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Huntsville Utilities Annual Report

City of Huntsville
Electric, Natural Gas,
and Water Systems

Component Unit
Financial Statements

September 30, 2012 and 2011



MONTGOMERY, ALABAMA

Dothan

Prattville

Wetumpka

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

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

We have audited the accompanying Electric System, Gas System, and Water System balance sheets of the City of Huntsville Electric, Natural Gas, and Water Systems (the Utilities), component units of the City of Huntsville, as September 30, 2012, and the related Electric System, Gas System, and Water System statements of revenue, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Utilities for the year ended September 30, 2011, before they were restated for the matter discussed in Note 15 to the financial statements, were audited by other auditors whose report, dated February 1, 2012, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of the City of Huntsville Electric, Natural Gas, and Water Systems as of September 30, 2012, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15, the 2011 Electric System financial statements have been restated.

Accounting principles generally accepted in the United States of America require that the management's **discussion and analysis** on pages 3 through 15 and the schedule of funding progress for the Utilities' defined benefit pension plan and retiree health plan on pages 54 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Jackson Sherenton & Co. PC

Montgomery, Alabama
January 30, 2013

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Management's Discussion and Analysis

Overview of the Financial Statements

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

Required Financial Statements

The Huntsville Utilities are comprised of three separate operating Systems. Where practical and cost effective, they share common functions and each System pays a pro-rata share of those expenses. As each System must support its operations through its own sales revenues and fees, there are three sets of financial statements enclosed. The financial statements of the Utilities report information using accounting methods similar to those used by private sector companies. Generally Accepted Accounting Principles (GAAP), however, are set by the Governmental Accounting Standards Board (GASB), not the FASB as the private sector. The industry as a whole is a regulated industry that follows the Federal Energy Regulatory Commission (FERC) mandates. The Huntsville Electric System's regulatory body is the Tennessee Valley Authority which has adopted most of these directives as published in the Federal Code of Regulations Title 18. These statements offer short and long term financial information about their activities. The Balance Sheets include all of the individual System's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the System and assessing the liquidity and financial flexibility of the System.

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

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

City of Huntsville Electric System

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

	2012	2011	\$ Change
Assets			
Current and Other Assets	\$ 120,765	\$ 83,151	\$ 37,614
Capital Assets (Net)	247,611	249,070	(1,459)
Total Assets	\$ 368,376	\$ 332,221	\$ 36,155
Liabilities and Net Assets			
Liabilities			
Current and Other Liabilities	\$ 51,016	\$ 46,737	\$ 4,279
Long-Term Liabilities	73,283	50,705	22,577
Total Liabilities	\$ 124,299	\$ 97,442	\$ 26,856
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 205,234	\$ 232,776	\$ (27,542)
Restricted Assets	32,292	4,621	27,671
Unrestricted Assets	6,552	(2,619)	9,170
Total Net Assets	\$ 244,077	\$ 234,779	\$ 9,299
Total Liabilities and Net Assets	\$ 368,376	\$ 332,221	\$ 36,155

The Electric System's cash position has increased due to 3.5% rate increase which was implemented October 2011. This rate increase was implemented to assist in funding a new bond issue in the amount of \$28,285,000 which was issued for the purpose of (i) providing funds to pay the costs of various public capital improvement to the System more particularly described herein, (ii) refunding, on an advance basis, the Series 2002 Warrants (\$4,575,000), (iii) providing for a portion of the debt service reserve fund (the "Reserve Fund") established in the Indenture, and (iv) paying the costs of issuing the Series 2011 Warrants. The Electric Systems liabilities also increased \$23 million due the 2011 Bond Issue referenced above.

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

	2011	2010	\$ Change
Assets			
Current and Other Assets	\$ 83,151	\$ 124,341	\$ (41,190)
Capital Assets (Net)	249,070	248,036	1,034
Total Assets	\$ 332,221	\$ 372,377	\$ (40,156)
Liabilities and Net Assets			
Liabilities			
Current and Other Liabilities	\$ 46,737	\$ 98,700	\$ (51,963)
Long-Term Liabilities	50,705	53,004	(2,299)
Total Liabilities	\$ 97,442	\$ 151,704	\$ (54,262)
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 232,777	\$ 227,731	\$ 5,045
Restricted Assets	4,621	6,918	(2,142)
Unrestricted Assets	(2,619)	(13,976)	7,603
Total Net Assets	\$ 234,779	\$ 220,673	\$ 10,506
Total Liabilities and Net Assets	\$ 332,221	\$ 372,377	\$ (43,600)

The old IBM legacy Billing and CIS System was replaced by SAP software during FY 2011. This conversion was planned for and required no additional debt. The Board has allocated sufficient funds to pay for this conversion from Renewal and Replacement Funds. This was a reduction in Renewal and Replacement Funds of \$10.9 million. The replaced Billing and CIS system was a 30 year-old legacy system whose language and operating system was no longer supported.

The Electric System available cash position has decreased due to payments made to TVA in the amount of \$37.6 million for unbilled contract amounts the years 2004 to 2011. The adjustments increase the cost of power for each of the years. The adjustment made to 2011 power cost was \$2.4 Million. Power costs were increased by \$7,028,898 for the year ending 2010, which reduced net income for the year by the same amount. The balance of the outstanding unbilled contract payables was \$35,272,375 at September 30, 2010.

City of Huntsville Electric System

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

	2012	2011	\$ Change
Operating Revenues	\$ 470,829	\$ 487,667	\$ (16,838)
Non-Operating Revenues	133	370	(237)
Total Revenues	\$ 470,962	\$ 484,438	\$ (17,075)
Operating Expense	\$ 432,723	\$ 445,361	\$ (12,638)
Depreciation Expense	15,455	15,202	253
Non-Operating Expense	1,666	1,261	405
Total Expenses	\$ 449,845	\$ 461,824	\$ (11,980)
Income Before Transfers	\$ 21,117	\$ 26,212	\$ (5,095)
Transfers Out – Tax Equivalents	(11,818)	(12,107)	289
Change in Net Assets	\$ 9,299	\$ 14,105	\$ (4,806)
Beginning Net Assets	234,779	220,673	14,106
Ending Net Assets	\$ 244,078	\$ 234,778	\$ 9,300

The change in operating revenues was a decrease of \$16.8 million due to a 5.3% decrease in kilowatt hour sales. The System experienced a warmer than normal winter period which lowered revenues by \$18.5 million, lower purchased energy costs by \$14.5 million and lower operating expenses by \$12.6 million. Our customer growth for the area increased .63% this year. We have been shielded from the worst effects of the economy's downturn due to our diversity in industry and the continued strength of our core businesses. Non-Operating Revenues declined \$237 thousand due to the falling interest rates (which have become next to nonexistent) lowering the income on reserves and cash on hand.

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

	2011	2010	\$ Change
Operating Revenues	\$ 487,667	\$ 462,638	\$ 25,029
Non-Operating Revenues	370	437	(67)
Total Revenues	\$ 488,037	\$ 463,075	\$ 24,962
Operating Expense	\$ 445,361	\$ 435,449	\$ 9,912
Depreciation Expense	15,202	14,528	674
Non-Operating Expense	1,261	1,873	(612)
Total Expenses	\$ 461,824	\$ 451,850	\$ 9,974
Income Before Transfers	\$ 26,213	\$ 11,225	\$ 14,988
Transfers Out – Tax Equivalents	(12,108)	(11,764)	(344)
Change in Net Assets	\$ 14,105	\$ (539)	\$ 14,644
Beginning Net Assets	220,673	221,212	(539)
Ending Net Assets	\$ 234,778	\$ 220,673	\$ 14,105

The change in operating revenues was an increase of \$25.0 million (+5.4%) due to the increase in TVA's wholesale quarterly fuel cost adjustments (FCA's). Kilowatt hour sales decreased by 5.3%. The System experienced a colder than normal winter period. Extreme summer temperatures were higher than FY2010. Our customer growth for the area increased to 4.3% this year with the end in the Base Realignment and Closure Act (BRAC) relocation. Huntsville's Redstone Arsenal is the beneficiary of base closures in other parts of the country with complete Commands being relocated here. We have been shielded from the worst effects of the economy's downturn due to our diversity in industry and the continued strength of our core businesses. Non-Operating Revenues declined \$67 thousand due to the falling interest rates (which have become next to nonexistent) lowering the income on reserves and cash on hand.

Operating expense increased \$9.9 million, \$11.5 million of which was for wholesale power from TVA. The average cost of kWh purchased increased from 6.59 cents (\$0.0659) in FY2010 to 7.45 cents (\$0.0745) in FY 2010. Purchases of kWh decreased by 7.4%. Operation and Maintenance expense increased \$6.6 million due to storm damage that occurred in the area. Depreciation Expense increased \$674 thousand due to capital projects being completed and placed in service.

The Electric System was notified of unbilled contract payments by TVA for the years 2004 to 2011. The adjustments increase the cost of power for each of the years. Power costs were increased by \$2,371,156 and \$7,028,898 for the years ending 2011 and 2010, which reduced net income for the years by the same amount.

City of Huntsville Natural Gas System

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

	2012	2011	\$ Change
Assets			
Current and Other Assets	\$ 53,530	\$ 49,997	\$ 3,533
Capital Assets (Net)	96,870	96,726	144
Total Assets	\$ 150,400	\$ 146,723	\$ 3,677
Liabilities and Net Assets			
Liabilities			
Current Liabilities	\$ 5,048	\$ 5,501	\$ (453)
Long-Term Debt Outstanding	16,288	16,282	6
Total Liabilities	\$ 21,336	\$ 21,783	\$ (447)
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 88,920	\$ 88,315	\$ 605
Restricted	954	954	(0)
Unrestricted	39,189	35,671	3,518
Total Net Assets	\$ 129,063	\$ 124,940	\$ 4,123
Total Liabilities and Net Assets	\$ 150,400	\$ 146,723	\$ 3,677

Current and Other Assets show an increase of \$3.5 million due to the contribution from operations of \$4.1 million while at the same time Current Liabilities show a decrease of \$453 thousand.

In the Gas System, finances are extremely dependent on weather conditions out of the System's control. Income is only made in the winter months that must carry the System through the entire year. If there is a very mild winter, there is no summer season that may aid in the year's recovery. At September 30, 2012 available funds, including reserves, stood at \$41.2 million, \$2.5 of which is segregated in a Rate Stabilization Fund.

The Gas Board desires to maintain approximately \$6.8 million in operating reserves due to the possibility of extreme fluctuations in wholesale gas prices and retail gas usage.

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

	2011	2010	\$ Change
Assets			
Current and Other Assets	\$ 49,997	\$ 46,132	\$ 3,865
Capital Assets (Net)	96,726	93,502	3,224
Total Assets	\$ 146,723	\$ 139,634	\$ 7,089
Liabilities and Net Assets			
Liabilities			
Current Liabilities	\$ 5,501	\$ 5,750	\$ (249)
Long-Term Debt Outstanding	16,282	16,714	(432)
Total Liabilities	\$ 21,783	\$ 22,464	\$ (681)
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 88,315	\$ 84,645	\$ 3,670
Restricted	954	13,212	(12,258)
Unrestricted	35,671	19,313	16,358
Total Net Assets	\$ 124,940	\$ 117,170	\$ 7,770
Total Liabilities and Net Assets	\$ 146,723	\$ 139,634	\$ 7,089

While not tracing dollar for dollar the actual movement between Balance Sheet categories, the simple net result of the changes to the Balance Sheet are as follows: Current and Other Assets show an increase of \$3.9 million while at the same time Other Liabilities show an decrease of \$249 thousand. Invested in Capital Assets, Net of Related Debt increased \$3 million as we generated a net income of \$7.6 million.

In the Gas System, finances are extremely dependent on weather conditions out of the System's control. Income is only made in the winter months that must carry the System through the entire year. If there is a very mild winter, there is no summer season that may aid in the year's recovery as in the Electric department. Additionally, the Board desires to maintain approximately \$10 million in available funds. At September 30, 2011 available funds, including reserves, stood at \$40.9 million, \$2.5 of which was segregated in a Rate Stabilization Fund.

The Gas Board desires to maintain approximately \$10.0 million in reserves due to the possibility of extreme fluctuations in wholesale gas prices and retail gas usage.

City of Huntsville Natural Gas System

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

	2012	2011	\$ Change
Operating Revenues	\$ 41,385	\$ 50,921	\$ (9,536)
Non-Operating Revenues	101	199	(98)
Total Revenues	\$ 41,486	\$ 51,120	\$ (9,634)
Depreciation Expense	\$ 3,307	\$ 3,217	\$ 90
Operating Expense	31,533	37,599	(6,066)
Non-Operating Expense	608	443	165
Total Expenses	\$ 35,448	\$ 41,259	\$ (5,811)
Income (Loss) Before Contributions and Transfers	\$ 6,037	\$ 9,861	\$ (3,824)
Capital Contributions	366	793	(427)
Transfers Out - Tax Equivalents	(2,280)	(2,884)	604
Change in Net Assets	\$ 4,123	\$ 7,770	\$ (3,647)
Beginning Net Assets	124,940	117,170	7,770
Ending Net Assets	\$ 129,063	\$ 124,940	\$ 4,123

The Gas System experienced a warmer than normal winter period which resulted in a 21.4% decrease in natural gas being sold thus decreasing operating revenues 19.9% or \$9.5 million from the previous year.

The Gas System's operating expense decreased \$6.1 million due to the 20.7% decrease in natural gas being purchased as well as the price of natural gas delivered was \$6.54 an MCF compared to \$6.68 for 2011.

Even with the decrease in operating revenues the system had a positive change in net assets of \$4.1million.

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

	2011	2010	\$ Change
Operating Revenues	\$ 50,921	\$ 63,025	\$ (12,104)
Non-Operating Revenues	199	159	40
Total Revenues	\$ 51,120	\$ 63,184	\$ (12,064)
Depreciation Expense	\$ 3,217	\$ 2,926	\$ 291
Operating Expense	37,599	46,104	(8,505)
Non-Operating Expense	443	552	(109)
Total Expenses	\$ 41,259	\$ 49,582	\$ (8,323)
Income (Loss) Before Contributions and Transfers	\$ 9,861	\$ 13,602	\$ (3,741)
Capital Contributions	793	325	468
Transfers Out - Tax Equivalents	(2,884)	(3,557)	673
Change in Net Assets	\$ 7,770	\$ 10,370	\$ (2,600)
Beginning Net Assets	117,170	106,800	10,370
Ending Net Assets	\$ 124,940	\$ 117,170	\$ 7,770

Operating revenues decreased by \$12.1 million reflecting a 15.7% rate reduction and a 6.3% decrease in MCF sold.

Operating Expense decreased by \$8.3 million. The price of natural gas delivered was \$6.68 an MCF compared to \$8.10 for 2010. This decrease in Purchased Gas accounted for \$8.5 million of the Operating Expense decrease.

An independent Gas Cost of Service study was performed in 2009 and for FY 2010 the Customer Charge was increased by \$2.00 increasing the Gas Cash Flow by approximately \$1,000,000 a year regardless of the cost of gas or weather conditions.

City of Huntsville Water Works

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

	2012	2011	\$ Change
Assets			
Current and Other Assets	\$ 36,992	\$ 40,147	\$ (3,155)
Capital Assets (Net)	166,065	164,545	1,520
Total Assets	\$ 203,057	\$ 204,692	\$ (1,635)
Liabilities and Net Assets			
Liabilities			
Current Liabilities	\$ 9,922	\$ 11,120	\$ (1,198)
Long-Term Debt Outstanding	38,531	40,944	(2,413)
Total Liabilities	\$ 48,453	\$ 52,064	\$ (3,611)
Net Assets			
Invested in Capital Assets Net of Related Debt	\$ 128,733	\$ 125,043	\$ 3,690
Restricted	8,326	12,179	(3,853)
Unrestricted	17,545	15,406	2,139
Total Net Assets	\$ 154,604	\$ 152,628	\$ 1,976
Total Liabilities and Net Assets	\$ 203,057	\$ 204,692	\$ (1,635)

Current and Other Assets decreased by \$3.2 million due to withdrawals from the 2008 Bond Construction Funds which were used to fund system improvements. Our Capital Assets, Net of Related Debt increased \$3.7 million due to increases in Net Capital Assets of \$1.5 million and decrease in Long-Term Debt of \$2.4 million.

The Board desires to maintain approximately \$2.5 million in operating reserves

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

	2011	2010	\$ Change
Assets			
Current and Other Assets	\$ 40,147	\$ 38,450	\$ 1,697
Capital Assets (Net)	164,545	161,783	2,762
Total Assets	\$ 204,692	\$ 200,233	\$ 4,459
Liabilities and Net Assets			
Liabilities			
Long-Term Debt Outstanding	\$ 40,944	\$ 43,854	\$ (2,910)
Other Liabilities	11,120	6,276	4,844
Total Liabilities	\$ 52,064	\$ 50,130	\$ 1,934
Net Assets			
Invested in Capital Assets Net Of Related Debt	\$ 125,043	\$ 120,191	\$ 4,852
Restricted	12,179	13,635	(1,456)
Unrestricted	15,406	16,277	(871)
Total Net Assets	\$ 152,628	\$ 150,103	\$ 2,525
Total Liabilities and Net Assets	\$ 204,692	\$ 200,233	\$ 4,459

Current and Other Assets increased by \$1.7 million. This was due to an increase in Cash and Cash Equivalents of \$2.1 million. Our Capital Assets, Net of Related Debt increased \$4.8 million due to increases in Net Capital Assets of \$2.8 million and decrease in Long-Term Debt of \$2.9 million.

The Board desires to maintain approximately 45 days of Operating and Capital Expenses as determined by the current budget.

City of Huntsville Water Works

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

	2012	2011	\$ Change
Operating Revenues	\$ 25,865	\$ 26,277	\$ (412)
Non-Operating Revenues	62	111	(49)
Total Revenues	\$ 25,927	\$ 26,388	\$ (461)
Depreciation Expense	\$ 5,847	\$ 5,680	\$ 167
Operating Expense	17,698	17,195	503
Non-Operating Expense	1,583	1,818	(235)
Total Expenses	\$ 25,128	\$ 24,693	\$ 435
Income (Loss) Before Contributions And Transfers	\$ 799	\$ 1,695	\$ (896)
Capital Contributions	2,606	2,228	378
Transfers Out - Tax Equivalents	(1,428)	(1,398)	(30)
Change in Net Assets	\$ 1,977	\$ 2,525	\$ (548)
Beginning Net Assets	152,628	150,103	2,525
Ending Net Assets	\$ 154,604	\$ 152,628	\$ 1,977

Gallons sold decreased by 186 million gallons which was a 1.6% decrease in total volume of sales from the previous year. This resulted in an operating revenues decrease of 1.6%.

Operating Expense increased by 2.9% which is due to continued maintenance of the distribution system.

Capital Contributions increased this year by \$378 thousand with the addition of several area construction projects.

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

	2011	2010	\$ Change
Operating Revenues	\$ 26,277	\$ 25,328	\$ 949
Non-Operating Revenues	111	1,702	(1,591)
Total Revenues	\$ 26,388	\$ 27,030	\$ (642)
Depreciation Expense	\$ 5,680	\$ 5,616	\$ 64
Operating Expense	17,195	15,649	1,546
Non-Operating Expense	1,818	1,216	602
Total Expenses	\$ 24,693	\$ 22,481	\$ 2,212
Income (Loss) Before Contributions And Transfers	\$ 1,695	\$ 4,549	\$ (2,854)
Capital Contributions	2,228	3,947	(1,719)
Transfers Out - Tax Equivalents	(1,398)	(1,338)	(60)
Change in Net Assets	\$ 2,525	\$ 7,158	\$ (4,633)
Beginning Net Assets	150,103	142,945	7,158
Ending Net Assets	\$ 152,628	\$ 150,103	\$ 2,525

Gallons sold increased by 362 million gallons which was a 3.1% increase in total volume of sales from the previous year. Sales revenues increased by 3.08%.

Operating Expense increased by \$1.5 million. Most of this increase was in Maintenance of the Distribution System.

Capital Contributions decreased this year by \$1.7 million as the area construction cooled somewhat with the general economy.


William Pippin, Chief Executive Officer


Ted Phillips, Chief Financial Officer

City of Huntsville Electric System

Balance Sheets

<i>September 30,</i>	2012	Restated 2011
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 18,730,305	\$ 11,413,175
Board Designated Funds		
Cash and Cash Equivalents		
Insurance Funds	10,283	1,295,631
Worker's Compensation Funds	-	2,000,000
Construction Funds	6,664,772	6,184,772
Emergency Funds	217,736	-
Investments		
Insurance Funds	1,327,581	-
Worker's Compensation Funds	2,002,916	-
Accounts Receivable - Trade, Net of Allowance for Doubtful Accounts of \$937,134 in 2012 and \$301,450 in 2011	47,145,749	46,876,004
Inventories - Materials and Supplies	8,310,405	6,196,458
Prepaid Expenses	42,191	43,063
Accrued Interest, Rent and Other Receivables	3,499,772	3,971,486
Total Current Assets	87,951,710	77,980,589
Non-Current Assets		
Restricted Assets		
Cash, Cash Equivalents, and Investments		
Construction Bond Funds	25,388,365	-
Improvement Bond Funds	500,000	500,000
Debt Service Bond Funds	2,452,766	1,415,912
Reserve Debt Service Bond Funds	3,950,639	2,705,428
Total Restricted Assets	32,291,770	4,621,340
Other Assets		
Unamortized Bond Expense	521,278	548,837
Utility Plant		
Plant in Service	443,018,756	431,493,298
Construction in Progress	17,697,339	16,794,368
	460,716,095	448,287,666
Less: Accumulated Depreciation	(213,104,850)	(199,217,862)
Total Utility Plant	247,611,245	249,069,804
Total Assets	\$368,376,004	\$332,220,570

<i>September 30,</i>	2012	Restated 2011
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable - Trade	\$ 36,336,755	\$ 34,603,078
Accounts Payable - Other Utility Departments	1,843,115	1,839,480
Customer Meter Deposits, Including Accrued Interest of \$1,985,054 in 2012 and \$1,078,110 in 2011	5,421,695	3,884,204
Compensated Absences	2,555,283	3,127,543
Accrued Payroll	1,123,992	986,697
Other Current Liabilities	883,580	695,027
Total Current Liabilities	48,164,421	45,136,029
Liabilities Payable From Restricted Assets		
Current Maturities of Long-Term Debt	2,285,000	1,365,000
Interest Payable	566,092	236,282
Total Liabilities Payable from Restricted Assets	2,851,092	1,601,282
Non-Current Liabilities		
Customer Meter Deposits, Less Current Portion, Including Accrued Interest of \$8,375,378 in 2012 and \$9,702,986 in 2011	33,235,758	34,957,837
Revenue Bonds, Less Current Portion	37,420,000	15,700,000
Unamortized Bond Premium	3,019,242	160,363
Less: Unamortized Gain/Loss on Debt Refunding	(391,939)	(113,530)
Total Non-Current Liabilities	73,283,061	50,704,670
Total Liabilities	124,298,573	97,441,981
Net Assets		
Invested in Capital Assets, Net of Related Debt	205,234,128	232,775,831
Restricted	32,291,770	4,621,340
Unrestricted	6,551,532	(2,618,582)
Total Net Assets	244,077,430	234,778,589
Total Liabilities and Net Assets	\$ 368,376,004	\$ 332,220,570

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

City of Huntsville Electric System

Statements of Revenue, Expenses, and Changes in Net Assets

<i>For the year ended September 30,</i>	2012	Restated 2011
Operating Revenues		
Residential	\$ 220,533,356	\$ 238,761,670
Large Commercial and Industrial	199,406,423	199,782,931
Small Commercial	34,850,354	33,639,451
Public Street and Highway Lighting	4,356,021	4,360,255
Other Operating Revenue	11,682,761	11,123,100
Total Operating Revenues	470,828,915	487,667,407
Operating Expenses		
Purchased Power	395,022,811	409,517,752
Transmission	143,737	594,038
Distribution	20,471,681	19,102,758
Customer Accounting	5,967,073	4,977,162
Administrative and General	9,720,987	9,832,595
Depreciation	15,455,181	15,202,443
Payroll Taxes	1,397,167	1,337,176
Total Operating Expenses	448,178,637	460,563,924
Operating Income	22,650,278	27,103,483
Non-Operating Revenues (Expenses)		
Interest Income	133,372	370,382
Interest Expense	(1,743,372)	(1,188,407)
Amortization of Bond Discount	(71,394)	(96,009)
Amortization of Bond Premium	148,390	23,390
Total Non-Operating Revenues (Expenses)	(1,533,004)	(890,644)
Income Before Transfers	21,117,274	26,212,839
Transfers Out - Tax Equivalent	(11,818,433)	(12,107,276)
Increase (Decrease) in Net Assets	9,298,841	14,105,563
Net Assets - Beginning	234,778,589	220,673,026
Net Assets - Ending	\$ 244,077,430	\$ 234,778,589

Statements of Cash Flows

<i>For the year ended September 30,</i>	2012	Restated 2011
Operating Activities		
Received from Customers	\$ 470,559,170	\$ 477,498,847
Paid to Suppliers for Goods and Services	(413,065,310)	(477,210,492)
Paid to Employees for Salaries and Wages	(19,993,195)	(19,993,195)
Net Cash Provided By (Used For) Operating Activities	37,500,666	(19,704,840)
Non-Capital Financing Activities		
Transfers Out - Tax Equivalent	(11,818,433)	(12,107,276)
Capital and Related Financial Activities		
Bonds Issued	28,285,000	0
Payment of Principal on Long-Term Debt	(5,645,000)	(3,555,000)
Acquisition and Construction of Capital Assets	(13,996,622)	(16,236,646)
Trustee, Investment, and Escrow Accounts	(27,670,431)	157,806
Interest Expense	1,271,463	(1,211,798)
Net Cash Provided By (Used For) Capital and Related Financing Activities	(17,755,590)	(20,845,638)
Investing Activities		
Purchase of Investment Securities	(3,330,497)	3,671,754
Changes in Board Designated Funds, Purchases and Proceeds	2,587,612	11,748,762
Interest Income Earned on Investments	133,372	370,382
Net Cash Provided By (Used For) Investing Activities	(609,513)	15,790,898
Increase (Decrease) in Cash and Cash Equivalents	7,317,130	(36,866,856)
Cash and Cash Equivalents - Beginning of Year	11,413,175	48,280,031
Cash and Cash Equivalent - End of Year	\$ 18,730,305	\$ 11,413,175
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities		
Operating Income	\$ 22,650,278	\$ 27,103,483
Adjustments to Reconcile Operating Income to Net Cash Provided By (Used For) Operating Activities:		
Depreciation and Amortization	15,455,181	15,202,443
Depreciation and Amortization	(269,745)	(10,168,560)
Change in Accounts Receivable - Customer	471,714	(940,648)
Change in Accounts Receivable - Other	(2,113,947)	(485,023)
Change in Inventories	872	(28,477)
Change in Prepaid Expenses	1,737,312	(14,728,430)
Change in Accounts Payable	0	(35,272,375)
Change in TVA Contract Payable	(184,588)	1,289,486
Change in Customer Deposits	(246,412)	(1,676,739)
Total Adjustments	14,850,387	(46,808,323)
Net Cash Provided By (Used For) Operating Activities	\$ 37,500,666	\$ (19,704,840)

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

City of Huntsville Natural Gas System

Balance Sheets

September 30,	2012	2011
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 18,849,106	\$ 27,799,670
Board Designated Funds		
Cash and Cash Equivalents		
Insurance Funds	9,222	-
Construction Funds	17,230,183	3,037,086
Renewal and Replacement Funds	2,615,623	-
Rate Stabilization	2,500,000	2,500,000
Investments		
Insurance Funds	988,448	997,670
Worker's Compensation Funds	1,998,618	2,000,000
Construction Funds	-	4,583,452
Accounts Receivable - Trade, Net of Allowance for Doubtful Accounts of \$55,387 in 2012 and \$54,594 in 2011	1,289,287	1,760,795
Inventories		
Gas	6,087,401	5,093,813
Materials and Supplies	628,463	589,912
Prepaid Expenses	773	458
Accrued Interest, Rent and Other Receivables	222,893	512,693
Total Current Assets	52,420,017	48,875,549
Non-Current Assets		
Restricted Assets		
Cash, Cash Equivalents, and Investments		
Restricted		
Debt Service Bond Funds	818,286	818,244
Bond Sinking Funds	135,844	136,100
Total Restricted Assets	954,130	954,344
Other Assets		
Unamortized Debt Expense	155,121	167,208
Utility Plant		
Plant in Service	144,941,049	140,028,229
Construction in Progress	2,280,437	3,857,581
	147,221,486	143,885,810
Less: Accumulated Depreciation	(50,351,224)	(47,160,131)
Total Utility Plant	96,870,262	96,725,679
Total Assets	\$ 150,399,530	\$ 146,722,780

September 30,	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable - Trade	\$ 1,358,542	\$ 2,580,536
Customer Meter Deposits, Including Accrued Interest of \$497,001 in 2012 and \$240,852 in 2011	1,392,455	914,641
Compensated Absences	901,327	972,928
Accrued Payroll	321,223	308,413
Other Current Liabilities	534,429	196,554
Total Current Liabilities	4,507,976	4,973,072
Liabilities Payable from Restricted Assets		
Current Maturities of Long-Term Debt	485,000	470,000
Interest Payable	55,007	57,749
Total Liabilities Payable from Restricted Assets	540,007	527,749
Non-Current Liabilities		
Customer Meter Deposits, Less Current Portion, Including Accrued Interest of \$2,163,870 in 2012 and \$2,167,670 in 2011	8,723,423	8,231,774
Revenue Bonds, Less Current Portion	7,565,000	8,050,000
Total Non-Current Liabilities	16,288,423	16,281,774
Total Liabilities	21,336,406	21,782,595
Net Assets		
Invested in Capital Assets, Net of Related Debt	88,920,375	88,315,138
Restricted	954,130	954,344
Unrestricted	39,188,619	35,670,702
Total Net Assets	129,063,124	124,940,184
Total Liabilities and Net Assets	\$ 150,399,530	\$ 146,722,780

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

City of Huntsville Natural Gas System

Statements of Revenue, Expenses, and Changes in Net Assets

<i>For the year ended September 30,</i>	2012	2011
Operating Revenues		
Residential	\$ 15,895,315	\$ 21,097,052
Commercial	19,377,623	23,566,237
Industrial	2,728,242	2,763,176
Other Operating Revenue	3,383,972	3,494,272
Total Operating Revenues	41,385,152	50,920,737
Operating Expenses		
Purchased Gas	23,263,608	30,019,464
Distribution	4,068,365	3,483,624
Customer Accounting	1,048,052	881,401
Administrative and General	2,780,974	2,842,910
Depreciation	3,307,490	3,216,862
Payroll Taxes	372,317	372,059
Total Operating Expenses	34,840,806	40,816,321
Operating Income	6,544,346	10,104,416
Non-Operating Revenues (Expenses)		
Interest Income	101,084	199,434
Interest Expense	(596,101)	(430,883)
Amortization of Debt Discount	(12,087)	(12,087)
Total Non-Operating Revenue (Expenses)	(507,104)	(243,536)
Income Before Capital Contributions and Transfers	6,037,242	9,860,880
Capital Contributions	365,808	793,252
Transfers Out - Tax Equivalent	(2,280,110)	(2,883,864)
Increase (Decrease) in Net Assets	4,122,940	7,770,268
Net Assets - Beginning	124,940,184	117,169,916
Net Assets - Ending	\$ 129,063,124	\$ 124,940,184

Statements of Cash Flows

<i>For the year ended September 30,</i>	2012	2011
Operating Activities		
Received from Customers	\$ 41,856,660	\$ 49,810,793
Paid to Suppliers for Goods and Services	(23,771,338)	(26,417,217)
Paid to Employees for Salaries and Wages	(8,478,079)	(9,512,376)
Net Cash Provided By (Used For) Operating Activities	9,607,243	13,881,200
Non-Capital Financing Activities		
Transfers Out - Tax Equivalent	(2,280,110)	(2,883,864)
Capital and Related Financing Activities		
Payment of Principal on Long-Term Debt	(470,000)	(455,000)
Additions to Plant in Service	(3,452,074)	(6,440,977)
Capital Contributions	365,808	793,252
Trustee, Investment, and Escrow Accounts	214	139,186
Interest Expense	(598,843)	(433,536)
Net Cash Provided By (Used For) Capital and Related Financing Activities	(4,154,895)	(6,397,075)
Investing Activities		
Purchase of Investment Securities	4,594,056	(3,909,368)
Changes in Board Designated Funds, Purchases and Proceeds	(16,817,942)	6,002,732
Interest Income Earned on Investments	101,084	199,434
Net Cash Provided By (Used For) Investing Activities	(12,122,802)	2,292,798
Increase (Decrease) in Cash and Cash Equivalents	(8,950,564)	6,893,059
Cash and Cash Equivalents - Beginning of Year	27,799,670	20,906,611
Cash and Cash Equivalents - End of Year	\$ 18,849,106	\$ 27,799,670
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities		
Operating Income	\$ 6,544,346	\$ 10,104,416
Adjustments to Reconcile Operating Income to Net Cash Provided By (Used For) Operating Activities:		
Depreciation and Amortization	3,307,490	3,216,862
Change in Accounts Receivable - Customer	471,508	(1,109,944)
Change in Accounts Receivable - Other	289,800	398,961
Change in Inventories	(1,032,139)	1,494,489
Change in Prepaid Expenses	(315)	277
Change in Accounts Payable	(1,221,994)	143,584
Change in Customer Deposits	969,463	41,844
Change in Accrued Expenses and Other Current Liabilities	279,084	(409,289)
Total Adjustments	3,062,897	3,776,784
Net Cash Provided By (Used For) Operating Activities	\$ 9,607,243	\$ 13,881,200

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

City of Huntsville Water Works

Balance Sheets

September 30,	2012	2011
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 10,755,998	\$ 8,869,930
Board Designated Funds		
Cash and Cash Equivalents		
Insurance Funds	7,606	15,431
Construction Funds	6,389,344	5,680,272
Renewal and Replacement Funds	985,449	2,054,721
Investments		
Insurance Funds	992,394	984,569
Worker's Compensation Funds	1,471,194	1,434,309
Accounts Receivable - Trade, Net of		
Allowance for Doubtful Accounts of		
\$219,420 in 2012 and \$26,324 in 2011	5,486,267	6,397,579
Inventories - Materials and Supplies	1,640,360	1,552,008
Prepaid Expenses	4,164	2,886
Total Current Assets	27,732,776	26,991,705
Non-Current Assets		
Restricted Assets		
Cash, Cash Equivalents, and Investments		
Construction Bond Funds	2,288,762	6,186,388
Debt Service Bond Funds	2,772,076	2,726,429
Reserve Debt Service Bond Funds	3,265,709	3,265,709
Total Restricted Assets	8,326,547	12,178,526
Other Assets		
Unamortized Bond Expense	932,891	977,139
Utility Plant		
Plant in Service	254,175,563	249,192,828
Construction in Progress	11,514,267	9,183,081
	265,689,830	258,375,909
Less: Accumulated Depreciation	(99,624,921)	(93,830,877)
Total Utility Plant	166,064,909	164,545,032
Total Assets	\$ 203,057,123	\$ 204,692,402

September 30,	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable - Trade	\$ 722,821	\$ 1,360,037
Accounts Payable - Other Utility Departments	4,158,361	4,237,322
Customer Meter Deposits, Including Accrued Interest		
of \$142,037 in 2012 and \$101,233 in 2011	456,563	374,880
Compensated Absences	996,872	1,395,299
Accrued Payroll	442,104	418,425
Other Current Liabilities	190,883	425,920
Total Current Liabilities	6,967,604	8,211,883
Liabilities Payable from Restricted Asset		
Current Maturities of Long-Term Debt	2,260,000	2,190,000
Interest Payable	694,292	718,929
Total Liabilities Payable from Restricted Assets	2,954,292	2,908,929
Non-Current Liabilities		
Customer Meter Deposits, Less Current Portion,		
Including Accrued Interest of \$730,418 in 2012		
and \$911,094 in 2011	3,220,303	3,373,922
Revenue Bonds, Less Current Portion	34,335,000	36,595,000
Unamortized Bond Premium	1,105,943	1,165,665
Less: Unamortized Gain/Loss on Bond Retirement	(130,484)	(190,704)
Total Non-Current Liabilities	38,530,762	40,943,883
Total Liabilities	48,452,658	52,064,695
Net Assets		
Invested in Capital Assets, Net of Related Debt	128,733,053	125,043,280
Restricted	8,326,546	12,178,526
Unrestricted	17,544,866	15,405,901
Total Net Assets	154,604,465	152,627,707
Total Liabilities and Net Assets	\$ 203,057,123	\$ 204,692,402

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

City of Huntsville Water Works

Statements of Revenue, Expenses, and Changes in Net Assets

<i>For the year ended September 30,</i>	2012	2011
Operating Revenues		
Residential	\$ 13,237,961	\$ 13,181,878
Industrial	1,729,399	1,617,775
Commercial	6,696,668	6,839,290
Government	958,094	1,233,378
Fire Hydrants	963,716	861,365
Other Operating Revenue	2,279,648	2,543,520
Total Operating Revenues	25,865,486	26,277,206
Operating Expenses		
Purification	1,426,918	1,383,879
Pumping	4,342,547	4,246,262
Distribution	5,490,725	4,871,371
Customer Accounting	1,936,715	1,809,412
Administrative and General	3,947,668	4,318,988
Depreciation	5,847,179	5,679,915
Payroll Taxes	553,678	564,644
Total Operating Expenses	23,545,430	22,874,472
Operating Income	2,320,056	3,402,734
Non-Operating Revenues (Expenses)		
Interest Income	62,027	111,172
Interest Expense	(1,591,577)	(1,827,011)
Amortization of Premium on Debt	52,456	52,456
Amortization of Bond Discount	(44,248)	(44,248)
Total Non-Operating Revenue (Expenses)	(1,521,342)	(1,707,631)
Income Before Capital Contributions and Transfers	798,714	1,695,103
Capital Contributions	2,606,082	2,226,539
Transfers Out - Tax Equivalent	(1,428,038)	(1,397,542)
Increase (Decrease) in Net Assets	1,976,758	2,524,100
Net Assets - Beginning	152,627,707	150,103,607
Net Assets - Ending	\$ 154,604,465	\$ 152,627,707

Statements of Cash Flows

<i>For the year ended September 30,</i>	2012	2011
Operating Activities		
Received from Customers	\$ 26,776,798	\$ 21,082,439
Paid to Suppliers for Goods and Services	(11,109,421)	(4,829,512)
Paid to Employees for Salaries and Wages	(8,076,358)	(8,165,578)
Net Cash Provided By (Used For) Operating Activities	7,591,019	8,087,349
Non-Capital Financing Activities		
Transfers Out - Tax Equivalents	(1,428,038)	(1,397,542)
Capital and Related Financing Activities		
Payment of Principal on Long-Term Debt	(2,190,000)	(2,120,000)
Acquisition and Construction of Capital Assets	(7,367,056)	(8,442,271)
Capital Contributions	2,606,082	2,226,539
Trustee, Investment, and Escrow Accounts	3,851,979	21,838
Interest Expense	(1,563,260)	(1,855,718)
Net Cash Provided By (Used For) Capital and Related Financing Activities	(4,662,255)	(10,169,612)
Investing Activities		
Purchase of Investment Securities	(44,710)	0
Changes in Board Designated Funds, Purchases and Proceeds	368,025	(2,610,231)
Interest Income Earned on Investments	62,027	111,172
Net Cash Provided By (Used For) Investing Activities	385,342	(2,499,059)
Increase (Decrease) in Cash and Cash Equivalents	1,886,068	(5,978,864)
Cash and Cash Equivalents - Beginning of Year	8,869,930	14,848,794
Cash and Cash Equivalents - End of Year	\$ 10,755,998	\$ 8,869,930
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities		
Operating Income	\$ 2,320,056	\$ 3,402,734
Adjustments to Reconcile Operating Income to Net Cash Provided By (Used For) Operating Activities:		
Depreciation and Amortization	5,847,179	5,747,400
Change in Accounts Receivable - Customer	911,312	(5,194,767)
Change in Inventories	(88,352)	64,132
Change in Prepaid Expenses	(1,278)	(1,016)
Change in Accounts Payable	(716,177)	605,032
Change in Customer Deposits	(71,936)	(816,478)
Change in Accrued Expenses and Other Current Liabilities	(609,785)	4,280,312
Total Adjustments	5,270,963	4,684,615
Net Cash Provided By (Used For) Operating Activities	\$ 7,591,019	\$ 8,087,349

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

Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Huntsville Electric, Natural Gas, and Water Systems (the “Utilities” or “Huntsville Utilities”) have been prepared in accordance with generally accepted accounting principles of the United States of America (“GAAP”) as applied to government units. The Governmental 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

GASB Statements No. 14 and 39 establish standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency’s governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. There are no component units which should be included as part of the financial reporting entity of the Utilities. However, the Utilities are a component unit of the City of Huntsville, Alabama.

Financial Presentation

The Utilities are 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.

The Utilities have elected to follow Financial Accounting Standards Board (“FASB”) pronouncements issued before November 30, 1989 and all pronouncements of GASB issued after November 30, 1989. The Utilities follow Accounting Standards Codification (“ASC”) No. 980, Regulated Operations. This standard allows utilities to capitalize or defer certain costs or revenue based on management’s ongoing assessment that it is probable these items will be recovered through the rate making process.

Huntsville Utilities has adopted the provisions of GASB Statement No. 34, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments. GASB No. 34 establishes standards for external reporting for all state and local governmental entities and their component units that include a balance sheet, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. GASB No. 34 requires the classification of net assets into three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. These classifications are defined as follows:

1. Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the capital assets.
2. Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, such as debt covenants, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional or enabling legislation.
3. Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Huntsville Utilities has also adopted the provisions of GASB Statement No. 33, Accounting for Financial Reporting for Non-exchange transactions. This statement requires that capital contributions – aid to construction – to the Utilities be presented as a change in net assets.

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

Notes to the Financial Statements

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.

Board Designated Cash and Board Designated Unrestricted Net Assets

The Boards have designated that cash assets be set aside in each system to fund construction and renewal and replacement activity. The designations are segregated in the 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, 2012 and 2011.

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 System acts as a billing and collection agent for other City of Huntsville and Madison County utility departments. Current earnings are charged with an allowance for doubtful accounts based on a percent of gross revenue, determined from prior years' bad debt experience. Receivables are due 15 days after the issuance of the invoice and are considered delinquent when more than 25 days past due. Accounts considered uncollectible throughout the year are charged against the allowance.

Materials and Supplies Inventories

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

Fuel Management Program

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

Utility Plant

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

Accounts Receivable/Payable from/to Other Utilities

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

Revenues

Revenues are recognized from meters read on a monthly 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.

Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants in Aid of Construction

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

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

Amortization of Debt Issue Costs

Amortization of debt issue costs and 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.

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.

Notes to the Financial Statements

Recent Accounting Pronouncements

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

- GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, issued November 2010
- GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, issued November 2010
- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, issued December 2010
- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, issued June 2011

Reclassifications

Certain 2011 amounts have been reclassified, where appropriate, to conform to the 2012 presentation.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

At September 30, 2012, 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.

City of Huntsville Electric, Natural Gas, and Water Systems

Notes to the Financial Statements

A summary of cash and investments for the years ended September 30, 2012 and 2011 are as follows:

2012

	Electric System	Natural Gas System	Water System
Cash on hand	\$ 12,950	\$ -	\$ -
Carrying amounts of:			
Cash and cash equivalents	26,123,096	41,204,137	18,138,397
Investments – Board Designated	3,330,497	2,987,065	2,463,588
Investments – Bond Related	31,791,770	954,130	8,326,547
Total	\$ 61,245,363	\$ 45,145,332	\$ 28,928,532

Cash and cash equivalents	\$ 18,730,305	\$ 18,849,107	\$ 10,755,998
Bond funds- Restricted	500,000	-	-
Investments - Restricted:			
Bond construction funds	25,388,365	-	2,288,762
Debt service accounts	2,452,766	818,286	2,772,076
Reserve debt service funds	3,950,639	135,844	3,265,709
Board designated accounts:			
Cash and cash equivalents			
Insurance Fund	10,283	9,222	7,606
Construction	6,664,772	17,230,183	6,389,344
Renew and Replacement Fund	-	2,615,623	985,449
Emergency fund	217,736	-	-
Rate stabilization	-	2,500,000	-
Investments			
Insurance Fund	1,327,581	988,448	992,394
Workers' Compensation Fund	2,002,916	1,998,618	1,471,194
Total	\$ 61,245,363	\$ 45,145,332	\$ 28,928,532

2011

	Electric System	Natural Gas System	Water System
Cash on hand	\$ 11,450	\$ -	\$ -
Carrying amounts of:			
Cash and cash equivalents	21,382,128	33,336,756	16,620,354
Investments – Board Designated	-	7,581,122	2,418,878
Investments – Bond Related	4,121,340	954,344	12,178,526
Total	\$ 25,514,918	\$ 41,872,222	\$ 31,217,758

Cash and cash equivalents	\$ 11,413,175	\$ 27,799,670	\$ 8,869,930
Bond funds- Restricted	500,000	-	-
Investments - Restricted:			
Bond construction funds	-	-	6,186,388
Debt service accounts	1,415,912	818,244	2,726,429
Reserve debt service funds	2,705,428	136,100	3,265,709
Board designated accounts:			
Cash and cash equivalents			
Insurance Fund	1,295,631	-	15,431
Construction Fund	6,184,772	3,037,086	5,680,272
Renew and Replacement Fund	-	-	2,054,721
Emergency fund	-	-	-
Rate stabilization	-	2,500,000	-
Workers' compensation Fund	2,000,000	-	-
Investments			
Insurance Fund	-	997,670	984,569
Workers' Compensation Fund	-	2,000,000	1,434,309
Construction Fund	-	4,583,452	-
Total	\$ 25,514,918	\$ 41,872,222	\$ 31,217,758

Notes to the Financial Statements

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

At September 30, 2012, the Utilities had the following restricted investments held by a trustee:

Investment	Fair Value	Maturity
Repurchase agreement	\$ 2,705,428	11/30/22
Money Market Funds - U.S. Treasury Obligations	38,367,019	None
	\$ 41,072,447	

At September 30, 2011, the Utilities had the following restricted investments held by a trustee:

Investment	Fair Value	Maturity
Repurchase agreement	\$ 2,705,428	11/30/22
Money Market Funds - U.S. Treasury Obligations	14,548,781	None
	\$ 17,254,209	

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

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

At September 30, 2012, the Utilities' investments consisted of Money Market Funds - U.S. Treasury Obligations with no maturity. In addition, the Utilities have invested in a repurchase agreement which is collateralized by U.S. Treasury Obligations.

Custodial Credit risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utilities will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Utilities' investments in the repurchase agreement, underlying securities having a fair value of approximately \$2.8 million at September 30, 2012 are held by the investment's counterparty, not in the name of the Utility.

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.

Notes to the Financial Statements

NOTE 3 – UTILITY PLANT IN SERVICE

Capital asset activity by System for fiscal years 2011 and 2012 is as follows:

Electric System

	Balance October 1, 2011	Additions	Retirements	Balance September 30, 2012
Land and land rights	\$ 4,420,172	\$ 321,271	\$ -	\$ 4,741,443
Structures and improvements	395,705,626	11,799,300	2,000,184	405,504,742
Furniture, fixtures and other	31,367,500	2,204,439	799,368	32,772,571
Total	431,493,298	14,325,010	2,799,552	443,018,756
Less accumulated depreciation	(199,217,861)	(16,686,541)	(2,799,552)	(213,104,850)
Construction in progress	16,794,368	6,077,247	5,174,276	17,697,339
	\$ 249,069,805	\$ 3,715,716	\$ 5,174,276	\$ 247,611,245

	Balance October 1, 2010	Additions	Retirements	Balance September 30, 2011
Land and land rights	\$ 4,420,472	\$ (300)	\$ -	4,420,172
Structures and improvements	388,584,617	9,822,459	2,701,450	395,705,626
Furniture, fixtures and other	30,387,759	1,028,970	49,229	31,367,500
Total	423,392,848	10,851,129	2,750,679	431,493,298
Less accumulated depreciation	(185,332,593)	(16,635,948)	(2,750,680)	(199,217,861)
Construction in progress	9,975,346	8,128,692	1,309,670	16,794,368
	\$ 248,035,601	\$ 2,343,873	\$ 1,309,669	\$ 249,069,805

Natural Gas System

	Balance October 1, 2011	Additions	Retirements	Balance September 30, 2012
Land and land rights	\$ 1,803,038	\$ -	\$ -	\$ 1,803,038
Structures and improvements	128,674,290	4,758,338	145,868	133,286,760
Furniture, fixtures and other	9,550,901	690,792	390,442	9,851,251
Total	140,028,229	5,449,130	536,310	144,941,049
Less accumulated depreciation	(47,160,131)	(3,727,403)	(536,310)	(50,351,224)
Construction in progress	3,857,581	(538,990)	1,038,155	2,280,437
	\$ 96,725,679	\$ 1,182,738	\$ 1,038,155	\$ 96,870,262

	Balance October 1, 2010	Additions	Retirements	Balance September 30, 2011
Land and land rights	\$ 1,803,038	\$ -	\$ -	\$ 1,803,038
Structures and improvements	125,019,201	3,796,149	141,060	128,674,290
Furniture, fixtures and other	9,010,932	541,103	1,134	9,550,901
Total	135,833,171	4,337,252	142,194	140,028,229
Less accumulated depreciation	(43,710,202)	(3,592,123)	(142,194)	(47,160,131)
Construction in progress	1,378,595	2,773,171	294,185	3,857,581
	\$ 93,501,564	\$ 3,518,300	\$ 294,185	\$ 96,725,679

Notes to the Financial Statements

NOTE 3 – UTILITY PLANT IN SERVICE (Continued)

Water System

	Balance October 1, 2011	Additions	Retirements	Balance September 30, 2012
Land and land rights	\$ 1,746,193	\$ -	\$ -	\$ 1,746,193
Structures and improvements	239,124,590	4,544,047	203,347	243,465,290
Furniture, fixtures and other	8,322,045	809,148	167,113	8,964,080
Total	249,192,828	5,353,195	370,460	254,175,563
Less accumulated depreciation	(93,830,877)	(6,164,504)	(370,460)	(99,624,921)
Construction in progress	9,183,081	3,338,659	1,007,473	11,514,267
	\$ 164,545,032	\$ 2,527,350	\$ 1,007,473	\$ 166,064,909

	Balance October 1, 2010	Additions	Retirements	Balance September 30, 2011
Land and land rights	\$ 1,746,193	\$ -	\$ -	\$ 1,746,193
Structures and improvements	231,515,032	7,849,700	240,142	239,124,590
Furniture, fixtures and other	8,144,036	191,324	13,315	8,322,045
Total	241,405,261	8,041,024	253,457	249,192,828
Less accumulated depreciation	(88,072,751)	(6,011,584)	(253,458)	(93,830,877)
Construction in progress	8,450,165	5,461,846	4,728,930	9,183,081
	\$ 161,782,675	\$ 7,491,286	\$ 4,728,930	\$ 164,545,032

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 is detailed below.

Principal activity for the year 2012:

	Beginning	Additions	Retirements	Ending
Electric System	\$ 17,065,000	\$ 28,285,000	\$ 5,645,000	\$ 39,705,000
Gas System	8,520,000	-	470,000	8,050,000
Water System	38,785,000	-	2,190,000	36,595,000
Total	\$ 64,370,000	\$ 28,285,000	\$ 8,305,000	\$ 84,350,000

Principal activity for the year 2011:

	Beginning	Additions	Retirements	Ending
Electric System	\$ 20,620,000	-	\$ 3,555,000	\$ 17,065,000
Gas System	8,975,000	-	455,000	8,520,000
Water System	40,905,000	-	2,120,000	38,785,000
Total	\$ 70,500,000	-	\$ 6,130,000	\$ 64,370,000

Electric System

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

The Electric System Revenue Refunding Warrants, Series 2002 were refunded on December 21, 2011 using the proceeds from the Electric System Revenue Warrants, Series 2011. See Note 14.

Notes to the Financial Statements

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
2013	\$ 1,175,000	\$ 1,229,725	2.00%
2014	1,200,000	1,199,975	3.00%
2015	1,235,000	1,163,450	3.00%
2016	665,000	1,134,950	3.00%
2017	675,000	1,114,850	3.00%
2018	705,000	1,090,625	4.00%
2019	730,000	1,061,925	4.00%
2020	1,560,000	1,016,125	2.10%
2021	1,625,000	944,300	2.38%
2022	1,710,000	860,925	2.59%
2023	1,800,000	773,175	2.79%
2024	1,375,000	693,800	2.98%
2025	1,445,000	623,300	3.17%
2026	1,515,000	554,050	3.34%
2027	1,590,000	479,188	3.70%
2028	1,675,000	393,481	3.70%
2029	1,765,000	303,181	3.70%
2030	1,860,000	208,025	3.70%
2031	1,950,000	120,200	4.02%
2032	2,030,000	40,600	4.02%

28,285,000

Current 1,175,000

\$ 27,110,000

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 City, as a whole or in part (but if in part, in such maturities as the City 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, 2012, 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, 2012, 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.

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 deferred cost of \$138,482 that is being amortized over 20 years. At September 30, 2012, the unamortized deferred cost is \$132,712.

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, 2012, the unamortized premium is \$2,875,002.

At September 30, 2012, the Electric System also recognizes unamortized deferred gain/loss related to prior year bond retirements in the amount of \$391,939, including related amortization expenses of \$49,500.

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
2013	\$ 1,110,000	\$ 434,600	4.00%
2014	1,155,000	389,300	4.00%
2015	1,205,000	342,100	4.00%
2016	1,865,000	280,700	4.00%
2017	1,945,000	204,500	4.00%
2018	2,030,000	125,000	4.00%
2019	2,110,000	42,200	4.00%

11,420,000

Current 1,110,000

\$ 10,310,000

Notes to the Financial Statements

NOTE 4 – LONG-TERM DEBT (Continued)

The 2007 issue contained deferred cost of \$668,300 that is being amortized over 10 years. At September 30, 2012, the unamortized deferred cost is \$388,565. The 2007 issue also contained a premium of \$264,012 that is being amortized over 10 years. At September 30, 2011, the unamortized premium is \$144,240.

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

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

The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2012, 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, 2012, the balance in the fund is in compliance with the indenture. The Electric System Revenue Warrants, Series 2007 is in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

The Series 2007 Revenue Warrants were issued to redeem a large portion of the Series 1998 Warrants and to pay costs of capital improvements to the Electric System.

NOTE 4 – LONG-TERM DEBT (Continued)

Natural Gas System

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

Fiscal Year	Principal	Interest	Rate
2013	\$ 485,000	\$ 330,044	3.60%
2014	505,000	312,584	3.80%
2015	520,000	293,394	3.88%
2016	545,000	273,244	4.00%
2007	565,000	251,444	4.00%
2018	585,000	228,844	4.00%
2019	610,000	205,444	4.13%
2020	635,000	180,281	4.13%
2021	660,000	154,088	4.13%
2022	690,000	126,863	4.25%
2023	720,000	97,537	4.25%
2024	750,000	66,938	4.38%
2025	780,000	34,125	4.38%
	8,050,000		
Current	485,000		
	\$ 7,565,000		

The Natural Gas System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2012, the balance in the fund is the minimum required by the indenture. The bond indenture requires the Natural Gas System to establish a cash reserve account equal to one twelfth (1/12) of the principal of the Series 2005 Warrants coming due on August 1 each year and one sixth (1/6) of the interest due each August 1 and February 1 each year. At September 30, 2012, the balance in the funds is in compliance with the indenture. The Natural Gas Revenue Warrants, Series 2005 is in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

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

Notes to the Financial Statements

The 2005 issue contained deferred cost of \$241,756 that is being amortized over 20 years. At September 30, 2012, the unamortized deferred cost is \$155,121.

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

The Series 2005 Revenue Warrants were issued to pay costs of capital improvements to the Natural Gas System.

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	
2013	\$ 2,260,000	\$ 1,632,965	2.95%	
2014	2,330,000	1,563,515	3.10%	
2015	2,400,000	1,488,400	3.25%	
2016	2,490,000	1,387,150	5.00%	
2017	2,615,000	1,259,525	5.00%	
2018	2,750,000	1,125,400	5.00%	
2019	2,885,000	984,525	5.00%	*
2020	880,000	890,400	5.00%	*
2021	925,000	845,275	5.00%	*
2022	970,000	797,900	5.00%	*
2023	1,020,000	748,150	5.00%	*
2024	1,075,000	695,775	5.00%	*
2025	1,125,000	643,588	5.00%	*
2026	1,175,000	591,838	5.00%	*
2027	1,230,000	537,725	5.00%	*
2028	1,290,000	481,025	5.00%	*
2029	1,350,000	421,625	4.50%	*
2030	1,415,000	355,875	4.50%	*
2031	1,485,000	283,375	4.50%	*
2032	1,560,000	207,250	4.50%	*
2033	1,640,000	127,250	4.50%	*
2034	1,725,000	43,125	5.00%	*
	36,595,000			
Current	2,260,000			
	\$ 34,335,000			

* - Term Warrants

Notes to the Financial Statements

NOTE 4 – LONG-TERM DEBT (Continued)

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

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

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

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

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

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

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

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

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

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

The Water System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2012, 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, 2012, the balance in the fund is in compliance with the indenture. The Water System Revenue Warrants, Series 2008 is in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

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

The 2008 issue contained deferred cost of \$1,120,915 that is being amortized over 25 years. At September 30, 2012, the unamortized deferred cost is \$932,891. The 2008 issue also contained a premium of \$1,340,790 that is being amortized over 25 years. At September 30, 2012, the unamortized premium is \$1,105,943.

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

At September 30, 2012, the Water System also recognizes unamortized deferred gain/loss related to prior year bond refunding in the amount of \$130,484, including related amortization expenses of \$60,220.

Notes to the Financial Statements

NOTE 5 – EMPLOYEE BENEFITS

The annual leave policy allows each employee to accumulate up to thirty-five days of annual leave. The Utilities follow the practice of accruing the dollar amount of the leave accrued per each employee on a monthly basis. Actual leave time taken is charged against this account. The sick leave policy provides that at the time of retirement, each employee will be paid 25% of the accumulated sick leave based on the employee's average salary during the last five years. The Utilities follow the practice of accruing 25% of accumulated sick leave for the employees at year end who are 25% vested in their sick leave. Accrued annual leave and sick leave at September 30, 2012 and 2011 are as follows:

	Accrued Annual Leave		Accrued Sick Leave	
	2012	2011	2012	2011
Electric System	\$ 2,054,757	\$ 2,253,152	\$ 500,526	\$ 874,391
Natural Gas System	726,384	809,362	174,943	163,566
Water System	759,878	901,511	236,994	493,788

NOTE 6 – DEFINED BENEFIT PENSION PLAN AND DESCRIPTION

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

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

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

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

During 2012 and 2011, the Utilities were required to contribute the following percentages of gross payroll to the plan:

	2012	2011
Electric System	17.71%	17.71%
Natural Gas System	11.16%	11.58%
Water System	12.87%	13.83%

Based on an actuarial valuation completed as of September 30, 2011, the Annual Pension Cost for each system is as follows:

	Annual Pension Cost (APC) 2011	Annual Pension Cost (APC) 2010	Percentage of APC Contributed 2011 and 2010
Electric System	\$ 2,022,018	\$ 1,815,698	100%
Natural Gas System	2,264,102	2,043,247	100%
Water System	751,713	646,863	100%

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

Notes to the Financial Statements

NOTE 6 – DEFINED BENEFIT PENSION PLAN AND DESCRIPTION (Continued)

The Huntsville Utilities' Funding Progress is equal to the Utilities' required and actual contributions (See Required Supplemental Information). The required contribution was determined as part of the September 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) an 8% investment rate of return (net of administrative expenses), (b) projected salary increases of between 3.75% and 7.25% a year, (c) 0% per year cost of living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of each System's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The System's unfunded actuarial liabilities are being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at September 30, 2011 was 29 years for the Gas System, 30 years for the Water System and 26 years for the Electric System.

NOTE 7 – PROPERTY AND RIGHTS HELD UNDER DEFERRED COMPENSATION PLAN

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

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 October 1, 2011, approximately 225 retirees meet those eligibility requirements. Expenses for these post-retirement benefits have previously been recognized as retirees report claims.

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 Statement No. 45. 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. The Utilities' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2012 is as follows:

Electric			
Fiscal Year Beginning	ARC	Annual OPEB Cost	Net OPEB Obligation
10/1/2007	\$ 1,048,399	\$ 1,048,399	-
10/1/2008	\$ 1,142,730	\$ 1,142,730	-
10/1/2009	\$ 1,078,460	\$ 1,078,460	-
10/1/2010	\$ 1,184,318	\$ 1,184,318	-
10/1/2011	\$ 912,387	\$ 912,387	-
Gas			
Fiscal Year Beginning	ARC	Annual OPEB Cost	Net OPEB Obligation
10/1/2007	\$ 396,008	\$ 396,008	-
10/1/2008	\$ 415,538	\$ 415,538	-
10/1/2009	\$ 451,797	\$ 451,797	-
10/1/2010	\$ 482,500	\$ 482,500	-
10/1/2011	\$ 370,400	\$ 370,400	-

Notes to the Financial Statements

Water	Fiscal Year Beginning	ARC	Annual OPEB Cost	Net OPEB Obligation
	10/1/2007	\$ 469,387	\$ 469,387	-
	10/1/2008	\$ 519,423	\$ 519,423	-
	10/1/2009	\$ 477,718	\$ 477,718	-
	10/1/2010	\$ 526,363	\$ 526,363	-
	10/1/2011	\$ 399,889	\$ 399,889	-

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 October 1, 2011 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 7% discount rate, representing the expected return on assets invested. Health care costs were trended at an initial rate of 10% with an ultimate rate of 4.5%. The ultimate rate trends to be reached in 2026.

While the Utilities established an irrevocable trust to pay its OPEB, full funding was not made until October of 2008 after GASB Statement No. 45 was implemented. The market value of the assets as of September 30, 2011 was \$5,264,905. The Utilities' OPEB actuarial valuation as of October 1, 2011 reported present value of future accrued unfunded liability as \$19,504,259 with an actuarial accrued liability of \$24,769,164. Future funding will be made each fiscal year.

NOTE 9 – CITY OF HUNTSVILLE - TAX EQUIVALENTS

Since the Utilities are owned by the City of Huntsville, they are not subject to income taxes, either at the federal or state level. The Electric System, however, does pay to the City of Huntsville a tax equivalent which is determined by applying the current property tax rates to net plant in service at the end of the preceding year. The Natural Gas and Water Systems each pay a tax equivalent which is a predetermined (6%) percentage of sales revenue. The tax equivalent for the years ended September 30, 2012 and 2011 are as follows:

	2012	2011
Electric System	\$ 11,818,433	\$ 12,107,276
Natural Gas System	2,280,110	2,883,864
Water System	1,428,038	1,397,542

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 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.

Notes to the Financial Statements

NOTE 12 – RISK MANAGEMENT

The Utilities are exposed to various risks such as torts, theft, damage and destruction of assets; errors and omissions; 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	\$ 322,879,827
Flood and earthquake	10,000,000
Blanket crime	1,000,000
Automobile liability	1,000,000
Public officials and employment liability	1,000,000
Workers compensation	
Bodily injury (accident and disease)	Statutory
Excess coverage per occurrence (SIR)	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 Balance Sheets and are not separately stated in the net assets portion of the Balance Sheets.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

General Litigation

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

NOTE 14 – EXTINGUISHMENT OF DEBT

On December 21, 2011 Electric System issued Electric System Revenue Warrants, Series 2011 in the amount of \$28,285,000 with an interest rate of 2.00% to 4.02% to advance refund 2002 System Revenue Bonds - Series 2002 with an interest rate from 3.90% to 5.00%. These bonds mature on December 1, 2023. The bonds were issued at a premium of \$3,169,713 and, after paying issuance costs of \$309,510, the net proceeds were \$31,145,203. As a result of the advance refunding, the Board increased its total debt service requirements by \$289,931 in 2012, which resulted in an economic loss of \$203,828 in 2012.

The cash flow requirements necessary to service the old debt over its life and the cash flow requirements necessary to service the new debt are summarized below.

	2011 Refunding
2002 Warrants	\$ 6,000,801
2011 Warrants	6,290,732
	\$ (289,931)

The Board transferred the proceeds received from the sale of certain Electric System Revenue Warrants Series 2011 to irrevocable trusts (the refunding transaction) to be used to pay principal and interest on the Series 2002 Warrants (underlying debt).

In accordance with the trust agreement, the trustees invested the original trust funds in U.S. Government securities with earning rates and maturities sufficient to entirely fund all future principal and interest requirements for the underlying debt.

In accordance with accounting principles generally accepted in the United States of America, the above refunding transactions constitute an extinguishment of the underlying debt. Accordingly, the underlying debt is no longer included in the Board's long-term debt. The refunded underlying debt outstanding at September 30, 2012 was \$4,280,000.

Notes to the Financial Statements

NOTE 15 – RESTATEMENT

During the year ended September 30, 2012, the Electric System corrected its calculation of unbilled revenue. The following financial statement line items were affected by this change:

	Accounts Receivable Customers
Balance as of September 30, 2011	\$ 43,276,641
Additional unbilled revenue, previously unrecorded	3,599,363
Balance as adjusted September 30, 2011	46,876,004

	Net Assets
Balance as of September 30, 2011	\$ 231,179,226
Additional unbilled revenue, previously unrecorded	3,599,363
Balance as adjusted September 30, 2011	234,778,589

NOTE 16 – CUSTOMER DEPOSITS

During 2012 and 2011, the Utilities had the following Customer Deposit transactions:

2012

	Beginning Balance	New Deposits	Returned Deposits	Ending Balance
Water	\$ (2,736,475)	\$ (604,531)	\$ 536,596	\$ (2,804,410)
Gas	\$ (6,737,893)	\$ 1,488,507)	\$ 771,393	\$ (7,455,007)
Electric	\$ (28,060,945)	\$ (6,199,107)	\$ 5,963,031	\$ (28,297,021)
	\$ (37,535,313)	\$ (8,292,145)	\$ 7,271,020	\$ (38,556,438)

2011

	Beginning Balance	New Deposits	Returned Deposits	Ending Balance
Water	\$ (3,201,473)	\$ (677,826)	\$ 1,142,824	\$ (2,736,475)
Gas	\$ (6,564,192)	\$ (1,389,791)	\$ 1,216,090	\$ (6,737,893)
Electric	\$ (26,464,231)	\$ (5,603,088)	\$ 4,006,374	\$ (28,060,945)
	\$ (36,229,896)	\$ (7,670,705)	\$ 6,365,288	\$ (37,535,313)

Required Supplementary Information

Schedule of Funding Progress for the Defined Benefit Pension Plan

Electric							Gas						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
2005	\$28,094,541	\$42,619,069	\$14,524,528	65.9%	\$ 9,080,096	160.0%	2005	\$34,905,665	\$47,605,902	\$12,700,237	73.3%	\$13,842,546	91.7%
2006(c)	\$28,828,749	\$46,128,654	\$17,299,905	62.5%	\$ 9,238,666	187.3%	2006(c)	\$36,313,068	\$51,562,348	\$15,249,280	70.4%	\$14,631,348	104.2%
2007	\$29,963,494	\$47,730,823	\$17,767,329	62.8%	\$ 9,572,827	185.6%	2007	\$38,523,025	\$54,570,361	\$16,047,336	70.6%	\$15,942,981	100.7%
2008	\$29,933,875	\$50,264,649	\$20,330,774	59.6%	\$10,087,229	201.5%	2008	\$39,258,315	\$58,009,060	\$18,750,745	67.7%	\$17,196,989	109.0%
2009	\$29,667,953	\$52,088,628	\$22,420,675	57.0%	\$10,705,886	209.4%	2009	\$39,481,623	\$61,824,224	\$22,342,601	63.9%	\$18,404,081	121.4%
2010(a)	\$29,119,209	\$55,028,226	\$25,909,017	52.9%	\$10,636,420	243.6%	2010(a)	\$39,476,087	\$67,058,663	\$27,582,576	58.9%	\$19,019,754	145.0%
2010(a)(b)	\$29,119,209	\$55,142,084	\$26,022,875	52.8%	\$10,636,420	244.7%	2010(a)(b)	\$39,476,087	\$67,290,858	\$27,814,771	58.7%	\$19,019,754	146.2%
2011(c)	\$28,375,971	\$55,648,490	\$27,272,519	51.0%	\$11,324,018	240.8%	2011(c)	\$39,215,009	\$67,952,357	\$28,737,348	57.7%	\$20,230,164	142.1%
2011(b)(c)	\$28,375,971	\$55,758,032	\$27,382,061	50.9%	\$11,324,018	241.8%	2011(b)(c)	\$39,215,009	\$68,193,222	\$28,978,213	57.5%	\$20,230,164	143.2%

Water						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
2005	\$14,284,170	\$18,502,405	\$ 4,218,235	77.2%	\$4,600,552	91.7%
2006(c)	\$14,848,340	\$20,040,427	\$ 5,192,088	74.1%	\$4,709,711	110.2%
2007	\$15,633,561	\$21,323,229	\$ 5,689,669	73.3%	\$5,033,225	113.0%
2008	\$15,922,622	\$23,140,702	\$ 7,218,080	68.8%	\$5,460,826	132.2%
2009	\$15,822,183	\$24,304,373	\$ 8,482,190	65.1%	\$5,579,512	152.0%
2010(a)	\$15,234,380	\$25,480,819	\$10,246,439	59.8%	\$5,487,439	186.7%
2010(a)(b)	\$15,234,380	\$25,547,136	\$10,312,756	59.6%	\$5,487,439	187.9%
2011(c)	\$14,845,549	\$26,204,475	\$11,358,926	56.7%	\$5,808,739	195.5%
2011(b)(c)	\$14,845,549	\$26,265,596	\$11,420,047	56.5%	\$5,808,739	196.6%

- 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 2011-27 as well as 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.

Required Supplementary Information

Schedule of Funding Progress for the Retiree Health Plan

Electric

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
10/1/2007	\$ -	\$ 14,286,372	\$ 14,286,372	0.00%	\$ 17,313,769	82.51%
10/1/2009	\$ 1,645,279	\$ 16,311,423	\$ 14,666,144	10.09%	\$ 19,243,648	76.21%
10/1/2011	\$ 2,861,472	\$ 13,462,023	\$ 10,600,551	21.26%	\$ 21,111,785	50.21%

Gas

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
10/1/2007	\$ -	\$ 5,185,517	\$ 5,185,517	0.00%	\$ 6,448,111	80.42%
10/1/2009	\$ 661,440	\$ 6,253,862	\$ 5,592,422	10.58%	\$ 7,736,392	72.29%
10/1/2011	\$ 1,160,281	\$ 5,458,633	\$ 4,298,352	21.26%	\$ 7,250,885	59.28%

Water

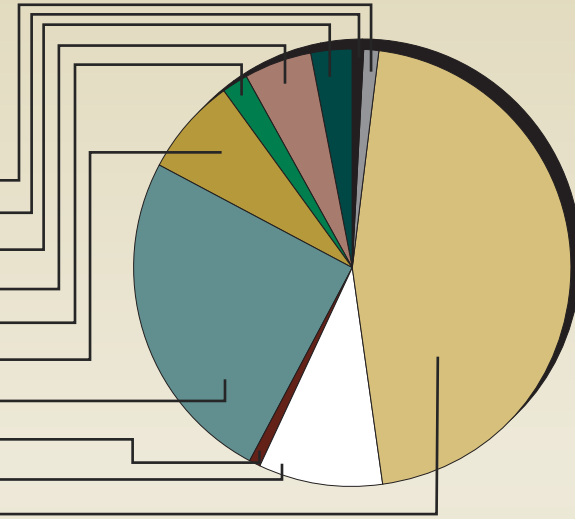
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
10/1/2007	\$ -	\$ 6,302,713	\$ 6,302,713	0.00%	\$ 7,557,339	83.40%
10/1/2009	\$ 732,866	\$ 7,111,971	\$ 6,379,105	10.30%	\$ 8,571,803	74.42%
10/1/2011	\$ 1,243,152	\$ 5,848,508	\$ 4,605,356	21.26%	\$ 8,931,073	51.57%

Electric

Source of Funds

Total \$477,856,191

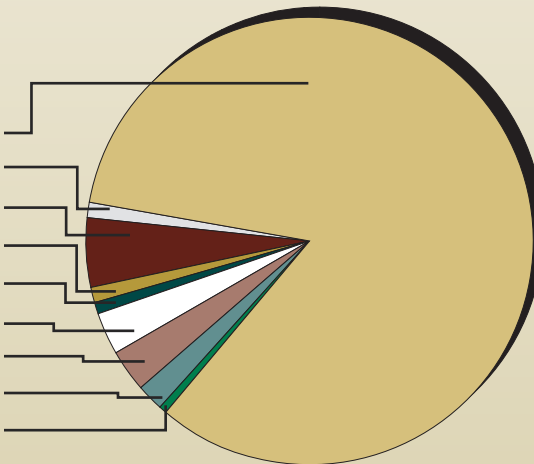
Rental Income	1%
Aid to Construction	1%
Small Industrial	3%
Large Industrial	5%
Other	2%
Small Commercial	7%
Medium Commercial	25%
Hydrants/Lighting	1%
Large Commercial	9%
Residential Sales	46%



Use of Funds

Total \$470,553,379

Purchased Commodity	84%
Debt - Principal & Interest	1%
Payroll	5%
Construction Material	1%
Other Expenses	1%
Other Capital Purchases	3%
Tax Equivalents	3%
O/S & Contract Labor	2%
Transformers	0%

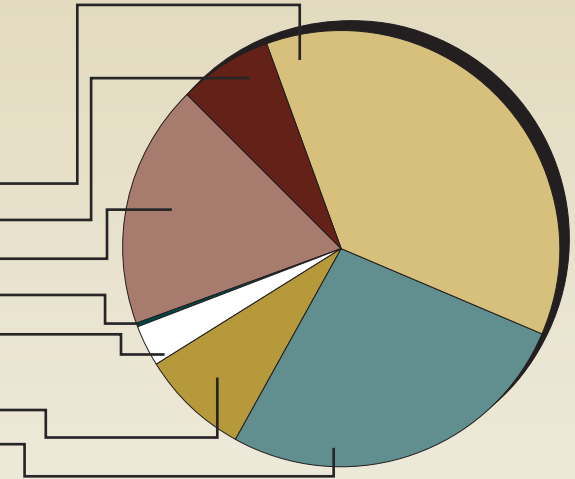


Natural Gas

Source of Funds

Total \$42,894,590

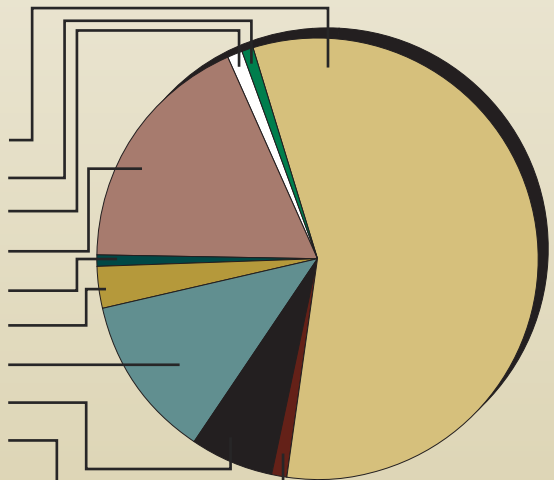
Residential Sales	37%
Industrial Sales	7%
Small Commercial	18%
Interest	0%
Rentals	3%
Warrant Funds	0%
Other	8%
Medium Commercial	27%



Use of Funds

Total \$40,496,078

Purchased Commodity	57%
Warrant Principal	1%
Debt Service Expense	1%
Payroll	18%
Construction Materials	1%
Other Expenses	3%
Other Capital Purchases	12%
Tax Equivalents	6%
Materials: Non-Stock	1%

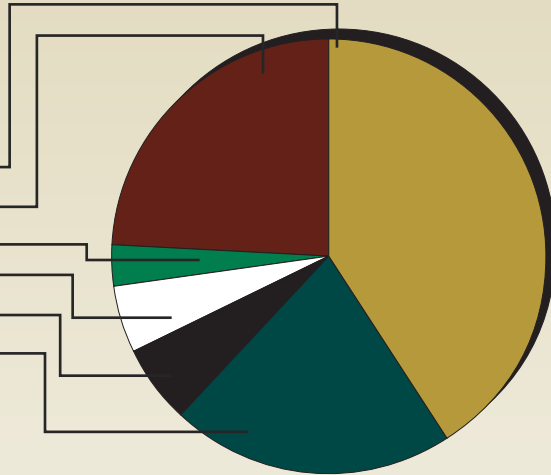


Water

Source of Funds

Total \$32,173,565

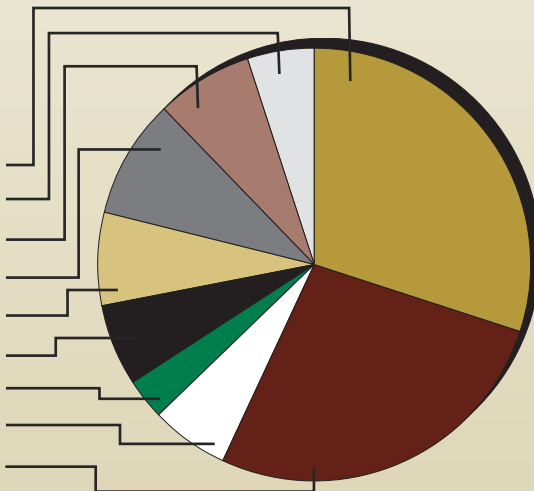
Residential Sales	41%
Other	24%
Government Sales	3%
Industrial Sales	5%
Hydrant Rental	6%
Commercial Sales	21%



Use of Funds

Total \$30,952,548

Payroll	30%
Tax Equivalents	5%
Materials Non-Stock	7%
Purchased Commodity	9%
Warrant Principal	7%
Debt Service Expense	6%
Construction Material	3%
Other Expenses	6%
Other Capital Purchases	27%





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