



HUNTSVILLE UTILITIES
ELECTRICITY • NATURAL GAS • WATER

**City of Huntsville, Alabama
Electric, Natural Gas,
and Water Systems**

**Component Unit
Financial Statements**

September 30, 2014 and 2013



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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

The Board of Directors
City of Huntsville Electric, Natural Gas, and Water Systems
Huntsville, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Huntsville Electric, Natural Gas, and Water Systems (the Utilities), component units of the City of Huntsville, Alabama which comprise the statements of net position as of September 30, 2014, and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utilities, as of September 30, 2014, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The financial statements of the Utilities, as of and for the year ended September 30, 2013, were audited by other auditors whose report dated January 28, 2014, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and the schedule of funding progress for the Utilities defined benefit pension plan and retiree health plan on pages 43 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2014 the Utilities adopted new accounting guidance, GASB statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Jackson Shernton & Co. PC

Montgomery, Alabama
January 12, 2015



The following management discussion and analysis (MD&A) for Huntsville Utilities (Utilities) is intended as an introduction and should be read in conjunction with the financial statements and the notes that follow this section.

Overview of the Financial Statements

The Utilities financial statements are comprised of the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; the Statements of Cash Flows; and the accompanying Notes. This report also contains required supplementary information in addition to the basic financial statements.

The Statement of Net Position reports the assets and deferred outflows of resources less liabilities and deferred inflows of resources, with the difference being the net position. Net position will be displayed in three components: net investment in capital assets, restricted, and unrestricted. Over time, increases or decreases in net position may serve as an indicator of whether the financial position is improving or declining. The Statements of Revenues, Expenses and Changes in Net Position show how net position changed during each year based on revenues and expenses. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The Statements of Cash Flows report changes in cash and cash equivalents summarized by net changes from operating, capital, related financing, and investing activities. The Notes provide additional detailed information to support the financial statements. The statements present the current year and preceding year for comparison. The report also includes Statistical Highlights. These highlights convey significant data that affords the readers a better historical perspective and assists in assessing the current financial status and trends of the Utilities. The highlights present a three-year comparison beginning with the current year and preceding two years for the electric, gas and water systems.

The Utilities is a Component Unit of the City of Huntsville, Alabama. The Utilities' statements are provided to the City of Huntsville and reformatted to conform to the City's format for Component Units. The City of Huntsville incorporates the Utilities statements ending September 30 into its statements ending September 30.

By City Ordinance, the Utility is required to account separately for its electric, natural gas and water systems. Costs are allocated to the three systems in a manner that ensures results of operations and changes in financial position are presented fairly and consistently from year to year.



City of Huntsville Electric System
Table A-1
Condensed Statements of Net Position (In Thousands)

	2014	2013	FY14 - FY13 % Change	2012	FY13 - FY12 % Change
Assets					
Current and other assets	\$ 148,520	\$ 130,167	14.1%	\$ 121,860	6.8%
Capital assets (net)	241,125	253,407	-4.8%	247,611	2.3%
Total assets	\$ 389,645	\$ 383,574	1.6%	\$ 369,471	3.8%
Liabilities					
Current and other liabilities	\$ 56,837	\$ 53,144	6.9%	\$ 52,111	2.0%
Long-term liabilities	66,815	71,390	-3.0%	73,283	-2.6%
Total liabilities	123,652	124,534	-0.7%	125,394	-0.7%
Net Position					
Net investment in capital assets	\$ 203,507	\$ 213,335	-4.6%	\$ 205,233	3.9%
Restricted assets	13,378	26,850	-50.2%	32,292	-16.9%
Unrestricted assets	49,108	18,855	160.5%	6,552	187.8%
Total net position	265,993	259,040	2.7%	244,077	6.1%
Total liabilities and net position	\$ 389,645	\$ 383,574	1.6%	\$ 369,471	3.8%

2014 Compared to 2013:

As of September 30, 2014 the Electric System's total assets were \$390 million, an increase of 1.6%, compared to September 30, 2013. This increase is primarily due to an increase in Cash and Cash Equivalents of \$16.7 million which was due to an increase in the net cash provided by construction bond funds in the amount of \$13 million. As of September 30, 2014 the Electric System's liabilities were \$124 million, a decrease of 0.7%, compared to September 30, 2013. As of September 30, 2014 the Electric System's net position was \$266 million, an increase of \$6.9 million or 2.7%, compared to September 30, 2013. This increase is due primarily to cash provided by operating activities of \$35 million and investment in capital assets.

2013 Compared to 2012:

As of September 30, 2013 the Electric System's total assets were \$384 million, an increase of 3.8%, compared to September 30, 2012. This increase is primarily due to an increase in Cash and Cash Equivalents of \$16.3 million due to an increase in the net cash provided by operations of 29.0%. As of September 30, 2013 the Electric System's liabilities were \$124 million, a decrease of 0.9%, compared to September 30, 2012. As of September 30, 2013 the Electric System's net position was \$259 million, an increase of \$15 million or 6.1%, compared to September 30, 2012. This increase is due primarily to cash provided by operating activities of \$48 million and investment in capital assets.



City of Huntsville Electric System
Table A-2
Condensed Statement of Revenues, Expenses and Changes in Net Position (In Thousands)

	2014	2013	FY14 - FY13 % Change	2012	FY13 - FY12 % Change
Operating revenues	\$ 502,804	\$ 475,333	5.8%	\$ 470,829	1.0%
Non-operating revenues	251	403	-37.7%	133	203.0%
Total revenues	503,055	475,736	5.7%	470,962	1.0%
Operating expense	464,884	432,004	7.6%	432,723	-0.2%
Depreciation expense	19,213	15,876	21.0%	15,455	2.7%
Non-operating expense	391	1,249	-68.7%	1,666	-25.0%
Total expenses	484,488	449,129	7.9%	449,844	-0.2%
Income before transfers	18,567	26,607	-30.2%	21,118	26.0%
Transfers out – tax equivalents	11,614	11,644	-0.3%	11,818	-1.5%
Change in net position	6,953	14,963	-53.5%	9,300	60.9%
Beginning net position	259,040	244,077	6.1%	234,777	4.0%
Ending net position	\$ 265,993	\$ 259,040	2.7%	\$ 244,077	6.1%

2014 Compared to 2013:

As of September 30, 2014 the Electric System's total revenues were \$503 million, an increase of 5.7%, compared to September 30, 2013. This increase is primarily due to an increase in kWh sold of 4.3% and while our load factor (61%) was the same as September 30, 2013. As of September 30, 2014 the Electric System's operating expenses were \$485 million and primarily due to an increase in purchased energy of 4.6% compared to September 30, 2013.

2013 Compared to 2012:

As of September 30, 2013 the Electric System's total revenues were \$476 million, an increase of 1.0%, compared to September 30, 2012. This increase is primarily due to an increase in kWh sold of 0.2% and our load factor being 61%, an increase of 6.5%, compared to September 30, 2012. As of September 30, 2013 the Electric System's operating expenses were \$449 million and remained flat compared to September 30, 2012. The power cost decreased 0.7% due to the lower demand cost experienced in September 30, 2013.



City of Huntsville Natural Gas System
Table B-1
Condensed Statements of Net Position (In Thousands)

	2014	2013	FY14 - FY13 % Change	2012	FY13 - FY12 % Change
Assets					
Current and other assets	\$ 57,813	\$ 56,459	2.4%	\$ 54,144	4.3%
Capital assets (net)	101,672	98,688	3.0%	96,871	1.9%
Total assets	\$ 159,485	\$ 155,147	2.8%	\$ 151,015	2.7%
Liabilities					
Current Liabilities	\$ 7,010	\$ 6,568	6.7%	\$ 5,048	30.1%
Long-term debt outstanding	15,132	15,022	0.7%	16,289	-7.8%
Total liabilities	22,142	21,590	2.6%	21,337	1.2%
Net Position					
Net investment in capital assets	94,695	91,213	3.8%	88,920	2.6%
Restricted	954	955	-0.1%	954	0.1%
Unrestricted	41,694	41,389	0.7%	39,804	4.0%
Total net position	137,343	133,557	2.8%	129,678	3.0%
Total liabilities and net position	\$ 159,485	\$ 155,147	2.8%	\$ 151,015	2.7%

2014 Compared to 2013:

As of September 30, 2014 the Gas System's total assets were \$159 million, an increase of 2.8%, compared to September 30, 2013. This increase is primarily due to an increase in Cash and Cash Equivalents of \$2.8 million which is due to the net cash provided by operations increasing \$2.3 million. The Gas System also invested an additional \$7.4 million in Utility Plant. As of September 30, 2014 the Gas System's total liabilities were \$22 million, an increase of 2.5%, compared to September 30, 2013. This increase is primarily due to an increase in trade payables of \$400 thousand. As of September 30, 2014 the Gas System's net position is \$137 million, an increase of 2.8%, compared to September 30, 2013.

2013 Compared to 2012:

As of September 30, 2013 the Gas System's total assets were \$155 million, an increase of 2.7%, compared to September 30, 2012. This increase is primarily due to an increase in Cash and Cash Equivalents of \$3.6 million which is due to the net cash provided by operations increasing 9.1%. The Gas System also invested an additional \$5.3 million in Utility Plant. As of September 30, 2013 the Gas System's total liabilities were \$22 million, an increase of 1.2%, compared to September 30, 2012. This increase is primarily due to an increase in trade payables of \$800 thousand. As of September 30, 2013 the Gas System's net position is \$134 million, an increase of 3.0%, compared to September 30, 2012.



City of Huntsville Natural Gas System

Table B-2

Condensed Statement of Revenues, Expenses and Change in Net Position (In Thousands)

	2014	2013	FY14 - FY13 % Change	2012	FY13 - FY12 % Change
Operating revenues	\$ 48,709	\$ 44,973	8.3%	\$ 41,385	8.7%
Non-operating revenues	93	102	-8.8%	101	1.0%
Total revenues	48,802	45,075	8.3%	41,486	8.7%
Depreciation expense	4,395	3,408	29.0%	3,307	3.1%
Operating expense	37,950	35,890	5.7%	31,534	13.8%
Non-operating expense	434	327	32.7%	608	-46.2%
Total expenses	42,779	39,625	8.0%	35,449	11.8%
Income (loss) before contributions and transfers	6,023	5,450	10.5%	6,037	-9.7%
Capital contributions	460	949	-51.5%	366	159.3%
Transfers out - tax equivalents	(2,696)	(2,520)	7.0%	(2,280)	10.5%
Change in net position	3,787	3,879	-2.4%	4,123	-5.9%
Beginning net position	133,557	129,678	3.0%	125,555	3.3%
Ending net position	\$ 137,344	\$ 133,557	2.8%	\$ 129,678	3.0%

2014 Compared to 2013:

As of September 30, 2014 the Gas System's total revenues were \$48.8 million, an increase of 8.2%, compared to September 30, 2013. This increase is primarily due to an increase in MCF sold of 9.3%. As of September 30, 2014 the Gas System's expenses were \$43 million. An increase of 8.0% compared to September 30, 2013 due to increase in operating and maintenance costs.

2013 Compared to 2012:

As of September 30, 2013 the Gas System's total revenues were \$45 million, an increase of 8.7%, compared to September 30, 2012. This increase is primarily due to an increase in MCF sold of 24.6%. The Gas System also had a rate decrease which was effective with meter readings on and after December 1, 2012. This change reflects a decrease in rates ranging from $\pm 10.1\%$ to $\pm 12.0\%$, contingent on individual rate classes. As of September 30, 2013 the Gas System's expenses were \$40 million. An increase of 11.8% compared to September 30, 2012 due to increase in operating and maintenance costs.



**City of Huntsville Water System
Table C-1
Condensed Statements of Net Position (In Thousands)**

	2014	2013	FY14 - FY13 % Change	2012	FY13 - FY12 % Change
Assets					
Current and other assets	\$ 45,291	\$ 39,936	13.4%	\$ 37,682	6.0%
Capital assets (net)	170,553	168,505	1.2%	167,124	0.8%
Total assets	\$ 215,844	\$ 208,441	3.6%	\$ 204,806	1.8%
Liabilities					
Current Liabilities	\$ 11,364	\$ 10,656	6.6%	\$ 9,922	7.4%
Long-term debt outstanding	34,965	36,740	-4.8%	38,531	-4.6%
Total liabilities	46,329	47,396	-2.3%	48,453	-2.2%
Net Position					
Net investment in capital assets	137,579	133,158	3.3%	129,792	2.6%
Restricted	6,114	7,374	-17.1%	8,326	-11.4%
Unrestricted	25,822	20,513	25.9%	18,235	12.5%
Total net position	169,515	161,045	5.3%	156,353	3.0%
Total liabilities and net position	\$ 215,844	\$ 208,441	3.6%	\$ 204,806	1.8%

2014 Compared to 2013:

As of September 30, 2014 the Water System's total assets were \$216 million, an increase of 3.6%, compared to September 30, 2013. This increase is primarily due to a rate increase that was effective October 1, 2013. This rate increase is a 5 step increase to assist in paying for the construction of a new water treatment plant. After this increase, the rates will increase every October for the next 3 years. This reflects a 28% increase in rates. The Water System also invested an additional \$9.4 million in Utility Plant. As of September 30, 2014 the Water System's total liabilities were \$46 million, a decrease of 2.3%, compared to September 30, 2013. As of September 30, 2014 the Water System's net position is \$170 million, an increase of 5.3%, compared to September 30, 2013. This increase is primarily due to an increase in Cash and Cash Equivalents of \$4.6 million which is due to net cash provided by operations increasing 43.6%.

2013 Compared to 2012:

As of September 30, 2013 the Water System's total assets were \$208 million, an increase of 1.8%, compared to September 30, 2012. This increase is primarily due to a rate increase that was effective January 1, 2013. This rate increase is a 5 step increase to assist in paying for the construction of a new water treatment plant. After this increase, the rates will increase every October for the next 4 years. This reflects a 28% increase in rates. The Water System also invested an additional \$7.2 million in Utility Plant. As of September 30, 2013 the Water System's total liabilities were \$47 million, a decrease of 2.2%, compared to September 30, 2012. As of September 30, 2013 the Water System's net position is \$161 million, an increase of 3.0%, compared to September 30, 2012. This increase is primarily due to an increase in Cash and Cash Equivalents of \$3.2 million which is due to net cash provided by operations increasing 52.8%.



City of Huntsville Water System

Table C-2

Condensed Statement of Revenues, Expenses and Change in Net Position (In Thousands)

	2014	2013	FY14 - FY13 % Change	2012	FY13 - FY12 % Change
Operating revenues	\$ 34,832	\$ 29,097	19.7%	\$ 25,865	12.5%
Non-operating revenues	67	75	-10.7%	62	21.0%
Total revenues	34,899	29,172	19.6%	25,927	12.5%
Depreciation expense	7,402	6,033	22.7%	5,894	2.4%
Operating expense	18,431	18,483	-0.3%	17,607	5.0%
Non-operating expense	1,899	1,809	5.0%	1,583	14.3%
Total expenses	27,732	26,325	5.3%	25,084	4.9%
Income (loss) before contributions and transfers	7,167	2,847	151.7%	843	237.7%
Capital contributions	3,191	3,456	-7.7%	2,606	32.6%
Transfers out - tax equivalents	(1,887)	(1,611)	17.1%	(1,428)	12.8%
Change in net position	8,471	4,692	80.5%	2,021	132.2%
Beginning net position	161,045	156,353	3.0%	154,332	1.3%
Ending net position	\$ 169,516	\$ 161,045	5.3%	\$ 156,353	3.0%

2014 Compared to 2013:

As of September 30, 2014 the Water System's total revenues were \$35 million, an increase of 19.6%, compared to September 30, 2013. This increase is primarily due to a rate increase that was effective October 1, 2013. This rate increase is a 5 step increase to assist in paying for the construction of a new water treatment plant. After this increase, the rates will increase every October for the next 3 years. This reflects a 28% increase in rates. As of September 30, 2014 the Water System's expenses were \$28 million. An increase of 5.2% compared to September 30, 2013 due to increase in operating and maintenance costs.

2013 Compared to 2012:

As of September 30, 2013 the Water System's total revenues were \$29 million, an increase of 12.5%, compared to September 30, 2012. This increase is primarily due to a rate increase that was effective January 1, 2013. This rate increase is a 5 step increase to assist in paying for the construction of a new water treatment plant. After this increase, the rates will increase every October for the next 4 years. This reflects a 28% increase in rates. As of September 30, 2013 the Water System's expenses were \$26 million. An increase of 4.9% compared to September 30, 2012 due to increase in operating and maintenance costs.

Jay Stowe, Chief Executive Officer

Ted Phillips, Chief Financial Officer



City of Huntsville Electric System
Statements of Net Position

<i>September 30,</i>	2014	2013
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and Cash Equivalents	\$ 61,298,413	\$ 35,059,466
Board Designated Funds		
Cash and Cash Equivalents	7,624,772	7,897,333
Investments	4,314,916	3,369,814
Accounts Receivable - Trade, Net of Allowance for Doubtful Accounts of \$274,431 in 2014 and \$559,061 in 2013	48,185,942	46,463,538
Inventories - Materials and Supplies	6,139,401	6,186,940
Prepaid Expenses	32,549	40,823
Accrued Interest, Rent and Other Receivables	6,911,052	3,561,679
Total Current Assets	134,507,045	102,579,593
Non-Current Assets		
Restricted Assets		
Cash and Cash Equivalents	500,000	500,000
Investments	12,878,279	26,349,835
Total Restricted Assets	13,378,279	26,849,835
Other Assets		
Regulatory Asset - Bond Expense	380,516	450,897
Utility Plant		
Plant in Service	482,603,085	457,260,341
Construction in Progress	3,599,284	23,155,645
Total Utility Plant	486,202,369	480,415,986
Less: Accumulated Depreciation	(245,076,908)	(227,009,350)
Total Utility Plant - Net	241,125,461	253,406,636
Total Non-Current Assets	254,884,256	280,707,368
Total Assets	389,391,301	383,286,961
Deferred Outflows of Resources		
Deferred Amount on Debt Refunding	254,479	286,289
Total Assets and Deferred Outflows of Resources	\$ 389,645,780	\$ 383,573,250

-Continued-

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



City of Huntsville Electric System
(Continued)

<i>September 30,</i>	2014	2013
Liabilities and Deferred Inflows of Resources		
Current Liabilities		
Accounts Payable - Trade	\$ 38,571,376	\$ 36,164,986
Accounts Payable - Other Utility Departments	2,011,792	1,974,280
Customer Meter Deposits, Including Accrued Interest	6,575,327	5,880,000
Compensated Absences	2,956,544	2,785,208
Accrued Payroll	1,270,822	920,302
Other Current Liabilities	2,494,678	2,521,670
Total Current Liabilities payable from current assets	53,880,539	50,246,446
Liabilities Payable From Restricted Assets		
Current Maturities of Long-Term Debt	2,440,000	2,355,000
Interest Payable	516,058	543,458
Total Liabilities Payable from Restricted Assets	2,956,058	2,898,458
Non-Current Liabilities		
Customer Meter Deposits, Less Current Portion,	31,518,133	33,477,836
Revenue Bonds, Less Current Portion	32,625,000	35,065,000
Unamortized Bond Premium	2,672,461	2,845,851
Total Non-Current Liabilities	66,815,594	71,388,687
Total Liabilities	123,652,191	124,533,591
Net Position		
Net Investment in Capital Assets	203,506,937	213,334,513
Restricted	13,378,279	26,849,835
Unrestricted	49,108,373	18,855,311
Total Net Position	265,993,589	259,039,659
Total Liabilities, Deferred Inflows and Net Position	\$ 389,645,780	\$ 383,573,250

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



**City of Huntsville Electric System
Statements of Revenues, Expenses, and Changes in Net Position**

<i>For the year ended September 30,</i>	2014	2013
Operating Revenues		
Residential	\$ 245,789,076	\$ 225,614,694
Large Commercial and Industrial	205,317,670	196,627,411
Small Commercial	34,934,092	35,654,045
Public Street and Highway Lighting	4,781,731	4,559,768
Other Operating Revenue	11,981,766	12,876,857
Total Operating Revenues	502,804,335	475,332,775
Operating Expenses		
Purchased Power	422,077,056	392,160,993
Transmission	346,776	357,423
Distribution	19,091,158	19,561,944
Customer Accounting	4,743,380	6,534,717
Administrative and General	17,149,270	11,957,140
Depreciation	19,212,511	15,875,828
Payroll Taxes	1,476,167	1,432,261
Total Operating Expenses	484,096,318	447,880,306
Operating Income	18,708,017	27,452,469
Non-Operating Revenues (Expenses)		
Gain on Sale of Assets	69,521	238,447
Interest Income	181,624	164,721
Interest Expense	(494,498)	(1,351,820)
Amortization of Bond Discount	(70,381)	(70,381)
Amortization of Bond Premium	173,390	173,390
Total Non-Operating Revenues (Expenses)	(140,344)	(845,643)
Income Before Transfers	18,567,673	26,606,826
Transfers Out - Tax Equivalent	(11,613,743)	(11,644,597)
Increase in Net Position	6,953,930	14,962,229
Net Position - Beginning	259,039,659	244,077,430
Net Position - Ending	\$ 265,993,589	\$ 259,039,659

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



Financial Statements
Years Ending September 30, 2014 and 2013

City of Huntsville Electric System
Statements of Cash Flows

<i>For the year ended September 30,</i>	2014	2013
Operating Activities		
Received from Customers	\$ 501,081,935	\$ 477,110,527
Paid to Suppliers for Goods and Services	(440,954,423)	(404,043,933)
Paid to Employees for Salaries and Wages	(25,575,959)	(24,669,056)
Net Cash Provided By Operating Activities	34,551,553	48,397,538
Non-Capital Financing Activities		
Payment in Lieu of Taxes	(11,613,743)	(11,644,597)
Capital and Related Financial Activities		
Payment of Principal on Long-Term Debt	(2,355,000)	(2,285,000)
Gain on Sale of Assets	69,521	238,447
Acquisition and Construction of Capital Assets	(6,931,335)	(21,671,219)
Interest Expense	(462,687)	(1,268,805)
Net Cash Used For Capital and Related Financing Activities	(9,679,501)	(24,986,577)
Investing Activities		
Sale of Investment Securities	12,526,453	5,402,618
Interest Income Earned on Investments	181,624	164,721
Net Cash Used For Investing Activities	12,708,077	5,567,339
Increase in Cash and Cash Equivalents	25,966,386	17,333,703
Cash and Cash Equivalents - Beginning of Year	43,456,799	26,123,096
Cash and Cash Equivalent - End of Year	\$ 69,423,185	\$ 43,456,799
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities		
Operating Income	\$ 18,708,016	\$ 27,452,469
Adjustments to Reconcile Operating Income to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	19,212,511	15,875,828
Change in Accounts Receivable - Customer	(1,722,404)	1,777,748
Change in Accounts Receivable - Other	(3,349,373)	(61,907)
Change in Inventories	47,539	2,123,465
Change in Prepaid Expenses	8,274	1,368
Change in Accounts Payable	2,911,366	528,184
Change in Customer Deposits and Interest	(1,264,376)	700,383
Total Adjustments	15,843,537	20,945,069
Net Cash Provided By (Used For) Operating Activities	\$ 34,551,553	\$ 48,397,538
Cash and Cash Equivalent - End of Year		
Current assets:		
Cash and Cash Equivalents	\$ 61,298,413	\$ 35,059,466
Board Designated Funds		
Cash and cash equivalents	7,624,772	7,897,333
Noncurrent assets:		
Bond Trustee Funds	500,000	500,000
Cash and Cash Equivalent - End of Year	\$ 69,423,185	\$ 43,456,799

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



**City of Huntsville Gas System
Statements of Net Position**

September 30,	2014	2013
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and Cash Equivalents	\$ 25,252,865	\$ 22,400,029
Board Designated Funds		
Cash and Cash Equivalents	7,044,461	16,840,256
Investments	17,226,468	7,930,998
Accounts Receivable - Trade, Net of Allowance for Doubtful Accounts of \$4,238 in 2014 and \$13,357 in 2013	1,666,699	1,533,653
Inventories		
Gas	4,573,840	5,952,029
Materials and Supplies	912,497	667,339
Prepaid Expenses	2,337	872
Accrued Interest, Rent and Other Receivables	48,254	36,473
Total Current Assets	56,727,421	55,361,649
Non-Current Assets		
Restricted Assets		
Investments	953,783	954,502
Total Restricted Assets	953,783	954,502
Other Assets		
Regulatory Asset - Bond Expense	130,946	143,034
Utility Plant		
Plant in Service	154,778,172	149,261,627
Construction in Progress	5,214,566	3,234,685
Total Utility Plant	159,992,738	152,496,312
Less: Accumulated Depreciation	(58,320,833)	(53,808,810)
Total Utility Plant - Net	101,671,905	98,687,502
Total Non-Current Assets	102,756,634	99,785,038
Total and Deferred Outflows of Resources	\$ 159,484,055	\$ 155,146,687

-Continued-

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



City of Huntsville Gas System
Statements of Net Position (Continued)

<i>September 30,</i>	2014	2013
Liabilities and Deferred Inflows of Resources		
Current Liabilities		
Accounts Payable - Trade	\$ 2,568,493	\$ 2,177,203
Customer Meter Deposits, Including Accrued Interest	1,761,779	1,833,432
Compensated Absences	1,088,110	1,036,017
Accrued Payroll	430,065	294,727
Other Current Liabilities	594,000	670,030
Total Current Liabilities	6,442,447	6,011,409
Liabilities Payable from Restricted Assets		
Current Maturities of Long-Term Debt	520,000	505,000
Interest Payable	47,444	52,097
Total Liabilities Payable from Restricted Assets	567,444	557,097
Non-Current Liabilities		
Customer Meter Deposits, Less Current Portion	8,591,425	7,961,492
Revenue Bonds, Less Current Portion	6,540,000	7,060,000
Total Non-Current Liabilities	15,131,425	15,021,492
Total Liabilities	22,141,316	21,589,998
Net Position		
Net Investment in Capital Assets	94,695,407	91,213,438
Restricted	953,783	954,502
Unrestricted	41,693,549	41,388,749
Total Net Position	137,342,739	133,556,689
Total Liabilities, Deferred Inflows and Net Position	\$ 159,484,055	\$ 155,146,687

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



City of Huntsville Gas System
Statements of Revenues, Expenses, and Changes in Net Position

<i>For the year ended September 30,</i>	2014	2013
Operating Revenues		
Residential	\$ 20,985,397	\$ 18,445,348
Commercial	22,229,781	20,106,585
Industrial	2,531,716	3,172,993
Other Operating Revenue	2,961,907	3,248,203
Total Operating Revenues	48,708,801	44,973,129
Operating Expenses		
Purchased Gas	27,782,214	26,437,793
Distribution	4,104,811	4,590,850
Customer Accounting	891,923	1,036,674
Administrative and General	5,172,041	3,825,150
Depreciation	4,394,567	3,408,301
Total Operating Expenses	42,345,556	39,298,768
Operating Income	6,363,245	5,674,361
Non-Operating Revenues (Expenses)		
Gain on Sale of Assets	43,510	56,535
Interest Income	49,567	45,588
Interest Expense	(421,992)	(315,329)
Amortization of Debt Discount	(12,087)	(12,087)
Total Non-Operating Revenue (Expenses)	(341,002)	(225,293)
Income Before Capital Contributions and Transfers	6,022,243	5,449,068
Capital Contributions	459,513	949,416
Transfers Out - Tax Equivalent	(2,695,706)	(2,519,903)
Increase (Decrease) in Net Position	3,786,050	3,878,581
Net Position - Beginning	133,556,689	129,678,108
Net Position - Ending	\$ 137,342,739	\$ 133,556,689

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



Financial Statements
Years Ending September 30, 2014 and 2013

City of Huntsville Gas System
Statements of Cash Flows

<i>For the year ended September 30,</i>	2014	2013
Operating Activities		
Received from Customers	\$ 48,575,755	\$ 45,343,748
Paid to Suppliers for Goods and Services	(27,596,157)	(27,015,041)
Paid to Employees for Salaries and Wages	(8,178,728)	(7,854,018)
Net Cash Provided By Operating Activities	12,800,870	10,474,689
Non-Capital Financing Activities		
Payment in Lieu of Taxes	(2,695,706)	(2,519,903)
Capital and Related Financing Activities		
Payment of Principal on Long-Term Debt	(505,000)	(485,000)
Gain on Sale of Assets	43,510	56,535
Additions to Plant in Service	(7,378,970)	(5,225,541)
Capital Contributions	459,513	949,416
Interest Expense	(421,992)	(315,329)
Net Cash Used For Capital and Related Financing Activities	(7,802,939)	(5,019,919)
Investing Activities		
Purchase of Investment Securities	(9,294,751)	(4,944,304)
Interest Income Earned on Investments	49,567	45,588
Net Cash Provided By Investing Activities	(9,245,184)	(4,898,716)
Increase in Cash and Cash Equivalents	(6,942,959)	(1,963,849)
Cash and Cash Equivalents - Beginning of Year	39,240,285	41,204,134
Cash and Cash Equivalents -	\$ 32,297,326	\$ 39,240,285
Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Operating Income	\$ 6,363,245	\$ 5,674,361
Adjustments to Reconcile Operating Income to Net Cash Provided By (Used For) Operating Activities:		
Depreciation and Amortization	4,394,567	3,408,301
Change in Accounts Receivable - Customer	(133,046)	370,619
Change in Accounts Receivable - Other	(11,781)	186,420
Change in Inventories	1,133,032	96,496
Change in Prepaid Expenses	(1,465)	(99)
Change in Accounts Payable	386,637	815,750
Change in Customer Deposits	558,280	(320,954)
Change in Accrued Expenses and Other Current Liabilities	111,401	243,795
Total Adjustments	6,437,625	4,800,328
Net Cash Provided By Operating Activities	\$ 12,800,870	\$ 10,474,689
Cash and Cash Equivalent - End of Year		
Current assets:		
Cash and Cash Equivalents	\$ 25,252,865	\$ 22,400,029
Board Designated Funds	7,044,461	16,840,256
Cash and Cash Equivalent - End of Year	\$ 32,297,326	\$ 39,240,285

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



City of Huntsville Water System
Statements of Net Position

<i>September 30,</i>	2014	2013
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and Cash Equivalents	\$ 18,628,086	\$ 13,976,258
Board Designated Funds		
Cash and Cash Equivalents	3,961,083	7,481,036
Investments	7,106,500	2,500,081
Accounts Receivable - Trade, Net of Allowance for Doubtful Accounts of \$62,860 in 2014 and \$126,638 in 2013	6,686,964	5,902,576
Inventories - Materials and Supplies	1,944,661	1,808,702
Prepaid Expenses	5,467	4,924
Total Current Assets	38,332,761	31,673,577
Non-Current Assets		
Restricted Assets		
Investments	6,114,117	7,373,972
Total Restricted Assets	6,114,117	7,373,972
Other Assets		
Regulatory Asset - Bond Expense	844,396	888,643
Utility Plant		
Plant in Service	274,261,965	262,518,851
Construction in Progress	8,559,911	11,281,248
Total Utility Plant	282,821,876	273,800,099
Less: Accumulated Depreciation	(112,268,472)	(105,295,245)
Total Utility Plant - Net	170,553,404	168,504,854
Total Non-Current Assets	177,511,917	176,767,469
Total Assets and Deferred Outflows of Resources	\$ 215,844,678	\$ 208,441,046

-Continued-

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



**City of Huntsville Water System
Statements of Net Position (Continued)**

September 30,	2014	2013
Liabilities and Deferred Inflows of Resources		
Current Liabilities		
Accounts Payable - Trade	\$ 1,221,674	\$ 1,496,031
Accounts Payable - Other Utility Departments	4,211,100	3,768,680
Customer Meter Deposits, Including Accrued Interest	830,041	454,301
Compensated Absences	1,064,228	1,087,972
Accrued Payroll	539,473	420,401
Other Current Liabilities	455,961	426,556
Total Current Liabilities payable from current assets	8,322,477	7,653,941
Liabilities Payable from Restricted Assets		
Current Maturities of Long-Term Debt	2,405,000	2,335,000
Interest Payable	636,417	666,513
Total Liabilities Payable from Restricted Assets	3,041,417	3,001,513
Non-Current Liabilities		
Customer Meter Deposits, Less Current Portion,	4,188,654	3,506,937
Revenue Bonds, Less Current Portion	29,775,000	32,180,000
Unamortized Bond Premium	1,001,031	1,053,488
Total Non-Current Liabilities	34,964,685	36,740,425
Total Liabilities	46,328,579	47,395,879
Net Position		
Invested in Capital Assets, Net of Related Debt	137,580,351	133,158,499
Restricted	6,114,117	7,373,971
Unrestricted	25,821,631	20,512,697
Total Net Position	169,516,099	161,045,167
Total Liabilities, Deferred Inflows and Net Position	\$ 215,844,678	\$ 208,441,046

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



**City of Huntsville Water System
Statements of Revenues, Expenses, and Changes in Net Position**

<i>For the years ended September 30,</i>	2014	2013
Operating Revenues		
Residential	\$ 18,855,803	\$ 14,993,500
Industrial	1,938,086	1,669,974
Commercial	9,372,805	8,058,215
Government	1,211,664	1,230,072
Fire Hydrants	1,244,741	1,076,960
Other Operating Revenue	2,209,277	2,068,495
Total Operating Revenues	34,832,376	29,097,216
Operating Expenses		
Purification	1,359,986	1,314,901
Pumping	3,877,147	4,364,192
Distribution	4,906,921	5,658,417
Customer Accounting	1,184,672	1,615,073
Administrative and General	7,102,322	5,530,468
Depreciation	7,402,087	6,033,340
Total Operating Expenses	25,833,135	24,516,391
Operating Income	8,999,241	4,580,825
Non-Operating Revenues (Expenses)		
Gain or loss on Sale of Assets	35,615	53,572
Interest Income	30,983	21,070
Interest Expense	(1,907,423)	(1,816,862)
Amortization of Premium on Debt	52,456	52,456
Amortization of Bond Discount	(44,248)	(44,248)
Total Non-Operating Revenue (Expenses)	(1,832,617)	(1,734,012)
Income Before Capital Contributions and Transfers	7,166,624	2,846,813
Capital Contributions	3,191,038	3,456,008
Transfers Out - Tax Equivalent	(1,886,729)	(1,610,778)
Increase in Net Position	8,470,933	4,692,043
Net Position - Beginning	161,045,166	156,353,123
Net Position - Ending	\$ 169,516,099	\$ 161,045,166

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



City of Huntsville Water System
Statements of Cash Flows

<i>For the years ended September 30,</i>	2014	2013
Operating Activities		
Received from Customers	\$ 34,047,988	\$ 29,370,907
Paid to Suppliers for Goods and Services	(7,218,775)	(8,030,792)
Paid to Employees for Salaries and Wages	(10,028,618)	(9,648,390)
Net Cash Provided By Operating Activities	16,800,595	11,691,725
Non-Capital Financing Activities		
Payments in Lieu of Taxes	(1,886,729)	(1,610,777)
Capital and Related Financing Activities		
Payment of Principal on Long-Term Debt	(2,155,000)	(1,900,000)
Issuance of Long Term Debt - Bond Warrants	(180,000)	(180,000)
Acquisition and Construction of Capital Assets	(9,450,639)	(7,414,628)
Proceeds from sale of assets	35,614	53,572
Capital Contributions	3,191,038	3,456,008
Interest Expense	(1,907,423)	(1,714,155)
Net Cash Used For Capital and Related Financing Activities	(10,466,410)	(7,699,203)
Investing Activities		
Purchase of Investment Securities	(3,346,564)	916,082
Interest Income Earned on Investments	30,983	21,070
Net Cash Used For Investing Activities	(3,315,581)	937,152
Increase in Cash and Cash Equivalents	1,131,875	3,318,897
Cash and Cash Equivalents - Beginning of Year	21,457,294	18,138,397
Cash and Cash Equivalents - End of Year	\$ 22,589,169	\$ 21,457,294
Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Operating Income	\$ 8,999,241	\$ 4,580,825
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:		
Depreciation and Amortization	7,402,087	6,033,340
Change in Accounts Receivable - Customer	(784,388)	273,691
Change in Inventories	(135,959)	(168,342)
Change in Prepaid Expenses	(543)	(760)
Change in Accounts Payable	137,967	383,529
Change in Customer Deposits	1,057,457	284,372
Change in Accrued Expenses and Other Current Liabilities	124,733	305,070
Total Adjustments	7,801,354	7,110,900
Net Cash Provided By Operating Activities	16,800,595	11,691,725
Cash and Cash Equivalent - End of Year		
Current assets:		
Cash and Cash Equivalents	\$ 18,628,086	\$ 13,976,258
Board Designated Funds	3,961,083	7,481,036
Cash and Cash Equivalent - End of Year	\$ 22,589,169	\$ 21,457,294

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



Note 1 – Summary of Significant Accounting Policies

The financial statements of the City of Huntsville Electric, Natural Gas, and Water Systems (the “Utilities” or “Huntsville Utilities”) have been prepared in accordance with generally accepted accounting principles of the United States of America (“GAAP”) as applied to government units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Utilities’ accounting principles are described below.

Reporting Entity

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency’s governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. There are no component units which should be included as part of the financial reporting entity of the Utilities. However, the Utilities are a component unit of the City of Huntsville, Alabama.

Financial Presentation

The Utilities are operated by separate Boards for the electric, natural gas and water systems (collectively, the “Boards”). The Boards are responsible for the day-to-day operations of the Utilities and for making recommendations to the City for major capital outlays and rate revisions. The Electric Board consists of three members appointed by the Huntsville City Council for staggered three year terms. The Natural Gas and Water Boards are made up of the same three members who serve on each board, simultaneously. The Boards have hired a President and CEO to administer all three utilities. Financial statements are presented for each Board. The footnotes are presented separately for each Board, where applicable, and jointly for areas where common descriptions exist.

Basis of Accounting

The Utilities use the accrual basis of accounting under which revenues are recognized when earned and expenses are recognized when incurred, even though actual payment or receipt may not occur until after the period ends.

Generally Accepted Accounting Principles (GAAP) are set by the Governmental Accounting Standards Board (GASB), not the FASB as the private sector. The industry as a whole is a regulated industry that follows the Federal Energy Regulatory Commission (FERC) mandates. The Huntsville Electric System’s regulatory body is the Tennessee Valley Authority which has adopted most of these directives as published in the Federal Code of Regulations Title 18. These statements offer short and long term financial information about their activities. The Statements of Net Position include all of the individual System’s assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the System and assessing the liquidity and financial flexibility of the System.



Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

The Utilities prepares its financial statements in accordance with the provisions of GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”, paragraphs 476-500, for regulated operations. These paragraphs recognize that accounting for rate regulated enterprises should reflect the relationship of costs and revenues introduced by rate regulation.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Utilities consider all highly liquid temporary cash investments with low interest rate risk to be cash equivalents. Cash purchases and sales of these investments generally are part of the entity's cash management activities rather than part of its operating, investing and financing activities, and details of these transactions are not reported in the statements of cash flows. Restricted funds are provided for under trust indentures and are not considered cash equivalents. All restricted funds are considered investments for purposes of classification in the statement of cash flows.

The Boards have designated that cash assets be set aside in each system to fund construction and renewal and replacement activity. The designations are segregated in the balance sheets current assets as Board Designated Funds. Designations are relieved once the Board has approved expenditures from those funds. The designated balances are fully funded and are not separately stated in the net assets portion of the balance sheets at September 30, 2014 and 2013.

Investments

Investments in U.S. Treasury, government agency, and state and local government securities are recorded at fair value, as determined by quoted market prices. Investments in overnight repurchase agreements and commercial paper are recorded at cost, which approximates fair value.

Accounts Receivable - Trade

The Electric and Water System acts as a billing and collection agent for other City of Huntsville, City of Madison and Madison County utility departments. Current earnings are charged with an allowance for doubtful accounts based on age of account. Receivables are due 15 days after the issuance of the invoice and are considered delinquent when more than 25 days past due. Accounts considered uncollectible throughout the year are charged against the allowance.

Materials and Supplies Inventories

Materials and supplies inventories are stated at the lower of cost (average cost) or market using the first-in, first-out consumption method of inventory accounting.

Stored Gas Inventory

The stored inventory is reflected at the aggregate amount of the lower of cost (average cost) or market.



Note 1 – Summary of Significant Accounting Policies (Continued)

Fuel Management Program

In connection with the purchase of natural gas, the Utilities has developed and implemented a procurement program intended to manage the risk of changes in the market place of natural gas. Pursuant to this program, the Utilities may execute fixed price and options contracts from time to time to help manage fluctuations in the market prices of natural gas.

Utility Plant

The Utilities maintain a \$1,000 capitalization threshold for equipment, land, buildings and improvements. Utility plant and construction in progress are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the assets ranging from five to fifty years. Retirements of units of property from service are credited against plant in service at the original cost of the units and accumulated depreciation is debited at the date of retirement. Improvements that extend the useful life of the assets are capitalized and depreciated over the remaining useful life of the asset. The cost of maintenance, repairs and replacement of minor items of property are charged to operations and maintenance accounts. Interest on bonds is capitalized during the construction period for assets financed by bond proceeds.

Accounts Receivable/Payable from/to Other Utilities

Included in other receivables are amounts due from the other utility systems for services rendered to them by the Utilities. Included in the payable is cash held by the Utilities for the amounts owed to the City of Huntsville and other utilities for services rendered by them to the Utilities.

Revenues

Revenues are recognized from meters read on a daily basis. Service that has been rendered from the latest date of each meter-reading cycle to month end is estimated and accrued as unbilled revenue receivable.

Grants in Aid to Construction

It is the Electric System's policy not to record amounts as grants in aid to construction, in accordance with guidelines established by FERC. The substance of this accounting treatment is to reduce the cost of operating the Electric System by reducing depreciation expense.

It is the Water and Natural Gas System's policy to record grants in aid to construction and other amounts received as capital contributions in the statement of revenues, expenses and changes in net assets.

Amortization

Amortization of bond discounts and premiums is computed on a straight-line basis, which approximates the effective interest method over the remaining term of the outstanding bonds.

Amortization of regulatory assets is computed on a straight-line basis over the expected recovery of such costs in future rates, estimated to be 20 years.



Note 1 – Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Environmental Costs

Huntsville Utilities expenses, on a current basis, certain known costs incurred in complying with environmental regulations and conducting remediation activities.

Reclassifications

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

Recent Accounting Pronouncements

The GASB has issued the following statements that will be implemented; management is currently assessing the impact of these statements, however they are not expected to have a material effect on the Utilities' financial statements:

- Effective for fiscal year 2014, the Utilities adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.
- In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, which improves the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The provisions for the Statement No. 68 is effective for periods beginning after June 15, 2014. HU has yet to determine the impact of the adoption of this standard on HU's financial position, results of operations, or cash flows.
- The GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. This statement will eliminate the source of potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. Management has not yet determined the effect of this statement on the financial statements. The requirements of this statement are effective for periods beginning after June 15, 2014.



City of Huntsville Electric, Natural Gas, and Water System
Notes to the Financial Statements

Note 2 – Cash, Cash Equivalents and Investments

At September 30, 2014, all cash and cash equivalents of the Utilities are entirely insured or collateralized as provided by the Security for Alabama Funds Enhancement Act (“SAFE”) as prescribed in section 41-14A of the code of the state of Alabama with a Qualified Public Fund Depository. Funds held by the banks’ trust departments or agents are invested in U.S. governmental securities or are secured by U.S. government securities.

A summary of cash and investments for the years ended September 30, 2014 and 2013 are as follows:

2014

Description	Electric System	Natural Gas System	Water System
Carrying amounts of:			
Cash and cash equivalents	68,923,185	32,297,327	22,589,169
Cash and Cash Equivalents -Bond - Restricted	500,000		
Investments – Board Designated	4,314,916	17,226,468	7,106,500
Investments – Bond - Restricted	12,878,279	953,783	6,114,117
Total	\$ 86,616,380	\$ 50,477,577	\$ 35,809,786
Cash and cash equivalents	\$ 61,298,413	\$ 25,252,866	\$ 18,628,086
Bond funds- Restricted	500,000	-	-
Investments - Restricted:			
Bond construction funds	6,395,713	-	-
Sinking Funds	2,531,896	135,570	2,843,930
Debt Service Reserve Funds	3,950,670	818,213	3,270,187
Board designated accounts:			
Cash and cash equivalents			
Construction Fund	7,624,772	7,044,461	3,961,083
Investments			
Insurance Fund	1,422,330	997,670	1,000,000
Worker's Comp Fund	2,000,000	2,000,000	1,615,903
Construction Fund	-	11,397,784	4,490,597
Renew al and Replacement Fund	-	331,014	-
Emergency Fund	892,586		-
Rate Stabilization Fund	-	2,500,000	-
Total	\$ 86,616,380	\$ 50,477,578	\$ 35,809,786



City of Huntsville Electric, Natural Gas, and Water System
Notes to the Financial Statements

Note 2 – Cash, Cash Equivalents and Investments (Continued)

2013

Description	Electric System	Natural Gas System	Water System
Carrying amounts of:			
Cash and cash equivalents	42,956,799	39,240,285	21,457,294
Cash and cash equivalents -bond - restricted	500,000		
Investments – board designated	3,369,814	7,930,998	2,500,081
Investments – bond related - restricted	26,349,835	954,502	7,373,972
Total	\$ 73,176,448	\$ 48,125,785	\$ 31,331,347
Cash and cash equivalents	\$ 35,059,466	\$ 22,400,029	\$ 13,976,258
Bond funds- restricted	500,000	-	-
Investments - restricted:			
Bond construction funds	19,910,731	-	1,297,920
Debt service accounts	2,488,462	818,234	2,809,860
Reserve debt service funds	3,950,642	136,268	3,266,192
Board designated accounts:			
Cash and cash equivalents			
Insurance fund	1,230,119	35,768	15,081
Workers' compensation fund	30,164	30,152	23,201
Construction	5,894,772	15,331,613	7,404,819
Renew and replacement fund	-	1,442,723	37,935
Emergency fund	742,278	-	-
Investments			
Insurance fund	149,978	961,902	984,919
Workers' compensation fund	1,969,836	1,969,096	1,515,162
Rate stabilization	-	2,500,000	-
Construction	1,250,000	2,500,000	-
Total	\$ 73,176,448	\$ 48,125,785	\$ 31,331,347

September 30, 2014, the Utilities had the following investments:

Investment	Maturity			Total
	<1	1-5	6-10	
Repurchase agreement			\$ 2,705,428	\$ 2,705,428
Money Market Funds - U.S. Treasury Obligations	\$ 26,333,191	\$ 19,555,444	\$ -	\$ 45,888,635
	\$ 26,333,191	\$ 19,555,444	\$ 2,705,428	\$ 48,594,063

At September 30, 2013, the Utilities had the following investments:

Investment	Maturity			Total
	<1	1-5	6-10	
Repurchase agreement			\$ 2,705,428	\$ 2,705,428
Money Market Funds - U.S. Treasury Obligations	\$ 41,082,369	\$ 4,691,405	\$ -	\$ 45,773,774
	\$ 41,082,369	\$ 4,691,405	\$ 2,705,428	\$ 48,479,202



City of Huntsville Electric, Natural Gas, and Water System
Notes to the Financial Statements

Note 2 – Cash, Cash Equivalents and Investments (Continued)

Interest rate risk – In accordance with its bond indenture, the Utilities manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio in the bond funds to such stated maturities as will assure the availability of cash sufficient to pay, on a timely basis, the interest and principal of the bonds coming due.

Credit risk – The Utilities’ bond indentures for the outstanding Electric System Revenue Warrants, the Natural Gas Revenue Warrants, and the Water System Revenue Warrants, limit the investments of the various restricted bond funds to the following: (a) securities that are direct obligations of the United States and any securities that are with respect to which the payment of the principal thereof and the interest thereon is unconditionally and irrevocably guaranteed by the United States; (b) custodial receipts evidencing ownership in United States Treasury obligations; and (c) demand or time deposits in domestic banks rated no less than “AA” by Standard & Poor’s Ratings Services or “Aa” by Moody’s Investors Service.

At September 30, 2014, the Utilities’ investments other than the restricted bond funds consisted of Money Market Funds - U.S. Treasury Obligations with no maturity and Certificates of Deposits with various due dates. In addition, the Utilities have invested in a repurchase agreement which is collateralized by U.S. Treasury Obligations.

Custodial Credit risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utilities will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributable to the quantity of the Utilities’ investment in a single issuer. Investments in single issuers that equal or exceed 5% of total investments have a reportable concentration of credit risk. Each of the investments listed above as held by a trustee represent greater than 5% of total investments.



City of Huntsville Electric, Natural Gas, and Water System
Notes to the Financial Statements

Note 3 – Utility Plant in Service

Capital asset activity by System for fiscal years 2014 and 2013 is as follows:

Electric System

	Balance			Balance
	09/30/2013	Increases	Decreases	09/30/2014
Land and land rights	\$ 4,741,443	\$ 18,324	\$ -	\$ 4,759,767
Structures and improvements	418,048,500	16,277,220	(2,432,678)	431,893,042
Furniture, fixtures and other	34,470,398	11,996,011	(516,133)	45,950,276
Total	457,260,341	28,291,555	(2,948,811)	482,603,085
Less accumulated depreciation	(227,009,350)	(21,016,369)	2,948,811	(245,076,908)
Construction in progress	23,155,645	-	(19,556,361)	3,599,284
Total	\$ 253,406,636	\$ 7,275,186	\$ (19,556,361)	\$ 241,125,461

	Balance			Balance
	09/30/2012	Increases	Decreases	09/30/2013
Land and land rights	\$ 4,741,443	\$ -	\$ -	\$ 4,741,443
Structures and improvements	405,504,742	14,832,578	(2,288,820)	418,048,500
Furniture, fixtures and other	32,772,571	2,686,087	(988,260)	34,470,398
Total	443,018,756	17,518,665	(3,277,080)	457,260,341
Less accumulated depreciation	(213,104,850)	(17,181,580)	3,277,080	(227,009,350)
Construction in progress	17,697,339	9,975,882	(4,517,576)	23,155,645
Total	\$ 247,611,245	\$ 10,312,967	\$ (4,517,576)	\$ 253,406,636

Natural Gas System

	Balance			Balance
	09/30/2013	Increases	Decreases	09/30/2014
Land and land rights	\$ 1,803,038	\$ -	\$ -	\$ 1,803,038
Structures and improvements	137,084,694	3,571,236	(77,315)	140,578,615
Furniture, equipment and other	10,373,895	2,249,789	(227,166)	12,396,518
Total	149,261,627	5,821,025	(304,481)	154,778,171
Less accumulated depreciation	(53,808,810)	(4,816,503)	304,481	(58,320,832)
Construction in progress	3,234,685	4,240,014	(2,260,133)	5,214,566
Total	\$ 98,687,502	\$ 5,244,536	\$ (2,260,133)	\$ 101,671,905

	Balance			Balance
	09/30/2012	Increases	Decreases	09/30/2013
Land and land rights	\$ 1,803,038	\$ -	\$ -	\$ 1,803,038
Structures and improvements	133,286,760	3,883,646	(85,712)	137,084,694
Furniture, equipment and other	9,851,251	760,687	(238,043)	10,373,895
Total	144,941,049	4,644,333	(323,755)	149,261,627
Less accumulated depreciation	(50,351,224)	(3,779,019)	321,433	(53,808,810)
Construction in progress	2,280,437	1,348,979	(394,731)	3,234,685
Total	\$ 96,870,262	\$ 2,214,293	\$ (397,053)	\$ 98,687,502



City of Huntsville Electric, Natural Gas, and Water System
Notes to the Financial Statements

Note 3 – Utility Plant in Service (Continued)

Water System

	Balance				Balance
	09/30/2013	Increases	Decreases		09/30/2014
Land and land rights	\$ 1,746,193	\$ -	\$ -		\$ 1,746,193
Structures and improvements	252,241,773	7,552,603	(606,399)		259,187,977
Furniture, equipment and other	9,072,407	4,413,400	(158,012)		13,327,795
Total	263,060,373	11,966,003	(764,411)		274,261,965
Less accumulated depreciation	(105,836,767)	(7,196,116)	764,411		(112,268,472)
Construction in progress	11,281,248	4,396,549	(7,117,886)		8,559,911
	\$ 168,504,854	\$ 9,166,436	\$ (7,117,886)		\$ 170,553,404

	Balance				Balance
	09/30/2012	Increases	Decreases		09/30/2013
Land and land rights	\$ 1,746,193	\$ -	\$ -		\$ 1,746,193
Structures and improvements	243,465,290	9,082,217	(305,734)		252,241,773
Furniture, equipment and other	8,964,080	413,667	(305,340)		9,072,407
Total	254,175,563	9,495,884	(611,074)		263,060,373
Less accumulated depreciation	(99,624,921)	(6,819,983)	608,137		(105,836,767)
Construction in progress	11,514,267	3,841,210	(4,074,229)		11,281,248
	\$ 166,064,909	\$ 6,517,111	\$ (4,077,166)		\$ 168,504,854

Note 4 – Long-Term Debt

The Utilities have numerous outstanding debt obligations. A summary of the current year principal activity and a detailed description of each debt instrument are detailed below.

Principal activity for the year 2014:

	Beginning		Additions		Retirements		Ending
Electric System	\$ 37,420,000	\$	-	\$	2,355,000	\$	35,065,000
Gas System	7,565,000		-		505,000		7,060,000
Water System	34,515,000	\$	-	\$	2,335,000		32,180,000
Total	\$ 79,500,000	\$	-	\$	5,195,000	\$	74,305,000

Principal activity for the year 2013:

	Beginning		Additions		Retirements		Ending
Electric System	\$ 39,705,000	\$	-	\$	2,285,000	\$	37,420,000
Gas System	8,050,000		-		485,000		7,565,000
Water System	36,595,000		180,000		2,260,000		34,515,000
Total	\$ 84,350,000	\$	180,000	\$	5,030,000	\$	79,500,000



**City of Huntsville Electric, Natural Gas, and Water System
Notes to the Financial Statements**

Note 4 – Long-Term Debt (Continued)

Electric System

City of Huntsville, Alabama Electric System Revenue and Term Warrants, Series 2011 - Electric System Revenue Warrants, Series 2011, were issued in the original amount of \$28,285,000. The warrants mature serially on December 1 each year and bear interest according to stated maturity dates as follows:

Fiscal Year	Principal	Interest	Rate
2015	1,235,000	1,163,450	3.00%
2016	665,000	1,134,950	3.00%
2017	675,000	1,114,850	3.00%
2018	705,000	1,090,625	4.00%
2019	730,000	1,061,925	4.00%
2020	1,560,000	1,016,125	2.10%
2021	1,625,000	944,300	2.38%
2022	1,710,000	860,925	2.59%
2023	1,800,000	773,175	2.79%
2024	1,375,000	693,800	2.98%
2025	1,445,000	623,300	3.17%
2026	1,515,000	554,050	3.34%
2027	1,590,000	479,188	3.70%
2028	1,675,000	393,481	3.70%
2029	1,765,000	303,181	3.70%
2030	1,860,000	208,025	3.70%
2031	1,950,000	120,200	4.02%
2032	2,030,000	40,600	4.02%
	25,910,000		
Current	1,235,000		
	\$ 24,675,000		

Optional Redemption: Those of the Series 2011 Warrants maturing on December 1, 2022, and thereafter, will be subject to optional redemption and payment prior to their respective maturities, at the option of the Board, as a whole or in part (but if in part, in such maturities as the Board in its discretion shall designate, and if less than all Series 2011 Warrants of a single maturity are to be redeemed, those to be redeemed to be selected by the Trustee by lot), on December 1, 2021, and on any date thereafter, at and for a redemption price equal to the par amount of the Series 2011 Warrants to be redeemed, plus accrued interest to the date fixed for redemption. The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2014, the balance in the fund is the minimum required by the indenture. The bond indenture requires the Electric System to establish a cash reserve account equal to one-twelfth (1/12) of the principal of the Series 2011 Warrants coming due on December 1 each year and one-sixth (1/6) of the interest due each year. At September 30, 2014, the balance in the fund is in compliance with the indenture. The Electric System Revenue Warrants, Series 2011 is in compliance with Internal Revenue Code Sections 103(b) (2) and 148.



**City of Huntsville Electric, Natural Gas, and Water System
Notes to the Financial Statements**

Note 4 – Long-Term Debt (Continued)

The 2011 Warrants are secured by the net revenues from the operations of the Electric System after payment of the cost of its operations and maintenance and by the monies and investments on deposit in trust funds created by the Trust Indenture under which the warrants were issued. The 2011 issue contained issuance costs of \$138,482 that are classified as a regulatory asset and amortized over 20 years. At September 30, 2014, the unamortized regulatory asset is \$118,864.

The Series 2011 Revenue Warrants were issued to redeem the Series 2002 Warrants and to pay costs of capital improvements to the Electric System. The 2011 issue also contained a premium of \$3,169,716 that is being amortized over 20 years. At September 30, 2014, the unamortized premium is \$2,575,002.

At September 30, 2014, the Electric System also recognizes unamortized deferred gain/loss related to prior year bond retirements in the amount of \$254,479.

City of Huntsville, Alabama Electric System Revenue Warrants, Series 2007 - Electric System Revenue Warrants, Series 2007, were issued in the original amount of \$13,195,000. The warrants mature serially on December 1 each year and bear interest according to stated maturity dates as follows:

Fiscal Year	Principal	Interest	Rate
2015	1,205,000	342,100	4.00%
2016	1,865,000	280,700	4.00%
2017	1,945,000	204,500	4.00%
2018	2,030,000	125,000	4.00%
2019	2,110,000	42,200	4.00%
	9,155,000		
Current	1,205,000		
	\$ 7,950,000		

The 2007 issue contained issuance cost of \$668,300 that are classified as a regulatory asset and amortized over 10 years. At September 30, 2014, the unamortized deferred cost is \$261,653. The Series 2007 Revenue Warrants were issued to redeem a large portion of the Series 1998 Warrants and to pay costs of capital improvements to the Electric System. The 2007 issue also contained a premium of \$264,012 that is being amortized over 10 years. At September 30, 2014, the unamortized premium is \$97,459.

The 2007 Series Warrants maturing in 2018 shall be subject to redemption prior to their respective maturities, at the option of the Board, on December 1, 2017, and on any date thereafter, as a whole or in part, at the redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the redemption date.

The 2007 Warrants are secured by the net revenues from the operations of the Electric System after payment of the cost of its operations and maintenance and by the monies and investments on deposit in trust funds created by the Trust Indenture under which the warrants were issued.

The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2014, the balance in the fund is the minimum required by the indenture. The bond indenture requires the Electric System to establish a cash reserve account equal to one-twelfth (1/12) of the principal of the Series 2007 Warrants coming due on December 1 each year and one-sixth (1/6) of the interest due each year. At September 30, 2014, the balance in the fund is in compliance with the indenture. The Electric System Revenue Warrants, Series 2007 is in compliance with Internal Revenue Code Sections 103(b) (2) and 148.



**City of Huntsville Electric, Natural Gas, and Water System
Notes to the Financial Statements**

Note 4 – Long-Term Debt (Continued)

Natural Gas System

City of Huntsville, Alabama Natural Gas System Revenue Warrants, Series 2005 - Natural Gas System Revenue Warrants, Series 2005, were issued in the original amount of \$11,025,000. The warrants mature serially on August 1 each year and bear interest according to stated maturity dates as follows:

Fiscal Year	Principal	Interest	Rate
2015	520,000	293,394	3.88%
2016	545,000	273,244	4.00%
2017	565,000	251,444	4.00%
2018	585,000	228,844	4.00%
2019	610,000	205,444	4.13%
2020	635,000	180,281	4.13%
2021	660,000	154,088	4.13%
2022	690,000	126,863	4.25%
2023	720,000	97,537	4.25%
2024	750,000	66,938	4.38%
2025	780,000	34,125	4.38%
	7,060,000		
Current	520,000		
	\$ 6,540,000		

The Natural Gas System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2014, the balance in the fund is the minimum required by the indenture. The bond indenture requires the Natural Gas System to establish a cash reserve account equal to one-twelfth (1/12) of the principal of the Series 2005 Warrants coming due on August 1 each year and one-sixth (1/6) of the interest due each August 1 and February 1 each year. At September 30, 2014, the balance in the funds is in compliance with the indenture. The Natural Gas Revenue Warrants, Series 2005 is in compliance with Internal Revenue Code Sections 103(b) (2) and 148.

The 2005 Warrants are secured by the net revenues from the operations of the Natural Gas System after payment of the cost of its operations and maintenance and by the monies and investments on deposit in trust funds created by the Trust Indenture under which the warrants were issued. The 2005 issue contained issuance costs of \$241,756 that are classified as regulatory asset and amortized over 20 years. At September 30, 2014, the unamortized regulatory asset is \$130,946.

The Natural Gas System, Series 2005 Warrants will be subject to redemption prior to their respective maturities, at the option of the Board, as a whole or in part on August 1, 2015, and on any date thereafter, at a redemption price equal to the par amount thereof, plus accrued interest to the date fixed for the redemption. The Series 2005 Revenue Warrants were issued to pay costs of capital improvements to the Natural Gas System.



**City of Huntsville Electric, Natural Gas, and Water System
Notes to the Financial Statements**

Note 4 – Long-Term Debt (Continued)

Water System

City of Huntsville, Alabama Water Revenue and Term Warrants, Series 2008 - Water System Revenue Warrants, Series 2008, were issued in the original amount of \$43,660,000. The warrants mature serially on November 1 each year and bear interest according to stated maturity dates as follows:

Fiscal Year	Principal	Interest	Rate	
2015	2,400,000	1,488,400	3.25%	
2016	2,490,000	1,387,150	5.00%	
2017	2,615,000	1,259,525	5.00%	
2018	2,750,000	1,125,400	5.00%	
2019	2,885,000	984,525	5.00%	*
2020	880,000	890,400	5.00%	*
2021	925,000	845,275	5.00%	*
2022	970,000	797,900	5.00%	*
2023	1,020,000	748,150	5.00%	*
2024	1,075,000	695,775	5.00%	*
2025	1,125,000	643,588	5.00%	*
2026	1,175,000	591,838	5.00%	*
2027	1,230,000	537,725	5.00%	*
2028	1,290,000	481,025	5.00%	*
2029	1,350,000	421,625	4.50%	*
2030	1,415,000	355,875	4.50%	*
2031	1,485,000	283,375	4.50%	*
2032	1,560,000	207,250	4.50%	*
2033	1,640,000	127,250	4.50%	*
2034	1,725,000	43,125	5.00%	*
<hr/>				
	32,005,000			
Current	2,400,000			
<hr/>				
	\$ 29,605,000			
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* - Term Warrants

The Series 2008 Warrants maturing on November 1, 2018 and thereafter are subject to redemption at the option of the Board on any date on or after May 1, 2018 in whole, or in part in \$5,000 multiples in such order and amount of maturities as the Board shall determine in its sole discretion, at a redemption price for each Series 2008 Warrant (or principal portion thereof) to be redeemed of par, plus accrued interest thereon to the date fixed for redemption, without premium or penalty.



City of Huntsville Electric, Natural Gas, and Water System
Notes to the Financial Statements

Note 4 – Long-Term Debt (Continued)

The Water System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2014, the balance in the fund is the minimum required by the indenture. The bond indenture requires the Water System to establish a cash reserve account equal to one-twelfth (1/12) of the principal of the Series 2008 Warrants coming due on November 1 each year and one-sixth (1/6) of the interest due each year. At September 30, 2014, the balance in the fund is in compliance with the indenture. The Water System Revenue Warrants, Series 2008 is in compliance with Internal Revenue Code Sections 103(b) (2) and 148.

The 2008 Warrants are secured by the net revenues from the operations of the Water System after payment of the cost of its operations and maintenance and by the monies and investments on deposit in trust funds created by the Trust Indenture under which the warrants were issued.

The 2008 issue contained issuance cost of \$1,120,915 that are classified as a regulatory asset and amortized over 25 years. At September 30, 2014, the unamortized regulatory asset is \$844,396. The Series 2008 Revenue Warrants were issued to redeem the Series 1998 Warrants and to pay costs of capital improvements to the Water System. The 2008 issue also contained a premium of \$1,340,790 that is being amortized over 25 years. At September 30, 2014, the unamortized premium is \$1,001,031.

City of Huntsville, Alabama Water Revenue Warrants, Series 2013 - Water System Revenue Warrants, Series 2013, were issued in the original amount of \$180,000. The warrants mature serially on August 15 each year and bear interest according to stated maturity dates as follows:

Fiscal Year	Principal	Interest	Rate
2015	5,000	4,744	2.75%
2016	5,000	4,606	2.75%
2017	5,000	4,469	2.75%
2018	10,000	4,263	2.75%
2019	10,000	3,988	2.75%
2020	10,000	3,713	2.75%
2021	10,000	3,438	2.75%
2022	10,000	3,163	2.75%
2023	10,000	2,888	2.75%
2024	10,000	2,613	2.75%
2025	10,000	2,338	2.75%
2026	10,000	2,063	2.75%
2027	10,000	1,788	2.75%
2028	10,000	1,513	2.75%
2029	10,000	1,238	2.75%
2030	10,000	963	2.75%
2031	10,000	688	2.75%
2032	10,000	413	2.75%
2033	10,000	138	2.75%
	175,000		
Current	5,000		
	\$ 170,000		



**City of Huntsville Electric, Natural Gas, and Water System
Notes to the Financial Statements**

Note 4 – Long-Term Debt (Continued)

The interest is payable on February 15 and August 15 of each year. Each installment of principal and interest shall bear interest after its due date until paid at a per annum rate of interest equal to 2% above the Authority Trustee Prime rate. The 2013 Series Warrants maturing in 2023 shall be subject to redemption prior to their respective maturities, at the option of the Board, on August 15, 2022, and on any date thereafter, as a whole or in part, at the redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the redemption date.

The 2013 Warrants are secured by the net revenues from the operations of the Water System after payment of the cost of its operations and maintenance.

The Series 2013 Revenue Warrants were issued to pay costs of the Huntsville Utilities Variable Frequency Drive Installation project.

Note 5 – Employee Benefits

The annual leave policy allows each employee to accumulate up to thirty-five days of annual leave. The Utilities follow the practice of accruing the dollar amount of the leave accrued per each employee on a monthly basis. Actual leave time taken is charged against this account. The sick leave policy provides that at the time of retirement, each employee will be paid 25% of the accumulated sick leave based on the employee’s average salary during the last five years. The Utilities follow the practice of accruing 25% of accumulated sick leave for the employees at year end who are 25% vested in their sick leave. Accrued annual leave and sick leave at September 30, 2014 and 2013 are as follows:

	<u>Accrued Annual Leave</u>		<u>Accrued Sick Leave</u>	
	2014	2013	2014	2013
Electric System	\$ 2,358,839	\$ 2,226,618	\$ 597,705	\$ 558,590
Natural Gas System	\$ 813,655	\$ 803,290	\$ 274,455	\$ 232,727
Water System	\$ 783,547	\$ 835,423	\$ 280,680	\$ 252,549



Note 6 – Defined Benefit Pension Plan and Description

Substantially all employees of the Utilities are members of the Employees' Retirement System of Alabama (“RSA”). Membership is mandatory for covered or eligible employees. The pension plan provides pension benefits, deferred allowances, death and disability benefits and surviving spouse benefits. A member may retire after reaching the age of 60 or accumulating 30 years of service with the Utilities. Benefits vest after 10 years of service. The Utilities are affiliated with RSA, an agent multiple-employer pension plan. RSA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to The Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150 or by calling (334) 832-4140. Benefit provisions are established and amended by State statute.

The employee retirement system was established as of October 1, 1945, and placed under the management of the board of control (currently 10 members) by Act 515, Acts of Alabama 1945. Employees of the Utilities are required to contribute 5% of their gross earnings to the pension plan. The Utilities are required to contribute the remaining amounts necessary to fund the plan, using the actuarial method, “entry age normal.”

Additionally, during the regular session of the Alabama Legislature, the following Acts were adopted:

1. 2011 Regular Session – Act 2011-27(DROP Repeal - Deferred Retirement Option Program) (State Employees Only) and Act 2011-676(Employee Contribution Increase) were adopted. Huntsville Utilities has opted not to increase employee contributions.
2. 2012 Regular Session - Act 2012-377 was enacted which created a new defined benefit tier for employees with no previous creditable retirement service hired on or after January 1, 2013(Tier 2 employees). These changes are mandatory for all agencies. The actuarial valuation report reflects the impact of Act 2012-377.

During 2014 and 2013, the Utilities were required to contribute the following percentages of gross payroll to the plan:

	2014	2014	2013	2013
	Tier 1	Tier 2	Tier 1	Tier 2
Electric System	17.71%	16.21%	17.71%	16.21%
Natural Gas System	11.16%	9.66%	11.16%	9.66%
Water System	14.59%	13.09%	12.87%	11.37%

Based on an actuarial valuation completed as of September 30, 2013, the Annual Pension Cost for each system is as follows:

	Annual Pension Cost (APC) 2014	Annual Pension Cost (APC) 2013	Annual Pension Cost (APC) 2012
Electric System	\$2,088,993	\$1,921,933	\$1,832,498
Natural Gas System	\$2,567,352	2,362,037	2,192,703
Water System	\$793,792	730,311	712,754

The Natural Gas System APC includes joint employees carried on the gas system payroll. Actual expenses are prorated by number of employees per system.



Note 6 – Defined Benefit Pension Plan and Description (Continued)

The Huntsville Utilities' Funding Progress is equal to the Utilities' required and actual contributions (See Required Supplemental Information). The required contribution was determined as part of the September 30, 2013 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) an 8% investment rate of return (net of administrative expenses); (b) projected salary increases of between 3.75% and 7.25% a year, (c) No cost of living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of each System's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The System's unfunded actuarial liabilities are being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at September 30, 2013 was 26 years for the Gas System, 30 years for the Water System and 28 years for the Electric System.

Note 7 – Property and Rights Held Under Deferred Compensation Plan

Employees of the Utilities may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments). The deferred compensation plan is administered by an unrelated financial institution. Under the terms of an Internal Revenue Code Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are the property of the Utilities subject only to the claims of the Utilities general creditors. In addition, the participants in the plan have rights equal to those of the general creditors of the Utilities, and each participant's rights are equal to his or her share of their fair market value of the plan assets. The Utilities believe that it is unlikely that plan assets will be needed to satisfy claims of general creditors that might arise. These assets and related liabilities are not reflected on the books and records of the Utilities.



**City of Huntsville Electric, Natural Gas, and Water System
Notes to the Financial Statements**

Note 8 – Post-Employment Benefits Other Than Pension Benefits

In addition to the Annual Leave and Sick Leave benefits described in Note 5 and the Pension benefits described in Note 6, the Utilities provide post-retirement Medical and nominal Life Insurance to all employees who retire from the Utilities under the provisions of the qualified plan and a minimum of 20 years of service. As of September 30, 2014, approximately 240 retirees meet those eligibility requirements.

Annual OPEB Cost and Net OPEB Obligation - The Utilities’ annual OPEB cost (expense) is calculated based on the annual required contribution (“ARC”), an amount actuarially determined in accordance with the parameters of GASB Codification Section P50: *Postemployment Benefits Other Than Pension Benefits – Employer Reporting*.

The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a thirty-year period beginning October 1, 2007 with a 7% discount rate(changed to 6.25% on September 30, 2012). The Utilities’ annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2014 is as follows:

Electric

Fiscal Year		ARC	Annual OPEB Cost	Net OPEB Obligation
Beginning				
10/01/2011	\$	912,387	\$ 912,387	\$ -
10/01/2012	\$	992,733	\$ 992,733	\$ -
10/01/2013	\$	1,113,180	\$ 1,113,180	\$ -

Gas

Fiscal Year		ARC	Annual OPEB Cost	Net OPEB Obligation
Beginning				
10/01/2011	\$	370,400	\$ 370,400	\$ -
10/01/2012	\$	324,611	\$ 324,611	\$ -
10/01/2013	\$	359,025	\$ 359,025	\$ -

Water

Fiscal Year		ARC	Annual OPEB Cost	Net OPEB Obligation
Beginning				
10/01/2011	\$	399,889	\$ 399,889	\$ -
10/01/2012	\$	420,017	\$ 420,017	\$ -
10/01/2013	\$	451,836	\$ 451,836	\$ -



City of Huntsville Electric, Natural Gas, and Water System
Notes to the Financial Statements

Note 8 – Post-Employment Benefits Other Than Pension Benefits (Continued)

Actuarial Method and Assumptions - Amounts determined regarding the funded status of the plan and the ARC of the Utilities are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future.

The Utilities’ OPEB actuarial valuation as of September 30, 2012 employed the projected unit credit method, using a level percentage of payroll, amortized over an open 30 year period. Because the unfunded actuarial liability (“UAL”) is being amortized by an open or rolling amortization period (with re-amortization of the UAL in each valuation), the amortization amounts will never fully eliminate the UAL. Also, the amortization of the UAL using the current amortization method results in payments less than the “interest only” payments on the UAL. Payments less than the interest only amount will result in the UAL increasing. The investment return assumption (or discount rate) is to be selected as the estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits. The Utilities selected a 6.25% discount rate, representing the expected return on assets invested. Health care costs are trended at rate of Pre-Medicare rate of 8.50% and Post-Medicare rate of 6.25% with an ultimate rate of 5.0%. The ultimate rate trends to be reached in 2018 and 2017 respectively.

While the Utilities established an irrevocable trust to pay its OPEB, full funding was not made until October of 2008 after GASB Codification Section P50: *Postemployment Benefits Other Than Pension Benefits – Employer Reporting* was implemented. The market value of the assets as of September 30, 2014 was \$7,031,343. The Utilities’ OPEB actuarial valuation as of September 30, 2012 reported present value of future accrued unfunded liability as \$23,156,778 with an actuarial accrued liability of \$28,835,898. Future funding will be made each fiscal year.

Note 9 – City of Huntsville – Payment in Lieu of Taxes

Because the Utilities are a component units of the City of Huntsville, they are not subject to income taxes, either at the federal or state level. The Electric System, however, does pay to the City of Huntsville a tax equivalent which is determined by applying the current property tax rates to net plant in service at the end of the preceding year. The Natural Gas and Water Systems each pay a tax equivalent which is a predetermined (6%) percentage of sales revenue. The tax equivalent for the years ended September 30, 2014 and 2013 are as follows:

	2014		2013
Electric System	\$ 11,613,743	\$	11,644,597
Natural Gas System	\$ 2,695,706	\$	2,519,903
Water System	\$ 1,886,729	\$	1,610,777

Note 10 – Gas Purchase Commitments

The Gas System has entered into a purchase contract with Tennessee Energy Acquisition Corporation to establish the purchase price for natural gas. The contracts allow the Gas System to lock in certain volumes of gas to be purchased and prices for that gas. Under the contract, the Gas System has committed to purchase 790,750 MMBtus through 2016 and 1,572,500 MMBtus per year through December 2026 at index less fifty-six cents.



City of Huntsville Electric, Natural Gas, and Water System
Notes to the Financial Statements

Note 11 – Electric Purchase Commitments

Under its wholesale power agreement, the Electric System is committed to purchase its electric power and energy requirement from the Tennessee Valley Authority. The rates for such purchases are subject to review periodically.

Note 12 – Risk Management

The Utilities are exposed to various risks such as torts, theft, damage and destruction of assets; errors and omissions; natural disasters and injuries to employees. Potential losses from these risks are mitigated with a combination of commercial and self-insurance. Commercial insurance coverage is combined for the Electric, Water and Gas Utilities with the expense prorated to each department on a predetermined percentage. Coverage is provided as follows:

Blanket real and personal property	
Real property	\$ 348,209,547
Flood and earthquake	10,000,000
Blanket crime	1,000,000
Cyber	3,000,000
Automobile liability	1,000,000
Public officials and employment liability	5,000,000
Workers compensation	
Bodily injury (accident and disease)	Statutory
Excess coverage per occurrence (SIR)	1,000,000
Comprehensive general liability	Self-insured

The Utilities are self-insured for general liability, health insurance and worker's compensation. Reinsurance is purchased to limit the exposure to catastrophic loss for health and worker's compensation. The health insurance program is administered by Blue Cross/Blue Shield of Alabama. The general liability self-insurance program is administered internally. Amtrust North America administers worker's compensation claims. The Utilities have designated that cash assets be set aside in each system to fund these activities. The balances have been fully funded in segregated accounts in the Board Designated Funds section of the Statements of Net Position and are not separately stated in the net assets portion of the Statements of Net Position.

Note 13 – Commitments and Contingencies

General Litigation

The Utilities are a party to a number of legal actions arising in the ordinary course of its business including having been named with over two hundred other defendants in connection with a contaminated Superfund Site in North Carolina. In management's opinion, the Utilities have adequate legal defenses, insurance coverage, and/or self-insured reserves respecting each of these actions and does not believe that they will materially affect the Utilities' operations or financial position.



City of Huntsville Electric, Natural Gas, and Water System
Notes to the Financial Statements

Note 14 – Customer Deposits

During 2014 and 2013, the Utilities had the following Customer Deposit transactions:

2014

	Deposits	Accrued Interest	Total
Electric	\$ 29,287,296	\$ 8,806,164	\$ 38,093,460
Gas	7,866,974	2,486,230	\$ 10,353,204
Water	3,709,554	1,309,141	\$ 5,018,695
	<u>\$ 40,863,824</u>	<u>\$ 12,601,535</u>	<u>\$ 53,465,359</u>

2013

	Deposits	Accrued Interest	Total
Electric	\$ 29,474,726	\$ 9,883,110	\$ 39,357,836
Gas	7,393,050	2,401,874	\$ 9,794,924
Water	3,061,908	899,330	\$ 3,961,238
	<u>\$ 39,929,684</u>	<u>\$ 13,184,314</u>	<u>\$ 53,113,998</u>

Deposit Transactions

2014

	Beginning Balance	New deposits	Returned Deposits	Ending Balance
Electric	\$ 29,474,726	\$ 5,285,159	\$ (5,472,589)	\$ 29,287,296
Gas	7,393,050	1,947,301	(1,473,377)	7,866,974
Water	3,061,908	1,340,809	(693,163)	3,709,554
	<u>\$ 39,929,684</u>	<u>\$ 8,573,269</u>	<u>\$ (7,639,129)</u>	<u>\$ 40,863,824</u>

2013

	Beginning Balance	New deposits	Returned Deposits	Ending Balance
Electric	\$ 28,297,021	\$ 7,403,463	\$ (6,225,758)	\$ 29,474,726
Gas	7,455,007	1,950,483	(2,012,440)	7,393,050
Water	2,804,410	733,729	(476,231)	3,061,908
	<u>\$ 38,556,438</u>	<u>\$ 10,087,675</u>	<u>\$ (8,714,429)</u>	<u>\$ 39,929,684</u>



**City of Huntsville Electric, Natural Gas, and Water Systems
Required Supplementary Information
Schedule of Funding Progress for the Defined Benefit Pension Plan**

Electric

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
2008	\$ 29,933,875	\$ 50,264,649	\$ 20,330,774	59.60%	\$ 10,087,229	201.50%
2009	\$ 29,667,953	\$ 52,088,628	\$ 22,420,675	57.00%	\$ 10,705,886	209.40%
2010(a)	\$ 29,119,209	\$ 55,028,226	\$ 25,909,017	52.90%	\$ 10,636,420	243.60%
2011(c)	\$ 28,375,971	\$ 55,648,490	\$ 27,272,519	51.00%	\$ 11,324,018	240.80%
2012(d)	\$ 27,559,839	\$ 52,157,858	\$ 24,598,019	52.80%	\$ 10,209,663	240.90%
2013(b)(e)	\$ 29,200,076	\$ 56,002,661	\$ 26,802,585	52.10%	\$ 10,780,856	248.60%

Water

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
2008	\$ 15,922,622	\$ 23,140,702	\$ 7,218,080	68.80%	\$ 5,460,826	132.20%
2009	\$ 15,822,183	\$ 24,304,373	\$ 8,482,190	65.10%	\$ 5,579,512	152.00%
2010(a)	\$ 15,234,380	\$ 25,480,819	\$ 10,246,439	59.80%	\$ 5,487,439	186.70%
2011(c)	\$ 14,845,549	\$ 26,204,475	\$ 11,358,926	56.70%	\$ 5,808,739	195.50%
2012(d)	\$ 14,105,424	\$ 24,942,041	\$ 10,836,617	56.60%	\$ 5,387,113	201.20%
2013(b)(e)	\$ 14,897,124	\$ 26,834,560	\$ 11,937,436	55.50%	\$ 5,663,127	210.80%

Gas

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
2008	\$ 39,258,315	\$ 58,009,060	\$ 18,750,745	67.70%	\$ 17,196,989	109.00%
2009	\$ 39,481,623	\$ 61,824,224	\$ 22,342,601	63.90%	\$ 18,404,081	121.40%
2010(a)	\$ 39,476,087	\$ 67,058,663	\$ 27,582,576	58.90%	\$ 19,019,754	145.00%
2011(c)	\$ 39,215,009	\$ 67,952,357	\$ 28,737,348	57.70%	\$ 20,230,164	142.10%
2012(d)	\$ 39,365,561	\$ 65,308,773	\$ 25,943,212	60.30%	\$ 19,342,835	134.10%
2013(b)(e)	\$ 42,891,485	\$ 71,275,411	\$ 28,383,926	60.20%	\$ 21,219,894	132.80%

- a. Reflects the impact of Alabama Act 2011-27, which closes the DROP program to new applicants after March 24, 2011
- b. Reflects the impact of Alabama Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.
- c. Reflects changes in actuarial assumptions.
- d. Reflects changes to interest smoothing methodology
- e. Reflects implementation of Board Funding Policy.



**City of Huntsville Electric, Natural Gas, and Water Systems
Required Supplementary Information
Schedule of Funding Progress for the Retiree Health Plan**

Electric

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
10/01/2007	\$ -	\$ 14,286,372	\$ 14,286,372	0.00%	\$ 17,313,769	82.51%
10/01/2009	\$ 1,645,279	\$ 16,311,423	\$ 14,666,144	10.09%	\$ 19,243,648	76.21%
10/01/2011	\$ 2,861,472	\$ 13,462,023	\$ 10,600,551	21.26%	\$ 21,111,785	50.21%
10/01/2012	\$ 3,291,897	\$ 16,714,702	\$ 13,422,805	19.69%	\$ 20,724,863	64.77%

Gas

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
10/01/2007	\$ -	\$ 5,185,517	\$ 5,185,517	0.00%	\$ 6,448,111	80.42%
10/01/2009	\$ 661,440	\$ 6,253,862	\$ 5,592,422	10.58%	\$ 7,736,392	72.29%
10/01/2011	\$ 1,160,281	\$ 5,458,633	\$ 4,298,352	21.26%	\$ 7,250,885	59.28%
10/01/2012	\$ 1,068,024	\$ 5,422,923	\$ 4,354,899	19.69%	\$ 5,961,266	73.05%

Water

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
10/01/2007	\$ -	\$ 6,302,713	\$ 6,302,713	0.00%	\$ 7,557,339	83.40%
10/01/2009	\$ 732,866	\$ 7,111,971	\$ 6,379,105	10.30%	\$ 8,571,803	74.42%
10/01/2011	\$ 1,243,152	\$ 5,848,508	\$ 4,605,356	21.26%	\$ 8,931,073	51.57%
10/01/2012	\$ 1,316,199	\$ 6,698,273	\$ 5,379,074	19.69%	\$ 8,541,622	62.97%