



HUNTSVILLE UTILITIES

ELECTRICITY • NATURAL GAS • WATER

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

***Component Unit
Financial Statements***

September 30, 2015 and 2014



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

Overview of the Financial Statements

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

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

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

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



City of Huntsville Electric System

Table A-1

Condensed Statements of Net Position
(In Thousands)

	2015	2014	2013
Assets			
Current and other assets	\$ 143,739	\$ 148,266	\$ 129,881
Capital assets (net)	239,364	241,125	253,407
Total assets	383,103	389,391	383,288
Deferred Outflows of Resources			
Deferred Pension and Debt Refunding	2,113	2,210	286
Total Assets and Deferred Outflows of Resources	\$ 385,216	\$ 391,601	\$ 383,574
Liabilities			
Current and other liabilities	\$ 54,222	\$ 56,837	\$ 53,144
Long-term liabilities + Net Pension	91,130	94,270	71,390
Total liabilities	145,352	151,107	124,534
Deferred Inflows of Resources			
Deferred Pension Plan Earnings Difference	962	-	-
Net Position			
Invested in capital assets, net of related debt	204,063	203,507	213,335
Restricted assets	7,072	13,378	26,850
Unrestricted assets	27,767	23,609	18,855
Total net position	238,902	240,494	259,040
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 385,216	\$ 391,601	\$ 383,574

2015 Compared to 2014:

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

2014 Compared to 2013:

As of September 30, 2014 the Electric System's total assets were \$389 million, an increase of 2.1%, compared to September 30, 2013. This increase is primarily due to an increase in net cash provided by operations and the recording of Deferred Pension expense (\$1.9 million) to comply with GASB 68. As of September 30, 2014 the Electric System's liabilities were \$151 million, an increase of 21.3%, compared to September 30, 2013. This increase is due to recording of the Pension Plan Liability (\$27.4 million) to comply with GASB 68. As of September 30, 2014 the Electric System's net position was \$240 million, a decrease of \$19 million or 7.2%, compared to September 30, 2013. This decrease is due primarily to recording of the Pension Plan related items to comply with GASB 68.



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

	2015	2014	2013
Operating revenues	\$ 491,778	\$ 502,802	\$ 475,333
Non-operating revenues	298	252	403
Total Revenues	492,076	503,054	475,736
Operating expense	461,673	464,884	432,004
Depreciation expense	18,540	19,213	15,876
Non-operating expense	1,581	391	1,249
Total Expenses	481,794	484,488	449,129
Income before transfers	10,282	18,566	26,607
Transfers out – tax equivalents	(11,874)	(11,614)	(11,644)
Change in net position	(1,592)	6,952	14,963
Beginning net position	240,494	233,542	244,077
Ending Net Position	\$ 238,902	\$ 240,494	\$ 259,040

2015 Compared to 2014:

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

2014 Compared to 2013:

As of September 30, 2014 the Electric System's total revenues were \$503 million, an increase of 5.7%, compared to September 30, 2013. This increase is primarily due to an increase in kWh sold of 4.3% and while our annual load factor (61%) was the same as September 30, 2013. As of September 30, 2014 the Electric System's operating expenses were \$484 million which was 7.9% increase from the previous year. This is primarily due to an increase in purchased energy of \$30 million, a 4.6% increase from the previous year.



City of Huntsville Gas System

Table B-1

Condensed Statements of Net Position

(In Thousands)

	2015	2014	2013
Assets			
Current and other assets	\$ 49,650	\$ 57,811	\$ 56,459
Capital assets (net)	104,633	101,672	98,688
Total assets	154,283	159,483	155,147
Deferred Outflows of Resources			
Deferred Pension	2,553	2,501	-
Total Assets and Deferred Outflows of Resources	\$ 156,836	\$ 161,984	\$ 155,147
Liabilities			
Current Liabilities	\$ 6,381	\$ 7,009	\$ 6,568
Long-term debt outstanding + Net Pension	36,144	44,822	15,022
Total liabilities	42,525	51,831	21,590
Deferred Inflows of Resources			
Deferred Pension Plan Earnings Difference	1,438	-	-
Net Position			
Invested in capital assets, net of related debt	104,633	94,695	91,213
Restricted	-	954	955
Unrestricted	8,240	15,071	41,389
Total net position	112,873	110,720	133,557
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 156,836	\$ 162,551	\$ 155,147

2015 Compared to 2014:

As of September 30, 2015 the Gas System's total assets were \$154 million, a decrease of 3.2%, compared to September 30, 2014. This decrease is primarily due to a decrease in Cash and Cash Equivalents of \$7.6 million which is due to the payoff of the 2005 Natural Gas Revenue Series Warrants. The remaining long term debt is the Gas System's pension plan (\$27.5M) and the Customer Deposits (\$8.6M). As of September 30, 2015 the Gas System's total liabilities were \$42 million, a decrease of 17.1%, compared to September 30, 2014. As of September 30, 2015 the Gas System's net position is \$112 million, an increase of 1.9%, compared to September 30, 2014. This increase is due primarily to the operating gain of \$2.1 million.

2014 Compared to 2013:

As of September 30, 2014 the Gas System's total assets were \$159 million, an increase of 2.8%, compared to September 30, 2013. This increase is primarily due to the net cash provided by operations increasing \$2.3 million. The Gas System also invested an additional \$7.4 million in Utility Plant. As of September 30, 2014 the Gas System's total liabilities were \$51 million, an increase of 137%, compared to September 30, 2013. This increase is due to recording of the Pension Plan Liability (\$29 Million) to comply with GASB 68. As of September 30, 2014 the Gas System's net position is \$110 million, a decrease of 17.1%, compared to September 30, 2013. This decrease is due primarily to recording of the Pension Plan related items to comply with GASB 68.



City of Huntsville Gas System

Table B-2

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

	2015	2014	2013
Operating revenues	\$ 44,329	\$ 45,747	\$ 41,725
Non-operating revenues	3,032	3,056	3,350
Total revenues	47,361	48,803	45,075
Depreciation expense	4,444	4,395	3,408
Operating expense	38,579	37,951	35,890
Non-operating expense	419	434	327
Total expenses	43,442	42,780	39,625
Income (loss) before contributions and transfers	3,919	6,023	5,450
Capital contributions	898	460	949
Transfers out - tax equivalents	(2,665)	(2,696)	(2,520)
Change in net position	2,152	3,787	3,879
Beginning net position	110,721	106,933	129,678
Ending net position	\$ 112,873	\$ 110,720	\$ 133,557

2015 Compared to 2014:

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

2014 Compared to 2013:

As of September 30, 2014 the Gas System's total revenues were \$48.8 million, an increase of 8.2%, compared to September 30, 2013. This increase is primarily due to an increase in MCF sold of 9.3% due to colder weather. As of September 30, 2014 the Gas System's expenses were \$43 million. An increase of 8.0% compared to September 30, 2013 due to increase in operating and maintenance costs. This is primarily due to an increase in purchased gas of \$1.3 million, a 5.1% increase from the previous year.



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

	2015	2014	2013
Assets			
Current and other assets	\$ 139,384	\$ 45,291	\$ 39,936
Capital assets (net)	199,672	170,553	168,505
Total assets	339,056	215,844	208,441
Deferred Outflows of Resources			
Deferred Pension	885	822	-
Total Assets and Deferred Outflows of Resources	\$ 339,941	\$ 216,666	\$ 208,441
Liabilities			
Current Liabilities	\$ 20,596	\$ 11,363	\$ 10,656
Long-term Liabilities - Net Pension, Customer			
Deposits and Revenue Warrants	150,021	47,191	36,740
Total liabilities	170,617	58,554	47,396
Deferred Inflows of Resources			
Deferred Pension Plan Earnings Difference	487	-	-
Net Position			
Invested in capital assets, net of related debt	63,677	137,580	133,158
Restricted	95,335	6,114	7,374
Unrestricted	9,825	14,418	20,513
Total net position	168,837	158,112	161,045
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 339,941	\$ 216,666	\$ 208,441

2015 Compared to 2014:

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

2014 Compared to 2013:

As of September 30, 2014 the Water System's total assets were \$216 million, an increase of 3.9%, compared to September 30, 2013. This increase is primarily due to a rate increase that was effective October 1, 2013. The Water System also invested an additional \$9.4 million in Utility Plant. As of September 30, 2014 the Water System's total liabilities were \$59 million, an increase of 23.5%, compared to September 30, 2013. This increase is due to recording of the Pension Plan Liability (\$12 million) to comply with GASB 68. As of September 30, 2014 the Water System's net position is \$158 million, a decrease of 1.8%, compared to September 30, 2013. This decrease is due primarily to recording of the Pension Plan related items to comply with GASB 68.



City of Huntsville Water System

Table C-2

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

	2015	2014	2013
Operating revenues	\$ 38,497	\$ 34,833	\$ 29,097
Non-operating revenues	76	67	75
Total Revenues	38,573	34,900	29,172
Depreciation expense	7,360	7,402	6,033
Operating expense	20,709	18,431	18,483
Non-operating expense	1,359	1,899	1,809
Total Expenses	29,428	27,732	26,325
Income (loss) before contributions and transfers	9,145	7,168	2,847
Capital contributions	3,766	3,191	3,456
Transfers out - tax equivalents	(2,186)	(1,888)	(1,611)
Change in net position	10,725	8,471	4,692
Beginning net position	158,112	149,641	156,353
Ending Net Position	\$ 168,837	\$ 158,112	\$ 161,045

2015 Compared to 2014:

As of September 30, 2015 the Water System's total revenues were \$39 million, an increase of 10.5%, compared to September 30, 2014. This increase is primarily due to a rate increase that was effective October 1, 2014. This rate increase is a 5 step increase to assist in paying for the construction of a new water treatment plant. After this increase, the rates will increase every October for the next 2 years. This reflects a 28% increase in rates. As of September 30, 2015 the Water System's expenses were \$29 million. An increase of 6.1% compared to September 30, 2014 due to increase in operating and maintenance costs.

2014 Compared to 2013:

As of September 30, 2014 the Water System's total revenues were \$35 million, an increase of 19.6%, compared to September 30, 2013. This increase is primarily due to a rate increase that was effective October 1, 2013. This rate increase is a 5 step increase to assist in paying for the construction of a new water treatment plant. After this increase, the rates will increase every October for the next 3 years. This reflects a 28% increase in rates. As of September 30, 2014 the Water System's expenses were \$28 million. An increase of 5.3% compared to September 30, 2013 due to increase in operating and maintenance costs.

Jay Stowe, Chief Executive Officer

Ted Phillips, Chief Financial Officer



HUNTSVILLE UTILITIES

ELECTRICITY • NATURAL GAS • WATER

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

September 30, 2015 and 2014

City of Huntsville Electric, Natural Gas, and Water Systems

Statement of Net Position

Years Ending September 30, 2015 and 2014



(In Thousands)

	Electric		Gas		Water	
	Restated		Restated		Restated	
	2015	2014	2015	2014	2015	2014
Assets and Deferred Outflows of Resources						
Current Assets						
Cash and Cash Equivalents	\$ 29,358	\$ 23,205	\$ 6,532	\$ 14,900	\$ 5,749	\$ 13,609
Investments	-	-	750	-	10,945	-
Cash and Cash Equivalents - Restricted						
Customer Deposits with Interest	6,266	6,575	1,713	1,762	822	830
Board Designated Funds						
Cash and Cash Equivalents	3,081	7,625	1,392	7,044	7,603	3,961
Investments	12,978	4,315	23,194	17,226	4,708	7,107
Accounts Receivable, Net Allowance for Doubtful Accounts	42,830	48,186	1,696	1,667	6,856	6,687
Inventories - Gas	-	-	4,466	4,574	-	-
Inventories - Materials and Supplies	6,649	6,139	948	912	1,839	1,945
Prepaid Expenses	17	33	6	2	7	5
Accrued Interest, Rent and Other Receivables	3,221	6,911	148	48	-	-
Total Current Assets	104,400	102,989	40,845	48,135	38,529	34,144
Non-Current Assets						
Restricted Assets						
Cash and Cash Equivalents						
Customer Deposits with Interest	31,957	31,518	8,805	8,591	4,315	4,189
Cash and Cash Equivalents	500	500	-	-	10,724	-
Investments	6,572	12,878	-	954	84,611	6,114
Total Restricted	39,029	44,896	8,805	9,545	99,650	10,303
Other Assets						
Regulatory Asset - Bond Expense	310	381	-	131	1,205	844
Utility Plant						
Plant in Service	490,578	482,603	162,080	154,778	279,075	274,262
Construction in Progress	11,061	3,599	5,615	5,215	40,097	8,560
Total Utility Plant	501,639	486,202	167,695	159,993	319,172	282,822
Less: Accumulated Depreciation	(262,275)	(245,077)	(63,062)	(58,321)	(119,500)	(112,268)
Total Utility Plant - Net	239,364	241,125	104,633	101,672	199,672	170,554
Total Non-Current Assets	278,703	286,402	113,438	111,348	300,527	181,701
Total Assets	383,103	389,391	154,283	159,483	339,056	215,845
Deferred Outflows of Resources						
Deferred Debt Refunding	223	254	-	-	-	-
Contributions	1,890	1,956	2,553	2,501	885	822
Total Deferred Outflows of Resources	2,113	2,210	2,553	2,501	885	822
Total Assets and Deferred Outflows of Resources	\$ 385,216	\$ 391,601	\$ 156,836	\$ 161,984	\$ 339,941	\$ 216,667

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

City of Huntsville Electric, Natural Gas, and Water Systems

Statement of Net Position

Years Ending September 30, 2015 and 2014



(In Thousands)

(Continued)	Electric		Gas		Water	
	Restated		Restated		Restated	
	2015	2014	2015	2014	2015	2014
Liabilities and Deferred Inflows of Resources						
Current Liabilities						
Accounts Payable - Trade	\$ 37,700	\$ 38,571	\$ 2,207	\$ 2,568	\$ 8,824	\$ 1,223
Accounts Payable - Other Utility Departments	2,061	2,012	-	-	3,855	4,211
Compensated Absences	3,098	2,957	1,255	1,088	1,191	1,064
Accrued Payroll	1,461	1,271	403	375	654	539
Other Current Liabilities	618	2,495	803	649	1,646	456
Total Current Liabilities payable from current assets	<u>44,938</u>	<u>47,306</u>	<u>4,668</u>	<u>4,680</u>	<u>16,170</u>	<u>7,493</u>
Current Liabilities From Restricted Assets						
Customer Deposits, Including Accrued Interest	6,266	6,575	1,713	1,762	822	830
Current Maturities of Long-Term Debt	2,530	2,440	-	520	2,495	2,405
Interest Payable	488	516	-	47	1,109	636
Total Liabilities Payable from Restricted Assets	<u>9,284</u>	<u>9,531</u>	<u>1,713</u>	<u>2,329</u>	<u>4,426</u>	<u>3,871</u>
Non-Current Liabilities						
Net Pension Liability	26,579	27,455	27,339	29,124	12,110	12,226
Customer Deposits, Including Accrued Interest	31,957	31,518	8,805	8,591	4,315	4,189
Revenue Bonds, Less Current Portion	30,095	32,625	-	6,540	120,090	29,775
Unamortized Bond Premium	2,499	2,672	-	-	13,506	1,001
Total Non-Current Liabilities	<u>91,130</u>	<u>94,270</u>	<u>36,144</u>	<u>44,255</u>	<u>150,021</u>	<u>47,191</u>
Total Liabilities	<u>145,352</u>	<u>151,107</u>	<u>42,525</u>	<u>51,264</u>	<u>170,617</u>	<u>58,555</u>
Deferred Inflows of Resources						
Deferred Pension Plan Earnings Difference	962	-	1,438	-	487	-
Net Position						
Invested in Capital Assets, Net of Related Debt	204,063	203,507	104,633	94,695	63,677	137,580
Restricted	7,072	13,378	-	954	95,335	6,114
Unrestricted	27,767	23,609	8,240	15,071	9,825	14,418
Total Net Position	<u>238,902</u>	<u>240,494</u>	<u>112,873</u>	<u>110,720</u>	<u>168,837</u>	<u>158,112</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 385,216</u>	<u>\$ 391,601</u>	<u>\$ 156,836</u>	<u>\$ 161,984</u>	<u>\$ 339,941</u>	<u>\$ 216,667</u>

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

City of Huntsville Electric, Natural Gas, and Water Systems
Statement of Revenues, Expenses, and Changes in Net Position
Years Ending September 30, 2015 and 2014



(In Thousands)

	Electric		Gas		Water	
	2015	2014	2015	2014	2015	2014
Operating Revenues						
Residential	\$ 242,941	\$ 245,789	\$ 20,066	\$ 20,985	\$ 20,338	\$ 18,856
Commercial and Industrial	232,380	240,251	24,262	24,762	12,563	11,310
Public Street and Highway Lighting	4,710	4,782	0	0	0	0
Government	0	0	0	0	2,415	1,212
Fire Hydrants	0	0	0	0	1,323	1,245
Other Operating Revenue	11,747	11,982	2,833	2,962	1,858	2,209
Total Operating Revenues	491,778	502,804	47,161	48,709	38,497	34,832
Operating Expenses						
Purchased Commodity	415,524	422,077	26,979	27,782	0	0
Purification	0	0	0	0	1,419	1,360
Pumping	0	0	0	0	4,151	3,877
Transmission	418	347	0	0	0	0
Distribution	19,187	19,091	4,708	4,105	5,663	4,907
Customer Accounting	5,501	4,743	1,007	892	1,275	1,185
Administrative and General	21,050	18,625	5,885	5,172	8,201	7,102
Depreciation	18,540	19,213	4,444	4,395	7,360	7,402
Total Operating Expenses	480,220	484,096	43,023	42,346	28,069	25,833
Operating Income	11,558	18,708	4,138	6,363	10,428	8,999
Non-Operating Revenues (Expenses)						
Gain on Sale of Assets	91	70	33	44	39	36
Interest Income	207	182	166	50	37	31
Interest Expense	(1,684)	(495)	(288)	(423)	(1,418)	(1,907)
Amortization of Bond Discount	(70)	(70)	(131)	(12)	(46)	(44)
Amortization of Bond Premium	172	173	0	0	105	52
Total Non-Operating Revenues (Expenses)	(1,284)	(140)	(220)	(341)	(1,283)	(1,832)
Income Before Transfers	10,274	18,568	3,918	6,022	9,145	7,167
Capital Contributions	0	0	898	460	3,766	3,191
Transfers Out - Tax Equivalent	(11,866)	(11,616)	(2,663)	(2,695)	(2,186)	(1,887)
Change in Net Position	(1,592)	6,952	2,153	3,787	10,725	8,471
Net Position - Beginning	\$ 240,494	\$ 233,542	\$ 110,720	\$ 106,933	\$ 158,112	\$ 149,641
Net Position - Ending	\$ 238,902	\$ 240,494	\$ 112,873	\$ 110,720	\$ 168,837	\$ 158,112

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

City of Huntsville Electric, Natural Gas, and Water Systems

Statement of Cash Flows

Years Ending September 30, 2015 and 2014



(In Thousands)

	Electric		Gas		Water	
	2015	2014	2015	2014	2015	2014
Cash flows from Operating Activities						
Received from Customers	\$ 497,134	\$ 501,082	\$ 47,133	\$ 48,576	\$ 38,328	\$ 34,048
Paid to Suppliers for Goods and Services	(433,779)	(440,895)	(30,168)	(27,596)	(803)	(7,219)
Paid to Employees for Salaries and Wages	(26,753)	(25,576)	(8,736)	(8,179)	(10,697)	(10,029)
Net Cash Provided By (Used For) Operating Activities	36,602	34,611	8,229	12,801	26,828	16,800
Cash flows from Non-Capital Financing Activities						
Payment in Lieu of Taxes	(11,874)	(11,614)	(2,663)	(2,696)	(2,187)	(1,887)
Net Cash Used in Non-Capital Financing Activities	(11,874)	(11,614)	(2,663)	(2,696)	(2,187)	(1,887)
Cash flows from Capital and Related Financing Activities						
Payment of Principal on Long-Term Debt	(2,440)	(2,355)	(7,060)	(505)	(2,405)	(2,155)
Issuance of Long Term Debt - Bond Warrants	-	-	-	-	105,013	(180)
Gain or Loss on Sale of Assets	91	70	33	44	39	36
Acquisition and Construction of Capital Assets	(16,779)	(6,931)	(7,405)	(7,379)	(36,477)	(9,451)
Capital Contributions	-	-	898	460	3,766	3,191
Interest Expense	(1,712)	(522)	(288)	(422)	(945)	(1,907)
Net Cash Provided By (Used For) Capital and Related Financing Activities	(20,840)	(9,738)	(13,822)	(7,802)	68,991	(10,466)
Cash flows from Investing Activities						
Purchase of Investment Securities	(2,357)	12,526	(5,763)	(9,295)	(97,767)	(3,347)
Interest Income Earned on Investments	207	182	166	50	37	31
Net Cash Provided By (Used For) Investing Activities	(2,150)	12,708	(5,597)	(9,245)	(97,730)	(3,316)
Increase (Decrease) in Cash and Cash Equivalents	1,738	25,967	(13,853)	(6,942)	(4,098)	1,131
Cash and Cash Equivalents - Beginning of Year	69,424	43,457	32,298	39,240	22,589	21,458
Cash and Cash Equivalent - End of Year	\$ 71,162	\$ 69,424	\$ 18,445	\$ 32,298	\$ 18,491	\$ 22,589

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

City of Huntsville Electric, Natural Gas, and Water Systems

Statement of Cash Flows

Years Ending September 30, 2015 and 2014



(In Thousands)

(Continued)	Electric		Gas		Water	
	2015	2014	2015	2014	2015	2014
Reconciliation of Operating Income to Net Cash Provided By						
(Used For) Operating Activities						
Operating Income (Loss)	\$ 11,559	18,708	\$ 4,139	\$ 6,363	\$ 10,428	\$ 8,999
Adjustments to Reconcile Operating Income to Net Cash						
Provided By (Used For) Operating Activities:						
Depreciation and Amortization	18,540	19,213	4,444	4,395	7,360	7,402
Change in Accounts Receivable - Customer	5,356	(1,722)	(29)	(133)	(169)	(784)
Change in Accounts Receivable - Other	3,697	(3,349)	(100)	(12)		
Change in Inventories	(510)	48	72	1,133	107	(136)
Change in Prepaid Expenses	16	8	(4)	(1)	(2)	(1)
Change in Deferred Outflow of Resources	96	32	(52)	-	(63)	-
Change in Accounts Payable	(2,368)	2,937	(408)	387	7,246	138
Change in Pension Liability	(876)	-	(1,785)	-	(116)	-
Change in Deferred Inflow of Resources	962	-	1,438	-	487	-
Change in Customer Deposits and Interest	130	(1,264)	165	558	118	1,057
Change in Accrued Expenses and Other Current Liabilities	-	-	349	111	1,432	125
Total Adjustments	25,043	15,903	4,090	6,438	16,400	7,801
Net Cash Provided By (Used For) Operating Activities	\$ 36,602	\$ 34,611	\$ 8,229	\$ 12,801	\$ 26,828	\$ 16,800
Reconciliation of Cash and Cash Equivalents						
Current assets:						
Cash and Cash Equivalents	\$ 29,358	\$ 23,205	\$ 6,533	\$ 14,900	\$ 5,749	\$ 13,609
Board Designated Funds - Cash and cash equivalents	3,082	7,625	1,393	7,044	7,603	3,961
Cash and Cash Equivalents - Restricted						
Customer Deposits	38,222	38,094	10,519	10,354	5,139	5,019
Noncurrent assets:						
Bond Trustee Funds	500	500	-	-	-	-
Total Cash and Cash Equivalents	\$ 71,162	\$ 69,424	\$ 18,445	\$ 32,298	\$ 18,491	\$ 22,589

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



Note 1 – Summary of Significant Accounting Policies

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

Reporting Entity

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

Financial Presentation

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

Basis of Accounting

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

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



Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

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

Cash and Cash Equivalents

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

The Boards have designated that cash assets be set aside in each system to fund construction and renewal and replacement activity. The designations are segregated in the balance sheets current assets as Board Designated Funds. Designations are relieved once the Board has approved expenditures from those funds. The designated balances are fully funded and are not separately stated in the net assets portion of the balance sheets at September 30, 2015 and 2014.

Investments

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

Accounts Receivable - Trade

The Electric and Water System acts as a billing and collection agent for other City of Huntsville, City of Madison and Madison County utility departments. Current earnings are charged with an allowance for doubtful accounts based on age of account. Receivables are due 15 days after the issuance of the invoice and are considered delinquent when more than 18 days past due. Accounts considered uncollectible throughout the year are charged against the allowance.

Materials and Supplies Inventories

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

Stored Gas Inventory

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



Note 1 – Summary of Significant Accounting Policies (Continued)

Fuel Management Program

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

Utility Plant

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

Regulatory Accounting

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

	Electric System		Natural Gas System		Water System	
	2015	2014	2015	2014	2015	2014
Regulatory Assets:						
Non-Current:						
Unamortized debt expense	\$ 310,136	\$ 380,516	\$ -	\$ 130,946	\$ 1,205,151	\$ 844,396
Total non-current	\$ 310,136	\$ 380,516	\$ -	\$ 130,946	\$ 1,205,151	\$ 844,396

Accounts Receivable/Payable from/to Other Utilities

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

Revenues

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



Note 1 – Summary of Significant Accounting Policies (Continued)

Grants in Aid to Construction

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

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

Amortization

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

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

Estimates

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

Environmental Costs

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

Reclassifications

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation.

Pensions

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



Note 1 – Summary of Significant Accounting Policies (Continued)

Recently Adopted New Accounting Pronouncements

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014. This Statement establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, during November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective concurrent with GASB 68 for fiscal years beginning after June 15, 2014. The objective of this Statement is to require a deferred outflow of resources to be recognized for any contributions made subsequent to the measurement date of the beginning net pension liability.

These standards were adopted by Huntsville Utilities in 2015 and resulted in the following restatement of each Utility 2014 Statements of Net Position:

	Beginning Net Position	Net Pension Liability
Electric	\$ 25,499,047	\$ 27,455,214
Gas	\$ 26,623,264	\$ 29,124,401
Water	\$ 11,403,791	\$ 12,226,055

Recent Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 is intended to provide guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of this Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions and enhance comparability. Statements No. 72 and 73 are effective for fiscal years beginning after June 15, 2015.

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

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to simplify the hierarchy of generally accepted accounting principles (GAAP) used to prepare financial statements of state and local governmental entities. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 64, 74, and 82. Statement No. 76 is effective for fiscal years beginning after June 15, 2015.

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



Note 2 – Cash, Cash Equivalents and Investments

At September 30, 2015, all cash and cash equivalents of the Utilities are entirely insured or collateralized as provided by the Security for Alabama Funds Enhancement Act (“SAFE”) as prescribed in section 41-14A of the code of the state of Alabama with a Qualified Public Fund Depository. Funds held by the banks’ trust departments or agents are invested in U.S. governmental securities or are secured by U.S. government securities.

A summary of cash and investments for the years ended September 30, 2015 and 2014 are as follows:

2015			
Description	Electric System	Natural Gas System	Water System
Carrying amounts of:			
Cash and Cash Equivalents			
Unrestricted	\$ 29,358,663	\$ 6,532,205	\$ 5,748,896
Customer Deposits - Restricted	38,222,577	10,518,169	5,137,020
Bond - Restricted	500,000	-	10,723,942
Board Designated	3,081,016	2,142,241	7,602,777
Investments			
Unrestricted	-	750,000	10,945,150
Board Designated	12,977,895	22,443,663	4,708,299
Bond - Restricted	6,572,123	-	84,611,417
Total	\$ 90,712,274	\$ 42,386,278	\$ 129,477,501
Cash and Cash Equivalents			
Unrestricted	\$ 29,358,663	\$ 6,532,205	\$ 5,748,896
Customer Deposits - Restricted	38,222,577	10,518,169	5,137,020
Bond funds- Restricted	500,000	-	10,723,942
Investments	-	750,000	10,945,150
Investments - Bond - Restricted:			
Bond construction funds	-	-	77,867,642
Sinking Funds	2,598,869	-	2,952,537
Debt Service Reserve Funds	3,973,254	-	3,791,238
Board designated accounts:			
Cash and cash equivalents			
Insurance Fund	-	997,670	1,000,000
Worker's Comp Fund	-	-	1,717,641
Construction Fund	-	1,144,571	380,489
Renewal and Replacement Fund	3,081,016	-	-
System Development	-	-	4,504,648
Investments			
Insurance Fund	1,464,563	-	-
Worker's Comp Fund	2,000,000	2,000,000	-
Construction Fund	8,104,772	17,943,663	4,708,299
Emergency Fund	1,408,559	-	-
Rate Stabilization Fund	-	2,500,000	-
Total	\$ 90,712,274	\$ 42,386,278	\$ 129,477,501



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

2014			
Description	Electric System	Natural Gas System	Water System
Carrying amounts of:			
Cash and cash equivalents	68,923,185	32,297,327	22,589,169
Cash and Cash Equivalents-Bond-Restricted	500,000		
Investments – Board Designated	4,314,916	17,226,468	7,106,500
Investments – Bond - Restricted	12,878,279	953,783	6,114,117
Total	\$ 86,616,380	\$ 50,477,578	\$ 35,809,786
Cash and cash equivalents	\$ 61,298,413	\$ 25,252,866	\$ 18,628,086
Bond funds- Restricted	500,000	-	-
Investments - Restricted:			
Bond construction funds	6,395,713	-	-
Sinking Funds	2,531,896	135,570	2,843,930
Debt Service Reserve Funds	3,950,670	818,213	3,270,187
Board designated accounts:			
Cash and cash equivalents			
Construction Fund	7,624,772	7,044,461	3,961,083
Investments			
Insurance Fund	1,422,330	997,670	1,000,000
Worker's Comp Fund	2,000,000	2,000,000	1,615,903
Construction Fund	-	11,397,784	4,490,597
Renew al and Replacement Fund	-	331,014	-
Emergency Fund	892,586	-	-
Rate Stabilization Fund	-	2,500,000	-
Total	\$ 86,616,380	\$ 50,477,578	\$ 35,809,786

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

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

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

Investment	Maturity			Total
	<1	1-5	6-10	
Repurchase agreement	\$ -	\$ -	\$ 2,705,428	\$ 2,705,428
Money Market Funds - U.S. Treasury Obligations	26,333,191	19,555,444	0	45,888,635
	\$ 26,333,191	\$ 19,555,444	\$ 2,705,428	\$ 48,594,063



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

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

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

At September 30, 2015, the Utilities' investments other than the restricted bond funds consisted of Money Market Funds - U.S. Treasury Obligations with no maturity and Certificates of Deposits with various due dates. In addition, the Utilities have invested in a repurchase agreement which is collateralized by U.S. Treasury Obligations.

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

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



Note 3 – Utility Plant in Service

Capital asset activity by System for fiscal years 2015 and 2014 is as follows:

Electric System

	Balance 09/30/2014	Increases	Decreases	Balance 09/30/2015
Land and land rights	\$ 4,759,767	\$ -	\$ -	\$ 4,759,767
Structures and improvements	431,893,042	8,328,226	(1,975,452)	438,245,817
Furniture, fixtures and other	45,950,276	2,374,726	(753,047)	47,571,956
Total	482,603,085	10,702,953	(2,728,498)	490,577,539
Less accumulated depreciation	(245,076,908)	(19,926,230)	2,728,498	(262,274,640)
Construction in progress	3,599,284	9,836,426	(2,374,421)	11,061,289
Total	\$ 241,125,461	\$ 613,149	\$ (2,374,421)	\$ 239,364,189

	Balance 09/30/2013	Increases	Decreases	Balance 09/30/2014
Land and land rights	\$ 4,741,443	\$ 18,324	\$ -	\$ 4,759,767
Structures and improvements	418,048,500	16,277,220	(2,432,678)	431,893,042
Furniture, fixtures and other	34,470,398	11,996,011	(516,133)	45,950,276
Total	457,260,341	28,291,555	(2,948,811)	482,603,085
Less accumulated depreciation	(227,009,350)	(21,016,369)	2,948,811	(245,076,908)
Construction in progress	23,155,645	0	(19,556,361)	3,599,284
Total	\$ 253,406,636	\$ 7,275,186	\$ (19,556,361)	\$ 241,125,461

Natural Gas System

	Balance 09/30/2014	Increases	Decreases	Balance 09/30/2015
Land and land rights	\$ 1,803,038	\$ -	\$ -	\$ 1,803,038
Structures and improvements	140,578,615	6,899,845	(69,719)	147,408,741
Furniture, equipment and other	12,396,518	609,839	(137,785)	12,868,572
Total	154,778,171	7,509,684	(207,504)	162,080,351
Less accumulated depreciation	(58,320,832)	(4,949,003)	207,504	(63,062,331)
Construction in progress	5,214,566	4,064,749	(3,664,298)	5,615,017
Total	\$ 101,671,905	\$ 6,625,430	\$ (3,664,298)	\$ 104,633,037

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



Note 3 – Utility Plant in Service (Continued)

Water System

	Balance 09/30/2014	Increases	Decreases	Balance 09/30/2015
Land and land rights	\$ 1,746,193	\$ 99,778	\$ -	\$ 1,845,971
Structures and improvements	259,187,977	4,846,848	(334,487)	263,700,338
Furniture, equipment and other	13,327,795	380,664	(179,287)	13,529,173
Total	274,261,965	5,327,290	(513,774)	279,075,481
Less accumulated depreciation	(112,268,472)	(7,745,616)	513,774	(119,500,314)
Construction in progress	8,559,911	33,166,729	(1,629,980)	40,096,660
	\$ 170,553,404	\$ 30,748,403	\$ (1,629,980)	\$ 199,671,827

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

Note 4 – Long-Term Debt

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

Principal activity for the year 2015:

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

Principal activity for the year 2014:

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



Note 4 – Long-Term Debt (Continued)

Electric System

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

Fiscal Year	Principal	Interest	Rate
2016	\$ 665,000	\$ 1,134,950	3.00%
2017	675,000	1,114,850	3.00%
2018	705,000	1,090,625	4.00%
2019	730,000	1,061,925	4.00%
2020	1,560,000	1,016,125	2.10%
2021	1,625,000	944,300	2.38%
2022	1,710,000	860,925	2.59%
2023	1,800,000	773,175	2.79%
2024	1,375,000	693,800	2.98%
2025	1,445,000	623,300	3.17%
2026	1,515,000	554,050	3.34%
2027	1,590,000	479,188	3.70%
2028	1,675,000	393,481	3.70%
2029	1,765,000	303,181	3.70%
2030	1,860,000	208,025	3.70%
2031	1,950,000	120,200	4.02%
2032	2,030,000	40,600	4.02%
	24,675,000		
Current	665,000		
	\$ 24,010,000		

Optional Redemption: Those of the Series 2011 Warrants maturing on December 1, 2022, and thereafter, will be subject to optional redemption and payment prior to their respective maturities, at the option of the Board, as a whole or in part (but if in part, in such maturities as the Board in its discretion shall designate, and if less than all Series 2011 Warrants of a single maturity are to be redeemed, those to be redeemed to be selected by the Trustee by lot), on December 1, 2021, and on any date thereafter, at and for a redemption price equal to the par amount of the Series 2011 Warrants to be redeemed, plus accrued interest to the date fixed for redemption. The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2015, the balance in the fund is the minimum required by the indenture. The bond indenture requires the Electric System to establish a cash reserve account equal to one-twelfth (1/12) of the principal of the Series 2011 Warrants coming due on December 1 each year and one-sixth (1/6) of the interest due each year. At September 30, 2015, the balance in the fund is in compliance with the indenture. The Electric System Revenue Warrants, Series 2011 is in compliance with Internal Revenue Code Sections 103(b) (2) and 148.



Note 4 – Long-Term Debt (Continued)

The 2011 Warrants are secured by the net revenues from the operations of the Electric System after payment of the cost of its operations and maintenance and by the monies and investments on deposit in trust funds created by the Trust Indenture under which the warrants were issued. The 2011 issue contained issuance costs of \$138,482 that are classified as a regulatory asset and amortized over 20 years. At September 30, 2015, the unamortized regulatory asset is \$111,939.

The Series 2011 Revenue Warrants were issued to redeem the Series 2002 Warrants and to pay costs of capital improvements to the Electric System. The 2011 issue also contained a premium of \$3,169,716 that is being amortized over 20 years. At September 30, 2015, the unamortized premium is \$2,425,002.

At September 30, 2015, the Electric System also recognizes unamortized deferred gain/loss related to prior year bond retirements in the amount of \$222,669.

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

Fiscal Year	Principal	Interest	Rate
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%
	7,950,000		
Current	1,865,000		
	<u>\$ 6,085,000</u>		

The 2007 issue contained issuance cost of \$668,300 that are classified as a regulatory asset and amortized over 10 years. At September 30, 2015, the unamortized deferred cost is \$198,196. The Series 2007 Revenue Warrants were issued to redeem a large portion of the Series 1998 Warrants and to pay costs of capital improvements to the Electric System. The 2007 issue also contained a premium of \$264,012 that is being amortized over 10 years. At September 30, 2015, the unamortized premium is \$74,068.

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

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

The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2015, the balance in the fund is the minimum required by the indenture. The bond indenture requires the Electric System to establish a cash reserve account equal to one-twelfth (1/12) of the principal of the Series 2007 Warrants coming due on December 1 each year and one-sixth (1/6) of the interest due each year. At September 30, 2015, 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.



Note 4 – Long-Term Debt (Continued)

Natural Gas System

City of Huntsville, Alabama Natural Gas System Revenue Warrants, Series 2005 - Natural Gas System Revenue Warrants, Series 2005, were issued in the original amount of \$11,025,000. These warrants were paid off from operating funds on August 3, 2015.

Water System

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

Fiscal Year	Principal	Interest	Rate	
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%	*
	29,605,000			
Current	2,490,000			
	<u>\$ 27,115,000</u>			

* - Term Warrants

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



Note 4 – Long-Term Debt (Continued)

The Water System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2015, the balance in the fund is the minimum required by the indenture. The bond indenture requires the Water System to establish a cash reserve account equal to one-twelfth (1/12) of the principal of the Series 2008 Warrants coming due on November 1 each year and one-sixth (1/6) of the interest due each year. At September 30, 2015, the balance in the fund is in compliance with the indenture. The Water System Revenue Warrants, Series 2008 is in compliance with Internal Revenue Code Sections 103(b) (2) and 148.

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

The 2008 issue contained issuance cost of \$1,120,915 that are classified as regulatory asset and amortized over 25 years. At September 30, 2015, the unamortized regulatory asset is \$800,148. The Series 2008 Revenue Warrants were issued to redeem the Series 1998 Warrants and to pay costs of capital improvements to the Water System. The 2008 issue also contained a premium of \$1,340,790 that is being amortized over 25 years. At September 30, 2015, the unamortized premium is \$948,575.

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

Fiscal Year	Principal	Interest	Rate
2016	5,000	4,606	2.75%
2017	5,000	4,469	2.75%
2018	10,000	4,263	2.75%
2019	10,000	3,988	2.75%
2020	10,000	3,713	2.75%
2021	10,000	3,438	2.75%
2022	10,000	3,163	2.75%
2023	10,000	2,888	2.75%
2024	10,000	2,613	2.75%
2025	10,000	2,338	2.75%
2026	10,000	2,063	2.75%
2027	10,000	1,788	2.75%
2028	10,000	1,513	2.75%
2029	10,000	1,238	2.75%
2030	10,000	963	2.75%
2031	10,000	688	2.75%
2032	10,000	413	2.75%
2033	10,000	138	2.75%
	170,000		
Current	5,000		
	\$ 165,000		



Note 4 – Long-Term Debt (Continued)

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

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

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

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

Fiscal Year	Principal	Interest	
2015			
2016		\$ 3,099,165	3.000%
2017	3,660,000	\$ 4,123,750	3.000%
2018	3,175,000	\$ 4,021,225	4.000%
2019	3,155,000	\$ 3,910,500	4.000%
2020	3,300,000	\$ 3,781,400	5.000%
2021	3,450,000	\$ 3,629,150	2.000%
2022	3,575,000	\$ 3,507,150	5.000%
2023	3,700,000	\$ 3,378,900	5.000%
2024	3,890,000	\$ 3,189,150	5.000%
2025	4,090,000	\$ 2,989,650	5.000%
2026	4,300,000	\$ 2,779,900	5.000%
2027	4,520,000	\$ 2,559,400	5.000%
2028	4,755,000	\$ 2,327,525	5.000%
2029	4,995,000	\$ 2,083,775	5.000%
2030	5,255,000	\$ 1,827,525	5.000%
2031	5,525,000	\$ 1,558,025	3.375%
2032	5,760,000	\$ 1,322,700	4.000%
2033	5,975,000	\$ 1,106,000	5.000%
2034	6,250,000	\$ 830,250	5.000%
2035	6,570,000	\$ 509,750	5.000%
2036	6,910,000	\$ 172,750	
	92,810,000		
Current	-		
	92,810,000		



Note 4 – Long-Term Debt (Continued)

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

The Series 2015 Warrants bond indenture does not require the Water System to establish a reserve account but does require the Water System to establish a Warrant Fund equal to one twelfth (1/12) of the principal of the Series 2015 Warrants coming due on November 1 each year and one sixth (1/6) of the interest due each year. At September 30, 2015, the balance in the fund is in compliance with the indenture. The Water System Revenue Warrants, Series 2015 is in compliance with Internal Revenue Code Sections 103(b) (2) and 148.

The 2015 Warrants are secured by the net revenues from the operations of the Water System after payment of the cost of its operations and maintenance and by the monies and investments on deposit in trust funds created by the Trust Indenture under which the warrants were issued.

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

Note 5 - Employee Benefits

The annual leave policy allows each employee to accumulate up to thirty-five days of annual leave. The Utilities follows the practice of accruing the dollar amount of the leave accrued per each employee on a monthly basis. Actual leave time taken is charged against this account. The sick leave policy provides that at the time of retirement, each employee will be paid 25% of the accumulated sick leave based on the employee’s average salary during the last five years. The Utilities follow the practice of accruing 25% of accumulated sick leave for the employees at year end who are 25% vested in their sick leave. Accrued annual leave and sick leave at September 30, 2015 and 2014 are as follows:

	<u>Accrued Annual Leave</u>		<u>Accrued Sick Leave</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Electric System	\$ 2,486,605	\$ 2,358,839	\$ 611,198	\$ 597,705
Natural Gas System	\$ 864,963	\$ 813,655	\$ 390,503	\$ 274,455
Water System	\$ 836,642	\$ 783,547	\$ 354,478	\$ 280,680



Note 6 – Defined Benefit Pension Plan and Description

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

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

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

Benefits provided. State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.



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

Benefits provided.(Continued)

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

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

The ERS serves approximately 846 local participating employers. These participating employers include 287 cities, 65 counties, and 494 other public entities. The ERS membership includes approximately 83,874 participants. As of September 30, 2014, membership consisted of:

Retirees and beneficiaries	
currently receiving benefits	21,691
Terminated employees entitled to	
but not yet receiving benefits	1,252
Terminated employees not	
entitled to a benefit	5,048
Active Members	55,883
Total	<u>83,874</u>

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

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



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

Contributions. (Continued)

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

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

	% of Pensionable Pay					
	Electric		Gas		Water	
	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2
Normal Cost	1.45%	1.45%	1.72%	1.42%	1.42%	1.42%
Accrued Liability	15.91%	14.41%	9.09%	7.89%	12.82%	11.32%
Pre-retirement death benefit	0.14%	0.14%	0.14%	0.14%	0.14%	0.14%
Administrative Expense	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%
	17.71%	16.21%	11.16%	9.66%	14.59%	13.09%

These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan for the year ended September 30, 2015 from the Utilities were as follows:

	Electric	Gas	Water	Total
Employer Contributions	\$ 3,376,241	\$ 501,199	\$ 1,594,228	\$ 5,471,668

Net Pension Liability

Huntsville Utilities net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2013 rolled forward to September 30, 2014 using standard roll-forward techniques as shown in the following table:

	Electric	Gas	Water
Total Pension Liability			
as of September 30, 2013 (a)	\$ 58,089,519	\$ 74,082,555	\$ 27,843,140
Entry Age Normal Cost for			
October 1, 2013—September 30, 2014 (b)	731,584	1,505,782	386,061
Actual Benefit Payments and Refunds for			
October 1, 2013—September 30, 2014 (c)	(3,438,283)	(3,494,950)	(1,564,812)
Total Pension Liability			
as of September 30, 2014			
[(a) x (1.08)] + (b) – [(c) x (1.04)]	\$ 59,892,450	\$ 77,880,193	\$ 28,829,248



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

Actuarial assumptions. The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

*Net of pension plan investment expense

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

The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

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

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

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



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

Changes in Net Pension Liability

<u>Electric System</u>	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balances at 9/30/2013	\$ 58,089,519	\$ 30,634,305	\$ 27,455,214
Changes for the year:			
Service cost	\$ 731,584		\$ 731,584
Interest	4,509,630		4,509,630
Differences between expected and actual experience			-
Contributions--employer		1,956,167	(1,956,167)
Contributions--employee		544,943	(544,943)
Net investment income		3,616,105	(3,616,105)
Benefit payments, including refunds of employee contributions	(3,438,283)	(3,438,283)	-
Administrative expense		-	-
Transfers Among Employers	-	-	-
Net changes	\$ 1,802,931	\$ 2,678,932	\$ (876,001)
Balances at 9/30/2014	\$ 59,892,450	\$ 33,313,237	\$ 26,579,213

<u>Natural Gas System</u>	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balances at 9/30/2013	\$ 74,082,555	\$ 44,958,154	\$ 29,124,401
Changes for the year:			
Service cost	1,505,782		\$ 1,505,782
Interest	5,786,806		5,786,806
Differences between expected and actual experience			-
Contributions--employer		2,501,138	(2,501,138)
Contributions--employee		1,134,390	(1,134,390)
Net investment income		5,401,049	(5,401,049)
Benefit payments, including refunds of employee contributions	(3,494,950)	(3,494,950)	-
Administrative expense		-	-
Transfers Among Employers	-	41,272	(41,272)
Net changes	\$ 3,797,638	\$ 5,582,899	\$ (1,785,261)
Balances at 9/30/2014	\$ 77,880,193	\$ 50,541,053	\$ 27,339,140



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

Changes in Net Pension Liability

(Continued)

<u>Water System</u>	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balances at 9/30/2013	\$ 27,843,140	\$ 15,617,085	\$ 12,226,055
Changes for the year:			
Service cost	386,061		\$ 386,061
Interest	2,164,859		2,164,859
Differences between expected and actual experience			-
Contributions--employer		822,264	(822,264)
Contributions--employee		291,847	(291,847)
Net investment income		1,828,686	(1,828,686)
Benefit payments, including refunds of employee contributions	(1,564,812)	(1,564,812)	-
Administrative expense		-	-
Transfers Among Employers	-	(275,616)	275,616
Net changes	\$ 986,108	\$ 1,102,369	\$ (116,261)
Balances at 9/30/2014	\$ 28,829,248	\$ 16,719,454	\$ 12,109,794

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

	HU’s Net Pension Liability		
	1% Increases	Current Rate	1% Increases
	-7.0%	-8.0%	-9.0%
Electric	\$ 33,517,666	\$ 26,579,213	\$ 20,713,592
Gas	\$ 37,302,984	\$ 44,958,154	\$ 29,124,401
Water	\$ 15,534,499	\$ 12,109,794	\$ 9,214,755

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2014. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2014. The auditor’s report dated June 3, 2015 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

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

For the year ended September 30, 2015, HU recognized the following pension expense:

	Electric System	Natural Gas System	Water System
		*	
Recognized Pension Expense	\$ 2,042,444	\$ 2,153,575	\$ 1,192,701

* A portion of Gas Pension Expense is allocated to Electric and Water due to this expense including Joint Services.



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

At September 30, 2015, HU reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

<u>Electric System</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	962,278
Employer contributions subsequent to the measurement date	1,890,601	-
Total	<u>\$ 1,890,601</u>	<u>\$ 962,278</u>
<u>Natural Gas System</u>		
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,437,698
Employer contributions subsequent to the measurement date	2,552,653	-
Total	<u>\$ 2,552,653</u>	<u>\$ 1,437,698</u>
<u>Water System</u>		
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	486,698
Employer contributions subsequent to the measurement date	884,645	-
Total	<u>\$ 884,645</u>	<u>\$ 486,698</u>

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

Year ended September 30:	Electric System	Natural Gas System	Water System
2016	\$ 240,570	\$ 359,425	\$ 121,674
2017	\$ 240,570	\$ 359,425	\$ 121,674
2018	\$ 240,570	\$ 359,425	\$ 121,674
2019	\$ 240,568	\$ 359,423	\$ 121,676
2020	\$ -	\$ -	\$ -
Thereafter	\$ -	\$ -	\$ -



Note 7 – Property and Rights Held Under Deferred Compensation Plan

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

Note 8 – Post-Employment Benefits Other Than Pension Benefits

In addition to the Annual Leave and Sick Leave benefits described in Note 5 and the Pension benefits described in Note 6, the Utilities provide post-retirement Medical and nominal Life Insurance to all employees who retire from the Utilities under the provisions of the qualified plan and a minimum of 20 years of service. As of September 30, 2015, approximately 248 retirees meet those eligibility requirements.

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

The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a thirty-year period beginning October 1, 2007 with a 7% discount rate (changed to 6.25% on September 30, 2012). The Utilities' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2015 is as follows:

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

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

While the Utilities established an irrevocable trust to pay its OPEB, full funding was not made until October of 2008 after GASB Codification Section P50: *Postemployment Benefits Other Than Pension Benefits – Employer Reporting* was implemented. The market value of the assets as of September 30, 2015 was \$8,019,719. The Utilities' OPEB actuarial valuation as of September 30, 2014 reported present value of future accrued unfunded liability as \$24,237,057 with an actuarial accrued liability of \$31,268,400. Future funding will be made each fiscal year.



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

Because the Utilities are a component units of the City of Huntsville, they are not subject to income taxes, either at the federal or state level. The Electric System, however, does pay to the City of Huntsville a tax equivalent which is determined by applying the current property tax rates to net plant in service at the end of the preceding year. The Natural Gas and Water Systems each pay a tax equivalent which is a predetermined (6%) percentage of sales revenue. The tax equivalent for the years ended September 30, 2015 and 2014 are as follows:

	2015	2014
Electric System	\$ 11,874,498	\$ 11,613,743
Natural Gas System	\$ 2,662,508	\$ 2,695,706
Water System	\$ 2,186,355	\$ 1,886,729

Note 10 – Gas Purchase Commitments

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

Note 11 – Electric Purchase Commitments

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

Note 12 – Risk Management

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

Blanket real and personal property	
Real property	\$ 342,125,208
Flood and earthquake	10,000,000
Blanket crime	1,000,000
Cyber	3,000,000
Automobile liability	1,000,000
Public officials and employment liability	5,000,000
Workers compensation	
Bodily injury (accident and disease)	Statutory
Excess coverage per occurrence (SIR)	1,000,000
Comprehensive general liability	Self-insured

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



Note 13 – Commitments and Contingencies

General Litigation

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

Construction Commitment

The Utilities entered into a construction contract during fiscal year 2015 for the purpose of constructing a new water treatment plant and intake facilities. The total contract for the construction of the project is \$83,539,000. The amount completed as of September 30, 2015 was \$27,472,178 with the balance of the commitment being \$56,066,822.

Note 14 – Customer Deposits

During 2015 and 2014, the Utilities had the following Customer Deposit transactions:

2015			
	Deposits	Accrued Interest	Total
Electric System	\$ 29,513,801	\$ 8,708,776	\$ 38,222,577
Natural Gas System	8,047,307	2,470,862	\$ 10,518,169
Water System	3,818,604	1,318,416	\$ 5,137,020
	<u>\$ 41,379,712</u>	<u>\$ 12,498,054</u>	<u>\$ 53,877,766</u>
2014			
	Deposits	Accrued Interest	Total
Electric System	\$ 29,287,296	\$ 8,806,164	\$ 38,093,460
Natural Gas System	7,866,974	2,486,230	\$ 10,353,204
Water System	3,709,554	1,309,141	\$ 5,018,695
	<u>\$ 40,863,824</u>	<u>\$ 12,601,535</u>	<u>\$ 53,465,359</u>

Deposit Transactions

2015				
	Beginning Balance	New deposits	Returned Deposits	Ending Balance
Electric System	\$ 29,287,296	\$ 6,193,625	\$ (5,967,120)	\$ 29,513,801
Natural Gas System	7,866,974	1,688,769	(1,508,436)	8,047,307
Water System	3,709,554	802,926	(693,876)	3,818,604
	<u>\$ 40,863,824</u>	<u>\$ 8,685,320</u>	<u>\$ (8,169,432)</u>	<u>\$ 41,379,712</u>
2014				
	Beginning Balance	New deposits	Returned Deposits	Ending Balance
Electric System	\$ 29,474,726	\$ 5,285,159	\$ (5,472,589)	\$ 29,287,296
Natural Gas System	7,393,050	1,947,301	(1,473,377)	7,866,974
Water System	3,061,908	1,340,809	(693,163)	3,709,554
	<u>\$ 39,929,684</u>	<u>\$ 8,573,269</u>	<u>\$ (7,639,129)</u>	<u>\$ 40,863,824</u>

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



Electric System

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
09/30/2009	\$ 29,667,953	\$ 52,088,628	\$ 22,420,675	57.0%	\$ 10,705,886	209.4%
09/30/2010(a)	\$ 29,119,209	\$ 55,028,226	\$ 25,909,017	52.9%	\$ 10,636,420	243.6%
09/30/2011(c)	\$ 28,375,971	\$ 55,648,490	\$ 27,272,519	51.0%	\$ 11,324,018	240.8%
09/30/2012(d)	\$ 27,559,839	\$ 52,157,858	\$ 24,598,019	52.8%	\$ 10,209,663	240.9%
09/30/2013(b)(e)	\$ 29,200,076	\$ 56,002,661	\$ 26,802,585	52.1%	\$ 10,780,856	248.6%
09/30/2014	\$ 31,291,603	\$ 59,382,496	\$ 28,090,893	52.7%	\$ 10,518,022	267.1%
09/30/2014(b)	\$ 31,291,603	\$ 59,483,274	\$ 28,191,671	52.6%	\$ 10,518,022	268.0%

Water System

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
09/30/2009	\$ 15,822,183	\$ 24,304,373	\$ 8,482,190	65.1%	\$ 5,579,512	152.0%
09/30/2010(a)	\$ 15,234,380	\$ 25,480,819	\$ 10,246,439	59.8%	\$ 5,487,439	186.7%
09/30/2011(c)	\$ 14,845,549	\$ 26,204,475	\$ 11,358,926	56.7%	\$ 5,808,739	195.5%
09/30/2012(d)	\$ 14,105,424	\$ 24,942,041	\$ 10,836,617	56.6%	\$ 5,387,113	201.2%
09/30/2013(b)(e)	\$ 14,897,124	\$ 26,773,986	\$ 11,876,862	55.6%	\$ 5,663,127	209.7%
09/30/2014	\$ 15,691,536	\$ 28,265,795	\$ 12,574,259	55.5%	\$ 5,870,735	214.2%
09/30/2014(b)	\$ 15,691,536	\$ 28,316,587	\$ 12,625,051	55.4%	\$ 5,870,735	215.1%

Natural Gas System

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
09/30/2009	\$ 39,481,623	\$ 61,824,224	\$ 22,342,601	63.9%	\$ 18,404,081	121.4%
09/30/2010(a)	\$ 39,476,087	\$ 67,058,663	\$ 27,582,576	58.9%	\$ 19,019,754	145.0%
09/30/2011(c)	\$ 39,215,009	\$ 67,952,357	\$ 28,737,348	57.7%	\$ 20,230,164	142.1%
09/30/2012(d)	\$ 39,365,561	\$ 65,308,773	\$ 25,943,212	60.3%	\$ 19,342,835	134.1%
09/30/2013(b)(e)	\$ 42,891,485	\$ 71,275,411	\$ 28,383,926	60.2%	\$ 21,219,894	132.8%
09/30/2014	\$ 47,568,469	\$ 76,117,225	\$ 28,548,756	62.5%	\$ 22,247,041	128.3%
09/30/2014(b)	\$ 47,568,469	\$ 76,343,547	\$ 28,775,078	62.3%	\$ 22,247,041	129.3%

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



Electric System

	<u>2014</u>
Total pension liability	
Service Cost	\$ 731,584
Interest	4,509,630
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(3,438,283)</u>
Net change in total pension liability	1,802,931
Total Pension Liability - beginning	<u>58,089,519</u>
Total Pension Liability - ending (a)	<u><u>\$ 59,892,450</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 1,956,167
Contributions - member	544,943
Net investment income	3,616,105
Benefit payments, including refunds of employee contributions	(3,438,283)
Transfers among employers	-
Net change in plan fiduciary net position	<u>2,678,932</u>
Plan net position - beginning	<u>30,634,305</u>
Plan net position - ending (b)	<u><u>\$ 33,313,237</u></u>
Net Pension Liability (asset) - ending (a) - (b)	<u><u>\$ 26,579,213</u></u>
Plan fiduciary net position as a percentage of the total pension liability	<u><u>55.6%</u></u>
Covered-employee payroll*	<u>\$ 10,518,022</u>
Net Pension Liability (asset) as a percentage of covered-employee payroll	<u><u>252.7%</u></u>

* Employer's covered-payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For FY 2014, the measurement period is October 1, 2013 - September 30, 2014.



<u>Electric System</u>	<u>2015</u>
Actuarially determined contribution* contribution*	\$ 1,890,601 <u>1,890,601</u>
Contributions deficiency (excess)	<u>\$ -</u>
Covered-employee payroll** payroll	<u>\$10,915,642</u> <u>17.32%</u>

*Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. For FY 2015, the fiscal year is the twelve month period beginning after 6/15/2014

** Employer's covered-payroll during fiscal year is the total payroll paid to covered employees (not just pensionable payroll). For FY 2015, the fiscal year is the twelve month period beginning after 6/15/2014.

Notes to schedule

Valuation Date:

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2015 were based on the September 30, 2012 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	28 years
Asset valuation method	Five years smoothed market
Inflation	3.00%
Salary increases	3.75% - 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation



Natural Gas System

	<u>2014</u>
Total pension liability	
Service Cost	\$ 1,505,782
Interest	5,786,806
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	(3,494,950)
Net change in total pension liability	3,797,638
Total Pension Liability - beginning	<u>74,082,555</u>
Total Pension Liability - ending (a)	<u>\$ 77,880,193</u>
 Plan fiduciary net position	
Contributions - employer	\$ 2,501,138
Contributions - member	1,134,390
Net investment income	5,401,049
Benefit payments, including refunds of employee contributions	(3,494,950)
Transfers among employers	41,272
Net change in plan fiduciary net position	5,582,899
Plan net position - beginning	<u>44,958,154</u>
Plan net position - ending (b)	<u>\$ 50,541,053</u>
 Net Pension Liability (asset) - ending (a) - (b)	<u>\$ 27,339,140</u>
 Plan fiduciary net position as a percentage of the total pension liability	<u>64.9%</u>
 Covered-employee payroll*	<u>\$ 22,247,041</u>
 Net Pension Liability (asset) as a percentage of covered-employee payroll	<u>122.9%</u>

* Employer's covered-payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For FY2014, the measurement period is October 1, 2013 - September 30, 2014.



<u>Natural Gas System</u>	<u>2015</u>
Actuarially determined contribution*	\$ 2,551,653
Contributions in relation to the actuarially determined contribution*	<u>2,551,653</u>
Contributions deficiency (excess)	<u>-</u>
Covered-employee payroll**	<u>\$ 23,900,521</u>
Contributions as a percentage of covered-employee payroll	<u>10.68%</u>

*Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. For FY2015, the fiscal year is the twelve month period beginning after 6/15/2014

** Employer's covered-payroll during fiscal year is the total payroll paid to covered employees (not just pensionable payroll). For FY2015, the fiscal year is the twelve month period beginning after 6/15/2014.

Notes to schedule

Valuation Date:

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported.

Contributions for fiscal year 2015 were based on the September 30, 2012 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	26 years
Asset valuation method	Five years smoothed market
Inflation	3.00%
Salary increases	3.75% - 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation



Water System

	<u>2014</u>
Total pension liability	
Service Cost	\$ 386,061
Interest	2,164,859
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(1,564,812)</u>
Net change in total pension liability	986,108
Total Pension Liability - beginning	<u>27,843,140</u>
Total Pension Liability - ending (a)	<u><u>\$ 28,829,248</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 822,264
Contributions - member	291,847
Net investment income	1,828,686
Benefit payments, including refunds of employee contributions	(1,564,812)
Transfers among employers	<u>(275,616)</u>
Net change in plan fiduciary net position	1,102,369
Plan net position - beginning	<u>15,617,085</u>
Plan net position - ending (b)	<u><u>\$ 16,719,454</u></u>
Net Pension Liability (asset) - ending (a) - (b)	<u><u>\$ 12,109,794</u></u>
Plan fiduciary net position as a percentage of the total pension liability	<u><u>58.0%</u></u>
Covered-employee payroll*	<u><u>\$ 5,870,735</u></u>
Net Pension Liability (asset) as a percentage of covered-employee payroll	<u><u>206.3%</u></u>

* Employer's covered-payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For FY2014, the measurement period is October 1, 2013 - September 30, 2014.



Water System

	<u>2015</u>
Actuarially determined contribution*	\$ 822,264
Contributions in relation to the actuarially determined contribution*	822,264
Contributions deficiency (excess)	<u>\$ -</u>
Covered-employee payroll**	<u>\$6,260,841</u>
Contributions as a percentage of covered-employee payroll	<u>13.13%</u>

*Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. For FY2015, the fiscal year is the twelve month period beginning after 6/15/2014

** Employer's covered-payroll during fiscal year is the total payroll paid to covered employees (not just pensionable payroll). For FY2015, the fiscal year is the twelve month period beginning after 6/15/2014.

Notes to schedule

Valuation Date:

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported.

Contributions for fiscal year 2015 were based on the September 30, 2012 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	29 years
Asset valuation method	Five years smoothed market
Inflation	3.00%
Salary increases	3.75% - 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

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



Electric System

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
10/01/2007	\$ -	\$ 14,286,372	\$ 14,286,372	0.00%	\$ 17,313,769	82.51%
10/01/2009	\$ 1,645,279	\$ 16,311,423	\$ 14,666,144	10.09%	\$ 19,243,648	76.21%
10/01/2011	\$ 2,861,472	\$ 13,462,023	\$ 10,600,551	21.26%	\$ 21,111,785	50.21%
10/01/2012	\$ 3,291,897	\$ 16,714,702	\$ 13,422,805	19.69%	\$ 20,724,863	64.77%
10/01/2014	\$ 4,155,204	\$ 18,478,203	\$ 14,322,999	22.49%	\$ 21,488,155	66.66%

Natural Gas System

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
10/01/2007	\$ -	\$ 5,185,517	\$ 5,185,517	0.00%	\$ 6,448,111	80.42%
10/01/2009	\$ 661,440	\$ 6,253,862	\$ 5,592,422	10.58%	\$ 7,736,392	72.29%
10/01/2011	\$ 1,160,281	\$ 5,458,633	\$ 4,298,352	21.26%	\$ 7,250,885	59.28%
10/01/2012	\$ 1,068,024	\$ 5,422,923	\$ 4,354,899	19.69%	\$ 5,961,266	73.05%
10/01/2014	\$ 1,269,645	\$ 5,646,114	\$ 4,376,469	22.49%	\$ 7,299,380	59.96%

Water System

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
10/01/2007	\$ -	\$ 6,302,713	\$ 6,302,713	0.00%	\$ 7,557,339	83.40%
10/01/2009	\$ 732,866	\$ 7,111,971	\$ 6,379,105	10.30%	\$ 8,571,803	74.42%
10/01/2011	\$ 1,243,152	\$ 5,848,508	\$ 4,605,356	21.26%	\$ 8,931,073	51.57%
10/01/2012	\$ 1,316,199	\$ 6,698,273	\$ 5,379,074	19.69%	\$ 8,541,622	62.97%
10/01/2014	\$ 1,606,494	\$ 7,144,080	\$ 5,537,586	22.49%	\$ 8,804,452	62.90%

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



STATISTICAL HIGHLIGHTS-ELECTRIC SYSTEM

Years Ending September 30

CATEGORIES	2015	2014	2013
OPERATING REVENUE			
Residential	\$ 242,941,029	\$ 245,789,075	\$ 226,704,093
Large Commercial and Industrial	197,704,139	205,317,670	197,576,840
Small Commercial	34,676,255	34,934,092	35,826,203
Public Street and Highway Lighting	4,709,629	4,781,731	4,581,785
Other Operating Revenue	11,747,008	11,981,766	12,876,857
Total Operating Revenue	\$ 491,778,060	\$ 502,804,334	\$ 477,565,778
CUSTOMERS			
Residential	157,841	155,268	153,795
Large Commercial and Industrial	3,403	3,363	3,232
Small Commercial	17,505	17,324	17,333
Public Street and Highway Lighting	631	623	599
Total Customers	179,380	176,578	174,959
KWH SALES (THOUSANDS)			
Residential	2,561,189	2,563,506	2,393,540
Large Commercial and Industrial	2,326,710	2,356,760	2,302,055
Small Commercial	335,913	328,492	329,238
Public Street and Highway Lighting	35,503	35,851	34,486
Total KWH Sales (Thousands)	5,259,315	5,284,609	5,059,319
OPERATING REVENUE/CUSTOMER			
Residential	\$ 1,539.15	\$ 1,583.00	\$ 1,474.07
Large Commercial and Industrial	58,097.01	61,051.94	61,131.45
Small Commercial	1,980.93	2,016.51	2,066.94
Public Street and Highway Lighting	7,463.75	7,675.33	7,649.06
OPERATING REVENUE/KWH			
Residential	\$ 0.095	\$ 0.096	\$ 0.095
Large Commercial and Industrial	0.085	0.087	0.086
Small Commercial	0.103	0.106	0.109
Public Street and Highway Lighting	0.133	0.133	0.133
KWH/CUSTOMER			
Residential	16,226.38	16,510.20	15,563.19
Large Commercial and Industrial	683,723.19	700,790.96	712,269.49
Small Commercial	19,189.55	18,961.67	18,994.87
Public Street and Highway Lighting	56,265.23	57,545.82	57,573.16

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

City of Huntsville Electric, Natural Gas, and Water Systems
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STATISTICAL HIGHLIGHTS-GAS SYSTEM

Years Ending September 30

CATEGORIES	2015	2014	2013
OPERATING REVENUE			
Residential	\$ 20,065,929	\$ 20,985,397	\$ 18,445,348
Commercial	21,695,617	22,229,781	20,106,585
Industrial	2,566,710	2,531,716	3,172,993
Other Operating Revenue	2,832,563	2,961,907	3,248,203
Total Operating Revenue	\$ 47,160,819	\$ 48,708,801	\$ 44,973,129
CUSTOMERS			
Residential	45,880	45,006	44,432
Commercial	5,379	5,369	5,335
Industrial	18	18	19
Total Customers	51,277	50,393	49,786
MCF SALES			
Residential	2,027,434	2,130,624	1,839,912
Commercial	2,302,686	2,343,750	2,139,841
Industrial	346,161	340,489	424,825
Total MCF Sales	4,676,281	4,814,863	4,404,578
OPERATING REVENUE/CUSTOMER			
Residential	\$ 437.36	\$ 466.28	\$ 415.14
Commercial	4,033.39	4,140.40	3,768.81
Industrial	142,595.00	140,650.89	166,999.63
OPERATING REVENUE/MCF			
Residential	\$ 9.897	\$ 9.849	\$ 10.025
Commercial	\$ 9.422	\$ 9.485	\$ 9.396
Industrial	\$ 7.415	\$ 7.436	\$ 7.469
MCF/CUSTOMER			
Residential	44.19	47.34	41.41
Commercial	428.09	436.53	401.09
Industrial	19,231.17	18,916.06	22,359.21

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

City of Huntsville Electric, Natural Gas, and Water Systems
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STATISTICAL HIGHLIGHTS-WATER SYSTEM

Years Ending September 30

CATEGORIES	2015	2014	2013
OPERATING REVENUE			
Residential	\$ 20,337,718	\$ 18,855,803	\$ 14,993,500
Commercial	10,554,147	9,372,805	8,058,215
Industrial	2,008,755	1,938,086	1,669,974
Government	2,415,375	1,211,664	1,230,072
Other	544,417	871,334	726,192
Fire Hydrants	1,323,461	1,244,741	1,076,960
Other Operating Revenue	1,313,937	1,337,942	1,342,300
Total Operating Revenue	\$ 38,497,810	\$ 34,832,375	\$ 29,097,213
CUSTOMERS			
Residential	82,790	81,557	80,702
Commercial	10,029	9,917	9,873
Industrial	67	66	59
Government	24	11	11
Other	9	22	20
Total Customers	92,919	91,573	90,665
MEASURED WATER (THOUSAND)			
Residential	5,298,452	5,245,583	5,083,048
Commercial	3,195,456	3,023,623	3,030,366
Industrial	1,047,106	1,032,801	1,043,742
Government	2,151,319	782,983	770,262
Other	239,243	384,372	358,455
Total Sales Gallons (Thousands)	11,931,576	10,469,362	10,285,873
OPERATING REVENUE/CUSTOMER			
Residential	\$ 245.65	\$ 231.20	\$ 185.79
Commercial	1,052.36	945.13	816.19
Industrial	29,981.42	29,364.94	28,304.64
Government	100,640.63	110,151.27	111,824.73
Other	60,490.78	39,606.09	36,309.60
OPERATING REVENUE/ THOUSAND GALLONS			
Residential	\$ 3.838	\$ 3.595	\$ 2.950
Commercial	3.303	3.100	2.659
Industrial	1.918	1.877	1.600
Government	1.123	1.547	1.597
Other	2.276	2.267	2.026
THOUSAND GALLONS/CUSTOMER			
Residential	64.00	64.32	62.99
Commercial	318.62	304.89	306.93
Industrial	15,628.45	15,648.50	17,690.54
Government	89,638.29	71,180.27	70,023.82
Other	26,582.56	17,471.45	17,922.75

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