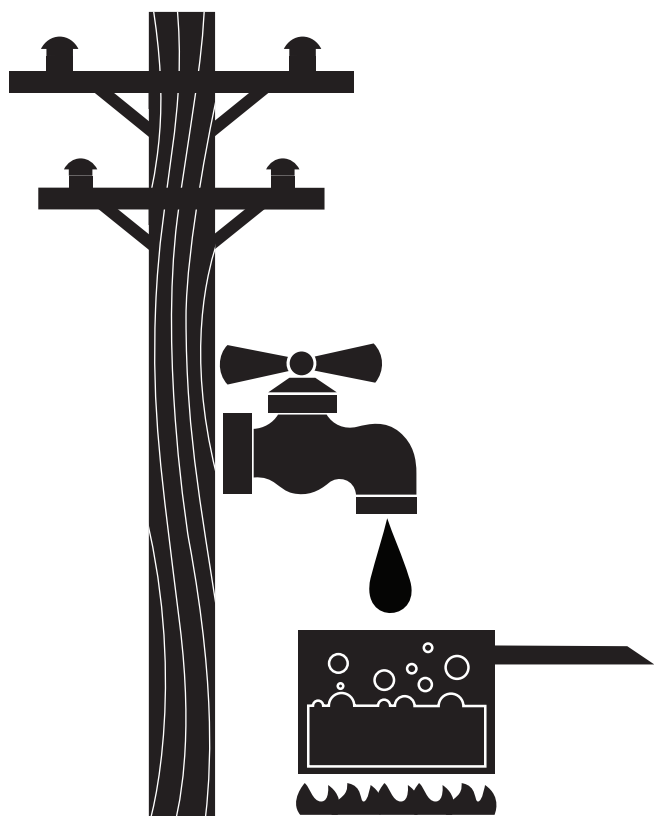


**20  
10**  
HUNTSVILLE  
UTILITIES  
ANNUAL  
REPORT



**Building a Foundation for the Future**

**William C. Pippin**  
President and Chief Executive Officer

**Jay C. Stowe**  
Chief Operating Officer

**Steve Wright**  
Electric Manager

**Jimmie Butler**  
Natural Gas and Water Operations Manager

**Anthony F. Owens**  
Water Supply Manager

**Anna Parvin**  
Customer Services Manager

**Ron McLeroy**  
Technical Services Manager

**Keith Moran**  
Controller

**Janice Capshaw**  
Human Resources Director

**Ron Rizzardi**  
Director of Internal Audit

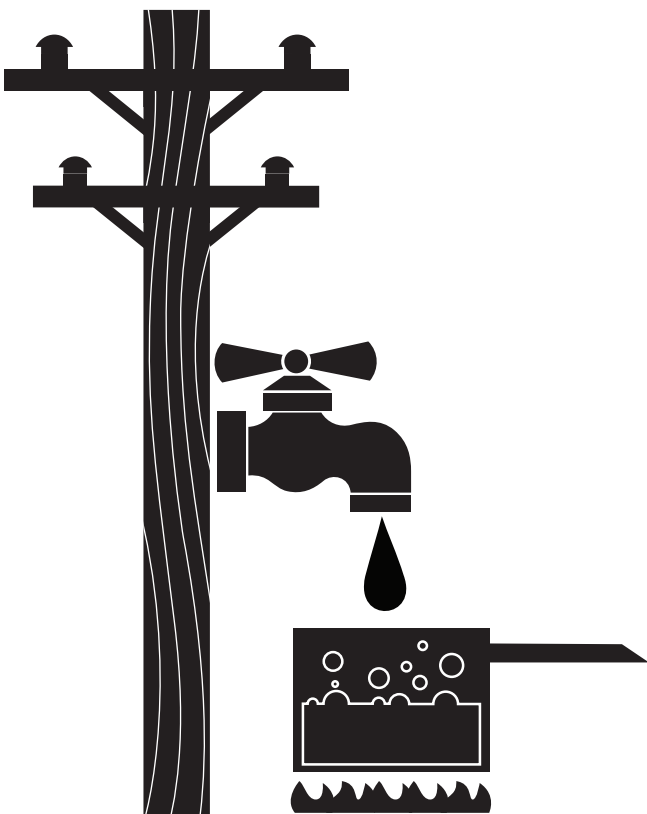
**Larry Denman**  
Community Relations Superintendent

**Bill Yell**  
Communications Director

**Mike Cornett**  
Safety & Security Director

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**Building a Foundation for the Future**



**William C. Pippin**

President, Chief Executive Officer

# W elcome

Friends and neighbors,

Even though the pace is somewhat slower than in previous eras, the Huntsville area is definitely growing and maintaining a high standard of life in spite of the economic struggles so many portions of our country are experiencing. New businesses continue to start, the population is increasing as people move to the area, and the future looks very rewarding for the Tennessee Valley and Madison County.

The area has come a long way since the cotton farms of yesterday. The space industry catapulted the area into the 20th century, and today high technology businesses continue to locate in the Tennessee Valley. Huntsville Utilities is proud of the role it has taken in providing low-cost, reliable utility service for business needs and enabling a residential lifestyle well above the national standard.

Huntsville Utilities experienced several significant events during Fiscal Year 2010 (FY2010). A unification of mapping and computerized infrastructure applications led to international recognition for the Bentley Project team members. Uniting utility information from the Electric, Natural Gas, and Water departments, Huntsville Utilities employees can now access information on any of the services through one program, sharing information across the company.

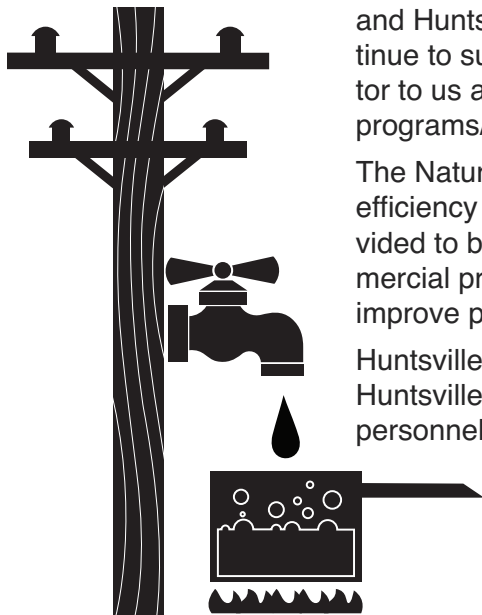
The utility company also continued a successful conversion of the company mainframe system based upon the SAP® utility software package. Upon completion in Spring of 2011, customer data, personnel records, and business applications will work interactively to provide the most complete data for customer and employee records in one unified system. During FY2009 internal systems went online supporting personnel and accounting measures. The SAP software replaces 30 years of in-house programs.

Studies continue on the treatment feasibility and other factors required to start construction of the new water treatment plant which will be located on the Tennessee River, north of Guntersville. Much of the work is being done in-house to save money. Fencing and other minor improvements have been started on the land to facilitate the beginning of construction when all requirements are met and construction can proceed.

The Electric Department is currently working on new distribution points to allow for increased power supply from the Tennessee Valley Authority (TVA). Consultants have worked with TVA and Huntsville Utilities to determine a plan of action that will allow our utility to continue to supply power as needed for our growing area. Reliability is important factor to us and to you, our clientele. Energy efficiency and conservation will become programs/goals in the future.

The Natural Gas Department has increased efforts to educate the public about the efficiency and reliability of natural gas as an energy source. Information is provided to builders to promote inclusion in new construction for residential and commercial projects. Additionally, the third phase of the Eastern Loop, which will improve pressure system-wide, was completed during FY2010.

Huntsville Utilities personnel are dedicated to providing the infrastructure to keep Huntsville and surrounding areas growing. Proper planning and utilization of our personnel and equipment are the keys to "Building a Foundation for the Future."



*William C. Pippin*  
William C. Pippin

# Board Members and Management



**George A. Moore, Esq.**  
Electric Utility Board  
Chairman



**William M. Johnson**  
Natural Gas & Water Utility Boards  
Chairman



**Ronald W. Boles**  
Electric Utility Board  
Vice-Chairman



**Dr. James S. Wall, Jr.**  
Natural Gas & Water Utility Boards  
Vice-Chairman



**D. Thomas Winstead**  
Electric Utility Board  
Secretary



**Stanley Statum**  
Natural Gas & Water Utility Boards  
Secretary



**E. Cutter Hughes, Jr., Esq.**  
Electric Utility Board  
Attorney



**J. Robert Miller, Esq.**  
Natural Gas & Water Utility Boards  
Attorney



**Jay C. Stowe, PE**  
Chief Operating Officer



**Anna Parvin**  
Customer Services Manager



**Jimmie Butler**  
Natural Gas and Water  
Operations Manager



**Anthony F. Owens**  
Water Supply Manager



**Steve Wright**  
Electric Department Manager



**Larry Denman**  
Community Relations  
Superintendent



**Ron McLeroy**  
Technical Services Manager



**Janice Capshaw**  
Human Resources Director



**Keith Moran**  
Controller



**Ron Rizzardi**  
Internal Audit Director



**Lucrecia Points**  
EEO/Organizational  
Development Specialist



**Glenda Waller**  
EEO/Organizational  
Development Specialist



**Mike Cornett**  
Safety & Security Director



**Bill Yell**  
Communications Director



# Electric Department

Utility service means more than keeping electricity flowing to customers. It also means planning for growth, strengthening the infrastructure, and keeping track of needs. That's why Huntsville Utilities' Electric Department places a large emphasis on "Building a Foundation for the Future."

Improvements to the Research Park area play a big role in keeping industrial roles growing. During the 2010 fiscal year, the Electric Department provided service to several large industrial customers in Research Park and Thornton Industrial Park. New facilities on Corporate Drive, Quality Circle, Bob Heath Drive and Voyager Way were provided with utilities to operate. All six distribution circuits out of the Thornton Distribution station are now serving load.

A slowdown in new construction has provided the time to perform maintenance on underground and overhead systems. It also allows the flexibility to move crews between sections for special maintenance and construction projects. Subdivision crews have been working

overhead line construction and cable replacement with an emphasis in the Research Park area. The work also included repair or replacement of switch and sectionalizing cabinets.

The Electric Department has been working with consultants and the Tennessee Valley Authority (TVA) to plan for future growth on the electrical system and to identify problem areas and the necessary

solutions. In response, construction began on two new distribution circuits out of the Intermodal Substation to handle new residential growth along Beadle Lane and Wall Triana Highway. Equipment for a new delivery point, the County Line Substation, was purchased and construction is scheduled to be completed by early summer 2011. The sub-

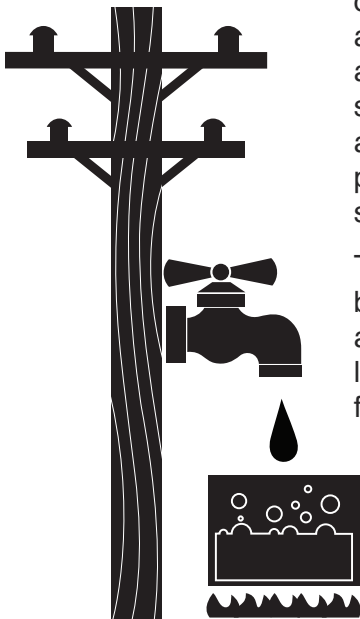


**In April of 2010 Huntsville Utilities crews went to Albertville, AL to help restore service after an EF3 tornado ripped through the town on April 24th.**

station will serve the western most part of Madison County and will have both distribution and transmission substations on the same property.

Construction continued in 2010 on the rebuild of the Farley Primary Substation. Crews installed new 161kV and 46kV bus and switches and three new 161/46kV, 100 MVA power transformers. Equipment upgrades were completed at Wells and Wheeler Substations, and have begun at the Huntsville Primary 12kV Substation. Capacity was added at the Lakewood Substation in July, replacing a problematic 12 MVA transformer with a 25 MVA unit, and new circuits out of the Southwest Water Treatment Plant Substation and the Owens Cross Roads Substation were energized.

Preventative maintenance is a large role in servic-







Electricians prepare to close a circuit in a large substation in downtown Huntsville. Huntsville Utilities had 93 substations serving nearly 164,000 customers in an area of over 800 square miles during FY2010.

ing the system. Substation crews performed an infrared scan on all substations this past year. Delivery points were scanned again during summer and winter peak loads. Substation crews also performed oil analysis on all power transformers.

Huntsville Utilities has been very proactive in line clearance as well as prolonging pole life. The Right-Of-Way Management Division cleared 176 miles of tree limbs and shrubbery that could cause failures. They trimmed 10,448 trees, removed another 8,829, and treated others with growth retardants and herbicides. Several crews have been involved with a plan to test every pole on our system within eight to ten years. Over an eighteen-

month period, most poles in the Northeast section of Madison County were inspected in addition to alley right-of-ways in the Wells, Medical District, Tenth Street, and Lakewood Substation zones. Crews tested 20,225 poles, replaced 301, braced 510 and removed 2250 to strengthen system stability and prolong pole life.

The Electric Department received \$1,157,780 in pole attachment revenue during Fiscal Year 2010 (FY2010). The department also collected \$3,715,042.25 (through November 30, 2010) in Aid-To-Construction to fund the infrastructure in new housing and other developments where utilities were not previously installed. The department completed 3,930 underground inspections for new construction (driving 40,746 miles in the process) and initiated work orders for 1,397 residential lots in new subdivisions.

Near record loads were experienced during July 2010 as temperatures were near or above 100 degrees for a prolonged timeframe. Circuits were tested and few problems were experienced during this time. Crews did have to deal with weather-related issues due to tornado activity. In January a tornado swept through downtown Huntsville causing power outages and structural damage. Crews were able to bring power back to the Wells Substation within two hours and had power to most utility-worthy homes within 24 hours. Crews also assisted in working through downed wires and debris in search of injured individuals. In April four line crews and one equipment crew spent a week in Albertville helping rebuild their power system after a tornado tore the town apart.

The communities serviced by Huntsville Utilities continue to grow and provide a high quality of life to their residents. Huntsville Utilities' Electric Department is committed to fulfilling the communities' power needs while "Building a Foundation for the Future."

<b>Underground Facility Locations</b>	<b>29,325</b>
<b>Line Clearance Maintenance</b>	<b>176 miles</b>
<b>Substations Upgraded</b>	<b>6</b>
<b>New Lines Installed</b>	<b>47 miles</b>
<b>Electric Customers</b>	<b>163,971</b>
<b>New Electric Customers</b>	<b>2,792</b>

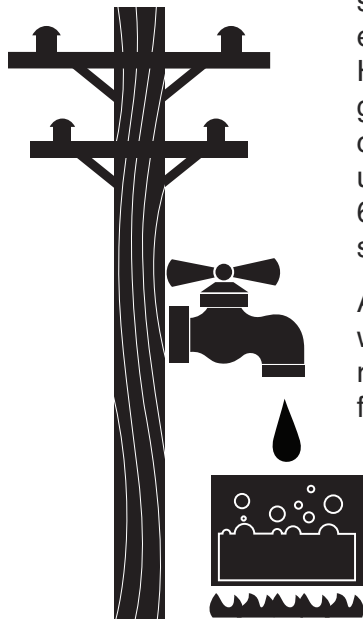
# Natural Gas Department

Huntsville Utilities Natural Gas Department works hard to maintain a solid, reliable system, providing dependable natural gas service while consistently monitoring the growth of the community, focused on “Building a Foundation for the Future”.

Using the continued slower pace of new construction projects to our benefit, Huntsville Utilities Natural Gas Department replaced 23,864 feet of cast iron mains and 1301 feet of gas main as part of the modernization of the aging system. They replaced 561 service lines, and relocated 8 service lines. This was in addition to 42,106 feet of new gas main, 547 new service installations and 80,580 feet of directional bores.

A big accomplishment for the year was the completion of the third phase of the six-phase Eastern Loop Project. Once complete the Eastern Loop Project will form a perimeter around the service area for transporting natural gas and will maintain adequate pressure system wide. This will help ensure the reliability of Huntsville Utilities’ natural gas service. This phase included construction of a regulator station along with 6-inch PE gas main to Madison County High School.

Another significant project was the completion of a new rectifier unit and service pole for the Indian Creek Rectifier System. This improvement will help maintain cathodic protection on the steel sys-



tem. The Meridian Street Project, for the state and City of Huntsville, was completed as well as phase 2 of the ALDOT Governor’s Drive project.

Safety is a major concern for the Gas Department. This year the department had its second year with no lost time accidents. The American Public Gas Association also recognized the department with a safety award. The safety and well being of all de-



**The Natural Gas Department financed the installation of a fuel station at the water and gas facility. This helps ensure availability in times of crisis as well as helping control the cost of fuel.**

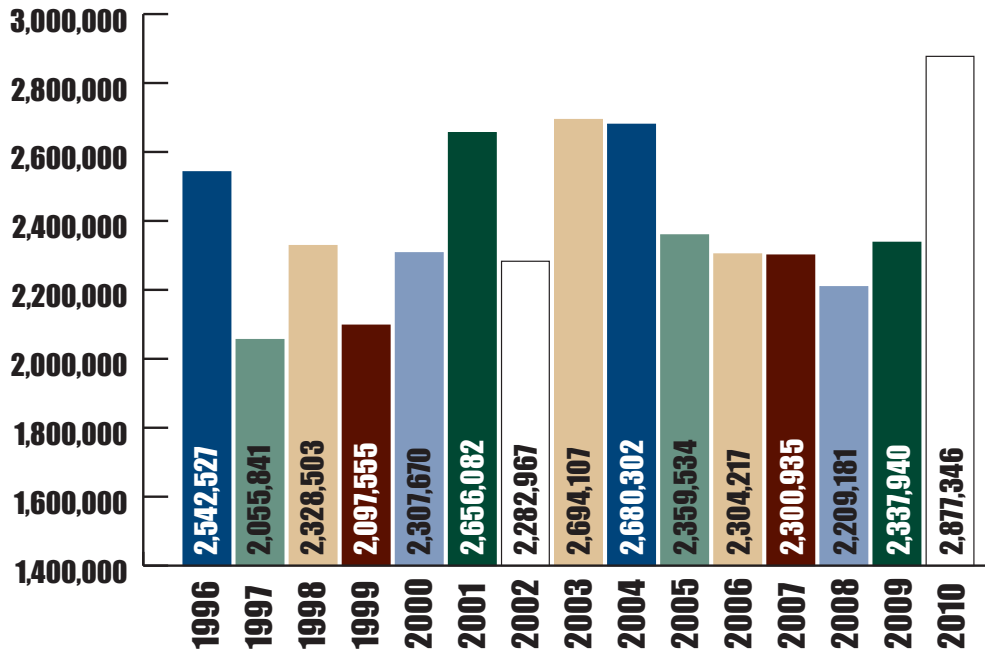
partment employees, as well as the customers, has led the department to actively promote public awareness focused on telling citizens how to recognize and what to do in case of a natural gas leak. Customer newsletters and newspaper advertisements have helped disseminate information.

During 2010 the department partnered with the Public Service Commission to host gas fire safety classes for local fire departments. Fire fighters and other emergency response personnel for Huntsville and Madison city fire departments were joined by members of volunteer fire departments for intense training which include extinguishing various types of gas fires. Additionally, the department takes part in annual training provided to public works and public safety occupations such as police officers, firemen, ambulance drivers, elected officials, contractors, and road construction crews in partnership with the Alabama One Call system.



# Natural Gas Consumption

FY Heating Season  
December, January & February  
Measured in MMBtu



- Notes: 1) Usage is outright, no gross-up up for fuel to wellhead equivalent  
 2) For each year, Dec is the previous year; (IE 1996 = Dec 1995 with Jan/Feb 1996)  
 3) Transportation customers are deducted (and are estimated for years before transportation)  
 4) Past heating season was 462,645 MMTtu (18/8%) over planning baseload "normal usage"



improvements or expansions have been completed for Highway 53 and the New Hope area. Two state/City of Huntsville highway improvement projects are planned for completion including the next phase of the Highway 53 project, from Research Park Boulevard to Jeff Road, and work along South Memorial Parkway.

The Natural Gas system was tested during one of the coldest winters on record for North Alabama. The system provided ample gas service to customers while maintaining good pressure for transportation throughout the service area. Natural Gas usage was at its highest in 15-years with a three-month (December, January and February) consumption of 2,877,346 MMBtu/Dth, a 539,406 MMBtu/Dth increase from the 2009 heating season.

A benefit of the slow construction occurring because of the economic slowdown is the ability to increase use of crews to replacing aging infrastructure. Replacement is planned for 50,000 feet of cast iron gas mains and 800 service lines during fiscal year 2011. This is in addition to the goal of installing 600 new service lines and 35,000 feet of new gas main.

The Gas Department has two system improvement/expansion projects planned for 2011 in Year one of the new five-year Capital Plan. Plans for

Natural gas is a safe, clean-burning, economical energy source for customers of Huntsville Utilities.

The Natural Gas Department works hard to obtain the fuel at the best prices and provide the service on a system that is dependable and safe. Proving natural gas service today while "Building a Foundation for the Future", makes our gas department an ally for the service area.

<b>Natural Gas Sold</b>	<b>4,805,700 mcf</b>
<b>Natural Gas Transported</b>	<b>1,376,124 mcf</b>
<b>Directional Bores completed</b>	<b>80,580 feet</b>
<b>New Gas Mains</b>	<b>42,106 feet</b>
<b>New Service Lines</b>	<b>547</b>
<b>Natural Gas Customers</b>	<b>47,762</b>
<b>New Gas Customers</b>	<b>519</b>



# Water Department

Huntsville Utilities Water Department strives to dependably deliver clean, high-quality water service. The availability of one of the key elements of life has always played a part in location of cities and villages. In the 21st century water is no less important and as Huntsville Utilities provides quality water service today it must also prepare by "Building a Foundation for The Future" in water supply.

One of the single most significant preparations for the future of water supply in Huntsville Utilities' service area is expanding the treatment facilities which prepare the vital element for human consumption. During fiscal year 2010 the utility's water treatment plants supplied a daily average of over 39 million gallons to the service area, with the largest demand of 64,792,000 gallons in one day during a heat wave in August. The proposed water treatment plant in northern Marshall County will increase the production capacity by an additional 12 million gallons per day (MGD),

an important factor as the area continues to attract businesses and residents.

Significant savings have been contributed to in-house personnel during completion of the Source Water Selection Report required by the Alabama Department of Environmental Management (ADEM) for the proposed Guntersville Plant. Personnel continued conducting the treatability study for the proposed Guntersville Plant and existing

plants to determine treatment strategies to maintain regulatory compliance for the new disinfection by-product regulations. In-house personnel also completed the Source Water Assessment which ADEM requires as part of the water supply permit renewal process.

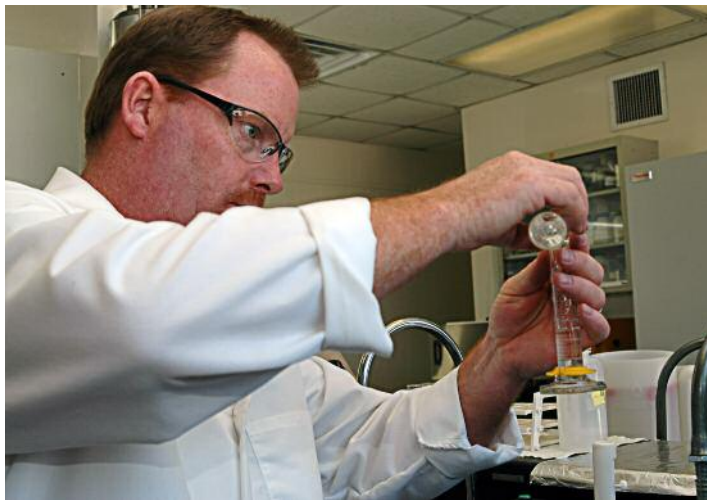


**A water crew works on a leaking pipe in downtown Huntsville. Safety cones are used to warn vehicle operators about the proximity of the utility work to the lane in which they are driving as well as to try to ensure the safety of the utility workers.**

ADEM conducted the Sanitary Survey for the Huntsville Water System. Huntsville Utilities was found to be in compliance during the comprehensive inspection of water sources, treatment facilities, operation practices, water storage tanks, monitoring and testing procedures, as well as the distribution system. The survey is conducted every three years by ADEM as required by the Environmental Protection Agency (EPA).

Huntsville Utilities Water Department has been recognized numerous times over the last two decades for outstanding service and facilities. During 2010 the Water Department was recognized for their outstanding service and facilities multiple times. The Alabama Water Pollution Control Association (AWPCA) awarded Huntsville Utilities the "Best Operated Distribution System" in their division statewide for the water tanks and booster stations. This achievement was complemented by the "Best Operated Plant" awards presented to the Southwest Water Treatment and Lincoln/Dallas Water Treatment plants in their re-





**A Huntsville Utilities Water Treatment Lab Technician prepares a sample for the gas chromatograph test for chemical compounds in the water being treated at one of Huntsville Utilities water treatment facilities.**

spective divisions. The Southwest Plant also received a Plant Optimization Award from ADEM.

Why is Huntsville Utilities' Water Department so highly regarded? One reason is the testing facility and water supply personnel. Huntsville Utilities constantly monitors the quality of the water treated for community consumption.

This year the lab purchased a gas chromatograph in preparation for testing for TTHM's, chemical compounds which will be included in upcoming regulations. The laboratory performed 277,586 tests during the year, every half hour, hourly, or daily, to ensure the safety and quality of water in Huntsville Utilities service area.

Huntsville's lab also runs tests for other water systems that do not have the necessary equipment and personnel. In 2010 they tested over 3,000 bacteriological samples for surrounding systems and assisted the New Hope Water System in meeting disinfection by-product compliance.

Another factor is the department's efficiency. Not only has the department saved money by conducting many of the assessments for the new

water plant and current system in house, but they also continued installing Supervisory Control And Data Acquisition (SCADA) monitoring systems on reservoirs and booster stations for an annual savings of over \$27,000. The SCADA installations have resulted in more reliable information from the locations and a reduction in overtime spent physically visiting locations.



The Water Department also completed another year with No Lost Time Accidents, while completing numerous new installation, relocation and extension projects. The engineering staff designed, processed, and inspected the second phase of the Governors Drive Road Project in addition to the South Memorial Parkway Overpass Project, the Meridian Street Relocation Project, the Challenger Drive Main extension, and the Explorer and Pegasus extensions in Research Park, among others.



**The South Parkway Water Treatment Plant**

Operations crews completed numerous projects including the Cleveland Avenue Relocation Project, the Chase Road 12" Main Extension, and the first phase of the Von Braun Center Fire Flow Installation.

Operations crews installed approximately 12,430 feet of new water mains, 29 vaults with fire flow meters, 654 domestic meters, 571 irrigation meters, and installed 1,955 feet of 39" fencing along Highway 431 on property obtained for the new water treatment plant.

Quality and efficiency make one of the oldest water systems in the nation one of the best water systems in the nation. This tradition lays a solid platform for "Building a Foundation for The Future".

<b>New Water Main Installed</b>	<b>12,430 feet</b>
<b>Water Pumped</b>	<b>14,248,821,000 gallons</b>
<b>Quality Tests Performed Annually</b>	<b>277,586</b>
<b>Meters Installed (Domestic &amp; Irrigation)</b>	<b>1,225</b>
<b>Total Water Customers</b>	<b>85,937</b>
<b>New Water Customers</b>	<b>1,264</b>





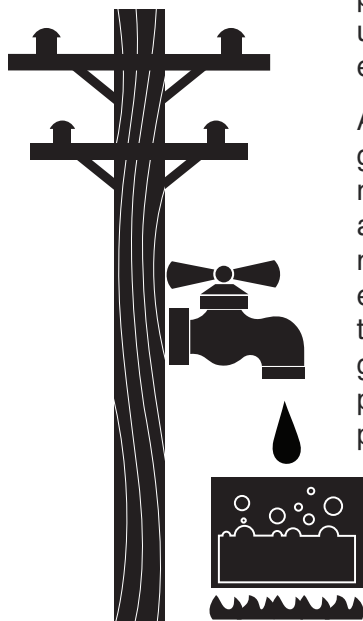
# Customer Service

One of the primary concerns of Huntsville Utilities is lessening waste ... waste of customer time, waste of energy, and waste of money. That's why the Customer Service section aggressively promotes programs to save customers money and time as they work on "Building a Foundation for the Future."

As the cost of energy increases, most utility customers have become more interested in conservation. Working jointly with TVA, the Community Relations Department inspected and rated 715 homes for energy efficiency during fiscal year 2010 as part of the "New Homes Program". Huntsville Utilities led all TVA distributors and was recognized by the Environmental Protection Agency with their Energy Star Leadership in Housing Award for work in helping developers build Energy Star certified homes.

Another 446 residential customers also participated in the "Home e-Valuation Survey Program". The report uses actual customer account information to estimate where energy is being used within the home and then offers recommendations as to how energy usage can be reduced. The "Efficiency Program" was successfully utilized by 103 customers who used a member of the "Quality Contractor Network" to replace old heating and cooling units with energy-efficient equipment.

Another energy efficiency program is the "Generation Partners Program." This program allows residential and commercial customers to generate electricity and send it back to the grid. Changes in the program helped simplify participation and an increase in participants is expected as the availability of solar panels increases and costs decrease. Currently



**A Meter Reader inputs the electric meter data from this home. When he finishes his daily route, he can place the Itron data unit into a docking station and automatically download the current data.**

there are five program participants.

The Commercial & Industrial Department also teams with TVA for energy savings opportunities for business. The free Comprehensive Services Program realized it's largest participation year since its 1997 debut with 77 customers utilizing the program. Participants receive recommendations for improvement and preventive measures to improve energy efficiency and curtail future power outages. This program includes infrared scans and other tests to prevent energy loss, as well as management of lighting and HVAC systems.

Fiscal Year 2010 also saw the introduction of a new program to assist small business customers with monthly electric use between 50-5000 kw. The Commercial Efficiency Advice and Incentive Program (CEAI) helps these customers decrease their load through lighting and HVAC replacement. Qualifying customers receive a one-time incentive from TVA and an on-going decrease in energy consumption from the improvements.

A powerful give back to the community, Project Share, is totally funded by Huntsville Utilities customers. The program assists customers in need of utility assistance who are 62 years or older, or certified disabled or handicapped. During the past fiscal



Huntsville Utilities worked with a local builder and Home Energy Concepts Corporation in 2010 to certify a home for the federal new home energy tax credit. Houses that qualify for this credit are sometimes called 50% homes because they are computer indexed to be approximately 50% more energy efficient than the international energy code model home. The 50% criteria is a very difficult goal and few homes meet this requirement. Huntsville Utilities participated in this project with Southern Construction and Design Inc. The certified home employed insulated concrete walls, geothermal heating and cooling equipment, foamed rafters, foamed foundation walls, and on-demand water heating.

year Project Share hit a milestone when the program surpassed three million dollars in heating and cooling assistance distributed since 1988. In all during FY 2010, 9,600 families received financial assistance through Project Share or other community and church programs, totalling \$2,687,847.88. This relief was deeply needed by families affected by economic and other challenges.

Huntsville Utilities also provides methods to minimize customer time and gasoline when requesting service, changes to their services, or making payments. In FY2010 approximately 10,400 requests for service were processed via fax, postal or email service. The automated services through the IVR phone system and internet processed 146,156 payment arrangements (a 13% increase over the previous year) and 13,064 payments, a 15% increase. An additional 53,288 customers opted for personal service at one of our two Customer Service offices.

Use of third-party payment options continues to grow. Credit/debit card payments through Western Union's Speedpay option were utilized by 126,757

customers either by phone or through the Huntsville Utilities website, nearly 15% more than 2009. The Convenience Pay option, available through select Western Union locations, grew to 11,854 payments in its third year of service. Bank drafts, whether automated or user-activated, continue to be one of the most popular payment methods with 321,152 processed in FY2010, up 7.5% from FY2009. Customers who chose to pay in

person utilized tellers at the main office and the Chase Payment Center to make 211,550 payments with an additional 245,384 customers utilizing the two drive-thru locations. The mail center also processed 1,114,861 payments which included drop box use, electronic fund transfers and mailed payments.

The Community Relations office is preparing for an increased volume of educational presentations for the public. From presentations designed for school classrooms to meeting with civic groups, the department has programs to help everyone learn about their utilities and how to conserve. One annual program, a field trip to Huntsville Utilities called "Education Days", hosted 831 students from fourteen schools. Students learn about the Huntsville Utilities' water, natural gas, and electric systems during the daylong visit.

The Customer Service Department is working to improve information flow and help customers more efficiently. Expansions of the self-service options available through the internet and the IVR system to save customers time are presently being developed. Paper applications are being transferred to electronic imaging to eliminate printing and storage. Equipment and software are being enhanced to allow increased efficiency throughout Customer Services.

Huntsville Utilities is a publicly-owned, not-for-profit utility aimed at providing the electric, natural gas, and water services needed for a quality lifestyle. Helping customers save money on their utility bills through energy efficiency and making business transactions with our company easy and convenient demonstrate the company's commitment to "Building a Foundation for the Future".

# 2010 HUNTSVILLE UTILITIES ANNUAL REPORT

<b>Meters Read Monthly</b>	<b>344,333</b>
<b>Bank Draft Payments</b>	<b>321,152</b>
<b>Energy Efficient Homes Certified</b>	<b>715</b>
<b>Customer Information Center Calls</b>	<b>450,401</b>
<b>Unauthorized Usage Collections</b>	<b>\$182,459</b>





# ur Employees

Huntsville Utilities employees are concerned members of the community. The employees are concerned about the quality of life, education system, safety, taxes ... all of the community standards which should concern each of us. The employees go to church with you, coach youth sports, and live next door. This degree of involvement has led the company and its employees to put extra effort into training for their jobs, remaining safe so they can continue to serve you, and putting something extra back into the community

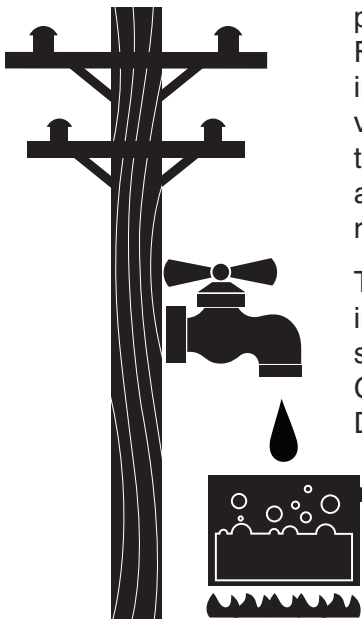
A large concern for our employees is safety. Whether we are discussing safety on the job or the safety of our customers doesn't matter. What matters is that we are successful at both. During FY2010, on the job injuries (recordable) were reduced by 25%. Preventable Vehicle Accidents were reduced by 21% in comparison to FY2009. Employee-driven Safety Committees updated safety procedure manuals and led safety trainings that specifically related to their departmental activities.

From excavation/trenching safety to workplace violence prevention, training was provided to all departments on a regular basis.

Training was conducted in local schools by personnel from the Natural Gas, Water and Electric Departments as well as Safety Officers. The employees promoted



**One of the employees' favorite charities is the March of Dimes. They participated in Blue Jeans for Babies by purchasing MOD BJ4B t-shirts supporting either Alabama or Auburn, or had a generic choice if they preferred.**



safety, educated students on future consumer conservation efforts, and encouraged students to consider careers in the utility industry.

Huntsville Utilities employees also take an active role in the community participating in fundraising events and lending a hand to various projects. For the twelfth year in a row the utility company participated in the American Cancer Society's Relay for Life. Employees raised \$12,721 despite the shaky economy. Employees also pledged \$14,336 during the annual United Way campaign and donated \$1,955 to the March of Dimes. In all, employees contributed \$32,832 in assistance to charities and community efforts, as well as 750 pounds of food to the Salvation Army and the Children First Organization, 45 units of blood to the American Red Cross, and construction of a wheelchair ramp for CASA.

Huntsville Utilities' management understands that the employees are a special part of the community. Recognizing that longevity with the company strengthens the community, the company offers a variety of training opportunities. The HU Management team continues to participate in a series of Leadership Modules designed specifically for HU leaders. Over 120 employees are required to attend training on such topics as Legal Issues for Managers, Time Management, Organizational Development and Leadership Skills. The Leadership Modules will continue into 2012 and are expected to strengthen and build skills needed for future management. In addition, quarterly training on various topics is offered to all employees.

During FY2010 sixteen employees retired representing over 439 years of service, an average of greater than 27 years each. In an effort to streamline the work force, management mandated that only critical position be filled during 2010, with a reduction in regular employment. The company

ended FY2010 with fewer employees (631) than it started, and a larger ratio of customers to each employee. This was accomplished with major reorganization of several departments, increasing employee knowledge and planning for internal succession.

Additionally, the Human Resources Department continues to provide representation and support to many organizations and programs throughout the community. Some of the programs include the North Alabama African American Chamber of Commerce (NAAACC) Board, Alabama A&M University Community Development Center (CDC) Board, the UAH Symposium on Workforce Challenges, the High School Honors Convocation program sponsored by the Huntsville Alumnae Chapter of Delta Sigma Theta Sorority, Inc., The Employer's Coalition for Healthcare Options (ECHO), SHRM Mentoring University, Veteran Mentoring, Leadership Madison county, Women's Business Center of North Alabama (WBCNA), and the Madison County-District 6 "Symposium on Poverty" among others.

Every year employee benefits are reviewed and upgraded to accommodate the needs of the employees and the rising costs of providing such benefits. In 2010 an employee-based committee recommended a Wellness Program to increase long-term health practices by employees. This should result in a healthier workforce and lower health care costs for the company. Other voluntary benefits being explored include Flexible Spending Accounts (FSAs) for medical expenses not covered by the current medical plans, and life insurance plans with larger benefits for employees and family members.

The majority of Huntsville Utilities' employees stay with the company until eligible for retirement, many past this time. The employees are loyal to the community and feel a great sense of worth as they strive to help provide a quality life style for themselves and their neighbors. It's very easy to see why "Building a Foundation for the Future" is so important to utility employees.



<b>Electric Department Employees</b>	<b>193</b>
<b>Natural Gas Department Employees</b>	<b>87</b>
<b>Water Department Employees</b>	<b>92</b>
<b>Customer Services Employees</b>	<b>116</b>
<b>Joint/Administrative Employees</b>	<b>115</b>
<b>Temporary/Contract Employees</b>	<b>28</b>
<b>Total Employees</b>	<b>631</b>
<b>Customers per Employee</b>	<b>494</b>



# Administrative Services

The Administrative Services departments of

Huntsville Utilities form the backbone supporting the operational side of the company. Purchasing makes sure crews have the pipe and transformers to supply service. The Fleet Department ensures vehicles and other equipment are operational. The Mapping Department provides images of facility locations so the crews can track problems and make repairs, as well as installing new equipment. The administrative side of the company provides the infrastructure to make sure Huntsville Utilities is "Building a Foundation for the Future".



Huntsville Utilities was recognized as an international winner in the Innovation in Utilities Category for the Bentley Project at an awards ceremony in Charlotte, NC. The local employee team is pictured above. Bentley Project Leader Rob Getman and Huntsville Utilities VP Jay Stowe, are pictured at the awards ceremony with Bentley's Styli Camateros, Senior VP, Infrastructure Products (on left), and Richard Zambuni, Global Geospatial Marketing Director.

When serving an 800 plus square mile area with over 300,000 meters read monthly, the management

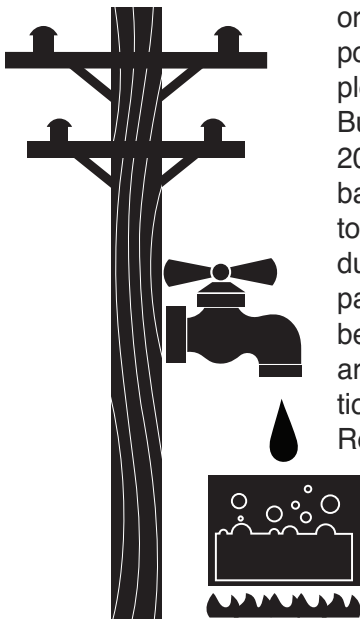
of information, whether usage or customer data, is vitally important. After a successful implementation of SAP's ERP Business Suite products in 2009, Huntsville Utilities embarked on additional upgrades to its business applications during FY2010. The MIS Department, along with key members from various business areas, began the implementation of SAP's CR&B (Customer Relationship and Billing) products to replace our Legacy Mainframe Customer Services applica-

tions. New and improved functionality will affect Call Center Operations, Interactive Voice Response (IVR) usage, cash processing, service orders and other aspects of customer service. Formal activation of the new system is scheduled for FY2011.

Huntsville Utilities Fleet Department provides preventive maintenance and repairs on approximately 321 vehicles and 357 pieces of equipment. During FY2010, the department completed 6002 repair orders. Fleet employees work to keep downtime on all equipment to a minimum, and perform many tasks after operation departments' hours.

In 2011 the Fleet Department will continue training mechanics on the emission control on engines in 35,000 gvwr and above trucks. The department will also address new problem areas such as electronic control modules – computers that are being utilized more frequently in vehicles and equipment. Due to the extended life span of company vehicles, maintenance and repairs have increased.

The Purchasing Department processed 4,770 pur-



chase orders in the amount of \$29,952,372 during FY2010. This includes inventory of materials required for the first phase of the Governors Drive project as well as the completion of the Highway 431 project in the Water Department. The Natural Gas Department required equipment for upgrades and extensions of the pipe system as well as work initiated in several subdivision developments including Kelly Plantation, Cross Creek and Stonegate among others. The Purchasing Department distributes and collects competitive bids to qualified suppliers for all materials and outside labor.

As part of the information system upgrade, Purchasing has worked closely with the MIS team to identify vendors and evaluate proposals from qualified vendors for a long-term contract providing billing and mailing services. The company will be migrating to a new bill format in order to provide customers with more individualized information on their utility usage as part of the FY2011 activation of the Customer Service migration to the SAP business system.

During FY2010 the Stores Department was responsible for handling, storage and disposal of 127 non-PCB leaking transformers, including 82 with ground surface spillage, according to guidelines mandated by the EPA. Approximately 142,072 pounds of non-PCB debris were collected from these spills and disposed of by ADEM regulations. Additionally 91,983 pounds of PCB and PCB-contaminated waste were identified and disposed of per EPA guidelines.

The Stores Department also continued their excellent inventory accuracy averaging 98.9% at the Chase Electric facility, and 99.2% at the Triana storeroom which services the Water and Natural Gas Departments. The Stores Department is also in charge of disposal of scrap waste. During FY2010 they sold \$310,993 worth of scrap wire, copper, water meters, steel and other materials. They are also responsible for disposal of other items that may need special care such as aerosol spray cans, batteries, mercury lamps, computer monitors, and electronic equipment.

Huntsville Utilities Technical Services section completed the installation of several new and upgraded

servers utilizing virtual computing technologies. Significant installations included a SAN (Storage Area Network), a redundant fiber network ring connecting the main offices with both the Electric Operations Center and the Water and Gas Operations Center. In all the Technical Services team maintains over 650 computers with approximately 30 servers on a daily basis.

Huntsville Utilities was named the winner in the Innovation in Utilities Category for the Bentley Project at the “Be Inspired: Infrastructure Best Practices Symposium and Awards” in Charlotte, N.C. during October 12-14, 2009. This project united the electric, natural gas, and water systems into one software system for utility construction. Departments will be able to better plan new projects with information available to all departments and interface with the new SAP business platform for ordering materials, planning manpower schedules and costs, as well as tracking inventory and costs.

Technology availability was improved for field personnel by supplying additional Blackberry cell phones with instant access to e-mails and other pertinent information in an effort to continue ongoing reliability and collaborative initiatives. A project uniting the utility’s radio communication system with the City of Huntsville’s radio trunking system was completed. Communication capabilities between all 416 utility radios and city personnel were improved. Additionally, mobile GPS applications are being installed to facilitate optimization of resources.

Approximately 560 miles of aerial photography was shot and maps were updated focusing on the eastern half of Huntsville Utilities service area. This is a joint project with the Madison County Tax Assessors office which provides detailed countywide mapping services at significant savings for both entities.

Continued technology upgrades and enhancements, coupled with improved security and collaboration capabilities insures that Huntsville Utilities will continue to provide reliable utility services at the lowest prices now and in the future. The continued reliability is a testament to the company’s commitment to “Building a Foundation for the Future” while providing for today’s customers.



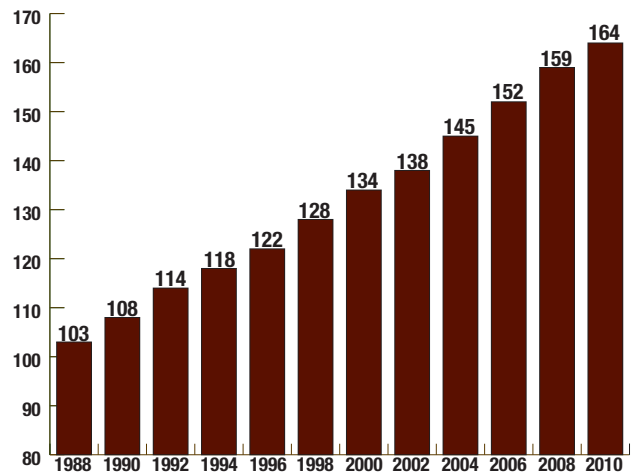
<b>Automotive Repairs</b>	<b>6,002</b>
<b>Facility Repairs/Improvements</b>	<b>8,934</b>
<b>PCB/Gas Chromatography Tests</b>	<b>3,032</b>
<b>Purchase Orders Processed</b>	<b>4,770</b>



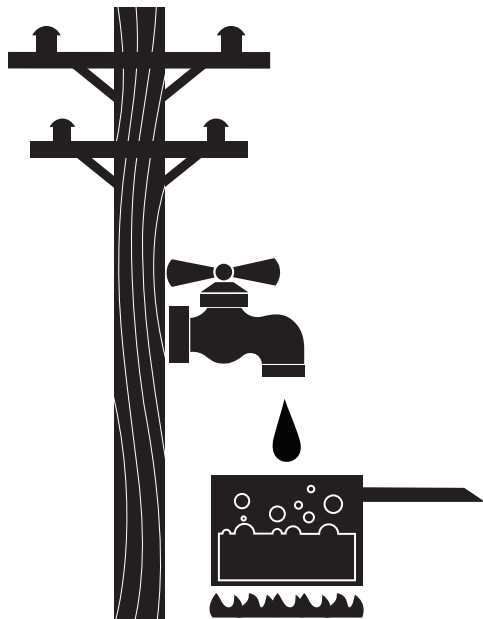
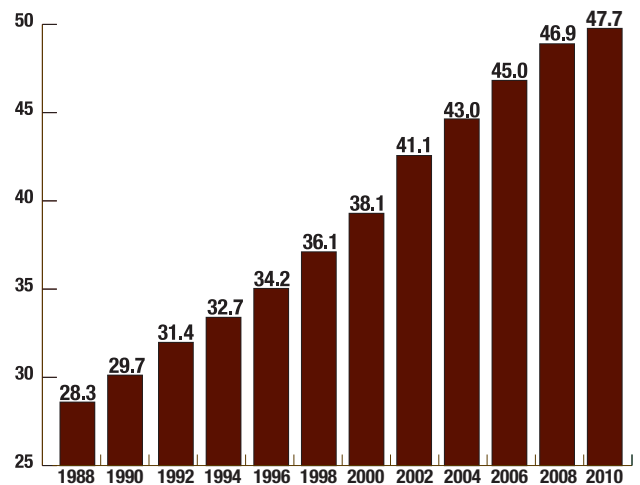
# Customer Growth Charts

In Thousands, Rounded

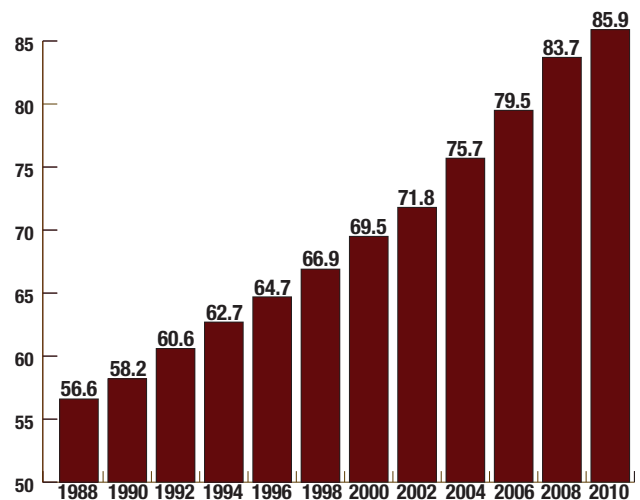
## Electric



## Natural Gas



## Water







**CITY OF HUNTSVILLE**

**ELECTRIC, NATURAL GAS AND WATER SYSTEMS**

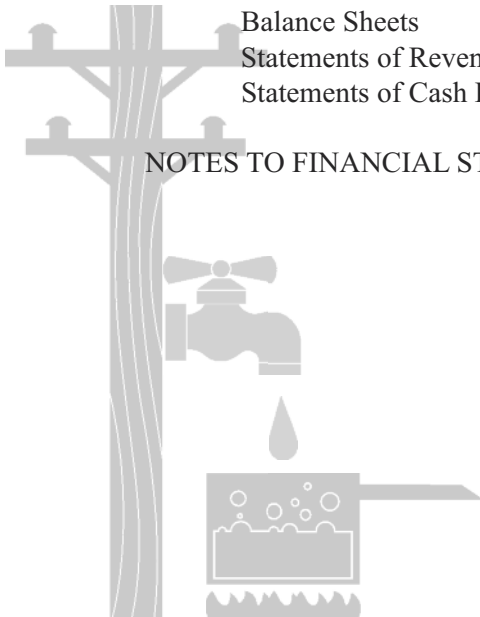
**FINANCIAL STATEMENTS**

**September 30, 2010 and 2009**

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## HUNTSVILLE UTILITIES

Electricity - Natural Gas - Water

(256) 535-1200

[www.hsvutil.org](http://www.hsvutil.org)

P.O. Box 2048  
Huntsville, AL 35804

### 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) 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 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.

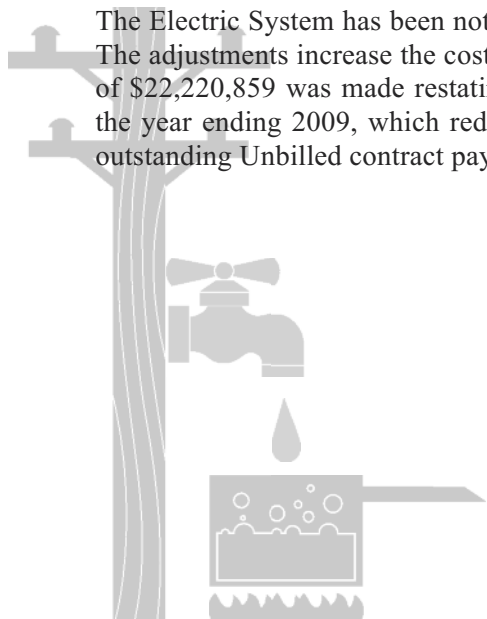
**City of Huntsville Electric System**  
**Table A-1**  
**Condensed Balance Sheet**  
**(000's)**

	<b>Restated</b>		
	<b>FY 2010</b>	<b>FY 2009</b>	<b>\$ Change</b>
Current and Other Assets	\$ 124,341	\$ 112,798	\$ 11,543
Capital Assets (Net)	248,036	241,695	6,340
<b>Total Assets</b>	<b>\$ 372,377</b>	<b>\$ 354,493</b>	<b>\$ 17,883</b>
Current and Other Liabilities	\$ 132,278	\$ 83,467	\$ 48,811
Long-Term Liabilities	19,207	48,942	(29,735)
<b>Total Liabilities</b>	<b>\$ 151,485</b>	<b>\$ 132,409</b>	<b>\$ 19,076</b>
Invested in capital assets-net of long term debt	\$ 227,731	\$ 219,921	\$ 7,810
Restricted assets	6,918	6,853	65
Unrestricted assets	(13,757)	(4,689)	(9,068)
<b>Total Net Assets</b>	<b>\$ 220,892</b>	<b>\$ 222,085</b>	<b>\$ (1,193)</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 372,377</b>	<b>\$ 354,494</b>	<b>\$ 17,883</b>

The old IBM legacy Billing and CIS System (Phase II) are scheduled for replacement during FY 2010 – 2011 by the new SAP software installation. This conversion was planned for and required no additional debt. The Board has allocated sufficient funds to pay for this conversion from Renewal and Replacement Funds. This was a reduction in Renewal and Replacement Funds of \$9.4 million. There remains \$3.1 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 \$15.8 million.

The Electric System has been notified of Unbilled contract payments by TVA for the years 2004 to 2010. The adjustments increase the cost of power for each of the years. An adjustment to Beginning Net Assets of \$22,220,859 was made restating the previous balance. Power costs were increased by \$6,022,618 for the year ending 2009, which reduced net income for the year by the same amount. The balance of the outstanding Unbilled contract payables was \$35,272,375 at September 30, 2010.



**City of Huntsville Electric System**

**Table A-2**

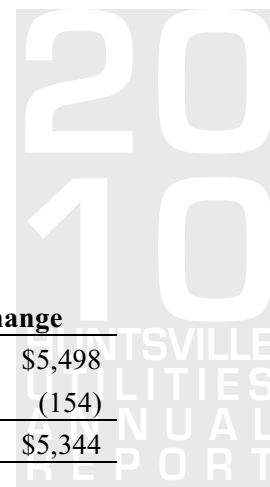
**Condensed Statement of Revenues, Expenses and  
Changes in Net Assets  
(000's)**

	<b>FY 2010</b>	<b>Restated FY 2009</b>	<b>\$ Change</b>
Operating Revenues	\$456,705	\$451,207	\$5,498
Non-Operating Revenues	437	591	(154)
<b>Total Revenues</b>	<b>\$457,142</b>	<b>\$451,798</b>	<b>\$5,344</b>
Operating Expense	\$430,170	\$425,210	\$4,960
Depreciation Expense	14,528	12,320	2,208
Non-Operating Expense	1,873	2,688	(815)
<b>Total Expenses</b>	<b>\$446,571</b>	<b>\$440,218</b>	<b>\$6,353</b>
Income (Loss) Before Transfers	\$ 10,571	\$ 11,579	\$ (1,009)
Transfers Out – Tax Equivalents	(11,764)	(10,595)	(1,169)
<b>Change in Net Assets</b>	<b>\$ (1,193)</b>	<b>\$ 984</b>	<b>\$(2,178)</b>
Beginning Net Assets	222,085	243,322	(21,237)
Prior Period Adjustment	0	(22,221)	22,221
<b>Ending Net Assets</b>	<b>\$220,892</b>	<b>\$222,085</b>	<b>\$(1,193)</b>

The change in Operating Revenues was an increase of \$5.5 million (+1.2%) due to the increase in Kilowatt hour sales and the lowering of TVA's wholesale quarterly fuel cost adjustments (FCA's). Kilowatt hour sales increased by 10.5%. The System experienced a colder than normal winter period. Extreme summer temperatures were higher than FY2009. 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 \$154 thousand due to the falling interest rates (which have become next to nonexistent) lowering the income on reserves and cash on hand.

Operating Expense increased \$5.0 million, \$4.9 million of which was for wholesale power from TVA. The average cost of kWh purchased decreased from 7.71 cents (\$0.0771) in FY2009 to 7.07 cents (\$0.0707) in FY 2010. Purchases of kWh increased by 10.5%. Depreciation Expense increased \$2.2 million due to numerous capital projects being completed and placed in service.

The Electric System has been notified of Unbilled contract payments by TVA for the years 2004 to 2010. The adjustments increase the cost of power for each of the years. Power costs were increased by \$7,028,898 and \$6,022,618 for the years ending 2010 and 2009, which reduced net income for the years by the same amount.





**City of Huntsville Gas System**

**Table B-1**

**Condensed Balance Sheet**

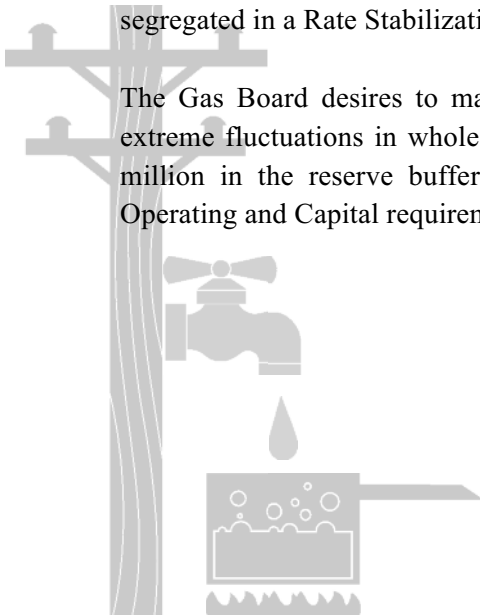
(000's)

	<b>FY2010</b>	<b>FY2009</b>	<b>\$ Change</b>
Current and Other Assets	\$46,132	\$43,871	\$2,261
Capital Assets (Net)	93,502	84,924	8,578
<b>Total Assets</b>	<b>\$139,634</b>	<b>\$128,795</b>	<b>\$10,839</b>
Long-Term Debt Outstanding	\$8,520	\$8,975	(\$455)
Other Liabilities	14,059	12,767	1,292
<b>Total Liabilities</b>	<b>\$22,579</b>	<b>\$21,742</b>	<b>\$837</b>
Invested in Capital Assets, Net of Related Debt	\$84,645	\$75,638	\$9,007
Restricted	13,212	3,029	10,183
Unrestricted	19,198	28,386	(9,188)
<b>Total Net Assets</b>	<b>\$117,055</b>	<b>\$107,053</b>	<b>\$10,002</b>
<b>Total Liabilities and Net Assets</b>	<b>\$139,634</b>	<b>\$128,795</b>	<b>\$10,839</b>

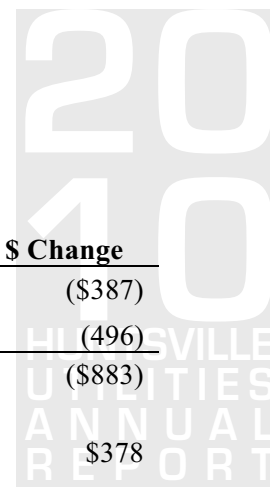
While not tracing dollar for dollar the actual movement between Balance Sheet categories, the simple net result of the changes to the Balance Sheet are as follows: Current and Other Assets show an increase of \$2.3 million while at the same time Other Liabilities show an increase of \$1.3 million. Invested in Capital Assets, Net of Related Debt increased \$9 million as we generated a net income of \$10.0 million.

In the Gas System, finances are extremely dependent on weather 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 department. Additionally, the Board desires to maintain approximately \$10 million in available funds. At September 30, 2010 available funds, including reserves, stood at \$33.1 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 \$27.0 million in the reserve buffer. The Gas System currently has adequate reserves to meet its future Operating and Capital requirements.



**City of Huntsville Gas System**  
**Table B-2**  
**Condensed Statement of Revenues, Expenses and**  
**Change in Net Assets**  
**(000's)**



	<b>FY2010</b>	<b>FY2009</b>	<b>\$ Change</b>
Operating Revenues	\$63,025	\$63,412	(\$387)
Non-Operating Revenues	159	655	(496)
<b>Total Revenues</b>	<b>\$63,184</b>	<b>\$64,067</b>	<b>(\$883)</b>
Depreciation Expense	\$2,926	\$2,548	\$378
Operating Expense	46,471	53,183	(6,712)
Non-Operating Expense	552	477	75
<b>Total Expenses</b>	<b>\$49,949</b>	<b>\$56,208</b>	<b>(\$6,259)</b>
Income(Loss) Before Contributions and Transfers	\$13,235	\$7,859	\$5,376
Capital Contributions	325	441	(\$116)
Transfers Out - Tax Equivalentents	(3,557)	(3,573)	16
<b>Change in Net Assets</b>	<b>\$10,003</b>	<b>\$4,727</b>	<b>\$5,276</b>
Beginning Net Assets	\$107,053	\$102,326	\$4,727
<b>Ending Net Assets</b>	<b>\$117,056</b>	<b>\$107,053</b>	<b>\$10,003</b>

Operating Revenues decreased by \$387 thousand reflecting a 11.5% rate reduction net of 13.1% increase in MCF sold.

Operating Expense decreased by \$6.7 Million. The price of natural gas delivered was \$8.10 an MCF compared to \$10.37 for 2009. This decrease accounted for \$6.3 million of the Operating Expense decrease even with a 10.0% increase in Purchased Gas. Total Revenues decreased \$883 thousand.

An independent Gas Cost of Service study was performed in 2009 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.

**City of Huntsville Water Works**

**Table C-1**

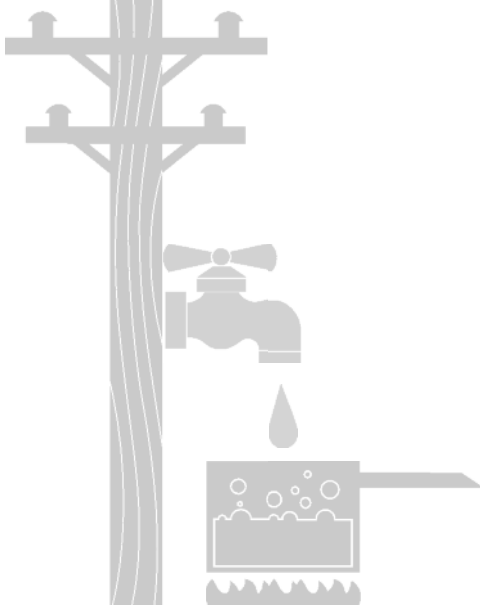
**Condensed Balance Sheet**

(000's)

	<b>FY2010</b>	<b>FY2009</b>	<b>\$ Change</b>
Current and Other Assets	\$38,450	\$33,097	\$5,353
Capital Assets (Net)	161,783	163,873	(2,090)
<b>Total Assets</b>	<b>\$200,233</b>	<b>\$196,970</b>	<b>\$3,263</b>
Long-Term Debt Outstanding	\$38,785	\$40,905	(\$2,120)
Other Liabilities	11,266	12,750	(1,484)
<b>Total Liabilities</b>	<b>\$50,051</b>	<b>\$53,655</b>	<b>(\$3,604)</b>
Invested in Capital Assets	\$120,191	\$120,173	\$18
Net of Related Debt			
Restricted	13,635	18,776	(5,141)
Unrestricted	16,356	4,366	11,990
<b>Total Net Assets</b>	<b>\$150,182</b>	<b>\$143,315</b>	<b>\$6,867</b>
<b>Total Liabilities and Net Assets</b>	<b>\$200,233</b>	<b>\$196,970</b>	<b>\$3,263</b>

Current and Other Assets increased by \$5.4 million. This was a combination of a increase in Cash and Cash Equivalents of \$11.6 million which is due to the sale of a building for \$6.8 million and the expenditure of bond generated Construction Funds in the amount of \$5.2 million. During FY 2010 the expansion of the Eastern Loop Water Plant was completed. This strengthened the System in a fast growing part of the County. Our Capital Assets, Net of Related Debt decreased \$2 million due to increases in construction work in process (\$ 5.7 million) and the sale of a building (\$6.8 million).

The Board desires to maintain approximately 45 days of Operating and Capital Expenses as determined by the current budget. The Water System currently has adequate reserves to meet its future Operating and Capital requirements.



**City of Huntsville Water Works**

**Table C-2**

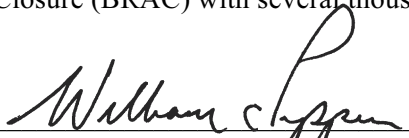
**Condensed Statement of Revenues, Expenses and Change in Net Assets  
(000's)**

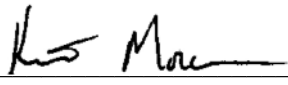
	<b>FY2010</b>	<b>FY2009</b>	<b>\$ Change</b>
Operating Revenues	\$25,328	\$25,131	\$197
Non-Operating Revenues	71	78	(7)
<b>Total Revenues</b>	<b>\$25,399</b>	<b>\$25,209</b>	<b>\$190</b>
Depreciation Expense	\$5,616	\$4,847	\$769
Operating Expense	15,941	15,566	375
Non-Operating Expense	(415)	1,035	(1,450)
<b>Total Expenses</b>	<b>\$21,142</b>	<b>\$21,448</b>	<b>(\$306)</b>
Income(Loss) Before Contributions and Transfers	\$4,257	\$3,761	\$496
Capital Contributions	3,947	4,719	(772)
Transfers Out - Tax Equivalents	(1,338)	(1,358)	20
<b>Change in Net Assets</b>	<b>\$6,866</b>	<b>\$7,122</b>	<b>(\$256)</b>
Beginning Net Assets	\$143,316	\$136,194	\$7,122
<b>Ending Net Assets</b>	<b>\$150,182</b>	<b>\$143,316</b>	<b>\$6,866</b>

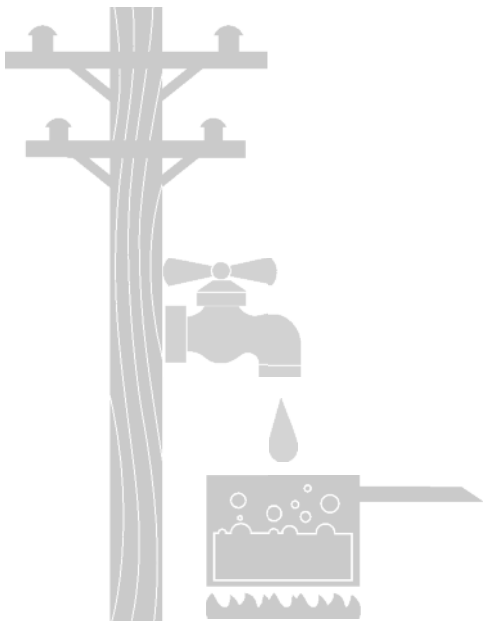
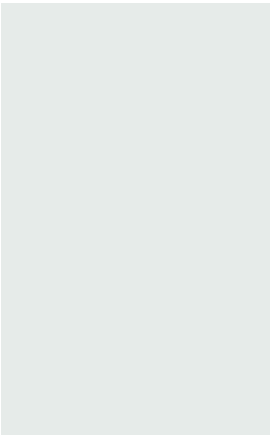
Gallons sold increased by 169 million gallons which was a 1.5% increase in total volume of sales from the previous year. Sales revenues increased by .08%.

Operating Expense increased by \$375 thousand. Most of this increase was in Maintenance of the Distribution System.

Capital Contributions decreased this year by \$617 thousand as the area construction cooled somewhat with the general economy. It will pick up again as we enter the final year of the Base Realignment and Closure (BRAC) with several thousand military, civilian support staff and families yet to come.

  
 \_\_\_\_\_  
 William Pippin, Chief Executive Officer

  
 \_\_\_\_\_  
 Keith Moran, Controller





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Alabama Society of C.P.A.s  
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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of net assets 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, 2010, 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, 2009 financial statements were examined by other auditors whose report dated January 11, 2010 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Huntsville Electric, Natural Gas, and Water Systems, as of September 30, 2010, 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.

The management's discussion and analysis on pages 1 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have 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.

March 28, 2011

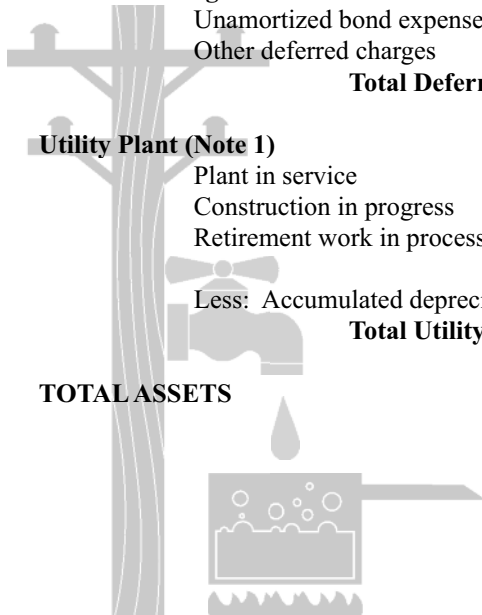
*Mercer & Associates, PC*



## City of Huntsville Electric System Balance Sheets September 30, 2010 and 2009

### ASSETS

	2010	Restated 2009
<b>Current Assets</b>		
Cash and cash equivalents	\$ 51,951,785	\$ 48,029,835
Accounts receivable - trade, net of allowance for doubtful accounts of \$301,450 in 2010 and \$301,450 in 2009	36,707,444	24,636,043
Materials and supplies	5,711,435	5,512,652
Prepaid expenses	14,586	8,499
Accrued interest, rent and other receivables	3,030,838	2,417,552
<b>Total Current Assets</b>	97,416,088	80,604,581
<b>Restricted and Board Designated Assets (Note 1)</b>		
Emergency Funds - Designated	3,000,000	3,000,000
Insurance Funds - Designated	1,253,398	1,042,233
Construction Funds - Designated	11,726,914	11,326,914
Renewal & Replacement Funds - Designated	3,109,364	8,869,104
Other special funds - Restricted	271,691	251,712
Improvement Funds - Bond Restricted	500,000	500,000
Debt Service Funds - Bond Restricted	1,573,718	1,668,629
Reserve Debt Service Funds - Bond Restricted	2,705,428	2,705,428
Worker's Compensation Funds - Restricted	2,139,489	1,978,709
<b>Total Restricted Assets and Designated Assets</b>	26,280,002	31,342,729
<b>Deferred Charges</b>		
Unamortized bond expense (Note 5)	644,846	722,592
Other deferred charges	0	128,100
<b>Total Deferred Charges</b>	644,846	850,692
<b>Utility Plant (Note 1)</b>		
Plant in service	423,392,848	408,185,709
Construction in progress	9,975,346	4,227,892
Retirement work in process	0	0
	433,368,194	412,413,601
Less: Accumulated depreciation	(185,332,593)	(170,718,406)
<b>Total Utility Plant</b>	248,035,601	241,695,195
<b>TOTAL ASSETS</b>	\$ 372,376,537	\$ 354,493,197



City of Huntsville Electric System  
Balance Sheets  
September 30, 2010 and 2009

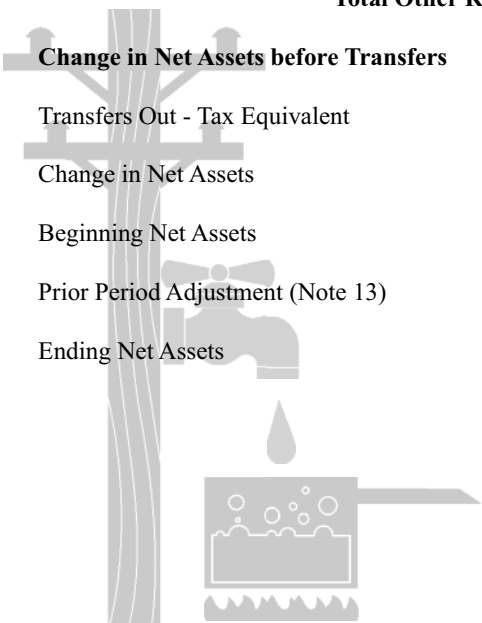
NET ASSETS AND LIABILITIES

	2010	Restated 2009
	<u>2010</u>	<u>2009</u>
<b>Current Liabilities</b>		
Accounts payable - trade	\$ 43,719,627	\$ 33,676,955
Accounts payable - other utility departments (Note 1)	7,451,361	8,051,906
Customer meter deposits, including accrued interest of \$11,088,324 in 2010 and \$10,948,731 in 2009	37,552,555	35,454,623
TVA contract payable (Note 13)	35,272,375	0
Compensated absences	3,645,596	3,359,759
Other current liabilities	2,893,202	996,851
<b>Total Current Liabilities</b>	<u>130,534,716</u>	<u>81,540,094</u>
 <b>Liabilities Payable from Restricted Assets</b>		
Current maturities of long-term debt (Note 5)	1,455,000	1,615,000
Interest payable	288,245	311,158
<b>Total Liabilities Payable from Restricted Assets</b>	<u>1,743,245</u>	<u>1,926,158</u>
 <b>Long-Term Debt (Note 5)</b>		
Electric revenue bonds, excluding current portion	19,165,000	20,620,000
TVA Contract payable (Note 13)	0	28,243,477
Unamortized bond premium	191,019	264,012
Less: Unamortized debt retirement	(149,368)	(185,206)
<b>Total Long-Term Debt</b>	<u>19,206,651</u>	<u>48,942,283</u>
<b>Total Liabilities</b>	<u>151,484,612</u>	<u>132,408,535</u>
 <b>Net Assets</b>		
Invested in capital assets, net of related debt	227,730,550	219,920,923
Restricted	6,918,634	6,852,766
Unrestricted	(13,757,259)	(4,689,027)
<b>Total Net Assets</b>	<u>220,891,925</u>	<u>222,084,662</u>
<b>TOTAL NET ASSETS AND LIABILITIES</b>	<u>\$ 372,376,537</u>	<u>\$ 354,493,197</u>



## City of Huntsville Electric System Statements of Revenues, Expenses and Changes in Net Assets September 30, 2010 and 2009

	2010	Restated 2009
<b>Operating Revenue</b>		
Residential	\$ 223,326,418	\$ 213,186,111
Large commercial and industrial	183,483,896	183,397,099
Small commercial	34,441,944	38,784,824
Public street and highway lighting	4,098,340	4,329,390
Other operating revenue	11,354,752	11,509,253
<b>Total Operating Revenue</b>	<b>456,705,350</b>	<b>451,206,677</b>
 <b>Operating Expenses</b>		
Purchased power	398,058,964	393,164,943
Transmission	219,286	134,446
Distribution	16,315,725	15,947,793
Customer accounting	4,310,958	4,340,911
Administrative and general	10,043,519	10,471,930
Depreciation	14,528,405	12,320,334
Payroll taxes	1,221,722	1,150,401
<b>Total Operating Expenses</b>	<b>444,698,579</b>	<b>437,530,758</b>
 <b>Operating Income</b>	<b>12,006,771</b>	<b>13,675,919</b>
 <b>Other Revenue and (Expenses)</b>		
Interest income	437,243	591,075
Interest expense	(1,740,099)	(2,609,943)
Amortization of bond discount	(205,846)	(77,746)
Amortization of bond premium	72,992	0
<b>Total Other Revenue (Expenses)</b>	<b>(1,435,710)</b>	<b>(2,096,614)</b>
 <b>Change in Net Assets before Transfers</b>	<b>10,571,061</b>	<b>11,579,305</b>
Transfers Out - Tax Equivalent	(11,763,798)	(10,595,126)
Change in Net Assets	(1,192,737)	984,179
Beginning Net Assets	222,084,662	243,321,342
Prior Period Adjustment (Note 13)	0	(22,220,859)
Ending Net Assets	\$ 220,891,925	\$ 222,084,662



## City of Huntsville Electric System Statements of Cash Flows September 30, 2010 and 2009

	2010	Restated 2009
<b>CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES</b>		
Received from customers	\$ 444,633,949	\$ 453,467,195
Paid to suppliers for goods and services	(396,067,960)	(404,606,051)
Paid to employees for goods and services	(14,133,387)	(14,042,912)
	34,432,602	34,818,232
<b>CASH FLOWS FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers out - tax equivalent	(11,763,798)	(10,595,126)
Net cash provided from (used for) noncapital financing activities	(11,763,798)	(10,595,126)
<b>CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES</b>		
Change in other assets	0	(77,746)
Interest income earned on investments	437,243	590,880
Net cash provided (used for) from investing activities	437,243	513,134
<b>CASH FLOWS FROM (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Payment of principal on long-term debt	(1,615,000)	(1,509,163)
Retirement of long-term debt	0	0
Proceeds	0	0
Bond issue costs	0	0
Change in deferred charges	0	0
Additions to plant in service	(20,868,812)	(30,227,695)
Changes in special funds, net	5,062,727	7,239,540
Interest paid	(1,763,012)	(2,609,943)
	(19,184,097)	(27,107,261)
<b>INCREASE (DECREASE) IN CASH</b>	3,921,950	(2,371,021)
<b>CASH AT BEGINNING OF YEAR</b>	48,029,835	50,400,856
<b>CASH AT END OF YEAR</b>	\$ 51,951,785	\$ 48,029,835
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating Income	\$ 12,006,771	\$ 13,675,919
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation and amortization included in operating	14,564,243	13,656,835
Change in accounts receivable - customer	(12,071,401)	2,260,518
Change in accounts receivable - other	(613,286)	85,033
Change in inventory	(198,783)	(474,746)
Change in prepaid expenses	(6,087)	325,544
Change in accounts payable	9,442,127	(2,242,777)
Change in TVA contract payable	7,028,898	6,022,618
Change in customer deposits	2,097,932	2,282,956
Change in accrued expenses and other current liabilities	2,182,188	(773,668)
	22,425,831	21,142,313
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	\$ 34,432,602	\$ 34,818,232

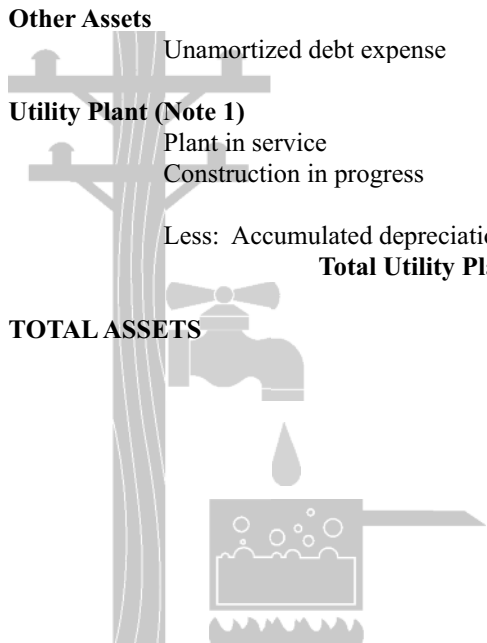


# Natural Gas

## City of Huntsville Natural Gas System Balance Sheets September 30, 2010 and 2009

### ASSETS

	2010		2009
<b>Current Assets</b>			
Cash and cash equivalents	\$ 20,906,611	\$	14,878,268
Accounts receivable - trade, net of allowance for doubtful accounts of \$54,594 in 2010 and \$54,594 in 2009	650,851		1,069,466
Stored gas	6,093,906		8,590,759
Materials and supplies	1,084,308		1,135,290
Prepaid expenses	735		116
Accrued interest, rent and other receivables	911,655		1,294,948
<b>Total Current Assets</b>	29,648,066		26,968,847
<b>Restricted Assets and Board Designated Assets</b>			
Insurance Funds - Designated	997,670		997,670
Construction Funds - Designated	6,959,413		6,360,663
Renewal & Replacement Funds - Designated	2,754,489		3,823,318
Rate Stabilization - Designated	2,500,000		2,500,000
Construction Funds - Restricted	0		0
Debt Service Funds - Restricted	818,244		818,244
Bond Sinking Funds - Restricted	136,269		136,177
Worker's Compensation Fund - Restricted	2,139,017		2,074,543
<b>Restricted Assets and Designated Assets</b>	16,305,102		16,710,615
<b>Other Assets</b>			
Unamortized debt expense	179,296		191,383
<b>Utility Plant (Note 1)</b>			
Plant in service	135,833,172		124,502,336
Construction in progress	1,378,594		993,341
	137,211,766		125,495,677
Less: Accumulated depreciation	(43,710,202)		(40,571,604)
<b>Total Utility Plant</b>	93,501,564		84,924,073
<b>TOTAL ASSETS</b>	\$ 139,634,028	\$	128,794,918



**City of Huntsville Natural Gas System  
Balance Sheets  
September 30, 2010 and 2009**

**LIABILITIES AND NET ASSETS**

	<u>2010</u>	<u>2009</u>
<b>Current Liabilities</b>		
Accounts payable - trade	\$ 2,436,952	\$ 1,730,457
Customer meter deposits, including accrued interest of \$2,540,379 in 2010 and \$2,513,058 in 2009	9,104,571	8,791,423
Compensated absences	1,423,202	1,199,807
Customer advances for construction	0	0
Other current liabilities	578,410	543,104
<b>Total Current Liabilities</b>	<u>13,543,135</u>	<u>12,264,791</u>
 <b>Liabilities Payable from Restricted Assets</b>		
Current maturities of revenue bonds	455,000	440,000
Interest payable	60,403	62,786
<b>Total Liabilities Payable from Restricted Assets</b>	<u>515,403</u>	<u>502,786</u>
 <b>Long-Term Debt</b>		
Revenue bonds - less current maturity	<u>8,520,000</u>	<u>8,975,000</u>
 <b>Total Liabilities</b>	<u>22,578,538</u>	<u>21,742,577</u>
 <b>Net Assets</b>		
Invested in capital assets, net of related debt	84,645,457	75,637,670
Restricted	13,211,572	3,028,964
Unrestricted	19,198,461	28,385,707
<b>Total Net Assets</b>	<u>117,055,490</u>	<u>107,052,341</u>
 <b>TOTAL NET ASSETS AND LIABILITIES</b>	<u>\$ 139,634,028</u>	<u>\$ 128,794,918</u>

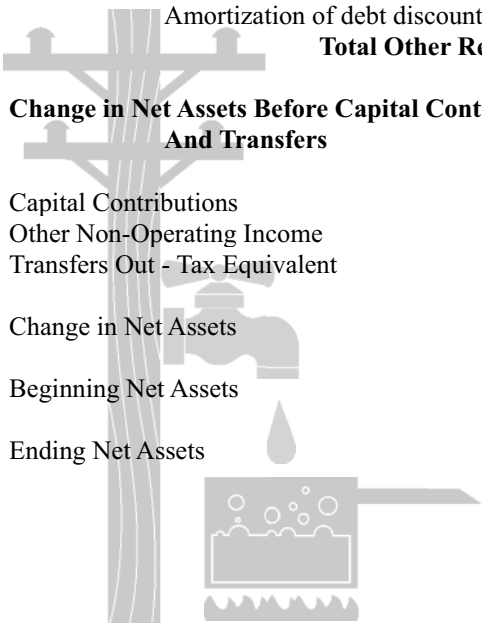




# Natural Gas

## City of Huntsville Natural Gas System Statements of Revenues, Expenses and Changes in Net Assets September 30, 2010 and 2009

	2010	2009
<b>Operating Revenue</b>		
Residential	\$ 27,097,128	\$ 26,500,376
Commercial	29,123,133	28,930,139
Industrial	3,407,307	4,114,353
Governmental	0	0
Other operating revenue	3,397,595	3,867,251
<b>Total Operating Revenue</b>	63,025,163	63,412,119
<b>Operating Expenses</b>		
Purchased gas	38,574,435	44,904,955
Production	0	7,828
Distribution	3,861,085	3,968,469
Customer accounting	846,381	711,525
Administrative and general	2,846,699	3,236,865
Depreciation	2,925,642	2,547,783
Payroll taxes	342,402	353,826
<b>Total Operating Expenses</b>	49,396,644	55,731,251
<b>Operating Income</b>	13,628,519	7,680,868
<b>Other Revenue and (Expenses)</b>		
Interest income	158,659	655,143
Loss on sale of fixed assets	0	0
Interest expense	(539,568)	(465,204)
Amortization of debt discount	(12,087)	(12,087)
<b>Total Other Revenue (Expenses)</b>	(392,996)	177,852
<b>Change in Net Assets Before Capital Contributions And Transfers</b>	13,235,523	7,858,720
Capital Contributions	325,499	440,525
Other Non-Operating Income	0	0
Transfers Out - Tax Equivalent	(3,557,873)	(3,572,709)
Change in Net Assets	10,003,149	4,726,536
Beginning Net Assets	107,052,341	102,325,805
Ending Net Assets	\$ 117,055,490	\$ 107,052,341



## City of Huntsville Natural Gas System Statements of Cash Flows September 30, 2010 and 2009

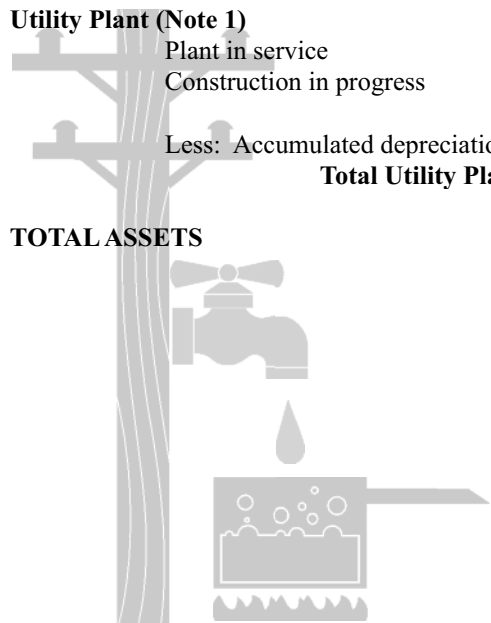
	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES</b>		
Received from customers	\$ 63,443,778	\$ 63,428,851
Paid to suppliers for goods and services	(37,138,603)	(52,792,741)
Paid to employees for goods and services	<u>(5,123,546)</u>	<u>(3,912,779)</u>
Net cash flows from (used for) operating activities	<u>21,181,629</u>	<u>6,723,331</u>
<b>CASH FLOWS FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers out - tax equivalent	(3,557,873)	(3,572,709)
Proceeds from settlement of lawsuit	0	0
Net cash from (used for) noncapital financing activities	<u>(3,557,873)</u>	<u>(3,572,709)</u>
<b>CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES</b>		
Interest income earned on investments	158,659	655,143
Net cash from (used for) investing activities	<u>158,659</u>	<u>655,143</u>
<b>CASH FLOWS FROM (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Payment of principal on long-term debt	(440,000)	(425,000)
Additions to plant in service	(11,503,133)	(7,430,692)
Debt expense paid	0	0
Capital contributions	325,499	361,345
Changes in special funds, net	405,513	(616,774)
Interest paid and expensed	<u>(541,951)</u>	<u>(465,204)</u>
Net cash from (used for) capital and related financing activities	<u>(11,754,072)</u>	<u>(8,576,325)</u>
<b>INCREASE (DECREASE) IN CASH</b>	6,028,343	(4,770,560)
<b>CASH AT BEGINNING OF YEAR</b>	<u>14,878,268</u>	<u>19,648,828</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 20,906,611</u>	<u>\$ 14,878,268</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating Income	\$ 13,628,519	\$ 7,680,868
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation and amortization included in operating	2,925,642	3,105,869
Change in accounts receivable - customer	418,615	16,732
Change in accounts receivable - other	383,293	(990,653)
Change in inventory	2,547,835	(706,894)
Change in prepaid expenses	(619)	151,573
Change in accounts payable	706,495	(3,264,020)
Change in customer deposits	313,148	597,850
Change in accrued expenses and other current liabilities	<u>258,701</u>	<u>132,006</u>
Net Adjustments	<u>7,553,110</u>	<u>(957,537)</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 21,181,629</u>	<u>\$ 6,723,331</u>



## City of Huntsville Water System Balance Sheets September 30, 2010 and 2009

### ASSETS

	2010	2009
<b>Current Assets</b>		
Cash and cash equivalents	\$ 14,848,794	\$ 3,276,655
Accounts receivable - trade, net of allowance for doubtful accounts of \$26,324 in 2010 and \$26,324 in 2009	1,202,812	1,745,230
Materials and supplies	1,616,140	1,502,647
Prepaid expenses	1,870	1,818
<b>Total Current Assets</b>	17,669,616	6,526,350
<b>Restricted Assets and Board Designated Assets</b>		
Construction Funds - Designated	5,124,762	4,328,019
Construction Funds - Restricted	6,186,388	11,418,301
Insurance Funds - Designated	1,000,000	555,485
Debt Service Funds - Bond Restricted	5,957,382	5,926,049
Worker's Compensation Funds - Restricted	1,490,903	1,431,190
Renewal and Replacement Funds - Designated	0	1,846,503
<b>Total Restricted Assets and Board Designated Assets</b>	19,759,435	25,505,547
<b>Deferred Charges</b>		
Unamortized bond expense (Note 5)	1,021,387	1,065,635
Other deferred charges	0	0
<b>Total Deferred Charges</b>	1,021,387	1,065,635
<b>Utility Plant (Note 1)</b>		
Plant in service	241,405,262	244,335,430
Construction in progress	8,450,165	2,782,912
	249,855,427	247,118,342
Less: Accumulated depreciation	(88,072,751)	(83,245,133)
<b>Total Utility Plant</b>	161,782,676	163,873,209
<b>TOTAL ASSETS</b>	<b>\$ 200,233,114</b>	<b>\$ 196,970,741</b>



City of Huntsville Water System  
Balance Sheets  
September 30, 2010 and 2009

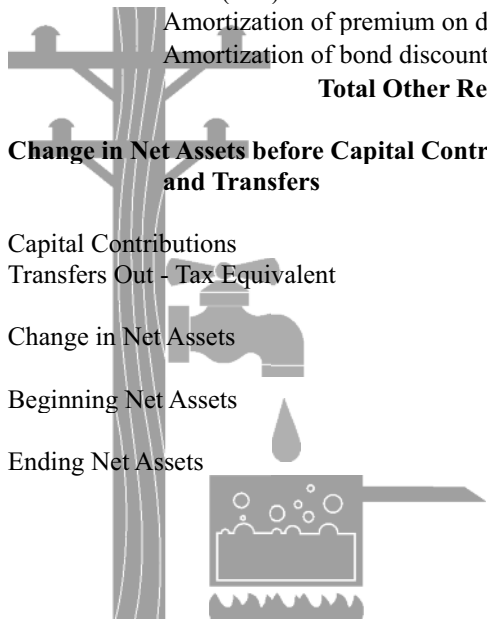
LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
<b>Current Liabilities</b>		
Accounts payable - trade	\$ 755,005	\$ 1,551,127
Intercompany payables	0	247,178
Customer meter deposits, including accrued interest of \$1,363,807 in 2010 and \$1,350,052 in 2009	4,565,280	4,408,202
Customer advances for construction	0	0
Compensated absences	1,565,972	1,483,568
Other current liabilities	552,110	1,200,111
<b>Total Current Liabilities</b>	<u>7,438,367</u>	<u>8,890,186</u>
 <b>Liabilities Payable from Restricted Assets</b>		
Current maturities of long-term debt (Note 5)	2,120,000	2,055,000
Interest payable	747,638	775,466
<b>Total Liabilities Payable from Restricted Assets</b>	<u>2,867,638</u>	<u>2,830,466</u>
 <b>Long-Term Debt (Note 5)</b>		
Water revenue bonds, excluding current portion	38,785,000	40,905,000
Unamortized bond premium	1,210,854	1,340,790
Less: Unamortized bond retirement	(250,924)	(311,144)
<b>Total Long-Term Debt</b>	<u>39,744,930</u>	<u>41,934,646</u>
 <b>Total Liabilities</b>	<u>50,050,935</u>	<u>53,655,298</u>
 <b>Net Assets</b>		
Invested in capital assets, net of related debt	120,191,495	120,173,732
Restricted	13,634,674	18,775,540
Unrestricted	16,356,010	4,366,171
<b>Total Net Assets</b>	<u>150,182,179</u>	<u>143,315,443</u>
 <b>TOTAL NET ASSETS AND LIABILITIES</b>	<u>\$ 200,233,114</u>	<u>\$ 196,970,741</u>



## City of Huntsville Water System Statements of Revenues, Expenses and Changes in Net Assets September 30, 2010 and 2009

	2010	2009
<b>Operating Revenue</b>		
Residential	\$ 12,618,223	\$ 12,554,380
Industrial	1,702,152	1,572,193
Commercial	6,506,573	6,339,244
Government	1,069,288	1,074,255
Fire hydrants	765,554	757,044
Other operating revenue	2,666,237	2,833,618
<b>Total Operating Revenue</b>	<b>25,328,027</b>	<b>25,130,734</b>
 <b>Operating Expenses</b>		
Purification	1,212,275	999,024
Pumping	4,265,256	3,682,596
Distribution	4,047,798	4,237,521
Customer accounting	1,595,675	1,563,388
Administrative and general	4,240,252	4,546,943
Depreciation	5,616,132	4,847,144
Payroll taxes	579,429	536,095
<b>Total Operating Expenses</b>	<b>21,556,817</b>	<b>20,412,711</b>
<b>Operating Income</b>	<b>3,771,210</b>	<b>4,718,023</b>
 <b>Other Revenue and (Expenses)</b>		
Interest income	70,717	77,629
Interest expense	(1,302,000)	(990,388)
Gain (loss) on sale of assets	1,631,810	0
Amortization of premium on debt	129,936	0
Amortization of bond discount	(44,248)	(44,248)
<b>Total Other Revenue (Expenses)</b>	<b>486,215</b>	<b>(957,007)</b>
 <b>Change in Net Assets before Capital Contributions and Transfers</b>	<b>4,257,425</b>	<b>3,761,016</b>
Capital Contributions	3,947,773	4,718,507
Transfers Out - Tax Equivalent	(1,338,462)	(1,357,845)
Change in Net Assets	<b>6,866,736</b>	<b>7,121,678</b>
Beginning Net Assets	143,315,443	136,193,765
Ending Net Assets	<b>\$ 150,182,179</b>	<b>\$ 143,315,443</b>



## City of Huntsville Water System Statements of Cash Flows September 30, 2010 and 2009

	2010	2009
<b>CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES</b>		
Received from customers	\$ 25,870,445	\$ 25,306,156
Paid to suppliers for goods and services	(10,610,521)	(7,892,426)
Paid to employees for goods and services	(6,835,306)	(6,636,891)
Net cash flows from (used for) operating activities	8,424,618	10,776,839
<b>CASH FLOWS FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers out - tax equivalents	(1,338,462)	(1,357,845)
Net cash flows from (used for) noncapital financing activities	(1,338,462)	(1,357,845)
<b>CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES</b>		
Deferred charges	0	285,049
Interest income earned on investments	70,717	77,629
Net cash from (used for) investing activities	70,717	362,678
<b>CASH FLOWS FROM (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Payment of principal on long-term debt	(2,055,000)	(639,780)
Proceeds from sale of Triana property	6,750,000	0
Bond issue costs	0	0
Retirement	0	0
Customer advances	0	0
Additions to plant in service	(8,643,791)	(21,464,730)
Capital contributions	3,947,773	4,718,507
Changes in special funds, net	5,746,112	4,971,799
Interest paid	(1,329,828)	(990,388)
Net cash from (used for) capital and related financing activities	4,415,266	(13,404,592)
<b>INCREASE (DECREASE) IN CASH</b>	11,572,139	(3,622,920)
<b>CASH AT BEGINNING OF YEAR</b>	3,276,655	6,899,575
<b>CASH AT END OF YEAR</b>	\$ 14,848,794	\$ 3,276,655
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating Income	\$ 3,771,210	\$ 4,718,023
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation and amortization, included in operating	5,676,352	5,251,289
Change in accounts receivable - customer	542,418	175,422
Change in inventory	(113,493)	112,923
Change in prepaid expenses	(52)	209,761
Change in accounts payable	(796,120)	(319,834)
Change in customer deposits	157,078	299,503
Change in accrued expenses and other current liabilities	(812,775)	329,752
Net Adjustments	4,653,408	6,058,816
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	\$ 8,424,618	\$ 10,776,839



# Huntsville Utilities

## City of Huntsville Electric, Natural Gas and Water Systems Notes to the Financial Statement September 30, 2010 and 2009

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Huntsville Utilities (the Utilities) have been prepared in accordance with generally accepted accounting principles (GAAP) of the United States of America as applied to government units. The Governmental 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

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.

#### Financial Presentation

The Utilities are a component unit of the City of Huntsville and are operated by separate Boards for the electric, natural gas and water systems. 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 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 Utilities have elected to follow Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989 and all pronouncements of the Governmental Accounting Standards Board (GASB) issued after November 30, 1989.



## City of Huntsville Electric, Natural Gas and Water Systems Notes to the Financial Statement September 30, 2010 and 2009

### Basis of Accounting – Continued

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 net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Huntsville Utilities has also adopted the provisions of Governmental Accounting Standards Board Statement 33, Accounting for Financial Reporting for Non-exchange transactions. This statement requires that capital contributions – aid to construction – to the Utilities be presented as a change in net assets.

### Board Designated Cash and Board Designated Unrestricted Net Assets

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 assets as special 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 statements of net assets at September 30, 2010 and 2009.

### Grants in Aid of Construction

It is the Electric System's policy not to record amounts as grants in aid of construction. The authoritative support for this is Federal Power Commission order number 490. 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 statement of revenues, expenses and changes in net assets.



# Huntsville Utilities

## City of Huntsville Electric, Natural Gas and Water Systems Notes to the Financial Statement September 30, 2010 and 2009

### Utility Plant

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

### Revenue and Concentration of Credit Risk

Huntsville Utilities accrues receivables for the most recent meter reading at the end of the year. Huntsville Utilities' customers are located in the City of Huntsville and Madison County Alabama.

### Accounts Receivable - Trade

The 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. Receivables are due 15 days after the issuance of the invoice and are considered delinquent when more than 25 days past due. Accounts considered uncollectible throughout the year are charged against the allowance.

### Materials and Supplies Inventories

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

### Stored Gas Inventory

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

### 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.

### 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.

## City of Huntsville Electric, Natural Gas and Water Systems Notes to the Financial Statement September 30, 2010 and 2009

### 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. 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.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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.

### **NOTE 2 - 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, 2010 and 2009 are as follows:

	2010	2009
Electric System	\$ 11,763,798	\$ 10,595,126
Natural Gas System	3,557,873	3,572,709
Water System	1,338,462	1,357,845

### **NOTE 3 – EMPLOYEE BENEFITS**

The annual leave policy allows each employee to accumulate up to thirty-five days of annual leave. The Utilities follow the practice of accruing the dollar amount of the leave accrued per each employee on a monthly basis. Actual leave time taken is charged against this account. The sick leave policy provides that at the time of retirement, each employee will be paid 25% of the accumulated sick leave based on the employee's average salary during the last five years. The Utilities follow the practice of accruing 25% of accumulated sick leave 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, 2010 and 2009 are as follows:



# Huntsville Utilities

## City of Huntsville Electric, Natural Gas and Water Systems Notes to the Financial Statement September 30, 2010 and 2009

	Accrued Annual Leave		Accrued Sick Leave	
	2010	2009	2010	2009
Electric System	\$ 2,126,406	\$ 1,952,891	\$ 1,519,190	\$ 1,406,868
Natural Gas System	766,910	659,029	656,292	540,778
Water System	852,525	795,294	713,447	688,274

#### NOTE 4 - 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. The Utilities are affiliated with RSA, an agent multiple-employer pension plan. RSA issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the RSA. Benefit provisions are established and amended by State statute.

The employee retirement system was established as of October 1, 1945, and placed under the management of the board of control (currently 10 members) by Act 515, Acts of Alabama 1945. Employees of the Utilities are required to 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 2010 and 2009, the Utilities were required to contribute the following percentages of gross payroll to the plan:

	<u>2010</u>	<u>2009</u>
Electric System	17.71%	17.71%
Natural Gas System	11.16%	11.16%
Water System	12.87%	12.87%

Based on an actuarial valuation completed as of September 30, 2009, the Annual Pension Cost for the System is as follows:

	Annual Pension Cost (APC) 2009	Annual Pension Cost (APC) 2008	Percentage of APC Contributed 2009 and 2008
Electric System	\$1,775,412	\$1,474,244	101.9%
Natural Gas System	1,973,248	1,685,679	102%
Water System	634,013	521,569	102%

# City of Huntsville Electric, Natural Gas and Water Systems

## Notes to the Financial Statement

### September 30, 2010 and 2009



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 is equal to the Utilities' required and actual contributions. The required contribution was determined as part of the September 30, 2009 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, 2009 was 23 years for the Gas System, 25 years for the Water System and 21 years for the Electric System.

Based on an actuarial valuation done in September 30, 2009, 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
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%
2009	\$29,667,953	\$52,088,628	\$22,420,675	57.0%	\$10,705,886	209.4%

#### 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
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%
2009	\$15,822,183	\$24,304,373	\$8,482,190	65.1%	\$5,579,512	152.0%

#### 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
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	\$38,523,025	\$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%
2009	\$39,481,623	\$61,824,224	\$22,342,601	63.9%	\$18,404,081	121.4%





# Huntsville Utilities

## City of Huntsville Electric, Natural Gas and Water Systems Notes to the Financial Statement September 30, 2010 and 2009

### NOTE 5 - LONG-TERM DEBT

#### 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:

Fiscal Year	2001 Principal	2001 Interest	2001 Rate
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%
	<u>2,565,000</u>		
Current	465,000		
	<u>\$ 2,100,000</u>		

The 2001 issue contained deferred cost of \$75,861 that is being amortized over 13 years. At September 30, 2010, the unamortized deferred cost is \$23,882.

The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2010, 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, 2010, 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.

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:

<u>Redemption Dates</u>	<u>Redemption Price</u>
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 1998

Electric System Revenue Warrants, Series 1998, were issued in the original principal amount of \$15,505,000. The warrants were retired on December 1, 2010.

## City of Huntsville Electric, Natural Gas and Water Systems Notes to the Financial Statement September 30, 2010 and 2009

### City of Huntsville, Alabama Electric System Revenue and Term Warrants, Series 2002

Electric System Revenue Warrants, Series 2002, were issued in the original amount of \$8,525,000. Electric System Term Warrants, Series 2002, were issued in the original amount of \$1,395,000. The warrants mature serially on December 1 each year and bear interest according to stated maturity dates as follows:

Fiscal Year	2002 Principal	2002 Interest	2002 Rate	
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%	*
	4,860,000			
Current	285,000			
	\$ 4,575,000			

\* - Term Warrants

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%

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



# Huntsville Utilities

## City of Huntsville Electric, Natural Gas and Water Systems Notes to the Financial Statement September 30, 2010 and 2009

### City of Huntsville, Alabama Electric System Revenue and Term Warrants, Series 2002 - Continued

The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2010, 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, 2010, the balance in the fund 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.

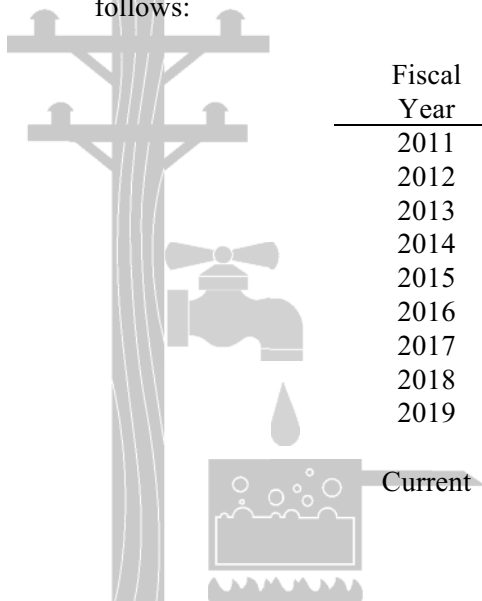
The 2002 issue contained deferred cost of \$171,056 that is being amortized over 20 years. At September 30, 2010, the unamortized deferred cost is \$105,485.

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

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	2007 Principal	2007 Interest	2007 Rate
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%
2017	1,945,000	204,500	4.00%
2018	2,030,000	125,000	4.00%
2019	2,110,000	42,200	4.00%
	13,195,000		
	705,000		
	\$ 12,490,000		



**City of Huntsville Electric, Natural Gas and Water Systems  
Notes to the Financial Statement  
September 30, 2010 and 2009**

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

The 2007 issue contained deferred cost of \$668,300 that is being amortized over 10 years. At September 30, 2010, the unamortized deferred cost is \$515,479. The 2007 issue also contained a premium of \$264,012 that is being amortized over 10 years. At September 30, 2010, the unamortized premium is \$191,019.

The 2007 Series Warrants maturing in 2018 shall be subject to redemption prior to their respective maturities, at the option of the City, 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, 2010, 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, 2010, the balance in the fund is in compliance with the indenture. The Electric System Revenue Warrants, Series 2007 is in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

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.



# Huntsville Utilities

## City of Huntsville Electric, Natural Gas and Water Systems Notes to the Financial Statement September 30, 2010 and 2009

### NOTE 5 - LONG-TERM DEBT – CONTINUED

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

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

Fiscal Year	2005 Principal Maturity	2005 Interest Maturity	2005 Rate
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%
2017	565,000	251,444	4.00%
2018	585,000	228,844	4.00%
2019	610,000	205,444	4.13%
2020	635,000	180,281	4.13%
2021	660,000	154,088	4.13%
2022	690,000	126,863	4.25%
2023	720,000	97,537	4.25%
2024	750,000	66,938	4.38%
2025	780,000	34,125	4.38%
	<u>8,975,000</u>		
Current	<u>455,000</u>		
	<u>\$ 8,520,000</u>		

The Natural Gas System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2010, 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, 2010, 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, 2010, the unamortized deferred cost is \$179,296.

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.



**City of Huntsville Electric, Natural Gas and Water Systems  
Notes to the Financial Statement  
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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:

<u>Fiscal Year</u>	<u>2008 Principal</u>	<u>2008 Interest</u>	<u>2008 Rate</u>	
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%	*
	<u>40,905,000</u>			
Current	<u>2,120,000</u>			
	<u>\$ 38,785,000</u>			

\* - Term Warrants



# Huntsville Utilities

## City of Huntsville Electric, Natural Gas and Water Systems Notes to the Financial Statement September 30, 2010 and 2009

### NOTE 5 - LONG-TERM DEBT – CONTINUED

#### City of Huntsville, Alabama Water Revenue and Term Warrants, Series 2008 – Continued

The Series 2008 Warrants maturing on November 1, 2018 and thereafter are subject to redemption at the option of the City 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 City 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 Series 2008 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:

<u>Redemption Dates</u>	<u>Redemption Price</u>
2019	\$880,000
2020	925,000
2021	970,000
2022	1,020,000

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

The Series 2008 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:

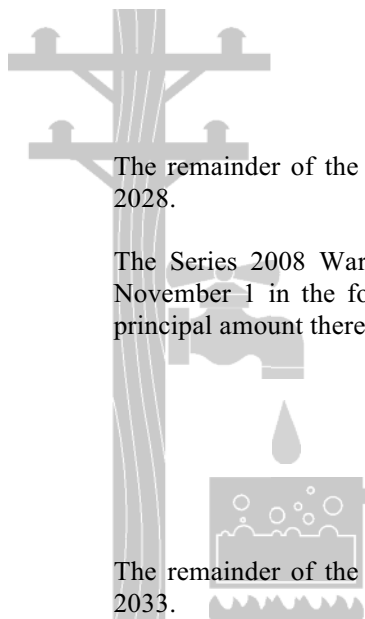
<u>Redemption Dates</u>	<u>Redemption Price</u>
2024	\$1,125,000
2025	1,175,000
2026	1,230,000
2027	1,290,000

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

The Series 2008 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:

<u>Redemption Dates</u>	<u>Redemption Price</u>
2029	\$1,415,000
2030	1,485,000
2031	1,560,000
2032	1,640,000

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



**City of Huntsville Electric, Natural Gas and Water Systems  
Notes to the Financial Statement  
September 30, 2010 and 2009**

City of Huntsville, Alabama Water Revenue and Term Warrants, Series 2008 – Continued

The Water System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2010, 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, 2010, the balance in the fund is in compliance with the indenture. The Water System Revenue Warrants, Series 2008 is in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

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

The 2008 issue contained deferred cost of \$1,120,915 that is being amortized over 25 years. At September 30, 2010, the unamortized deferred cost is \$1,021,387. The 2008 issue also contained a premium of \$1,340,790 that is being amortized over 25 years. At September 30, 2010, the unamortized premium is \$1,210,854.

The Series 2008 Revenue Warrants were issued to redeem the Series 1998 Warrants and to pay costs of capital improvements to the Water System.

At September 30, 2010, the Water System also recognizes deferred costs related to prior year bond retirements in the amount of \$250,924, including related amortization expenses of \$60,220.

Long-Term Debt by System

Principal activity for the year is summarized as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
Electric	\$ 22,235,000	\$ 0	\$ 1,615,000	\$ 20,620,000
Gas	9,415,000	0	440,000	8,975,000
Water	42,960,000	0	2,055,000	40,905,000
Total	\$ 74,610,000	\$ 0	\$ 4,110,000	\$ 70,500,000

**NOTE 6 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

At September 30, 2010, 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.



# Huntsville Utilities

## City of Huntsville Electric, Natural Gas and Water Systems Notes to the Financial Statement September 30, 2010 and 2009

### NOTE 6 - DEPOSITS WITH FINANCIAL INSTITUTIONS – CONTINUED

A summary of cash and investments is as follows:

Description	Electric System	Natural Gas System	Water System
Cash on hand	\$ 11,450	\$ 0	\$ 0
Carrying amounts of:			
Deposits	73,941,192	36,257,200	22,464,459
Investments	4,279,146	954,513	12,143,770
Total	<u>\$ 78,231,786</u>	<u>\$ 37,211,713</u>	<u>\$ 34,608,229</u>
Deposits - Cash	\$ 51,951,785	\$ 20,906,611	\$ 14,848,794
Investments:			
Debt service accounts	4,279,146	954,513	5,957,382
Bond construction funds	500,000	0	6,186,388
Other third party restricted	2,139,489	2,139,017	1,490,903
Board designated accounts:			
Renewal and replacement	3,109,364	2,754,489	0
Construction	11,726,914	6,959,413	3,588,787
Emergency	3,000,000	0	0
Insurance	1,253,398	997,670	1,000,000
Rate Stabilization	0	2,500,000	0
Other	271,691	0	1,535,975
Total	<u>\$ 78,231,787</u>	<u>\$ 37,211,713</u>	<u>\$ 34,608,229</u>

At September 30, 2010, the Utilities had the following investments held by a trustee.

Investment	Fair Value	Maturity
Repurchase agreement	\$ 2,705,428	11/30/22
U.S. Treasury Securities Funds	\$14,672,000	Average maturity of the fund's securities 397 days or less
	<u>\$17,377,428</u>	

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

**Credit risk** - The Utilities' bond indentures for the outstanding Electric System Revenue Warrants, the Natural Gas Revenue Warrants, and the Water System Revenue Warrants, limit the investments of the various 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.

## City of Huntsville Electric, Natural Gas and Water Systems Notes to the Financial Statement September 30, 2010 and 2009

### NOTE 6 - DEPOSITS WITH FINANCIAL INSTITUTIONS – CONTINUED

At September 30, 2010, the 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, 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. Of the Utilities' investments in the repurchase agreement, underlying securities having a fair value of approximately \$5 million at September 30, 2010 are held by the investment's counterparty, not in the name of the Utility.

### 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 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 8 - CONTINGENCIES

The Utilities are a party to a number of other 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 they will materially affect the Utilities' operations or financial position.

### NOTE 9 – 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 between 537,000 and 1,582,000 MMBtus per year through December 2026 at index less fifty-six cents.

### NOTE 10 – 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.



# Huntsville Utilities

## City of Huntsville Electric, Natural Gas and Water Systems Notes to the Financial Statement September 30, 2010 and 2009

### NOTE 11 – 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		
Real property	\$	304,787,250
Flood and earthquake		10,000,000
Blanket Crime		1,000,000
Automobile Liability		1,000,000
Public Officials and Employment Liability		1,000,000
Workers Compensation		
Bodily injury (accident and disease)		Statutory
Excess coverage per occurrence (SIR)		500,000
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 Boards 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 net assets portion of the statements of net assets. Worker's compensation funds are included in restricted net assets, as listed below:

		2010		2009
Electric	\$	2,139,489	\$	1,978,709
Gas		2,139,017		2,074,543
Water		1,490,903		1,431,190
	\$	<u>5,769,409</u>	\$	<u>5,484,442</u>

### NOTE 12 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the Annual Leave and Sick Leave benefits described in Note 3 and the Pension benefits described in Note 4, the Utilities provide post-retirement Medical and nominal Life Insurance to all employees who retire from the Utilities under the provisions of the qualified plan and a minimum of 20 years of service. As of October 1, 2009, approximately 227 retirees meet those eligibility requirements. Expenses for these post-retirement benefits have previously been recognized as retirees report claims. During the year ended September 30, 2008 the Utilities implemented the provisions of GASB Statement No. 45 titled "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions". These provisions were applied prospectively with respect to the 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 that was recognized under these new requirements during the years ended September 30, 2010 and 2009 totaled \$2,007,975 and \$2,783,398, respectively.



**City of Huntsville Electric, Natural Gas and Water Systems  
Notes to the Financial Statement  
September 30, 2010 and 2009**

**NOTE 12 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS - CONTINUED**

The Utilities' annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. Amounts determined regarding the funded status of the plan and the ARC of the Utilities are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future.

The ARC represents level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a thirty-year period beginning October 1, 2007 with a 7% discount rate. The ARC for the Utilities is \$2,007,975. The present value of the OPEB is \$37,700,707 with an actuarial accrued liability of \$29,677,256. While the Utilities established an irrevocable trust to pay its OPEB, full funding was not made until October of 2008. Future funding will be made in the fiscal year affected. The market value of the assets, then, was \$3,039,585 as of 10/1/09. Health care costs were trended at an initial rate of 10% with an ultimate rate of 4.5%. The ultimate rate trends to be reached in 2026.

**NOTE 13 – TVA CONTRACT PAYABLE AND PRIOR YEAR ADJUSTMENT**

The Electric System has been notified of Unbilled contract payments by TVA for the years 2004 to 2010. The adjustments increase the cost of power for each of the years. An adjustment to Beginning Net Assets of \$22,220,859 was made restating the previous balance. Power costs were increased by \$6,022,618 for the year ending 2009, which reduced net income for the year by the same amount. The balance of the outstanding Unbilled contract payables was \$35,272,375 at September 30, 2010.

**NOTE 14 – SUBSEQUENT EVENTS**

The Electric System Revenue Refunding Warrants, Series 2001 were paid off on January 3, 2011. The remaining \$2,100,000 was paid off at that time.

The date through which subsequent events have been evaluated is March 28, 2011. The financial statements were available to be issued at that time.



# Huntsville Utilities

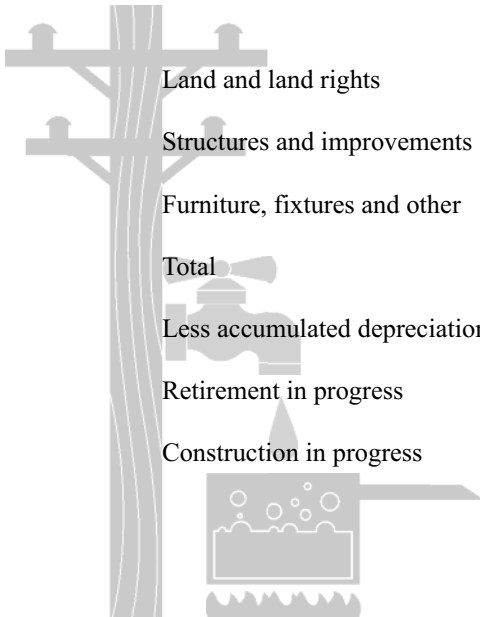
## City of Huntsville Electric, Natural Gas and Water Systems Notes to the Financial Statement September 30, 2010 and 2009

### NOTE 14 - UTILITY PLANT IN SERVICE

#### ELECTRIC SYSTEM

	Balance October 1, 2008	Additions	Retirements
Land and land rights	\$ 4,288,600	\$ 21,000	\$ -
Structures and improvements	348,033,974	29,067,214	(1,480,565)
Furniture, fixtures and other	<u>18,575,018</u>	<u>11,494,537</u>	<u>(1,814,069)</u>
Total	370,897,592	40,582,751	(3,294,634)
Less accumulated depreciation	(160,614,128)	(13,579,089)	3,474,811
Retirement in progress	3,891	-	(3,891)
Construction in progress	<u>14,759,234</u>	31,920,725	(42,452,067)
	<u>\$ 225,046,589</u>		

	Balance October 1, 2009	Additions	Retirements
Land and land rights	\$ 4,309,600	\$ 110,873	\$ -
Structures and improvements	375,620,623	14,326,399	(1,362,406)
Furniture, fixtures and other	<u>28,255,486</u>	<u>2,196,912</u>	<u>(64,639)</u>
Total	408,185,709	16,634,184	(1,427,045)
Less accumulated depreciation	(170,718,406)	(15,440,976)	826,789
Retirement in progress	0	-	-
Construction in progress	<u>4,227,892</u>	12,990,301	(7,242,847)
	<u>\$ 241,695,195</u>		



**City of Huntsville Electric, Natural Gas and Water Systems**  
**Notes to the Financial Statement**  
**September 30, 2010 and 2009**

**NOTE 14 - UTILITY PLANT IN SERVICE - CONTINUED**

**NATURAL GAS SYSTEM**

	Balance October 1, 2008	Additions	Retirements
Land and land rights	\$ 471,235	\$ -	\$ -
Structures and improvements	109,088,656	6,431,833	(304,578)
Furniture, equipment and other	<u>7,458,537</u>	<u>1,786,243</u>	<u>(429,590)</u>
Total	117,018,428	8,218,076	(734,168)
Less accumulated depreciation	(37,986,386)	(3,093,782)	508,564
Construction in progress	<u>1,440,914</u>	7,150,294	(7,597,867)
	<u>\$ 80,472,956</u>		

	Balance October 1, 2009	Additions	Retirements
Land and land rights	\$ 471,235	\$ 1,336,800	\$ -
Structures and improvements	115,215,911	9,896,548	(95,255)
Furniture, equipment and other	<u>8,815,190</u>	<u>325,315</u>	<u>(132,572)</u>
Total	124,502,336	11,558,663	(227,827)
Less accumulated depreciation	(40,571,604)	(3,343,837)	205,239
Construction in progress	<u>993,341</u>	2,325,286	(1,940,033)
	<u>\$ 84,924,073</u>		



# Huntsville Utilities

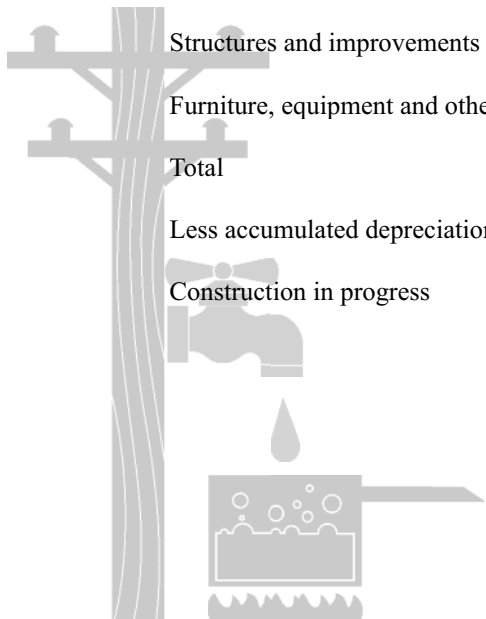
## City of Huntsville Electric, Natural Gas and Water Systems Notes to the Financial Statement September 30, 2010 and 2009

### NOTE 14 - UTILITY PLANT IN SERVICE - CONTINUED

#### WATER SYSTEM

	Balance October 1, 2008	Additions	Retirements
Land and land rights	\$ 1,775,464	\$ 1,220,729	\$ -
Structures and improvements	211,247,619	22,783,922	(376,392)
Furniture, equipment and other	5,377,243	2,528,884	(222,039)
Total	218,400,326	26,533,535	(598,431)
Less accumulated depreciation	(78,563,387)	(5,207,041)	525,295
Construction in progress	7,778,581	19,713,949	(24,709,618)
	<u>\$ 147,615,520</u>		

	Balance October 1, 2009	Additions	Retirements
Land and land rights	\$ 2,996,193	\$ -	\$ (1,250,000)
Structures and improvements	233,655,149	2,832,368	(5,002,485)
Furniture, equipment and other	7,684,088	556,621	(66,672)
Total	244,335,430	3,388,989	(6,319,157)
Less accumulated depreciation	(83,245,133)	(5,963,066)	1,135,448
Construction in progress	2,782,912	8,954,840	(3,287,587)
	<u>\$ 163,873,209</u>		

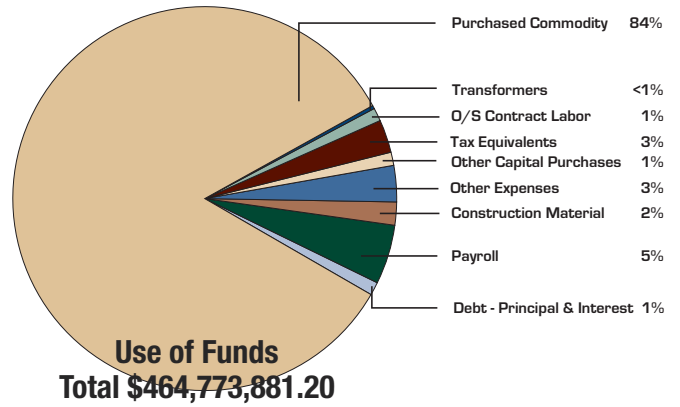
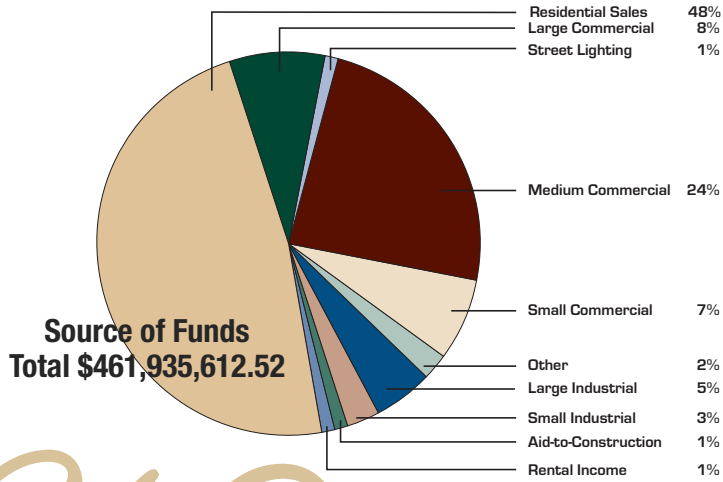




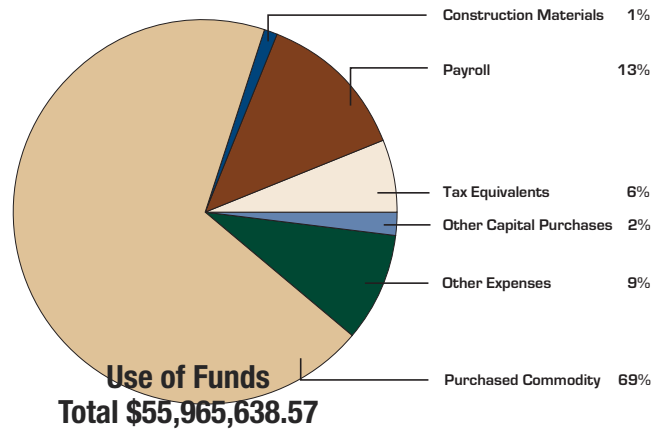
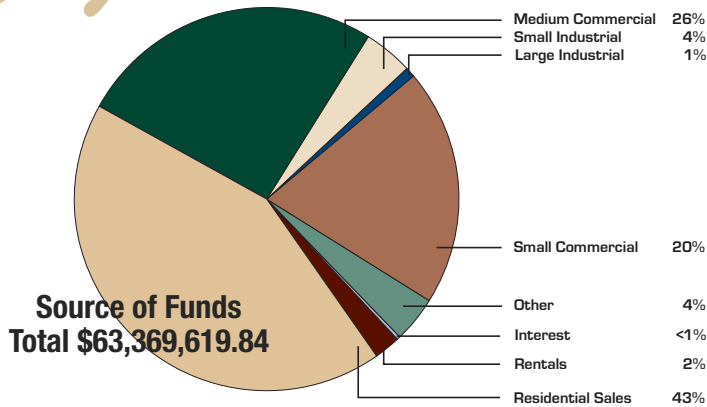
# ELECTRIC

# 2010 FUNDING PROFILES

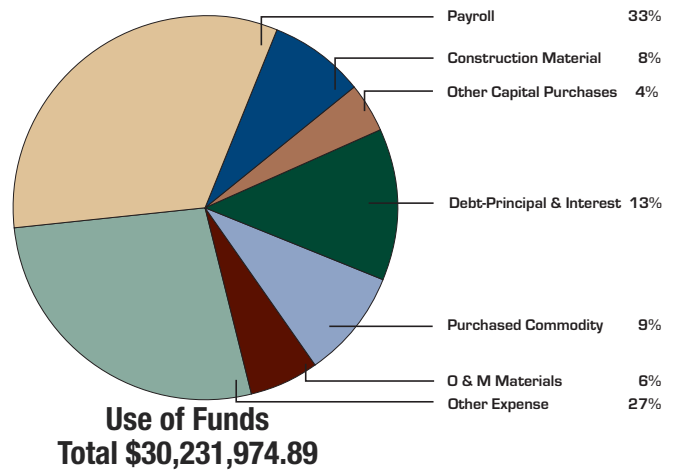
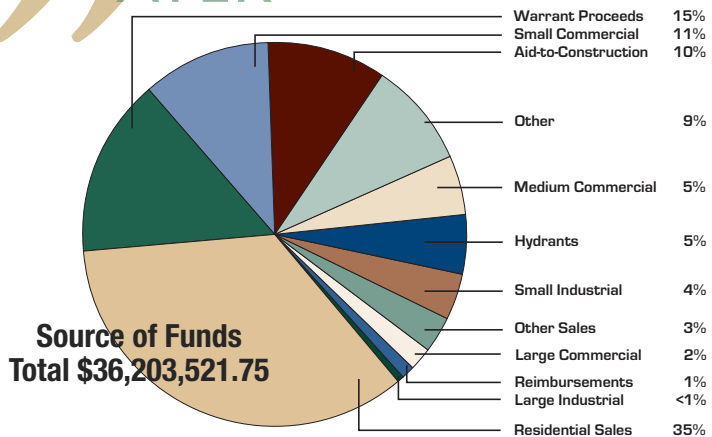
Note: Totals may not add to 100% due to rounding.



# NATURAL GAS



# WATER





# **HUNTSVILLE UTILITIES**

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