



HUNTSVILLE UTILITIES

ELECTRICITY • NATURAL GAS • WATER

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

***Component Unit
Financial Statements***

September 30, 2016 and 2015



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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, 2016, the related statements of revenues, 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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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, 2016, 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, 2015, were audited by other auditor's whose report dated January 28, 2016, 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 10 and the schedules of changes in the net pension liability and employer contributions for the defined benefit plan on pages 46 through 51 and schedule of funding progress for the retiree health plan on page 52 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of statistical highlights on pages 53 through 55 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Jackson Shernton & Co. PC

Montgomery, Alabama
December 23, 2016

Management's Discussion and Analysis

Years Ending September 30, 2016 and 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 Flow; and the accompanying notes. This report also contains required supplementary information in addition to the basic financial statements.

The Statements 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 to financial statements 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
Condensed Statements of Net Position
(In Thousands)

	2016	2015	2014
Assets			
Current and other assets	\$ 140,851	\$ 143,739	\$ 148,266
Capital assets (net)	248,722	239,364	241,125
Total assets	389,573	383,103	389,391
Deferred Outflows of Resources			
Deferred Pension and Debt Refunding	4,104	2,114	2,210
Total Assets and Deferred Outflows of Resources	\$ 393,677	\$ 385,217	\$ 391,601
Liabilities			
Current and other liabilities	\$ 64,499	\$ 54,223	\$ 56,837
Long-term liabilities	89,383	91,130	94,270
Total liabilities	153,882	145,353	151,107
Deferred Inflows of Resources			
Deferred Pension Plan Earnings Difference	-	962	-
Net Position			
Invested in capital assets, net of related debt	216,085	204,063	203,507
Restricted assets	7,161	7,072	13,378
Unrestricted assets	16,549	27,767	23,609
Total net position	239,795	238,902	240,494
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 393,677	\$ 385,217	\$ 391,601

2016 Compared to 2015:

As of September 30, 2016 the Electric System's total assets were \$394 million, an increase of 1.7%, compared to September 30, 2015. This is primarily due to a net increase in acquisition and construction of capital assets of \$9 million. The Electric System's net cash provided by operating activities decreased \$3 million. As of September 30, 2016 the Electric System's liabilities were \$154 million, an increase of 5.9%, compared to September 30, 2015. As of September 30, 2016 the Electric System's net position was \$240 million, an increase of \$1 million, or .4%, compared to September 30, 2015. This increase is due primarily to the operating income of \$.9 million.

2015 Compared to 2014:

As of September 30, 2015 the Electric System's total assets were \$383 million, a decrease of 1.6%, compared to September 30, 2014. This is primarily due to an increase in acquisition and construction of capital assets of \$9.8 million. The Electric System's net cash provided by operating activities increased \$2 million. As of September 30, 2015 the Electric System's liabilities were \$145 million, a decrease of 3.8%, compared to September 30, 2014. As of September 30, 2015 the Electric System's net position was \$239 million, a decrease of \$1.6 million, or .7%, compared to September 30, 2014. This decrease is due primarily to the operating loss of \$1.6 million.



City of Huntsville Electric System
Condensed Statements of Revenues, Expenses, and Changes in Net Position
(In Thousands)

	2016	2015	2014
Operating revenues	\$ 480,402	\$ 491,778	\$ 502,802
Non-operating revenues	534	298	252
Total revenues	480,936	492,076	503,054
Operating expense	448,437	461,680	464,884
Depreciation expense	19,101	18,540	19,213
Non-operating expense	1,068	1,582	391
Total expenses	468,606	481,802	484,488
Income before transfers	12,330	10,274	18,566
Transfers out - tax equivalents	(11,437)	(11,866)	(11,614)
Change in net position	893	(1,592)	6,952
Beginning net position	238,902	240,494	233,542
Ending net position	\$ 239,795	\$ 238,902	\$ 240,494

2016 Compared to 2015:

As of September 30, 2016 the Electric System's total revenues were \$481 million, a decrease of 2.3%, compared to September 30, 2015. This decrease is primarily due to a decrease in kWh sold of 2.6% which is due to weather. The Electric System's operating expenses were \$468 million which was 2.7% decrease from the previous year. This is primarily due to a decrease in purchased energy of \$14 million, a 3.4% decrease from the previous year.

2015 Compared to 2014:

As of September 30, 2015 the Electric System's total revenues were \$492 million, a decrease of 2.2%, compared to September 30, 2014. This decrease is primarily due to a decrease in kWh sold of 8.2% which is due to weather. The Electric System's operating expenses were \$482 million which was 0.6% decrease from the previous year. This is primarily due to a decrease in purchased energy of \$7.5 million, a 1.6% decrease from the previous year.



City of Huntsville Gas System
Condensed Statements of Net Position
 (In Thousands)

	2016	2015	2014
Assets			
Current and other assets	\$ 38,680	\$ 49,650	\$ 57,812
Capital assets (net)	111,727	104,633	101,672
Total assets	150,407	154,283	159,484
Deferred Outflows of Resources			
Deferred Pension and Debt Refunding	4,798	2,553	2,501
Total Assets and Deferred Outflows of Resources	\$ 155,205	\$ 156,836	\$ 161,985
Liabilities			
Current and other liabilities	\$ 5,903	\$ 6,381	\$ 6,443
Long-term liabilities	40,095	36,144	44,823
Total liabilities	45,998	42,525	51,266
Deferred Inflows of Resources			
Deferred Pension Plan Earnings Difference	-	1,438	-
Net Position			
Invested in capital assets, net of related debt	111,727	104,633	94,695
Restricted assets	10,768	10,518	954
Unrestricted assets	(13,288)	(2,278)	15,070
Total net position	109,207	112,873	110,719
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 155,205	\$ 156,836	\$ 161,985

2016 Compared to 2015:

As of September 30, 2016 the Gas System's total assets were \$150 million, a decrease of 2.5%, compared to September 30, 2015. This is primarily due to the decrease in Cash and Cash Equivalents of \$10 million which was due to the increase in capital expenditures of \$7 million. The long-term debt is the Gas System's pension plan (\$31M) and the Customer Deposits (\$10.8M). As of September 30, 2016 the Gas System's total liabilities were \$46 million, an increase of 8.2%, compared to September 30, 2015. As of September 30, 2016 the Gas System's net position is \$109 million, a decrease of 3.2%, compared to September 30, 2015. This decrease is primarily due to the operating loss of \$2.1 million which was due to warmer than normal winter weather.

2015 Compared to 2014:

As of September 30, 2015 the Gas System's total assets were \$154 million, a decrease of 3.2%, compared to September 30, 2014. This decrease is primarily due to a decrease in Cash and Cash Equivalents of \$7.6 million which is due to the payoff of the 2005 Natural Gas Revenue Series Warrants. The remaining long-term debt is the Gas System's pension plan (\$27.5M) and the Customer Deposits (\$8.6M). As of September 30, 2015 the Gas System's total liabilities were \$42 million, a decrease of 17.1%, compared to September 30, 2014. As of September 30, 2015 the Gas System's net position is \$112 million, an increase of 1.9%, compared to September 30, 2014. This increase is due primarily to the operating gain of \$3.9 million.



City of Huntsville Gas System
Condensed Statements of Revenues, Expenses, and Changes in Net Position
 (In Thousands)

	2016	2015	2014
Operating revenues	\$ 35,060	\$ 44,328	\$ 45,747
Non-operating revenues	2,680	3,032	3,056
Total revenues	37,740	47,360	48,803
Operating expense	35,165	38,579	37,951
Depreciation expense	4,619	4,444	4,395
Non-operating expense	63	419	434
Total expenses	39,847	43,442	42,780
Income (loss) before transfers	(2,107)	3,918	6,023
Capital contributions	550	898	460
Transfers out - tax equivalents	(2,109)	(2,663)	(2,696)
Change in net position	(3,666)	2,153	3,787
Beginning net position	112,873	110,720	106,933
Ending net position	\$ 109,207	\$ 112,873	\$ 110,720

2016 Compared to 2015:

As of September 30, 2016 the Gas System's total revenues were \$37.7 million, a decrease of 20.3%, compared to September 30, 2015. This is primarily due to a decrease in natural gas MCF sold of 17.3% because of the warmer than normal winter weather.

As of September 30, 2016 the Gas System's expenses were \$40 million which are down 8.3% compared to September 30, 2015 which is due to the decrease in natural gas MCF purchased of 14.8%.

2015 Compared to 2014:

As of September 30, 2015 the Gas System's total revenues were \$47.4 million, a decrease of 3%, compared to September 30, 2014. This is primarily due to a decrease in MCF sold of 3% because of weather. As of September 30, 2015 the Gas System's expenses were \$43 million. An increase of 1.5% compared to September 30, 2014 due to increase in operating and maintenance costs.



City of Huntsville Water System
Condensed Statements of Net Position
 (In Thousands)

	2016	2015	2014
Assets			
Current and other assets	\$ 93,187	\$ 139,384	\$ 45,291
Capital assets (net)	257,288	199,672	170,553
Total assets	350,475	339,056	215,844
Deferred Outflows of Resources			
Deferred Pension and Debt Refunding	1,699	885	822
Total Assets and Deferred Outflows of Resources	\$ 352,174	\$ 339,941	\$ 216,666
Liabilities			
Current and other liabilities	\$ 21,656	\$ 20,596	\$ 11,363
Long-term liabilities	144,104	150,021	47,191
Total liabilities	165,760	170,617	58,554
Deferred Inflows of Resources			
Deferred Pension Plan Earnings Difference	-	487	-
Net Position			
Invested in capital assets, net of related debt	123,222	63,677	137,580
Restricted assets	36,557	95,335	6,114
Unrestricted assets	26,635	9,825	14,418
Total net position	186,414	168,837	158,112
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 352,174	\$ 339,941	\$ 216,666

2016 Compared to 2015:

As of September 30, 2016 the Water System's total assets were \$350 million, an increase of 3.4%, compared to September 30, 2015. The decrease in current and other assets is due to the use of funds from revenue warrant issued for the construction of a new water treatment plant, which increased Capital assets as well. Gallons sold increased 4.8% and a rate increase was effective October 1, 2015. As of September 30, 2016 the Water System's total liabilities were \$165.7 million, a decrease of \$5 million, compared to September 30, 2015. This increase is primarily due to the liability of Revenue Warrants 2015 Series. As of September 30, 2016 the Water System's net position is \$186 million, an increase of 10.4%, compared to September 30, 2015. This increase is primarily due the increase in net cash provided by operations.

2015 Compared to 2014:

As of September 30, 2015 the Water System's total assets were \$339 million, an increase of 56.9%, compared to September 30, 2014. This increase is primarily due to the issuance of Revenue Warrants 2015 Series in the amount of \$92.8 million and a premium of \$12.6 million. These warrants were issued to fund the construction of a water treatment plant and make improvements to the existing water distribution system. In addition to this issuance we had a rate increase that was effective October 1, 2014. As of September 30, 2015 the Water System's total liabilities were \$171 million, an increase of \$112 million, compared to September 30, 2014. This increase is primarily due to the liability of Revenue Warrants 2015 Series. As of September 30, 2015 the Water System's net position is \$169 million, an increase of 6.8%, compared to September 30, 2014. This increase is primarily due to an increase in Cash and Cash Equivalents of \$5.7 million which is due to increase in net cash provided by operations.



City of Huntsville Water System
Condensed Statements of Revenues, Expenses, and Changes in Net Position
 (In Thousands)

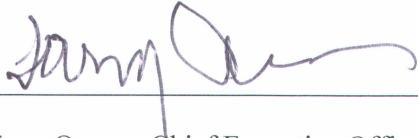
	2016	2015	2014
Operating revenues	\$ 43,132	\$ 38,497	\$ 34,833
Non-operating revenues	250	76	67
Total revenues	43,382	38,573	34,900
Operating expense	18,634	20,709	18,431
Depreciation expense	7,655	7,360	7,402
Non-operating expense	520	1,359	1,899
Total expenses	26,809	29,428	27,732
Income before transfers	16,573	9,145	7,168
Capital contributions	3,457	3,766	3,191
Transfers out - tax equivalents	(2,453)	(2,186)	(1,888)
Change in net position	17,577	10,725	8,471
Beginning net position	168,837	158,112	149,641
Ending net position	\$ 186,414	\$ 168,837	\$ 158,112

2016 Compared to 2015:

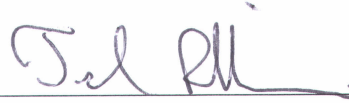
As of September 30, 2016 the Water System's total revenues were \$43 million, an increase of 12%, compared to September 30, 2015. This increase is primarily due to a rate increase that was effective October 1, 2015 and gallon sold increased 4.8%. As of September 30, 2016 the Water System's expenses were \$27 million. A decrease of 6.1% compared to September 30, 2015 due to decrease in operating and maintenance costs.

2015 Compared to 2014:

As of September 30, 2015 the Water System's total revenues were \$39 million, an increase of 10.5%, compared to September 30, 2014. This increase is primarily due to a rate increase that was effective October 1, 2014. 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 two years. This reflects a 28% increase in rates. As of September 30, 2015 the Water System's expenses were \$29 million. An increase of 6.1% compared to September 30, 2014 due to increase in operating and maintenance costs.



Tony Owens, Chief Executive Officer



Ted Phillips, Chief Financial Officer



HUNTSVILLE UTILITIES

ELECTRICITY • NATURAL GAS • WATER

**Component Unit
Financial Statements
Required and Supplemental
Information**

September 30, 2016 and 2015

City of Huntsville Electric, Natural Gas, and Water Systems

Statements of Net Position

Years Ending September 30, 2016 and 2015



(In Thousands)

	Electric		Gas		Water	
	2016	2015	2016	2015	2016	2015
Assets and Deferred Outflows of Resources						
Current Assets						
Cash and Cash Equivalents	\$ 15,887	\$ 29,358	\$ 4,608	\$ 6,532	\$ 13,262	5,749
Investments	4,327	-	750	750	18,363	10,945
Cash and Cash Equivalents - Restricted						
Customer Deposits with Interest	8,676	6,266	1,723	1,713	824	822
Board Designated Funds						
Cash and Cash Equivalents	134	3,081	13,571	1,392	2,765	7,603
Investments	14,000	12,978	2,500	23,194	10,788	4,708
Accounts Receivable, Net Allowance for Doubtful Accounts	50,763	42,830	1,642	1,696	8,477	6,856
Inventories - Gas	-	-	3,771	4,466	-	-
Inventories - Materials and Supplies	7,195	6,649	1,044	948	1,805	1,839
Prepaid Expenses	74	17	26	6	29	7
Accrued Interest, Rent, and Other Receivables	2,987	3,221	1	148	-	-
Total Current Assets	104,043	104,400	29,636	40,845	56,313	38,529
Non-Current Assets						
Restricted Assets						
Cash and Cash Equivalents						
Customer Deposits with Interest	29,408	31,957	9,044	8,805	4,419	4,315
Cash and Cash Equivalents	500	500	-	-	-	10,724
Investments	6,661	6,572	-	-	31,314	84,611
Total Restricted	36,569	39,029	9,044	8,805	35,733	99,650
Other Assets						
Regulatory Asset	240	310	-	-	1,141	1,205
Utility Plant						
Plant in Service	505,283	490,578	170,261	162,080	293,202	279,075
Construction in Progress	23,697	11,061	9,031	5,615	90,888	40,097
Total Utility Plant	528,980	501,639	179,292	167,695	384,090	319,172
Less: Accumulated Depreciation	(280,259)	(262,275)	(67,565)	(63,062)	(126,802)	(119,500)
Total Utility Plant - Net	248,721	239,364	111,727	104,633	257,288	199,672
Total Non-Current Assets	285,530	278,703	120,771	113,438	294,162	300,527
Total Assets	389,573	383,103	150,407	154,283	350,475	339,056
Deferred Outflows of Resources						
Deferred Debt Refunding	191	223	-	-	-	-
Deferred Pension Employer Contributions	3,913	1,891	4,798	2,553	1,699	885
Total Deferred Outflows of Resources	4,104	2,114	4,798	2,553	1,699	885
Total Assets and Deferred Outflows of Resources	\$ 393,677	\$ 385,217	\$ 155,205	\$ 156,836	\$ 352,174	\$ 339,941

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



HUNTSVILLE UTILITIES

ELECTRICITY • NATURAL GAS • WATER

**Component Unit
Financial Statements
Required and Supplemental
Information**

September 30, 2016 and 2015

City of Huntsville Electric, Natural Gas, and Water Systems

Statements of Net Position

Years Ending September 30, 2016 and 2015



(In Thousands)

	Electric		Gas		Water	
	2016	2015	2016	2015	2016	2015
Assets and Deferred Outflows of Resources						
Current Assets						
Cash and Cash Equivalents	\$ 15,887	\$ 29,358	\$ 4,608	\$ 6,532	\$ 13,262	5,749
Investments	4,327	-	750	750	18,363	10,945
Cash and Cash Equivalents - Restricted						
Customer Deposits with Interest	8,676	6,266	1,723	1,713	824	822
Board Designated Funds						
Cash and Cash Equivalents	134	3,081	13,571	1,392	2,765	7,603
Investments	14,000	12,978	2,500	23,194	10,788	4,708
Accounts Receivable, Net Allowance for Doubtful Accounts	50,763	42,830	1,642	1,696	8,477	6,856
Inventories - Gas	-	-	3,771	4,466	-	-
Inventories - Materials and Supplies	7,195	6,649	1,044	948	1,805	1,839
Prepaid Expenses	74	17	26	6	29	7
Accrued Interest, Rent, and Other Receivables	2,987	3,221	1	148	-	-
Total Current Assets	104,043	104,400	29,636	40,845	56,313	38,529
Non-Current Assets						
Restricted Assets						
Cash and Cash Equivalents						
Customer Deposits with Interest	29,408	31,957	9,044	8,805	4,419	4,315
Cash and Cash Equivalents	500	500	-	-	-	10,724
Investments	6,661	6,572	-	-	31,314	84,611
Total Restricted	36,569	39,029	9,044	8,805	35,733	99,650
Other Assets						
Regulatory Asset	240	310	-	-	1,141	1,205
Utility Plant						
Plant in Service	505,283	490,578	170,261	162,080	293,202	279,075
Construction in Progress	23,697	11,061	9,031	5,615	90,888	40,097
Total Utility Plant	528,980	501,639	179,292	167,695	384,090	319,172
Less: Accumulated Depreciation	(280,259)	(262,275)	(67,565)	(63,062)	(126,802)	(119,500)
Total Utility Plant - Net	248,721	239,364	111,727	104,633	257,288	199,672
Total Non-Current Assets	285,530	278,703	120,771	113,438	294,162	300,527
Total Assets	389,573	383,103	150,407	154,283	350,475	339,056
Deferred Outflows of Resources						
Deferred Debt Refunding	191	223	-	-	-	-
Deferred Pension Employer Contributions	3,913	1,891	4,798	2,553	1,699	885
Total Deferred Outflows of Resources	4,104	2,114	4,798	2,553	1,699	885
Total Assets and Deferred Outflows of Resources	\$ 393,677	\$ 385,217	\$ 155,205	\$ 156,836	\$ 352,174	\$ 339,941

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

City of Huntsville Electric, Natural Gas, and Water Systems

Statements of Net Position

Years Ending September 30, 2016 and 2015

(In Thousands)



(Continued)	Electric		Gas		Water	
	2016	2015	2016	2015	2016	2015
Liabilities and Deferred Inflows of Resources						
Current Liabilities						
Accounts Payable - Trade	\$ 46,434	\$ 37,700	\$ 1,892	\$ 2,207	\$ 5,734	\$ 8,824
Accounts Payable - Other Utility Departments	2,086	2,061	-	-	4,568	3,855
Compensated Absences	3,198	3,098	1,304	1,255	1,245	1,191
Accrued Payroll	574	1,461	185	403	297	654
Other Current Liabilities	455	619	799	803	415	1,646
Total Current Liabilities Payable from Current Assets	52,747	44,939	4,180	4,668	12,259	16,170
Current Liabilities From Restricted Assets						
Customer Deposits, Including Accrued Interest	8,676	6,266	1,723	1,713	824	822
Current Maturities of Long-Term Debt	2,620	2,530	-	-	6,280	2,495
Interest Payable	456	488	-	-	2,293	1,109
Total Liabilities Payable from Restricted Assets	11,752	9,284	1,723	1,713	9,397	4,426
Non-Current Liabilities						
Net Pension Liability	30,174	26,579	31,051	27,339	13,052	12,110
Customer Deposits, Including Accrued Interest	29,408	31,957	9,044	8,805	4,419	4,315
Revenue Bonds, Less Current Portion	27,475	30,095	-	-	113,810	120,090
Unamortized Bond Premium	2,326	2,499	-	-	12,823	13,506
Total Non-Current Liabilities	89,383	91,130	40,095	36,144	144,104	150,021
Total Liabilities	153,882	145,353	45,998	42,525	165,760	170,617
Deferred Inflows of Resources						
Deferred Pension Plan Earnings Difference	-	962	-	1,438	-	487
Net Position						
Invested in Capital Assets, Net of Related Debt	216,085	204,063	111,727	104,633	123,222	63,677
Restricted	7,161	7,072	10,768	10,518	36,557	95,335
Unrestricted	16,549	27,767	(13,288)	(2,278)	26,635	9,825
Total Net Position	239,795	238,902	109,207	112,873	186,414	168,837
Total Liabilities, Deferred Inflows, and Net Position	\$ 393,677	\$ 385,217	\$ 155,205	\$ 156,836	\$ 352,174	\$ 339,941

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

City of Huntsville Electric, Natural Gas, and Water Systems
Statements of Revenues, Expenses and Changes in Net Position

Years Ending September 30, 2016 and 2015

(In Thousands)



	Electric		Gas		Water	
	2016	2015	2016	2015	2016	2015
Operating Revenues						
Residential	\$ 233,655	\$ 242,941	\$ 14,912	\$ 20,066	\$ 23,382	\$ 20,338
Commercial and Industrial	230,987	232,380	20,148	24,262	14,221	12,563
Public Street and Highway Lighting	4,715	4,710	-	-	-	-
Government	-	-	-	-	2,396	2,415
Fire Hydrants	-	-	-	-	1,406	1,323
Other Operating Revenue	11,045	11,747	2,563	2,833	1,727	1,858
Total Operating Revenues	480,402	491,778	37,623	47,161	43,132	38,497
Operating Expenses						
Purchased Commodity	401,357	415,524	22,072	26,979	-	-
Purification	-	-	-	-	1,668	1,419
Pumping	-	-	-	-	4,230	4,151
Transmission	335	418	-	-	-	-
Distribution	17,922	19,187	4,853	4,708	3,849	5,663
Customer Accounting	6,025	5,501	1,040	1,007	1,376	1,275
Administrative and General	22,798	21,050	7,200	5,885	7,511	8,201
Depreciation	19,101	18,540	4,619	4,444	7,655	7,360
Total Operating Expenses	467,538	480,220	39,784	43,023	26,289	28,069
Operating Income	12,864	11,558	(2,161)	4,138	16,843	10,428
Non-Operating Revenues (Expenses)						
Gain on Sale of Assets	101	91	47	33	21	39
Interest Income	433	207	70	166	229	37
Interest Expense	(1,171)	(1,684)	(63)	(288)	(1,138)	(1,418)
Amortization of Bond Discount	(70)	(70)	-	(131)	(65)	(46)
Amortization of Bond Premium	173	172	-	-	683	105
Total Non-Operating Revenues (Expenses)	(534)	(1,284)	54	(220)	(270)	(1,283)
Income Before Transfers	12,330	10,274	(2,107)	3,918	16,573	9,145
Capital Contributions	-	-	550	898	3,457	3,766
Transfers Out - Tax Equivalent	(11,437)	(11,866)	(2,109)	(2,663)	(2,453)	(2,186)
Change in Net Position	893	(1,592)	(3,666)	2,153	17,577	10,725
Net Position - Beginning	\$ 238,902	\$ 240,494	\$ 112,873	\$ 110,720	\$ 168,837	\$ 158,112
Net Position - Ending	\$ 239,795	\$ 238,902	\$ 109,207	\$ 112,873	\$ 186,414	\$ 168,837

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

City of Huntsville Electric, Natural Gas, and Water Systems

Statements of Cash Flows

Years Ending September 30, 2016 and 2015



(In Thousands)

	Electric		Gas		Water	
	2016	2015	2016	2015	2016	2015
Cash Flows from Operating Activities						
Received from Customers	\$ 472,569	\$ 497,225	\$ 37,723	\$ 47,166	\$ 41,538	\$ 38,367
Paid to Suppliers for Goods and Services	(411,387)	(433,779)	(25,310)	(30,168)	(11,916)	(803)
Paid to Employees for Salaries and Wages	(28,139)	(26,753)	(9,338)	(8,736)	(10,871)	(10,697)
Net Cash Provided By Operating Activities	33,043	36,693	3,075	8,262	18,751	26,867
Cash Flows from Non-Capital Financing Activities						
Payment in Lieu of Taxes	(11,437)	(11,874)	(2,109)	(2,663)	(2,453)	(2,187)
Net Cash Used in Non-Capital Financing Activities	(11,437)	(11,874)	(2,109)	(2,663)	(2,453)	(2,187)
Cash Flows from Capital and Related Financing Activities						
Payment of Principal on Long-Term Debt	(2,440)	(2,440)		(7,060)	(2,495)	(2,405)
Issuance of Long-Term Debt - Bond Warrants		-		-	-	105,013
Acquisition and Construction of Capital Assets	(31,015)	(16,779)	(2,667)	(7,408)	(71,431)	(36,477)
Capital Contributions		-	550	898	3,457	3,766
Interest Expense	(1,200)	(1,712)	(63)	(288)	(4,516)	(945)
Net Cash Provided By (Used For) Capital and Related Financing Activities	(34,655)	(20,931)	(2,180)	(13,858)	(74,985)	68,952
Cash Flows from Investing Activities						
Purchase of Investment Securities, net	(3,941)	(2,357)	11,648	(5,763)	50,515	(87,045)
Interest Income Earned on Investments	433	207	70	166	229	37
Net Cash Provided By (Used For) Investing Activities	(3,508)	(2,150)	11,718	(5,597)	50,744	(87,008)
Increase (Decrease) in Cash and Cash Equivalents	(16,557)	1,738	10,504	(13,856)	(7,943)	6,624
Cash and Cash Equivalents - Beginning of Year	71,162	69,424	18,442	32,298	29,213	22,589
Cash and Cash Equivalent - End of Year	\$ 54,605	\$ 71,162	\$ 28,946	\$ 18,442	\$ 21,270	\$ 29,213

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

City of Huntsville Electric, Natural Gas, and Water Systems

Statements of Cash Flows

Years Ending September 30, 2016 and 2015



(In Thousands)

(Continued)	Electric		Gas		Water	
	2016	2015	2016	2015	2016	2015
Reconciliation of Operating Income to Net Cash Provided By						
(Used For) Operating Activities						
Operating Income (Loss)	\$ 12,864	\$ 11,558	\$ (2,161)	\$ 4,138	\$ 16,843	\$ 10,428
Adjustments to Reconcile Operating Income to Net Cash						
Provided By (Used For) Operating Activities:						
Depreciation and Amortization	19,101	18,540	4,619	4,444	7,655	7,360
Gain on Sale of Equipment	101	91	47	33	21	39
Change in Accounts Receivable - Customer	(7,933)	5,356	54	(29)	(162)	(169)
Change in Accounts Receivable - Other	242	3,697	147	(100)	-	-
Change in Inventories	(546)	(510)	598	72	32	107
Change in Prepaid Expenses	(57)	16	(20)	(4)	(22)	(2)
Change in Deferred Outflow of Resources	(1,028)	96	(2,245)	(52)	(814)	(63)
Change in Accounts Payable	7,805	(2,368)	(315)	(408)	(2,376)	7,246
Change in Pension Liability	3,595	(876)	3,712	(1,785)	942	(116)
Change in Deferred Inflow of Resources	(962)	962	(1,438)	1,438	(487)	487
Change in Customer Deposits and Interest	(139)	131	250	166	106	118
Change in Accrued Expenses and Other Current Liabilities	-	-	(173)	349	(1,528)	1,432
Total Adjustments	20,179	25,135	5,236	4,124	1,908	16,439
Net Cash Provided By (Used For) Operating Activities	\$ 33,043	\$ 36,693	\$ 3,075	\$ 8,262	\$ 18,751	\$ 26,867
Reconciliation of Cash and Cash Equivalents						
Current Assets:						
Cash and Cash Equivalents	\$ 15,887	\$ 29,358	\$ 4,608	\$ 6,532	\$ 13,262	\$ 5,749
Board Designated Funds - Cash and Cash Equivalents	134	3,081	13,571	1,392	2,765	7,603
Cash and Cash Equivalents - Restricted						
Customer Deposits	38,084	38,223	10,767	10,518	5,243	5,137
Non-current Assets:						
Bond Trustee Funds	500	500	-	-	-	10,724
Total Cash and Cash Equivalents	\$ 54,605	\$ 71,162	\$ 28,946	\$ 18,442	\$ 21,270	\$ 29,213

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 “HU”) 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.

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



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 Statements 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 Statements of Net Position 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, 2016 and 2015.

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 Systems act as billing and collection agents 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 18 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.

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



Note 1 – Summary of Significant Accounting Policies (Continued)

Fuel Management Program

In connection with the purchase of natural gas, the Natural Gas System 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 55 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. An allowance for funds used during construction is capitalized during the construction period.

Regulatory Accounting

Regulatory accounting allows a regulated utility to defer a cost (a regulatory asset) or recognize an obligation (a regulatory liability) if it is probable that through the rate making process, there will be a corresponding increase or decrease in future revenues. Accordingly, Huntsville Utilities has recognized certain regulatory assets in the accompanying Statements of Net Position. In the event Huntsville Utilities no longer meets the criteria for regulated operations under GASB Statement No. 62, Huntsville Utilities would be required to recognize the effects of any regulatory change in assets or liabilities in its Statements of Revenues, Expenses, and Changes in Net Position. The following are the regulatory assets included in the Statements of Net Position:

	<u>Electric System</u>		<u>Water System</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Regulatory Assets:				
Non-Current:				
Unamortized Debt Expense	\$ 239,755	\$ 310,136	\$ 1,140,568	\$ 1,205,151
Total Non-Current	<u>\$ 239,755</u>	<u>\$ 310,136</u>	<u>\$ 1,140,568</u>	<u>\$ 1,205,151</u>

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.

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



Note 1 – Summary of Significant Accounting Policies (Continued)

Grants in Aid to Construction

It is the Electric System's policy not to record amounts as grants in aid of 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 of construction and other amounts received as capital contributions in the Statements of Revenues, Expenses, and Changes in Net Position.

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.

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 2015 financial statements have been reclassified to conform to the 2016 presentation.

Pensions

The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the Plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

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



Note 1 – Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In June 2015, the GASB issued two related Statements that affect accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans that administer benefits on behalf of governments. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses reporting by governments that provide OPEB to their employees. Statement No. 74 is effective for fiscal years beginning after June 15, 2016, and Statement No. 75 is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 82, *Pension Issues*, is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Statement No. 82 specifically addresses presentation of payroll-related measures in required supplementary information, the selection of assumptions and treatment of deviations from guidance in Actuarial Standards of Practice for financial reporting purposes, and classification of payments made by employers to satisfy plan member contribution requirements. Statement No. 82 is effective for fiscal years beginning after June 15, 2016.

Huntsville Utilities has not elected early implementation of these standards and has not completed the process of evaluating the impact of these Statements on its financial statements.

Note 2 – Cash, Cash Equivalents, and Investments

At September 30, 2016 and 2015, 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.

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



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

A summary of cash and investments for the years ended September 30, 2016 and 2015 are as follows:

<u>2016</u>	Electric System	Natural Gas System	Water System
Carrying Amounts Of:			
Cash and Cash Equivalents			
Unrestricted	\$ 15,887,392	\$ 4,607,118	\$ 13,262,506
Customer Deposits - Restricted	38,084,045	10,768,177	5,243,407
Bond - Restricted	500,000	-	-
Board Designated	134,182	13,571,462	2,765,454
Investments			
Unrestricted	4,326,494	750,000	18,362,775
Board Designated	13,999,586	2,500,000	10,787,611
Bond - Restricted	6,661,186	-	31,314,001
Totals	\$ 79,592,885	\$ 32,196,757	\$ 81,735,754
Cash and Cash Equivalents			
Unrestricted	\$ 15,887,392	\$ 4,607,118	\$ 13,262,506
Customer Deposits - Restricted	38,084,045	10,768,177	5,243,407
Bond Funds - Restricted	500,000	-	-
Investments			
	4,326,494	750,000	18,362,775
Investments - Bond - Restricted			
Bond Construction Funds	-	-	19,836,183
Sinking Funds	2,642,352	-	3,015,246
Debt Service Reserve Funds	4,018,834	-	8,462,573
Board Designated Accounts			
Cash and Cash Equivalents			
Insurance Fund	-	997,670	1,000,000
Worker's Comp Fund	-	1,995,760	1,752,414
Construction Fund	-	10,578,032	3,681
Renewal and Replacement Fund	134,182	-	9,358
Investments			
Insurance Fund	1,506,796	-	-
Worker's Comp Fund	1,996,618	-	-
Construction Fund	8,584,772	-	5,385,106
Emergency Fund	1,911,400	-	-
Rate Stabilization Fund	-	2,500,000	-
System Development	-	-	5,402,505
Totals	\$ 79,592,885	\$ 32,196,757	\$ 81,735,754

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



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

<u>2015</u>	Electric System	Natural Gas System	Water System
Carrying Amounts Of:			
Cash and Cash Equivalents			
Unrestricted	\$ 29,358,663	\$ 6,532,205	\$ 5,748,896
Customer Deposits - Restricted	38,222,577	10,518,169	5,137,020
Bond - Restricted	500,000	-	10,723,942
Board Designated	3,081,016	1,392,241	7,602,777
Investments			
Unrestricted	-	750,000	10,945,150
Board Designated	12,977,895	23,193,663	4,708,299
Bond - Restricted	6,572,123	-	84,611,417
Totals	\$ 90,712,274	\$ 42,386,278	\$ 129,477,501
Cash and Cash Equivalents			
Unrestricted	\$ 29,358,663	\$ 6,532,205	\$ 5,748,896
Customer Deposits - Restricted	38,222,577	10,518,169	5,137,020
Bond Funds - Restricted	500,000	-	10,723,942
Investments			
	-	750,000	10,945,150
Investments - Bond - Restricted			
Bond Construction Funds	-	-	77,867,642
Sinking Funds	2,598,869	-	2,952,537
Debt Service Reserve Funds	3,973,254	-	3,791,238
Board Designated Accounts			
Cash and Cash Equivalents			
Insurance Fund	-	997,670	1,000,000
Worker's Comp Fund	-	-	1,717,641
Construction Fund	-	1,144,571	380,489
Renewal and Replacement Fund	3,081,016	-	-
System Development	-	-	4,504,647
Investments			
Insurance Fund	1,464,564	-	-
Worker's Comp Fund	2,000,000	2,000,000	-
Construction Fund	8,104,772	17,943,663	4,708,299
Emergency Fund	1,408,559	-	-
Rate Stabilization Fund	-	2,500,000	-
Totals	\$ 90,712,274	\$ 42,386,278	\$ 129,477,501

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



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

At September 30, 2016, the Utilities had the following investments:

Investment	Maturity			Total
	< 1	1 - 5	6 - 10	
United States Treasury Note	\$ -	\$ 7,383,963	\$ -	\$ 7,383,963
Certificates of Deposits	1,750,358		-	1,750,358
Money Market Funds -				
U.S. Treasury Obligations	33,094,275	42,414,888	4,058,170	79,567,333
Totals	\$34,844,633	\$49,798,851	\$4,058,170	\$ 88,701,654

At September 30, 2015, the Utilities had the following investments:

Investment	Maturity			Total
	< 1	1 - 5	6 - 10	
Repurchase Agreement	\$ -	\$ -	\$2,705,428	\$ 2,705,428
Certificates of Deposits	749,050	2,249,380	-	2,998,430
Money Market Funds -				
U.S. Treasury Obligations	67,790,766	69,513,923	-	137,304,689
Totals	\$68,539,816	\$71,763,303	\$2,705,428	\$143,008,547

Interest Rate risk - is the risk of fixed-maturity investments fluctuating in response to changes in market interest rates. 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 - in 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, 2016 and 2015, 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. Each of the investments listed above 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.

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



Note 3 – Utility Plant in Service

Capital asset activity by System for fiscal years 2016 and 2015 is as follows:

Electric System

	Balance			Balance
	09/30/2015	Increases	Decreases	09/30/2016
Land and land rights	\$ 4,759,767	\$ -	\$ -	\$ 4,759,767
Structures and improvements	438,245,817	12,451,154	(1,576,655)	449,120,316
Furniture, fixtures, and other	47,571,956	4,829,606	(998,463)	51,403,099
Totals	490,577,540	17,280,760	(2,575,118)	505,283,182
Less accumulated depreciation	(262,274,640)	(20,559,119)	2,575,118	(280,258,641)
Construction in progress	11,061,289	18,873,478	(6,237,596)	23,697,171
Totals	\$ 239,364,189	\$ 15,595,119	\$ (6,237,596)	\$ 248,721,712

	Balance			Balance
	09/30/2014	Increases	Decreases	09/30/2015
Land and land rights	\$ 4,759,767	\$ -	\$ -	\$ 4,759,767
Structures and improvements	431,893,042	8,328,226	(1,975,451)	438,245,817
Furniture, fixtures, and other	45,950,276	2,374,726	(753,046)	47,571,956
Totals	482,603,085	10,702,952	(2,728,497)	490,577,540
Less accumulated depreciation	(245,076,908)	(19,926,230)	2,728,498	(262,274,640)
Construction in progress	3,599,284	9,836,426	(2,374,421)	11,061,289
Totals	\$ 241,125,461	\$ 613,148	\$ (2,374,420)	\$ 239,364,189

Natural Gas System

	Balance			Balance
	09/30/2015	Increases	Decreases	09/30/2016
Land and land rights	\$ 1,803,038	\$ -	\$ -	\$ 1,803,038
Structures and improvements	147,408,741	7,771,117	(315,279)	154,864,579
Furniture, equipment, and other	12,868,572	1,159,223	(434,612)	13,593,183
Totals	162,080,351	8,930,340	(749,891)	170,260,800
Less accumulated depreciation	(63,062,331)	(5,252,391)	749,891	(67,564,831)
Construction in progress	5,615,017	7,403,964	(3,988,443)	9,030,538
Totals	\$ 104,633,037	\$ 11,081,913	\$ (3,988,443)	\$ 111,726,507

	Balance			Balance
	09/30/2014	Increases	Decreases	09/30/2015
Land and land rights	\$ 1,803,038	\$ -	\$ -	\$ 1,803,038
Structures and improvements	140,578,615	6,899,845	(69,719)	147,408,741
Furniture, equipment, and other	12,396,518	609,839	(137,785)	12,868,572
Totals	154,778,171	7,509,684	(207,504)	162,080,351
Less accumulated depreciation	(58,320,832)	(4,949,003)	207,504	(63,062,331)
Construction in progress	5,214,566	4,044,749	(3,644,298)	5,615,017
Totals	\$ 101,671,905	\$ 6,605,430	\$ (3,644,298)	\$ 104,633,037

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



Note 3 – Utility Plant in Service (Continued)

	Balance			Balance
	09/30/2015	Increases	Decreases	09/30/2016
Land and land rights	\$ 1,845,971	\$ -	\$ -	\$ 1,845,971
Structures and improvements	263,700,338	14,150,039	(639,554)	277,210,823
Furniture, equipment, and other	13,529,173	780,516	(164,347)	14,145,342
Total	279,075,482	14,930,555	(803,901)	293,202,136
Less accumulated depreciation	(119,500,314)	(8,105,612)	803,901	(126,802,025)
Construction in progress	40,096,660	59,871,907	(9,080,880)	90,887,687
Totals	\$ 199,671,828	\$ 66,696,850	\$ (9,080,880)	\$ 257,287,798

	Balance			Balance
	09/30/2014	Increases	Decreases	09/30/2015
Land and land rights	\$ 1,746,193	\$ 99,778	\$ -	\$ 1,845,971
Structures and improvements	259,187,977	4,846,848	(334,487)	263,700,338
Furniture, equipment, and other	13,327,795	380,664	(179,286)	13,529,173
Totals	274,261,965	5,327,290	(513,773)	279,075,482
Less accumulated depreciation	(112,268,472)	(7,745,616)	513,774	(119,500,314)
Construction in progress	8,559,911	33,166,729	(1,629,980)	40,096,660
Totals	\$ 170,553,404	\$ 30,748,403	\$ (1,629,979)	\$ 199,671,828

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 2016:

	09/30/2015	Increases	Decreases	09/30/2016
Electric System	\$ 32,625,000	\$ -	\$ 2,530,000	\$ 30,095,000
Natural Gas System	-	-	-	-
Water System	122,585,000	-	2,495,000	120,090,000
Totals	\$ 155,210,000	\$ -	\$ 5,025,000	\$ 150,185,000

Principal activity for the year 2015:

	Beginning	Additions	Retirements	Ending
Electric System	\$ 35,065,000	\$ -	\$ 2,440,000	\$ 32,625,000
Natural Gas System	7,060,000	-	7,060,000	-
Water System	32,180,000	92,810,000	2,405,000	122,585,000
Totals	\$ 74,305,000	\$ 92,810,000	\$ 11,905,000	\$ 155,210,000

The accompanying notes are an integral part of these 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
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	4.00%
2021	1,625,000	944,300	5.00%
2022	1,710,000	860,925	5.00%
2023	1,800,000	773,175	5.00%
2024	1,375,000	693,800	5.00%
2025	1,445,000	623,300	5.00%
2026	1,515,000	554,050	4.00%
2027	1,590,000	479,188	5.00%
2028	1,675,000	393,481	5.25%
2029	1,765,000	303,181	5.25%
2030	1,860,000	208,025	5.00%
2031	1,950,000	120,200	4.00%
2032	2,030,000	40,600	4.00%
	24,010,000		
Current	675,000		
	\$23,335,000		

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, 2016 and 2015, 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.

The accompanying notes are an integral part of these 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, 2016 and 2015, the unamortized regulatory asset is \$105,015 and \$111,939, respectively.

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, 2016 and 2015, the unamortized premium is \$2,275,002 and \$2,425,002, respectively.

At September 30, 2016 and 2015, the Electric System also recognizes unamortized deferred loss related to prior year bond retirements in the amount of \$190,860 and \$222,669, respectively.

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
2017	\$ 1,945,000	204,500	4.00%
2018	2,030,000	125,000	4.00%
2019	2,110,000	42,200	4.00%
	6,085,000		
Current	1,945,000		
	\$ 4,140,000		

The 2007 issue contained issuance cost of \$668,300 that are classified as a regulatory asset and amortized over 10 years. At September 30, 2016 and 2015, the unamortized deferred cost is \$134,740 and \$198,196, respectively. 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, 2016 and 2015, the unamortized premium is \$50,679 and \$74,068, respectively.

The 2007 Series Warrants maturing in 2019 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, 2016 and 2015, 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.

The accompanying notes are an integral part of these 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. These warrants were paid off from operating funds on August 3, 2015.

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	
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%	*
	27,115,000			
Current	2,615,000			
	\$24,500,000			

* - 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.

The accompanying notes are an integral part of these 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, 2016 and 2015, 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.

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 regulatory asset and amortized over 25 years. At September 30, 2016 and 2015, the unamortized regulatory asset is \$755,900 and \$800,148, respectively. 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, 2016 and 2015, the unamortized premium is \$896,120 and \$948,575, respectively.

Certain maturities of the Series 2008 Warrants were refunded on an advance basis with the Series 2016 Warrants of \$10,425,000 issued on December 20, 2016.

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
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%
	165,000		
Current	5,000		
	<u>\$ 160,000</u>		

The accompanying notes are an integral part of these 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.

City of Huntsville, Alabama Water Revenue and Term Warrants, Series 2015 - Water System Revenue Warrants, Series 2015, were issued in the original amount of \$92,810,000. The warrants mature serially on November 1 each year and bear interest according to stated maturity dates as follows:

Fiscal Year	Principal	Interest	Rate
2017	\$ 3,660,000	\$ 4,123,750	3.00%
2018	3,175,000	4,021,225	4.00%
2019	3,155,000	3,910,500	4.00%
2020	3,300,000	3,781,400	5.00%
2021	3,450,000	3,629,150	2.00%
2022	3,575,000	3,507,150	5.00%
2023	3,700,000	3,378,900	5.00%
2024	3,890,000	3,189,150	5.00%
2025	4,090,000	2,989,650	5.00%
2026	4,300,000	2,779,900	5.00%
2027	4,520,000	2,559,400	5.00%
2028	4,755,000	2,327,525	5.00%
2029	4,995,000	2,083,775	5.00%
2030	5,255,000	1,827,525	5.00%
2031	5,525,000	1,558,025	3.38%
2032	5,760,000	1,322,700	4.00%
2033	5,975,000	1,106,000	5.00%
2034	6,250,000	830,250	5.00%
2035	6,570,000	509,750	5.00%
2036	6,910,000	172,750	5.00%
	92,810,000		
Current	3,660,000		
	\$89,150,000		

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



Note 4 – Long-Term Debt (Continued)

The Water System issued the Series 2015 Warrants for the purpose of (i) providing funds to pay the costs of various public capital improvements to the System more particularly including the construction of a new water treatment plant, and (ii) paying the costs of issuing the Series 2015 Warrants.

The Series 2015 Warrants bond indenture does not require the Water System to establish a reserve account but does require the Water System to establish a Warrant Fund equal to one twelfth (1/12) of the principal of the Series 2015 Warrants coming due on November 1 each year and one sixth (1/6) of the interest due each year.

The 2015 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 2015 issue contained issuance cost of \$406,698 that are classified as regulatory asset and amortized over 20 years. At September 30, 2016 and 2015, the unamortized regulatory asset is \$384,669 and \$405,004, respectively. The 2015 issue also contained a premium of \$12,610,058 that is being amortized over 20 years. At September 30, 2016 and 2015, the unamortized premium is \$11,927,013 and \$12,557,516, respectively.

Note 5 - Employee Benefits

The annual leave policy allows each employee to accumulate up to 35 days of annual leave. The Utilities follows 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 vested in their sick leave. Accrued annual leave and sick leave at September 30, 2016 and 2015 are as follows:

	<u>Accrued Annual Leave</u>		<u>Accrued Sick Leave</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Electric System	\$ 2,445,021	\$ 2,495,838	\$ 753,281	\$ 601,965
Natural Gas System	833,306	865,298	470,251	390,167
Water System	829,065	839,638	415,865	351,482
Totals	<u>\$ 4,107,392</u>	<u>\$ 4,200,774</u>	<u>\$ 1,639,397</u>	<u>\$ 1,343,614</u>

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



Note 6 – Defined Benefit Pension Plan and Description

Plan description. The Employees’ Retirement System of Alabama, an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for employees, and on an elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

The ERS Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to § 36-27-6.

Benefits provided. State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity’s election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest three of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

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



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

Benefits provided.(Continued)

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest five of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member’s age, service credit, employment status, and eligibility for retirement.

The ERS serves approximately 84,393 participants. As of September 30, 2015, membership consisted of:

Retirement and beneficiaries currently receiving benefits	22,211
Terminated employees entitled to but not yet receiving benefits	1,353
Terminated employees not entitled to a benefit	5,451
Active members	55,164
Post-DROP participants still in active service	<u>214</u>
Total	<u><u>84,393</u></u>

Contributions. Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

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



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

Contributions. (Continued)

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the preretirement death benefit, and administrative expenses of the Plan.

For the year ended September 30, 2015, Huntsville Utilities active Tier 1 employee contribution rate was 5% and Tier 2 was 6% of covered employee payroll. Huntsville Utilities contractually required contribution rate for the year ended September 30, 2016 was as follows:

	Electric System				Natural Gas System				Water System			
	2016		2015		2016		2015		2016		2015	
	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2
Normal Cost	0.09%	1.59%	1.45%	1.45%	1.86%	1.37%	1.72%	1.42%	1.54%	0.04%	1.42%	1.42%
Accrued Liability	15.56%	15.56%	15.91%	14.41%	8.63%	8.63%	9.09%	7.89%	12.77%	12.77%	12.82%	11.32%
Preretirement Death Benefit	0.02%	0.02%	0.14%	0.14%	0.02%	0.02%	0.14%	0.14%	0.02%	0.02%	0.14%	0.14%
Administrative Expense	0.35%	0.35%	0.21%	0.21%	0.35%	0.35%	0.21%	0.21%	0.35%	0.35%	0.21%	0.21%
	<u>16.02%</u>	<u>17.52%</u>	<u>17.71%</u>	<u>16.21%</u>	<u>10.86%</u>	<u>10.37%</u>	<u>11.16%</u>	<u>9.66%</u>	<u>14.68%</u>	<u>13.18%</u>	<u>14.59%</u>	<u>13.09%</u>

These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan for the year ended September 30, 2016 and 2015 from the Utilities were as follows:

	Electric		Gas		Water	
	2016	2015	2016	2015	2016	2015
Employer Contributions	\$ 1,947,313	\$ 3,376,241	\$ 2,746,906	\$ 501,199	\$ 983,774	\$ 1,594,228

Net Pension Liability

Huntsville Utilities net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2014 rolled forward to September 30, 2015 using standard roll-forward techniques as shown in the following table:

	Electric	Gas	Water
Total pension liability as of September 30, 2014 (a)	\$ 59,892,450	\$ 77,880,193	\$ 28,829,248
Entry age normal cost for			
October 1, 2014 - September 30, 2015 (b)	711,294	1,573,503	402,811
Actual benefit payments and refunds for			
October 1, 2014 - September 30, 2015 (c)	<u>(3,814,789)</u>	<u>(3,799,232)</u>	<u>(1,573,407)</u>
Total pension liability as of September 30, 2015			
= [(a) x (1.08)] + (b) - [(c) x (1.04)]	<u>\$ 61,427,759</u>	<u>\$ 81,732,910</u>	<u>\$ 29,902,056</u>

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



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

Actuarial assumptions. The total pension liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

*Net of pension plan investment expense, including inflation

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2014 valuation were based on the results of an actuarial experience study for the period October 1, 2012 - September 30, 2013.

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

	Target Allocation	Long-Term Expected Rate of Return
Fixed Income	25.00%	5.00%
U. S. Large Stocks	34.00%	9.00%
U. S. Mid Stocks	8.00%	12.00%
U. S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
 Total	 100.00%	

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

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



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

<u>Electric System</u>	Increase (Decrease)		
	Total	Plan	Net
	Pension Liability (a)	Fiduciary Net position (b)	Pension Liability (a)-(b)
Balance at September 30, 2014	\$ 59,892,450	\$ 33,313,237	\$ 26,579,213
Changes for the year:			
Service cost	711,294	-	711,294
Interest	4,638,804	-	4,638,804
Difference between expected and actual experience	1,097,266	-	1,097,266
Contributions - employer	-	1,891,153	(1,891,153)
Contributions - employee	-	548,691	(548,691)
Net investment income	-	387,215	(387,215)
Benefit payments, including refunds of employee contributions	(3,814,789)	(3,814,789)	-
Transfers among employees	-	25,241	(25,241)
Net changes	<u>2,632,575</u>	<u>(962,489)</u>	<u>3,595,064</u>
Balance at September 30, 2015	<u>\$ 62,525,025</u>	<u>\$ 32,350,748</u>	<u>\$ 30,174,277</u>

<u>Natural Gas System</u>	Increase (Decrease)		
	Total	Plan	Net
	Pension Liability (a)	Fiduciary Net position (b)	Pension Liability (a)-(b)
Balance at September 30, 2014	\$ 77,880,193	\$ 50,541,053	\$ 27,339,140
Changes for the year:			
Service cost	1,573,503	-	1,573,503
Interest	6,078,446	-	6,078,446
Difference between expected and actual experience	435,578	-	435,578
Contributions - employer	-	2,552,653	(2,552,653)
Contributions - employee	-	1,215,689	(1,215,689)
Net investment income	-	599,470	(599,470)
Benefit payments, including refunds of employee contributions	(3,799,232)	(3,799,232)	-
Transfers among employees	-	7,562	(7,562)
Net changes	<u>4,288,295</u>	<u>576,142</u>	<u>3,712,153</u>
Balance at September 30, 2015	<u>\$ 82,168,488</u>	<u>\$ 51,117,195</u>	<u>\$ 31,051,293</u>

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



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

<u>Water System</u>	Increase (Decrease)		
	Total	Plan	Net
	Pension Liability (a)	Fiduciary Net position (b)	Pension Liability (a)-(b)
Balance at September 30, 2014	\$ 28,829,248	\$ 16,719,454	\$ 12,109,794
Changes for the year:			
Service cost	402,811	-	402,811
Interest	2,243,404	-	2,243,404
Difference between expected and actual experience	194,984	-	194,984
Contributions - employer	-	884,789	(884,789)
Contributions - employee	-	334,737	(334,737)
Net investment income	-	199,105	(199,105)
Benefit payments, including refunds of employee contributions	(1,573,407)	(1,573,407)	-
Transfers among employees	-	480,153	(480,153)
Net changes	<u>1,267,792</u>	<u>325,377</u>	<u>942,415</u>
Balance at September 30, 2015	<u>\$ 30,097,040</u>	<u>\$ 17,044,831</u>	<u>\$ 13,052,209</u>

Sensitivity of the net pension liability to changes in the discount rate. The following table presents HU’s net pension liability calculated using the discount rate of 8%, as well as what the HU’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage point higher (9%) than the current rate:

	HU's Net Pension Liability		
	1.00%	Current	1.00%
	Decrease (7.00%)	Rate (8.00%)	Increase (9.00%)
Electric	\$ 37,289,367	\$ 30,174,277	\$ 24,154,160
Gas	41,562,944	31,051,293	22,257,911
Water	16,527,799	13,052,209	10,108,464

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2015. The auditor’s report dated November 14, 2016 on the Schedule of Changes in the Net Pension Liability and Employer Contributions and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

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



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

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

For the years ended September 30, 2016 and 2015, HU recognized the following pension expense:

	<u>Electric System</u>	<u>Natural Gas System *</u>	<u>Water System</u>
Recognized pension expense - 2016	\$ 2,558,480	\$2,775,995	\$ 625,742
Recognized pension expense - 2015	2,042,444	2,153,575	1,192,701

* A portion of Gas pension expenses is allocated to Electric and Water due to this expense including joint services.

At September 30, 2016, HU reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

<u>Electric System</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 908,082	\$ -
Net differences between projected and actual earnings on pension plan investments	1,057,377	-
Employer contributions subsequent to the measurement date	<u>1,947,313</u>	<u>-</u>
Totals	<u>\$ 3,912,772</u>	<u>\$ -</u>
<u>Natural Gas System</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 375,081	\$ -
Net differences between projected and actual earnings on pension plan investments	1,676,032	-
Employer contributions subsequent to the measurement date	<u>2,746,906</u>	<u>-</u>
Totals	<u>\$ 4,798,019</u>	<u>\$ -</u>

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



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

<u>Water System</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 164,986	\$ -
Net differences between projected and actual earnings on pension plan investments	549,778	-
Employer contributions subsequent to the measurement date	<u>983,774</u>	<u>-</u>
Totals	<u><u>\$ 1,698,538</u></u>	<u><u>\$ -</u></u>

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

Year ended September 30:	<u>Electric System</u>	<u>Natural Gas System</u>	<u>Water System</u>
2017	\$ 393,385	\$ 389,648	\$ 137,024
2018	393,385	389,648	137,024
2019	393,387	389,650	137,024
2020	633,956	749,074	258,700
2021	151,346	60,497	29,998
Thereafter	-	72,596	14,996

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.

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



Note 8 – Post-Employment Benefits Other Than Pension Benefits

Plan description - The Utilities provides certain post-retirement health and life insurance benefits 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, 2016, approximately 239 retirees meet those eligibility requirements.

Funding policy - The benefits are not provided under any statutory or contractual authority, but rather by administrative decision. For 2016, the Utilities contributed \$2,023,250.

Annual OPEB cost and net OPEB obligation - The Board’s annual other post-retirement benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of the GASB Codification Section P50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Utilities’ annual OPEB cost for the year and changes in the Utilities’ net OPEB obligation as of :

<u>Electric</u>	<u>Fiscal Year</u>		<u>Annual</u>	<u>Net OPEB</u>
	<u>Beginning</u>	<u>ARC</u>		
	10/01/2011	\$ 912,387	\$ 912,387	\$ -
	10/01/2012	992,733	992,733	-
	10/01/2013	1,113,180	1,113,180	-
	10/01/2014	1,172,814	1,172,814	-
	10/01/2015	1,179,146	\$ 1,179,146	-

<u>Gas</u>	<u>Fiscal Year</u>		<u>Annual</u>	<u>Net OPEB</u>
	<u>Beginning</u>	<u>ARC</u>		
	10/01/2011	\$ 370,400	\$ 370,400	\$ -
	10/01/2012	324,611	324,611	-
	10/01/2013	359,025	359,025	-
	10/01/2014	369,816	369,816	-
	10/01/2015	371,813	371,813	-

<u>Water</u>	<u>Fiscal Year</u>		<u>Annual</u>	<u>Net OPEB</u>
	<u>Beginning</u>	<u>ARC</u>		
	10/01/2011	\$ 399,889	\$ 399,889	\$ -
	10/01/2012	420,017	420,017	-
	10/01/2013	451,836	451,836	-
	10/01/2014	466,811	466,811	-
	10/01/2015	469,331	469,331	-

Funded status and funding progress - As of September 30, 2014, the most recent actuarial valuation date, the Plan was 22.49% funded. The actuarial accrued liability for benefits was approximately \$31,268,400. The covered payroll was \$37,591,987, and the ratio of the UAAL to covered payroll was 64.47%.

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



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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuations, the projected unit credit method was used. The actuarial assumptions are as follows:

	<u>2016</u>	<u>2015</u>
Weighted-average assumptions as of December 31:		
Discount rate	6.25%	6.25%
Health-care cost trend rate assumed for next year	5.75%	6.25%
Rate to which the cost trend rate is assumed to decline, ultimate trend rate	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2019	2018

The Utilities’ OPEB actuarial valuation as of September 30, 2014 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 7.50% and Post-Medicare rate of 5.75% with an ultimate rate of 5.0%. The ultimate rate trends to be reached in 2019 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, 2016 was \$8,982,691. The Utilities’ OPEB actuarial valuation as of September 30, 2014 reported present value of future accrued unfunded liability as \$24,237,057 with an actuarial accrued liability of \$31,268,400. Future funding will be made each fiscal year.

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



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

Because the Utilities are 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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Electric System	\$ 11,437,077	\$ 11,874,498
Natural Gas System	2,108,995	2,662,508
Water System	2,452,565	2,186,355

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 .56 cents.

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.

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



Note 12 – Risk Management

The Utilities are exposed to various risks such as torts, theft, damage, and destruction of assets; errors and omissions; and 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 crime	1,000,000
Cyber	3,000,000
Automobile liability	1,000,000
Public officials and employment liability:	
Electric	5,000,000
Gas and Water	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 200 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.

Construction Commitment

The Utilities entered into a construction contract during fiscal year 2015 for the purpose of constructing a new water treatment plant and intake facilities. The total contract for the construction of the project is approximately \$89,340,000. The amount completed as of September 30, 2016 amounted to approximately \$77,153,000 with the balance of the commitment being \$12,187,000.

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



Note 14 – Customer Deposits

During 2016 and 2015, the Utilities had the following Customer Deposit transactions:

	2016		
	Deposits	Accrued Interest	Total
Electric System	\$ 29,804,097	\$ 8,279,948	\$ 38,084,045
Natural Gas System	8,354,508	2,413,669	10,768,177
Water System	3,963,190	1,280,217	5,243,407
	<u>\$ 42,121,795</u>	<u>\$ 11,973,834</u>	<u>\$ 54,095,629</u>

	2015		
	Deposits	Accrued Interest	Total
Electric System	\$ 29,513,801	\$ 8,708,776	\$ 38,222,577
Natural Gas System	8,047,307	2,470,862	10,518,169
Water System	3,818,604	1,318,416	5,137,020
	<u>\$ 41,379,712</u>	<u>\$ 12,498,054</u>	<u>\$ 53,877,766</u>

Deposit Transactions

	2016			
	Beginning Balance	New Deposits	Returned Deposits	Ending Balance
Electric System	\$ 29,513,801	\$ 6,228,276	\$ (5,937,580)	\$ 29,804,497
Natural Gas System	8,047,307	1,745,850	(1,438,648)	8,354,509
Water System	3,818,604	828,254	(683,368)	3,963,490
	<u>\$ 41,379,712</u>	<u>\$ 8,802,380</u>	<u>\$ (8,059,596)</u>	<u>\$ 42,122,496</u>

	2015			
	Beginning Balance	New Deposits	Returned Deposits	Ending Balance
Electric System	\$ 29,287,296	\$ 6,193,625	\$ (5,967,120)	\$ 29,513,801
Natural Gas System	7,866,974	1,688,769	(1,508,436)	8,047,307
Water System	3,709,554	802,926	(693,876)	3,818,604
	<u>\$ 40,863,824</u>	<u>\$ 8,685,320</u>	<u>\$ (8,169,432)</u>	<u>\$ 41,379,712</u>

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

City of Huntsville Electric, Natural Gas, and Water Systems
Required Supplementary Information
Schedule Of Changes in the Net Pension Liability



<u>ELECTRIC SYSTEM</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY:		
Service cost	\$ 711,294	\$ 731,584
Interest	4,638,804	4,509,630
Difference in expected and actual experience	1,097,266	-
Benefit payments, including refunds of employee contributions	<u>(3,814,789)</u>	<u>(3,438,283)</u>
Net change in total pension liability	2,632,575	1,802,931
Total pension liability - beginning	<u>59,892,450</u>	<u>58,089,519</u>
Total pension liability - end (a)	<u><u>\$ 62,525,025</u></u>	<u><u>\$ 59,892,450</u></u>
PLAN FIDUCIARY NET POSITION:		
Contributions - employer	\$ 1,891,153	\$ 1,956,167
Contributions - member	548,691	544,943
Net investment income	387,215	3,616,105
Benefit payments, including refunds of employee contributions	<u>(3,814,789)</u>	<u>(3,438,283)</u>
Transfers among employees	25,241	-
Net change in plan fiduciary net position	<u>(962,489)</u>	<u>2,678,932</u>
Plan net position - beginning	<u>33,313,237</u>	<u>30,634,305</u>
Plan net position - end (b)	<u><u>\$ 32,350,748</u></u>	<u><u>\$ 33,313,237</u></u>
Net pension liability - ending (a) - (b)	\$ 30,174,277	\$ 26,579,213
Plan fiduciary net position as a percentage of the total pension liability	51.74%	55.62%
Covered employee payroll	\$ 10,519,400	\$ 10,518,022
Net pension liability as a percentage of covered employee payroll	286.84%	252.70%

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

City of Huntsville Electric, Natural Gas, and Water Systems
Required Supplementary Information
Schedule Of Employer Contributions



<u>ELECTRIC SYSTEM</u>	<u>2016</u>	<u>2015</u>														
Actuarially determined contribution *	\$ 1,947,313	\$ 1,890,601														
Contributions in relation to the actuarially determined contribution*	<u>1,947,313</u>	<u>1,890,601</u>														
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>														
Covered employee payroll	\$ 11,568,353	\$ 10,915,642														
Contributions as a percentage of covered-employee payroll	16.83%	17.32%														
<p>* Amounts of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. Fiscal year 2016, the fiscal year is the 12 month period beginning after October 1, 2015.</p> <p>** Employer's covered payroll during fiscal year is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2016, the fiscal year is the 12 month period beginning after October 1, 2015.</p> <p>Notes to schedule:</p> <p>Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported.</p> <p>Contributions for fiscal year 2016 were based on the September 30, 2013 actuarial valuation.</p> <p>Methods and assumptions used to determine the contribution</p> <table> <tr> <td>Actuarial cost method</td> <td>Entry age</td> </tr> <tr> <td>Amortization method</td> <td>Level percent closed</td> </tr> <tr> <td>Remaining amortization method</td> <td>28 years</td> </tr> <tr> <td>Asset valuation method</td> <td>Five year smoothed market</td> </tr> <tr> <td>Inflation</td> <td>3.00%</td> </tr> <tr> <td>Salary increases</td> <td>3.75 - 7.25%, including inflation</td> </tr> <tr> <td>Investment rate of return</td> <td>8.00%, net of pension plan investment expense, including inflation</td> </tr> </table>			Actuarial cost method	Entry age	Amortization method	Level percent closed	Remaining amortization method	28 years	Asset valuation method	Five year smoothed market	Inflation	3.00%	Salary increases	3.75 - 7.25%, including inflation	Investment rate of return	8.00%, net of pension plan investment expense, including inflation
Actuarial cost method	Entry age															
Amortization method	Level percent closed															
Remaining amortization method	28 years															
Asset valuation method	Five year smoothed market															
Inflation	3.00%															
Salary increases	3.75 - 7.25%, including inflation															
Investment rate of return	8.00%, net of pension plan investment expense, including inflation															

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

City of Huntsville Electric, Natural Gas, and Water Systems
Required Supplementary Information
Schedule Of Changes in the Net Pension Liability



<u>NATURAL GAS SYSTEM</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY:		
Service cost	\$ 1,573,503	\$ 1,505,782
Interest	6,078,446	5,786,806
Difference in expected and actual experience	435,578	-
Benefit payments, including refunds of employee contributions	<u>(3,799,232)</u>	<u>(3,494,950)</u>
Net change in total pension liability	4,288,295	3,797,638
Total pension liability - beginning	<u>77,880,193</u>	<u>74,082,555</u>
Total pension liability - end (a)	<u>\$ 82,168,488</u>	<u>\$ 77,880,193</u>
PLAN FIDUCIARY NET POSITION:		
Contributions - employer	\$ 2,552,653	\$ 2,501,138
Contributions - member	1,215,689	1,134,390
Net investment income	599,470	5,401,049
Benefit payments, including refunds of employee contributions	(3,799,232)	(3,494,950)
Transfers among employees	<u>7,562</u>	<u>41,272</u>
Net change in plan fiduciary net position	576,142	5,582,899
Plan net position - beginning	<u>50,541,053</u>	<u>44,958,154</u>
Plan net position - end (b)	<u>\$ 51,117,195</u>	<u>\$ 50,541,053</u>
Net pension liability - ending (a) - (b)	\$ 31,051,293	\$ 27,339,140
Plan fiduciary net position as a percentage of the total pension liability	62.21%	64.90%
Covered employee payroll	\$ 24,318,743	\$ 22,247,041
Net pension liability as a percentage of covered employee payroll	127.68%	122.89%

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City of Huntsville Electric, Natural Gas, and Water Systems
Required Supplementary Information
Schedule Of Employer Contributions



<u>NATURAL GAS SYSTEM</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution *	\$ 2,746,903	\$ 2,551,653
Contributions in relation to the actuarially determined contribution*	<u>2,746,903</u>	<u>2,551,653</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$26,059,398	\$ 23,900,521
Contributions as a percentage of covered-employee payroll	10.54%	10.68%
<p>* Amounts of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. Fiscal year 2016, the fiscal year is the 12 month period beginning after October 1, 2015.</p> <p>** Employer's covered payroll during fiscal year is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2016, the fiscal year is the 12 month period beginning after October 1, 2015.</p>		
Notes to schedule:		
<p>Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported.</p> <p>Contributions for fiscal year 2016 were based on the September 30, 2013 actuarial valuation.</p>		
Methods and assumptions used to determine the contribution		
Actuarial cost method	Entry age	
Amortization method	Level percent closed	
Remaining amortization method	26 years	
Asset valuation method	Five year smoothed market	
Inflation	3.00%	
Salary increases	3.75 - 7.25% , including inflation	
Investment rate of return	8.00% , net of pension plan investment expense, including inflation	

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City of Huntsville Electric, Natural Gas, and Water Systems
Required Supplementary Information
Schedule Of Changes in the Net Pension Liability



<u>WATER SYSTEM</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY:		
Service cost	\$ 402,811	\$ 386,061
Interest	2,243,404	2,164,859
Difference in expected and actual experience	194,984	
Benefit payments, including refunds of employee contributions	(1,573,407)	(1,564,812)
Net change in total pension liability	1,267,792	986,108
Total pension liability - beginning	28,829,248	27,843,140
Total pension liability - end (a)	<u>\$ 30,097,040</u>	<u>\$ 28,829,248</u>
PLAN FIDUCIARY NET POSITION:		
Contributions - employer	\$ 884,789	\$ 822,264
Contributions - member	334,737	291,847
Net investment income	199,105	1,828,686
Benefit payments, including refunds of employee contributions	(1,573,407)	(1,564,812)
Transfers among employees	480,153	(275,616)
Net change in plan fiduciary net position	325,377	1,102,369
Plan net position - beginning	16,719,454	15,617,085
Plan net position - end (b)	<u>\$ 17,044,831</u>	<u>\$ 16,719,454</u>
Net pension liability - ending (a) - (b)	\$ 13,052,209	\$ 12,109,794
Plan fiduciary net position as a percentage of the total pension liability	56.63%	57.99%
Covered employee payroll	\$ 6,438,733	\$ 5,870,735
Net pension liability as a percentage of covered employee payroll	202.71%	206.27%

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



<u>WATER SYSTEM</u>	<u>2016</u>	<u>2015</u>														
Actuarially determined contribution *	\$ 983,774	\$ 822,264														
Contributions in relation to the actuarially determined contribution*	<u>983,774</u>	<u>822,264</u>														
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>														
Covered employee payroll	\$ 6,747,417	\$ 6,260,841														
Contributions as a percentage of covered-employee payroll	14.58%	13.13%														
<p>* Amounts of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. Fiscal year 2016, the fiscal year is the 12 month period beginning after October 1, 2015.</p> <p>** Employer's covered payroll during fiscal year is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2016, the fiscal year is the 12 month period beginning after October 1, 2015.</p> <p>Notes to schedule:</p> <p>Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported.</p> <p>Contributions for fiscal year 2016 were based on the September 30, 2013 actuarial valuation.</p> <p>Methods and assumptions used to determine the contribution</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%;">Actuarial cost method</td> <td>Entry age</td> </tr> <tr> <td>Amortization method</td> <td>Level percent closed</td> </tr> <tr> <td>Remaining amortization method</td> <td>29 years</td> </tr> <tr> <td>Asset valuation method</td> <td>Five year smoothed market</td> </tr> <tr> <td>Inflation</td> <td>3.00%</td> </tr> <tr> <td>Salary increases</td> <td>3.75 - 7.25%, including inflation</td> </tr> <tr> <td>Investment rate of return</td> <td>8.00%, net of pension plan investment expense, including inflation</td> </tr> </table>			Actuarial cost method	Entry age	Amortization method	Level percent closed	Remaining amortization method	29 years	Asset valuation method	Five year smoothed market	Inflation	3.00%	Salary increases	3.75 - 7.25%, including inflation	Investment rate of return	8.00%, net of pension plan investment expense, including inflation
Actuarial cost method	Entry age															
Amortization method	Level percent closed															
Remaining amortization method	29 years															
Asset valuation method	Five year smoothed market															
Inflation	3.00%															
Salary increases	3.75 - 7.25%, including inflation															
Investment rate of return	8.00%, net of pension plan investment expense, including inflation															

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

City of Huntsville Electric, Natural Gas, and Water Systems

Required Supplementary Information

Schedule Of Changes in the Net Pension Liability



ELECTRIC SYSTEM

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%
10/01/2014	4,155,204	18,478,203	14,322,999	22.49%	21,488,155	66.66%

NATURAL GAS SYSTEM

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%
10/01/2014	1,269,645	5,646,114	4,376,469	22.49%	7,299,380	59.96%

WATER SYSTEM

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	5,382,074	19.65%	8,541,622	63.01%
10/01/2014	1,606,494	7,144,080	5,537,586	22.49%	8,804,452	62.90%

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

**STATISTICAL HIGHLIGHTS-ELECTRIC SYSTEM**

Years Ending September 30

CATEGORIES	2016	2015	2014
OPERATING REVENUE			
Residential	\$ 233,654,455	\$ 242,941,029	\$ 245,789,075
Large Commercial and Industrial	197,260,436	197,704,139	205,317,670
Small Commercial	33,726,964	34,676,255	34,934,092
Public Street and Highway Lighting	4,714,640	4,709,629	4,781,731
Other Operating Revenue	11,045,344	11,747,008	11,981,766
Total Operating Revenue	\$ 480,401,839	\$ 491,778,060	\$ 502,804,334
CUSTOMERS			
Residential	160,556	157,841	155,268
Large Commercial and Industrial	3,541	3,403	3,363
Small Commercial	17,599	17,505	17,324
Public Street and Highway Lighting	642	631	623
Total Customers	182,338	179,380	176,578
KWH SALES (THOUSANDS)			
Residential	2,421,246	2,561,189	2,563,506
Large Commercial and Industrial	2,336,682	2,326,710	2,356,760
Small Commercial	326,349	335,913	328,492
Public Street and Highway Lighting	35,779	35,503	35,851
Total KWH Sales (Thousands)	5,120,056	5,259,315	5,284,609
OPERATING REVENUE/CUSTOMER			
Residential	\$ 1,455.28	\$ 1,539.15	\$ 1,583.00
Large Commercial and Industrial	55,707.55	58,097.01	61,051.94
Small Commercial	1,916.41	1,980.93	2,016.51
Public Street and Highway Lighting	7,343.68	7,463.75	7,675.33
OPERATING REVENUE/KWH			
Residential	\$ 0.097	\$ 0.095	\$ 0.096
Large Commercial and Industrial	0.084	0.085	0.087
Small Commercial	0.103	0.103	0.106
Public Street and Highway Lighting	0.132	0.133	0.133
KWH/CUSTOMER			
Residential	15,080.38	16,226.38	16,510.20
Large Commercial and Industrial	659,893.25	683,723.19	700,790.96
Small Commercial	18,543.61	19,189.55	18,961.67
Public Street and Highway Lighting	55,730.53	56,265.23	57,545.82

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



STATISTICAL HIGHLIGHTS-GAS SYSTEM

Years Ending September 30

CATEGORIES	2016	2015	2014
OPERATING REVENUE			
Residential	\$ 14,912,446	\$ 20,065,929	\$ 20,985,397
Commercial	17,823,428	21,695,617	22,229,781
Industrial	2,325,249	2,566,710	2,531,716
Other Operating Revenue	2,562,636	2,832,563	2,961,907
Total Operating Revenue	\$ 37,623,759	\$ 47,160,819	\$ 48,708,801
CUSTOMERS			
Residential	47,040	45,880	45,006
Commercial	5,439	5,379	5,369
Industrial	18	18	18
Total Customers	52,497	51,277	50,393
MCF SALES			
Residential	1,491,621	2,027,434	2,130,624
Commercial	2,024,603	2,298,784	2,343,750
Industrial	335,026	346,161	340,489
Total MCF Sales	3,851,250	4,672,379	4,814,863
OPERATING REVENUE/CUSTOMER			
Residential	\$ 317.02	\$ 437.36	\$ 466.28
Commercial	3,276.97	4,033.39	4,140.40
Industrial	129,180.50	142,595.00	140,650.89
OPERATING REVENUE/MCF			
Residential	\$ 9.997	\$ 9.897	\$ 9.849
Commercial	8.803	9.438	9.485
Industrial	6.941	7.415	7.436
MCF/CUSTOMER			
Residential	31.71	44.19	47.34
Commercial	372.24	427.36	436.53
Industrial	18,612.56	19,231.17	18,916.06

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

**STATISTICAL HIGHLIGHTS-WATER SYSTEM**

Years Ending September 30

CATEGORIES	2016	2015	2014
OPERATING REVENUE			
Residential	\$ 23,382,774	\$ 20,337,718	\$ 18,855,803
Commercial	12,083,615	10,554,147	9,372,805
Industrial	2,138,113	2,008,755	1,938,086
Government	2,395,719	2,415,375	1,211,664
Other	553,158	544,417	871,334
Fire Hydrants	1,405,531	1,323,461	1,244,741
Other Operating Revenue	1,173,452	1,313,937	1,337,942
Total Operating Revenue	\$ 43,132,362	\$ 38,497,810	\$ 34,832,375
CUSTOMERS			
Residential	84,205	82,790	81,557
Commercial	10,195	10,029	9,917
Industrial	67	67	66
Government	25	24	11
Other	9	9	22
Total Customers	94,501	92,919	91,573
METERED WATER (THOUSAND)			
Residential	5,546,901	5,270,243	5,200,960
Commercial	3,483,209	3,189,767	3,016,929
Industrial	1,115,598	1,047,105	1,032,801
Government	1,405,037	2,515,318	782,984
Other	234,750	273,145	435,689
Total Sales Gallons (Thousands)	11,785,495	12,295,578	10,469,363
OPERATING REVENUE/CUSTOMER			
Residential	\$ 277.69	\$ 245.65	\$ 231.20
Commercial	1,185.25	1,052.36	945.13
Industrial	31,912.13	29,981.42	29,364.94
Government	95,828.76	100,640.63	110,151.27
Other	61,462.00	60,490.78	39,606.09
OPERATING REVENUE/ THOUSAND GALLONS			
Residential	\$ 4.215	\$ 3.859	\$ 3.625
Commercial	3.469	3.309	3.107
Industrial	1.917	1.918	1.877
Government	1.705	0.960	1.547
Other	2.356	1.993	2.000
THOUSAND GALLONS/CUSTOMER			
Residential	65.87	63.66	63.77
Commercial	341.66	318.05	304.22
Industrial	16,650.72	15,628.43	15,648.50
Government	56,201.48	104,804.92	71,180.36
Other	26,083.33	30,349.44	19,804.05

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