11,895,000	$ 11,895,000
2012 Revenue Bonds	73,620,000	-	-	73,620,000	-
2009 Train Car Capital Lease	4,509,987	-	249,965	4,260,022	260,708
2011 Vacuum Truck Capital Lease	40,006	-	19,621	20,385	20,386
2013 Train Car Capital Lease	2,680,881	-	324,700	2,356,181	334,245
	103,965,874	-	11,814,286	92,151,588	12,510,339
Add: Unamortized premium	8,361,319	-	(1,194,480)	7,166,839	-
Less: Unamortized discount	(103,509)	-	12,514	(90,995)	-
	$ 112,223,684	$ -	$ 12,996,252	$ 99,227,432	$ 12,510,339

Water & Sewer System

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due in One Year
1997 Revenue Bonds	$ 580,000	$ -	$ 190,000	$ 390,000	$ 195,000
2011 Vacuum Truck Capital Lease	40,005	-	19,621	20,384	20,383
2014 Sewer Improvements Lease	3,628,068	-	222,303	3,405,765	229,705
	4,248,073	-	431,924	3,816,149	445,088
Add: Unamortized premium	398	-	(154)	244	-
	$ 4,248,471	$ -	$ 432,078	$ 3,816,393	$ 445,088
Total System Combined	$ 116,472,155	$ -	$ 13,428,330	$103,043,825	$ 12,955,427

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, 2016, $73,620,000 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. At May 31, 2016, $11,895,000 of these bonds remains outstanding.

Remaining interest payments on the 1996 bonds are due semiannually on June 1 and December 1 at an interest rate of 6%. Principal payments are due annually on June 1 through 2016.

The estimated fair value of the electric revenue bonds outstanding at May 31, 2016, is approximately $93,366,000. 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, 2016, is summarized in the following table:

	Electric System		Water and Sewer System		
	Principal	**Interest**	**Principal**	**Interest**	**Total**
Year Ending May 31,					
2017	$ 12,510,337	$ 4,261,942	$ 445,089	$ 129,056	$ 17,346,424
2018	11,467,072	3,624,880	432,353	110,622	15,634,927
2019	12,004,501	3,062,425	245,257	92,724	15,404,907
2020	12,587,784	2,458,293	253,424	84,558	15,384,059
2021	13,211,561	1,823,266	261,861	76,119	15,372,807
2022-2026	29,320,594	1,841,228	1,446,054	243,853	32,851,729
2027-2029	1,049,739	71,184	732,111	28,347	1,881,381
	$ 92,151,588	$ 17,143,218	$ 3,816,149	$ 765,279	$113,876,234

Note 5: 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 an interest rate of 3.28% due through 2029. Property and equipment include the following property under capital lease:

Equipment and construction in process	$ 13,543,247
Less accumulated depreciation	4,110,657
	$ 9,432,590

These amounts are included in the respective property and plant classification within *Note 3* and the future minimum lease payments are included in the schedule of debt maturities in *Note 4*.

Note 6: 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 year ended May 31, 2016, the electric system covered 79% 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.

Water and Sewer System

In accordance with the bond ordinance, the Utility maintains a bond retirement account. This account is used for monthly deposits in an amount equal to one-twelfth of the current principal and one-sixth of the current interest requirements for payment of bond principal and interest.

For the year ended May 31, 2016, the Board established and collected sufficient rates for the water and sewer system to meet the aggregate debt service costs requirement. The water and sewer rates applied for the years ended May 31, 2016, covered 235% of aggregate debt service costs.

Note 7: Pension and Benefit Plans

Defined Benefit Pension Plan

Pensions

For purposes of measuring the net pension asset, 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.

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, 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.

	2015 Valuation
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, 2015, measurement date for the net pension asset at May 31, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	116
Inactive employees entitled to but not yet receiving benefits	4
Active employees	143
	263

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. The Utility's contribution rate is 13.6% of annual covered payroll.

Net Pension Asset

The Utility's net pension asset was measured as of June 30, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of February 28, 2015. The roll-forward of total pension liability from February 28, 2015, to June 30, 2015, reflects expected service cost and interest reduced by actual benefit payments and administrative expenses.

Actuarial Assumptions

The total pension liability in the February 28, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5% wage inflation; 3% price inflation
Salary increase	3.50% to 6.80% including wage inflation
Investment rate of return	7.25%

Mortality rates were based on 105% of the 1994 Group Annuity Mortality Table set back 0 years for both males and females.

The actuarial assumption used in the February 28, 2015, valuation were based on the results of an actuarial experience study for the period March 1, 2005, through February 28, 2010.

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	48.50%	5.50%
Fixed income	25.00%	2.25%
Real assets	20.00%	4.50%
Strategic assets	6.50%	7.50%

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 Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances as 5/31/2015	$ 55,989,341	$ 58,074,111	$ (2,084,770)
Changes for the year			
Service cost	904,619	-	904,619
Interest	3,972,670	-	3,972,670
experience	(1,482,213)	-	(1,482,213)
Contributions - employer	-	1,556,587	(1,556,587)
Net investment income	-	1,170,694	(1,170,694)
Benefit payments, including refunds	(3,334,919)	(3,334,919)	-
Administrative expense	-	(24,605)	24,605
Other changes	-	(26,399)	26,399
Net changes	60,157	(658,642)	718,799
Balances as 5/31/2016	$ 56,049,498	$ 57,415,469	$ (1,365,971)

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

The following represents the Net Pension Asset of the Utility, calculated using the discount rate of 7.25%, as well as what the Utility's Net Pension Asset would be using a discount rate that is 1 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 (TPL)	$ 62,826,027	$ 56,049,498	$ 50,285,260
Plan Fiduciary Net Position	57,415,469	57,415,469	57,415,469
Net Pension Liability/(Asset) (NPL)	$ 5,410,558	$ (1,365,971)	$ (7,130,209)

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

For the year ended May 31, 2016, the Utility recognized pension expense of $1,133,481. 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 in experience	$ -	$ (1,237,716)
Differences in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	2,379,621	
Contributions subsequent to the measurement date *	1,238,194	-
	$ 3,617,815	$ (1,237,716)

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as an increase in the Net Pension Asset for the year ending May 31, 2017.

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

Year ended	
2017	$ 1,588,602
2018	350,408
2019	350,408
2020	350,409
2021	(244,497)
Thereafter	(15,231)
	$ 2,380,099

Payable to the Pension Plan

At May 31, 2016, the Utility reported a payable of $128,812 for the outstanding amount of contributions to the pension plan required for the year end.

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, 2016.

Note 8: Commitments and Contingencies

Coal Contracts

The Board has an agreement with Western Fuels Association, Inc. (WFA) for the procurement of coal through December 31, 2021. 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, 2021. 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, 2017. 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 800,000 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 fiscal year ended May 31, 2016, the cost under this contract was approximately $4,419,000.

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, 2016, the Utility has recorded a liability of approximately $1,372,000 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 decrease to the change in net position of approximately $132,000 during the year ended May 31, 2016. 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 year ended May 31, 2016, the Utility paid $300,000 to WFI to fund these obligations as well as administrative and other costs incurred by WFI. Total payments through May 31, 2016, from the Utility to WFI to fund these obligations and costs were approximately $15,085,000. The Utility expects to fund approximately an additional $300,000 during the year ending May 31, 2017. 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 9: Significant Customers and Concentration of Credit Risk

For the year ended May 31, 2016, the Utility had four wholesale customers, which individually exceeded 10% of total revenues. Approximately 91% of the Electric System's wholesale revenue during the year ended May 31, 2016, was generated through sales to these customers, in the amount of approximately $43,782,000. As of May 31, 2016, total receivables due from these customers were approximately $2,956,000. 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.

Note 10: Related Party Transactions

The president of the bank in which the Utility transacts the majority of its depository arrangements was elected to the Utility's Board in 2009. As of May 31, 2016, the Utility had approximately $25,418,000 of cash on deposit and money market accounts with this institution. Further, the Utility collected approximately $36,000 of interest income during fiscal 2016 from this bank.

Required Supplementary Information

Board of Municipal Utilities
Sikeston, Missouri
Required Supplementary Information
Schedule of the Utilities' Changes in Net Pension Asset and Related Ratios
May 31, 2016

Total Pension Liability	
Service cost	$ 904,619
Interest on the total pension liability	3,972,670
Changes in benefit terms	-
Difference between expected and actual experience	(1,482,213)
Changes of assumptions	-
Benefit payments	(3,334,919)
Net Change in Total Pension Liability	60,157
Total Pension Liability - Beginning	55,989,341
Total Pension Liability - Ending	56,049,498
Fiduciary Net Position	
Contributions - employer	1,556,587
Contributions - employee	-
Net investment income	1,170,694
Benefit payments	(3,334,919)
Pension plan administrative expense	(24,605)
Other	(26,399)
Net Change in Plan Fiduciary Net Position	(658,642)
Fiduciary Net Position - Beginning	58,074,111
Fiduciary Net Position - Ending	57,415,469
Net Pension Liability (Asset)	$ (1,365,971)
Fiduciary Net Position as a Percentage of Total Pension Liability	102.44%
Covered Payroll	$ 10,006,457
Net Pension Liability (Asset) as a Percentage of Covered Payroll	-13.65%

This schedule presents the information available to the Utilities 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 asset.

Board of Municipal Utilities
Sikeston, Missouri
Required Supplementary Information
Schedule of the Utilities' Contributions
May 31, 2016

Fiscal Year	Actuarially Determined Contribution	Contribution in Relation	Contribution Deficiency	Covered Employee Payroll	Contribution as Percentage
2007	$ 1,065,835	$ 1,108,554	$ (42,719)	$ 7,779,817	14.25%
2008	1,005,413	1,153,843	(148,430)	8,593,277	13.43%
2009	937,419	1,013,495	(76,076)	8,760,923	11.57%
2010	1,297,272	953,011	344,261	8,824,978	10.80%
2011	1,218,578	1,056,101	162,477	9,026,504	11.70%
2012	1,404,334	1,238,545	165,789	9,752,321	12.70%
2013	1,325,977	1,345,622	(19,645)	9,822,054	13.70%
2014	1,507,052	1,374,676	132,376	10,182,782	13.50%
2015	1,471,021	1,568,368	(97,347)	10,816,330	14.50%
2016	1,229,165	1,337,331	(108,166)	9,833,320	13.60%

Notes to Schedule:

Valuation date:	February 28, 2015
Notes:	The roll-forward of total pension asset from February 28, 2015, to May 31, 2016, 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
Amortization method	Level percentage of payroll, closed
Remaining amortization period	Multiple bases from 14 to 15 years
Asset valuation method	5-year smoothed market; 20% corridor
Inflation	3.5% wage inflation; 3.0% price inflation
Salary increases	3.5% to 6.8% including wage inflation
Investment rate of return	7.25%, net of investment and administrative expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	105% of the 1994 Group Annuity Mortality Table set back 0 years for men and 0 years for women. Based upon experience observed during the most recent 5-year period study, it appears that the current table provides for an approximate 13% margin for future mortality improvement.
Other information	None

Supplementary Information

Board of Municipal Utilities
Sikeston, Missouri
Combining Balance Sheet
May 31, 2016

Assets and Deferred Outflows of Resources

	Electric System	Water and Sewer System	Combined
Assets			
Property and Plant			
Property and plant, at original cost	$ 316,362,598	$ 23,760,023	$ 340,122,621
Accumulated depreciation	(230,566,588)	(16,305,068)	(246,871,656)
	85,796,010	7,454,955	93,250,965
Construction work in progress	1,050,117	-	1,050,117
Total property and plant, net	86,846,127	7,454,955	94,301,082
Restricted Assets			
Debt service reserve account	14,501,052	432,237	14,933,289
Debt service account	14,090,662	-	14,090,662
	28,591,714	432,237	29,023,951
Less amount required to meet current obligations	(14,692,339)	(432,237)	(15,124,576)
Total restricted assets	13,899,375	-	13,899,375
Other Noncurrent Assets			
Net pension asset	1,133,756	232,216	1,365,972
Current Assets			
Cash and cash equivalents	22,813,303	2,454,999	25,268,302
Restricted cash - current	14,692,339	432,237	15,124,576
Accounts receivable, net	5,475,618	804,468	6,280,086
Coal inventories	3,598,803	-	3,598,803
Materials and supplies	4,529,964	314,284	4,844,248
Prepaid expenses and other assets	686,011	120,204	806,215
Interdepartment due from (to)	168,299	(168,299)	-
Total current assets	51,964,337	3,957,893	55,922,230
Total assets	153,843,595	11,645,064	165,488,659
Deferred Outflows of Resources			
Unamortized loss on debt refundings	10,587,837	-	10,587,837
Pension related	3,002,786	615,029	3,617,815
Total deferred outflows of resources	13,590,623	615,029	14,205,652
Total assets and deferred outflows of resources	$ 167,434,218	$ 12,260,093	$ 179,694,311

Liabilities, Deferred Inflows of Resources and Net Position

	Electric System	Water and Sewer System	Combined
Net Position			
Net investment in capital assets	$ (1,793,469)	$ 3,714,082	$ 1,920,613
Restricted	28,112,944	813,777	28,926,721
Unrestricted	32,471,688	3,256,245	35,727,933
Total net position	58,791,163	7,784,104	66,575,267
Long-Term Debt	79,641,249	3,371,061	83,012,310
Add: Unamortized bond premium	7,166,839	244	7,167,083
Less: Unamortized bond discount	(90,995)	-	(90,995)
Total long-term debt, net	86,717,093	3,371,305	90,088,398
Current Liabilities Payable from Restricted Assets			
Current maturities of long-term debt	12,510,339	445,088	12,955,427
Accrued interest payable	2,182,000	-	2,182,000
	14,692,339	445,088	15,137,427
Current Liabilities Payable from Unrestricted Assets			
Accounts payable	1,905,910	56,163	1,962,073
Customer deposits	552,133	-	552,133
Accrued mine shutdown costs	1,371,500	-	1,371,500
Other accruals	2,376,776	393,021	2,769,797
	6,206,319	449,184	6,655,503
Total current liabilities	20,898,658	894,272	21,792,930
Deferred Inflows of Resources			
Pension related	1,027,304	210,412	1,237,716
Total net position, liabilities and deferred inflows of resources	$ 167,434,218	$ 12,260,093	$ 179,694,311

Board of Municipal Utilities
Sikeston, Missouri
Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended May 31, 2016

	Electric System	Water and Sewer System	Combined
Operating Revenues			
Retail	$ 20,203,792	$ 5,172,834	$ 25,376,626
Wholesale	48,100,565	-	48,100,565
Total operating revenues	68,304,357	5,172,834	73,477,191
Operating Expenses			
Production and operations	40,938,766	1,472,557	42,411,323
Purchased power	5,635,925	-	5,635,925
Distribution costs	1,812,040	952,240	2,764,280
Depreciation	11,685,307	955,354	12,640,661
General and administrative	7,148,410	1,466,168	8,614,578
Donated services	490,353	119,897	610,250
Mine shutdown costs	132,200	-	132,200
Other operating expenses	492,454	166,008	658,462
Total operating expenses	68,335,455	5,132,224	73,467,679
Operating Income (Loss)	(31,098)	40,610	9,512
Nonoperating Income (Expense)			
Interest income	260,812	5,762	266,574
Interest expense	(4,901,743)	(122,093)	(5,023,836)
Miscellaneous, net	965,739	275,915	1,241,654
Net nonoperating income (expense)	(3,675,192)	159,584	(3,515,608)
Change in Net Position	(3,706,290)	200,194	(3,506,096)
Net Position			
Beginning of year, as restated	62,497,453	7,583,910	70,081,363
End of year	$ 58,791,163	$ 7,784,104	$ 66,575,267

Board of Municipal Utilities
Sikeston, Missouri
Combining Statement of Cash Flows
Year Ended May 31, 2016

	Electric System	Water and Sewer System	Combined
Cash Flows from Operating Activities			
Receipts from customers and others	$ 69,381,940	$ 5,161,938	$ 74,543,878
Payments to suppliers	(44,665,095)	(2,639,190)	(47,304,285)
Payments to employees	(8,021,454)	(1,584,407)	(9,605,861)
Payments for mine shutdown costs	(300,000)	-	(300,000)
Net cash provided by operating activities	16,395,391	938,341	17,333,732
Cash Flows from Investing Activities			
Decrease in temporary cash investment maintained in debt service accounts	1,772,829	25,957	1,798,786
Interest received	260,812	5,762	266,574
Net cash provided by investing activities	2,033,641	31,719	2,065,360
Cash Flows from Capital and Related Financing Activities			
Purchase of property and plant, net	(1,607,369)	(1,463,264)	(3,070,633)
Proceeds from the sale of property	31,980	-	31,980
Payment of long-term debt and capital lease obligations	(11,814,286)	(431,924)	(12,246,210)
Interest paid	(6,768,805)	(123,058)	(6,891,863)
Other nonoperating revenues	965,739	275,915	1,241,654
Net cash used in capital and related financing activities	(19,192,741)	(1,742,331)	(20,935,072)
Net decrease in cash and cash equivalents	(763,709)	(772,271)	(1,535,980)
Cash and Cash Equivalents			
Beginning of year	23,577,012	3,227,270	26,804,282
End of year	$ 22,813,303	$ 2,454,999	$ 25,268,302

Board of Municipal Utilities
Sikeston, Missouri
Combining Statement of Cash Flows (Continued)
Year Ended May 31, 2016

	Electric System	Water and Sewer System	Combined
Reconciliation of Operating (Loss) Income to Net Cash Provided by Operating Activities			
Operating (loss) income	$ (31,098)	$ 40,610	$ 9,512
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	11,685,307	955,354	12,640,661
Mine shutdown costs	132,200	-	132,200
Payments for mine shutdown costs	(300,000)	-	(300,000)
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	1,049,003	(10,896)	1,038,107
(Increase) decrease in coal inventories	3,497,949	-	3,497,949
(Increase) decrease in materials and supplies	50,508	14,923	65,431
(Increase) decrease in prepaid expenses and other assets	(3,874)	(16,491)	(20,365)
(Increase) decrease in deferred outflows related to pensions	(1,761,943)	(393,566)	(2,155,509)
(Increase) decrease in net pension asset	569,474	149,324	718,798
Increase (decrease) in accounts payable and accrued expenses	413,537	27,115	440,652
Increase (decrease) in customer deposits and other liabilities	28,580	-	28,580
Increase (decrease) in deferred inflows related to pensions	1,027,304	210,412	1,237,716
Interdepartment due from (to)	38,444	(38,444)	-
Net cash provided by operating activities	$ 16,395,391	$ 938,341	$ 17,333,732