Alabama Municipal Electric Authority

Financial Statements as of and for the
Years Ended September 30, 2012 and 2011,
Additional Information for the Years Ended
September 30, 2012 and 2011, and
Independent Auditors' Report

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

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ALABAMA MUNICIPAL ELECTRIC AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Corporate Structure — The Alabama Municipal Electric Authority (AMEA or the "Authority") is a nonprofit joint action agency created on August 17, 1981, under Act No. 81-681 (the "Act"), General Laws of Alabama. The Authority is a public corporation whose primary purpose is to provide reliable and economical electric power to its 11 members.

Joint Action — The Authority is composed of 11 members consisting of municipalities, utilities boards, and an electric board, all located in the state of Alabama (the "Participating Members"), each of which owns and operates an electrical distribution system. Each Participating Member has signed a purchase power contract with the Authority that expires on December 31, 2035.

Legal Authority — The Act provides that the Authority will establish rates and charges to produce revenues sufficient to cover its costs, including debt service. The Authority is specifically authorized by the Act to undertake projects for its members and to issue tax-exempt bonds and other obligations to finance the costs of such projects.

Overview of the Financial Statements — This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. These financial statements are designed to provide readers with an overview of the Authority's finances, in a manner similar to private sector businesses.

The balance sheets present information on all of the Authority's assets and liabilities, with the difference between the two being reported as net assets. The Authority limits the amount of net assets to amounts necessary to fund any capital assets that need to be purchased that are not funded by bond issues. All other excess funds are transferred to the Rate Stabilization account. The Rate Stabilization account funds will be used to help reduce future rate increases to the Participating Members.

The statements of revenues and expenses and changes in net assets present information relative to how the Authority's net assets changed during the fiscal years presented. All changes in net assets are reported on the accrual basis as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in cash flow in future fiscal years.

Proprietary Funds — The Authority operates only one type of proprietary fund — the enterprise fund-type. Enterprise funds are used to report business-type activities (as contrasted with tax-supported governmental activities).

Notes to Financial Statements — The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis — 2012 Compared to 2011

Condensed balance sheets as of September 30, 2012 and 2011, are as follows:

	2012	2011
Total assets	$104,530,570	$88,958,603
Long-term debt, net	36,298,580	37,339,180
Other liabilities	49,285,982	33,690,332
Total liabilities	85,584,562	71,029,512
Net assets	$ 18,946,008	$17,929,091

Total Assets — The increase in total assets of $15,571,967 is driven by several factors. Annual amortization and depreciation decreased total assets in the amount of $2,167,893. Other long-term assets increased by $438,360, primarily a result of the issuance of two economic development loans. Total current assets increased by a total of $16,709,114, which was primarily due to a $4,054,130 increase in receivables from Participating Members and a $12,866,874 increase in the operation and maintenance fund due to the timing of accounts payable due after year-end. Regulatory assets, net increased by $463,103, primarily the result of the costs of the new Santee Cooper purchased power contract and the negotiation costs of the Amended and Restated Power Supply Agreement with Alabama Power Company.

Total Liabilities — The increase in total liabilities of $14,555,050 was primarily a result of the following items. Amounts payable under power supply contracts increased by $17,873,908 a result of the timing of invoices from Alabama Power Company making more payable at September 30, 2012. Long-term debt was reduced by $1,040,600 primarily as a result of normal debt payments. Net costs to be refunded to Participating Members decreased by $2,252,158, a result of a $1,450,000 transfer from the Working Capital account, in addition to deferred depreciation and other items normally charged to this account.

A summary of operations for the years ended September 30, 2012 and 2011, is as follows:

	2012	2011
Operating revenues	$208,393,394	$215,159,393
Operating expenses:		
Purchased power expenses	200,282,704	205,725,080
Plant operating expenses	610,714	808,541
Administrative, general, and operating expenses	6,964,916	7,147,385
Total operating expenses	207,858,334	213,681,006
Net operating income	535,060	1,478,387
Other expense — net	(1,770,302)	(1,786,206)
Changes in net costs to be refunded to Participating Members	2,252,159	656,054
Excess of revenues over expenses	1,016,917	348,235
Net assets — beginning of year	17,929,091	17,580,856
Net assets — end of year	$ 18,946,008	$ 17,929,091

Operating Revenues — Total operating revenues decreased by $6,765,999. Decreases in capacity sales and energy sales offset by a January 1, 2012, increase in the demand and energy rates charged to the Authority's Participating Members resulted in a net decrease in sales of electricity to Participating Members in the amount of $5,263,647. Sales of electricity to others decreased by $1,502,352 from a decline in sales to Tenaska Power Services Co.

Operating Expenses — Total operating expenses decreased by $5,822,672. Purchased power expenses decreased by $5,442,376 due to increases in Power Supply Agreement (PSA) but countered by a decrease in purchased energy. Capacity costs under the PSA increased by $6,698,579 based on contracted rate increases. The net energy costs under the PSA decreased by $8,683,306. Transmission costs decreased by $2,112,634. Plant operating expenses decreased by $197,827 as a result of the Authority's AMEA-Sylacauga Plant operating less than in the previous year.

Other Expense — Net — Other expense — net decreased by $15,904. Interest expense decreased by $36,710 due to a lower outstanding debt balance. Interest income decreased by $23,413 as a result of lower interest rates. Investment income increased by $49,548 as a result of an increase in the Authority's share of Hometown Connections profit and an increase in the market value of the Authority's investment account. Other income decreased by $48,910.

Changes in Net Costs to Be Refunded to Participating Members — The change of $1,596,105 in this account is due to a small increase in the amount of the regular annual charges to this account and a transfer in FY2012 of $1,450,000 from working capital. In FY2011, $200,000 was transferred to the Rate Stabilization account (see Note 6).

Liquidity and Capital Resources — The Authority had cash and cash equivalents of $34,826,929 at September 30, 2012, an increase of $16,170,506 from the prior year. The cash receipts during the year for operating activities were $15,681,354, more than cash paid for operating expenses. Also, $2,980,005 was paid out for capital and related financing activities. During the year, $3,162,179 was transferred from the Investment account to the Working Capital account. Cash and cash equivalents balances are composed of the Working Capital account, including the Operating and Maintenance fund and the Rate Stabilization account included in the Revenue fund.

The Authority's debt classified as long term as of September 30, 2012, is $36,298,580. This debt was issued in 2003 to finance the construction of the AMEA-Sylacauga Plant. Future revenues from the sale of electricity to members are expected to be sufficient to fully retire this debt at scheduled maturity dates through 2033.

Financial Analysis — 2011 Compared to 2010

Condensed balance sheets as of September 30, 2011 and 2010, are as follows:

	2011	2010
Total assets	$ 88,958,603	$ 90,737,560
Long-term debt	37,339,180	38,339,542
Other liabilities	33,690,332	34,817,162
Total liabilities	71,029,512	73,156,704
Net assets	$ 17,929,091	$ 17,580,856

Total Assets — The decrease in total assets of $1,778,957 is driven by several factors. Annual amortization and depreciation decreased total assets in the amount of $2,377,144. Other long-term assets decreased by $201,019, primarily a result of the repayment of an economic development loan. Total current assets increased by a total of $128,483. Regulatory assets increased by $330,714, primarily the result of the costs of the new Santee Cooper purchased power contract and the negotiation costs of a new Alabama Power Company contract.

Total Liabilities — The decrease in total liabilities of $2,127,192 was primarily a result of the following items. Long-term debt was reduced by $1,000,362 primarily as a result of normal debt payments. Net costs to be refunded to Participating Members decreased by $656,054, a result of a $200,000 transfer to the Rate Stabilization account from the Working Capital account, offset by deferred depreciation and other items normally charged to this account. Additionally, amounts payable under power supply contracts decreased by $272,602, a result of less purchases from Alabama Power Company in September 2011 as opposed to 2010.

A summary of operations for the years ended September 30, 2011 and 2010, is as follows:

	2011	2010
Operating revenues	$ 215,159,393	$ 199,847,875
Operating expenses:		
Purchased power expenses	205,725,080	192,800,849
Plant operating expenses	808,541	1,162,059
Administrative, general, and operating expenses	7,147,385	7,168,645
Total operating expenses	213,681,006	201,131,553
Operating gain (loss)	1,478,387	(1,283,678)
Other (expense) — net	(1,786,206)	(1,789,570)
Changes in net costs to be refunded to Participating Members	656,054	3,595,466
Excess of revenues over expenses	348,235	522,218
Net assets — beginning of year	17,580,856	17,058,638
Net assets — end of year	$ 17,929,091	$ 17,580,856

Operating Revenues — Total operating revenues increased by $15,311,518. Small decreases in capacity sales and energy sales and a February 1, 2011, increase in the demand and energy rates charged to the Authority's Participating Members resulted in a net increase in sales of electricity to Participating Members in the amount of $14,102,630. Sales of electricity to others increased by $1,208,888.

Operating Expenses — Total operating expenses increased by $12,549,453. Purchased power expenses increased by $11,835,989 due to increases in PSA and transmission costs. Capacity costs under the PSA increased by $10,880,730 based on contracted rate increases. The net energy costs under the PSA decreased by $558,210. Transmission costs increased by $562,924 as a direct result of a transmission rate increase. Plant operating expenses decreased by $353,518 as a result of the AMEA-Sylacauga Plant operating less than in the previous year.

Other Expense — **Net** — Other expense — net decreased by $3,364. Interest expense decreased by $33,190 due to a lower outstanding debt balance. Interest income decreased by $8,149 as a result of lower interest rates. Investment income decreased by $79,749 as a result of a decrease in the Authority's share of Hometown Connections profit and an increase in the market value of the Authority's investment account. Other income increased by $56,164 primarily as a result of an increase in rental income and a sale of Nox credits.

Changes in Net Costs to Be Refunded to Participating Members — The change of $2,939,412 in this account is due to a small reduction in the amount of the regular annual charges to this account and a deposit in FY2011 of $200,000 to the Rate Stabilization account. In FY2010, $2,700,000 was withdrawn from the Rate Stabilization account (see Note 6).

Liquidity and Capital Resources — The Authority had cash and cash equivalents of $18,656,423 at September 30, 2011, an increase of $1,190,576 from the prior year. The cash receipts during the year for operating activities were $2,925,167, more than cash paid for operating expenses. Also, $3,046,372 was paid out for capital and related financial activities. During the year, $1,125,722 was transferred from the investment account to the Working Capital account. Cash and cash equivalents balances are composed of the Working Capital account, including the Operating and Maintenance fund and the Rate Stabilization account included in the revenue fund.

The Authority's debt classified as long term as of September 30, 2011, is $37,339,180. This debt was issued in 2003 to finance the construction of the AMEA-Sylacauga Plant. Future revenues from the sale of electricity to members are expected to be sufficient to fully retire this debt at scheduled maturity dates through 2033.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Alabama Municipal Electric Authority
Montgomery, Alabama

We have audited the accompanying balance sheets of Alabama Municipal Electric Authority (the "Authority") as of September 30, 2012 and 2011, and the related statements of revenues and expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional information from pages 25 through 28 is presented for the purpose of additional analysis and is not a required part of the financial statements. This additional information is the responsibility of the Authority's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis from pages 1 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte & Touche LLP

February 26, 2013

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

BALANCE SHEETS
AS OF SEPTEMBER 30, 2012 AND 2011

ASSETS	2012	2011
PROPERTY AND EQUIPMENT — Net	$ 27,818,256	$ 29,780,070
OTHER LONG-TERM ASSETS:		
Investments	458,165	419,805
Capital fund program receivable	800,000	400,000
Total other long-term assets	1,258,165	819,805
SPECIAL FUNDS INVESTED:		
Debt service fund (restricted)	2,932,529	2,941,023
Reserve and contingency fund	50,000	50,000
Total special funds invested	2,982,529	2,991,023
CURRENT ASSETS:		
Funds invested:		
Revenue fund	14,705,837	14,707,313
Operation and maintenance fund	25,730,226	12,863,352
Special funds — debt service fund (restricted)	244,035	244,068
Total funds invested	40,680,098	27,814,733
Receivables from participating members	27,273,142	23,219,012
Other receivables	19,261	39,944
Materials and supplies	157,830	154,310
Capital fund program receivable		200,000
Prepaid expenses	104,101	97,319
Total current assets	68,234,432	51,525,318
DEFERRED COSTS:		
Regulatory assets, net	3,391,259	2,928,156
Unamortized bond issuance costs — net of accumulated amortization of $679,839 and $611,537, respectively	845,929	914,231
Total deferred costs	4,237,188	3,842,387
TOTAL	$ 104,530,570	$ 88,958,603

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ALABAMA MUNICIPAL ELECTRIC AUTHORITY

BALANCE SHEETS
AS OF SEPTEMBER 30, 2012 AND 2011

LIABILITIES AND NET ASSETS	2012	2011
LONG-TERM DEBT — Revenue bonds — net of unamortized discounts	$ 36,298,580	$ 37,339,180
REGULATORY LIABILITIES — Net costs to be refunded to participating members	12,151,963	14,404,121
CURRENT LIABILITIES:		
Current maturities of revenue bonds	1,050,000	1,010,000
Amounts payable under power supply contracts	35,355,622	17,481,714
Special funds — accrued interest on revenue bonds	156,535	159,902
Other current liabilities	571,862	634,595
Total current liabilities	37,134,019	19,286,211
Total liabilities	85,584,562	71,029,512
NET ASSETS:		
Invested in capital assets — net of related debt	(9,530,324)	(8,569,110)
Restricted for debt service	3,176,564	3,185,091
Unrestricted	25,299,768	23,313,110
Total net assets	18,946,008	17,929,091
TOTAL	$ 104,530,570	$ 88,958,603

See notes to financial statements.

(Concluded)

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES:		
Sales of electricity to Participating Members	$208,363,579	$213,627,226
Sales of electricity — other	29,815	1,532,167
Total operating revenues	208,393,394	215,159,393
OPERATING EXPENSES:		
Partial requirements services:		
Purchased power	187,589,971	189,589,778
Transmission and distribution	12,660,544	14,773,178
Plant operating expenses	610,714	808,541
Cost of other electricity sales	32,189	1,362,124
Other operating and maintenance expenses	547,190	521,007
Administrative and general expenses	4,249,833	4,319,267
Amortization and depreciation	2,167,893	2,307,111
Total operating expenses	207,858,334	213,681,006
NET OPERATING INCOME	535,060	1,478,387
OTHER INCOME (EXPENSE):		
Interest expense	(1,915,456)	(1,952,166)
Interest income	137,070	160,483
Investment gain (loss)	36,014	(13,534)
Other income	49,773	98,682
Amortization of bond discounts, issuance costs, and excess costs of bond refundings	(77,702)	(79,671)
Total other expense	(1,770,301)	(1,786,206)
CHANGES IN NET COSTS TO BE REFUNDED TO PARTICIPATING MEMBERS	2,252,158	656,054
EXCESS OF REVENUES OVER EXPENSES	1,016,917	348,235
NET ASSETS:		
Balance — beginning of year	17,929,091	17,580,856
Balance — end of year	$ 18,946,008	$ 17,929,091

See notes to financial statements.

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
OPERATING ACTIVITIES:		
Cash received from sales of electricity	$ 204,516,313	$ 215,327,226
Cash paid under power supply contracts	(182,422,796)	(205,810,914)
Cash paid to other suppliers and employees	(6,471,870)	(6,902,786)
Other cash receipts	59,707	311,641
Net cash provided by operating activities	15,681,354	2,925,167
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payment for acquisition of property and equipment	(51,182)	(121,175)
Principal paid on revenue bond maturities	(1,010,000)	(970,000)
Interest paid on revenue bonds	(1,918,823)	(1,955,197)
Net cash used in capital and related financing activities	(2,980,005)	(3,046,372)
INVESTING ACTIVITIES:		
Payments for purchases of funds invested	(2,789,591)	(3,016,109)
Proceeds from sale of funds invested	6,091,068	4,150,636
Interest income received	167,680	177,254
Net cash provided by investing activities	3,469,157	1,311,781
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,170,506	1,190,576
CASH AND CASH EQUIVALENTS — Beginning of year	18,656,423	17,465,847
CASH AND CASH EQUIVALENTS — End of year	$ 34,826,929	$ 18,656,423

(Continued)

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	$ 535,060	$ 1,478,387
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Amortization and depreciation	2,167,893	2,307,111
Other cash receipts	47,767	
Changes in assets and liabilities:		
Receivables	(4,252,239)	202,307
Prepaid expenses	(6,782)	(523)
Materials and supplies	(3,520)	10,000
Regulatory assets	(656,747)	(561,284)
Amounts payable under power supply contracts	17,852,116	(253,292)
Other liabilities	(2,194)	(257,539)
Total adjustments	15,146,294	1,446,780
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 15,681,354	$ 2,925,167

See notes to financial statements. (Concluded)

1. ORGANIZATION AND OPERATIONS

Alabama Municipal Electric Authority (AMEA or the "Authority") is a public corporation in the state of Alabama. The Authority was created on August 17, 1981, pursuant to the provisions of Act No. 81-681 of the State of Alabama Legislature for the purpose of securing an adequate, dependable, and economical power supply for its participating members. The Authority's power supply is provided under the terms of contractual arrangements, generation at the AMEA-Sylacauga Plant, or purchased on the open market (see Note 4). The Authority sells power pursuant to Power Sales Contracts (see Note 3) to each of its 11 participating members (the "Participating Members"), which consist of municipalities, utility boards, and an electric board. Each Participating Member owns and operates its own electric distribution system.

The activities of the Authority are formally promulgated by and financed under The Power Supply System Revenue Bond Resolution (the "Resolution"), as supplemented and amended, adopted by the Board of Directors (the "Board"). The Resolution established special funds to hold proceeds from debt issuances; such proceeds are restricted and are to be used for development and acquisition costs and to maintain certain reserves. The Resolution also established additional special funds in which revenues from Participating Members are to be deposited and from which operating costs, debt service, and other specified payments are to be made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The accounting records of the Authority are maintained on an accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting and the Financial Accounting Standards Board (FASB) that does not conflict with accounting standards issued by the GASB. The Authority also complies with policies and practices prescribed by its Board and to practices common in the utility industry. Also, the accounts of the Authority are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC).

New Accounting Standards — In December 2010, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement establishes accounting and financial reporting standards for the financial statements of state and local governments and other governmental activities. This statement will become effective for the Authority for fiscal year 2013. Management has not yet determined the impact it will have on the Authority's financial statements.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement standardizes the presentation of deferred outflows of resources and their effects on an entity's net position. This statement will become effective for the Authority for fiscal year 2013. Management has not yet determined the impact it will have on the Authority's financial statements.

In June 2011, the GASB issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This statement became effective for the Authority for fiscal year 2012. It had no impact on the Authority's financial statements.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows or resources, certain items that were previously reported as assets and liabilities. This statement will become effective for the Authority for fiscal year 2014. Management has not yet determined the impact it will have on the Authority's financial statements.

In March 2012, the GASB issued GASB Statement No. 66, *Technical Corrections — 2012 (an amendment of GASB Statements No. 10 and No. 62)*. This objective of this statement is to improve accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of two pronouncements — GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement will become effective for the Authority for fiscal year 2014. Management has not yet determined the impact it will have on the Authority's financial statements.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*. This statement addresses accounting and financial reporting for pensions. This statement will become effective for the Authority's for fiscal year 2015. Management has not yet determined the impact it will have on the Authority's financial statements.

Regulatory Assets and Liabilities — As the Board has the authority to set rates, the Authority follows FASB Accounting Standards Codification 980 — *Regulated Operations*, which provides for the reporting of assets and liabilities consistent with the economic effect of the rate structure. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the rate-making process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the rate-making process.

Regulatory assets reflected in the Authority's balance sheets as of September 30, 2012 and 2011, relate to the following:

	2012	2011	Note
Power supply agreements implementation costs	$1,422,499	$ 874,718	(a)
Delivery point development costs	1,968,760	2,053,438	(b)
	$3,391,259	$2,928,156	

(a) Power supply agreements implementation costs were incurred by the Authority for the current agreement with the Alabama Power Company, the contract with Santee Cooper and the costs of negotiating the Amended and Restated Power Supply Agreement with Alabama Power Company. The Authority Board of Directors directed the Authority to defer and amortize these costs over the terms of the agreements. The recorded amounts are presented net of accumulated amortization of $454,441 for 2012 and $387,116 for 2011.

(b) Delivery point development costs were incurred by the Authority in the construction of transmission substations required in order for Participating Members to efficiently receive power. The Authority Board of Directors directed the Authority to defer and amortize these costs over the life of the contract with the Participating Member or the life of the asset, whichever is shorter. The recorded amounts are presented net of accumulated amortization of $392,028 for 2012 and $307,351 for 2011.

See Note 6 for discussion of the regulatory liabilities reflected in the Authority's balance sheets at September 30, 2012 and 2011.

Amortization — Unamortized bond issuance costs and bond discounts are being amortized using a method that approximates the effective interest method over the life of the bonds.

Cash and Cash Equivalents — The Authority considers cash and cash equivalents to be all unrestricted, highly liquid instruments with original maturities of three months or less, the amounts of which are included in certain funds as of September 30, 2012 and 2011, as follows:

	2012	2011
Revenue fund — rate stabilization	$14,700,000	$14,700,000
Operation and maintenance fund	20,126,929	3,956,423
	$34,826,929	$18,656,423

As of September 30, 2012, the Authority maintained all of its cash deposits in one Alabama financial institution. The carrying amount of the Authority's deposits as of September 30, 2012 and 2011, was $34,826,929 and $18,656,423, respectively. Of this amount, $250,000 and $500,000, respectively, was insured by the Federal Deposit Insurance Corporation (FDIC) and $34,576,929 and $18,156,423, respectively, was insured under the State of Alabama Security for Alabama Funds Enhancement Act (SAFE) program for public funds. The SAFE program became effective on January 1, 2001, and in case of a failure of a financial institution in the state of Alabama, the SAFE program provides loss coverage for all public funds deposited in excess of amounts covered by the FDIC.

Investments — The Authority accounts for investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this statement, investments are recorded at fair value for purposes of reporting under GAAP. Investments are stated at amortized cost or cost for purposes of reporting in accordance with the terms of the Resolution. At September 30, 2012 and 2011, the market value of this account was $8,743,856 and $11,859,715, respectively. These amounts were insured under the State of Alabama SAFE program.

Receivables from Participating Members — Receivables derived from sales of electricity to Participating Members represent a substantial portion of the total receivables balance.

Capital Fund Program — In 2000, the Authority established the capital fund program. The objective of this program is to assist its member communities in the development or improvement of sites and facilities available for economic development. If a member meets the criteria of the program, it would be eligible for a loan in $200,000 increments. All loans are non-interest-bearing. The maximum total amount of loans that can be made from this program is $3,000,000 as of September 30, 2012, and was approved by the Budget/Audit/Rate (BAR) Committee of the Board. The Authority's BAR Committee administers this program. The loans are payable based on terms established by this committee.

Materials and Supplies — Generally, materials and supplies include the historical costs of the AMEA-Sylacauga Plant materials. Materials are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, when installed.

Property and Equipment — All property and equipment is recorded at cost and depreciation is computed using the straight-line method over the estimated useful lives of 3 to 35 years. Depreciation expense was $2,015,891 and $2,034,899 for the years ended September 30, 2012 and 2011, respectively. Property and equipment consist of the following items at September 30, 2012 and 2011:

	2012	2011
Electric plant	$41,387,490	$41,387,490
Building	1,406,527	1,404,482
Equipment	579,573	594,179
Transportation equipment	163,173	164,967
Load management and SCADA system	4,368,296	4,361,055
	47,905,059	47,912,173
Accumulated depreciation	20,086,803	18,132,103
Property and equipment — net	$27,818,256	$29,780,070

Taxes — As an agency of the State of Alabama, the Authority's income is exempt from federal and state income taxes. The Authority is exempted from property and franchise or other privilege taxes; however, the Authority is subject to a statutory requirement to make a payment in lieu of property, sales, and certain other taxes.

Revenue Recognition — Operating revenues are recognized in the period that electricity is supplied to Participating Members and others. All other revenues are reflected in other income. Costs associated with the acquisition and generation of electricity supplies are included in operating expenses.

Accounting Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

3. POWER SALES CONTRACTS

Each Participating Member has entered into an Amended and Restated Power Sales Contract (the "Sales Contracts") with the Authority, which extends through December 31, 2035. The Sales Contracts require that the Authority furnish, and each Participating Member take and pay for, all power and energy requirements of the Participating Member ("full requirements services") in excess of that supplied by the Southeastern Power Administration (SEPA) and any excluded power supply resources, as defined. Initially, the Participating Members were required to purchase all of their full requirements services from the Authority. Beginning January 1, 2001, the power supply requirements may be limited by either the Participating Member or the Authority to equal the Participating Members' "Contract Rate of Delivery," which is defined as the highest billing demand of the Participating Member during the 24 billing periods preceding the effective date of the limitation, adjusted up or down by not more than 10%, to provide for optimal utilization of the Authority's resources.

Under the terms of the Sales Contracts, each Participating Member may acquire excluded power supply resources under certain conditions that include a provision that the total power obtained from such resources, excluding its SEPA allocation, cannot exceed 10% of the Participating Member's adjusted maximum demand (as defined) in any preceding calendar year.

Retail electric rates charged by Participating Members to their local consumers are not subject to the regulatory control of the Alabama Public Service Commission (PSC) (the "Commission"). The Sales Contracts stipulate that each Participating Member maintain retail rates sufficient to enable it to pay all amounts due to the Authority.

4. POWER SUPPLY AGREEMENTS

The Authority's power supply is provided under the terms of contractual arrangements, generation at the AMEA-Sylacauga Plant, or purchased on the open market.

Currently and in the past, the Authority has entered into power supply agreements with Alabama Power Company (the "Company"). On December 20, 2001, the Authority entered into its most recent PSA with the Company. The PSA began on January 1, 2006, and terminates on December 31, 2015. Under the PSA, the Company will deliver the capacity and energy sold to the Authority at the high voltage side of the transformers at the various generating units of the Company that provide capacity and energy under the PSA. The Company will provide 100% of the Authority's capacity and energy needs, as determined by the Authority, during the contract period unless the Authority provides the Company notice to supply up to 20% of its 2006 forecasted capacity needs during years 2007–2015. The Company may provide all of the Authority's load growth after the first five years of the contract period.

Pursuant to the provisions of Section 11-50A-25, Code of Alabama 1975, as amended, the Authority was required to file the PSA with the PSC. On May 7, 2002, the PSC ordered that "the Agreement and the rates to be charged by the Authority pursuant to the provisions of the Agreement are not disapproved by the Commission." The PSA, pursuant to the FERC regulations, does not require PSC approval.

On June 7, 2012, the Authority further amended and restated the PSA (the "Amended and Restated PSA") with the Company. The Amended and Restated PSA is a modification of the PSA entered into on December 20, 2001 with the Company. The Amended and Restated PSA will begin on January 1, 2013, and terminates on December 31, 2025. Under the Amended and Restated PSA, the Company will continue to deliver the capacity and energy sold to the Authority at the high voltage side of the transformers at the various generating units of the Company that provide capacity and energy under the Amended and Restated PSA. The Company will provide 100% of the Authority's capacity and energy needs, based on a formulary approach accounting for actual usage, as determined by the Company, during the contract period unless the Authority provides the Company notice to supply up to 220 MW of its capacity needs during the years 2016–2020, and up to 320 MW of its capacity needs during the years 2021–2025.

Pursuant to the provisions of Section 11-50A-25, Code of Alabama 1975, as amended, the Authority was required to file the Amended and Restated PSA with the PSC. On July 10, 2012, the PSC ordered that "the Amended and Restated Power Supply Agreement and the rates to be charged by the Authority pursuant thereto are not disapproved by the Commission." The Amended and Restated PSA, pursuant to the FERC regulations, does not require PSC approval.

In order for the Authority to obtain transmission service to deliver the capacity and energy to the Authority's metering points with its Participating Members, the Authority entered into the Agreement for Network Integration Transmission Service and the Network Operating Agreement, both dated December 29, 2005, with Southern Company Services. These agreements provide the transmission services required by the Authority to allow it to deliver the output of the resources defined in the PSA, the output of the AMEA-Sylacauga Plant (see further discussion below), and to deliver certain nonfirm energy transactions.

The AMEA-Sylacauga Plant is a 95 MW gas-fired peaking generation facility located within the city limits of the city of Sylacauga, Alabama. The AMEA-Sylacauga Plant was financed via the $45,550,000 Power Supply System Revenue Bonds, 2003 Series A. The interconnection of the AMEA-Sylacauga Plant to the 115 kV transmission systems was agreed to by the Company. Gas and water supply are provided by the Utilities Board of the City of Sylacauga.

As of September 30, 2009, the Authority has entered into a power purchase and sales agreement with Tenaska Power Services Co. This agreement provides the Authority the opportunity to buy and sell replacement energy on an hour-to-hour, daily, weekly, and monthly basis. This contract was terminated on December 31, 2012.

On December 15, 2010, the Authority entered into an agreement for 50 MW of base load capacity and energy through a 10-year contract with the South Carolina Public Service Authority (Santee Cooper). This agreement begins on January 1, 2014, and terminates on December 31, 2023. Under the agreement, Santee Cooper will deliver 50 MW of capacity and energy to the Southern Company Transmission System-Santee Cooper interface. The transmission at the interface to Southern Company was approved per the Southern Company Open Access Transmission Tariff procedures.

5. FUNDS INVESTED

The Authority's cash and other funds invested as of September 30, 2012 and 2011, are summarized as follows:

2012	**Fair Value**	**Cost**
U.S. government Treasury bonds and agency certificates — held by trustee in the Authority's name (uninsured and unregistered)	$ 2,932,529	$ 2,929,000
Money market instruments — mutual funds composed of U.S. Treasury obligations	294,035	294,035
	3,226,564	3,223,035
Interest-bearing cash and cash equivalent accounts	34,826,929	34,826,929
U.S. government bonds and agency certificates	5,603,297	5,616,641
Accrued interest and other	5,837	5,837
Total funds invested	$43,662,627	$43,672,442
Consisting of:		
Special funds invested	$ 3,226,564	
Current assets — funds invested	40,436,063	
	$43,662,627	

2011	**Fair Value**	**Cost**
U.S. government Treasury bonds and agency certificates — held by trustee in the Authority's name (uninsured and unregistered)	$ 2,941,023	$ 2,929,000
Money market instruments — mutual funds composed of U.S. Treasury obligations	294,068	294,068
	3,235,091	3,223,068
Interest-bearing cash and cash equivalent accounts	18,656,423	18,656,423
U.S. government bonds and agency certificates	8,906,929	8,914,355
Accrued interest and other	7,313	7,313
Total funds invested	$30,805,756	$30,801,159
Consisting of:		
Special funds invested	$ 3,235,091	
Current assets — funds invested	27,570,665	
	$30,805,756	

Investments included in the funds invested categories are stated at fair values, plus any accrued interest.

Credit Risk — The Authority's policy regarding credit risk on investments is governed by the Resolution, which authorizes the Authority to invest in (1) direct obligations of, or obligations, which the principal and interest are unconditionally guaranteed by the United States of America; (2) direct and general obligations of any state in the United States of America, or of any agency or local government unit thereof whose obligations are fully secured as to principal and interest by cash or obligations of the character described in (1) above; (3) obligations of or guaranteed by any agency or corporation of the United States of America; (4) new housing authority bonds or project notes issued by the public agencies and fully secured as to principal and interest by certain agreements with the United States of America; (5) obligations of any state, territory, or possession of the United States of America or of any political subdivision thereof whose securities are rated by a nationally recognized bond-rating agency in either of its two highest rating categories; (6) certificates of deposit issued by a bank, trust company, or similar institution (the Authority's deposits in any such institution cannot exceed 5% of the institution's capital stock, surplus, and undivided profits, unless fully insured by the FDIC or secured to the extent not insured by certain obligations acceptable under the Resolution); (7) obligations issued or guaranteed by any corporation which are rated similarly to that described in (5) above; (8) repurchase agreements with a member of the Federal Reserve System which are collateralized by the types of obligations described above; and (9) interest in a portfolio of money market instruments containing specified types of obligations.

All instruments held by the Authority are in compliance with the Resolution.

Interest Rate Risk — The Resolution states that funds will be reinvested to the fullest extent practicable in investment securities, which mature no later than at such time when funds are required for payments to be made from each account. The Resolution also states that all funds held by depositories must be held in accounts that are available for use at the time when needed.

6. NET COSTS TO BE REFUNDED TO PARTICIPATING MEMBERS

Power rates charged to Participating Members are designed to cover the Authority's "costs" as defined by the Resolution and the Sales Contracts. The Authority's rates are structured to systematically provide for debt service requirements, operating funds, and reserves specified by the Resolution. Recognition of "expenses" (defined according to GAAP), which are not included as "costs," is deferred to such period as it is intended that such "expenses" will be covered by rates. Recognition of the "revenues," which under the Resolution and the Sales Contracts are collected to cover "costs" that are not "expenses," is deferred to such period as it is intended that such "revenues" cover "expenses."

The Authority is required by the Resolution to review and, if necessary, revise its rate structure upon the occurrence of a material change in circumstances, but in any event, at least once every year. The Resolution also permits the Authority to implement rate stabilization practices whereby revenues collected currently may be deposited in a special account to provide for reductions in possible future rate increases that will be required in future years to cover the Authority's costs and other funds requirements mentioned above. Rates charged by the Authority are not subject to the regulatory control of the PSC or FERC.

Net costs to be refunded to Participating Members include the following:

	Year Ended September 30		From Inception to September 30	
	2012	2011	2012	2011
GAAP items not included in billings to participants:				
Amortization of prepaid purchase power contracts	$ -	$ -	$ 152,900,000	$ 152,900,000
Amortization of development costs	-	-	3,200,000	3,200,000
Amortization of bond discounts and issuance costs	77,701	79,671	11,195,042	11,117,341
Amortization of excess costs of bond refundings	-	-	15,026,369	15,026,369
Interest on revenue bonds	-	-	17,063,216	17,063,216
Expenses paid with bond proceeds	-	-	3,449,602	3,449,602
Decrease (increase) in fair value of funds invested	8,493	3,985	(3,529)	(12,022)
Deferred depreciation on plant	1,729,297	1,745,731	14,321,541	12,592,244
Other	-	-	2,695,345	2,695,345
	1,815,491	1,829,387	219,847,586	218,032,095
Bond resolution requirements included in billings to participants:				
Debt service	1,013,333	973,333	217,646,750	216,633,417
(Decrease) increase in special funds deposits	(1,450,000)	200,000	13,250,000	14,700,000
Investment income not available for operating purposes	-	-	1,102,799	1,102,799
	(436,667)	1,173,333	231,999,549	232,436,216
	$ 2,252,158	$ 656,054	$ (12,151,963)	$ (14,404,121)

7. LONG-TERM DEBT

Long-term debt as of September 30, 2012, consists of the following serial bonds:

Maturity	2003 Bonds Effective Interest Rate	Amount
2013	4.10 %	$ 1,050,000
2014	4.13	1,090,000
2015	5.50	1,135,000
2016	5.50	1,200,000
2017	5.50	1,265,000
2018	5.50	1,335,000
2019	5.50	1,410,000
2020	4.70	1,485,000
2021	4.80	1,555,000
2022	5.00	1,630,000
2023	5.00	1,710,000
2024	5.00	1,795,000
2025	5.00	1,885,000
2026	5.00	1,980,000
2027	5.00	2,080,000
2028	5.00	2,185,000
2029	5.00	2,295,000
2030	5.00	2,410,000
2031	5.00	2,530,000
2032	5.00	2,655,000
2033	5.00	2,785,000
		37,465,000
Less current maturities		1,050,000
Less unamortized bond discount		116,420
		$36,298,580

Interest on all of the bond issues is payable semiannually.

The Authority's bonds are secured by a pledge of all revenues of the Authority and all special funds established by the Resolution subject to certain terms and conditions set forth therein. The Resolution requires that reserve deposits be maintained in the debt service fund equal to 10% of the principal amount of a bond series outstanding or the highest annual debt service payment required under a series, calculated with respect to each series as of the date of issuance. The Resolution contains certain restrictive financial and operational covenants. At September 30, 2012, the Authority was in compliance with its debt covenants. The carrying value and fair values of the 2003 Bonds are summarized in the table below. Fair value of the bonds is estimated based on quoted market prices.

	September 30, 2012		September 30, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Series 2003 Bonds	$37,465,000	$38,854,750	$38,475,000	$39,706,725

On June 30, 2012, the Authority entered into a Business Loan Agreement line of credit with Regions Bank. This agreement provides a maximum borrowing capacity of $5,000,000 through June 29, 2013. Interest is payable monthly at a rate equal to the 30-day London InterBank Offered Rate (LIBOR) plus 2.570 basis points. Outstanding loans are secured by a pledge of the Authority's revenues, which is subordinate to the security interest for bonds issued pursuant to the Resolution.

During the year ended September 30, 2012, no amounts were outstanding under this agreement.

8. RETIREMENT PLAN

The Authority's employees participate in the Employees' Retirement System of Alabama's defined benefit pension plan. Employees currently contribute 5% of their gross pay to the plan, and the Authority contributed approximately 7.80% (2012) and 7.02% (2011). The Authority's contributions are designed to fund the normal contribution amount. The Authority's retirement expense for the years ended September 30, 2012 and 2011, was $117,816 and $108,428, respectively, in administrative and general expenses.

Retirement payments under the plan are future obligations of the Employees' Retirement System of Alabama. The Authority's obligations under the plan are limited to the funding described above. Valuation of the plan assets and accumulated benefits for the Authority is not available, as the Employees' Retirement System of Alabama does not segregate this information.

9. RELATED-PARTY TRANSACTIONS

In addition to sales of electricity to Participating Members as discussed in Note 3, the Authority has entered into a Natural Gas Purchase Agreement with the Utilities Board of the City of Sylacauga ("Sylacauga"), one of the Participating Members. The purpose of this agreement is to provide the natural gas requirements for the AMEA-Sylacauga Plant. The Authority also purchases water and sewer services and internet services for the plant from Sylacauga. During the years ended September 30, 2012 and 2011, the Authority's costs to Sylacauga were $316,815 and $173,806, respectively, under the provisions of this agreement.

10. SUBSEQUENT EVENTS

The Authority has evaluated all events or transactions that occurred after September 30, 2012, through the date the accompanying financial statements were available to be issued, February 26, 2013. During this period, there were no material subsequent events which required disclosure.

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ADDITIONAL INFORMATION

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENT OF CHANGES IN ASSETS OF FUNDS INVESTED
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Funds Invested September 30, 2011	Power Billing Receipts	Income from Other Electricity Sales	Other Income	Investment Income (Loss)	Disbursements	Transfers	Funds Invested September 30, 2012
DEBT SERVICE FUND:								
Debt service account	$ 244,068	$ -	$ -	$ -	$ 46	$ (2,928,822)	$ 2,928,743	$ 244,035
Debt service reserve account	2,941,023	-	-	-	13,663	-	(22,157)	2,932,529
	3,185,091	-	-	-	13,709	(2,928,822)	2,906,586	3,176,564
GENERAL RESERVE FUND	-	-	-	-	-	-	-	-
RESERVE AND CONTINGENCY FUND	50,000	-	-	-	5	-	(5)	50,000
REVENUE FUND:								
Revenue account	7,313	204,487,065	29,815	119,395	(7,393)	-	(204,630,358)	5,837
Rate stabilization account	14,700,000	-	-	-	-	-	-	14,700,000
	14,707,313	204,487,065	29,815	119,395	(7,393)	-	(204,630,358)	14,705,837
OPERATION AND MAINTENANCE FUND:								
Operation and maintenance account	-	-	-	-	-	(188,961,517)	188,961,517	-
Working capital account	12,863,352	-	-	-	104,614	-	12,762,260	25,730,226
	12,863,352	-	-	-	104,614	(188,961,517)	201,723,777	25,730,226
	$ 30,805,756	$ 204,487,065	$ 29,815	$ 119,395	$ 110,935	$ (191,890,339)	$ -	$ 43,662,627

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENT OF CHANGES IN ASSETS OF FUNDS INVESTED
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Funds Invested September 30, 2010	Power Billing Receipts	Income from Other Electricity Sales	Other Income	Investment Income (Loss)	Disbursements	Transfers	Funds Invested September 30, 2011
DEBT SERVICE FUND:								
Debt service account	$ 243,766	$ -	$ -	$ -	$ 413	$ (2,925,197)	$ 2,925,086	$ 244,068
Debt service reserve account	2,945,007	-	-	-	28,898	-	(32,882)	2,941,023
	3,188,773	-	-	-	29,311	(2,925,197)	2,892,204	3,185,091
GENERAL RESERVE FUND	-	-	-	-	-	-	-	-
RESERVE AND CONTINGENCY FUND	50,000	-	-	-	6	-	(6)	50,000
REVENUE FUND:								
Revenue account	1,217	213,931,269	1,539,637	178,631	(1,331)	-	(215,642,110)	7,313
Rate stabilization account	14,500,000	-	-	-	-	-	200,000	14,700,000
	14,501,217	213,931,269	1,539,637	178,631	(1,331)	-	(215,442,110)	14,707,313
OPERATION AND MAINTENANCE FUND:								
Operation and maintenance account	-	-	-	-	-	(212,745,318)	212,745,318	-
Working capital account	13,033,407	-	-	-	25,351	-	(195,406)	12,863,352
	13,033,407	-	-	-	25,351	(212,745,318)	212,549,912	12,863,352
	$ 30,773,397	$ 213,931,269	$ 1,539,637	$ 178,631	$ 53,337	$ (215,670,515)	$ -	$ 30,805,756

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

SCHEDULES OF REVENUES AND EXPENSES PER BOND RESOLUTION
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
REVENUES:		
Sales of electricity to participating members	$ 208,363,579	$ 213,627,226
Sales of electricity — other	29,815	1,532,167
Investment revenues available for operations	181,577	150,934
Withdrawal from working capital	1,450,000	-
Other income	49,772	98,682
Total revenues	210,074,743	215,409,009
EXPENSES:		
Partial requirements services:		
Purchased power	187,589,971	189,589,778
Transmission and distribution	12,660,544	14,773,178
Cost of other electricity sales	32,189	1,362,124
Deposit to rate stabilization account	-	200,000
Other operating and maintenance expenses	985,786	1,082,387
Administrative and general expenses	4,860,547	5,127,808
Debt service	2,928,789	2,925,499
Total expenses	209,057,826	215,060,774
EXCESS OF REVENUES OVER EXPENSES	$ 1,016,917	$ 348,235