



HUNTSVILLE UTILITIES

ELECTRICITY • NATURAL GAS • WATER

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

***Component Unit
Financial Statements***

September 30, 2021



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INDEPENDENT AUDITORS' REPORT

To the Board 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 business-type activities and the remaining fund information 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, 2021, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the remaining fund information of the City of Huntsville Electric, Natural Gas, and Water Systems, as of September 30, 2021, and the respective changes in financial position, and, where applicable, cash flows 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 4 - 10, schedule of changes in the net pension liability on pages 68 – 70, schedule of employer pension contributions on pages 71 - 73, schedule of changes in the net OPEB liability on pages 74 - 76, schedules of employer OPEB contributions on page 77 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 inquiry 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 the 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 78 through 84 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2022 on our consideration of the Utilities internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Utilities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities' internal control over financial reporting and compliance.

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

CARR, RIGGS & INGRAM, LLC

Enterprise, Alabama
March 30, 2022

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

As of and for the year ending September 30, 2021



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

Overview of the Financial Statements

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

The Statement of Net Position reports the assets and deferred outflows of resources, less liabilities and deferred inflows of resources, with the difference being 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 each year based on revenues and expenses. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The Statements of Cash Flows report changes in cash and cash equivalents summarized by net changes from operating, capital, related financing, and investing activities. The notes provide additional detailed information to support the financial statements. The 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 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, 2021



**City of Huntsville Electric System
Table A-1
Condensed Statements of Net Position
(In Thousands)**

	2021	2020
Assets		
Current and other assets	\$ 185,688	\$ 138,552
Capital assets (net)	366,594	367,392
Total assets	552,282	505,944
Deferred Outflows of Resources		
Deferred Pension, Debt Refunding, OPEB	7,638	6,413
Total Assets and Deferred Outflows of Resources	\$ 559,920	\$ 512,357
Liabilities		
Current and other liabilities	\$ 61,495	\$ 60,311
Long-term liabilities	175,474	174,517
Total liabilities	236,969	234,828
Deferred Inflows of Resources		
Deferred Pension, Debt Refunding, OPEB	7,598	7,084
Net Position		
Total net position	315,353	270,445
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 559,920	\$ 512,357

2021 Compared to 2020:

As of September 30, 2021, the Electric System's total assets were \$560 million, an increase of 9.3%, compared to September 30, 2020. As of September 30, 2021, the Electric System's liabilities were \$237 million, an increase of 1.0% compared to September 30, 2020. As of September 30, 2021, the Electric System's net position was \$315 million, an increase of \$45 million or 16.6%, compared to September 30, 2020. This increase is due primarily to increase in Cash and Cash Equivalents. Improved cash balance was the result of credits from the TVA long-term partnership agreement and pandemic relief credit and the substantial completion of several major capital initiatives, as well as cash received from the Inter-governmental Services Agreement with Redstone Arsenal (IGSA).



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

	2021	2020
Operating revenues	\$ 539,257	\$ 510,735
Non-operating revenues	385	585
Total revenues	539,642	511,321
Operating expense	448,043	449,025
Depreciation expense	25,105	24,472
Non-operating expense	3,523	3,218
Total expenses	476,671	476,715
Income before transfers	62,972	34,606
Transfers out – tax equivalents	(18,064)	(15,438)
Change in net position	44,908	19,168
Beginning net position	270,445	251,277
Ending net position	\$ 315,353	\$ 270,445

2021 Compared to 2020:

As of September 30, 2021, the Electric System's total revenues were \$540 million, an increase of 5.5%, compared to September 30, 2020. This increase is primarily due to 5% increase in consumption from prior year. Additional revenue from fiber rental and the IGSA contributed to the increase in revenues.

The Electric System's operating expenses were \$477 million a .01% decrease from the previous year.

City of Huntsville Electric, Natural Gas, and Water Systems
Management's Discussion and Analysis
As of and for the year ending September 30, 2021



City of Huntsville Gas System
Table A-1
Condensed Statements of Net Position
(In Thousands)

	2021	2020
Assets		
Current and other assets	\$ 44,011	\$ 41,005
Capital assets (net)	137,639	130,769
Total assets	181,650	171,774
Deferred Outflows of Resources		
Deferred Pension, Debt Refunding, OPEB	10,271	8,591
Total Assets and Deferred Outflows of Resources	\$ 191,921	\$ 180,365
Liabilities		
Current and other liabilities	\$ 5,932	\$ 6,324
Long-term liabilities	56,949	56,114
Total liabilities	62,881	62,438
Deferred Inflows of Resources		
Deferred Pension, Debt Refunding, OPEB	3,606	3,620
Net Position		
Total net position	125,434	114,306
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 191,921	\$ 180,365

2021 Compared to 2020:

As of September 30, 2021, the Gas System's total assets were \$192 million, an increase of 6.4%, compared to September 30, 2020. This is primarily due to an increase in capital assets of 5.3%. As of September 30, 2021, the Gas System's total liabilities were \$63 million, an increase of .7%, compared to September 30, 2020. This increase is the result of increased pension cost. As of September 30, 2021, the Gas System's net position is \$125 million, an increase of 9.7%, compared to September 30, 2020. This is primarily due an increase in capital assets through expansion of the system with new customer connections.



City of Huntsville Gas System

Table A-2

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

	2021	2020
Operating revenues	\$ 55,523	\$ 47,592
Non-operating revenues	352	481
Total revenues	55,875	48,073
Operating expense	37,495	34,024
Depreciation expense	4,780	4,765
Non-operating expense	588	446
Total expenses	42,863	39,235
Income before transfers	13,012	8,838
Capital Contributions	1,182	756
Transfers out – tax equivalents	(3,066)	(2,653)
Change in net position	11,128	6,941
Beginning net position	114,306	107,365
Ending net position	\$ 125,434	\$ 114,306

2021 Compared to 2020:

As of September 30, 2021, the Gas System's total revenues were \$56 million, an increase of 16.2%, compared to September 30, 2020. This is primarily due to an increase in residential and small commercial revenue. As of September 30, 2021, the Gas System's expenses were \$43 million, up 9.2% compared to September 30, 2020, due to an increase in both purchased commodity and general and administrative costs.

City of Huntsville Electric, Natural Gas, and Water Systems
Management's Discussion and Analysis
As of and for the year ending September 30, 2021



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

Assets		
Current and other assets	\$ 78,774	\$ 70,606
Capital assets (net)	301,424	295,949
Total assets	380,198	366,555
Deferred Outflows of Resources		
Deferred Pension, Debt Refunding, OPEB	14,295	9,615
Total Assets and Deferred Outflows of Resources	\$ 394,493	\$ 376,170
Liabilities		
Current and other liabilities	\$ 15,093	\$ 17,317
Long-term liabilities	140,377	131,971
Total liabilities	155,470	149,288
Deferred Inflows of Resources		
Deferred Pension, Debt Refunding, OPEB	3,170	2,848
Net Position		
Total net position	235,853	224,034
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 394,493	\$ 376,170

2021 Compared to 2020:

As of September 30, 2021, the Water System's total assets were \$394 million, an increase of 4.9%, compared to September 30, 2020. The increase is a result of a 1.8% increase in capital assets. As of September 30, 2021, the Water System's total liabilities were \$155 million, an increase of 4.1%, compared to September 30, 2020. This increase relates to an increase in long term liabilities for improvements in treatment plants and distribution improvements in the Limestone County area. As of September 30, 2021, the Water System's net position is \$236 million, an increase of 5.3%, compared to September 30, 2020.



City of Huntsville Water System

Table A-2

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

	2021	2020
Operating revenues	\$ 49,131	\$ 46,507
Non-operating revenues	571	965
Total revenues	49,702	47,472
Operating expense	28,297	25,127
Depreciation expense	10,982	10,570
Non-operating expense	2,905	3,505
Total expenses	42,184	39,202
Income before transfers	7,518	8,270
Capital Contributions	7,044	4,946
Transfers out – tax equivalents	(2,743)	(2,708)
Change in net position	11,819	10,508
Beginning net position	224,034	213,526
Ending net position	\$ 235,853	\$ 224,034

2021 Compared to 2020:

As of September 30, 2021, the Water System's total revenues were \$50 million, an increase of 4.7%, compared to September 30, 2020. This increase is primarily due to other operating income increasing 5.6% from IGSA. As of September 30, 2021, the Water System's expenses were \$42 million. An increase of 7.6% compared to September 30, 2020 due to an increase in distribution and general and administrative costs. Capital contributions increased by 42.4% for September 30, 2021 compared to September 30, 2020 due to an increase in the aid to construction.

Wes Kelley, Chief Executive Officer

Melissa Marty, Chief Financial Officer

Huntsville Utilities

Component Unit Financial Statements and Required Supplementary Information

September 30, 2021

City of Huntsville Electric, Natural Gas, and Water Systems
Statement of Net Position
As of September 30, 2021



<i>September 30, 2021</i>	Electric	Gas	Water
Assets			
Current assets			
Cash and cash equivalents	\$ 40,745,101	\$ 8,563,648	\$ 13,527,598
Investments	-	3,640,833	13,195,796
Board designated funds			
Cash and cash equivalents	3,809,767	1,866,159	5,798,646
Investments	16,084,734	13,420,119	16,649,263
Restricted Funds			
Customer deposits			
Cash and cash equivalents	6,357,986	-	808,340
Investments	-	756,180	-
Accounts receivable - trade, net of allowance	55,016,657	2,805,671	8,203,842
Inventories - materials and supplies	14,796,288	3,971,344	2,890,294
Prepaid expenses	5,019	11,951	20,792
Accrued interest, rent and other receivables	4,478,863	129,495	374,051
Total current assets	141,294,415	35,165,400	61,468,622
Noncurrent assets			
Restricted noncurrent assets			
Customer deposits			
Cash and cash equivalents	43,527,386	-	4,645,030
Investments	-	4,925,474	-
Warrant funds			
Cash and cash equivalents	500,000	1,797,197	-
Investments	-	2,122,796	12,044,858
Total noncurrent assets	44,027,386	8,845,467	16,689,888
Other assets			
Regulatory asset - revenue warrant expense	366,395	-	613,475
Utility Plant			
Plant in service	732,517,276	216,909,745	451,215,648
Construction in progress	9,051,599	11,862,181	20,672,164
Total utility plant	741,568,875	228,771,926	471,887,812
Less accumulated depreciation	(374,974,790)	(91,133,116)	(170,463,586)
Total utility plant, net	366,594,085	137,638,810	301,424,226
Total assets	552,282,281	181,649,677	380,196,211
Deferred Outflows of Resources			
Deferred amount on debt refunding	555,118	-	5,047,806
Excess consideration provided for acquisition	-	-	5,178,646
Deferred amount on OPEB	601,725	266,540	273,541
Deferred amount on pension	6,481,197	10,004,742	3,795,510
Total deferred outflows of resources	7,638,040	10,271,282	14,295,503

(Continued)

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

City of Huntsville Electric, Natural Gas, and Water Systems
Statement of Net Position (Continued)

As of September 30, 2021



<i>September 30, 2021</i>	Electric	Gas	Water
Liabilities			
Current liabilities			
Accounts payable - trade	\$ 39,846,438	\$ 1,951,557	\$ 1,605,466
Accounts payable - other utility departments	2,461,383	-	4,759,102
Compensated absences	3,637,671	969,162	1,336,659
Accrued payroll	1,404,529	400,474	631,265
Customer deposits, current portion	6,357,986	756,180	808,340
Revenue warrants, current portion	3,090,000	1,429,584	4,650,000
Interest payable	1,177,447	12,415	649,227
Other current liabilities	3,519,965	413,104	652,108
Total current liabilities	61,495,419	5,932,476	15,092,167
Noncurrent liabilities			
Net pension liability	36,751,129	39,602,791	17,678,796
Net OPEB liability	16,275,465	7,209,394	7,398,754
Customer deposits, less current portion	43,527,386	4,925,474	4,645,030
Revenue warrants, less current portion	68,745,000	5,211,150	107,335,000
Unamortized bond premium	10,175,370	-	3,319,254
Total noncurrent liabilities	175,474,350	56,948,809	140,376,834
Total liabilities	236,969,769	62,881,285	155,469,001
Deferred Inflows of Resources			
Deferred inflows related to pension	625,114	517,664	-
Deferred inflows related to OPEB	6,972,547	3,088,565	3,169,687
Total deferred inflows of resources	7,597,661	3,606,229	3,169,687
Net Position			
Invested in capital assets, net of related debt	286,005,227	137,637,910	186,731,970
Restricted	18,717,054	13,321,716	33,843,540
Unrestricted	10,630,610	(25,526,181)	15,277,516
Total net position	315,352,891	125,433,445	235,853,026

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

City of Huntsville Electric, Natural Gas, and Water Systems
Statement Revenues, Expenses and Changes in Net Position
For the year ended September 30, 2021



<i>For the year ended September 30, 2021</i>	Electric	Gas	Water
Operating Revenues			
Residential	\$ 269,671,311	\$ 23,625,412	\$ 26,033,508
Large commercial and industrial	195,754,255	1,730,033	1,886,879
Small commercial	41,782,103	25,978,927	13,541,503
Government sales	-	-	2,837,639
Public street and highway lighting	5,296,917	-	-
Other sales	-	-	679,928
Other operating revenue	26,752,153	4,188,381	4,151,514
Total operating revenues	539,256,739	55,522,753	49,130,971
Operating Expenses			
Purchased commodity	392,210,834	21,852,552	33,911
Purification	-	-	2,344,053
Pumping	-	-	5,581,194
Transmission	237,715	-	-
Distribution	25,118,169	5,893,518	6,323,806
Customer accounting	3,600,088	1,384,702	2,122,082
Administrative and general	26,875,519	8,365,656	11,891,987
Depreciation	25,105,010	4,779,623	10,981,551
Total operating expenses	473,147,335	42,276,051	39,278,584
Operating income (loss)	66,109,404	13,246,702	9,852,387
Nonoperating (Revenues) Expenses			
Gain or loss on sale of assets	(142,766)	(69,500)	(129,442)
Interest income	(242,249)	(282,205)	(441,608)
Interest expense	4,260,363	587,658	3,793,691
Amortization of bond discount	26,906	-	37,019
Amortization of bond premium	(763,975)	-	(925,963)
Total nonoperating (revenues) expenses	3,138,279	235,953	2,333,697
Income before contributions and transfers	62,971,125	13,010,749	7,518,690
Capital contributions	-	1,182,219	7,043,571
Transfers out - tax equivalent	(18,063,735)	(3,065,742)	(2,743,235)
Change in net position	44,907,390	11,127,226	11,819,026
Net position, beginning of year	270,445,501	114,306,219	224,034,000
Net position, end of year	\$ 315,352,891	\$ 125,433,445	\$ 235,853,026

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

City of Huntsville Electric, Natural Gas, and Water Systems

Statement of Cash Flows

For the year ended September 30, 2021



For the year ended September 30, 2021	Electric	Gas	Water
Operating Activities			
Received from customers	\$ 532,693,989	\$ 54,985,872	\$ 49,076,403
Paid to suppliers for goods and services	(413,368,428)	(26,828,170)	(22,768,924)
Paid to employees for salaries and wages	(31,808,318)	(10,075,816)	(13,001,603)
Net cash provided by operating activities	87,517,243	18,081,886	13,305,876
Noncapital Financing Activities			
Transfers out - tax equivalent	(18,063,735)	(3,065,742)	(2,743,235)
Capital and Related Financing Activities			
Payment of principal on long-term debt	(2,940,000)	(1,397,793)	(4,901,000)
Issuance of long-term debt	-	-	14,265,945
Additions to plant in service	(24,306,661)	(11,648,649)	(16,456,394)
Capital contributions	-	1,182,219	7,043,571
Interest expense	(4,260,363)	(587,658)	(3,793,691)
Net cash used in capital and related financing activities	(31,507,024)	(12,451,881)	(3,841,569)
Investing Activities			
Proceeds from (purchase of) investment securities	622,133	(1,370,867)	(5,544,780)
Interest income earned on investments	242,249	282,205	441,608
Net cash provided by (used in) investing activities	864,382	(1,088,662)	(5,103,172)
Net increase in cash and cash equivalents	38,810,866	1,475,601	1,617,900
Cash and cash equivalents, beginning of year	56,129,374	10,751,403	23,161,714
Cash and cash equivalents, end of year	\$ 94,940,240	\$ 12,227,004	\$ 24,779,614
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and cash equivalents, current assets	\$ 50,912,854	\$ 10,429,807	\$ 20,134,584
Cash and cash equivalents, noncurrent assets	44,027,386	1,797,197	4,645,030
Cash and cash equivalents, end of year	\$ 94,940,240	\$ 12,227,004	\$ 24,779,614

(Continued)

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

City of Huntsville Electric, Natural Gas, and Water Systems

Statement of Cash Flows

For the year ended September 30, 2021



<i>For the year ended September 30, 2021</i>	Electric	Gas	Water
Reconciliation of Operating Income to Net Cash			
Provided by Operating Activities			
Operating income (loss)	\$ 66,109,404	\$ 13,246,702	\$ 9,852,387
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	25,105,010	4,779,623	10,981,551
Gain on sale of assets	142,766	69,500	129,442
Change in assets, deferred outflows, liabilities and deferred inflows:			
(Increase) decrease in assets and deferred outflows			
Accounts receivable	(6,562,750)	(536,881)	(54,568)
Accrued interest, rent and other receivables	(1,020,334)	103,190	(253,432)
Inventory	(1,385,896)	286,131	(496,423)
Prepaid items	(5,019)	(11,951)	(20,792)
Regulatory asset - revenue warrant expense	-	-	(181,407)
Deferred outflows of resources	(1,224,552)	(1,680,492)	(4,681,069)
Increase (decrease) in liabilities and deferred inflows			
Accounts payable	1,063,957	(155,130)	(856,083)
Compensated absences	38,723	(254,068)	(21,123)
Accrued payroll	235,118	46,980	107,251
Other current liabilities	794,201	25,450	119,211
Customer deposits	2,393,902	274,388	(829,666)
Interest payable	(64,253)	(2,838)	(1,152,320)
Total OPEB liability	(1,160,386)	(1,643,865)	(573,973)
Net pension liability	2,543,850	3,548,678	915,245
Deferred inflows of resources	513,502	(13,531)	321,645
Total adjustments	21,407,839	4,835,184	3,453,489
Net cash provided by operating activities	\$ 87,517,243	\$ 18,081,886	\$ 13,305,876

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

City of Huntsville Electric, Natural Gas, and Water Systems
Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position
Other Post Employment Benefit Plan



	9/30/2021	Electric	Gas	Water
Assets				
Cash and equivalents	\$ 1,790,747	\$ 943,556	\$ 418,931	\$ 428,260
Investments				
Pfm Multi Manager	729,589	384,493	170,286	174,810
Pfm Multi Manager Domestic	9,355,132	4,930,154	2,183,488	2,241,490
Pfm Multi Manager International	5,027,022	2,649,241	1,173,307	1,204,474
Primco Commodity	510,631	269,103	119,181	122,347
Principal Investors	359,017	189,202	83,795	86,020
Cohen&Steers Instl	353,751	186,427	82,565	84,759
Pfm Multi Manager Fixed Income	7,025,169	3,702,265	1,639,674	1,683,230
Spdr Blmbg	725,304	382,235	169,286	173,783
Accrued income	9	5	2	2
Total assets	25,876,371	13,636,681	6,040,515	6,199,175
Net position	\$ 25,876,371	\$ 13,636,681	\$ 6,040,515	\$ 6,199,175
Additions				
Employer contributions	\$ 1,500,000	\$ 790,500	\$ 350,100	\$ 359,400
Investment income				
Interest and dividends	392,684	206,946	91,652	94,086
Realized (gain) loss	1,809,961	953,849	422,445	433,667
Change in market value	1,756,075	925,451	409,868	420,756
Net investment income	3,958,720	2,086,246	923,965	948,509
Total additions	5,458,720	2,876,746	1,274,065	1,307,909
Deductions				
Administrative expenses	36,469	19,220	8,511	8,738
Increase in net position before reallocation	5,422,251	2,857,526	1,265,554	1,299,171
Reallocation of OPEB	-	370,053	(510,383)	140,330
Increase in net position	5,422,251	3,227,579	755,171	1,439,501
Net position restricted for OPEB, beginning of year	20,454,120	10,409,102	5,285,344	4,759,674
Net position restricted for OPEB, end of year	\$ 25,876,371	\$ 13,636,681	\$ 6,040,515	\$ 6,199,175

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



Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Huntsville Electric, Natural Gas, and Water Systems (the “Utilities” or “HU”) are a component unit of the City of Huntsville, Alabama.

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 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.

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

Enterprise and Fund Financial Statements

The enterprise financial statements (i.e., the statement of net position, the statement of revenues, expenses, and changes in net position, and statement of cash flows) report information on all of the nonfiduciary activities of the Utilities. Enterprise (or business-type) activities, which rely to a significant extent on fees and charges to external customers for support.

Separate financial statements are provided for fiduciary funds.



Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The enterprise financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The fiduciary net position of the Utilities Other Post Retirement Benefit (OPEB) Plan has been determined using the *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.

GAAP are set by the GASB, not the Financial Accounting Standards Board (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.

Fund Financial Statements

The fund financial statements provide information about the Utilities' funds, including its fiduciary fund. Separate statements for the fiduciary fund are presented. The emphasis of fund financial statements is on major enterprise funds, each displayed in a separate column. Fiduciary funds are used to report assets held in a trustee or agency capacity for others that cannot be used to support the Utilities' own programs.



Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (continued)

HU reports the following major enterprise funds:

The *Electric System* accounts for the activities of the City of Huntsville Electric System, which distributes power and fiber for the residents of the City of Huntsville.

The *Gas System* accounts for the activities of the City of Huntsville Gas System, which operates the gas distribution system for residents of the City of Huntsville.

The *Water System* accounts for the activities of the City of Huntsville Water System, which operates the water distribution system for residents of the City of Huntsville.

Additionally, the Utilities reports the following fund type:

The *OPEB funds* account for the activities of the Utilities' OPEB funds, which accumulate resources for OPEB benefit payments to qualified employees.

During the course of operations, the Utilities' has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. Balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances.

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

Cash and Cash equivalents

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

The Utilities' investments consist of U.S. Treasury, government agency, and state and local government securities. Investments are reported at fair market value, except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less.

Accounts Receivable – Trade and Allowance for Doubtful Accounts

Unbilled receivables – An amount for unbilled revenue is recorded for services rendered, but not yet billed as of the end of the fiscal year. The receivable is derived from cycle billings generated subsequent to fiscal year end and prorated for usage in September.



Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (continued)

Accounts Receivable – Trade and Allowance for Doubtful Accounts (continued)

Allowance for doubtful accounts – Accounts receivable have been reported net of the allowance for doubtful accounts. Accounts receivable in excess of 90 days are subject to being considered as uncollectible.

Inventories

Inventories are valued at the lower of cost or market using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

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.

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 place of natural gas. Pursuant to this program, the Utilities may execute fixed price and options contracts from time to time to help manage fluctuations in the market prices of natural gas.

Restricted Assets

Certain assets of the Utilities' are classified as restricted assets on the statement of net position because their use is limited by law through constitutional provisions or enabling legislation; or by restrictions imposed externally by creditors, grantors, contributors or laws or regulations of other governments. Special restricted asset accounts have been established to account for the sources and uses of these limited use assets as follows:

Customer deposit accounts – Deposited in interest bearing accounts and refunded upon termination of service with the Utilities and satisfaction of all obligations due.

Board designated – Includes assets set aside in each System to fund construction, renewal and replacement activity. 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 position portion of the balance sheets at September 30, 2021.



Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (continued)

Restricted Assets (continued)

Warrant funds – Includes certain proceeds from issuance of revenue warrants, as well as certain resources set aside for the repayment of the warrants.

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, HU has recognized certain regulatory assets in the accompanying Statements of Net Position. In the event HU no longer meets the criteria for regulated operations under GASB Statement No. 62, HU 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:

	Electric System	Gas System	Water System
Regulatory assets:			
Non-current:			
Unamortized debt expense	\$ 366,395	\$ -	\$ 613,475

Utility Plant

Utility plant, which include property, land, equipment, and construction in progress, are reported in the statement of net position. Capital assets are defined by HU as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

As the Utilities constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, ranging from three to fifty-five years. Improvements that extend the useful life of the assets are capitalized and depreciated over the remaining useful life of the asset.



Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (continued)

Utility Plant (continued)

Utility plant classes	Lives
Structures and improvements	5 - 50 years
Furniture, fixtures and other	3 - 25 years
Equipment	5 - 15 years
Electric distribution system	5 - 50 years
Gas distribution system	5 - 50 years
Water distribution system	5 - 50 years

Excess Consideration Provided for Acquisition

Under GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, intangible assets are defined as identifiable, non-financial assets capable of being separated, sold, transferred, or licensed, and include contractual or legal rights. Examples of intangible assets include rights-of-way easements, land use rights, water rights, licenses, and permits. The accounting pronouncement also provides guidance on the capitalization of internally generated intangible assets, such as the development and installation of computer software by or on behalf of the entity.

According to the standard, the Utilities' is required to capitalize intangible assets with a useful life extending beyond the reporting period. GASB Statement No. 51 also requires amortization of intangible assets over the benefit period, except for certain assets having an indefinite useful life. Assets with an indefinite life generally provide a benefit that is not constrained by legal or contractual limitations or any other external factor and, therefore, are not amortized (see Note 2).

Pensions

The Employees' Retirement System of Alabama (the Plan or ERS) 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 GASB. Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.



Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (continued)

Deferred outflows/inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditures) until then. The Utilities has four items that qualify for reporting in this category, the deferred amount on debt refunding, excess consideration provided for acquisition, deferred outflows related to other post-employment benefits (OPEB), and deferred outflows related to pension. The deferred amount on debt refunding is amortized over the shorter of the life of the refunding or refunding debt. The excess consideration provided by acquisition is reviewed annually for impairment. The deferred outflows related to OPEB and pension are an aggregate of items related to OPEB and Pension as calculated in accordance with GASB Codification Section P20: *Pension Activities – Reporting for Benefits Provided through Trusts that Meet Specified Criteria*. The deferred outflows related to OPEB and pension will be recognized as either pension expense or a reduction in the net pension liability in future reporting years.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The Utilities have two items that qualify for reporting in this category, deferred inflows related to pension and deferred inflows related to OPEB. The deferred inflows related to pension and OPEB are an aggregate of items related to pensions as calculated in accordance with GASB Codification Section P20: *Pension Activities – Reporting for Benefits Provided through Trusts that Meet Specified Criteria*. The deferred inflows related to pension and OPEB will be recognized as a reduction to expense in future reporting years.

Compensated Absences

HU's policy permits employees to accumulate earned but unused vacation and sick leave benefits up to certain limits for use in subsequent periods and various annual leave can be carried forward into the next fiscal year. Upon termination of employment, an employee is compensated for accumulated vacation leave and compensatory pay at current wage rates. The liability for such leave is reported as incurred in the financial statements and consists of unpaid, accumulated vacation leave and compensatory pay balances and does not reflect non-vesting accumulating rights to receive sick pay benefits.

Cost of Borrowing

In accordance with GASB Codification Section I30: *Interest Costs – Imputation*, bond issuance costs are expensed in the period incurred except for prepaid insurance costs.



Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (continued)

Categories and Classification of Net Position

Net position flow assumption – Sometimes HU will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is HU's policy to consider restricted – net position to have been depleted before unrestricted is applied.

The Utilities' net position is divided into three components:

Invested in capital assets, net of related debt – This component of net position consists of the historical cost of capital assets, net of accumulated depreciation, and is reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should also be included in this component of net position.

Restricted – This component of net position consists of assets that are restricted by contributors, contractual provisions, or enabling legislation, reduced by liabilities and deferred inflows of resources related to those assets. The Utilities' restricted net position as reported in the statement of net position consist of cash and investments which are restricted for debt service and capital improvements.

Unrestricted – This component of net position is the net amount of the assets, liabilities, and deferred inflows/outflows of resources that are not included in the determination of invested in capital assets or the restricted components of net position.

Revenues and Expenses

The Utilities' financial statements distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of HU are charges to customers for sales and services. 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 end month is estimated and accrued as unbilled revenue receivable. Operating expenses for HU include the cost of sales and services, administrative and general expenses, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues or expenses.



Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. The Electric System pays the City of Huntsville a tax equivalent, which is determined by applying the current property tax rates to the 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 is included in the Statement of Revenues, Expenses, and Change in Net Position as for the year ended September 30, 2021.

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.

Environmental Costs

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make various estimates. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term are related to the allowance for doubtful accounts, net pension liability, net OPEB liability.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 30, 2022, and determined that there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.



Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement seeks to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 is effective for the fiscal years beginning after December 15, 2019. As a result of this standard, HU included fiduciary fund financial statements for the OPEB Plan and related disclosures in these financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The implementation of this statement had no impact on the financial statements.

The Governmental Accounting Standards Board has issued statements that will become effective in future years. These statements are as follows:

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement 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 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 receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.



Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this statement 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports,
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan,
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended*, and No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans, as amended*, to reporting assets accumulated for postemployment benefits,
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements,
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition,



Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers,
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature, and
- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

In May 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objectives of this Statement are to address financial reporting issues that result from the replacement of an Interbank Offered Rate (IBOR) by providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment and clarification of the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; replacing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of an interest rate swap with a Secured Overnight Financing Rate or the Effective Federal Funds Rate; and providing exceptions to the lease modifications guidance in Statement 87 for lease contracts that are amended solely to replace an IBOR used to determine variable payments.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.



Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.



Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

In June 2020, the GASB issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021.

In October 2021, the GASB issued GASB Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness. The requirements of this Statement are effective for fiscal years ending after December 15, 2021.

HU is evaluating the requirements of the above statements and the impact on reporting.

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



Note 2: DETAILED NOTES

Cash, Cash Equivalents and Investments

A summary of cash and investments for the Utilities' for the year ended September 30, 2021 is as follows:

	Electric System	Gas System	Water System
Carrying amounts of:			
Cash and cash equivalents			
Unrestricted	\$ 40,745,101	\$ 8,563,648	\$ 13,527,598
Customer deposits - restricted	49,885,372	-	5,453,370
Warrant - restricted	500,000	1,797,197	-
Board designated	3,809,767	1,866,159	5,798,646
Investments			
Unrestricted	-	3,640,833	13,195,796
Customer deposits - restricted	-	5,681,654	-
Warrant - restricted	-	2,122,796	12,044,858
Board designated	16,084,734	13,420,119	16,649,263
Total	\$ 111,024,974	\$ 37,092,406	\$ 66,669,531
Cash and cash equivalents			
Unrestricted	\$ 40,745,101	\$ 8,563,648	\$ 13,527,598
Customer deposits - restricted	49,885,372	-	5,453,370
Warrant - restricted	500,000	1,797,197	-
Investments - unrestricted	-	3,640,833	13,195,796
Investments - restricted			
Customer deposits	-	5,681,654	-
Warrant construction funds	-	2,122,796	12,044,858
Board designated accounts			
Cash and cash equivalents			
Insurance fund	103,473	11,599	11,626
Worker's compensation fund	(2,147)	(19,493)	133,692
Construction fund	1,421,487	1,787,539	943,285
Renewal and replacement fund	486,954	86,514	-
Emergency fund	1,800,000	-	-
System development	-	-	4,710,043
Investments			
Insurance fund	1,641,276	1,001,576	1,003,916
Worker's compensation fund	2,002,147	1,996,332	1,848,154
Construction fund	9,633,892	7,882,924	6,043,540
Emergency fund	2,807,419	-	-
Rate stabilization fund	-	2,539,287	-
System development	-	-	7,753,653
Total	\$ 111,024,974	\$ 37,092,406	\$ 66,669,531



Note 2: DETAILED NOTES (Continued)

Cash, Cash Equivalents and Investments (continued)

As of September 30, 2021, the Utilities' cash and investment balances were entirely covered by federal depository insurance (FDIC) or by the Security for Alabama Funds Enhancement (SAFE) Program.

The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the FDIC. If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

A summary of cash for the fiduciary fund for the year ended September 30, 2021 is as follows:

	Electric System	Gas System	Water System
Carrying amounts of:			
Cash and cash equivalents	\$ 943,556	\$ 418,931	\$ 428,260
Cash and cash equivalents			
OPEB cash	\$ 915,782	\$ 406,600	\$ 415,654
OPEB trust	27,774	12,331	12,606
Total	\$ 943,556	\$ 418,931	\$ 428,260

As of September 30, 2021, the fiduciary fund cash balances were entirely covered by the FDIC or by the SAFE Program.

Investments

The following table sets forth by level, within the fair value hierarchy, the Utilities' investments at fair value as of September 30, 2021:

	Fair value	Maturities (in years)			Level
		Less than 1	1-5	More than 5	
Investments by fair value level					
Money Market Funds - U.S. Treasury Obligations	\$ 18,093,154	\$ 18,093,154	\$ -	\$ -	1
Certificate of Deposits	1,292,159	1,292,159	-	-	1
Government Sponsored Enterprises	63,454,740	4,013,160	59,441,580	-	1
Total investments measured by fair value level	82,840,053	\$ 23,398,473	\$ 59,441,580	\$ -	



Note 2: DETAILED NOTES (Continued)

Investments (continued)

The following table sets forth by level, within the fair value hierarchy, the fiduciary fund investments at fair value as of September 30, 2021:

	Fair value	Maturities (in years)			Level
		Less than 1	1-5	More than 5	
Investments by fair value level					
Mutual funds - equity	\$ 15,605,552	\$ 15,605,552	\$ -	\$ -	1
Mutual funds - fixed income	8,480,062	8,480,062	-	-	1
Total investments measured by fair value level	24,085,615	\$ 24,085,615	\$ -	\$ -	

Custodial credit risk – For an investment, this 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.

Interest rate risk – Interest rate risk is the possibility that interest rates will rise and reduce the fair value of the investment. The Utilities has limited its interest rate risk by investing in money market funds, certificates of deposit, and government sponsored enterprises.

Credit Risk – Section 150: *Investments* of the GASB Codification requires that governments provide information about credit risk associated with their investments by disclosing the credit rating of investments in debt securities as described by nationally recognized statistical rating organizations. The Utilities’ bond indentures for the outstanding Electric System Revenue Warrants and the Water System Revenue Warrants, limit the investments of the various restricted warrant 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.

Concentration risk – Section 150: *Investments* of the GASB Codification requires disclosures of investments in any one issuer that represents five percent or more of total investments, excluding investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds, external investment pools and other pooled investments. There are no investments held by a trustee that represent greater than 5% of total investments.

Fair Value – 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: DETAILED NOTES (Continued)

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 Utilities 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 assets or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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 following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2021.

Money Market Funds – U.S. Treasury Obligations – The fair value for Money Market Funds – U.S. Treasury Obligations is determined by quoted market prices, if available (Level 1).

Certificates of Deposit – The fair value for Certificates of Deposit is determined by quoted market prices, if available (Level 1).

Government Sponsored Enterprises – The fair value for Government Sponsored Enterprises is determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2).

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 HU 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.



Note 2: DETAILED NOTES (Continued)

Accounts Receivable

Operating revenues are generally recognized on the basis of cycle billings rendered monthly. The amount of services delivered for the period from the last billing date to September 30, 2021 (unbilled receivable), is estimated and accrued at year end. All accounts receivable are shown net of allowances for uncollectible accounts. The accounts receivable and allowance for uncollectible accounts at September 30, 2021, were as follows:

	Electric System	Gas System	Water System
Accounts receivable - trade	\$ 39,639,730	\$ 2,096,566	\$ 6,798,668
Unbilled utility receivable	15,620,518	739,236	1,408,104
Allowance for doubtful accounts	(243,591)	(30,131)	(2,930)
Total	\$ 55,016,657	\$ 2,805,671	\$ 8,203,842

Utility Plant

The following is a summary of changes in capital assets during the year ended September 30, 2021:

	Beginning Balance	Increases	Decreases	Ending Balance
Electric System				
Land and land rights	\$ 5,003,420	\$ 150,618	\$ -	\$ 5,154,038
Structures and improvements	626,917,958	31,334,222	(5,821,856)	652,430,324
Furniture, fixtures and other	73,482,872	1,904,605	(454,563)	74,932,914
	705,404,250	33,389,445	(6,276,419)	732,517,276
Less accumulated depreciation	(354,981,054)	(26,945,473)	6,951,737	(374,974,790)
Construction in progress	16,969,241	23,627,069	(31,544,711)	9,051,599
Total	\$ 367,392,437	\$ 30,071,041	\$ (30,869,393)	\$ 366,594,085
Gas System				
Land and land rights	\$ 1,803,038	\$ -	\$ -	\$ 1,803,038
Structures and improvements	190,428,828	9,819,219	(122,978)	200,125,069
Furniture, fixtures and other	14,498,494	640,917	(157,773)	14,981,638
	206,730,360	10,460,136	(280,751)	216,909,745
Less accumulated depreciation	(86,086,966)	(5,343,307)	297,157	(91,133,116)
Construction in progress	10,126,392	11,525,633	(9,789,844)	11,862,181
Total	\$ 130,769,786	\$ 16,642,462	\$ (9,773,438)	\$ 137,638,810

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



Note 2: DETAILED NOTES (Continued)

Utility Plant (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Water System				
Land and land rights	\$ 2,257,758	\$ -	\$ -	\$ 2,257,758
Structures and improvements	415,432,101	17,475,236	(364,300)	432,543,037
Furniture, fixtures and other	15,977,792	757,059	(319,998)	16,414,853
	433,667,651	18,232,295	(684,298)	451,215,648
Less accumulated depreciation	(159,593,632)	(11,554,252)	684,298	(170,463,586)
Construction in progress	21,875,362	15,887,102	(17,090,300)	20,672,164
Total	\$ 295,949,381	\$ 22,565,145	\$ (17,090,300)	\$ 301,424,226

Deposits

At September 30, 2021, the Utilities had the following customer deposits:

	Deposits	Accrued Interest	Total
Electric system	\$ 40,584,424	\$ 9,300,948	\$ 49,885,372
Gas System	4,590,229	1,091,425	5,681,654
Water System	4,286,359	1,167,011	5,453,370
Total	\$ 49,461,012	\$ 11,559,384	\$ 61,020,396

During the year ended September 30, 2021, the Utilities had the following Customer Deposit transactions:

	Beginning Balance	New Deposits	Returned Deposits	Deposit Allocation	Ending Balance
Electric system	\$ 38,461,350	\$ 9,375,069	\$ (7,804,363)	\$ 552,368	\$ 40,584,424
Gas System	4,379,128	1,073,962	(931,937)	69,076	4,590,229
Water System	5,088,378	1,014,629	(741,477)	(1,075,171)	4,286,359
Total	\$ 47,928,856	\$ 11,463,660	\$ (9,477,777)	\$ (453,727)	\$ 49,461,012

As of September 30, 2021, the Utilities' deposits were entirely covered by the FDIC or by the SAFE Program.



Note 2: DETAILED NOTES (Continued)

Deposits (continued)

Custodial credit risk – Custodial credit risk for deposits is the risk in the event of the failure of a depository financial institution a government may not be able to recover deposits. Monies placed on deposit with financial institutions in the form of demand deposits, time deposits or certificates of deposits are defined as public deposits. The financial institutions in which the Utilities places its deposits are certified as “qualified public depositories,” as required under the SAFE Program.

Long-Term Debt and Liabilities

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 disclosed below.

The 2017-A issue contained issuance cost of \$364,297 that are classified as regulatory asset and amortized over 20 years. At September 30, 2021, the unamortized regulatory asset is \$272,239. The 2017-A issue also contained a premium of \$11,204,297 that is being amortized over 20 years. At September 30, 2021, the unamortized premium is \$8,071,903. 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.

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 disclosed below.

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



Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Electric System (continued)

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, 2021, the unamortized regulatory asset is \$94,156. The 2017-B issue also contained a premium of \$3,669,067 that is being amortized over 15 years. At September 30, 2021, the unamortized premium is \$2,103,467.

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.

Year ending September 30,	Series 2017-A Warrants			Series 2017-B Warrants			Total	
	Principal	Interest	Rate	Principal	Interest	Rate	Principal	Interest
2022	\$ 1,985,000	\$ 2,724,125	5.00%	\$ 1,105,000	\$ 776,725	5.00%	\$ 3,090,000	\$ 3,500,850
2023	1,615,000	2,634,125	5.00%	1,625,000	708,475	5.00%	3,240,000	3,342,600
2024	2,170,000	2,539,500	5.00%	1,240,000	636,850	5.00%	3,410,000	3,176,350
2025	2,280,000	2,428,250	5.00%	1,300,000	573,350	5.00%	3,580,000	3,001,600
2026	2,400,000	2,311,250	5.00%	1,365,000	513,550	5.00%	3,765,000	2,824,800
2027	2,520,000	2,188,250	5.00%	1,425,000	450,625	5.00%	3,945,000	2,638,875
2028	2,650,000	2,059,000	5.00%	1,500,000	377,500	5.00%	4,150,000	2,436,500
2029	2,785,000	1,923,125	5.00%	1,575,000	300,625	5.00%	4,360,000	2,223,750
2030	2,930,000	1,780,250	5.00%	1,655,000	219,875	5.00%	4,585,000	2,000,125
2031	3,080,000	1,630,000	5.00%	1,740,000	13,000	5.00%	4,820,000	1,643,000
2032	3,240,000	1,472,000	5.00%	1,830,000	45,750	5.00%	5,070,000	1,517,750
2033	3,405,000	1,305,875	5.00%	-	-	-	3,405,000	1,305,875
2034	3,580,000	1,131,250	5.00%	-	-	-	3,580,000	1,131,250
2035	3,760,000	947,750	5.00%	-	-	-	3,760,000	947,750
2036	3,955,000	754,875	5.00%	-	-	-	3,955,000	754,875
2037	4,155,000	552,125	5.00%	-	-	-	4,155,000	552,125
2038	4,370,000	339,000	5.00%	-	-	-	4,370,000	339,000
2039	4,595,000	114,875	5.00%	-	-	-	4,595,000	114,875
Total	55,475,000	28,835,625		16,360,000	4,616,325		71,835,000	33,451,950
Current portion	(1,985,000)	(2,724,125)		(1,105,000)	(776,725)		(3,090,000)	(3,500,850)
Noncurrent portion	\$ 53,490,000	\$ 26,111,500		\$ 15,255,000	\$ 3,839,600		\$ 68,745,000	\$ 29,951,100



Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (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 \$41,948 are made monthly on the first of the month as disclosed below.

City of Huntsville, Alabama Gas Revenue and Term Warrant, Series 2019-B – Gas System Revenue Warrants, Series 2019-B, 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 as disclosed below.

<i>Year ending September 30,</i>	Series 2019-A Warrants			Series 2019-B Warrants			Total	
	Principal	Interest	Rate	Principal	Interest	Rate	Principal	Interest
2022	\$ 426,329	\$ 77,057	2.23%	\$ 1,003,255	\$ 57,239	2.26%	\$ 1,429,584	\$ 134,296
2023	435,934	67,452	2.23%	1,026,165	34,329	2.26%	1,462,099	101,781
2024	445,756	57,631	2.23%	961,224	10,896	2.26%	1,406,980	68,527
2025	455,798	47,588	2.23%	-	-	-	455,798	47,588
2026	466,067	37,319	2.23%	-	-	-	466,067	37,319
2027	476,567	26,819	2.23%	-	-	-	476,567	26,819
2028	487,304	16,083	2.23%	-	-	-	487,304	16,083
2029	456,335	5,104	2.23%	-	-	-	456,335	5,104
Total	3,650,090	335,053		2,990,644	102,464		6,640,734	437,517
Current portion	(426,329)	(77,057)		(1,003,255)	(57,239)		(1,429,584)	(134,296)
Noncurrent portion	\$ 3,223,761	\$ 257,996		\$ 1,987,389	\$ 45,225		\$ 5,211,150	\$ 303,221

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:



Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Water System (continued)

<i>Year ending September 30,</i>	Series 2013 Warrants		
	Principal	Interest	Rate
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	120,000	19,806	
Current portion	(10,000)	(3,163)	
Noncurrent portion	\$ 110,000	\$ 16,643	

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

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

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

City of Huntsville, Alabama Water Revenue and Term Warrants, Series 2015 - Water System Revenue Warrants, Series 2015, were issued in the original amount of \$92,810,000. The 2015 issue contained issuance cost of \$406,698 that are classified as regulatory asset and amortized over 20 years. The 2015 issue also contained a premium of \$12,610,058 that is being amortized over 20 years.

The Series 2015 Warrants were partially refunded with the issuance of the 2021-A Warrants. The outstanding amount after the refunding was \$15,255,000. At September 30, 2021, there was \$54,337 in debt issuance costs and \$1,395,782 of premium outstanding to be amortized over the remaining life of the warrant. See additional disclosure below.



Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Water System (continued)

The warrants mature serially on November 1 and May 1 each year and bear interest according to stated maturity dates as follows:

<i>Year ending September 30,</i>	Series 2015 Warrants		
	Principal	Interest	Rate
2022	\$ 3,575,000	\$ 619,750	2.50%
2023	3,700,000	491,500	2.50%
2024	3,890,000	301,750	2.50%
2025	4,090,000	102,250	2.50%
Total	15,255,000	1,515,250	
Current portion	(3,575,000)	(619,750)	
Noncurrent portion	\$ 11,680,000	\$ 895,500	

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.

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:

<i>Year ending September 30,</i>	Series 2016 Warrants		
	Principal	Interest	Rate
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	7,975,000	2,354,126	
Current portion	(450,000)	(341,825)	
Noncurrent portion	\$ 7,525,000	\$ 2,012,301	



Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Water System (continued)

The 2016 issue contained issuance cost of \$171,652 that are classified as regulatory asset and amortized over 20 years. At September 30, 2021, the unamortized regulatory asset is \$117,296. The 2016 issue also contained a premium of \$1,090,205 that is being amortized over 20 years. At September 30, 2021, the unamortized premium is \$623,649.

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.

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. The Series 2019 Warrants were fully refunded with the issuance of the 2021-A Warrants. See additional disclosure below.

City of Huntsville, Alabama Water Revenue and Term Warrants, Series 2021-A – On August 3, 2021, Huntsville Utilities issued \$7,010,000 of Series 2021-A General Obligation Warrants. HU used these warrants to (i) refund, on a current basis, the Series 2019 Warrant, and (ii) pay the costs of issuing the Series 2021-A Warrants. As a result, the 2019 series bonds are considered defeased and the Utilities has removed the liability from its accounts.

Warrants mature serially on November 1 and May 1 each year and bear interest according to stated maturity dates as follows:



Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Water System (continued)

<i>Year ending September 30,</i>	Series 2021-A Warrants		
	Principal	Interest	Rate
2022	\$ 185,000	\$ 249,597	2.44%
2023	840,000	316,050	2.50%
2024	880,000	277,250	2.50%
2025	920,000	232,250	2.50%
2026	970,000	185,000	2.50%
2027	1,020,000	135,250	2.50%
2028	1,070,000	83,000	2.50%
2029	1,125,000	28,125	2.50%
Total	7,010,000	1,506,522	
Current portion	(185,000)	(249,597)	
Noncurrent portion	\$ 6,825,000	\$ 1,256,925	

The 2021-A issue contained issuance cost of \$40,554 that are classified as regulatory asset and amortized over 87 months. At September 30, 2021, the unamortized regulatory asset is \$39,622. The 2021-A issue also contained a premium of \$1,330,407 that is being amortized over 87 months. At September 30, 2021, the unamortized premium is \$1,299,823.

City of Huntsville, Alabama Water Revenue and Term Warrants, Series 2021-B – On August 3, 2021, Huntsville Utilities issued \$71,010,000 of Series 2021-B General Obligation Warrants. HU used these warrants to (i) refund, on an advance basis, a portion of the 2015 Warrants, and (ii) pay the costs of issuing the Series 2021 Warrants.



Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Water System (continued)

Warrants mature serially on November 1 and May 1 each year and bear interest according to stated maturity dates as follows:

<i>Year ending September 30,</i>	Series 2021-B Warrants		
	Principal	Interest	Rate
2022	\$ -	\$ 792,757	0.75%
2023	1,430,000	1,063,696	0.75%
2024	1,430,000	1,060,336	0.76%
2025	1,435,000	1,054,732	0.78%
2026	5,655,000	1,029,319	0.79%
2027	5,705,000	979,480	0.82%
2028	5,770,000	917,366	0.86%
2029	5,840,000	844,081	0.89%
2030	5,925,000	759,418	0.92%
2031	6,025,000	664,391	0.94%
2032	6,125,000	563,229	0.97%
2033	6,230,000	454,157	1.00%
2034	6,350,000	335,246	1.02%
2035	6,475,000	207,606	1.05%
2036	6,615,000	70,781	1.07%
Total	71,010,000	10,796,595	
Current portion	-	(792,757)	
Noncurrent portion	\$ 71,010,000	\$ 10,003,838	

The 2021-B issue contained issuance cost of \$406,980 that are classified as a regulatory asset and amortized over 171 months. At September 30, 2021, the unamortized regulatory asset is \$402,220. The 2021-B issue did not contained a premium.

The 2021-B Warrants were issued to advance refund \$60,815,000 of the outstanding Series 2015 Warrants. As a result, the 2015 series bond is considered partially defeased and the Utilities has reduced the liability on its accounts. The Utilities deposited the proceeds, along with other resources, into a separate escrow fund 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 November 1, 2024 (2015 Warrants).



Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Water System (continued)

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 2015 Warrants were \$4,611,034. The deferred amount on the 2015 Warrants includes \$229,109 of previous unamortized issuance costs and is net of \$5,884,920 of an unamortized premium. The deferred amount of the 2015 Warrants is being amortized over the remaining life of the 2015 Warrants using the straight line method. Amortization of \$59,930 has been recorded as of September 30, 2021.

The Utilities refunded the 2015 Warrants to reduce the annual debt service requirements. The refunding decreased the total debt service payments over the next 15 years by approximately \$15,108,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) for the utilities of approximately \$14,260,000.

City of Huntsville, Alabama Subordinated Water Revenue Warrant, Series 2021-DWSRF-DL – On February 15, 2021, Huntsville Utilities issued \$10,615,000 of Series 2021-DWSRF-DL Warrants. HU will use these warrants to make water system improvements. Principal installments are due on February 15 each year and bear interest according to stated maturity dates as follows:

<i>Year ending September 30,</i>	Principal	Interest
2022	\$ 430,000	\$ 228,800
2023	440,000	219,230
2024	445,000	209,495
2025	455,000	199,595
2026	465,000	189,475
2027	475,000	179,135
2028	490,000	168,520
2029	500,000	157,630
2030	510,000	146,520
2031	520,000	135,190
2032	530,000	123,640
2033	545,000	111,815
2034	555,000	99,715
2035	570,000	87,340
2036	580,000	74,690
2037	595,000	61,765
2038	605,000	48,565
2039	620,000	35,090
2040	635,000	21,285
2041	650,000	7,150
Total	10,615,000	2,504,645
Current portion	(430,000)	(228,800)
Payable after one year	\$ 10,185,000	\$ 2,275,845

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



Note 2: DETAILED NOTES (Continued)

Changes in Long-Term Debt

Long-term liability activity for the year ended September 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Electric System</u>					
Series 2017 A	\$ 57,365,000	\$ -	\$ (1,890,000)	\$ 55,475,000	\$ 1,985,000
Series 2017 B	17,410,000	-	(1,050,000)	16,360,000	1,105,000
Unamortized premium	10,939,345	-	(763,975)	10,175,370	-
Long-term debt	\$ 85,714,345	\$ -	\$ (3,703,975)	\$ 82,010,370	\$ 3,090,000
<u>Gas System</u>					
Series 2019-A	\$ 4,067,026	\$ -	\$ (416,936)	\$ 3,650,090	\$ 426,329
Series 2019-B	3,971,501	-	(980,857)	2,990,644	1,003,255
Long-term debt	\$ 8,038,527	\$ -	\$ (1,397,793)	\$ 6,640,734	\$ 1,429,584
<u>Water System</u>					
Series 2013	\$ 130,000	\$ -	\$ (10,000)	\$ 120,000	\$ 10,000
Series 2015	79,520,000	-	(64,265,000)	15,255,000	3,575,000
Series 2016	8,405,000	-	(430,000)	7,975,000	450,000
Series 2019	9,975,000	-	(9,975,000)	-	-
Series 2021-A	-	7,010,000	-	7,010,000	185,000
Series 2021-B	-	71,010,000	-	71,010,000	-
Series 2021-DWSRF-DL	-	10,615,000	-	10,615,000	430,000
Unamortized premium	8,799,730	1,299,823	(6,780,299)	3,319,254	-
Long-term debt	\$ 106,829,730	\$ 89,934,823	\$ (81,460,299)	\$ 115,304,254	\$ 4,650,000



Note 2: DETAILED NOTES (Continued)

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.

Invested in capital assets, net of related debt

The elements of this calculation are as follows:

	Electric System	Gas System	Water System
Capital assets (net)	\$ 366,594,085	\$ 137,638,810	\$ 301,424,226
Outstanding debt related to capital assets	(80,588,858)	-	(114,692,256)
Invested in capital assets, net of related debt	\$ 286,005,227	\$ 137,638,810	\$ 186,731,970

Note 3: RETIREMENT PLAN

Plan Description

The Employees' Retirement System of Alabama (ERS), an agent multiple-employer plan, was established as of October 1, 1945, pursuant to the *Code of Alabama 1975, Title 36, Chapter 27 (Act 515 of the Legislature of 1945)*. The purpose of the ERS is to provide 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 operation of ERS is vested in its Board of Control which consists of 13 trustees. Effective October 1, 2021, Act 390 of the Legislature of 2021 will create two additional representatives and change the composition of representatives within the ERS Board of Control. The Plan is administered by the Retirement Systems of Alabama ("RSA"). The *Code of Alabama, Title 36, Chapter 27* grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.



Note 3: RETIREMENT PLAN (Continued)

Plan Description (continued)

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

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county or a public agency each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.

Benefits Provided

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

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.



Note 3: RETIREMENT PLAN (Continued)

Benefits Provided (continued)

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 equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

Act 132 of the Legislature of 2019 allowed employers who participate in the ERS pursuant to *Code of Alabama 1975, Section 36-27-6* to provide Tier 1 retirement benefits to their Tier 2 members. Tier 2 members of employers adopting Act 2019-132 will contribute 7.5% of earnable compensation for regular employees and 8.5% for firefighters and law enforcement officers. A total of 590 employers adopted Act 2019-132.

The ERS serves approximately 853 local participating employers. The ERS membership includes approximately 101,245 participants. As of September 30, 2020, membership consisted of:

Retirees and beneficiaries currently receiving benefits	28,672
Terminated employees entitled to but not yet receiving benefits	1,974
Terminated employees not entitled to a benefit	14,133
Active members	56,369
Post-DROP participants who are still in active service	97
Total	101,245

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation.

Employers participating in the ERS pursuant to *Code of Alabama 1975, Section 36-27-6* were not required by statute to increase covered member contribution rates but were provided the opportunity to do so through Act 2011-676. Tier 1 covered members of the ERS contribute 5% of earnable compensation to the ERS as required by statute.



Note 3: RETIREMENT PLAN (Continued)

Contributions (continued)

Tier 2 covered members of the ERS contribute 7.5% 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 pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2021, the Utilities' active employee contribution rate was 5% of covered employee payroll for normal Tier 1 employees and 6% of covered employee payroll for normal Tier 2 employees, and the Utilities' average contribution rate to fund the normal and accrued liability costs as a percentage of pensionable payroll, as well as the contractually required employer contribution rate as a percentage of pensionable payroll, as of September 30, 2021 was as follows:

	Employee		Employer	
	Tier 1 Employees	Tier 2 Employees	Tier 1 Employees	Tier 2 Employees
Electric	19.26%	17.54%	19.74%	18.35%
Gas	10.16%	8.71%	10.67%	9.47%
Water	16.02%	14.05%	16.51%	14.77%

These required contribution rates are based upon the actuarial valuation as of September 30, 2017, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Utilities' were as follows for the year ended September 30, 2021:

	Employer Contributions
Electric	2,619,852
Gas	2,938,839
Water	1,190,845



Note 3: RETIREMENT PLAN (Continued)

Net Pension Liability

The Utilities' net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2019 rolled forward to September 30, 2020, using standard roll-forward techniques as shown in the following table:

	Expected	Actual Before Act 2019-132	Actual After Act 2019-132
Electric System			
(a) Total Pension Liability as of September 30, 2019	\$ 70,907,566	\$ 72,122,998	\$ 72,383,986
(b) Discount Rate	7.70%	7.70%	7.70%
(c) Entry Age Normal Cost for the Period October 1, 2019 - September 30, 2020	814,975	814,975	873,735
(d) Transfers among Employers:	-	(13,111)	(13,111)
(e) Actual Benefit Payments and Refunds for the period October 1, 2019 - September 30, 2020	(5,297,963)	(5,297,963)	(5,297,963)
(f) Total Pension Liability as of September 30, 2020 =[(a) x (1+(b))] + (c) + (d) + [(e) x (1+0.5*(b))]	\$ 71,680,489	\$ 72,976,398	\$ 73,316,243
(g) Difference between Expected and Actual:		\$ 1,295,909	
(h) Less Liability Transferred for Immediate Recognition:		(13,111)	
(i) Difference between Expected and Actual - Experience (Gain)/Loss		\$ 1,309,020	
(j) Difference between Actual Total Pension Liability Before and After Act 2019-132 - Benefit Change (Gain)/Loss			339,845

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



Note 3: RETIREMENT PLAN (Continued)

Net Pension Liability (continued)

	Expected	Actual Before Act 2019-132	Actual After Act 2019-132
Gas System			
(a) Total Pension Liability as of September 30, 2019	\$ 105,616,807	\$ 106,768,709	\$ 107,400,640
(b) Discount Rate	7.70%	7.70%	7.70%
(c) Entry Age Normal Cost for the Period October 1, 2019 - September 30, 2020	1,986,999	1,986,999	2,108,197
(d) Transfers among Employers:	-	49,673	49,673
(e) Actual Benefit Payments and Refunds for the period October 1, 2019 - September 30, 2020	(5,781,718)	(5,781,718)	(5,781,718)
(f) Total Pension Liability as of September 30, 2020 = [(a) x (1+(b))] + (c) + (d) + [(e) x (1+0.5*(b))]	\$ 109,731,986	\$ 111,022,258	\$ 111,824,045
(g) Difference between Expected and Actual:		\$ 1,290,272	
(h) Less Liability Transferred for Immediate Recognition:		49,673	
(i) Difference between Expected and Actual - Experience (Gain)/Loss		\$ 1,240,599	
(j) Difference between Actual Total Pension Liability Before and After Act 2019-132 - Benefit Change (Gain)/Loss			801,787
	Expected	Actual Before Act 2019-132	Actual After Act 2019-132
Water System			
(a) Total Pension Liability as of September 30, 2019	\$ 37,984,353	\$ 38,005,659	\$ 38,168,934
(b) Discount Rate	7.70%	7.70%	7.70%
(c) Entry Age Normal Cost for the Period October 1, 2019 - September 30, 2020	467,551	467,551	495,821
(d) Transfers among Employers:	-	(78,150)	(78,150)
(e) Actual Benefit Payments and Refunds for the period October 1, 2019 - September 30, 2020	(2,523,951)	(2,523,951)	(2,523,951)
(f) Total Pension Liability as of September 30, 2020 = [(a) x (1+(b))] + (c) + (d) + [(e) x (1+0.5*(b))]	\$ 38,755,576	\$ 38,700,372	\$ 38,904,490
(g) Difference between Expected and Actual:		\$ (55,204)	
(h) Less Liability Transferred for Immediate Recognition:		(78,150)	
(i) Difference between Expected and Actual - Experience (Gain)/Loss		\$ 22,946	
(j) Difference between Actual Total Pension Liability Before and After Act 2019-132 - Benefit Change (Gain)/Loss			204,118



Note 3: RETIREMENT PLAN (Continued)

Actuarial Assumptions

The total pension liability as of September 30, 2020 actuarial valuation was based on the annual actuarial funding valuation report prepared as of September 30, 2019. 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	

Mortality rates 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 78 and older. The rates of mortality for 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 actuarial valuation as of September 30, 2018, 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, 2015. 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 was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

Asset Class	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.0%	4.4%
US Large Stocks	32.0%	8.0%
US Mid Stocks	9.0%	10.0%
US Small Stocks	4.0%	11.0%
Int'l Developed Mkt Stocks	12.0%	9.5%
Int'l Emerging Mkt Stocks	3.0%	11.0%
Alternatives	10.0%	10.1%
Real Estate	10.0%	7.5%
Cash Equivalents	3.0%	1.5%
Total	100.0%	

*Includes assumed rate of inflation of 2.50%.



Note 3: RETIREMENT PLAN (Continued)

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 payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase/Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Electric System			
Balances at September 30, 2019	\$ 70,907,566	\$ 36,700,287	\$ 34,207,279
Changes for the year			
Service cost	814,975		814,975
Interest	5,255,911		5,255,911
Changes in benefit terms	339,845		339,845
Changes of assumptions	-		-
Difference between expected and actual experience	1,309,020		1,309,020
Contributions - employer		2,455,480	(2,455,480)
Contributions - employee		685,275	(685,275)
Net investment income		2,035,146	(2,035,146)
Benefit payments, including refunds of employee contributions	(5,297,963)	(5,297,963)	-
Administrative expense			
Transfer among employers	(13,111)	(13,111)	-
Net changes	2,408,677	(135,173)	2,543,850
Balances at September 30, 2020	\$ 73,316,243	\$ 36,565,114	\$ 36,751,129

City of Huntsville Electric, Natural Gas, and Water Systems
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Note 3: RETIREMENT PLAN (Continued)

Changes in Net Pension Liability (continued)

	Increase/Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Gas System			
Balances at September 30, 2019	\$ 105,616,807	\$ 69,562,694	\$ 36,054,113
Changes for the year			
Service cost	1,986,999		1,986,999
Interest	7,909,898		7,909,898
Changes in benefit terms	801,787		801,787
Changes of assumptions	-		-
Difference between expected and actual experience	1,240,599		1,240,599
Contributions - employer		2,832,971	(2,832,971)
Contributions - employee		1,619,193	(1,619,193)
Net investment income		3,938,441	(3,938,441)
Benefit payments, including refunds of employee contributions	(5,781,718)	(5,781,718)	-
Administrative expense			
Transfer among employers	49,673	49,673	-
Net changes	6,207,238	2,658,560	3,548,678
Balances at September 30, 2020	\$ 111,824,045	\$ 72,221,254	\$ 39,602,791
Water System			
Balances at September 30, 2019	\$ 37,984,353	\$ 21,220,802	\$ 16,763,551
Changes for the year			
Service cost	467,551		467,551
Interest	2,827,623		2,827,623
Changes in benefit terms	204,118		204,118
Changes of assumptions	-		-
Difference between expected and actual experience	22,946		22,946
Contributions - employer		1,030,459	(1,030,459)
Contributions - employee		397,466	(397,466)
Net investment income		1,179,068	(1,179,068)
Benefit payments, including refunds of employee contributions	(2,523,951)	(2,523,951)	-
Administrative expense			
Transfer among employers	(78,150)	(78,150)	-
Net changes	920,137	4,892	915,245
Balances at September 30, 2020	\$ 38,904,490	\$ 21,225,694	\$ 17,678,796



Note 3: RETIREMENT PLAN (Continued)

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:

	1% Decrease (6.70%)	Discount Rate (7.70%)	1% Increase (8.70%)
Electric System	\$ 45,263,146	\$ 36,751,129	\$ 29,600,472
Gas System	54,007,562	39,602,791	27,540,957
Water System	22,276,819	17,678,796	13,794,874

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, 2020. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2020. The auditor's report dated April 30, 2021 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

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

For the year ended September 30, 2021, the Utilities recognized the following pension expense.

	Pension Expense
Electric System	\$ 3,830,953
Gas System	4,732,484
Water System	1,984,988



Note 3: RETIREMENT PLAN (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

At September 30, 2021, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Electric System		
Difference between expected and actual experience	\$ 2,163,465	\$ 625,114
Changes of assumptions	549,732	-
Net difference between projected and actual earnings on plan investments	1,148,148	-
Employers contributions subsequent to the measurement date	2,619,852	-
Total	\$ 6,481,197	\$ 625,114
Gas System		
Difference between expected and actual experience	\$ 3,667,731	\$ 517,664
Changes of assumptions	1,150,300	-
Net difference between projected and actual earnings on plan investments	2,247,872	-
Employers contributions subsequent to the measurement date	2,938,839	-
Total	\$ 10,004,742	\$ 517,664
Water System		
Difference between expected and actual experience	\$ 1,550,920	\$ -
Changes of assumptions	376,885	-
Net difference between projected and actual earnings on plan investments	676,860	-
Employers contributions subsequent to the measurement date	1,190,845	-
Total	\$ 3,795,510	\$ -



Note 3: RETIREMENT PLAN (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

<i>Year ending September 30,</i>	Electric System	Gas System	Water System
2022	\$ 834,511	\$ 1,183,973	\$ 530,820
2023	966,860	1,707,388	701,776
2024	882,551	1,886,248	742,175
2025	328,071	962,728	327,933
2026	105,234	363,311	194,283
Thereafter	119,004	444,591	107,678
Total	\$ 3,236,231	\$ 6,548,239	\$ 2,604,665

Note 4: OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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.



Note 4: OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

General Information about the OPEB Plan (continued)

Employees Covered by Benefit Terms – The Utilities provides certain post-employment 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, 2021, the following employees were covered by the benefit terms:

Inactive members or beneficiaries currently receiving benefits	307
Inactive members entitled to but not yet receiving benefits	-
Active members	669
<hr/>	
Total membership	976
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Contributions – The benefits are not provided under any statutory or contractual authority, but rather by administrative decision. For 2021, the Utilities contributed \$3,772,249.

Net OPEB Liability

The Utilities' net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020.

Actuarial Assumptions – The total OPEB liability in the September 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 %
Real wage growth	0.25 %
Wage inflation	2.75 %
Salary increases, including wage inflation	3.25 % - 6.00 %
Long-term Investment Rate of Return, net of OPEB plan investment expense, including price inflation	5.00 %
Municipal Bond Index Rate	
Prior Measurement Date	2.21 %
Measurement Date	2.26 %
Single Equivalent Interest Rate, net of OPEB plan investment expense, including price inflation	
Prior Measurement Date	5.00 %
Measurement Date	5.00 %
Health Care Cost Trends	
Pre-Medicare Medical and Prescription Drug	7.00 % for 2020 decreasing to an ultimate rate of 4.50 % by 2030
Medicare Medical and Prescription Drug	5.25 % for 2020 decreasing to an ultimate rate of 4.50 % by 2024



Note 4: OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Net OPEB Liability (continued)

Mortality rates were based on the Pub-2010 Public Mortality Plans Mortality Tables, with adjustments for AL ERS experience and generational mortality improvements using Scale MP-2020, with an adjustment of 66-2/3% to the table beginning in year 2019.

Discount Rate – The discount rate used to measure the TOL as of the Measurement Date was 5.00%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74. The projection's basis was an actuarial valuation performed as of September 30, 2020. In addition to the actuarial methods and assumptions of the September 30, 2020 actuarial valuation, the following actuarial methods and assumptions were used in the projection of cash flows:

- Total payroll for the initial projection year consists of the payroll of the active membership present on the valuation date. In subsequent projection years, total payroll was assumed to increase annually using the payroll growth assumptions.
- Active employees do not explicitly contribute to the Plan.
- In all years, the employer is assumed to contribute the lesser of the benefits due to plan members and the average of the last 5 years of contributions to the Plan through deposits to the Trust and direct payment of benefits to plan members as the benefits come due. The employer is assumed to have the ability and willingness to make contributions to the Trust and benefit payments from its own resources for all periods in the projection.
- Projected assets do not include employer contributions that fund the estimated service costs of future employees.
- Cash flows occur mid-year.

Based on these assumptions, the Plan's FNP was projected to not be depleted.

The FNP projections are based upon the Plan's financial status on the Valuation Date, the indicated set of methods and assumptions, and the requirements of GASB 74. As such, the FNP projections are not reflective of the cash flows and asset accumulations that would occur on an ongoing plan basis, reflecting the impact of future members. Therefore, the results of this test do not necessarily indicate whether or not the fund will actually run out of money, the financial condition of the Plan, or the Plan's ability to make benefit payments in future years.



Note 4: OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Net OPEB Liability (continued)

	Increase/Decrease		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Electric System			
Balances at September 30, 2020	\$ 27,844,952	\$ 10,409,103	\$ 17,435,849
Changes for the year			
Service Cost	525,932	-	525,932
Interest Cost	1,412,194	-	1,412,194
Change in benefit terms	549,603	-	549,603
Differences between expected and actual	528,551	-	528,551
Change in assumptions	(741,608)	-	(741,608)
Contributions - employer	-	1,987,975	(1,987,975)
Net investment income	-	2,086,245	(2,086,245)
Benefit payments	(1,197,475)	(1,197,475)	-
Administrative expense	-	(19,220)	19,220
Other	989,997	370,053	619,944
Net changes	2,067,194	3,227,578	(1,160,384)
Balances at September 30, 2021	\$ 29,912,146	\$ 13,636,681	\$ 16,275,465
Gas System			
Balances at September 30, 2020	\$ 14,138,604	\$ 5,285,344	\$ 8,853,260
Changes for the year			
Service Cost	232,927	-	232,927
Interest Cost	625,438	-	625,438
Change in benefit terms	243,411	-	243,411
Differences between expected and actual	234,087	-	234,087
Change in assumptions	(328,446)	-	(328,446)
Contributions - employer	-	880,443	(880,443)
Net investment income	-	923,965	(923,965)
Benefit payments	(530,343)	(530,343)	-
Administrative expense	-	(8,511)	8,511
Other	(1,365,769)	(510,383)	(855,386)
Net changes	(888,695)	755,171	(1,643,866)
Balances at September 30, 2021	\$ 13,249,909	\$ 6,040,515	\$ 7,209,394



Note 4: OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Net OPEB Liability (continued)

	Increase/Decrease		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Water System			
Balances at September 30, 2020	\$ 12,732,407	\$ 4,759,674	\$ 7,972,733
Changes for the year			
Service Cost	239,118	-	239,118
Interest Cost	642,053	-	642,053
Change in benefit terms	249,876	-	249,876
Differences between expected and actual	240,305	-	240,305
Change in assumptions	(337,171)	-	(337,171)
Contributions - employer	-	903,831	(903,831)
Net investment income	-	948,509	(948,509)
Benefit payments	(544,431)	(544,431)	-
Administrative expense	-	(8,738)	8,738
Other	375,772	140,330	235,442
Net changes	865,522	1,439,501	(573,979)
Balances at September 30, 2021	\$ 13,597,929	\$ 6,199,175	\$ 7,398,754

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:

	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
Net OPEB Liability	\$ 40,247,259	\$ 30,883,613	\$ 23,322,616

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:

	1% Decrease	Current	1% Increase
Net OPEB Liability	\$ 22,018,327	\$ 30,883,613	\$ 42,342,319



Note 4: OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Net OPEB Liability (continued)

At September 30, 2021, the Huntsville Utilities reported deferred outflows of resources and deferred inflows of resources related to OPEB of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Electric System		
Differences between expected and actual experience	\$ 601,725	\$ 1,477,596
Changes of assumptions or other inputs	-	4,499,224
Net difference between projected and actual earnings on OPEB plan investments	-	995,780
Total	\$ 601,725	\$ 6,972,600
Gas System		
Differences between expected and actual experience	\$ 266,540	\$ 654,518
Changes of assumptions or other inputs	-	1,992,635
Net difference between projected and actual earnings on OPEB plan investments	-	441,092
Total	\$ 266,540	\$ 3,088,245
Water System		
Differences between expected and actual experience	\$ 273,541	\$ 671,709
Changes of assumptions or other inputs	-	2,045,568
Net difference between projected and actual earnings on OPEB plan investments	-	452,677
Total	\$ 273,541	\$ 3,169,954



Note 4: OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

Year ending September 30,

2022	\$ (2,431,660)
2023	(2,519,180)
2024	(2,594,533)
2025	(2,658,576)
2026	(1,495,600)
Thereafter	(389,444)

Note 5: 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. No reductions in insurance coverage have occurred since the prior year.

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
Kidnap and Ransom/Active Shooter	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 5: RISK MANAGEMENT (Continued)

Employee and retiree group health coverage is provided under externally administered self-insurance plans. Liabilities for self-insured losses, including estimates of losses incurred but not reported, are estimated through the application of historical experience and current trends. The year-end accrual is based on paid claims by the incurred date. The following table sets out the changes in the claims related to employee group health coverage for 2021:

	Electric System	Gas System	Water System
Beginning balance	\$ 410,800	\$ 158,000	\$ 221,200
Changes in estimate	372,131	(10,568)	99,584
Ending balance	\$ 782,931	\$ 147,432	\$ 320,784

Note 6: COMMITMENTS AND CONTINGENCIES

During the ordinary course of its operations, the Utilities are parties to various claims, legal actions, and complaints. While the ultimate effect of such litigation cannot be ascertained at this time, in the opinion of management, the liabilities which may arise from such actions would not result in losses which would exceed the liability insurance limits in effect at the time the claim arose or otherwise materially affect the financial condition of the Utilities or results of activities.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, or expenditures from current or prior years which may be disallowed by the grantor cannot be determined at this time although the Utilities expects such amounts not recorded, if any, to be immaterial.

The Utilities has four outstanding construction contracts at September 30, 2021. One construction contract with B H Craig Construction Company for rehabilitation of the South Parkway Water Treatment Plant, one construction contract with Rast Construction, Inc. for Swancott Road construction, one construction contract with Garney Companies, Inc. for Bailey Cove Phase 2 construction, and one construction contract with Cleary Construction Inc for Highway 20 County Line Road to Indian Spring construction. They also have one fiber network extension project with Alabama Resources LLC. The total contract for each vendor is as follows:



Note 6: COMMITMENTS AND CONTINGENCIES (Continued)

	Original Contract Amount	Amount Paid in FY21	Amount Remaining
Construction Contracts			
B H Craig Construction Co Inc	\$ 18,450,230	\$ -	\$ 18,450,230
Rast Construction Inc	2,025,152	-	2,025,152
Garney Companies Inc	1,460,850	1,382,668	78,182
Clearly Construction Inc	1,289,800	-	1,289,800
Fiber Contract			
Alabama Resources LLC	1,000,000	444,619	555,381

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.

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 into 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.

The Gas System has entered into a 2nd purchase contract with Tennessee Energy Acquisition Corporation to procure natural gas supply. Under the contract, the Gas System has committed to purchase 231,200 MMBtu per year through March 2026 at index less \$0.43, and 1,152,100 MMBtu per year through June 2049 at a discount yet to be determined.

The Gas System has priced the purchase contracts with Tennessee Energy Acquisition Corporation and Southeast Alabama Gas Supply District at \$4.045 per MMBtu for fiscal year 2023, \$3.455 per MMBtu for fiscal year 2024, and \$3.315 per MMBtu for fiscal year 2025.



Note 7: UNCERTAINTIES

In March 2020, the World Health Organization made the assessment that the outbreak of the novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the ongoing operating activities and the future results of the Board. The occurrence and extent of such an impact will depend on future developments, including (i) the and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain as of March 30, 2022.

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**REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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City of Huntsville Electric, Natural Gas, and Water Systems
Schedule of Changes in the Net Pension Liability
Last Seven Fiscal Years



<i>As of and for the year ended September 30,</i>	2020	2019	2018	2017	2016	2015	2014
Electric System							
Total Pension Liability							
Service cost	\$ 814,975	\$ 800,172	\$ 803,722	\$ 784,310	\$ 719,480	\$ 711,294	\$ 731,584
Interest	5,255,911	5,253,871	5,095,499	4,956,251	4,837,042	4,638,804	4,509,630
Changes of benefit terms	339,845	-	-	-	-	-	-
Difference between expected and actual experience	1,309,020	(891,120)	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	(5,297,963)	(5,037,600)	(4,973,859)	(4,400,918)	(4,124,002)	(3,814,789)	(3,438,283)
Transfers among employers	(13,111)	31,357	13,353	19,486	23,428	-	-
Net change in total pension liability	2,408,677	156,680	2,515,580	2,083,225	3,627,056	2,632,575	1,802,931
Total pension liability - beginning	70,907,566	70,750,886	68,235,306	66,152,081	62,525,025	59,892,450	58,089,519
Total pension liability - ending (a)	73,316,243	70,907,566	70,750,886	68,235,306	66,152,081	62,525,025	59,892,450
Plan Fiduciary Net Position							
Contribution - employer	2,455,480	2,305,591	2,182,899	2,147,571	1,991,515	1,891,153	1,956,167
Contribution - member	685,275	661,819	614,210	595,914	589,360	548,691	544,943
Net investment income	2,035,146	944,320	3,293,140	4,254,699	3,217,256	387,215	3,616,105
Benefit payments, including refunds of employee contributions	(5,297,963)	(5,037,600)	(4,973,859)	(4,400,918)	(4,124,002)	(3,814,789)	(3,438,283)
Transfers among employers	(13,111)	31,357	13,353	19,486	23,428	25,241	-
Net change in plan fiduciary net position	(135,173)	(1,094,513)	1,129,743	2,616,752	1,697,557	(962,489)	2,678,932
Plan fiduciary net position - beginning	36,700,287	37,794,800	36,665,057	34,048,305	32,350,748	33,313,237	30,634,305
Plan fiduciary net position - ending (b)	36,565,114	36,700,287	37,794,800	36,665,057	34,048,305	32,350,748	33,313,237
Net pension liability - ending (a) - (b)	\$ 36,751,129	\$ 34,207,279	\$ 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	49.87%	51.76%	53.42%	53.73%	51.47%	51.74%	55.62%
Covered payroll	\$ 28,275,924	\$ 25,633,846	\$ 24,141,580	\$ 11,424,043	\$ 11,425,176	\$ 10,519,400	\$ 10,518,022
Net pension liability as a percentage of covered payroll	129.97%	133.45%	136.51%	276.35%	280.99%	286.84%	252.70%

Note to Schedule

Note 1: GASB Codification P20 requires information for 10 years. However, until a full 10-year trend is compiled, the Electric System is presenting information for only the years for which information is available.

City of Huntsville Electric, Natural Gas, and Water Systems
Schedule of Changes in the Net Pension Liability
Last Seven Fiscal Years



<i>As of and for the year ended September 30,</i>	2020	2019	2018	2017	2016	2015	2014
Gas System							
Total Pension Liability							
Service cost	\$ 1,986,999	\$ 1,965,511	\$ 1,897,962	\$ 1,882,258	\$ 1,721,132	\$ 1,573,503	\$ 1,505,782
Interest	7,909,898	7,503,935	7,247,347	6,741,176	6,418,834	6,078,446	5,786,806
Changes of benefit terms	801,787	-	-	-	-	-	-
Difference between expected and actual experience	1,240,599	1,388,901	(822,170)	2,366,215	659,005	435,578	-
Changes of assumptions	-	-	586,214	-	1,964,837	-	-
Benefit payments, including refunds of employee contributions	(5,781,718)	(5,340,052)	(4,681,062)	(4,251,400)	(3,866,137)	(3,799,232)	(3,494,950)
Transfers among employers	49,673	(25,216)	40,750	7,819	42,460	-	-
Net change in total pension liability	6,207,238	5,493,079	4,269,041	6,746,068	6,940,131	4,288,295	3,797,638
Total pension liability - beginning	105,616,807	100,123,728	95,854,687	89,108,619	82,168,488	77,880,193	74,082,555
Total pension liability - ending (a)	111,824,045	105,616,807	100,123,728	95,854,687	89,108,619	82,168,488	77,880,193
Plan Fiduciary Net Position							
Contribution - employer	2,832,971	2,678,445	2,545,068	2,756,952	2,756,354	2,552,653	2,501,138
Contribution - member	1,619,193	1,468,803	1,492,658	1,369,673	1,357,425	1,215,689	1,134,390
Net investment income	3,938,441	1,756,764	5,872,386	7,243,192	5,220,617	599,470	5,401,049
Benefit payments, including refunds of employee contributions	(5,781,718)	(5,340,052)	(4,681,062)	(4,251,400)	(3,866,137)	(3,799,232)	(3,494,950)
Transfers among employers	49,673	(25,216)	40,750	7,819	42,460	7,562	41,272
Net change in plan fiduciary net position	2,658,560	538,744	5,269,800	7,126,236	5,510,719	576,142	5,582,899
Plan fiduciary net position - beginning	69,562,694	69,023,950	63,754,150	56,627,914	51,117,195	50,541,053	44,958,154
Plan fiduciary net position - ending (b)	72,221,254	69,562,694	69,023,950	63,754,150	56,627,914	51,117,195	50,541,053
Net pension liability - ending (a) - (b)	\$ 39,602,791	\$ 36,054,113	\$ 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	64.58%	65.86%	68.94%	66.51%	63.55%	62.21%	64.90%
Covered payroll	\$ 11,119,528	\$ 8,157,308	\$ 7,739,953	\$ 26,518,350	\$ 26,520,532	\$ 24,318,743	\$ 22,247,041
Net pension liability as a percentage of covered payroll	356.16%	441.99%	401.81%	121.05%	122.47%	127.68%	122.89%

Note to Schedule

Note 1: GASB Codification P20 requires information for 10 years. However, until a full 10-year trend is compiled, the Gas System is presenting information for only the years for which information is available.

City of Huntsville Electric, Natural Gas, and Water Systems
Schedule of Changes in the Net Pension Liability
Last Seven Fiscal Years



<i>As of and for the year ended September 30,</i>	2020	2019	2018	2017	2016	2015	2014
Water System							
Total Pension Liability							
Service cost	\$ 467,551	\$ 455,649	\$ 485,793	\$ 477,197	\$ 441,272	\$ 402,811	\$ 386,061
Interest	2,827,623	2,715,269	2,610,062	2,488,908	2,345,199	2,243,404	2,164,859
Changes of benefit terms	204,118	-	-	-	-	-	-
Difference between expected and actual experience	22,946	1,128,763	156,748	453,854	976,221	194,984	-
Changes of assumptions	-	-	200,946	-	684,563	-	-
Benefit payments, including refunds of employee contributions	(2,523,951)	(2,258,843)	(2,112,418)	(1,645,720)	(1,564,096)	(1,573,407)	(1,564,812)
Transfers among employers	(78,150)	(449,141)	317,095	22,388	(42,396)	-	-
Net change in total pension liability	920,137	1,591,697	1,658,226	1,796,627	2,840,763	1,267,792	986,108
Total pension liability - beginning	37,984,353	36,392,656	34,734,430	32,937,803	30,097,040	28,829,248	27,843,140
Total pension liability - ending (a)	38,904,490	37,984,353	36,392,656	34,734,430	32,937,803	30,097,040	28,829,248
Plan Fiduciary Net Position							
Contribution - employer	1,030,459	953,170	944,613	1,063,548	983,775	884,789	822,264
Contribution - member	397,466	370,519	365,308	362,182	350,968	334,737	291,847
Net investment income	1,179,068	548,595	1,888,916	2,355,477	1,722,031	199,105	1,828,686
Benefit payments, including refunds of employee contributions	(2,523,951)	(2,258,843)	(2,112,418)	(1,645,720)	(1,564,096)	(1,573,407)	(1,564,812)
Transfers among employers	(78,150)	(449,141)	317,095	22,388	(42,396)	480,153	(275,616)
Net change in plan fiduciary net position	4,892	(835,700)	1,403,514	2,157,875	1,450,282	325,377	1,102,369
Plan fiduciary net position - beginning	21,220,802	22,056,502	20,652,988	18,495,113	17,044,831	16,719,454	15,617,085
Plan fiduciary net position - ending (b)	21,225,694	21,220,802	22,056,502	20,652,988	18,495,113	17,044,831	16,719,454
Net pension liability - ending (a) - (b)	\$ 17,678,796	\$ 16,763,551	\$ 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	54.56%	55.87%	60.61%	59.46%	56.15%	56.63%	57.99%
Covered payroll	\$ 12,906,129	\$ 10,936,068	\$ 10,177,758	\$ 7,076,595	\$ 7,107,229	\$ 6,438,733	\$ 5,870,735
Net pension liability as a percentage of covered payroll	136.98%	153.29%	140.86%	198.99%	203.21%	202.71%	206.27%

Note to Schedule

Note 1: GASB Codification P20 requires information for 10 years. However, until a full 10-year trend is compiled, the Water System is presenting information for only the years for which information is available.

City of Huntsville Electric, Natural Gas, and Water Systems
Schedule of Employer Pension Contributions
Last Seven Fiscal Years



	2021	2020	2019	2018	2017	2016	2015
<u>Electric System</u>							
Actuarially determined contribution*	\$ 2,619,852	\$ 2,457,413	\$ 2,283,787	\$ 2,181,893	\$ 2,070,122	\$ 1,947,313	\$ 1,891,601
Contributions in relation to the actuarially determined contribution*	2,619,852	2,457,413	2,283,787	2,181,893	2,070,122	1,947,313	1,891,601
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 30,301,880	\$ 28,275,924	\$ 25,633,846	\$ 24,141,043	\$ 11,424,043	\$ 11,425,176	\$ 10,519,400
Contributions as a percentage of covered payroll	8.65%	8.69%	8.91%	9.04%	18.12%	17.04%	17.98%

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

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 2021 were based on the September 30, 2018 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2020 to September 30, 2021*:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	26.5 years
Asset valuation method	Five years smoothed market
Inflation	2.75%
Salary increases	3.25 – 5.00%, including inflation
Investment rate of return	7.70%, net of pension plan investment expense, including inflation

City of Huntsville Electric, Natural Gas, and Water Systems
Schedule of Employer Pension Contributions
Last Seven Fiscal Years



	2021	2020	2019	2018	2017	2016	2015
<u>Gas System</u>							
Actuarially determined contribution*	\$ 2,938,839	\$ 2,832,902	\$ 969,879	\$ 2,546,158	\$ 2,664,475	\$ 2,746,903	\$ 2,746,903
Contributions in relation to the actuarially determined contribution*	2,938,839	2,832,902	969,879	2,546,158	2,664,475	2,746,903	2,746,903
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 10,959,917	\$ 11,119,528	\$ 8,157,308	\$ 7,739,953	\$ 26,518,350	\$ 26,520,532	\$ 24,318,743
Contributions as a percentage of covered payroll	26.81%	25.48%	11.89%	32.90%	10.05%	10.36%	11.30%

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

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 2021 were based on the September 30, 2018 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2020 to September 30, 2021*:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	24.9 years
Asset valuation method	Five years smoothed market
Inflation	2.75%
Salary increases	3.25 – 5.00%, including inflation
Investment rate of return	7.70%, net of pension plan investment expense, including inflation

City of Huntsville Electric, Natural Gas, and Water Systems
Schedule of Employer Pension Contributions
Last Seven Fiscal Years



	2021	2020	2019	2018	2017	2016	2015
<u>Water System</u>							
Actuarially determined contribution*	\$ 1,190,845	\$ 1,029,209	\$ 986,800	\$ 944,369	\$ 1,030,584	\$ 983,774	\$ 822,264
Contributions in relation to the actuarially determined contribution*	1,190,845	1,029,209	986,800	944,369	1,030,584	983,774	986,774
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (164,510)
Covered payroll	\$ 13,236,176	\$ 12,906,129	\$ 10,936,068	\$ 10,177,758	\$ 7,076,595	\$ 7,107,229	\$ 6,438,733
Contributions as a percentage of covered payroll	9.00%	7.97%	9.02%	9.28%	14.56%	13.84%	15.33%

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

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 2021 were based on the September 30, 2018 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2020 to September 30, 2021*:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	28.1 years
Asset valuation method	Five years smoothed market
Inflation	2.75%
Salary increases	3.25 – 5.00%, including inflation
Investment rate of return	7.70%, net of pension plan investment expense, including inflation

City of Huntsville Electric, Natural Gas, and Water Systems
Schedule of Changes in the Net OPEB Liability
Last Five Fiscal Years



<i>As of and for the year ended September 30,</i>	2021	2020	2019	2018	2017
Electric System					
Total OPEB Liability					
Service cost	\$ 525,932	\$ 493,076	\$ 704,430	\$ 821,371	\$ 963,912
Interest	1,412,194	1,317,045	1,315,358	1,212,883	1,086,716
Changes of benefit terms	549,603	-	-	-	-
Difference between expected and actual experience	528,551	174,259	(2,122,639)	(148,055)	-
Changes of assumptions or other inputs	(741,608)	-	(3,395,650)	(3,023,047)	(3,730,502)
Benefit payments	(1,197,475)	(949,071)	(698,442)	(567,972)	(656,133)
Other	989,997	-	-	-	-
Net change in total OPEB liability	2,067,194	1,035,309	(4,196,943)	(1,704,820)	(2,336,007)
Total OPEB liability - beginning	27,844,952	26,809,643	31,006,586	32,711,406	35,047,413
Total OPEB liability - ending	29,912,146	27,844,952	26,809,643	31,006,586	32,711,406
Plan Fiduciary Net Position					
Contributions - employer	1,987,975	2,278,959	2,897,734	1,911,402	1,151,726
Net investment income	2,086,245	309,077	183,871	62,911	(1,767)
Benefit payments	(1,197,475)	(949,071)	(698,442)	(567,972)	(656,133)
Administrative expense	(19,220)	(26,811)	(24,106)	(19,814)	-
Other	370,053	-	-	(13,752)	-
Net change in plan fiduciary net position	3,227,578	1,612,154	2,359,057	1,372,775	493,826
Plan fiduciary net position - beginning	10,409,103	8,796,949	6,437,892	5,065,117	4,571,291
Plan fiduciary net position - ending	13,636,681	10,409,103	8,796,949	6,437,892	5,065,117
Total OPEB liability	\$ 16,275,465	\$ 17,435,849	\$ 18,012,694	\$ 24,568,694	\$ 27,646,289
Plan fiduciary net position as a percentage of total OPEB liability	45.59%	37.38%	32.81%	20.76%	15.48%
Covered payroll*	\$ 25,500,350	\$ 24,428,733	\$ 23,335,935	\$ 22,623,982	\$ 22,101,816
Total OPEB liability as a percentage of covered payroll	63.82%	71.37%	77.19%	108.60%	125.09%

*Employer's covered payroll for FY2021 is the total covered payroll for the 12 month period of the underlying financial statements.

City of Huntsville Electric, Natural Gas, and Water Systems
Schedule of Changes in the Net OPEB Liability
Last Five Fiscal Years



<i>As of and for the year ended September 30,</i>	2021	2020	2019	2018	2017
Gas System					
Total OPEB Liability					
Service cost	\$ 232,927	\$ 250,365	\$ 357,682	\$ 417,061	\$ 489,438
Interest	625,438	668,742	667,889	615,856	551,793
Changes of benefit terms	243,411	-	-	-	-
Difference between expected and actual experience	234,087	88,482	(1,077,795)	(75,177)	-
Changes of assumptions or other inputs	(328,446)	-	(1,724,181)	(1,534,988)	(1,894,206)
Benefit payments	(530,343)	(481,902)	(354,642)	(288,394)	(333,159)
Other	(1,365,769)	-	-	-	-
Net change in total OPEB liability	(888,695)	525,687	(2,131,047)	(865,642)	(1,186,134)
Total OPEB liability - beginning	14,138,604	13,612,917	15,743,964	16,609,606	17,795,740
Total OPEB liability - ending	13,249,909	14,138,604	13,612,917	15,743,964	16,609,606
Plan Fiduciary Net Position					
Contributions - employer	880,443	1,157,168	1,471,359	970,537	584,803
Net investment income	923,965	156,934	93,363	31,944	(897)
Benefit payments	(530,343)	(481,902)	(354,642)	(288,394)	(333,159)
Administrative expense	(8,511)	(13,614)	(12,240)	(10,061)	-
Other	(510,383)	-	-	(6,983)	-
Net change in plan fiduciary net position	755,171	818,586	1,197,840	697,043	250,747
Plan fiduciary net position - beginning	5,285,344	4,466,758	3,268,918	2,571,875	2,321,128
Plan fiduciary net position - ending	6,040,515	5,285,344	4,466,758	3,268,918	2,571,875
Total OPEB liability	\$ 7,209,394	\$ 8,853,260	\$ 9,146,159	\$ 12,475,046	\$ 14,037,731
Plan fiduciary net position as a percentage of total OPEB liability	45.59%	37.38%	32.81%	20.76%	15.48%
Covered payroll*	\$ 11,293,703	\$ 12,403,979	\$ 11,849,098	\$ 11,487,595	\$ 11,222,460
Total OPEB liability as a percentage of covered payroll	63.84%	71.37%	77.19%	108.60%	125.09%

*Employer's covered payroll for FY2021 is the total covered payroll for the 12 month period of the underlying financial statements.

City of Huntsville Electric, Natural Gas, and Water Systems
Schedule of Changes in the Net OPEB Liability

Last Five Fiscal Years



<i>As of and for the year ended September 30,</i>	2021	2020	2019	2018	2017
<u>Water System</u>					
Total OPEB Liability					
Service cost	\$ 239,118	\$ 225,464	\$ 322,108	\$ 375,581	\$ 440,759
Interest	642,053	602,233	601,462	554,604	496,913
Changes of benefit terms	249,876	-	-	-	-
Difference between expected and actual experience	240,305	79,682	(970,599)	(67,700)	-
Changes of assumptions or other inputs	(337,171)	-	(1,552,697)	(1,382,321)	(1,705,812)
Benefit payments	(544,431)	(433,973)	(319,370)	(259,711)	(300,024)
Other	375,772	-	-	-	-
Net change in total OPEB liability	865,522	473,406	(1,919,096)	(779,547)	(1,068,164)
Total OPEB liability - beginning	12,732,407	12,259,001	14,178,097	14,957,644	16,025,808
Total OPEB liability - ending	13,597,929	12,732,407	12,259,001	14,178,097	14,957,644
<u>Plan Fiduciary Net Position</u>					
Contributions - employer	903,831	1,042,078	1,325,020	874,009	526,639
Net investment income	948,509	141,329	84,077	28,767	(808)
Benefit payments	(544,431)	(433,973)	(319,370)	(259,711)	(300,024)
Administrative expense	(8,738)	(12,260)	(11,023)	(9,060)	-
Other	140,330	-	-	(6,288)	-
Net change in plan fiduciary net position	1,439,501	737,174	1,078,704	627,717	225,807
Plan fiduciary net position - beginning	4,759,674	4,022,500	2,943,796	2,316,079	2,090,272
Plan fiduciary net position - ending	6,199,175	4,759,674	4,022,500	2,943,796	2,316,079
Total OPEB liability	\$ 7,398,754	\$ 7,972,733	\$ 8,236,501	\$ 11,234,301	\$ 12,641,565
Plan fiduciary net position as a percentage of total OPEB liability	45.59%	37.38%	32.81%	20.76%	15.48%
Covered payroll*	\$ 11,593,707	\$ 11,170,302	\$ 10,670,608	\$ 10,345,060	\$ 10,106,294
Total OPEB liability as a percentage of covered payroll	63.82%	71.37%	77.19%	108.60%	125.09%

*Employer's covered payroll for FY2021 is the total covered payroll for the 12 month period of the underlying financial statements.

City of Huntsville Electric, Natural Gas, and Water Systems
Schedules of Employer OPEB Contributions
Last Five Fiscal Years



	2021	2020	2019	2018	2017
<u>Electric System</u>					
Actuarially determined contribution	\$ 1,778,802	\$ 1,717,709	\$ 1,792,875	\$ 1,792,875	\$ 1,792,875
Contributions in relation to the actuarially determined contribution	1,987,975	2,278,959	2,897,734	1,911,402	1,151,726
Contribution deficiency (excess)	\$ (209,173)	\$ (561,250)	\$ (1,104,859)	\$ (118,527)	\$ 641,149
Covered payroll*	\$ 25,500,350	\$ 24,428,733	\$ 23,335,935	\$ 22,623,982	\$ 22,101,816
Contributions as a percentage of covered payroll	7.80%	9.33%	12.42%	8.45%	5.21%
	2021	2020	2019	2018	2017
<u>Gas System</u>					
Actuarially determined contribution	\$ 787,803	\$ 872,187	\$ 910,354	\$ 910,354	\$ 910,354
Contributions in relation to the actuarially determined contribution	880,443	1,157,168	1,471,359	970,537	584,803
Contribution deficiency (excess)	\$ (92,640)	\$ (284,981)	\$ (561,005)	\$ (60,183)	\$ 325,551
Covered payroll*	\$ 11,293,703	\$ 12,406,979	\$ 11,849,098	\$ 11,487,595	\$ 11,222,460
Contributions as a percentage of covered payroll	7.80%	9.33%	12.42%	8.45%	5.21%
	2021	2020	2019	2018	2017
<u>Water System</u>					
Actuarially determined contribution	\$ 808,731	\$ 785,441	\$ 819,811	\$ 819,811	\$ 819,811
Contributions in relation to the actuarially determined contribution	903,831	1,042,078	1,325,020	874,009	526,639
Contribution deficiency (excess)	\$ (95,100)	\$ (256,637)	\$ (505,209)	\$ (54,198)	\$ 293,172
Covered payroll*	\$ 11,593,707	\$ 11,170,302	\$ 10,670,608	\$ 10,345,060	\$ 10,106,294
Contributions as a percentage of covered payroll	7.80%	9.33%	12.42%	8.45%	5.21%

*Employer's covered payroll for FY2021 is the total covered payroll for the 12 month period of the underlying financial statements.

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OTHER SUPPLEMENTARY INFORMATION

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I. Water System

A. Annual Average and Peak Day Production Huntsville Groundwater Sources

Average Day Production (mgd)	7.8
Percentage of Estimated Safe Capacity (80% = 12.4 mgd)	72%
Peak Day Production (mgd)	8.9
Percentage of Estimated Safe Capacity (80% = 12.4 mgd)	82%

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

Average Day Production (mgd)	38.3
Percentage of Plant Safe Capacity (80% = 76.8 mgd)	40%
Peak Day Production (mgd)	55.1
Percentage of Plant Safe Capacity (80% = 76.8 mgd)	57%
Plant Capacity (mgd)	120

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⁾	\$ 1,495,954	887,026,700
Madison County Commission	\$ 1,352,263	789,748,300
City of Huntsville (grounds/landscaping)	\$ 682,413	168,355,061
Huntsville Hospital	\$ 488,628	191,589,800
Huntsville City Board of Education	\$ 392,224	92,263,200
Housing Authority of the City of Huntsville	\$ 382,787	102,786,800
Alabama A&M University	\$ 358,283	173,324,800
Town of New Hope	\$ 313,409	153,316,000
Town of Triana	\$ 247,240	122,763,000
Covanta Huntsville	\$ 227,455	131,248,100

⁽¹⁾ Represents water sales to Redstone Arsenal.

City of Huntsville Electric, Natural Gas, and Water Systems

Supplemental Report

Unaudited Operating Information for the Fiscal Year Ended September 30, 2021



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	92,530
Commercial	10,917
Industrial	55
Governmental	19
Other	11
Total	<u>103,532</u>

E. Additional Operating Data

Number of Water System Customers	103,500 (approximately)
Sales (Gallons)	12,220,000 (approximately)
Sales (Dollars)	\$44,979,000 (approximately)

City of Huntsville Electric, Natural Gas, and Water Systems

Supplemental Report

Unaudited Operating Information for the Fiscal Year Ended September 30, 2021



F. Debt Service Requirements and Coverage.¹

Debt Service Requirements

Fiscal Year	Series 2015 Warrants	Series 2016 Warrants	Series 2021-A Warrants	Series 2021-B Warrants	Total Debt Service
2022	\$4,194,750	\$791,825	\$ 434,597	\$792,757	\$6,213,929
2023	4,191,500	793,700	1,156,050	2,493,696	8,634,946
2024	4,191,750	799,200	1,157,250	2,490,336	8,638,536
2025	4,192,250	793,450	1,152,250	2,489,732	8,627,682
2026	--	791,575	1,155,000	6,684,319	8,630,894
2027	--	793,325	1,155,250	6,684,480	8,633,055
2028	--	796,625	1,153,000	6,687,366	8,636,991
2029	--	798,425	1,153,125	6,684,081	8,635,631
2030	--	795,675	--	6,684,418	7,480,093
2031	--	796,300	--	6,689,391	7,485,691
2032	--	792,269	--	6,688,229	7,480,498
2033	--	793,594	--	6,684,157	7,477,751
2034	--	793,163	--	6,685,246	7,478,409
2035	--	--	--	6,682,606	6,682,606
2036	--	--	--	6,685,781	6,685,781

Coverage

The maximum annual debt service on the Series 2021 Warrants, the Series 2015 Warrants, and the Series 2016 Warrants, scheduled to occur in the fiscal year ending September 30, 2024, is \$8,638,536, and is covered approximately 2.296 times by Net System Revenues for the fiscal year ended September 30, 2021 of \$19,837,875.

Scheduled average annual debt service on the Series 2021 Warrants, the Series 2015 Warrants, and the Series 2016 Warrants of \$7,828,166 is covered approximately 2.534 times by Net System Revenues for such fiscal year.

¹ Does not include subordinated debt.

City of Huntsville Electric, Natural Gas, and Water Systems

Supplemental Report

Unaudited Operating Information for the Fiscal Year Ended September 30, 2021



II. Electric System

A. Debt Service Requirements for Electric Revenue Warrants

See Note 4 for Electric Revenue Warrants

B. Operating Results from Electric System

The following provides the Electric System's operating results for the fiscal year ended September 30, 2021, and the resulting Annual Net Income for such fiscal year:

Operating Revenues	
Residential	\$ 269,671,311
Large commercial and industrial	\$ 195,754,255
Small commercial	\$ 41,782,103
Public street and highway lighting	\$ 5,296,917
Other operating revenue	\$ 26,752,153
Total Operating Revenues	\$ 539,256,739
Operating Expenses	
Purchased power	\$ 392,210,834
Transmission	\$ 237,715
Distribution	\$ 25,118,169
Customer accounting	\$ 3,600,088
Administrative and general	\$ 24,978,424
Depreciation	\$ 25,105,010
Payroll taxes	\$ 1,897,095
Total Operating Expenses	\$ 473,147,335
Operating Income	\$ 66,109,404
Non-Operating Revenues (Expenses)	
Gain on sale of assets	\$ (142,766)
Interest income	\$ (242,249)
Interest expense	\$ 4,260,363
Amortization of bond discount	\$ 26,906
Amortization of bond premium	\$ (763,975)
Total Non-Operating Revenues (Expenses)	\$ 3,138,279
Income Before Transfers	\$ 62,971,125
Transfers Out – Tax Equivalent	\$ 18,063,735
Change in Net Assets	\$ 44,907,390
Add: Depreciation	\$ 25,105,010
Add: Tax equivalent payments	\$ 18,063,735
Add: Interest expense	\$ 4,260,363
Add: Amortization of bond discount	\$ 26,906
Annual Net Income	\$ 92,363,404

City of Huntsville Electric, Natural Gas, and Water Systems

Supplemental Report

Unaudited Operating Information for the Fiscal Year Ended September 30, 2021



C. Customers and Sales

i. 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, 2021, have been as follows:

Customers	Residential kWh Sold	Revenue	Customers	50kWh and Under Sold	Revenue
178,050	2,588,621,053	\$ 269,671,311	19,561	505,459,994	\$ 41,782,103
Customers	Over 50 kWh Sold	Revenue	Customers	Other Outdoor Lighting kWh sold	Revenue
2,880	1,989,460,816	\$ 195,754,255	722	38,211,570	\$ 5,296,917
	Customers	Total kWh Sold	Revenue		
	201,213	5,121,753,433	\$ 512,504,586		

ii. 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, 2021, have been as follows:

Percentage of Customers	
Residential	88.5%
Commercial	11.1
Other	0.4
Total	100.0%
Percentage of kWh Sold	
Residential	50.5%
Commercial	48.7
Other	0.8
Total	100.0%
Percentage of Revenue	
Residential	52.6%
Commercial	46.4
Other	1.0
Total	100.0%

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.

**City of Huntsville Electric, Natural Gas, and Water Systems
Supplemental Report**

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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	\$8,888,331	\$8,888,331	100%	1.7%	102,369,238	2.0%
Huntsville Schools	\$5,675,757	\$5,675,757	100%	1.1%	56,429,808	1.1%
Huntsville Utilities	\$4,224,655	\$4,224,655	100%	0.8%	43,712,262	0.9%
Walmart	\$3,621,422	\$3,621,422	100%	0.7%	40,358,649	0.8%
TMMAL	\$3,584,731	\$3,584,731	100%	0.7%	57,888,849	1.1%
Saint Gobain	\$3,505,267	\$3,505,267	100%	0.7%	52,743,734	1.0%
City of Huntsville Engineering	\$3,257,519	\$3,257,519	100%	0.6%	22,762,113	0.4%
Madison Co Board of Education	\$3,215,387	\$3,215,387	100%	0.6%	26,524,869	0.5%
City of Huntsville Grounds and Landscaping	\$3,109,261	\$3,109,261	100%	0.6%	29,798,279	0.6%
Kennametal	\$3,103,350	\$3,103,350	100%	0.6%	39,729,541	0.8%

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 June 30, 2020, and the trailing twelve months ended December 31, 2020.

1. O&M Costs Per Average Customer

	Dollar Amount
Huntsville Utilities	\$ 277.00
Similar Distributors	\$ 408.00
Neighboring Distributors	\$ 279.00
All TVA Distributors	\$ 413.00
All Municipals	\$ 420.00
All Cooperatives	\$ 397.00



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

	Dollar Amount
Huntsville Utilities	\$ 11.00
Similar Distributors	\$ 16.00
Neighboring Distributors	\$ 12.00
All TVA Distributors	\$ 16.00
All Municipals	\$ 14.00
All Cooperatives	\$ 19.00

* This information is only provided by Tennessee Valley Authority (TVA) pursuant to the Muni-Coop report and the TVA quarterly financial report. Those reports have not yet been distributed for the period end 6/30/2021. At such time they are made available, Huntsville Utilities will update the disclosure and provide on EMMA.

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	\$ 0.08
Average Revenue per Kilowatt Hour – Industrial greater than 1,000 kW	\$ 0.10

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Management of City of Huntsville Electric, Gas,
and Water System

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the remaining fund information of the City of Huntsville Electric, Gas and Water Systems (the “Utilities”) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Utilities’ basic financial statements and have issued our report thereon dated March 30, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utilities’ internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities’ internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities’ internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Utilities’ financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination or deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below as item 2021-001 that we consider to be a significant deficiency.

Item 2021-001 OPEB Reconciliation

Condition – The Other Post-Employment Benefits (OPEB) valuation report was not completed timely. The Utilities’ IT system, SAP, does not allow them to re-open previously closed periods.

Criteria – Information provided to the actuary should be provided timely in order to ensure valuations are completed prior to reporting dates.

Cause – Turnover in key personnel caused correspondence with the actuary to be delayed and information was not provided timely.

Effect – When the valuation was completed after year end, there were significant adjustments that needed to be made but could not be due to the closed period.

Recommendation – We recommend implementing control procedures to ensure that information is provided to the actuary on a timely basis to ensure that the OPEB valuation report is completed prior to period close.

Management Response – We are testing after year-end posting to SAP for the future and while the intent was to have OPEB done, there was turnover in key positions in the financial area and the process is now being documented and cross-trained.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utilities’ financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Utilities’ Response to Findings

The Utilities’ response to the finding identified in our audit is identified as “Management Response”. The Utilities’ response was not subjected to audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Utilities’ internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities’ internal control and compliance. According, this communication is not suitable for any other purpose.

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

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

Enterprise, Alabama
March 30, 2022