CITY OF HUNTSVILLE

ELECTRIC, NATURAL GAS AND WATER SYSTEMS

FINANCIAL STATEMENTS

September 30, 2009 and 2008

Dyer & Smith, LLC
Certified Public Accountants
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of The City of Huntsville Electric, Natural Gas and Water Systems (The Utilities), a component unit of the City of Huntsville, Alabama, as of September 30, 2009 and the related statements of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of The Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit. The September 30, 2008 financial statements were examined by other auditors whose report dated January 20, 2009 expressed an unqualified opinion on those financial statements.

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 component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of The Utilities as of September 30, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, in Section I, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Dyer & Smith, LLC
Certified Public Accountants
Huntsville, Alabama
January 11, 2010

SECTION I

Our Existence is for Service
Since 1940

HUNTSVILLE UTILITIES
Electricity - Natural Gas - Water
(256) 535-1200

www.hsvutil.org

P.O. Box 2048
Huntsville, AL 35804

City of Huntsville Electric, Gas and Water Systems
Management Discussion and Analysis
Fiscal Year 2009

Overview of the Financial Statements

The annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Utilities. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The Huntsville Utilities are comprised of three separate operating Systems. Where practical and cost effective, they share common functions and each System pays a pro-rata share of those expenses. As each System must support its operations through its own sales revenues and fees, there are three sets of financial statements enclosed. The financial statements of the Utilities report information using accounting methods similar to those used by private sector companies. Generally Accepted Accounting Principles (GAAP), however, 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) dictates. 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 - 18. These statements offer short and long term financial information about their activities. The Balance Sheet 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.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Assets. These statements measure the success of the System's operations over the past year and can be used to determine whether the System has successfully recovered all its costs through its rates and fees, profitability and credit worthiness.

The final required financial statements are the Statements of Cash Flows. The statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balances during the reporting period.

Net Assets

Table A-1
Condensed Balance Sheet
(000's)

	FY 2009	FY 2008	$ Change
Current and Other Assets	$112,798	$124,682	$(11,884)
Capital Assets (Net)	241,695	225,047	16,648
Total Assets	354,493	349,729	4,764
Long-Term Liabilities	20,699	22,278	(1,579)
Other Liabilities	83,466	84,130	(664)
Total Liabilities	104,165	106,408	(2,243)
Invested in Capital Assets, Net of Related Debt	219,921	201,820	18,101
Funds:			
Restricted	6,853	6,838	15
Unrestricted	23,554	34,664	(11,110)
Total Net Assets	$250,328	$243,321	7,007
Total Liabilities and Net Assets	**$354,493**	**$349,729**	

There was a substantial increase in Net Capital Assets beyond the normal expansion and improvements to the reliability of the System. This is mainly due to the purchase and implementation of SAP software for the back office operations and the purchase and implementation of Bentley software for the automation and integration of engineering with SAP. These costs were shared pro-rata with the Gas and Water Systems. The Billing and CIS System (Phase II) are scheduled for replacement during FY 2010 – 2011. This conversion was planned for and required no additional debt. The Board had allocated sufficient funds to pay for this conversion from Renewal and Replacement Funds. This was a reduction in Renewal and Replacement Funds of $7.4 million. There remains $8.9 million in the fund. The replaced software and remaining Billing and CIS system is a 30 year-old legacy system whose language and operating system are no longer supported.

Our available cash position exceeds the Board's desired minimum of 45 days of budgeted operating and capital expenses by $9.4 million.

Net Assets

Table A-2
Condensed Statement of Revenues, Expenses and Changes in Net Assets
(000's)

	FY 2009	FY 2008	$ Change
Operating Revenues	$451,207	$403,604	$47,603
Non-Operating Revenues	591	2,921	(2,330)
Total Revenues	451,798	406,525	45,273
Depreciation Expense	12,320	11,419	901
Other Operating Expense	419,188	371,313	47,875
Non-Operating Expense	2,688	2,632	56
Total Expenses	434,196	385,364	48,832
Income (Loss) Before Transfers	17,602	20,161	(3,559)
Transfers Out – Tax Equivalents	(10,595)	(10,136)	(459)
Change in Net Assets	7,007	11,025	(4,018)
Beginning Net Assets	243,321	232,297	
Ending Net Assets	**$250,328**	**$243,321**	

The change in Operating Revenues was an increase of $47.6 million (+11.8%) due to the pass-through to retail of TVA's wholesale quarterly fuel cost adjustments (FCA's). Kilowatt hour sales were down by 3.4%. The System experienced another mild winter period. Extreme summer temperatures were lower than FY2008. Our customer growth for the area moderated to 1.1% this year with a definite lull in the Base Realignment and Closure Act (BRAC) relocation. Huntsville's Redstone Arsenal is the beneficiary of base closures in other parts of the country with complete Commands being relocated here. Growth should be increasingly active as BRAC has a legal deadline to be complete in September of 2011. We have been shielded from the worst effects of the economy's downturn due to our diversity in industry and the continued strength of our core businesses. Non-Operating Revenues declined another $2 million due to the falling interest rates (which have become next to nonexistent) lowering the income on reserves and cash on hand.

Other Operating Expense increased $47.9 million, $44.9 million of which was for wholesale power from TVA. The average cost of kWh purchased increased from 6.22 cents ($0.0622) in FY2008 to 7.30 cents ($0.0730) in FY 2009. Purchases of kWh decreased by 3.4%. Also Other Operating Expense includes Administrative and General Expenses which increased $1.5 million. $1.6 million was placed in the Irrevocable Trust account. $912,000 was paid for and accrued for the Electric Post Employment Benefits (OPEB) expenses that are being amortized.

Net Assets

Table B-1
Condensed Balance Sheet
(000's)

	FY 2009	FY 2008	$ Change
Current and Other Assets	$43,871	$46,555	($2,684)
Capital Assets (Net)	84,924	80,473	4,451
Total Assets	128,795	127,028	1,767
Long-term Debt Outstanding	8,975	9,415	(440)
Other Liabilities	12,768	15,287	(2,519)
Total Liabilities	21,743	24,702	(2,959)
Invested in Capital Assets, Net of Related Debt	75,638	70,771	4,867
Restricted	3,029	3,035	(6)
Unrestricted	28,386	28,519	(133)
Total Net Assets	$107,053	$102,326	$ 4,727
Total Liabilities and Net Assets	**$128,795**	**$127,028**	

While not tracing dollar for dollar the actual movement between Balance Sheet categories, the simple net result of the changes to the Balance Sheet are as follows: Current and Other Assets show a reduction of $2.7 million while at the same time Other Liabilities show a reduction of $2.5 million. Invested in Capital Assets, Net of Related Debt increased $4.9 million as we generated a net income of $4.7 million. The balance of the Borrowed Construction Fund (1,049,000) was spent on the Eastern Loop. $1,268,000 from the Renewal and Replacement Fund was used for the Gas System's share of the new back office software.

In the Gas System finances are extremely dependent on conditions out of the System's control. Income is only made in the winter months that must carry the System through the entire year. If there is a very mild winter, there is no summer season that may aid in the year's recovery as in the Electric. TVA does a good job of insulating the distributors from market speculation. The Gas System, however, is directly at risk from market speculation and market manipulation. The Gas System protects its customers from these wild fluctuations by layering its purchases over a number of years to meet the projected needs of the System. Additionally, the Board desires to maintain approximately $10 million in available funds. At 9/30/09 available funds stood at $28.6 million, $2.5 of which was segregated in a Rate Stabilization Fund.

The Gas Board desires to maintain approximately $10.0 million in reserves due to the possibility of extreme fluctuations in wholesale gas prices and retail gas usage. The Board currently has over $27.5 million available for the reserve buffer. This is 170 days of average budgeted 2010 Operating and Capital Expenses.

Net Assets

Table B-2
Condensed Statement of Revenues, Expenses and Changes in Net Assets
(000's)

	FY 2009	FY 2008	$ Change
Operating Revenues	$63,412	$56,411	$ 7,001
Non-Operating Revenues	655	1,007	(352)
Total Revenues	64,067	57,418	6,649
Depreciation Expense	2,548	2,380	168
Other Operating Expense	53,183	49,811	3,372
Non-Operating Expense	477	391	86
Total Expenses	56,208	52,582	3,626
Income (Loss) Before Contributions And Transfers	7,859	4,836	3,023
Capital Contributions	441	548	(107)
Transfers Out – Tax Equivalents	(3,573)	(3,190)	383
Change in Net Assets	4,727	2,194	2,533
Beginning Net Assets	102,326	100,132	
Ending Net Assets	**$107,052**	**$102,326**	

Operating Revenues increased by 7 million dollars reflecting 261,597 more thousands of cubic feet (Mcf) in sales and a 4.5% increase in average retail rates.

Other Operating Expense increased by $3.3 million. The small rise in the price of natural gas delivered was $10.35 an Mcf to $10.37. This rise accounted for just $81,000 of the increase. The increase in purchases of 263,030 Mcf accounted for the balance of the additional $2.8 million in Purchased Gas. Besides paying all currently due Other Post Employment Benefits (OPEB), another $320,000 was accrued and deposited in an irrevocable trust for future (OPEB) expenses. Total Revenues increased $6.6 million or 11.6%. Total Expenses increased $3.6 million or 6.9%.

Going forward, an independent Gas Cost of Service study was performed this year and for FY 2010 the Customer Charge was increased by $2.00 increasing the Gas Cash Flow by approximately $1,000,000 a year regardless of the cost of gas or weather conditions.

Net Assets

Table C-1
Condensed Balance Sheet
(000's)

	FY 2009	FY 2008	$ Change
Current and Other Assets	$33,097	$42,564	($9,467)
Capital Assets (Net)	163,873	147,616	16,257
Total Assets	196,970	190,179	6,790
Long-Term Debt Outstanding	40,905	43,930	(3,025)
Other Liabilities	12,750	10,056	2,694
Total Liabilities	53,655	53,986	(331)
Invested in Capital Assets, Net of Related Debt	120,173	103,312	16,861
Restricted	18,776	24,601	(5,825)
Unrestricted	4,366	8,281	(3,915)
Total Net Assets	$143,315	$136,194	$ 7,121
Total Liabilities and Net Assets	**$196,970**	**$190,180**	

Current and Other Assets decreased by $9.5 million. This was a combination of a reduction in Cash and Cash Equivalents of $3.6 and the expenditure of bond generated Construction Funds in the amount of $6.9 million. These funds were spent most heavily on Capital projects. These investments included $1.2 million for the purchase of land near Guntersville Dam for a new water plant as demand on the System dictates. This will bring our water plants on the Tennessee River to three along an expanse of the River which will provide redundancy and reliability in the event of a natural or unnatural disaster. During FY 2009 the Eastern Loop was also substantially completed. This strengthened the System in a fast growing part of the County and will also serve as distribution when the new Water Plant is built. The major expense was on the expansion of an existing river water plant. These expenditures combined with the closure to plant-in-service of previously invested work-in-progress increased our Capital Assets (Net) and Invested in Capital Assets, Net of Related Debt by over $16 million.

The Board, in this capital intensive business with long lead times for design and construction, continues to approve plans for the future to assure the public of a safe and reliable source of water. The required permitting process of the land purchased for a new water plant has already been completed with the Tennessee Valley Authority (TVA - manager of the river resource) and the Alabama Department of Environmental Management (ADEM). The Board desires to maintain approximately 45 days of Operating and Capital Expenses as determined by the current budget. Available cash at 9/30/09 was 103 days.

Net Assets

Table C-2
Condensed Statement of Revenues, Expenses and Changes in Net Assets
(000's)

	FY 2009	FY 2008	$ Change
Operating Revenues	$ 25,131	$ 24,536	$ 595
Non-Operating Revenues	78	373	(295)
Total Revenues	25,209	24,909	300
Depreciation Expense	4,847	4,340	507
Other Operating Expense	15,566	14,542	1,024
Non-Operating Expense	1,035	1,126	(91)
Total Expenses	21,448	20,008	1,440
Income (Loss) Before Contributions And Transfers	3,761	4,901	(1,140)
Capital Contributions	4,719	6,655	(1,936)
Transfers Out – Tax Equivalents	(1,358)	(1,331)	(27)
Change in Net Assets	7,121	10,224	(3,103)
Beginning Net Assets	136,194	125,970	
Ending Net Assets	**$143,315**	**$136,194**	

2009 ended the drought conditions. Gallons sold decreased by one billion, one hundred thirty five million gallons. This was a 9.1% decline in total volume of sales from the previous year. While the gallons sold decreased, sales revenues increased by 2.0% due to the implementation of new rates.

Other Operating Expense increased by $1.0 million. Most of this increase was in Administrative and General Expenses. In addition to the "pay as you go" amount for Other Post Employment Benefits (OPEB) for current retirees, the Water System also accrued and contributed over $399,000 to the irrevocable trust for future OPEB expenses. Also in August the Water System went live with the SAP back office software. The allocation process for Administrative and General Expenses is not on the same basis as our replaced Legacy system.

Capital Contributions decreased this year by $2.0 million as the area construction cooled somewhat with the general economy. It will have to pick up again as we enter the final two years of the Base Realignment and Closure (BRAC) with several thousand military, civilian support staff and families yet to come. The final building on the Redstone Base in support of BRAC has begun construction.

William Pippin
Chief Executive Officer

Timothy D. McKee
Chief Financial Officer

SECTION II

Balance Sheets
September 30, 2009 and 2008
Assets

	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	$ 48,029,835	$ 50,400,856
Accounts receivable, trade, net of allowance for doubtful accounts of $301,450 and $370,801 respectively	24,636,043	26,896,561
Other receivables	2,417,552	2,502,585
Materials and supplies	5,512,652	5,037,906
Prepaid items	8,499	334,043
TOTAL CURRENT ASSETS	80,604,581	85,171,951
RESTRICTED AND DESIGNATED ASSETS		
Restricted:		
Debt service funds	1,668,629	1,632,722
Reserve and replacement funds	2,705,428	2,705,428
Improvement fund - bond restricted	500,000	500,000
Workers compensation fund	1,978,709	2,000,000
Board Designated:		
Renewal and replacement	8,869,104	16,232,388
Emergency fund	3,000,000	3,000,000
Construction fund	11,326,914	11,148,974
Other funds	251,712	320,325
Insurance fund	1,042,233	1,042,233
TOTAL RESTRICTED AND DESIGNATED ASSETS	31,342,729	38,582,070
OTHER ASSETS		
Other deferred charges	128,100	128,100
Unamortized debt expense	722,592	800,338
TOTAL OTHER ASSETS	850,692	928,438
CAPITAL ASSETS		
Plant in service	408,185,709	370,897,592
Construction in progress	4,227,892	14,759,234
Retirement in progress	-	3,891
	412,413,601	385,660,717
Accumulated depreciation	(170,718,406)	(160,614,128)
NET CAPITAL ASSETS	241,695,195	225,046,589
TOTAL ASSETS	$ 354,493,197	$ 349,729,048

Balance Sheets
September 30, 2009 and 2008
Liabilities and Net Assets

	2009	2008
CURRENT LIABILITIES		
Accounts payable		
Trade	$ 33,676,955	$ 36,036,511
Other utility systems	8,051,906	7,935,127
Customer deposits, including interest of $10,948,731 in 2009 and $9,944,095 in 2008	35,454,623	33,171,667
Accrued taxes and equivalents	(105,039)	-
Compensated absences	3,359,759	3,074,154
Other current liabilities	1,101,890	2,034,900
TOTAL CURRENT LIABILITIES	81,540,094	82,252,359
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Current maturities of electric revenue bonds	1,615,000	1,545,000
Interest payable	311,158	332,380
	1,926,158	1,877,380
LONG-TERM LIABILITIES		
Electric revenue bonds, less current maturities	20,620,000	22,235,000
Unamortized bond premium	264,012	264,012
Unamortized bond discount	(185,206)	(221,043)
TOTAL LONG-TERM LIABILITIES	20,698,806	22,277,969
TOTAL LIABILITIES	104,165,058	106,407,708
NET ASSETS		
Invested in capital assets, net of related debt	219,920,923	201,819,678
Restricted	6,852,766	6,838,150
Unrestricted	23,554,450	34,663,512
TOTAL NET ASSETS	250,328,139	243,321,340
TOTAL LIABILITIES AND NET ASSETS	$354,493,197	$349,729,048

The accompanying notes and independent auditors' report are an integral part of these financial statements.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2009 and 2008

	2009	2008
OPERATING REVENUE		
Residential	$ 213,186,111	$ 186,744,898
Large commercial and industrial	183,397,099	172,689,166
Small commercial and industrial	38,784,824	29,857,178
Public Street and highway lighting	4,329,390	3,900,168
Other operating revenue	11,509,253	10,412,783
TOTAL OPERATING REVENUE	451,206,677	403,604,193
OPERATING AND MAINTENANCE EXPENSES		
Purchased power	387,142,325	342,194,033
Transmission	134,446	73,317
Distribution	15,947,793	14,514,261
Customer accounts	4,340,911	4,592,577
Administrative and general	10,471,930	8,960,600
Depreciation	12,320,334	11,419,265
Payroll taxes	1,150,401	977,948
OPERATING EXPENSES	431,508,140	382,732,001
OPERATING INCOME	19,698,537	20,872,192
NON-OPERATING REVENUES (EXPENSES)		
Interest income	591,075	2,920,658
Interest expense	(2,609,943)	(2,587,172)
Amortization of bond discount	(77,746)	(44,783)
TOTAL OTHER INCOME AND (EXPENSE)	(2,096,614)	288,703
INCOME LOSS BEFORE TRANSFERS	17,601,923	21,160,895
TRANSFERS OUT - TAX EQUIVALENTS	(10,595,126)	(10,136,334)
CHANGE IN NET ASSETS	7,006,797	11,024,561
NET ASSETS - BEGINNING	243,321,342	232,296,781
NET ASSETS - ENDING	$ 250,328,139	$ 243,321,342

Statements of Cash Flows
Years Ended September 30, 2009 and 2008
(Increase (Decrease) in Cash)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from customers	$ 453,467,195	$ 404,498,744
Paid to suppliers for goods and services	(404,606,051)	(357,931,059)
Paid to employees for goods and services	(14,042,912)	(11,991,880)
Net cash flows from operating activities	34,818,232	34,575,805
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out - tax equivalents	(10,595,126)	(10,136,334)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in other assets	(77,746)	-
Interest income earned on investments	590,880	2,920,658
Net cash provided from investing activities	513,134	2,920,658
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant in service	(30,051,409)	(25,816,481)
Retirement of plant - net	(176,286)	1,194,407
Payment of principal on long-term debt	(1,509,163)	(1,530,000)
Early retirement of long-term debt	-	(12,910,000)
Proceeds of new debt	-	13,459,012
Bond issue costs	-	(477,292)
Special funds	7,239,540	(3,437,759)
Interest paid	(2,609,943)	(2,644,390)
Net cash (used for) capital and related financing activities	(27,107,261)	(32,162,503)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,371,021)	(4,802,374)
CASH AT BEGINNING OF YEAR	50,400,856	55,203,230
CASH AT END OF YEAR	$ 48,029,835	$ 50,400,856
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating income	$ 19,698,537	$ 20,872,192
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation charged to operations	12,320,334	1,419,265
Depreciation charged to other accounts	1,258,755	1,236,443
Amortization	77,746	44,783
Change in accounts receivable - customer	2,260,518	894,551
Change in accounts receivable - other	85,033	(584,549)
Change in inventory	(474,746)	(684,653)
Change in prepaid expenses	325,544	(123,884)
Change in accounts payable	(2,242,777)	(2,251,529)
Change in customer deposits	2,282,956	2,531,852
Change in accrued expenses and other current liabilities	(773,668)	1,221,334
Net Adjustments	15,119,695	13,703,613
NET CASH PROVIDED BY OPERATIONS	$ 34,818,232	$ 34,575,805

The accompanying notes and independent auditors' report are an integral part of these financial statements.

Balance Sheets
September 30, 2009 and 2008
Assets

	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	$ 14,878,268	$ 19,648,828
Accounts receivable, trade, net of allowance for doubtful accounts of $54,594 and $64,014, respectively	1,069,466	1,086,198
Other receivables	1,294,948	304,295
Stored gas	8,590,759	8,171,279
Materials and supplies	1,135,290	847,874
Prepaid items	116	198,804
TOTAL CURRENT ASSETS	26,968,847	30,257,278
RESTRICTED AND DESIGNATED ASSETS		
Restricted:		
Workers compensation fund	2,074,543	2,080,417
Bond construction fund	-	1,048,521
Debt service reserve funds	818,244	818,244
Bond sinking funds	136,177	136,664
Board designated:		
Renewal and replacement	3,823,318	5,091,662
Construction fund	6,360,663	5,920,663
Rate stabilization	2,500,000	-
Insurance fund	997,670	997,670
TOTAL RESTRICTED AND DESIGNATED ASSETS	16,710,615	16,093,841
OTHER ASSETS		
Unamortized debt expense	191,383	203,471
CAPITAL ASSETS		
Plant in service	124,502,336	117,018,428
Construction in progress	993,341	1,440,914
	125,495,677	118,459,342
Accumulated depreciation	(40,571,604)	(37,986,386)
NET CAPITAL ASSETS	84,924,073	80,472,956
TOTAL ASSETS	$ 128,794,918	$ 127,027,546

Balance Sheets
September 30, 2009 and 2008
Liabilities and Net Assets

	2009	2008
CURRENT LIABILITIES		
Accounts payable		
Trade	$ 1,730,457	$ 4,994,477
Other utility systems	-	-
Customer deposits, including interest of $2,513,058 in 2009 and $2,282,760 in 2008	8,791,423	8,193,573
Compensated absences	1,199,807	1,064,549
Other current liabilities	543,104	544,053
TOTAL CURRENT LIABILITIES	12,264,791	14,796,652
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Current maturities of revenue bonds	440,000	425,000
Interest payable	62,786	65,089
TOTAL PAYABLE FROM RESTRICTED ASSETS	502,786	490,089
LONG-TERM DEBT		
Revenue bonds - less current maturity	8,975,000	9,415,000
TOTAL LONG-TERM DEBT	8,975,000	9,415,000
TOTAL LIABILITIES	21,742,577	24,701,741
NET ASSETS		
Invested in capital assets, net of related debt	75,637,670	70,771,338
Restricted	3,028,964	4,083,846
Unrestricted	28,385,707	27,470,621
TOTAL NET ASSETS	107,052,341	102,325,805
TOTAL LIABILITIES AND NET ASSETS	$ 128,794,918	$ 127,027,546

The accompanying notes and independent auditors' report are an integral part of these financial statements.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2009 and 2008

	2009	2008
OPERATING REVENUE		
Residential	$ 26,500,376	$ 22,772,234
Commercial	28,930,139	26,356,217
Industrial	4,114,353	4,029,753
Other operating revenue	3,867,251	3,252,758
TOTAL OPERATING REVENUE	63,412,119	56,410,962
OPERATING AND MAINTENANCE EXPENSES		
Purchased gas	44,904,955	42,107,776
Production	7,828	10,660
Distribution	3,968,469	3,779,012
Customer accounts	711,525	731,228
Administrative and general	3,236,865	2,850,316
Depreciation	2,547,783	2,379,840
Payroll taxes	353,826	332,288
OPERATING EXPENSES	55,731,251	52,191,120
OPERATING INCOME	7,680,868	4,219,842
NON-OPERATING REVENUES (EXPENSES)		
Interest income	655,143	1,006,532
Interest expense	(465,204)	(378,858)
Amortization of debt discount	(12,087)	(12,084)
TOTAL OTHER INCOME AND (EXPENSE)	177,852	615,590
INCOME /(LOSS) BEFORE TRANSFERS & CAPITAL CONTRIBUTIONS	7,858,720	4,835,432
TRANSFERS OUT - TAX EQUIVALENTS	(3,572,709)	(3,189,816)
CAPITAL CONTRIBUTIONS	440,525	548,497
CHANGE IN NET ASSETS	4,726,536	2,194,113
NET ASSETS - BEGINNING	102,325,805	100,131,692
NET ASSETS - ENDING	$ 107,052,341	$ 102,325,805

Statements of Cash Flows
Years Ended September 30, 2009 and 2008
(Increase (Decrease) in Cash)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from customers	$ 63,428,851	$ 56,548,417
Paid to suppliers for goods and services	(52,792,741)	(42,273,763)
Paid to employees for goods and services	(3,912,779)	(4,951,352)
Net cash flows from operating activities	6,723,331	9,323,302
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from settlement of lawsuit	-	11,600,000
Transfers out - tax equivalents	(3,572,709)	(3,189,816)
Net cash flow from Noncapital financing activities	(3,572,709)	8,410,184
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income earned on investments	655,143	1,006,532
Net cash provided from/(used by) investing activities	655,143	1,006,532
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant in service	(7,198,924)	(5,968,849)
Retirements of plant in service	(231,768)	17,865
Retirement of long-term debt	(425,000)	(410,000)
Capital contributions	361,345	548,497
Special funds	(616,774)	4,476,073
Interest paid	(465,204)	(378,858)
Net cash provided from (used for) capital and related financing activities	(8,576,325)	(1,715,272)
NET CHANGE IN CASH	(4,770,560)	5,424,746
CASH AT BEGINNING OF YEAR	19,648,828	14,224,082
CASH AT END OF YEAR	$ 14,878,268	$ 19,648,828
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 7,680,868	$ 4,219,842
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation charged to operations	2,547,783	2,379,840
Depreciation charged to other accounts	545,999	499,764
Amortization	12,087	12,084
Change in accounts receivable - customer	16,732	137,455
Change in accounts receivable - other	(990,653)	799,848
Change in inventory	(706,894)	(1,446,784)
Change in prepaid expenses	151,573	(103,688)
Change in accounts payable	(3,264,020)	2,092,496
Change in customer deposits	597,850	535,641
Change in accrued expenses and other current liabilities	132,006	196,804
Net Adjustments	(957,537)	5,103,460
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 6,723,331	$ 9,323,302

The accompanying notes and independent auditors' report are an integral part of these financial statements.

Balance Sheets
September 30, 2009 and 2008
Assets

	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	$ 3,276,655	$ 6,899,575
Accounts receivable, trade, net of allowance for doubtful accounts of $26,324 in 2009 and $32,295 in 2008	1,745,230	1,920,652
Materials and supplies	1,502,647	1,615,570
Prepaid items	1,818	211,579
TOTAL CURRENT ASSETS	6,526,350	10,647,376
RESTRICTED AND DESIGNATED ASSETS		
Restricted:		
Reserve and warrant funds - bond restricted	5,926,049	4,808,892
Construction funds	11,418,301	18,345,721
Workers compensation fund	1,431,190	1,446,355
Board Designated:		
Construction fund	4,328,019	3,681,358
Renewal and replacement	1,846,503	1,639,535
Insurance fund	555,485	555,485
TOTAL RESTRICTED AND DESIGNATED ASSETS	25,505,547	30,477,346
OTHER ASSETS		
Other deferred charges	-	329,298
Unamortized debt expense	1,065,635	1,109,883
TOTAL OTHER ASSETS	1,065,635	1,439,181
CAPITAL ASSETS		
Plant in service	244,335,430	218,400,326
Construction in progress	2,782,912	7,778,581
	247,118,342	226,178,907
Accumulated depreciation	(83,245,133)	(78,563,387)
NET CAPITAL ASSETS	163,873,209	147,615,520
TOTAL ASSETS	$ 196,970,741	$ 190,179,423

Balance Sheets
September 30, 2009 and 2008
Liabilities and Net Assets

	2009	2008
CURRENT LIABILITIES		
Accounts payable		
Trade	$ 1,551,127	$ 1,751,985
Other utility systems	247,178	366,154
Customer deposits, including interest of $1,350,052 in 2009 and $1,062,386 in 2008	4,408,202	4,108,699
Compensated absences	1,483,568	1,270,112
Accrued taxes and equivalents	105,173	-
Customer advances for construction	-	153,520
Other current liabilities	1,094,938	921,547
TOTAL CURRENT LIABILITIES	8,890,186	8,572,017
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Current maturities of water revenue bonds	2,055,000	700,000
Interest payable	775,466	784,215
TOTAL PAYABLE FROM RESTRICTED ASSETS	2,830,466	1,484,215
LONG-TERM LIABILITIES		
Water revenue bonds, less current maturities	40,905,000	42,960,000
Unamortized bond premium	1,340,790	1,340,790
Unamortized bond discount	(311,144)	(371,364)
TOTAL LONG-TERM LIABILITIES	41,934,646	43,929,426
TOTAL LIABILITIES	53,655,298	53,985,658
NET ASSETS		
Invested in capital assets, net of related debt	120,173,732	103,311,762
Restricted	18,775,540	24,600,968
Unrestricted	4,366,171	8,281,035
Total Net Assets	143,315,443	136,193,765
TOTAL LIABILITIES AND NET ASSETS	$ 196,970,741	$ 190,179,423

The accompanying notes and independent auditors' report are an integral part of these financial statements.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2009 and 2008

	2009	2008
OPERATING REVENUE		
Residential	$ 12,554,380	$ 11,988,479
Industrial	1,572,193	1,735,818
Commercial	6,339,244	6,142,069
Government	1,074,255	1,389,560
Fire hydrants	757,044	717,325
Other operating revenue	2,833,618	2,562,378
TOTAL OPERATING REVENUE	25,130,734	24,535,629
OPERATING AND MAINTENANCE EXPENSES		
Purification	999,024	950,986
Pumping	3,682,596	3,653,452
Distribution	4,237,521	4,229,023
Customer accounts	1,563,388	1,569,782
Administrative and general	4,546,943	3,664,017
Depreciation	4,847,144	4,340,355
Payroll taxes	536,095	474,979
OPERATING EXPENSES	20,412,711	18,882,594
OPERATING INCOME	4,718,023	5,653,035
NON-OPERATING REVENUES (EXPENSES)		
Interest income	77,629	373,341
Interest expense	(990,388)	(1,101,782)
Amortization of debt discount	(44,248)	(23,955)
TOTAL OTHER INCOME AND (EXPENSE)	(957,007)	(752,396)
INCOME BEFORE CAPITAL CONTRIBUTIONS & TRANSFERS	3,761,016	4,900,639
CAPITAL CONTRIBUTIONS	4,718,507	6,654,564
TRANSFERS OUT - TAX EQUIVALENTS	(1,357,845)	(1,331,386)
CHANGE IN NET ASSETS	7,121,678	10,223,817
NET ASSETS - BEGINNING	136,193,765	125,969,948
NET ASSETS - ENDING	$ 143,315,443	$ 136,193,765

Statements of Cash Flows
Years Ended September 30, 2009 and 2008
(Increase (Decrease) in Cash)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from customers	$ 25,306,156	$ 24,603,582
Paid to suppliers for goods and service	(7,892,426)	(6,189,901)
Paid to employees for goods and services	(6,636,891)	(5,935,647)
Net cash flows from operating activities	10,776,839	12,478,034
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out - tax equivalents	(1,357,845)	(1,331,386)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deferred charges	285,049	(325,225)
Interest income earned on investments	77,629	373,341
Net cash provided from (used by) investing activities	362,678	48,116
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of principal on long-term debt	(639,780)	(1,185,000)
Proceeds from new debt	-	45,000,790
Bond issue costs	-	(920,607)
Retirement of long-term debt	-	(17,245,000)
Customer advances	-	(303)
Additions to plant in service	(21,537,866)	(17,821,367)
Retirement of plant - net	73,136	113,879
Capital contributions	4,718,507	6,654,565
Special funds	4,971,799	(21,959,596)
Interest paid and charged to operations	(990,388)	(675,879)
Net cash provided from (used for) capital and related financing activities	(13,404,592)	(8,038,518)
NET CHANGE IN CASH	(3,622,920)	3,156,246
CASH AT BEGINNING OF YEAR	6,899,575	3,733,329
CASH AT END OF YEAR	$ 3,276,655	$ 6,889,575
Supplemental information: Interest capitalized	$ 1,423,170	
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 4,718,023	$ 5,653,035
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation charged to operations	4,847,144	4,340,355
Depreciation charged to other accounts	359,897	317,270
Amortization	44,248	23,955
Change in accounts receivable - customer	175,422	67,953
Change in inventory	112,923	(58,812)
Change in prepaid expenses	209,761	(151,685)
Change in accounts payable	(319,834)	1,328,048
Change in customer deposits	299,503	268,372
Change in accrued expenses and other current liabilities	329,752	689,543
Net Adjustments	6,058,816	6,824,999
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 10,776,839	$ 12,478,034

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Huntsville Utilities have been prepared in accordance with generally accepted accounting principles (GAAP) of the United States of America as applied to government units. The more significant of the Utilities' accounting principles are described below:

Reporting Entity and Financial Statement Presentation

Statement No. 14 of the GASB establishes standards for defining and reporting on the financial 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. As there is no cross-subsidization between systems and as permitted by industry practice, the financial statements of each system are presented separately. The footnotes are presented separately for each board, where applicable, and jointly for areas where common descriptions exist.

Governance

The Utilities' are overseen by separate Boards of Directors for the electric, natural gas and water systems and are responsible for making recommendations to the City for major outlays and rate revisions. Adjustments to electric and gas rates for changes in wholesale costs do not have to be approved by the City. The Boards consist of three members each, appointed by the Huntsville City Council for staggered three year terms. The Gas and Water Boards are comprised of the same three members. The Boards have hired a President and CEO to administer all three utilities.

Basis of Accounting and Financial Statement Presentation

Huntsville Utilities uses the accrual basis of accounting under which revenues are recognized when earned concurrent with billing to customers on a monthly basis and expenses are recognized when incurred, even though actual payment or receipt may not occur until after the period ends. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Where authoritative guidance has not been issued by GASB or FASB, and/or as permitted by industry practice, Huntsville Utilities follows guidance issued by the Federal Energy Regulatory Commission (FERC). Huntsville Utilities has elected to follow Financial Accounting Standards Board pronouncements issued before November 30, 1989 and all pronouncements of the Governmental Accounting Standards Board (GASB) issued after November 30, 1989. Huntsville Utilities has adopted the provisions of GASB Statement 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." GASB 34 establishes standards for external reporting for all state and local governmental entities and their component units that includes a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. GASB 34 requires the classification of net assets into three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. These classifications are defined as follows:

1) Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the capital assets.

2) Restricted –This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, such as debt covenants, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional or enabling legislation.

3) Unrestricted – This component of nets assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America 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.

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

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. Special funds are provided for under trust indentures and are not considered cash equivalents. All special funds are considered investments for purposes of classification in the statement of cash flows.

Board Designated Cash and Board Designated Unrestricted Net Assets
The Boards of Directors 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 assets as special funds. Designations are relieved once the Board has approved expenditures from those funds. The designated cash – special fund balances are fully funded but are not separately stated as board designated unrestricted net assets in the net assets portion of the statements of net assets.

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 Electric System. Included in the payable is cash held by the Electric System in the master account for the benefit of other City of Huntsville and Madison County utility departments and amounts owed to the other departments for services rendered by them to the Electric System.

Revenue and Concentration of Credit Risk
Huntsville Utilities does not accrue unbilled receivables from the most recent meter readings to the end of the year. Huntsville Utilities customers are located in Huntsville, Madison County, Alabama.

Materials and Supplies Inventories
Materials and supplies inventories are stated at the aggregate amount of the lower of cost (average cost) or market.

Stored Gas Inventory
Under the Federal Energy Regulatory Commission Order 636, Huntsville Utilities' natural gas and storage from its vendors is unbundled. The result led to an election by the utility to store gas rather than be penalized for no notice service. The stored gas inventory is reflected at the aggregate amount of the lower of cost (average cost) or market.

Utility Plant
Utility plant and construction in progress are stated at cost less accumulated depreciation in accordance with standards established by the Federal Energy Regulatory Commission (FERC). Depreciation is computed using the straight-line method over the estimated useful life of the assets ranging from five to fifty years. Retirements of units of property from service are credited against plant in service at the original cost of the units and accumulated depreciation are debited at the date of retirement. Improvements that extend the useful life of the assets are capitalized and depreciated over the remaining useful life of the asset. The cost of maintenance, repairs and replacement of minor items of property are charged to operations and maintenance accounts. Interest on bonds is capitalized during the construction period for assets financed by bond proceeds.

Non-Refundable Grants in Aid of Construction and Capital Contributions
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 statement of revenues, expenses and changes in net assets.

As permitted by industry practice, it is the Electric System's policy not to record amounts received as grants in aid of construction as capital contributions. The authoritative support for this is Federal Energy Power Commission (FERC) order number 490. The substance of this accounting treatment reduces construction work in progress and the cost of operating the Electric System by reducing depreciation expense and tax equivalents.

Customer Deposits
Customer deposits are reflected in the financial statements as current liabilities in accordance with guidelines established by the Federal Energy Power Commission (FERC). Local Ordinance permits Huntsville Utilities to accrue and pay to customers interest earned on their deposits.

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reclassifications

In order for the current year financial statements to be comparable to the prior year financial statements reclassifications have been made.

NOTE 2 – ACCOUNTS RECEIVABLE - CUSTOMER

The City of Huntsville Electric System acts as a billing and collection agent for other City of Huntsville and Madison County Utility Departments. Current earnings are charged with an allowance for doubtful accounts based on a percent of gross revenue, determined from prior years' bad debt experience. Customer accounts receivable are due 15 days after the issuance of the billing statement and are considered delinquent when more than 25 days past due. Accounts considered uncollectible throughout the year are charged against the allowance. Customers are eligible to participate in a budget billing program. At September 30, 2009, customer accounts receivable is net of $1,217,252 of budget billing overpayments that will be applied to future bills.

NOTE 3 - TAX EQUIVALENTS

Since the Utilities are owned by 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, 2009 and 2008, are as follows:

	2009	2008
Electric System	$ 10,595,126	$ 10,136,334
Natural Gas System	3,572,709	3,189,816
Water System	1,357,845	1,331,386

NOTE 4 – EMPLOYEE BENEFITS

The annual leave policy allows each employee to accumulate up to thirty-five days annual leave. Huntsville 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. Huntsville Utilities follows the practice of accruing 25% of accumulated sick leave based on average salaries for the past five years for employees who have attained a specified period of service or age. Accrued annual leave and sick leave at September 30, 2009 and 2008 are as follows:

	Accrued Annual Leave		Accrued Sick Leave	
	2009	2008	2009	2008
Electric System	$ 1,952,891	$ 1,765,524	$ 1,406,868	$ 1,308,630
Natural Gas System	659,029	578,275	540,778	486,274
Water System	795,294	666,858	688,274	603,254

NOTE 5 - DEFINED BENEFIT PENSION PLAN AND DESCRIPTION

Substantially all employees of the City of Huntsville Electric, Natural Gas and Water Systems (the "Utilities") are members of the Employees' Retirement System of Alabama (RSA). Membership is mandatory for covered or eligible employees. The Pension plan provides pension benefits, deferred allowances, death and disability benefits and surviving spouse benefits. A member may retire after reaching the age of 60 or accumulating 30 years of service with the Utilities. Benefits vest after 10 years of service. Huntsville Utilities is affiliated with RSA (The System), an agent multiple-employer pension plan. RSA issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Retirement System of Alabama. Benefit provisions are established and amended by State statute.

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

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

During 2009 and 2008, the Utilities were required to contribute the following percentages of gross payroll to the plan:

	2009	2008
Electric System	17.71%	16.68%
Natural Gas System	11.16%	10.79%
Water System	12.87%	11.54%

Based on an actuarial valuation completed as of September 30, 2008, the Annual Pension Cost for the System is as follows:

	Annual Pension Cost (APC) 2008	Annual Pension Cost (APC) 2007	Percentage of APC Contributed 2008 and 2007
Electric System	$1,474,244	$1,351,186	100%
Natural Gas System	1,685,679	1,511,970	100%
Water System	521,569	467,736	100%

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

The Huntsville Utilities' Funding Progress in the schedules below are equal to the Utilities' required and actual contributions. The required contribution was determined as part of the September 30, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) an 8% investment rate of return (net of administrative expenses), (b) projected salary increases of between 4.61% and 7.75% a year, (c) 0% per year cost of living adjustments. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of the System's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The system's unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2008 was 20 years for the Electric System, 20 years for the Gas System and 20 years for the Water System.

Based on an actuarial valuation done in September 30, 2008, the most recent year for which information is available the schedule of Funding Progress for the System is as follows:

ELECTRIC

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under/(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
2004	$ 27,424,773	$ 37,059,535	$ 9,634,762	74.0%	$ 7,651,882	125.9%
2005	$ 28,094,541	$ 42,619,069	$ 14,524,528	65.9%	$ 9,080,096	160.0%
2006	$ 28,828,749	$ 46,128,654	$ 17,299,905	62.5%	$ 9,238,666	187.3%
2007	$ 29,963,494	$ 47,730,823	$ 17,767,329	62.8%	$ 9,572,827	185.6%
2008	$ 29,933,875	$ 50,264,649	$ 20,330,774	59.6%	$ 10,087,229	201.5%

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

NOTE 5 - DEFINED BENEFIT PENSION PLAN AND DESCRIPTION - Continued

WATER

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under/(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
2004	$ 13,778,429	$ 16,325,253	$ 2,546,825	84.4%	$ 4,076,420	62.5%
2005	$ 14,284,170	$ 18,502,405	$ 4,218,235	77.2%	$ 4,600,552	91.7%
2006	$ 14,848,340	$ 20,040,427	$ 5,192,088	74.1%	$ 4,709,711	110.2%
2007	$ 15,633,561	$ 21,323,229	$ 5,689,669	73.3%	$ 5,033,225	113.0%
2008	$ 15,922,622	$ 23,140,702	$ 7,218,080	68.8%	$ 5,460,826	132.2%

GAS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under/(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
2004	$ 33,538,692	$ 41,626,982	$ 8,088,290	80.6%	$ 12,498,042	64.7%
2005	$ 34,905,665	$ 47,605,902	$ 12,700,237	73.3%	$ 13,842,546	91.7%
2006	$ 36,313,068	$ 51,562,348	$ 15,249,280	70.4%	$ 14,631,348	104.2%
2007	$ 35,523,025	$ 54,570,361	$ 16,047,336	70.6%	$ 15,942,981	100.7%
2008	$ 39,258,315	$ 58,009,060	$ 18,750,745	67.7%	$ 17,196,989	109.0%

NOTE 6 - LONG-TERM DEBT

City of Huntsville, Alabama Electric System Revenue Warrants, Series 1998

Electric System Revenue Warrants, Series 1998, were issued in the original amount of $15,505,000. Bonds in the amount of $14,650,000 were retired early in December 2007 from the proceeds of the Series 2007 bonds. The Series 1998 warrants mature serially on December 1 each year and bear interest according to stated maturity dates as follows:

Year	1998 Principal Maturity	1998 Interest Maturity	1998 Annual Interest Rate
2010	$ 890,000	$ 40,940	4.60%
Total	890,000		
Less Current Portion	890,000		
	$ -0-		

Beginning	Additions	Retirements	Ending
$1,740,000	$-0-	$850,000	$890,000

The 1998 issue contained deferred cost of approximately $442,086 that is being amortized over 20 years. At September 30, 2009, the unamortized deferred cost is $185,205. When the issue is retired the unamortized balance will be reclassified and included as part of the unamortized cost of the 2007 bond issue.

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2009, 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 1998 Warrants coming due on December 1 each year and one-sixth (1/6) of the interest due each year. At September 30, 2005, the balance in the funds is in compliance with the indenture. The Electric System Revenue Warrants, Series 1998 is in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

The 1998 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.

1998 Series Warrants maturing in 2008 will be subject to redemption at the option of the City of Huntsville, Alabama, on December 1, 2007, and on any date thereafter, plus accrued interest as follows:

Redemption Dates	Redemption Price
December 1, 2007, through November 30, 2008	102%
December 1, 2008, through November 30, 2009	101%
December 1, 2009, and thereafter	100%

Electric System Revenue Refunding Warrants, Series 2001

Electric System Revenue Warrants, Series 2001, were issued in the original amount of $6,070,000. The warrants mature serially on December 1 each year and bear interest according to stated maturity dates:

Year	2001 Principal Maturity	2001 Interest Maturity	2001 Annual Interest Rate
2010	$ 450,000	$ 126,610	4.100%
2011	465,000	107,520	4.200%
2012	490,000	87,343	4.250%
2013	510,000	65,965	4.300%
2014	535,000	41,625	5.000%
2015	565,000	14,125	5.000%
Total	3,015,000		
Less Current Portion	450,000		
	$ 2,565,000		

Beginning	Additions	Retirements	Ending
$3,445,000	$-0-	$430,000	$3,015,000

The 2001 issue contained deferred cost of $75,861 that is being amortized over 13 years. At September 30, 2009, the unamortized deferred cost is $29,501.

The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2005, 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 2001 warrants coming due on December 1 each year and one-sixth (1/6) of the interest due each year. At September 30, 2005, the balance in the funds is in compliance with the indenture. The Electric System Revenue Warrants, Series 2001 are in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

NOTE 6 - LONG-TERM DEBT - Continued

Electric System Revenue Refunding Warrants, Series 2001 - Continued

The 2001 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 2001 Series Warrants maturing in 2008 will be subject to redemption at the option of the City of Huntsville, Alabama, on December 1, 2008, and on any date thereafter, plus accrued interest as follows:

Redemption Dates	Redemption Price
December 1, 2008, through November 30, 2009	102%
December 1, 2009, through November 30, 2010	101%
December 1, 2010, and thereafter	100%

City of Huntsville, Alabama Electric System Revenue Warrants, Series 2002

Electric System Revenue Warrants, Series 2002, were issued in the original amount of $8,825,000. The warrants mature serially on December 1 each year and bear interest according to stated maturity dates as follows:

Year	2002 Principal Maturity	2002 Interest Maturity	2002 Annual Interest Rate	
2010	$ 275,000	$ 229,000	3.40%	
2011	285,000	219,600	3.65%	
2012	295,000	209,247	3.90%	
2013	310,000	197,743	4.00%	
2014	320,000	185,342	4.15%	
2015	335,000	172,063	4.25%	
2016	350,000	157,825	4.40%	
2017	365,000	142,425	4.50%	
2018	385,000	126,000	4.60%	
2019	400,000	108,290	4.70%	
2020	420,000	89,490	4.70%	
2021*	440,000	69,750	5.00%	*
2022*	465,000	47,750	5.00%	*
2023*	490,000	24,500	5.00%	*
Total	5,135,000			
Less Current Portion	275,000			
	$4,860,000			

* - Term Warrants

Beginning	Additions	Retirements	Ending
$5,400,000	$-0-	$265,000	$5,135,000

2002 Series Serial Warrants maturing in 2012, will be subject to redemption at the option of the City of Huntsville, Alabama, on December 1, 2012, and on any date thereafter, plus accrued interest as follows:

Redemption Dates	Redemption Price
December 1, 2012, through November 30, 2013	101%
December 1, 2013 and thereafter	100%

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

2002 Series Term Warrants maturing in 2022, will be subject to mandatory redemption by the City of Huntsville, Alabama. The principal required to be redeemed plus accrued interest is as follows.

Redemption Dates	Redemption Price
December 1, 2020	$440,000
December 1, 2021	465,000
December 1, 2022	490,000

The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2005, 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 2002 Warrants coming due on December 1 each year and one-sixth (1/6) of the interest due each year. At September 30, 2005, the balance in the funds is in compliance with the indenture. The Electric System Revenue Warrants, Series 2002 is in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

The 2002 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 2002 issue contained deferred cost of $171,056 that is being amortized over 20 years. At September 30, 2009, the unamortized deferred cost is $114,156.

The Series 2002 Revenue Warrants were issued to redeem the Series 1993 Warrants and to pay costs of capital improvements to the Electric System.

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

Year	2007 Principal Maturity	2007 Interest Maturity	2007 Annual Interest Rate
2010	$ -0-	$ 527,800	4.00%
2011	705,000	513,700	4.00%
2012	1,070,000	478,200	4.00%
2013	1,110,000	434,600	4.00%
2014	1,155,000	389,300	4.00%
2015	1,205,000	342,100	4.00%
2016	1,865,000	280,700	4.00%
2007	1,945,000	204,500	4.00%
2018	2,030,000	125,000	4.00%
2019	2,110,000	42,200	4.00%
Total	13,195,000		
Less Current Portion	-0-		
	$ 13,195,000		

Beginning	Additions	Retirements	Ending
$13,195,000	$-0-	$-0-	$13,195,000

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

NOTE 6 - LONG-TERM DEBT - Continued

City of Huntsville, Alabama Electric System Revenue Warrants, Series 2007 - Continued

The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2009, the balance in the fund is the minimum required by the indenture. The bond indenture requires the Electric System to establish a cash reserve account equal to one-twelfth (1/12) of the principal of the Series 2007 Warrants coming due on December 1 each year and one-sixth (1/6) of the interest due each year. At September 30, 2009, the balance in the funds is in compliance with the indenture. The Electric System Revenue Warrants, Series 2007 is in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

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 2007 issue contained deferred cost of $668,300 that is being amortized over 10 years. At September 30, 2009, the unamortized deferred cost is $578,935.

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.

City of Huntsville, Alabama Natural Gas System Revenue Warrants, Series 2005

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

Year	2005 Principal Maturity	2005 Interest Maturity	2005 Annual Interest Rate
2010	$ 440,000	$ 376,719	3.25%
2011	455,000	362,419	3.50%
2012	470,000	346,494	3.50%
2013	485,000	330,044	3.60%
2014	505,000	312,584	3.80%
2015	520,000	293,394	3.88%
2016	545,000	273,244	4.00%
2007	565,000	251,444	4.00%
2018	585,000	228,844	4.00%
2019	610,000	205,444	4.13%
2020	635,000	180,281	4.13%
2021	660,000	154,087	4.13%
2022	690,000	126,863	4.25%
2023	720,000	97,537	4.25%
2024	750,000	66,938	4.38%
2025	780,000	34,125	4.38%
Total	9,415,000		
Less Current Portion	440,000		
	$ 8,975,000		

Beginning	Additions	Retirements	Ending
$9,840,000	$-0-	$425,000	$9,415,000

The accompanying notes and independent auditors' report are an integral part of these financial statements.

The Natural Gas System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2009, the balance in the fund is the minimum required by the indenture. The bond indenture requires the Natural Gas System to establish a cash reserve account equal to one-twelfth (1/12) of the principal of the Series 2005 Warrants coming due on August 1 each year and one-sixth (1/6) of the interest due each August 1 and February 1 each year. At September 30, 2009, the balance in the funds is in compliance with the indenture. The Natural Gas Revenue Warrants, Series 2005 is in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

The 2005 Warrants are secured by the net revenues from the operations of the Natural Gas System after payment of the cost of its operations and maintenance and by the monies and investments on deposit in trust funds created by the Trust Indenture under which the warrants were issued.

The 2005 issue contained deferred cost of $241,756 that is being amortized over 20 years. At September 30, 2009, the unamortized deferred cost is $191,383.

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

<u>Water System Revenue Refunding Warrants, Series 1998</u>

Water System Revenue Warrants, Series 1998, were issued in the original principal amount of $21,140,000. The warrants were retired on May 1, 2008.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

NOTE 6 - LONG-TERM DEBT - Continued

City of Huntsville, Alabama Water Revenue Warrants, Series 2008

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

Year	2008 Principal Maturity	2008 Interest Maturity	2008 Annual Interest Rate	
2010	$ 2,055,000	$ 1,827,724	3.25%	
2011	2,120,000	1,759,880	3.25%	
2012	2,190,000	1,695,865	2.70%	
2013	2,260,000	1,632,965	2.95%	
2014	2,330,000	1,563,515	3.10%	
2015	2,400,000	1,488,400	3.25%	
2016	2,490,000	1,387,150	5.00%	
2017	2,615,000	1,259,525	5.00%	
2018	2,750,000	1,125,400	5.00%	
2019	2,885,000	984,525	5.00%	*
2020	880,000	890,400	5.00%	*
2021	925,000	845,275	5.00%	*
2022	970,000	797,900	5.00%	*
2023	1,020,000	748,150	5.00%	*
2024	1,075,000	695,775	5.00%	*
2025	1,125,000	643,588	5.00%	*
2026	1,175,000	591,838	5.00%	*
2027	1,230,000	537,725	5.00%	*
2028	1,290,000	481,025	5.00%	*
2029	1,350,000	421,625	4.50%	*
2030	1,415,000	355,875	4.50%	*
2031	1,485,000	283,375	4.50%	*
2032	1,560,000	207,250	4.50%	*
2033	1,640,000	127,250	4.50%	*
2034	1,725,000	43,125	5.00%	*
Total	42,960,000			
Less Current Portion	2,055,000			
	$ 40,905,000			

Beginning	Additions	Retirements	Ending
$43,660,000	$-0-	$700,000	$42,960,000

* - Term Warrants

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

The 2008 issue contained deferred cost of $1,120,915 that is being amortized over 25 years. At September 30, 2009, the unamortized deferred cost is $1,065,046. The 2008 issue also contained a premium of $1,340,790 that is being amortized over 25 years. At September 30, 2009 the unamortized premium is $1,340,790. At September 30, 2009, the Water System also recognizes deferred costs related to prior year bond retirements in the amount of $371,364, including related amortization of $60,220.

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 Series 2008 Water System Revenue Warrants were issued to redeem the Series 1998 Warrants and to pay costs of capital improvements to the Water System. The Water System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2009, the balance in the fund is the minimum required by the indenture. The bond indenture requires the Water System to establish a cash reserve account equal to one-twelfth (1/12) of the principal of the Series 2008 warrants coming due on November 1 each year and one-sixth (1/6) of the interest due each year. At September 30, 2009, the balance in the funds is in compliance with the indenture. The Water System Revenue Warrants, Series 2008 are in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

The 2008 Series Warrants with a stated maturity on November 1, 2023 are required to be redeemed on November 1 in the following years in the following principal amounts at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon, without premium or penalty:

Redemption Dates	Redemption Price
2019	$880,000
2020	925,000
2021	970,000
2022	1,020,000

The remainder of the 2023 Term Warrants in the principal amount of $1,075,000 will mature on November 1, 2023.

The 2008 Series Warrants with a stated maturity on November 1, 2028 are required to be redeemed on November 1 in the following years in the following principal amounts at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon, without premium or penalty:

Redemption Dates	Redemption Price
2024	$1,125,000
2025	1,175,000
2026	1,230,000
2027	1,290,000

The remainder of the 2028 Term Warrants in the principal amount of $1,350,000 will mature on November 1, 2028.

The 2008 Series Warrants with a stated maturity on November 1, 2033 are required to be redeemed on November 1 in the following years in the following principal amounts at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon, without premium or penalty:

Redemption Dates	Redemption Price
2029	$1,415,000
2030	1,485,000
2031	1,560,000
2032	1,640,000

The remainder of the 2033 Term Warrants in the principal amount of $1,725,000 will mature on November 1, 2033.

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

NOTE 7 - DEPOSITS WITH FINANCIAL INSTITUTIONS

At September 30, 2009, all cash and cash equivalents of Huntsville Utilities are entirely insured or collateralized as provided by the Security for Alabama Funds Enhancement Act (SAFE) as prescribed in section 41-14A of the code of the state of Alabama with a Qualified Public Fund Depository. Funds held by the banks' trust departments or agents are invested in U. S. governmental securities or are secured by U. S. government securities.

A summary of cash and investments is as follows:

Description	Electric System	Gas System	Water System
Cash on hand	$ 11,450	$ -0-	$ -0-
Carrying amount of:			
Deposits	74,735,344	30,634,462	11,437,853
Investments	4,374,057	954,421	17,344,350
Total	$ 79,120,851	$ 31,588,883	$ 28,782,202
Cash and cash equivalents	$ 48,029,835	$ 14,878,268	$ 3,276,655
Debt service accounts	4,374,057	954,421	5,926,049
Bond construction fund	-0-	-0-	11,418,301
Bond improvement fund	500,000	-0-	-0-
Other third party restricted	1,978,709	2,074,543	1,431,190
Board designated accounts:			
Construction	11,326,914	6,360,663	3,305,699
Improvement	-0-	-0-	1,846,503
Renewal and replacement	8,869,104	3,823,318	-0-
Emergency	3,000,000	2,500,000	1,022,320
Insurance	1,042,232	997,670	555,485
Total	$ 79,120,851	$ 31,588,883	$ 28,782,202

At September 30, 2009, Huntsville Utilities had the following investments held by a trustee:

Investment Type	Fair Value	Maturity
Repurchase agreement	$ 2,705,427	November 30, 2022
U.S. Treasury Securities Funds	20,467,828	Average maturity of the funds securities is 397 days or less
	$ 23,172,828	

Interest rate risk - In accordance with its bond indenture, Huntsville 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 - Huntsville 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 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, 2009, Huntsville Utilities investments consisted of RMK Select Treasury Money Market Funds and JP Morgan 100% U.S. Treasury Securities Money market Funds which are primarily comprised of U.S. Treasury obligations maturing in 397 days or less. In addition, Huntsville Utilities' have invested in a repurchase agreement which is collateralized by Fannie Mae pooled securities.

<u>Custodial Credit Risk</u> - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Huntsville Utilities will not be able to recover the value of its investments r collateral securities that are in the possession of an outside party. Of Huntsville Utilities' investments in the repurchase agreement, the underlying securities having a fair value of approximately $2,832,653 at September 30, 2009 are held by the investments counterparty, not in the name of Huntsville Utilities.

NOTE 8 - 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 IRC 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 City of Huntsville Utility Departments.

NOTE 9 – CONTINGENCIES PAYABLE

The Utilities are a party to a number of legal actions arising in the ordinary course of its business. In management's opinion, the Utilities' have adequate legal defenses and / or insurance coverage respecting each of these actions and does not believe that any, individually or in the aggregate, will materially affect the Utilities' operations or financial position.

NOTE 10 – INSURANCE IN FORCE

Insurance coverage is combined for the Electric, Water and Gas Utilities with the expense prorated to each department on a predetermined percentage.

Blanket Real and Personal Property:	
Total blanket BPP	$ 319,364,500
Flood & earthquake	10,000,000
Scheduled equipment floater	7,248,273
Extra expense	250,000
Blanket Crime	300,000
Automobile Liability	1,000,000
Automotive inland marine fleet coverage floater	8,919,233
Public Officials & Employment Liability	1,000,000
Workers Compensation:	
Bodily injury (accident)	Statutory
Bodily injury (disease)	Statutory
Excess coverage per occurrence (SIR)	500,000
Comprehensive General Liability	SELF INSURED

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

NOTE 10 – INSURANCE IN FORCE - Continued

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 workers compensation. The health insurance program is administered by Blue Cross/Blue Shield of Alabama. The general liability self-insurance program is administered internally. Liberty Mutual Insurance Company administers workers compensation claims. The Boards of Directors 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 special funds section of the statements of net assets and except for workers compensation are not separately stated in the nets assets portion of the statements of net assets. Worker's compensation funds are included in restricted net assets.

NOTE 11- SELF INSURED HEALTH AND WORKER'S COMPENSATION INSURANCE

Claims activity for the years ended September 30, 2009 and 2008:

	Health 2009	Health 2008	Worker's Comp 2009	Worker's Comp 2008
Unpaid – beginning	$ 791,001	$ 329,000	$ 227,861	$ 173,270
Incurred costs	7,207,287	6,032,714	31,049	645,933
Claims paid	(7,128,210)	(5,570,713)	(258,910)	(591,342)
Unpaid - ending	$ 870,079	$ 791,001	$ -0-	$ 227,861

NOTE 12 – GAS PURCHASE COMMITMENTS

The Gas System has entered into purchase contracts with vendors to establish the purchase price for natural gas. The contracts allows the Gas System to lock in certain volumes of gas to be purchased and prices for that gas. At September 30, 2009, Huntsville Utilities has committed to purchase 790,750 MMBtus per year from one vendor at Index less fifty six cents thru December 31, 2026 and an additional 6,854,461 MMBtus from several vendors at fixed prices ranging from $5.025-$7.84 per 1,000 for the year ended September 30, 2010. Incremental purchases which have transpired on the spot market are not included.

NOTE 13 – ELECTRIC PURCHASE COMMITMENT

Under the Wholesale Power Agreement, the Electric System is committed to purchase its electric power and energy requirements from the Tennessee Valley Authority. The contract and rates are subject to periodic revision.

NOTE 14 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the Annual and Sick Leave benefits described in Note 3 and the Pension benefits described in Note 4, Huntsville Utilities provides post-retirement medical and nominal life insurance benefits to all employees who retire from Huntsville Utilities under the provisions of the qualified plan and have the required minimum of years of service. As of October 1, 2008, approximately 216 retirees meet those eligibility requirements. Expenses for these post-retirement benefits have been previously recognized as retirees report claims. During the year ended September 30, 2008, Huntsville Utilities implemented the provisions of GASB Statement 45 "Accounting and Financial Reporting by Employees for Post Employment Benefits Other than Pensions." These provisions were applied prospectively with respect to Huntsville Utilities Other Post Employment Benefits (OPEB) Plan. GASB Statement No. 45 requires the accrual of OPEB obligations over the working career of plan members rather than as claims are incurred. The total expense recognized by Huntsville Utilities as the Annual Required Contribution under the Plan during the years ended September 30, 2009 and 2008 was $2,783,398 and $1,913,794, respectively.

Huntsville Utilities' annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. Amounts determined regarding the funded status of the plan and the ARC of

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

Huntsville Utilities are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a thirty year period beginning October 1, 2008 with a 7% discount rate. As of October, 2008, the most recent year for which actuarial valuation data is available, the present value of benefits was $33,233,911 and the actuarial accrued liability was $25,774,602. Huntsville Utilities established an irrevocable trust to fund its OPEB on September 29, 2008. Funding is made in the fiscal year affected. The market value of the trust assets at September 30, 2009 and 2008 $3,039,585 and $-0-, respectively. Health care costs were trended at an initial rate of 10% with ultimate rate of 5%. The ultimate rate trends to be reached in 2015.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

NOTE 15 - UTILITY PLANT IN SERVICE

Electric System

	Balance October 1, 2008	Additions	Reclass	Retirements	Balance September 30, 2009
Land & land rights	$ 4,288,600	$ 21,000	$ -	$ -	$ 4,309,600
Structures and improvements	348,033,974	31,397,707	(2,330,493)	(1,480,565)	375,620,623
Furniture, equipment and other	18,575,018	9,164,044	2,330,493	(1,814,069)	28,255,486
Total	370,897,592	40,582,751	-	(3,294,634)	408,185,709
Less accumulated depreciation	(160,614,128)	(13,579,089)		3,474,811	(170,718,406)
Retirement in progress	3,891	-		(3,891)	-
Construction in progress	14,759,234	31,920,725		(42,452,067)	4,227,892
Net Utility Plant	$ 225,046,589				$ 241,695,195
Depreciation charged to operations		$ 12,320,334			
Depreciation charged to other accounts		1,258,755			
Total depreciation		$13,579,089			

	Balance October 1, 2007	Additions	Retirements	Balance September 30, 2008
Land and land rights	$ 4,219,535	$ 69,065	$ -	$ 4,288,600
Structures and improvements	333,091,301	18,865,268	(3,922,595)	348,033,974
Furniture, fixtures and other	17,451,866	1,541,787	(418,635)	18,575,018
Total	354,762,702	20,476,120	(4,341,230)	370,897,592
Less accumulated depreciation	(151,096,296)	(12,655,708)	3,137,876	(160,614,128)
Retirement in progress	3,891	-	-	3,891
Construction in progress	9,418,873	26,301,381	(20,961,020)	14,759,234
Net Utility Plant	$ 213,089,170			$ 225,046,589
Depreciation charged to operations		$ 11,419,265		
Depreciation charge to other accounts		1,236,443		
Total depreciation		$ 12,655,708		

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

NOTE 15 - UTILITY PLANT IN SERVICE

Natural Gas System

	Balance October 1, 2008	Additions	Retirements	Balance September 30, 2009
Land and land rights	$ 471,235	$ -	$ -	$ 471,235
Structures and improvements	109,088,656	6,431,833	(304,578)	115,215,911
Furniture, equipment and other	7,458,537	1,786,243	(429,590)	8,815,190
Total	117,018,428	8,218,076	(734,168)	124,502,336
Less accumulated depreciation	(37,986,386)	(3,093,782)	508,564	(40,571,604)
Construction in progress	1,440,914	7,150,294	(7,597,867)	993,341
Net capital assets	$ 80,472,956			$ 84,924,073
Depreciation charged to operations		$ 2,547,783		
Depreciation charged to other accounts		545,999		
Total depreciation		$ 3,093,782		

	Balance October 1, 2007	Additions	Retirements	Balance September 30, 2008
Land and land rights	$ 433,735	$ 37,500	$ -	$ 471,235
Structures and improvements	103,529,038	5,639,114	(79,496)	109,088,656
Furniture, equipment and other	7,142,375	435,886	(119,724)	7,458,537
Total	111,105,148	6,112,500	(199,220)	117,018,428
Less accumulated depreciation	(35,273,494)	(2,879,604)	166,712	(37,986,386)
Construction in progress	1,584,565	4,956,884	(5,100,535)	1,440,914
Net capital assets	$ 77,416,219			$ 80,472,956
Depreciation charged to operations		$ 2,379,840		
Depreciation charged to other accounts		499,764		
Total depreciation		$ 2,879,604		

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

NOTE 15 - UTILITY PLANT IN SERVICE

Water System

	Balance October 1, 2008	Additions	Reclass	Retirements	Balance September 30, 2009
Land and land rights	$ 1,775,464	$ 1,220,729		$ -	$ 2,996,193
Structures and improvements	211,247,619	22,905,589	(121,667)	(376,392)	233,655,149
Furniture, equipment and other	5,377,243	2,407,217	121,667	(222,039)	7,684,088
Total	218,400,326	26,533,535	-	(598,431)	244,335,430
Less accumulated depreciation	(78,563,387)	(5,207,041)	-	525,295	(83,245,133)
Construction in progress	7,778,581	19,713,949	-	(24,709,618)	2,782,912
Net capital assets	$ 147,615,520				$ 163,873,209
Depreciation charged to operations		$ 4,847,144			
Depreciation charged to other accounts		359,897			
		$ 5,207,041			

	Balance October 1, 2007	Additions	Retirements	Balance September 30, 2008
Land and land rights	$ 1,748,064	$ 27,400	$ -	$ 1,775,464
Structures and improvements	192,365,317	19,516,431	(634,129)	211,247,619
Furniture, equipment and other	5,235,329	465,672	(323,758)	5,377,243
Total	199,348,710	20,009,503	(957,887)	218,400,326
Less accumulated depreciation	(74,776,033)	(4,657,625)	870,271	(78,563,387)
Construction in progress	9,966,717	12,241,748	(14,429,884)	7,778,581
Net capital assets	$ 134,539,394			$ 147,615,520
Depreciation charged to operations		$ 4,340,355		
Depreciation charged to other accounts		317,270		
Total depreciation		$ 4,657,625		

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