



HUNTSVILLE UTILITIES

ELECTRICITY • NATURAL GAS • WATER

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

***Component Unit
Financial Statements***

September 30, 2019



Table of Contents	<u>Page(s)</u>
Independent Auditor's Report on Financial Statements	1 – 2
Management's Discussion and Analysis	3 – 9
City of Huntsville Electric, Natural Gas and Water Systems (component units)	
Statements of Net Position	10 – 11
Statements of Revenues, Expense, and Changes in Net Position	12
Statements of Cash Flows	13 – 14
Statements of Fiduciary Net Position and Statements on Changes in Fiduciary Net Position	15
Notes to Financial Statements	16 – 56
Required Supplementary Information	57 – 67
Other Supplementary Information	68 – 82



Carr, Riggs & Ingram, LLC
1117 Boll Weevil Circle
Enterprise, AL 36330

Mailing Address:
P.O. Box 311070
Enterprise, AL 36331

(334) 347-0088
(334) 347-7650 (fax)
www.cricpa.com

INDEPENDENT AUDITORS' REPORT

To the Boards of Directors of
City of Huntsville Electric, Natural Gas, and Water Systems
Huntsville, AL

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Huntsville Electric, Natural Gas, and Water Systems (the "Utilities"), component units of the City of Huntsville, Alabama, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utilities, as of September 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9, Schedule of Changes in the Net Pension Liability on pages 57 – 59, Schedule of Employer Pension Contributions on pages 60 – 62, Schedules of Changes in the Net OPEB Liability on pages 63 – 65, Schedules of the Net OPEB Liability on page 66, and Schedules of Employer OPEB Contributions on page 67 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utilities' basic financial statements. The Other Supplementary Information on pages 68 through 82 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Other Supplementary Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama

February 17, 2020

City of Huntsville Electric, Natural Gas, and Water Systems Management's Discussion and Analysis

As of and for the year ending September 30, 2019



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

Overview of the Financial Statements

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

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

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

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

**City of Huntsville Electric, Natural Gas, and Water Systems
Management's Discussion and Analysis**

As of and for the year ending September 30, 2019



City of Huntsville Electric System

Table A-1

Condensed Statements of Net Position

(In Thousands)

	2019	2018
Assets		
Current and other assets	\$138,702	\$ 160,123
Capital assets (net)	362,078	327,663
Total assets	500,780	487,786
Deferred Outflows of Resources		
Deferred Pension, Debt Refunding, OPEB	6,646	5,796
Total Assets and Deferred Outflows of Resources	\$507,427	\$ 493,582
Liabilities		
Current and other liabilities	\$ 72,135	\$ 66,192
Long-term liabilities	175,367	187,356
Total liabilities	247,502	253,548
Deferred Inflows of Resources		
Deferred Pension, Debt Refunding, OPEB	8,647	1,109
Net Position		
Total net position	251,277	238,925
Total Liabilities, Deferred Inflows of Resources and Net Position	\$507,427	\$ 493,582

2019 Compared to 2018:

As of September 30, 2019, the Electric System's total assets were \$507 million, an increase of 3%, compared to September 30, 2018. This is primarily due to a net increase in acquisition and construction of capital assets of \$34 million. As of September 30, 2019, the Electric System's liabilities were \$248 million, a decrease of 2% compared to September 30, 2018. As of September 30, 2019, the Electric System's net position was \$251 million, an increase of \$13 million or 5%, compared to September 30, 2018. This increase is due primarily to increase in Invested in capital assets related to Fiber and AMI projects. Deferred Inflows and Outflows increased over 100% due to the implementation of GASB 75. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits.



City of Huntsville Electric System

Table A-2

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

	2019	2018
Operating revenues	\$ 533,261	\$525,422
Non-operating revenues	1,971	441
Total revenues	535,232	525,863
Operating expense	482,294	473,655
Depreciation expense	23,660	18,775
Non-operating expense	3,450	3,468
Total expenses	509,404	495,898
Income before transfers	25,828	29,965
Transfers out – tax equivalents	(13,478)	(11,098)
Change in net position	12,350	18,867
Beginning net position	238,926	220,058
Ending net position	\$ 251,277	\$ 238,926

2019 Compared to 2018:

As of September 30, 2019, the Electric System's total revenues were \$535 million, an increase of 2%, compared to September 30, 2018. This increase is primarily due to 2% increase in consumption from prior year. The Electric System's operating expenses were \$509 million, which was 3% increase from the previous year due to a 6% increase in purchased power.



City of Huntsville Gas System

Table A-1

Condensed Statements of Net Position

(In Thousands)

	2019	2018
Assets		
Current and other assets	\$ 42,527	\$ 28,722
Capital assets (net)	122,582	118,466
Total assets	165,108	147,188
Deferred Outflows of Resources		
Deferred Pension, Debt Refunding, OPEB	6,989	6,870
Total Assets and Deferred Outflows of Resources	\$172,097	\$ 154,058
Liabilities		
Current and other liabilities	\$ 8,620	\$ 6,916
Long-term liabilities	49,617	45,115
Total liabilities	58,237	52,031
Deferred Inflows of Resources		
Deferred Pension, Debt Refunding, OPEB	6,495	1,942
Net Position		
Total net position	107,365	100,085
Total Liabilities, Deferred Inflows of Resources and Net Position	\$172,097	\$ 154,058

2019 Compared to 2018:

As of September 30, 2019, the Gas System's total assets were \$172 million, an increase of 12%, compared to September 30, 2018. This is primarily due the issuance of warrants for \$9.5 million. As of September 30, 2019, the Gas System's total liabilities were \$58 million, an increase of 12%, compared to September 30, 2018. This increase is the result of the warrant issuance. As of September 30, 2019, the Gas System's net position is \$107 million, an increase of 7%, compared to September 30, 2018. This increase is primarily due to the new warrants. Deferred Inflows and Outflows increased over 100% due to the implementation of GASB 75. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits.



City of Huntsville Gas System

Table A-2

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

	2019	2018
Operating revenues	\$ 49,016	\$ 48,149
Non-operating revenues	862	(388)
Total revenues	49,878	47,761
Operating expense	36,038	36,421
Depreciation expense	4,676	4,507
Non-operating expense	4	(45)
Total expenses	40,718	40,883
Income before transfers	9,160	6,878
Capital Contributions	853	682
Transfers out – tax equivalents	(2,732)	(2,674)
Change in net position	7,281	4,886
Beginning net position	100,085	95,199
Ending net position	\$ 107,365	\$ 100,085

2019 Compared to 2018:

As of September 30, 2019, the Gas System's total revenues were \$50 million, an increase of 4%, compared to September 30, 2018. This is primarily due to an increase in natural gas MCF sold of 5%.

As of September 30, 2019, the Gas System's expenses were \$41 million, which are up 1% compared to September 30, 2018 which is due to the increase in natural gas MCF purchased.



City of Huntsville Water System

Table A-1

Condensed Statements of Net Position

(In Thousands)

	2019	2018
Assets		
Current and other assets	\$ 72,893	\$ 70,246
Capital assets (net)	287,703	277,701
Total assets	360,596	347,947
Deferred Outflows of Resources		
Deferred Pension, Debt Refunding, OPEB	9,313	4,025
Total Assets and Deferred Outflows of Resources	\$369,909	\$ 351,972
Liabilities		
Current and other liabilities	\$ 17,096	\$ 16,771
Long-term liabilities	135,237	133,508
Total liabilities	152,333	150,279
Deferred Inflows of Resources		
Deferred Pension, Debt Refunding, OPEB	4,053	630
Net Position		
Total net position	213,526	201,063
Total Liabilities, Deferred Inflows of Resources and Net Position	\$369,909	\$ 351,972

2019 Compared to 2018:

As of September 30, 2019, the Water System's total assets were \$370 million, an increase of 5%, compared to September 30, 2018. The increase is a result of a 1% increase in capital assets, primarily related to the acquisition of the southern portion of the Limestone County Water System. As of September 30, 2019, the Water System's total liabilities were \$152 million, an increase of 3%, compared to September 30, 2018. This increase relates to a revenue warrants issued for the acquisition of the southern portion of the Limestone County Water System. As of September 30, 2019, the Water System's net position is \$213 million, an increase of 6%, compared to September 30, 2018. Deferred Inflows and Outflows increased over 100% due to the implementation of GASB 75. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits.



City of Huntsville Water System

Table A-2

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

	2019	2018
Operating revenues	\$ 46,817	\$ 45,149
Non-operating revenues	1,703	(607)
Total revenues	48,520	44,542
Operating expense	24,546	23,229
Depreciation expense	10,117	9,696
Non-operating expense	3,387	3,001
Total expenses	38,050	35,926
Income before transfers	10,470	8,616
Capital Contributions	4,628	4,358
Transfers out – tax equivalents	(2,636)	(2,557)
Change in net position	12,462	10,417
Beginning net position	201,063	190,646
Ending net position	\$ 213,526	\$ 201,063

2019 Compared to 2018:

As of September 30, 2019, the Water System's total revenues were \$49 million, an increase of 9%, compared to September 30, 2018. This decrease is primarily due to consumption increasing by 9%. As of September 30, 2019, the Water System's expenses were \$38 million. An increase of 6% compared to September 30, 2018 due to increase in gallons pumped of 12%.

Wes Kelley, Chief Executive Officer

Ted Phillips, Chief Financial Officer



HUNTSVILLE UTILITIES

ELECTRICITY • NATURAL GAS • WATER

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

September 30, 2019

City of Huntsville Electric, Natural Gas, and Water Systems
Statements of Net Position
As of September 30, 2019



	<u>Electric</u>	<u>Gas</u>	<u>Water</u>
In Thousands			
<u>Assets and Deferred Outflows of Resources</u>			
Current Assets			
Cash and Cash Equivalents	\$ 325	\$ 2,415	\$ 3,865
Investments	-	5,766	27,856
Board Designated Funds			
Cash and Cash Equivalents	1,225	555	1,778
Investments	15,847	13,222	16,402
Restricted Funds			
Customer Deposits			
Cash and Cash Equivalents	6,358	437	808
Investments	-	185	-
Accounts Receivable - Trade, Net of Allowance	53,071	2,050	8,396
Inventories - Materials and Supplies	12,426	4,248	2,117
Prepaid Expenses	63	19	22
Accrued Interest, Rent and Other Receivables	3,640	153	225
Total Current Assets	<u>92,955</u>	<u>29,050</u>	<u>61,469</u>
Non-Current Assets			
Restricted Assets			
Customer Deposits			
Cash and Cash Equivalents	24,788	-	5,060
Investments	15,014	3,898	-
Warrant Funds			
Cash and Cash Equivalents	2,283	4,500	726
Investments	3,243	5,079	5,174
Cash, Cash Equivalents, and Investments	<u>45,328</u>	<u>13,477</u>	<u>10,960</u>
Other Assets			
Regulatory Asset - Revenue Warrant Expense	420	-	464
Utility Plant			
Plant in service	657,282	199,650	423,502
Construction in progress	39,871	4,069	13,290
Total Utility Plant	<u>697,153</u>	<u>203,719</u>	<u>436,792</u>
Less: Accumulated depreciation	(335,075)	(81,138)	(149,089)
Total Utility Plant, Net	<u>362,078</u>	<u>122,581</u>	<u>287,703</u>
Total Non-Current Assets	<u>407,826</u>	<u>136,058</u>	<u>299,127</u>
Total Assets	<u>500,781</u>	<u>165,108</u>	<u>360,596</u>
Deferred Outflows of Resources			
Deferred Amount on Debt Refunding	714	-	1,291
Goodwill	-	-	5,179
Deferred Amount on OPEB	294	138	132
Deferred Amount on Pension Employer Contributions	5,638	6,851	2,711
Total Deferred Outflows of Resources	<u>6,646</u>	<u>6,989</u>	<u>9,313</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 507,427</u>	<u>\$ 172,097</u>	<u>\$ 369,909</u>

(continued)

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

City of Huntsville Electric, Natural Gas, and Water Systems
Statements of Net Position
As of September 30, 2019



(continued)

In Thousands	Electric	Gas	Water
<u>Liabilities and Deferred Inflows of Resources</u>			
Current Liabilities			
Accounts Payable - Trade	\$ 50,509	\$ 2,111	\$ 1,766
Accounts Payable - Other Utility Departments	2,323	-	4,768
Compensated Absences	3,291	1,188	1,255
Accrued Payroll	622	349	478
Other Current Liabilities	2,635	323	504
Total Current Liabilities payable from current assets	59,380	3,971	8,771
Liabilities Payable From Restricted Assets			
Net Pension Liability, Current Portion	2,309	2,680	955
Customer Deposits, Current Portion	6,358	623	808
Revenue Warrants, Current Portion	2,800	1,346	4,750
Interest Payable	1,288	-	1,812
Total Liabilities Payable from Restricted Assets	12,755	4,649	8,325
Non-Current Liabilities			
Net Pension Liability, Less Current Portion	30,647	28,420	13,381
Net OPEB Liability, Less Current Portion	18,013	9,146	8,236
Customer Deposits, Less Current Portion	39,801	3,898	5,060
Revenue Warrants, Less Current Portion	74,775	8,154	98,030
Unamortized Bond Premium	12,131	-	10,530
Total Non-Current Liabilities	175,367	49,618	135,237
Total Liabilities	247,502	58,238	152,333
Deferred Inflows of Resources			
Deferred Pension Plan Earnings Difference	1,267	2,959	723
Deferred Inflow OPEB	7,380	3,536	3,330
Total Deferred Inflows of Resources	8,647	6,495	4,053
Net Position			
Invested in Capital Assets, Net of Related Debt	276,749	122,581	174,858
Restricted	18,067	13,856	22,269
Unrestricted	(43,539)	(29,072)	16,399
Total Net Position	251,277	107,365	213,526
Total Liabilities, Deferred Inflows and Net Position	\$ 507,427	\$ 172,097	\$ 369,909

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

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

As of and for the year ending September 30, 2019



In Thousands	<u>Electric</u>	<u>Gas</u>	<u>Water</u>
Operating Revenue			
Residential	\$ 262,073	\$ 21,433	\$ 25,689
Large commercial and industrial	203,600	2,026	1,962
Small commercial	42,286	22,077	12,964
Government Sales	-	-	2,647
Public street and highway lighting	5,112	-	-
Other Sales	-	-	640
Other Operating Revenue	20,190	3,480	2,915
Total Operating Revenue	<u>533,261</u>	<u>49,016</u>	<u>46,817</u>
Operating Expenses			
Purchased Commodity	429,474	22,712	-
Purification	-	-	2,356
Pumping	-	-	5,418
Transmission	398	-	-
Distribution	22,344	6,399	6,030
Customer accounting	5,864	1,196	1,476
Administrative and general	24,214	5,731	9,266
Depreciation	23,660	4,676	10,117
Total Operating Expenses	<u>505,954</u>	<u>40,714</u>	<u>34,663</u>
Operating Income	<u>27,307</u>	<u>8,302</u>	<u>12,154</u>
Non-Operating (Revenues) Expenses			
Gain or Loss on Sale of Assets	(127)	(5)	(41)
Interest income	(1,844)	(857)	(1,662)
Interest expense	4,661	4	4,381
Amortization of bond discount	27	-	32
Amortization of bond premium	(1,238)	-	(1,026)
Total Non-Operating Revenue (Expenses)	<u>1,479</u>	<u>(858)</u>	<u>1,684</u>
Income Before Transfers	25,828	9,160	10,470
Capital Contributions	-	(853)	(4,628)
Transfers Out - Tax Equivalent	13,478	2,732	2,636
Increase (Decrease) in Net Position	12,350	7,281	12,462
Net Position Beginning	238,927	100,084	201,064
Net Position Ending	<u>\$ 256,277</u>	<u>\$ 107,365</u>	<u>\$ 213,526</u>

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

City of Huntsville Electric, Natural Gas, and Water Systems
Statements of Cash Flows

Year Ending September 30, 2019



	Electric	Gas	Water
In Thousands			
Operating Activities			
Received from Customers	\$ 533,754	\$ 49,023	\$ 46,491
Paid to Suppliers for Goods and Services	(449,738)	(25,894)	(18,286)
Paid to Employees for Salaries and Wages	(30,334)	(9,335)	(11,533)
Net Cash Provided By Operating Activities	53,683	13,794	16,672
Non-Capital Financing Activities			
Transfers Out - Tax Equivalent	(13,478)	(2,732)	(2,636)
Capital and Related Financing Activities			
Payment of Principal on Long-Term Debt	(1,865)	-	(4,770)
Issuance of Long-Term Debt	-	9,500	11,000
Additions to Plant in Service	(58,074)	(8,792)	(20,120)
Capital Contributions	-	853	4,628
Interest Expense	(4,425)	(4)	(4,359)
Net Cash Provided By (Used For) Capital and Related Financing Activities	(64,364)	1,557	(13,621)
Investing Activities			
Proceeds from (purchase of) Investment Securities	9,219	(14,739)	(16,161)
Interest Income Earned on Investments	1,844	857	1,662
Net Cash Provided By (Used For) Investing Activities	11,063	(13,882)	(14,499)
Increase (Decrease) in Cash and Cash Equivalents	(13,096)	(1,263)	(14,084)
Cash and Cash Equivalents - Beginning of Year	48,075	9,170	26,321
Cash and Cash Equivalents - End of Year	\$ 34,979	\$ 7,907	\$ 12,237

(continued)

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

City of Huntsville Electric, Natural Gas, and Water Systems
Statements of Cash Flows (continued)

Year Ending September 30, 2019



(continued)

In Thousands

Reconciliation of Operating Income to Net Cash Provided By Operating Activities	Electric	Gas	Water
	\$ 27,308	\$ 8,301	\$ 12,154
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:			
Depreciation and Amortization	23,660	4,676	10,117
Gain or Loss on Sale of Assets	127	5	41
Change in Accounts Receivable - Customer	493	8	(325)
Change in Accrued Interest, Rent and Other Receivables	(516)	(79)	(86)
Change in Inventories	(924)	(263)	(200)
Change in Prepaid Expenses	24	7	8
Change in Deferred Outflow of Resources	(1,116)	(120)	(5,336)
Change in Accounts Payable	6,343	484	499
Change in Pension Liability	1,386	(1,001)	255
Change in OPEB	(11,804)	(3,155)	(4,455)
Change in Deferred Inflow of Resources	7,539	4,554	3,423
Change in Customer Deposits	1,274	150	312
Change in Accrued Expenses and Other Current Liabilities	(111)	229	266
Total Adjustments	26,375	5,495	4,519
Net Cash Provided By Operating Activities	\$ 53,683	\$ 13,796	\$ 16,673

Cash and Cash Equivalent - End of Year

Current assets:

Cash and Cash Equivalents	\$ 325	\$ 2,415	\$ 3,865
Cash and Cash Equivalents - Board Designated	1,225	555	1,778
Cash and Cash Equivalents - Restricted - Customer Deposits	6,358	437	808
	<u>\$ 7,908</u>	<u>\$ 3,407</u>	<u>\$ 6,451</u>

Noncurrent assets:

Cash and Cash Equivalents - Restricted - Customer Deposits	\$ 24,788	\$ -	\$ 5,060
Bond Trustee Funds	2,283	4,500	726
	<u>\$ 27,071</u>	<u>\$ 4,500</u>	<u>\$ 5,786</u>

Cash and Cash Equivalents	<u>\$ 34,979</u>	<u>\$ 7,907</u>	<u>\$ 12,237</u>
---------------------------	------------------	-----------------	------------------

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

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

As of and for the year ending September 30, 2019



Statements of Fiduciary Net Position	Electric 2019	Gas 2019	Water 2019
Assets			
Cash and Equivalents	\$ 8,376,539	\$ 3,482,495	\$ 3,818,615
Fixed Income			
Fannie Mae Pool	14,787	6,148	6,741
Federal Farm	174,133	72,395	79,382
Federal Home Loan Mortgage Corp	213,713	88,850	97,425
Federal National Mortgage Association	382,031	158,827	174,156
Federated US Government Securities Fund:	49,371	20,526	22,507
Freddie Mac Gold Pool	25,414	10,566	11,585
	<u>859,449</u>	<u>357,312</u>	<u>391,796</u>
Total Assets	<u>\$9,235,988</u>	<u>\$3,839,807</u>	<u>\$4,210,411</u>
Net Position			
Net position restricted for OPEB	<u>\$9,235,988</u>	<u>\$3,839,807</u>	<u>\$4,210,411</u>
Statements of Changes in Fiduciary Net Position			
Additions			
Employer contributions	<u>\$2,577,370</u>	<u>\$666,996</u>	<u>\$1,077,290</u>
Investment Income			
Interest and dividends	167,622	69,688	76,414
Change in Market Value	25,426	10,571	11,591
Net Investment Income	<u>193,048</u>	<u>80,259</u>	<u>88,005</u>
Total Additions	2,770,418	747,255	1,165,295
Deductions			
Administrative expenses	<u>(25,309)</u>	<u>(10,522)</u>	<u>(11,538)</u>
Net Increase in Net Position	2,745,109	736,733	1,153,757
Net Position restricted for OPEB, beginning of Year	<u>6,490,879</u>	<u>3,103,074</u>	<u>3,056,654</u>
Net Position restricted for OPEB, end of Year	<u>\$ 9,235,988</u>	<u>\$ 3,839,807</u>	<u>\$ 4,210,411</u>

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



Note 1 – Summary of Significant Accounting Policies

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

Reporting Entity

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

The fiduciary net position of the Utilities OPEB Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from the OPEB Plan’s fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.



Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

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

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

Cash and Cash Equivalents

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

The Boards have designated that cash assets be set aside in each System to fund construction and renewal and replacement activity. The designations are segregated in the Statements of Net Position as Board Designated Funds. Designations are relieved once the Board has approved expenditures from those funds. The designated balances are fully funded and are not separately stated in the net assets portion of the balance sheets at September 30, 2019.

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.

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



Note 1 – Summary of Significant Accounting Policies (Continued)

Accounts Receivable - Trade

The Electric and Water Systems act as billing and collection agents for other City of Huntsville, City of Madison, and Madison County utility departments. Current earnings are charged with an allowance for doubtful accounts based on age of account. Receivables are due 15 days after the issuance of the invoice and are considered delinquent when more than 18 days past due. Accounts considered uncollectible throughout the year are charged against the allowance. The allowance for doubtful accounts at September 30, 2019 was:

	<u>Electric System</u>	<u>Gas System</u>	<u>Water System</u>
Accounts Receivable	\$ 260,651	\$ 5,351	\$ 17,460
Other Receivables	\$ 653,267	\$ 25,462	\$ 106,351

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, the Natural Gas System 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, the Utilities may execute fixed price and options contracts from time to time to help manage fluctuations in the market prices of natural gas.

Utility Plant

The Utilities maintain a \$5,000 capitalization threshold for equipment, land, buildings, and improvements. Utility plant and construction in progress are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the assets ranging from five to 55 years. Retirements of units of property from service are credited against plant in service at the original cost of the units and accumulated depreciation is debited at the date of retirement. Improvements that extend the useful life of the assets are capitalized and depreciated over the remaining useful life of the asset. The cost of maintenance, repairs, and replacement of minor items of property are charged to operations and maintenance accounts. An allowance for funds used during construction is capitalized during the construction period.

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



Note 1 – Summary of Significant Accounting Policies (Continued)

Regulatory Accounting

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

	<u>Electric System</u>	<u>Water System</u>
Regulatory Assets:		
Non-Current:		
Unamortized Debt Expense	\$ 420,207	\$ 463,846
Total Non-Current	<u>\$ 420,207</u>	<u>\$ 463,846</u>

Accounts Receivable/Payable from/to Other Utilities

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

Recognition of Revenues

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

Operating Revenues and Expenses

The Utilities consider all revenues and expenses associated with utility sales to be operating revenues and expenses. Any revenues or expenses not meeting this definition are considered to be nonoperating revenues or expenses.

Taxes

The Utilities are not subject to federal and state income taxes. The Utilities collects utility tax from its customers on behalf of the State of Alabama. Revenue is presented net of taxes and collected in the statement of revenues and expenses.



Note 1 - Summary of Significant Accounting Policies (Continued)

Grants in Aid to Construction

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

It is the Water and Natural Gas System's policy to record grants in aid of construction and other amounts received as capital contributions in the Statements of Revenues, Expenses, and Changes in Net Position.

Amortization

Amortization of bond discounts and premiums is computed on the effective interest method.

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

Estimates

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

Environmental Costs

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

Pensions

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

Recent Accounting Pronouncements

GASB has issued the following pronouncements that may affect future financial position, results of operations, cash flows, or financial presentation of the Utilities upon implementation. Management has not yet evaluated the effect of implementation of these standards.



Note 1 - Summary of Significant Accounting Policies (Continued)

GASB Statement No.	GASB Accounting Standard	Effective Fiscal Year
84	Fiduciary Activities	2020
87	Leases	2021
91	Conduit Debt Obligations	2020

GASB Statement 84 (GASB 84) establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

The objective of GASB Statement 87 (GASB 87) is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB 87 are effective for reporting periods beginning after December 15, 2019.

The primary objectives of GASB Statement 91 (GASB 91) are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.



Note 1 - Summary of Significant Accounting Policies (Continued)

A conduit debt obligation is defined as a debt instrument having all the following characteristics: There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.

The issuer and the third-party obligor are not within the same financial reporting entity.

The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.

The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.

The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply: If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset. If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends. If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.



Note 1 - Summary of Significant Accounting Policies (Continued)

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs. The requirements for this Statement are effective for reporting periods beginning after June 15, 2018.

Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Note 2 – Cash, Cash Equivalents, and Investments

At September 30, 2019, 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 Financial Statements

As of and for the year ending September 30, 2019



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

A summary of cash and investments for the year ended September 30, 2019 is as follows:

	Electric System	Natural Gas System	Water System
Carrying amounts of:			
Cash and Cash Equivalents			
Unrestricted	\$ 324,721	\$ 2,414,768	\$ 3,864,963
Customer Deposits - Restricted	31,145,676	437,363	5,868,590
Bond - Restricted	2,283,228	4,500,376	726,473
Board Designated	1,225,237	555,368	1,778,302
Investments			
Unrestricted	-	5,766,224	27,855,847
Customer Deposits - Restricted	15,013,634	4,082,844	-
Board Designated	15,846,729	13,221,663	16,402,067
Bond - Restricted	3,242,730	5,079,088	5,173,877
Total	\$ 69,081,955	\$ 36,057,694	\$ 61,670,118
Cash and Cash Equivalents			
Unrestricted	\$ 324,721	\$ 2,414,768	\$ 3,864,963
Customer Deposits - Restricted	31,145,676	437,363	5,868,590
Bond Funds - Restricted	2,283,228	4,500,376	726,473
Investments		5,766,224	27,855,847
Investments - Bond - Restricted			
Customer Deposits	15,013,634	4,082,844	-
Bond Construction Funds	3,242,730	5,079,088	5,173,877
Board Designated Accounts			
Cash and Cash Equivalents			
Insurance Fund	19,007	11,599	11,626
Worker's Comp Fund	58,860	58,743	54,389
Construction Fund	547,370	463,845	343,286
Renewal and Replacement Fund	-	21,181	-
Emergency Fund	600,000	-	-
System Development	-	-	1,369,000
Investments			
Insurance Fund	1,616,965	986,765	989,070
Worker's Comp Fund	1,972,540	1,966,810	1,820,824
Construction Fund	9,491,321	7,766,352	5,954,168
Emergency Fund	2,765,903	-	-
Rate Stabilization Fund	-	2,501,736	-
System Development	-	-	7,638,005
Total	\$ 69,081,955	\$ 36,057,694	\$ 61,670,118

City of Huntsville Electric, Natural Gas, and Water Systems

Notes to Financial Statements

As of and for the year ending September 30, 2019



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

At September 30, 2019, the Utilities had the following investments:

Investment	Maturity			Total
	<1	1-5	6-10	
Money Market Funds - U.S. Treasury Obligations	\$ 17,070,856	\$ 64,477,131	\$ -	\$ 81,547,987
Certificate of Deposits	25,628,925	-	-	25,628,925
United States Treasury Note	4,507,790	-	-	4,507,790
Totals	\$ 47,207,571	\$ 64,477,131	\$ -	\$ 111,684,702

Interest Rate risk - is the risk of fixed-maturity investments fluctuating in response to changes in market interest rates. The Utilities manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio in the bond funds to such stated maturities as will assure the availability of cash sufficient to pay, on a timely basis, the interest, and principal of the bonds coming due.

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

At September 30, 2019 the Utilities' investments other than the restricted bond funds consisted of Money Market Funds - U.S. Treasury Obligations with no maturity, U.S. Treasury Notes and Certificates of Deposits with various due dates. In addition, the Utilities have invested in a repurchase agreement which is collateralized by U.S. Treasury Obligations.

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

GASB Codification Section 3100: *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).



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

The three levels of the fair value hierarchy under the codification are described as follows:

Level 1 (L1): Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 (L2): Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 (L3): Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value measurements of the Utilities’ investments at September 30, 2019 are as follows:

2019	Level 1	Total
Money Market Funds - U.S. Treasury Obligations	\$ 81,547,987	\$ 81,547,987
Certificate of Deposits	25,628,925	25,628,925
U.S. Treasury Notes	4,507,790	4,507,790
	<u>\$ 111,684,702</u>	<u>\$ 111,684,702</u>

There have been no changes in the methodologies used at September 30, 2019.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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.

City of Huntsville Electric, Natural Gas, and Water Systems

Notes to Financial Statements

As of and for the year ending September 30, 2019



Note 3 – Utility Plant in Service

Capital asset activity by System for fiscal year 2019 is as follows:

Electric System

	Balance 10/01/2018	Increases	Decreases	Balance 09/30/2019
Land and land rights	\$ 5,003,924	\$ -	\$ -	\$ 5,003,924
Structures and improvements	527,387,919	58,506,358	(3,888,133)	582,006,143
Furniture, fixtures and other	68,880,380	2,524,934	(1,133,279)	70,272,035
Total	601,272,223	61,031,292	(5,021,412)	657,282,102
Less accumulated depreciation	(314,421,514)	(25,663,436)	5,010,016	(335,074,934)
Construction in progress	40,813,108	71,740,344	(72,682,839)	39,870,613
Total	\$ 327,663,817	\$ 107,108,200	\$ (72,694,235)	\$ 362,077,781

Natural Gas System

	Balance 10/01/2018	Increases	Decreases	Balance 09/30/2019
Land and land rights	\$ 1,803,038	\$ -	\$ -	\$ 1,803,038
Structures and improvements	176,896,176	7,510,210	(191,034)	184,215,352
Furniture, equipment and other	13,155,488	476,255	-	13,631,743
Total	191,854,702	7,986,465	(191,034)	199,650,133
Less accumulated depreciation	(76,186,951)	(5,165,123)	213,798	(81,138,276)
Construction in progress	2,797,634	8,590,534	(7,319,176)	4,068,992
Total	\$ 118,465,385	\$ 11,411,876	\$ (7,296,412)	\$ 122,580,849

Water System

	Balance 10/01/2018	Increases	Decreases	Balance 09/30/2019
Land and land rights	\$ 2,246,758	\$ 11,000	\$ -	\$ 2,257,758
Structures and improvements	390,061,618	17,242,737	(1,034,523)	406,269,832
Furniture, equipment and other	14,497,580	705,869	(228,771)	14,974,678
Total	406,805,956	17,959,606	(1,263,294)	423,502,268
Less accumulated depreciation	(139,856,280)	(10,484,274)	1,251,927	(149,088,627)
Construction in progress	10,751,113	18,757,945	(16,219,214)	13,289,844
Total	\$ 277,700,789	\$ 26,233,277	\$ (16,230,581)	\$ 287,703,485

City of Huntsville Electric, Natural Gas, and Water Systems

Notes to Financial Statements

As of and for the year ending September 30, 2019



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 follows.

Principal activity for the year 2019:

	10/01/2018	Increases	Decreases	09/30/2019
Electric Systems	\$ 79,440,000	\$ -	\$ 1,865,000	\$ 77,575,000
Natural Gas Systems	-	9,500,000	-	9,500,000
Water Systems	96,550,000	11,000,000	4,770,000	102,780,000
Totals	\$ 175,990,000	\$ 20,500,000	\$ 6,635,000	\$ 189,855,000

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



Note 4 – Long-Term Debt (Continued)

Electric System

City of Huntsville, Alabama Electric System Revenue and Term Warrants, Series 2017 A - Electric System Revenue Warrants, Series 2017 A, were issued in the original amount of \$59,160,000. The warrants mature serially on December 1 each year and bear interest according to stated maturity dates as follows:

Bond Issue				
Series 2017-A				
Year	Principal	Interest	Rate	
2020	\$ 1,795,000	\$ 2,913,125	5.00%	
2021	1,890,000	2,821,000	5.00%	
2022	1,985,000	2,724,125	5.00%	
2023	1,615,000	2,634,125	5.00%	
2024	2,170,000	2,539,500	5.00%	
2025	2,280,000	2,428,250	5.00%	
2026	2,400,000	2,311,250	5.00%	
2027	2,520,000	2,188,250	5.00%	
2028	2,650,000	2,059,000	5.00%	
2029	2,785,000	1,923,125	5.00%	
2030	2,930,000	1,780,250	5.00%	
2031	3,080,000	1,630,000	5.00%	
2032	3,240,000	1,472,000	5.00%	
2033	3,405,000	1,305,875	5.00%	
2034	3,580,000	1,131,250	5.00%	
2035	3,760,000	947,750	5.00%	
2036	3,955,000	754,875	5.00%	
2037	4,155,000	552,125	5.00%	
2038	4,370,000	339,000	5.00%	
2039	4,595,000	114,875	5.00%	
Total	59,160,000	34,569,750		
Current	1,795,000	2,913,125		
Noncurrent	\$ 57,365,000	\$ 31,656,625		

The 2017-A issue contained issuance cost of \$364,297 that are classified as regulatory asset and amortized over 20 years. At September 30, 2019, the unamortized regulatory asset is \$308,669. The 2017-A issue also contained a premium of \$11,204,297 that is being amortized over 20 years. At September 30, 2019, the unamortized premium is \$9,401,037. The 2017-A Warrants are secured by the net revenues from the operations of the Electric System after payment of operating expenses. The 2017-A Warrants were issued to pay for the costs of capital improvements to the Electric System.

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



Note 4 – Long-Term Debt (Continued)

Optional Redemption: Those of the Series 2017-A Warrants having a stated maturity on and after December 1, 2027, shall be subject to redemption and payment, at the option of the City, on June 1, 2027, and on any date thereafter, as a whole or in part (but if redeemed in part, only in installments of \$5,000 or any integral multiple thereof with those of the maturities to be redeemed to be selected by the City, and if less than all the Series 2017-A Warrants of a single maturity are to be redeemed, those (or portions thereof)) of that maturity to be redeemed to be selected by the Trustee by lot), at and for Redemption Price with respects to each such Series 2017-A Warrants (or potion thereof) redeemed equal to the principal amount redeemed, plus accrued interest to the Redemption Date.

City of Huntsville, Alabama Electric System Revenue and Term Warrants, Series 2017 B - Electric System Revenue Warrants, Series 2017 B, were issued in the original amount of \$21,190,000. The warrants mature serially on December 1 each year and bear interest according to stated maturity dates as follows:

Bond Issue				
Series 2017-B				
Year	Principal	Interest	Rate	
2020	\$ 1,005,000	\$ 881,975	5.00%	
2021	1,050,000	830,600	5.00%	
2022	1,105,000	776,725	5.00%	
2023	1,625,000	708,475	5.00%	
2024	1,240,000	636,850	5.00%	
2025	1,300,000	573,350	5.00%	
2026	1,365,000	513,550	5.00%	
2027	1,425,000	450,625	5.00%	
2028	1,500,000	377,500	5.00%	
2029	1,575,000	300,625	5.00%	
2030	1,655,000	219,875	5.00%	
2031	1,740,000	135,000	5.00%	
2032	1,830,000	45,750	5.00%	
Total	18,415,000	6,450,900		
Current	1,005,000	881,975		
Noncurrent	\$ 17,410,000	\$ 5,568,925		

The 2017-B issue contained issuance cost of \$130,370 that are classified as a regulatory asset and amortized over 15 years. At September 30, 2018, the unamortized regulatory asset is \$111,539. The 2017-B issue also contained a premium of \$3,669,067 that is being amortized over 15 years. At September 30, 2019, the unamortized premium is \$2,729,495.



Note 4 – Long-Term Debt (Continued)

Optional Redemption: Those of the Series 2017-B Warrants having stated maturity on and after December 1, 2027, shall be subject to redemption and payment, at the option of the City, on June 1, 2027, and on any date thereafter, as a whole or in part (but if redeemed in part, only in installments of \$5,000 or any integral multiple thereof with those of maturities to be redeemed to be selected by the City, and if less than all the Series 2017-B Warrants of a single maturity are to be redeemed, those (or portions thereof of that maturity to be redeemed selected by the Trustee by lot) at and for Redemption Price with respect to each such Series 2017-B Warrants (or portion thereof) redeemed equal to the principal amount redeemed, plus accrued interest to the Redemption Date.

The 2017-B Warrants were issued to advance refund \$23,335,000 of the outstanding Series 2011 Warrants and \$4,140,000 of the outstanding Series 2007 Warrants. As a result, the 2011 and 2007 series bonds are considered defeased and the Utilities has removed the liabilities from its accounts. The City deposited the proceeds along with other resources into two separate escrow funds to provide for maturing installments of principal and interest on the old warrants. These funds were subsequently invested by the trustee in U S Treasury Notes with varying maturities. The escrow funds are to provide for all installments due through and including December 1, 2017 (2007 Warrants) and December 1, 2021 (2011 Warrants).

As required by GASB Statement No. 23, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt is carried as deferred amount on debt refunding. The amounts deferred on the reacquisition of the 2011 and 2007 Warrants were \$724,573 and \$128,551, respectively. The deferred amount on the 2007 Warrants includes \$81,860 of previous unamortized issuance costs and is net of \$31,187 of an unamortized premium. The deferred amount on the 2011 Warrants includes \$99,245 of previous unamortized refunding costs and is net of \$2,150,002 of an unamortized premium. The deferred amount of the 2007 Warrants is being amortized over the remaining life of the 2007 Warrants using the straight line method. The deferred amount of the 2011 Warrants is being amortized over the life of the 2017-B Warrants. Amortization of \$56,876 has been recorded as of September 30, 2019.

The City refunded the 2011 and 2007 Warrants to reduce the annual debt service requirements. The refunding decreased the total debt service payments over the next fifteen years by approximately \$7,350,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) for the City of approximately \$6,604,690.



Note 4 – Long-Term Debt (Continued)

Water System

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

2013 Water

Fiscal Year	Principal	Interest	Rate
2020	\$ 10,000	\$ 3,713	2.75%
2021	10,000	3,438	2.75%
2022	10,000	3,163	2.75%
2023	10,000	2,888	2.75%
2024	10,000	2,613	2.75%
2025	10,000	2,338	2.75%
2026	10,000	2,063	2.75%
2027	10,000	1,788	2.75%
2028	10,000	1,513	2.75%
2029	10,000	1,238	2.75%
2030	10,000	963	2.75%
2031	10,000	688	2.75%
2032	10,000	413	2.75%
2033	10,000	138	2.75%
Total	140,000	26,957	
Current	10,000	3,713	
Noncurrent	\$ 130,000	\$ 23,244	

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

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

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

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



Note 4 – Long-Term Debt (Continued)

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

2015 Water

Fiscal Year	Principal	Interest	Rate
2020	\$ 3,300,000	\$ 3,781,400	4.00%
2021	3,450,000	3,629,150	5.00%
2022	3,575,000	3,507,150	2.00%
2023	3,700,000	3,378,900	5.00%
2024	3,890,000	3,189,150	5.00%
2025	4,090,000	2,989,650	5.00%
2026	4,300,000	2,779,900	5.00%
2027	4,520,000	2,559,400	5.00%
2028	4,755,000	2,327,525	5.00%
2029	4,995,000	2,083,775	5.00%
2030	5,255,000	1,827,525	5.00%
2031	5,525,000	1,558,025	3.38%
2032	5,760,000	1,322,700	4.00%
2033	5,975,000	1,106,000	5.00%
2034	6,250,000	830,250	5.00%
2035	6,570,000	509,750	5.00%
2036	6,910,000	172,750	5.00%
Total	82,820,000	37,553,000	
Current	3,300,000	3,781,400	
Noncurrent	\$ 79,520,000	\$ 33,771,600	

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

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

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

The 2015 issue contained issuance cost of \$406,698 that are classified as regulatory asset and amortized over 20 years. At September 30, 2019, the unamortized regulatory asset is \$323,664.

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



Note 4 – Long-Term Debt (Continued)

The 2015 issue also contained a premium of \$12,610,058 that is being amortized over 20 years. At September 30, 2019, the unamortized premium is \$9,004,325.

City of Huntsville, Alabama Water Revenue and Term Warrants, Series 2016 - Water System Revenue Warrants, Series 2016, were issued in the original amount of \$10,425,000 to partially refund the Series 2008 Warrant. The warrants mature serially on November 1 each year and bear interest according to stated maturity dates as follows:

2016 Water

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Rate</u>
2020	\$ 415,000	\$ 382,875	4.000%
2021	430,000	363,825	5.000%
2022	450,000	341,825	5.000%
2023	475,000	318,700	5.000%
2024	505,000	294,200	5.000%
2025	525,000	268,450	5.000%
2026	550,000	241,575	5.000%
2027	580,000	213,325	5.000%
2028	610,000	186,625	4.000%
2029	640,000	158,425	5.000%
2030	670,000	125,675	5.000%
2031	705,000	91,300	5.000%
2032	730,000	62,269	3.125%
2033	755,000	38,594	3.250%
2034	780,000	13,163	3.375%
Total	8,820,000	3,100,826	
Current	415,000	382,875	
Noncurrent	\$ 8,405,000	\$ 2,717,951	

Optional Redemption: Those of the Series 2016 Warrants having stated maturities on November 1, 2027, and thereafter, shall be subject to redemption and payment prior to maturity, at the option of the Issuer, as a whole or in part, on November 1, 2026, and on any date thereafter (and if in part, of such maturities as shall be selected by the Issuer, and if less than all the Series 2016 Warrants of a single maturity are to be redeemed, those to be redeemed to be selected by the Trustee by lot), , at and for a redemption price equal to the principal amount so redeemed plus accrued interest thereon to the rate fixed for redemption.

The 2016 issue contained issuance cost of \$171,652 that are classified as regulatory asset and amortized over 20 years. At September 30, 2019, the unamortized regulatory asset is \$140,182. The 2016 issue also contained a premium of \$1,090,205 that is being amortized over 20 years. At September 30, 2019, the unamortized premium is \$821,462.

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



Note 4 – Long-Term Debt (Continued)

City of Huntsville, Alabama Water Revenue and Term Warrants, Series 2019 – Water System Revenue Warrants, Series 2019, were issued in the original amount of \$11,000,000 to expand HU’s current water program. The warrants mature serially on November 1 each year and bear interest according to stated maturity dates as follows:

2019 Water

Fiscal Year	Principal	Interest	Rate
2020	\$ 1,025,000	\$ 229,378	2.28%
2021	1,011,000	206,300	2.28%
2022	1,034,000	182,769	2.28%
2023	1,058,000	158,692	2.28%
2024	1,082,000	134,068	2.28%
2025	1,106,000	108,897	2.28%
2026	1,132,000	83,136	2.28%
2027	1,157,000	56,804	2.28%
2028	1,184,000	29,860	2.28%
2029	1,211,000	2,301	2.28%
Total	11,000,000	1,192,204	
Current	1,025,000	229,378	
Noncurrent	\$ 9,975,000	\$ 962,827	

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



Note 4 – Long-Term Debt (Continued)

Gas System

City of Huntsville, Alabama Gas Revenue and Term Warrant, Series 2019-A – Gas System Revenue Warrants, Series 2019-A, were issued in the original amount of \$4,500,000 to expand HU’s current gas program. Principal and interest payments in the amount of \$41,949 are made monthly on the first of the month.

2019-A Gas

2019 Gas A

Fiscal Year	Principal	Interest	Rate
2020	\$ 398,647	\$ 104,740	2.23%
2021	416,163	87,224	2.23%
2022	425,539	77,848	2.23%
2023	435,126	68,261	2.23%
2024	444,929	58,458	2.23%
2025	454,953	48,434	2.23%
2026	465,203	38,184	2.23%
2027	475,683	27,703	2.23%
2028	486,400	16,986	2.23%
2029	497,357	6,028	2.23%
Total	4,500,000	533,866	
Current	398,647	104,740	
	\$ 4,101,353	\$ 429,126	

City of Huntsville, Alabama Gas Revenue and Term Warrant, Series 2019-B – Gas System Revenue Warrants, Series 2019-A, were issued in the original amount of \$5,000,000 to expand HU’s current gas program. Principal and interest payments in the amount of \$88,375 are made monthly on the first of the month.

2019 Gas B

Fiscal Year	Principal	Interest	Rate
2020	\$ 947,757	\$ 112,737	2.26%
2021	979,013	81,481	2.26%
2022	1,001,369	59,125	2.26%
2023	1,024,236	36,258	2.26%
2024	1,047,625	12,869	2.26%
Total	5,000,000	302,470	
Current	947,757	112,737	
Noncurrent	\$ 4,052,243	\$ 189,733	



Note 5 – Employee Benefits

The annual leave policy allows each employee to accumulate up to 35 days of annual leave. The Utilities follows the practice of accruing the dollar amount of the leave accrued per each employee on a monthly basis. Actual leave time taken is charged against this account. The sick leave policy provides that at the time of retirement, each employee will be paid 25% of the accumulated sick leave based on the employee’s current salary. The Utilities follow the practice of accruing 25% of accumulated sick leave for the employees at year end who are vested in their sick leave. Accrued annual leave and sick leave at September 30, 2019 are as follows:

	Accrued Annual Leave	Accrued Sick Leave
Electric System	\$ 2,734,236	\$ 542,849
Natural Gas System	826,127	351,259
Water System	930,049	328,874
Totals	\$ 4,490,412	\$ 1,222,982

Note 6 – Defined Benefit Pension Plan and Description

Plan Description

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

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

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.



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

6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:

- a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
- b. Two vested active state employees.
- c. Two vested active employees of an employer participating in ERS pursuant to § 36-27-6.

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for Tier 1 ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 1 members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

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

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

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



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

The ERS serves approximately 906 local participating employers. The ERS membership includes approximately 90,999 participants. As of September 30, 2019 membership consisted of:

	ERS	Electric	Gas	Water
Retirees an beneficiaries currently receiving benefits	24,818	113	160	59
Terminated employees entitled to but not receiving benefits	1,426	4	6	2
Terminated employees not entitled to a benefit	7,854	3	10	1
Active Members	56,760	158	412	110
Post-DROP participants who are still in active service	141	-	-	-
Total	90,999	278	588	172

Contributions

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

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

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

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



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

For the year ended September 30, 2019, Huntsville Utilities active Tier 1 employee contribution rate was 5% and Tier 2 was 9.87% of covered employee payroll. Huntsville Utilities contractually required contribution rate for the year ended September 30, 2019 was as follows

	Electric Systems		Natural Gas Systems		Water Systems	
	2019		2019		2019	
	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2
Normal Cost	1.37%	0.02%	1.78%	0.19%	1.38%	-0.74%
Accrue Liability	17.09%	17.09%	8.14%	8.14%	12.51%	12.51%
Preretirement Death Benefit	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Administrative Expense	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%
	<u>18.83%</u>	<u>17.48%</u>	<u>10.29%</u>	<u>8.70%</u>	<u>14.26%</u>	<u>12.14%</u>

These required contribution rates are based upon the actuarial valuation dated September 30, 2016, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an addition amount to finance any unfunded accrued liability. Total employer contributions to the pension plan for the year September 30, 2019 from the utilities were:

	Electric	Gas	Water
	2019	2019	2019
Employer Contributions	2,308,791	2,679,403	954,232

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



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

Net Pension Liability

The Utilities net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017 rolled forward to September 30, 2018 using standard roll-forward techniques as shown in the following table:

	Electric		Gas		Water	
	Expected	Actual	Expected	Actual	Expected	Actual
(a) Total pension liability as of September 30, 2017 (a)	\$ 68,235,306	\$ 69,722,750	\$ 95,854,687	\$ 95,662,706	\$34,734,430	\$35,077,634
(b) Discount Rate	7.75%	7.70%	7.75%	7.70%	7.75%	7.70%
(c) Entry Age Normal Cost for October 1, 2017- September 30, 2018 (b)	803,722	811,484	1,897,962	1,915,527	485,793	490,695
(d) Transfers Among Employers:	-	13,353	-	40,750		317,095
(e) Actual benefit payments and refunds for October 1, 2017 - September 30, 2018 (c)	<u>(4,973,859)</u>	<u>(4,973,859)</u>	<u>(4,681,062)</u>	<u>(4,681,062)</u>	<u>(2,112,418)</u>	<u>(2,112,418)</u>
(f) Total pension liability as of September 30, 2018 = [(a) X (1.08)] + (b) - [(c) X (1.04)]	<u>\$ 69,160,668</u>	<u>\$ 70,750,886</u>	<u>\$ 100,318,934</u>	<u>\$ 100,123,728</u>	<u>\$35,717,867</u>	<u>\$36,392,656</u>
(g) Difference between Expected and Actual:		1,216,639		(781,420)		473,843
(h) Less Liability Transferred for Immediate Recognition:		<u>13,353</u>		<u>40,750</u>		<u>317,095</u>
(i) Experience (Gain)/Loss = (g) - (h)		1,203,286		(822,170)		156,748
(j) Difference between Actual at 7.70% and Actual at 7.75% [Assumption Change (Gain)/Loss]		373,579		586,214		200,946

Actuarial Assumptions

The total pension liability as of September 30, 2018 actuarial valuation was based on the annual actuarial funding valuation report prepared as of September 30, 2017. The key actuarial assumptions are summarized below:

Inflation	2.75%
Salary Increase	3.25% - 5.00%
Investment rate of return*	7.70%

*Net of pension plan investment expenses

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



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

Mortality rates for ERS were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages on and after age 78. The rates of mortality of the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the September 30, 2017 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2016. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

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

	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return*</u>
Fixed Income	17.0%	4.40%
U.S. Large Stocks	32.0%	8.00%
U.S. Mid Stocks	9.0%	10.00%
U.S. Small Stocks	4.0%	11.00%
International Developed Market Stocks	12.0%	9.50%
International Emerging Market Stocks	3.0%	11.00%
Alternatives	10.0%	10.10%
Real Estate	10.0%	7.50%
Cash equivalents	3.0%	1.50%
Total	<u>100.0%</u>	

* Includes assumed rate of inflation of 2.50%

Discount Rate

The discount rate used to measure the total pension liability was the long-term rate of return, 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payment of current plan member. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



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

Changes in Net Pension Liability

<u>Electric System</u>	<u>Increases (Decreases)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balance at September 30, 2017	<u>\$ 68,235,306</u>	<u>\$ 36,665,057</u>	<u>\$ 31,570,249</u>
Changes for the year:			
Service Cost	803,722	-	803,722
Interest	5,095,499	-	5,095,499
Changes of assumptions	373,579	-	373,579
Difference between expected and actual experience	1,203,286	-	1,203,286
Contributions - employer	-	2,182,899	(2,182,899)
Contributions - employee	-	614,210	(614,210)
Net investment income	-	3,293,140	(3,293,140)
Benefit payments, including refunds of employee contributions	(4,973,859)	(4,973,859)	-
Transfers among employees	13,353	13,353	-
Net Changes	<u>2,515,580</u>	<u>1,129,743</u>	<u>1,385,837</u>
Balance at September 30, 2018	<u>\$ 70,750,886</u>	<u>\$ 37,794,800</u>	<u>\$ 32,956,086</u>

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



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

<u>Natural Gas System</u>	<u>Increases (Decreases)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balance at September 30, 2017	<u>\$ 95,854,687</u>	<u>\$ 63,754,150</u>	<u>\$ 32,100,537</u>
Changes for the year:			
Service Cost	1,897,962	-	1,897,962
Interest	7,247,347	-	7,247,347
Changes of assumptions	586,214	-	586,214
Difference between expected and actual experience	(822,170)	-	(822,170)
Contributions - employer	-	2,545,068	(2,545,068)
Contributions - employee	-	1,492,658	(1,492,658)
Net investment income	-	5,872,386	(5,872,386)
Benefit payments, including refunds of employee contributions	(4,681,062)	(4,681,062)	-
Transfers among employees	40,750	40,750	-
Net Changes	<u>4,269,041</u>	<u>5,269,800</u>	<u>(1,000,759)</u>
Balance at September 30, 2018	<u>\$ 100,123,728</u>	<u>\$ 69,023,950</u>	<u>\$ 31,099,778</u>

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



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

Water System

	Increases (Decreases)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at September 30, 2017	\$ 34,734,430	\$ 20,652,988	\$ 14,081,442
Changes for the year:			
Service Cost	485,793	-	485,793
Interest	2,610,062	-	2,610,062
Changes of assumptions	200,946	-	200,946
Difference between expected and actual experience	156,748	-	156,748
Contributions - employer	-	944,613	(944,613)
Contributions - employee	-	365,308	(365,308)
Net investment income	-	1,888,916	(1,888,916)
Benefit payments, including refunds of employee contributions	(2,112,418)	(2,112,418)	-
Transfers among employees	317,095	317,095	-
Net Changes	<u>1,658,226</u>	<u>1,403,514</u>	<u>254,712</u>
Balance at September 30, 2018	\$ 36,392,656	\$ 22,056,502	\$ 14,336,154

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City's net pension liability calculated using the discount rate of 7.70%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage-point higher (8.70%) than the current rate:

	HU's Net Pension Liability		
	1.00% Decrease	Current Rate	1.00% Increase
	6.70%	7.70%	8.70%
Electric	\$ 41,219,166	\$ 32,956,086	\$ 26,004,843
Gas	44,114,922	31,009,778	20,206,976
Water	18,756,477	14,336,154	10,608,795



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

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2018. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2018. The auditor’s report dated January 15, 2019 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financials and actuarial information is available at www.rsa-al.gov.

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

For the year ended September 30, 2019, the City recognized the following pension expense:

	<u>Electric System</u>	<u>Natural Gas System</u>	<u>Water System</u>
Recognized pension expense	\$ 3,076,505	\$ 2,812,889	\$ 1,301,526

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

<u>Electric System</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 2,166,861	\$ -
Changes of assumptions	1,162,640	
Net differences between projected and actual earnings on pension plan investments		1,267,221
Employer contributions subsequent to the measurement date	<u>2,308,791</u>	<u>-</u>
Totals	<u>\$ 5,638,292</u>	<u>\$ 1,267,221</u>

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



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

<u>Natural Gas Systems</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected an actual experience	\$ 2,403,490	\$ 720,668
Changes of assumptions	1,768,498	
Net differences between projected and actual earnings on pension plan investments	-	2,238,548
Employer contributions subsequent to the measurement date	<u>2,679,403</u>	<u>-</u>
Totals	<u><u>\$ 6,851,391</u></u>	<u><u>\$ 2,959,216</u></u>

<u>Water Systems</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected an actual experience	\$ 1,156,605	\$ -
Changes of assumptions	600,429	
Net differences between projected and actual earnings on pension plan investments	-	722,575
Employer contributions subsequent to the measurement date	<u>954,232</u>	<u>-</u>
Totals	<u><u>\$ 2,711,266</u></u>	<u><u>\$ 722,575</u></u>

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



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

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

	<u>Electric System</u>	<u>Natural Gas System</u>	<u>Water System</u>
Year ended September 30:			
2020	\$ 746,217	\$ 337,935	\$ 249,848
2021	263,608	(350,644)	21,147
2022	250,257	(126,716)	80,009
2023	382,606	396,699	250,965
2024	298,297	575,558	291,364
Thereafter	121,295	379,940	141,126

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

General Information about the OPEB Plan

Basis of Accounting – The financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the Utilities has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Methods Used to Value Investments – Plan assets have been segregated and restricted in an irrevocable trust fund with a local custodian bank. Plan assets are dedicated to providing retiree benefits and are protected from creditors. Investments are reported at fair value, which is determined by the trustee based on most recent bid and asked prices.

Plan Description and Benefits Provided – The Utilities provides certain health care and life insurance benefits to its retired employees, as a part of a single-employer defined benefit plan. Benefits include healthcare and dental care for eligible retirees and for retiree spouses to age 65 through the Utilities’ group health insurance plan, which covers both active and retired members. The Utilities self-funds its health and dental benefit plan. For retirees over age 65, the Utilities provides a supplemental Medicare policy. Life insurance is provided for retirees meeting eligibility requirements. No separate stand-alone OPEB plan financial statements are publicly available. However, information on funding progress, contributions, and other elements are included in these financial statements.

Employees Covered by Benefit Terms – The Utilities provides certain post-retirements health and life insurance benefits to all employees who retire from the Utilities under the provisions of the qualified plan and a minimum of 20 years of service. At September 30, 2019, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	379
Inactive plan members entitled to but not yet receiving benefit payments	-
Active Plan Members	670
	1,049
	1,049

Contributions – The benefits are not provided under any statutory or contractual authority, but rather by administrative decision. For 2019, the Utilities contributed \$5,694,113.

Net OPEB Liability

The Utilities’ net OPEB liability was measure as of September 30, 2018, and the total OEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions – The total OPEB liability in the September 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary Increase	3.25% - 5.00%
Long-term investment Rate of Return	5.00%

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



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

Mortality rates for ERS were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages on and after age 78. The rates of mortality of the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

Discount Rate – The discount rate used to measure the total OPEB liability was 5.00 percent. The projection of cash flows used to determine the discount rate assumed that the Utilities’ contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the OPEB liability.

<u>Electric System</u>	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at 9/30/2018	\$ 31,006,587	\$ 6,437,893	\$ 24,568,694
Changes for the year:			
Service Cost	704,430	-	704,430
Interest Cost	1,315,358	-	1,315,358
Differences between expected and actual experience	(2,122,639)	-	(2,122,639)
Contributions - employer	-	2,897,734	(2,897,734)
Change in Assumptions	(3,395,650)	-	(3,395,650)
Net investment income	-	183,871	(183,871)
Benefit payments	(698,442)	(698,442)	-
Administrative expense	-	(24,106)	24,106
Net Changes	(4,196,943)	2,359,057	(6,556,000)
Balances at 9/30/2019	\$ 26,809,644	\$ 8,796,950	\$ 18,012,694

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



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

<u>Gas System</u>	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at 9/30/2018	\$ 15,743,962	\$ 3,268,917	\$ 12,475,045
Changes for the year:			
Service Cost	357,682	-	357,682
Interest Cost	667,889	-	667,889
Differences between expected and actual experience	(1,077,795)	-	(1,077,795)
Contributions - employer	-	1,471,359	(1,471,359)
Change in Assumptions	(1,724,181)	-	(1,724,181)
Net investment income	-	93,363	(93,363)
Benefit payments	(354,642)	(354,642)	-
Administrative expense	-	(12,240)	12,240
Net Changes	(2,131,047)	1,197,840	(3,328,887)
Balances at 9/30/2019	\$ 13,612,915	\$ 4,466,756	\$ 9,146,158

<u>Water System</u>	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at 9/30/2018	\$ 14,178,095	\$ 2,943,796	\$ 11,234,299
Changes for the year:			
Service Cost	322,108	-	322,108
Interest Cost	601,462	-	601,462
Differences between expected and actual experience	(970,599)	-	(970,599)
Contributions - employer	-	1,325,020	(1,325,020)
Change in Assumptions	(1,552,697)	-	(1,552,697)
Net investment income	-	84,077	(84,077)
Benefit payments	(319,370)	(319,370)	-
Administrative expense	-	(11,023)	11,023
Net Changes	(1,919,096)	1,078,704	(2,997,800)
Balances at 9/30/2019	\$ 12,258,999	\$ 4,022,500	\$ 8,236,499



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

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The following presents the net OPEB liability of the Utilities, as well as what the Utilities’ net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.00 percent) or 1-percentage-point higher (6.00 percent) than the current discount rate:

	HU's Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
	4.00%	5.00%	6.00%
Net OPEB Liability	44,750,886	35,395,352	27,903,019

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the net OPEB liability of the utilities, as well as what the Utilities’ net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current discount rate:

	Healthcare Cost		
	1% Decrease	Trend Rate	1% Increase
	(6.75%)	(7.75%)	(8.75%)
Net OPEB Liability	\$ 26,838,088	\$ 35,395,352	\$ 46,459,693

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB of the following sources:

Electric Systems	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (2,122,663)
Change of assumptions or other inputs	-	(5,509,677)
Net difference between projected and actual earnings on plan investments	294,261	252,104
Total	\$ 294,261	\$ (7,380,236)



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

Gas Systems	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (1,075,163)
Change of assumptions or other inputs	-	(2,588,405)
Net difference between projected and actual earnings on plan investments	<u>137,785</u>	<u>127,695</u>
Total	<u>\$ 137,785</u>	<u>\$ (3,535,873)</u>

Water Systems	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (973,207)
Change of assumptions or other inputs	-	(2,472,462)
Net difference between projected and actual earnings on plan investments	<u>131,930</u>	<u>115,586</u>
Total	<u>\$ 131,930</u>	<u>\$ (3,330,083)</u>

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

Because the Utilities are component units of the City of Huntsville, they are not subject to income taxes, either at the federal or state level. The Electric System, however, does pay to the City of Huntsville a tax equivalent, which is determined by applying the current property tax rates to net plant in service at the end of the preceding year. The Natural Gas and Water Systems each pay a tax equivalent, which is a predetermined (6%) percentage of sales revenue. The tax equivalent for the year ended September 30, 2019 is as follows:

	<u>2019</u>
Electric System	13,477,577
Natural Gas System	2,731,597
Water System	2,635,769

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



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 1,572,500 MMBtus per year through December 2026 at index less .56 cents.

The Gas System has entered in to a purchase contract with Southeast Alabama Gas Supply District to procure natural gas supply. Under the contract, the Gas System has committed to purchase 219,958 MMBtu per year through October 2024 at index less \$0.35, and 439,895 MMBtu per year November 2024 through April 2049 at a discount yet to be determined.

Note 11 – Electric Purchase Commitments

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

Note 12 – Risk Management

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

Blanket real and personal property

Real property	\$ 350,000,000
Flood and earthquake	10,000,000
Blanket crime	1,000,000
Cyber	3,000,000
Automobile liability	1,000,000
Public officials and employment liability:	
Electric	5,000,000
Gas and Water	5,000,000
Workers compensation:	
Bodily injury (accident and disease)	Statutory
Excess coverage per occurrence (SIR)	1,000,000
Comprehensive general liability	Self-insured



Note 13 – Commitments and Contingencies

General Litigation

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

Construction Commitment

The Utilities entered into two construction contracts during fiscal year 2018 which are for the purpose of constructing a fiber network, with the work continuing into 2019. The Utilities also entered into a construction contract with Aclara to change out all regular meters into AMI Smart Meters. The total contract for each vendor is as follows:

	<u>Original Contract Amount</u>	<u>Amount Paid in current year</u>
Constructing a fiber network		
Bear Communication	45,236,000	9,787,549
Associated Diversified Services / Volt	8,000,000	11,492,845
 Constructing AMI Meter Network		
Aclara	8,500,000	719,884

City of Huntsville Electric, Natural Gas, and Water Systems
Notes to Financial Statements

As of and for the year ending September 30, 2019



Note 14 – Customer Deposits

During 2019, the Utilities had the following Customer Deposits:

2019			
	Deposits	Accrued Interest	Total
Electric System	\$ 37,130,526	\$ 9,028,784	\$ 46,159,310
Natural Gas System	3,636,052	884,155	4,520,207
Water System	4,720,691	1,147,899	5,868,590
	<u>\$ 45,487,269</u>	<u>\$ 11,060,838</u>	<u>\$ 56,548,107</u>

During 2019, the Utilities had the following Customer Deposit transactions:

Deposit Transactions

2019					
	Beginning Balance	New deposits	Returned Deposits	Deposit Allocation	Ending Balance
Electric System	\$ 35,822,127	\$ 7,774,984	\$ (6,357,986)	\$ (108,600)	\$ 37,130,525
Natural Gas System	3,488,081	761,375	(622,614)	9,210	3,636,052
Water System	4,434,410	988,494	(808,340)	106,127	4,720,691
	<u>\$ 43,744,618</u>	<u>\$ 9,524,853</u>	<u>\$ (7,788,940)</u>	<u>\$ 6,737</u>	<u>\$ 45,487,268</u>

Note 15 – Subsequent Events

The Utilities have evaluated subsequent events between September 30, 2019 and February 17, 2020, the date the financial statements were available to be issued, and there are none to disclose.

Note 16 – Limestone County Water Acquisition

During the year, the Utilities acquired the southern portion of the Limestone County Water System. The purchase was for \$11 million, and the Utilities acquired all the asset of the southern portion of the system, as well as the opportunity to provide services to the Mazda Toyota Plant. The capitalization of the assets acquired were capitalized based on the current replacement value, discounted to the remaining useful life of the assets. Of the \$11 million purchase price, \$5.8 million was capitalized in plant in service, and the remaining \$5.2 million is classified as Goodwill.

Required Supplementary Information

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



<u>ELECTRIC SYSTEM</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY:					
Service Cost	\$ 803,722	\$ 784,310	\$ 719,480	\$ 711,294	\$ 731,584
Interest	5,095,499	4,956,251	4,837,042	4,638,804	4,509,630
Difference in expected an actual experience	1,203,286	724,096	577,633	1,097,266	-
Changes of assumptions	373,579	-	1,593,475	-	-
Benefit payments, including refunds of employee contributions	(4,973,859)	(4,400,918)	(4,124,002)	(3,814,789)	(3,438,283)
Transfer among employees	13,353	19,486	23,428	-	-
Net change in total pension liability	2,515,580	2,083,225	3,627,056	2,632,575	1,802,931
Total pension liability - beginning	68,235,306	66,152,081	62,525,025	59,892,450	58,089,519
Total pension liability - end (a)	<u>\$ 70,750,886</u>	<u>\$ 68,235,306</u>	<u>\$ 66,152,081</u>	<u>\$ 62,525,025</u>	<u>\$ 59,892,450</u>
PLAN FIDUCIARY NET POSITION:					
Contribution - employer	\$ 2,182,899	\$ 2,147,571	\$ 1,991,515	\$ 1,891,153	\$ 1,956,167
Contribution - member	614,210	595,914	589,360	548,691	544,943
Net investment income	3,293,140	4,254,699	3,217,256	387,215	3,616,105
Benefit payments, including refunds of employee contributions	(4,973,859)	(4,400,918)	(4,124,002)	(3,814,789)	(3,438,283)
Transfers among employees	13,353	19,486	23,428	25,241	-
Net change in plan fiduciary net position	1,129,743	2,616,752	1,697,557	(962,489)	2,678,932
Plan net position - beginning	36,665,057	34,048,305	32,350,748	33,313,237	30,634,305
Plan net position - end (b)	<u>\$ 37,794,800</u>	<u>\$ 36,665,057</u>	<u>\$ 34,048,305</u>	<u>\$ 32,350,748</u>	<u>\$ 33,313,237</u>
Net pension liability - ending (a) - (b)	\$ 32,956,086	\$ 31,570,249	\$ 32,103,776	\$ 30,174,277	\$ 26,579,213
Plan fiduciary net position as a percentage of the total pension liability	53.42%	53.73%	51.47%	51.74%	55.62%
Covered employee payroll*	\$ 24,141,580	\$ 11,424,043	\$ 11,425,176	\$ 10,519,400	\$ 10,518,022
Net pension liability as a percentage of covered employee payroll	136.51%	276.35%	280.99%	286.84%	252.70%

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



GAS SYSTEMS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY:					
Service Cost	\$ 1,897,962	\$ 1,882,258	\$ 1,721,132	\$ 1,573,503	\$ 1,505,782
Interest	7,247,347	6,741,176	6,418,834	6,078,446	5,786,806
Difference in expected an actual experience	(822,170)	2,366,215	659,005	435,578	-
Changes of assumptions	586,214	-	1,964,837	-	-
Benefit payments, including refunds of employee contributions	(4,681,062)	(4,251,400)	(3,866,137)	(3,799,232)	(3,494,950)
Transfer among employees	40,750	7,819	42,460	-	-
Net change in total pension liability	4,269,041	6,746,068	6,940,131	4,288,295	3,797,638
Total pension liability - beginning	95,854,687	89,108,619	82,168,488	77,880,193	74,082,555
Total pension liability - end (a)	<u>\$ 100,123,728</u>	<u>\$ 95,854,687</u>	<u>\$ 89,108,619</u>	<u>\$ 82,168,488</u>	<u>\$ 77,880,193</u>
PLAN FIDUCIARY NET POSITION:					
Contribution - employer	\$ 2,545,068	\$ 2,756,952	\$ 2,756,354	\$ 2,552,653	\$ 2,501,138
Contribution - member	1,492,658	1,369,673	1,357,425	1,215,689	1,134,390
Net investment income	5,872,386	7,243,192	5,220,617	599,470	5,401,049
Benefit payments, including refunds of employee contributions	(4,681,062)	(4,251,400)	(3,866,137)	(3,799,232)	(3,494,950)
Transfers among employees	40,750	7,819	42,460	7,562	41,272
Net change in plan fiduciary net position	5,269,800	7,126,236	5,510,719	576,142	5,582,899
Plan net position - beginning	63,754,150	56,627,914	51,117,195	50,541,053	44,958,154
Plan net position - end (b)	<u>\$ 69,023,950</u>	<u>\$ 63,754,150</u>	<u>\$ 56,627,914</u>	<u>\$ 51,117,195</u>	<u>\$ 50,541,053</u>
Net pension liability - ending (a) - (b)	\$ 31,099,778	\$ 32,100,537	\$ 32,480,705	\$ 31,051,293	\$ 27,339,140
Plan fiduciary net position as a percentage of the total pension liability	68.94%	66.51%	63.55%	62.21%	64.90%
Covered employee payroll	\$ 7,739,953	\$ 26,518,350	\$ 26,520,532	\$ 24,318,743	\$ 22,247,041
Net pension liability as a percentage of covered employee payroll	401.81%	121.05%	122.47%	127.68%	122.89%

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



WATER SYSTEM

TOTAL PENSION LIABILITY:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Service Cost	\$ 485,793	\$ 477,197	\$ 441,272	\$ 402,811	\$ 386,061
Interest	2,610,062	2,488,908	2,345,199	2,243,404	2,164,859
Difference in expected an actual experience	156,748	453,854	976,221	194,984	-
Changes of assumptions	200,946	-	684,563	-	-
Benefit payments, including refunds of employee contributions	(2,112,418)	(1,645,720)	(1,564,096)	(1,573,407)	(1,564,812)
Transfer among employees	317,095	22,388	(42,396)	-	-
Net change in total pension liability	1,658,226	1,796,627	2,840,763	1,267,792	986,108
Total pension liability - beginning	34,734,430	32,937,803	30,097,040	28,829,248	27,843,140
PLAN FIDUCIARY NET POSITION:					
Total pension liability - end (a)	<u>\$ 36,392,656</u>	<u>\$ 34,734,430</u>	<u>\$ 32,937,803</u>	<u>\$ 30,097,040</u>	<u>\$ 28,829,248</u>

Contribution - employer	\$ 944,613	\$ 1,063,548	\$ 983,775	\$ 884,789	\$ 822,264
Contribution - member	365,308	362,182	350,968	334,737	291,847
Net investment income	1,888,916	2,355,477	1,722,031	199,105	1,828,686
Benefit payments, including refunds of employee contributions	(2,112,418)	(1,645,720)	(1,564,096)	(1,573,407)	(1,564,812)
Transfers among employees	317,095	22,388	(42,396)	480,153	(275,616)
Net change in plan fiduciary net position	1,403,514	2,157,875	1,450,282	325,377	1,102,369
Plan net position - beginning	20,652,988	18,495,113	17,044,831	16,719,454	15,617,085
Plan net position - end (b)	<u>\$ 22,056,502</u>	<u>\$ 20,652,988</u>	<u>\$ 18,495,113</u>	<u>\$ 17,044,831</u>	<u>\$ 16,719,454</u>
Net pension liability - ending (a) - (b)	\$ 14,336,154	\$ 14,081,442	\$ 14,442,690	\$ 13,052,209	\$ 12,109,794
Plan fiduciary net position as a percentage of the total pension liability	60.61%	59.46%	56.15%	56.63%	57.99%
Covered employee payroll	\$ 10,177,758	\$ 7,076,595	\$ 7,107,229	\$ 6,438,733	\$ 5,870,735
Net pension liability as a percentage of covered employee payroll	140.86%	198.99%	203.21%	202.71%	206.27%

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



Electric Systems

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution **	\$ 2,283,787	\$ 2,181,893	\$ 2,070,122	\$ 1,947,313	\$ 1,890,601
Contributions in relation to the actuarially determined contribution	2,283,787	2,181,893	2,070,122	1,947,313	1,890,601
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll ***	\$ 24,141,580	\$ 11,424,043	\$11,425,176	\$ 10,519,400	\$ 10,518,022
Contributions as a percentage of covered employee payroll	9.46%	20.23%	18.12%	16.83%	17.97%

* Employer's covered payroll during the measurement period is the covered payroll. For FY2019, the measurement period is October 1, 2018 - September 30, 2019. GASB issue a statement "Pension Issues" in March, 2017 to redefine covered payroll for FY2018.

** The amount of employer contributions related to normal and accrue liability components of employer rate net of any refunds or service payments. The Schedule of Employer Contributions is based on the 12 month period of the underlying financial statements.

*** Employer's covered payroll for FY2018 is the total covered payroll for the 12 month period of the underlying financial statement.

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2019 were based on the September 30, 2016 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2018 to September 30, 2019*:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	27 years
Asset valuation method	Five years smoothed market
Inflation	2.88%
Salary increases	3.375 - 5.125%, including inflation
Investment rate of return	7.875%, net of pension plan investment expense, including inflation

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



Gas Systems

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution **	\$ 969,879	\$ 2,546,158	\$ 2,664,475	\$ 2,746,903	\$ 2,746,903
Contributions in relation to the actuarially determined contribution	969,879	2,546,158	2,664,475	2,746,903	2,746,903
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll ***	\$ 7,739,953	\$ 26,518,350	\$ 26,520,532	\$ 24,318,743	\$ 22,247,041
Contributions as a percentage of covered employee payroll	12.53%	9.87%	10.05%	10.54%	12.35%

* Employer's covered payroll during the measurement period is the covered payroll. For FY2018, the measurement period is October 1, 2018 - September 30, 2017. GASB issue a statement "Pension Issues" in March, 2017 to redefine covered payroll for FY2018.

** The amount of employer contributions related to normal and accrue liability components of employer rate net of any refunds or service payments. The Schedule of Employer Contributions is based on the 12 month period of the underlying financial statements.

*** Employer's covered payroll for FY2018 is the total covered payroll for the 12 month period of the underlying financial statement.

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2019 were based on the September 30, 2016 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2018 to September 30, 2019*:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	25.9 years
Asset valuation method	Five years smoothed market
Inflation	2.88%
Salary increases	3.375 - 5.125%, including inflation
Investment rate of return	7.875%, net of pension plan investment expense, including inflation

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



Water Systems

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution **	\$ 986,800	\$ 944,369	\$ 1,030,584	\$ 983,774	\$ 822,264
Contributions in relation to the actuarially determined contribution	986,800	944,369	1,030,584	983,774	983,774
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (161,510)</u>
Covered employee payroll ***	\$ 10,177,758	\$ 7,076,595	\$ 7,107,229	\$ 6,438,733	\$ 5,870,735
Contributions as a percentage of covered employee payroll	9.70%	14.30%	14.56%	14.58%	14.01%

* Employer's covered payroll during the measurement period is the covered payroll. For FY2018, the measurement period is October 1, 2017 - September 30, 2018. GASB issue a statement "Pension Issues" in March, 2017 to redefine covered payroll for FY2018.

** The amount of employer contributions related to normal and accrue liability components of employer rate net of any refunds or service payments. The Schedule of Employer Contributions is based on the 12 month period of the underlying financial statements.

*** Employer's covered payroll for FY2018 is the total covered payroll for the 12 month period of the underlying financial statement.

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2019 were based on the September 30, 2016 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2018 to September 30, 2019*:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	28.5 years
Asset valuation method	Five years smoothed market
Inflation	2.88%
Salary increases	3.375 - 5.125%, including inflation
Investment rate of return	7.875%, net of pension plan investment expense, including inflation

City of Huntsville Electric, Natural Gas, and Water Systems
Other Supplementary Information
Schedules of Changes in the Net OPEB Liability



<u>Electric</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
TOTAL OPEB LIABILITY:			
Service Cost at end of year	\$ 704,430	\$ 821,371	\$ 963,912
Interest on the Total OPEB Liability	1,315,358	1,212,883	1,086,716
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(2,122,639)	(148,055)	-
Changes of assumptions or other inputs	(3,395,650)	(3,023,047)	(3,730,502)
Benefit payments	<u>(698,442)</u>	<u>(567,972)</u>	<u>(656,133)</u>
Net change in total OPEB liability	(4,196,943)	(1,704,819)	(2,336,007)
Total OPEB liability - beginning	<u>31,006,587</u>	<u>32,711,406</u>	<u>35,047,413</u>
 Total OPEB liability - end (a)	 <u>\$ 26,809,644</u>	 <u>\$ 31,006,587</u>	 <u>\$ 32,711,406</u>
PLAN FIDUCIARY NET POSITION:			
Contribution - employer	\$ 2,897,734	\$ 1,911,402	\$ 1,151,726
Contribution - non-employer	-	-	-
Contribution - active member	-	-	-
Net investment income	183,871	62,911	(1,767)
Benefit payments	(698,442)	(567,972)	(656,133)
Administrative expense	(24,106)	(19,814)	-
Other	<u>-</u>	<u>(13,752)</u>	<u>-</u>
Net change in plan fiduciary net position	2,359,057	1,372,776	493,826
Plan net position - beginning	<u>6,437,893</u>	<u>5,065,118</u>	<u>4,571,291</u>
 Plan net position - end (b)	 <u>\$ 8,796,950</u>	 <u>\$ 6,437,893</u>	 <u>\$ 5,065,118</u>
 Net pension liability - ending (a) - (b)	 \$ 18,012,694	 \$ 24,568,694	 \$ 27,646,288
 Total OPEB Liability	 \$ 26,809,644	 \$ 31,006,587	 \$ 32,711,406
 Plan Fiduciary Net Position	 <u>8,796,950</u>	 <u>6,437,893</u>	 <u>5,065,118</u>
 Net OPEB Liability	 \$ 18,012,694	 \$ 24,568,694	 \$ 27,646,288
 Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	 32.81%	 20.76%	 15.48%
 Covered Payroll	 \$ 23,335,935	 \$ 23,463,154	 \$ 23,463,154
 Net OPEB Liability as a percentage of covered payroll	 77.19%	 104.71%	 117.83%

City of Huntsville Electric, Natural Gas, and Water Systems
Other Supplementary Information
Schedules of Changes in the Net OPEB Liability



<u>Gas</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
TOTAL OPEB LIABILITY:			
Service Cost at end of year	\$ 357,682	\$ 417,061	\$ 489,438
Interest on the Total OPEB Liability	667,889	615,856	551,793
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(1,077,795)	(75,177)	-
Changes of assumptions or other inputs	(1,724,181)	(1,534,988)	(1,894,206)
Benefit payments	<u>(354,642)</u>	<u>(288,394)</u>	<u>(333,159)</u>
Net change in total OPEB liability	(2,131,047)	(865,642)	(1,186,135)
Total OPEB liability - beginning	<u>15,743,962</u>	<u>16,609,605</u>	<u>17,795,740</u>
 Total OPEB liability - end (a)	 <u>\$ 13,612,915</u>	 <u>\$ 15,743,963</u>	 <u>\$ 16,609,605</u>
PLAN FIDUCIARY NET POSITION:			
Contribution - employer	\$ 1,471,359	\$ 970,537	\$ 584,803
Contribution - non-employer	-	-	-
Contribution - active member	-	-	-
Net investment income	93,363	31,944	(897)
Benefit payments	(354,642)	(288,394)	(333,159)
Administrative expense	(12,240)	(10,061)	-
Other	-	(6,983)	-
Net change in plan fiduciary net position	<u>1,197,840</u>	<u>697,043</u>	<u>250,746</u>
Plan net position - beginning	<u>3,268,917</u>	<u>2,571,874</u>	<u>2,321,128</u>
 Plan net position - end (b)	 <u>\$ 4,466,757</u>	 <u>\$ 3,268,917</u>	 <u>\$ 2,571,874</u>
 Net pension liability - ending (a) - (b)	 \$ 9,146,158	 \$ 12,475,046	 \$ 14,037,731
 Total OPEB Liability	 \$ 13,612,915	 \$ 15,743,963	 \$ 16,609,605
 Plan Fiduciary Net Position	 <u>4,466,757</u>	 <u>3,268,917</u>	 <u>2,571,874</u>
 Net OPEB Liability	 \$ 9,146,158	 \$ 12,475,046	 \$ 14,037,731
 Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	 32.81%	 20.76%	 15.48%
 Covered Payroll	 \$ 11,849,098	 \$ 11,913,695	 \$ 11,913,695
 Net OPEB Liability as a percentage of covered payroll	 77.19%	 104.71%	 117.83%

City of Huntsville Electric, Natural Gas, and Water Systems
Other Supplementary Information
Schedules of Changes in the Net OPEB Liability



<u>Water</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
TOTAL OPEB LIABILITY:			
Service Cost at end of year	\$ 322,108	\$ 375,581	\$ 440,759
Interest on the Total OPEB Liability	601,462	554,604	496,913
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(970,599)	(67,700)	-
Changes of assumptions or other inputs	(1,552,697)	(1,382,321)	(1,705,812)
Benefit payments	<u>(319,370)</u>	<u>(259,711)</u>	<u>(300,024)</u>
Net change in total OPEB liability	(1,919,096)	(779,547)	(1,068,165)
Total OPEB liability - beginning	<u>14,178,095</u>	<u>14,957,643</u>	<u>16,025,808</u>
 Total OPEB liability - end (a)	 <u>\$ 12,258,999</u>	 <u>\$ 14,178,097</u>	 <u>\$ 14,957,643</u>
PLAN FIDUCIARY NET POSITION:			
Contribution - employer	\$ 1,325,020	\$ 874,009	\$ 526,639
Contribution - non-employer	-	-	-
Contribution - active member	-	-	-
Net investment income	84,077	28,767	(808)
Benefit payments	(319,370)	(259,711)	(300,024)
Administrative expense	(11,023)	(9,060)	-
Other	-	(6,288)	-
Net change in plan fiduciary net position	1,078,704	627,716	225,807
Plan net position - beginning	<u>2,943,796</u>	<u>2,316,080</u>	<u>2,090,272</u>
 Plan net position - end (b)	 <u>\$ 4,022,500</u>	 <u>\$ 2,943,796</u>	 <u>\$ 2,316,080</u>
 Net pension liability - ending (a) - (b)	 \$ 8,236,499	 \$ 11,234,300	 \$ 12,641,564
 Total OPEB Liability	 \$ 12,258,999	 \$ 14,178,097	 \$ 14,957,643
 Plan Fiduciary Net Position	 <u>\$ 4,022,500</u>	 <u>\$ 2,943,796</u>	 <u>\$ 2,316,080</u>
 Net OPEB Liability	 \$ 8,236,499	 \$ 11,234,300	 \$ 12,641,564
 Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	 32.81%	 20.76%	 15.48%
 Covered Payroll	 \$ 1,325,020	 \$ 1,325,020	 \$ 1,325,020
 Net OPEB Liability as a percentage of covered payroll	 621.61%	 847.86%	 954.07%

City of Huntsville Electric, Natural Gas, and Water Systems
Other Supplementary Information
Schedules of the Net OPEB Liability



<u>Electric</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability	\$ 26,809,644	\$ 31,006,587	\$ 32,711,406
Plan Fiduciary Net Position	<u>8,796,949</u>	<u>6,437,893</u>	<u>5,065,118</u>
Net OPEB Liability	<u>\$ 18,012,695</u>	<u>\$ 24,568,694</u>	<u>\$ 27,646,288</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	32.81%	20.76%	15.48%
Covered Payroll	\$ 23,335,935	\$ 23,463,154	\$ 23,463,154
Net OPEB Liability as a percentage of covered payroll	77.19%	104.71%	117.83%
<u>Gas</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability	\$ 13,612,915	\$ 15,743,963	\$ 16,609,605
Plan Fiduciary Net Position	<u>4,466,755</u>	<u>3,268,917</u>	<u>2,571,874</u>
Net OPEB Liability	<u>\$ 9,146,160</u>	<u>\$ 12,475,046</u>	<u>\$ 14,037,731</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	32.81%	20.76%	15.48%
Covered Payroll	\$ 11,849,098	\$ 11,913,695	\$ 11,913,695
Net OPEB Liability as a percentage of covered payroll	77.19%	104.71%	117.83%
<u>Water</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability	\$ 12,258,999	\$ 14,178,097	\$ 14,957,643
Plan Fiduciary Net Position	<u>4,022,500</u>	<u>2,943,796</u>	<u>2,316,080</u>
Net OPEB Liability	<u>\$ 8,236,499</u>	<u>\$ 11,234,300</u>	<u>\$ 12,641,564</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	32.81%	20.76%	15.48%
Covered Payroll	\$ 10,670,608	\$ 10,728,780	\$ 10,728,780
Net OPEB Liability as a percentage of covered payroll	77.19%	104.71%	117.83%

City of Huntsville Electric, Natural Gas, and Water Systems
Other Supplementary Information
Schedules of Employer OPEB Contributions



Electric

Actuarially Determined Contribution	\$ 1,792,875	\$ 1,792,875	\$ 1,792,875
Contributions in relation to the Actuarially Determined Contribution	<u>2,897,734</u>	<u>1,911,402</u>	<u>1,151,726</u>
Annual contribution deficiency (excess)	\$ (1,104,859)	\$ (118,527)	\$ 641,149
Covered Payroll	\$ 23,335,935	\$ 23,463,154	\$ 23,463,154
Actual contributions as a percentage of covered payroll	12.42%	8.15%	4.91%

Gas

Actuarially Determined Contribution	\$ 910,354	\$ 910,354	\$ 910,354
Contributions in relation to the Actuarially Determined Contribution	<u>1,471,359</u>	<u>970,537</u>	<u>584,803</u>
Annual contribution deficiency (excess)	\$ (561,005)	\$ (60,183)	\$ 325,551
Covered Payroll	\$ 11,849,098	\$ 11,913,695	\$ 11,913,695
Actual contributions as a percentage of covered payroll	12.42%	8.15%	4.91%

Water

Actuarially Determined Contribution	\$ 819,811	\$ 819,811	\$ 819,811
Contributions in relation to the Actuarially Determined Contribution	<u>1,325,020</u>	<u>874,009</u>	<u>526,639</u>
Annual contribution deficiency (excess)	\$ (505,209)	\$ (54,198)	\$ 293,172
Covered Payroll	\$ 10,670,608	\$ 10,728,780	\$ 10,728,780
Actual contributions as a percentage of covered payroll	12.42%	8.15%	4.91%

Other Supplementary Information

City of Huntsville Electric, Natural Gas, and Water Systems

Other Supplementary Information

Statistical Highlights – Electric Systems



STATISTICAL HIGHLIGHTS-ELECTRIC SYSTEM

Years Ending September 30

CATEGORIES	2019	2018	2017
OPERATING REVENUE			
Residential	\$ 262,073,009	\$ 260,774,819	\$ 231,572,251
Large Commercial and Industrial	203,600,012	200,216,020	200,194,454
Small Commercial	42,286,445	42,397,969	36,066,016
Public Street and Highway Lighting	5,111,686	4,777,392	4,863,964
Other Operating Revenue	20,190,347	17,256,557	13,376,089
Total Operating Revenue	\$ 533,261,499	\$ 525,422,757	\$ 486,072,774
CUSTOMERS			
Residential	168,699	164,945	162,931
Large Commercial and Industrial	2,894	2,938	2,872
Small Commercial	18,992	18,569	18,485
Public Street and Highway Lighting	663	653	640
Total Customers	191,248	187,105	184,928
KWH SALES (THOUSANDS)			
Residential	2,560,331	2,567,626	2,298,238
Large Commercial and Industrial	2,247,785	2,283,507	2,252,088
Small Commercial	378,182	375,896	340,273
Public Street and Highway Lighting	37,937	34,300	35,604
Total KWH Sales (Thousands)	5,224,235	5,261,329	4,926,203
OPERATING REVENUE/CUSTOMER			
Residential	\$ 1,553.49	\$ 1,580.98	\$ 1,421.29
Large Commercial and Industrial	70,352.46	68,147.05	69,705.59
Small Commercial	2,226.54	2,283.27	1,951.10
Public Street and Highway Lighting	7,709.93	7,316.07	7,599.94
OPERATING REVENUE/KWH			
Residential	\$ 0.102	\$ 0.102	\$ 0.101
Large Commercial and Industrial	0.091	0.088	0.089
Small Commercial	0.112	0.113	0.106
Public Street and Highway Lighting	0.135	0.139	0.137
KWH/CUSTOMER			
Residential	15,176.92	15,566.56	14,105.59
Large Commercial and Industrial	776,705.25	777,231.79	784,153.27
Small Commercial	19,912.70	20,243.20	18,408.04
Public Street and Highway Lighting	57,220.21	52,526.80	55,631.32
OPERATING REVENUE			
Residential	49.1%	49.6%	47.6%
Large Commercial and Industrial	38.2%	38.1%	41.2%
Small Commercial	7.9%	8.1%	7.4%
Public Street and Highway Lighting	1.0%	0.9%	1.0%
Other Operating Revenue	3.8%	3.3%	2.8%
CUSTOMERS			
Residential	88.2%	88.2%	88.1%
Large Commercial and Industrial	1.5%	1.6%	1.6%
Small Commercial	9.9%	9.9%	10.0%
Public Street and Highway Lighting	0.3%	0.3%	0.3%
Percentage of kWh Sold			
Residential	49.0%	48.8%	46.7%
Large Commercial and Industrial	43.0%	43.4%	45.7%
Small Commercial	7.2%	7.1%	6.9%
Public Street and Highway Lighting	0.7%	0.7%	0.7%

City of Huntsville Electric, Natural Gas, and Water Systems
Other Supplementary Information
Statistical Highlights – Electric Systems



STATISTICAL HIGHLIGHTS-ELECTRIC DIVISION
 Years Ending September 30

		<u>2019</u>	
<u>Top 10 by Revenue</u>		<u>Top 10 by Consumption</u>	
HUNTSVILLE HOSPITAL	\$ 8,933,267	HUNTSVILLE HOSPITAL	100,675,112 KWH
HUNTSVILLE SCHOOLS	\$ 6,003,648	TMMAL	63,966,990 KWH
TMMAL	\$ 4,447,729	HUNTSVILLE SCHOOLS	61,349,151 KWH
		TECHNICOLOR HOME	
HUNTSVILLE UTILITIES	\$ 4,120,590	ENTERTAINMENT SERVICES	55,912,341 KWH
WAL MART STORES EAST	\$ 3,941,692	SAINT GOBAIN CERAMIC	55,829,982 KWH
KENNAMETAL INC	\$ 3,677,540	KENNAMETAL INC	46,093,661 KWH
TECHNICOLOR HOME ENTERTAINMENT			
SERVICES	\$ 3,545,495.33	WAL MART STORES EAST	44,915,991 KWH
ALABAMA A&M UNIV	\$ 3,424,163	HUNTSVILLE UTILITIES	43,926,073 KWH
MAD CO BD OF ED	\$ 3,346,487	BOEING COMPANY	39,463,391 KWH
HUNTSVILLE CITY ENG	\$ 3,184,185	PPG INDUSTRIES INC WKS #22	39,176,199 KWH
		<u>2018</u>	
<u>Top 10 by Revenue</u>		<u>Top 10 by Consumption</u>	
HUNTSVILLE HOSPITAL	\$ 8,518,543	HUNTSVILLE HOSPITAL	98,374,602 KWH
HUNTSVILLE SCHOOLS	\$ 5,868,568	TMMAL	76,489,585 KWH
TMMAL	\$ 5,256,469	SAINT GOBAIN CERAMIC	66,825,744 KWH
SAINT GOBAIN CERAMIC	\$ 3,939,776	HUNTSVILLE SCHOOLS	62,359,274 KWH
		TECHNICOLOR HOME	
WAL MART STORES EAST	\$ 3,884,225	ENTERTAINMENT SERVICES	59,712,538 KWH
HUNTSVILLE UTILITIES	\$ 3,829,350	KENNAMETAL INC	49,566,427 KWH
KENNAMETAL INC	\$ 3,795,747	WAL MART STORES EAST	45,921,829 KWH
TECHNICOLOR HOME ENTERTAINMENT			
SERVICES	\$ 3,750,124	HUNTSVILLE UTILITIES	41,824,392 KWH
MAD CO BD OF ED	\$ 3,247,406	BASF CATALYSTS LLC	38,690,111 KWH
ALABAMA A&M UNIV	\$ 3,141,686	BOEING COMPANY	36,547,597 KWH
		<u>2017</u>	
<u>Top 10 by Revenue</u>		<u>Top 10 by Consumption</u>	
HUNTSVILLE HOSPITAL	\$ 7,916,573	HUNTSVILLE HOSPITAL	91,476,210 KWH
HUNTSVILLE SCHOOLS	\$ 6,116,198	TMMAL	79,137,907 KWH
TMMAL	\$ 5,257,134	HUNTSVILLE SCHOOLS	63,844,322 KWH
TECHNICOLOR HOME ENTERTAINMENT		TECHNICOLOR HOME	
SERVICES	\$ 4,056,149	ENTERTAINMENT SERVICES	63,317,066 KWH
HUNTSVILLE UTILITIES	\$ 3,888,189	SAINT GOBAIN CERAMIC	55,092,164 KWH
WAL MART STORES EAST	\$ 3,797,528	KENNAMETAL INC	47,615,774 KWH
KENNAMETAL INC	\$ 3,640,054	WAL MART STORES EAST	44,927,523 KWH
SAINT GOBAIN CERAMIC	\$ 3,579,830	HUNTSVILLE UTILITIES	42,074,252 KWH
MAD CO BD OF ED	\$ 3,046,318	BASF CATALYSTS LLC	37,434,940 KWH
ALABAMA A&M UNIV	\$ 3,018,277	ALABAMA A&M UNIV	34,583,277 KWH

City of Huntsville Electric, Natural Gas, and Water Systems
Other Supplementary Information
Statistical Highlights – Gas System



STATISTICAL HIGHLIGHTS-GAS SYSTEM
 Years Ending September 30

CATEGORIES	2019	2018	2017
OPERATING REVENUE			
Residential	\$ 21,432,988	\$ 20,882,355	\$ 13,815,923
Commercial	22,076,987	21,617,149	17,279,794
Industrial	2,025,905	2,100,922	2,055,685
Other Operating Revenue	3,479,662	3,548,204	2,315,863
Total Operating Revenue	\$ 49,015,542	\$ 48,148,630	\$ 35,467,265
CUSTOMERS			
Residential	50,988	49,266	48,080
Commercial	5,594	5,557	5,514
Industrial	14	16	18
Total Customers	56,596	54,839	53,612
MCF SALES			
Residential	1,829,033	1,877,024	1,351,105
Commercial	2,429,688	2,397,287	1,925,150
Industrial	288,082	302,966	315,426
Total MCF Sales	4,546,803	4,577,277	3,591,681
OPERATING REVENUE/CUSTOMER			
Residential	\$ 420.35	\$ 423.87	\$ 287.35
Commercial	3,946.55	3,890.08	3,133.80
Industrial	144,707.50	131,307.62	114,204.72
OPERATING REVENUE/MCF			
Residential	\$ 11.718	\$ 11.125	\$ 10.226
Commercial	\$ 9.086	\$ 9.017	\$ 8.976
Industrial	\$ 7.032	\$ 6.935	\$ 6.517
MCF/CUSTOMER			
Residential	35.87	38.10	28.10
Commercial	434.34	431.40	349.14
Industrial	20,577.29	18,935.38	17,523.67
OPERATING REVENUE %			
Residential	43.7%	43.4%	39.0%
Commercial	45.0%	44.9%	48.7%
Industrial	4.1%	4.4%	5.8%
Other Operating Revenue	7.1%	7.4%	6.5%
Total Operating Revenue	100.0%	100.0%	100.0%
CUSTOMERS %			
Residential	90.09%	89.84%	89.68%
Commercial	9.88%	10.13%	10.29%
Industrial	0.02%	0.03%	0.03%
Total Customers	100.00%	100.00%	100.00%

City of Huntsville Electric, Natural Gas, and Water Systems
Other Supplementary Information
Statistical Highlights – Gas System



STATISTICAL HIGHLIGHTS-GAS DIVISION

Years Ending September 30

2019

Top 10 by Revenue

HUNTSVILLE SCHOOLS	\$	958,008
POLARIS INDUSTRIES INC	\$	858,847
HUNTSVILLE CITY GSD	\$	692,335
REMINGTON ARMS COMPANY LLC	\$	544,831
ALABAMA A&M UNIV	\$	516,280
UNITED STATES ARMY	\$	509,049
BASF CATALYSTS LLC	\$	485,696
HUNTSVILLE HOSPITAL	\$	472,275
INTERNATIONAL PAPER COMPANY/ADVI	\$	441,682
HEALTH GROUP OF ALABAMA DBA CE	\$	307,672

Top 10 by Consumption

UNITED STATES ARMY	351,971,600	CUF
HUNTSVILLE HOSPITAL	231,936,000	CUF
NORRIS CYLINDER COMPANY INC	215,733,000	CUF
KOHLER CO	174,770,600	CUF
HUNTSVILLE SCHOOLS	110,575,100	CUF
UNITED STATES ARMY	108,913,000	CUF
POLARIS INDUSTRIES INC	104,965,500	CUF
REED CONTRACTING SERVICES INC	90,221,500	CUF
HUNTSVILLE CITY GSD	79,381,200	CUF
REMINGTON ARMS COMPANY LLC	66,693,000	CUF

2018

Top 10 by Revenue

HUNTSVILLE SCHOOLS	\$	960,147
POLARIS INDUSTRIES INC	\$	843,422
HUNTSVILLE CITY GSD	\$	705,637
VINTAGE PHARMACEUTICALS LLC	\$	482,345
HUNTSVILLE HOSPITAL	\$	465,173
REMINGTON ARMS COMPANY LLC	\$	447,909
UNITED STATES ARMY	\$	429,502
ALABAMA A&M UNIV	\$	400,083
INTERNATIONAL PAPER COMPANY	\$	383,579
BASF CATALYSTS LLC	\$	360,633

Top 10 by Consumption

UNITED STATES ARMY	346,378,000	CUF
BASF CATALYSTS LLC	335,460,000	CUF
HUNTSVILLE HOSPITAL	249,796,700	CUF
NORRIS CYLINDER COMPANY INC	220,226,000	CUF
HUNTSVILLE SCHOOLS	111,749,400	CUF
POLARIS INDUSTRIES INC	103,190,400	CUF
HUNTSVILLE CITY GSD	81,951,900	CUF
REMINGTON ARMS COMPANY LLC	59,454,000	CUF
VINTAGE PHARMACEUTICALS LLC	58,823,300	CUF
INTERNATIONAL PAPER COMPANY	54,487,000	CUF

2017

Top 10 by Revenue

HUNTSVILLE SCHOOLS	\$	804,077
VINTAGE PHARMACEUTICALS LLC	\$	620,143
HUNTSVILLE CITY GSD	\$	609,535
POLARIS INDUSTRIES INC	\$	576,428
REMINGTON ARMS COMPANY LLC	\$	400,067
ALABAMA A&M UNIV	\$	380,546
INTERNATIONAL PAPER COMPANY	\$	374,936
HUNTSVILLE HOSPITAL	\$	372,307
NEKTAR THERAPEUTICS	\$	319,085
UNITED STATES ARMY	\$	312,797

Top 10 by Consumption

BASF CATALYSTS LLC	320,366,000	CUF
UNITED STATES ARMY	318,496,500	CUF
HUNTSVILLE HOSPITAL	235,047,800	CUF
NORRIS CYLINDER COMPANY INC	206,195,000	CUF
KOHLER CO	156,842,800	CUF
UNITED STATES ARMY	127,683,000	CUF
HUNTSVILLE SCHOOLS	90,544,500	CUF
VINTAGE PHARMACEUTICALS LLC	75,521,900	CUF
HUNTSVILLE CITY GSD	71,075,700	CUF
POLARIS INDUSTRIES INC	69,904,400	CUF

City of Huntsville Electric, Natural Gas, and Water Systems
Other Supplementary Information
Statistical Highlights – Water System



STATISTICAL HIGHLIGHTS-WATER SYSTEM
 Years Ending September 30

CATEGORIES	2019	2018	2017
OPERATING REVENUE			
Residential	\$ 25,688,962	\$ 24,805,904	\$ 25,277,101
Commercial	12,964,076	12,361,612	12,701,204
Industrial	1,961,713	2,001,883	2,144,687
Government	2,646,627	2,586,136	2,449,761
Other	640,346	591,180	496,496
Fire Hydrants	1,570,843	1,550,673	1,485,508
Other Operating Revenue	1,343,693	1,250,982	1,203,196
Total Operating Revenue	\$ 46,816,260	\$ 45,148,370	\$ 45,757,953
CUSTOMERS			
Residential	89,313	86,813	85,380
Commercial	10,604	10,289	10,174
Industrial	56	57	61
Government	20	21	24
Other	11	9	8
Total Customers	100,004	97,189	95,647
METERED WATER GALLONS (THOUSAND)			
Residential	5,489,112	5,217,553	5,568,530
Commercial	3,427,835	3,247,143	3,377,103
Industrial	994,563	1,014,388	1,061,820
Government	1,547,155	1,501,700	1,412,265
Other	303,110	262,714	218,653
Total Sales Gallons (Thousands)	11,761,775	11,243,498	11,638,371
OPERATING REVENUE/CUSTOMER			
Residential	\$ 287.63	\$ 285.74	\$ 296.05
Commercial	1,222.56	1,201.44	1,248.40
Industrial	35,030.59	35,120.76	35,158.80
Government	132,331.35	123,149.31	102,073.38
Other	58,213.27	65,686.69	62,062.00
OPERATING REVENUE/ THOUSAND GALLONS			
Residential	\$ 4.680	\$ 4.754	\$ 4.539
Commercial	3.782	3.807	3.761
Industrial	1.972	1.973	2.020
Government	1.711	1.722	1.735
Other	2.113	2.250	2.271
THOUSAND GALLONS/CUSTOMER			
Residential	61.46	60.10	65.22
Commercial	323.26	315.59	331.93
Industrial	17,760.05	17,796.28	17,406.89
Government	77,357.75	71,509.52	58,844.38
Other	27,555.45	29,190.44	27,331.63
OPERATING REVENUE %			
Residential	54.9%	54.9%	55.2%
Commercial	27.7%	27.4%	27.8%
Industrial	4.2%	4.4%	4.7%
Government	5.7%	5.7%	5.4%
Other	1.4%	1.3%	1.1%
Fire Hydrants	3.4%	3.4%	3.2%
Other Operating Revenue	2.9%	2.8%	2.6%
Total Operating Revenue			
CUSTOMERS %			
Residential	89.31%	89.32%	89.27%
Commercial	10.60%	10.59%	10.64%
Industrial	0.06%	0.06%	0.06%
Government	0.02%	0.02%	0.03%
Other	0.01%	0.01%	0.01%
Total Customers	100.00%	100.00%	100.00%

City of Huntsville Electric, Natural Gas, and Water Systems
Other Supplementary Information
Statistical Highlights – Water System



STATISTICAL HIGHLIGHTS-WATER
 Years Ending September 30

<u>2019</u>			
<u>Top 10 by Revenue</u>		<u>Top 10 by Consumption</u>	
UNITED STATES ARMY	\$ 1,343,806	UNITED STATES ARMY	784,508,400 GAL
MADISON CO COMM S2WD	\$ 1,318,622	MADISON CO COMM S2WD	763,912,100 GAL
HUNTSVILLE CITY GSD	\$ 739,705	HUNTSVILLE CITY GSD	203,557,341 GAL
HUNTSVILLE HOSPITAL	\$ 431,840	HUNTSVILLE HOSPITAL	163,357,900 GAL
HOUSING AUTHORITY OF CITY OF HUNTSVILLE	\$ 430,746	NEW HOPE TOWN OF	149,623,000 GAL
HUNTSVILLE SCHOOLS	\$ 375,853	ALABAMA A&M UNIV	144,241,800 GAL
ALABAMA A&M UNIV	\$ 309,550	COVANTA HUNTSVILLE INC	124,350,500 GAL
NEW HOPE TOWN OF	\$ 306,171	HOUSING AUTHORITY OF CITY OF HUNTSVILLE	115,382,400 GAL
IMI HUNTSVILLE LLC	\$ 241,830	TRIANA TOWN OF	114,323,000 GAL
TRIANA TOWN OF	\$ 228,819	OAKWOOD UNIVERSITY	87,909,000 GAL

<u>2018</u>			
<u>Top 10 by Revenue</u>		<u>Top 10 by Consumption</u>	
UNITED STATES ARMY	\$ 1,314,449	UNITED STATES ARMY	765,894,800 GAL
MADISON CO COMM S2WD	\$ 1,286,604	MADISON CO COMM S2WD	738,073,900 GAL
HUNTSVILLE CITY GSD	\$ 714,959	HUNTSVILLE CITY GSD	193,735,490 GAL
HUNTSVILLE HOSPITAL	\$ 435,424	HUNTSVILLE HOSPITAL	170,403,000 GAL
HOUSING AUTHORITY OF CITY OF HUNTSVILLE	\$ 425,213	ALABAMA A&M UNIV	155,090,900 GAL
HUNTSVILLE SCHOOLS	\$ 394,681	NEW HOPE TOWN OF	150,617,000 GAL
ALABAMA A&M UNIV	\$ 325,104	COVANTA HUNTSVILLE INC	115,846,700 GAL
NEW HOPE TOWN OF	\$ 304,304	HOUSING AUTHORITY OF CITY OF HUNTSVILLE	112,391,900 GAL
IMI HUNTSVILLE LLC	\$ 259,798	TRIANA TOWN OF	103,946,000 GAL
TRIANA TOWN OF	\$ 208,480	HUNTSVILLE SCHOOLS	92,172,300 GAL

<u>2017</u>			
<u>Top 10 by Revenue</u>		<u>Top 10 by Consumption</u>	
MADISON CO COMM S2WD	\$ 1,313,708	MADISON CO COMM S2WD	750,659,600 GAL
UNITED STATES ARMY	\$ 1,152,614	UNITED STATES ARMY	665,814,300 GAL
HUNTSVILLE CITY GSD	\$ 724,187	HUNTSVILLE CITY GSD	207,274,200 GAL
HOUSING AUTHORITY OF CITY OF HUNTSVILLE	\$ 439,124	HUNTSVILLE HOSPITAL	173,368,700 GAL
HUNTSVILLE HOSPITAL	\$ 438,710	ALABAMA A&M UNIV	162,151,600 GAL
HUNTSVILLE SCHOOLS	\$ 419,908	NEW HOPE TOWN OF	142,575,000 GAL
ALABAMA A&M UNIV	\$ 335,767	HOUSING AUTHORITY OF CITY OF HUNTSVILLE	120,968,000 GAL
NEW HOPE TOWN OF	\$ 285,902	COVANTA HUNTSVILLE INC	117,029,800 GAL
IMI HUNTSVILLE LLC	\$ 285,677	HUNTSVILLE SCHOOLS	103,249,700 GAL
COVANTA HUNTSVILLE INC	\$ 205,305	IMI HUNTSVILLE LLC	89,807,700 GAL



Water Systems

A. Annual Average and Peak Day Production Huntsville Groundwater Sources

Average Day Production (mgd)	8.3
Percentage of Estimated Safe Capacity (80% = 10.8 mgd)	61%
Peak Day Production (mgd)	9.0
Percentage of Estimated Safe Capacity (80% = 10.8 mgd)	67%

B. Annual Average and Peak Day Production Huntsville Water Treatment Plants

Average Day Production (mgd)	42.9
Percentage of Estimated Safe Capacity (80% = 86.4 mgd)	40%
Peak Day Production (mgd)	73.3
Percentage of Estimated Safe Capacity (80% = 86.4 mgd)	68%
Plant Capacity	121.5

C. Additional Operating Data

Number of Water System Customers	100,004
Sales (Gallons)	11,761,775
Sales (Dollars)	43,901,724

City of Huntsville Electric, Natural Gas, and Water Systems
Other Supplementary Information

Unaudited Information for Year Ended September 30, 2019



Electric Systems

A. Debt Service Requirements for Electric Revenue Warrants

See Note 4 for Electric Revenue Warrants

B. Operating and Maintenance Cost Per Customer

The following compares Huntsville Utilities' operating and maintenance costs per customer and per 1,000 kWh sold to that of other local power companies regulated by the Tennessee Valley Authority for the fiscal year ended September 30, 2018, data for the trailing twelve months ended June 2018.

1. O&M Cost Per Average Customer

	Dollar Amount
Huntsville Utilities	\$269
Similar Distributors	\$358
Neighboring Distributors	\$316
All TVA Distributors	\$388
All Municipals	\$394
All Cooperatives	\$377

* - The June 30, 2019 Quarterly Report is not complete, therefore, these totals are March 2019 totals.

2. O&M Cost Per 1,000 kWh Sold

	Dollar Amount
Huntsville Utilities	\$9
Similar Distributors	\$13
Neighboring Distributors	\$12
All TVA Distributors	\$15
All Municipals	\$14
All Cooperatives	\$17

* - The June 30, 2019 Quarterly Report is not complete, therefore, these totals are March 2019 totals.

City of Huntsville Electric, Natural Gas, and Water Systems
Other Supplementary Information

Unaudited Information for Year Ended September 30, 2019



C. Revenue per Kilowatt

The following provides average revenue per kilowatt for residential, commercial and industrial customers, for Huntsville Utilities:

	Dollar Amount
Average Revenue per Kilowatt Hour - Residential	\$0.10
Average Revenue per Kilowatt Hour - Commercial 1,000 kW or less	\$0.11
Average Revenue per Kilowatt Hour - Industrial greater than 1,000 kW	\$0.09



I. Water System

A. Annual Average and Peak Day Production Huntsville Groundwater Sources

Average Day Production (mgd)	8.3
Percentage of Estimated Safe Capacity (80% = 12.4 mgd)	61%
Peak Day Production (mgd)	89.0
Percentage of Estimated Safe Capacity (80% = 12.4 mgd)	67%

B. Annual Average and Peak Day Production Huntsville Water Treatment Plants

Average Day Production (mgd)	42.9
Percentage of Plant Safe Capacity (80% = 76.8 mgd)	40%
Peak Day Production (mgd)	73.3
Percentage of Plant Safe Capacity (80% = 76.8 mgd)	68%
Plant Capacity (mgd)	121.5

C. Largest Purchasers

The 10 largest purchasers of potable water from the City, together with their respective billing amounts and consumption, were as follows:

Customer	Total Amount Billed	Total Water Consumption (gal.)
United States Army ⁽¹⁾	\$1,343,806	784,508,400
Madison County Commission	\$1,318,622	763,912,100
City of Huntsville (grounds/landscaping)	\$739,705	203,557,341
Huntsville Hospital	\$431,840	163,357,900
Housing Authority of the City of Huntsville	\$430,746	115,382,400
Huntsville Schools	\$375,853	86,975,400
Alabama A&M University	\$309,550	144,241,800
Town of New Hope	\$306,171	149,623,000
IMI Huntsville	\$241,830	74,269,800
Town of Triana	\$228,819	114,323,000



⁽¹⁾ Represents water sales to Redstone Arsenal.

D. Number and Type of Customers

The number and type of customers served by the Water System has been as follows:

Customer Type	Number
Residential	89,313
Commercial	10,604
Industrial	56
Governmental	20
Other	<u>11</u>
Total	100,004

E. Additional Operating Data

Number of Water System Customers	100,004
Sales (Gallons)	11,243,497,410
Sales (Dollars)	\$42,716,155

II. Electric System

A. Debt Service Requirements for Electric Revenue Warrants

See note 4 for Electric Revenue Warrants.

City of Huntsville Electric, Natural Gas, and Water Systems
Other Supplementary Information

Unaudited Information for Year Ended September 30, 2019



B. Operating Results from Electric System

The following provides the Electric System's operating results for the fiscal year ended September 30, 2018, and the resulting Annual Net Income for such fiscal year:

Operating Revenues	
Residential	\$260,774,819
Large commercial and industrial	\$200,216,020
Small commercial	\$ 42,397,969
Public street and highway lighting	\$ 4,777,392
Other operating revenue	\$ 17,256,557
Total Operating Revenues	\$525,422,757
Operating Expenses	
Purchased power	\$424,324,561
Transmission	\$ 339,496
Distribution	\$ 16,728,443
Customer accounting	\$ 6,729,594
Administrative and general	\$ 23,197,472
Depreciation	\$ 18,774,994
Payroll taxes	\$ 1,694,896
Total Operating Expenses	\$492,431,565
Operating Income	\$ 32,991,192
Non-Operating Revenues (Expenses)	
Gain on sale of assets	\$(112,404)
Interest income	\$(329,330)
Interest expense ⁽¹⁾	\$4,811,636
Amortization of bond discount	\$26,906
Amortization of bond premium	\$(1,371,083)
Total Non-Operating Revenues (Expenses)	\$3,025,726
Income Before Transfers	\$29,965,466
Transfers Out – Tax Equivalentts	\$11,097,956
Change in Net Assets	\$18,867,509
Add: Depreciation	\$18,774,994
Add: Tax equivalent payments	\$11,097,956
Add: Interest expense ⁽¹⁾	\$ 4,811,636
Add: Amortization of bond discount	\$ 1,371,083
Annual Net Income	\$54,923,178



C. Customers and Sales

The number of customers by class and the corresponding aggregate amount of revenue and kilowatt hours of electricity sold as of and for the indicated fiscal year ended September 30, 2018, have been as follows:

Customers	Residential kWh Sold	Revenue	Customers	50kWh and Under Sold	Revenue
164,945	2,2567,625,679	\$260,774,819	18,569	375,8995,697	\$42,397,969

Customers	Over 50 kWh Sold	Revenue	Customers	Other Lighting kWh Sold	Outdoor Revenue
2,938	2,283,507,104	\$200,216,020	653	34,299,819	\$4,777,392

Customers	Total kWh Sold	Revenue
187,105	5,261,328,299	\$508,166,200

The number of customers by class and the corresponding aggregate amount of revenue and kilowatt hours of electricity sold, expressed as a percentage for the indicated fiscal year ended September 30, 2018, have been as follows:

Percentage of Customers	
Residential	88%
Commercial	10%
Other	2%
Total	100%
Percentage of kWh Sold	
Residential	49%
Commercial	7%
Other	44%
Total	100%
Percentage of Revenue	
Residential	51%
Commercial	8%
Other	41%
Total	100%

**City of Huntsville Electric, Natural Gas, and Water Systems
Other Supplementary Information**

Unaudited Information for Year Ended September 30, 2019



D. Major Customers

The following chart sets forth the City's top ten customers, with associated sales revenues, distribution margin, percentage of distribution revenue to sales revenue, sales revenue as a percentage of total revenue, total kWh used by each customer, and the percentage of kWh used by each customer to total kWh used from all classes.

Customer Name	Total Customer Revenue	Distribution Sales Revenue	Distribution Revenue as % of Sales Revenue	Customer Revenue as % of Total HU Sales Revenue	Customer kWh	Customer kWh as % of Total HU kWh
Huntsville Hospital	\$8,518,543	\$8,518,543	100%	1.68%	98,374,602	1.87%
Huntsville Schools	\$5,868,568	\$5,868,568	100%	1.15%	62,359,274	1.19%
TMMAL	\$5,256,469	\$5,256,469	100%	1.03%	76,489,585	1.45%
Saint Gobain Ceramic	\$3,939,766	\$3,939,766	100%	0.78%	66,825,744	1.27%
Walmart Stores East	\$3,884,225	\$3,884,225	100%	0.76%	45,921,829	0.87%
Huntsville Utilities	\$3,829,350	\$3,829,350	100%	0.75%	41,824,392	0.79%
Kennametal Inc	\$3,795,747	\$3,795,747	100%	0.75%	49,566,427	0.94%
Technicolor Home Entertainment Services	\$3,750,124	\$3,750,124	100%	0.74%	59,712,538	1.13%
Mad Co BD of ED	\$3,247,406	\$3,247,406	100%	0.64%	28,839,611	0.55%
Alabama A&M Univ	\$3,141,686	\$3,141,686	100%	0.62%	36,023,950	0.68%



E. Operating and Maintenance Costs per Customer

The following compares Huntsville Utilities' operating and maintenance costs per customer and per 1,000 kWh sold to that of other local power companies regulated by the Tennessee Valley Authority for the fiscal year ended September 30, 2018, data for the trailing twelve months ended June 2018.

1. O&M Costs Per Average Customer

	Dollar Amount
Huntsville Utilities	\$248
Similar Distributors	\$388*
Neighboring Distributors	\$303
All TVA Distributors	\$372*
All Municipals	\$373*
All Cooperatives	\$371*

2. O&M Costs per 1,000 kWh Sold

	Dollar Amount
Huntsville Utilities	\$9
Similar Distributors	\$14*
Neighboring Distributors	\$11
All TVA Distributors	\$15*
All Municipals	\$13*
All Cooperatives	\$18*

* - Data is from TVA Report dated June 2017. Report not available at this time.

F. Revenue per Kilowatt

The following provides average revenue per kilowatt for residential, commercial and industrial customers, for Huntsville Utilities:

	Dollar Amount
Average Revenue per Kilowatt Hour - Residential	\$0.10
Average Revenue per Kilowatt Hour – Commercial 1,000 kW or Less	\$0.11
Average Revenue per Kilowatt Hour – Industrial greater than 1,000 kW	\$0.09