Alabama Municipal Electric Authority

Financial Statements as of and for the Years Ended September 30, 2010 and 2009, Additional Information for the Years Ended September 30, 2010 and 2009, and Independent Auditors' Report

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Corporate Structure — The Alabama Municipal Electric Authority (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 eleven members.

Joint Action — The Authority is comprised of eleven 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 this statement 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 — 2010 Compared to 2009

Following are condensed balance sheets as of September 30:

	2010	2009
Total assets	$ 90,737,560	$ 92,686,991
Long-term debt	$ 38,339,542	$ 39,299,673
Other liabilities	34,817,162	36,328,680
Total liabilities	$ 73,156,704	$ 75,628,353
Net assets	$ 17,580,856	$ 17,058,638

Total Assets — The decrease in total assets of $1,949,431 is driven by several factors. Annual amortization and depreciation decreased total assets in the amount of $2,375,648. Total funds invested decreased by $7,060,120 and Participants receivables increased by $6,597,758, primarily as a result of the timing of the August 2010 billing and when payments were made to AMEA. Regulatory assets increased by $635,799, primarily the result of AMEA's share of the costs of the City of Foley's delivery point #11.

Total Liabilities — The decrease in total liabilities of $2,471,649 was primarily a result of the following items. Long-term debt was reduced by $960,131 as a result of normal debt payments. Net costs to be refunded to participants decreased $3,595,466, a result of a $2,700,000 transfer from the Rate Stabilization Account to the Revenue Fund and deferred depreciation and other items normally charged to this account. Additionally, amounts payable under power supply contracts increased by $2,076,251, a result of a higher demand requirements and slightly higher demand costs in September 2010 than in September 2009.

Following is a summary of operations for the years ended September 30:

	2010	2009
Operating revenues	$ 199,847,875	$ 195,901,796
Operating expenses:		
Purchased power expenses	192,800,849	190,341,142
Plant operating expenses	1,162,059	657,439
Administrative, general, and operating expenses	7,168,645	7,396,437
Total operating expenses	201,131,553	198,395,018
Operating gain (loss)	(1,283,678)	(2,493,222)
Other income and (expense) — net	(1,789,570)	(1,833,407)
Changes in net costs to be refunded to participants	3,595,466	5,297,275
Excess of revenues over expenses	522,218	970,646
Net assets — beginning of year	17,058,638	16,087,992
Net assets — end of year	$ 17,580,856	$ 17,058,638

Operating Revenues — Total operating revenues increased by $3,946,079. Increases in demand sales and energy sales, a March 1, 2010 increase in the demand and energy rates charged to the Authority's participants and a reduction in fuel costs for the year resulted in a net increase of Sales of electricity to participants in the amount of $4,241,188. Sales of electricity to others decreased by $295,809.

Operating Expenses — Total operating expenses increased $2,736,535. Purchased power expenses increased by $2,459,707 due to increases in Power Supply Agreement (PSA) and Transmission costs. Capacity costs under the PSA increased by $7,653,629 based on contracted rate increases. Because of lower fuel costs and increased kWh purchases, the net energy costs under the PSA decreased by $5,740,167. Transmission costs increased $873,082 as a direct result of a transmission rate increase. Plant operating expenses increased by $504,620 as a result of the Authority's Sylacauga Plant operating more than in the previous year.

Other Income and Expense, Net — Other income and expense, net increased by $43,837. Interest expense decreased by $28,601. Interest income decreased by $68,272, as a result of lower interest rates. Investment income increased by $115,432 as a result of an increase in the Authority's share of Hometown Connections profit and an increase in the market value of Authority's investment account. Other income decreased by $33,771, primarily as a result of a decrease in interest income paid by participants.

Changes in Net Costs To Be Refunded To Participants — The change of $1,701,809 in this account is due to a small reduction in the amount of the regular annual charges to this account and a withdrawal in FY2010 of $2,700,000 from the rate stabilization account. In FY2009, $4,400,000 was withdrawn from the rate stabilization account. (See Note 6)

Liquidity and Capital Resources — The Authority has cash and cash equivalents of $17,465,847 at September 30, 2010, a decrease of $7,155,974 from the prior year. The cash distribution during the year for operating activities was $3,298,606 less than payments for operating expense items. Also, $4,009,932 was paid out for capital and related financial activities. 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, 2010, is $38,339,542. 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.

Financial Analysis — 2009 Compared to 2008

Following are condensed balance sheets as of September 30:

	2009	2008
Total assets	$ 92,686,991	$ 103,780,792
Long-term debt	$ 39,299,673	$ 40,229,581
Other liabilities	36,328,680	47,463,220
Total liabilities	$ 75,628,353	$ 87,692,801
Net assets	$ 17,058,638	$ 16,087,991

Total Assets — The decrease in total assets of $11,093,801 is driven by several factors. Annual amortization and depreciation decreased total assets in the amount of $2,446,774. Current participants receivables decreased by $14,538,671. There were several reasons for this: 1) September 2009 billings were $6,000,000 lower than the September 2008 billings. This was caused by mild weather, resulting in lower power usage, and much lower fuel costs. 2) There was a $3,300,000 difference in prior months payments (July and August) carried over into the new year. 3) The effects of the levelization rate rider resulted in a $5,500,000 reduction in the receivable.

Total Liabilities — The decrease in total liabilities of $12,064,448 was primarily a result of the following items. Long-term debt was reduced by $929,909 as a result of normal debt payments. Net costs to be refunded to participants decreased $5,297,276, a result of a $4,400,000 transfer from the Rate Stabilization Account to the Revenue Fund and deferred depreciation and other items normally charged to this account. Additionally, amounts paid under power supply contracts decreased by $5,808,709, a result of a much lower demand and energy requirement in September 2009 than in September 2008.

Following is a summary of operations for the years ended September 30:

	2009	2008
Operating revenues	$ 195,901,796	$ 212,290,467
Operating expenses:		
Purchased power expenses	190,341,142	198,205,104
Plant operating expenses	657,439	1,579,477
Administrative, general, and operating expenses	7,396,437	7,079,158
Total operating expenses	198,395,018	206,863,739
Operating gain (loss)	(2,493,222)	5,426,728
Other income and (expense) — net	(1,833,407)	(886,619)
Changes in net costs to be refunded to participants	5,297,275	(3,471,635)
Excess of revenues over expenses	970,646	1,068,474
Net assets — beginning of year	16,087,992	15,019,517
Net assets — end of year	$ 17,058,638	$ 16,087,991

Operating Revenues — Total operating revenues decreased by $16,388,671. Decreases in fuel costs, which we pass thru to our participating members, and a reduction in the amount of energy sold to the participating members resulted in reduced sales of electricity to members in the amount of $15,794,533. Sales of electricity to others decreased by $594,118.

Operating Expenses — Total operating expenses decreased $8,468,721. Purchased power expenses decreased by $7,863,962 due to fluctuations in Power Supply Agreement (PSA) and Transmission costs. Capacity costs under the PSA increased by $4,724,287 based on contracted rate increases. Because of lower fuel costs and decreased kWh purchases, the energy costs under the PSA decreased by $13,452,542. Transmission costs increased $1,213,235 as a direct result of a transmission rate increase. Plant operating expenses decreased by $922,038 as a result of the Authority's Sylacauga Plant not being required to operate as often as the previous year.

Other Income and Expense, Net — Other income and expense, net decreased by $946,788. Interest expense decreased by $25,066. Interest income decreased by $586,200, as a result of lower interest rates. Other income decreased by $303,759, primarily as a result of no NOX emission allowances sales during FY2009.

Changes in Net Costs To Be Refunded To Participants — The change of $8,768,910 in this account is due to a small reduction in the amount of the regular annual charges to this account and a withdrawal in FY2009 of $4,400,000 from the rate stabilization account. In FY2008, $4,400,000 was transferred to the rate stabilization account. (See Note 6)

Liquidity and Capital Resources — The Authority has cash and cash equivalents of $24,621,821 at September 30, 2009, a decrease of $4,335,102 from the prior year. The cash collections during the year for operating income items was $8,479,766 more than payments for operating expense items. Also, $3,073,567 was paid out for capital and related financial activities. 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, 2009, is $39,299,673. 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.

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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, 2010 and 2009, 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 controls 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, 2010 and 2009, 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 basic financial statements taken as a whole. The additional information on pages 22 through 25 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Management's discussion and analysis on pages 1 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information, and we do not express an opinion on it.

Deloitte + Touche LLP

February 17, 2011

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

BALANCE SHEETS
AS OF SEPTEMBER 30, 2010 AND 2009

ASSETS	2010	2009
PROPERTY AND EQUIPMENT — Net	$ 31,743,188	$ 33,569,755
OTHER LONG-TERM ASSETS:		
Investments	414,138	397,593
Participant receivables	6,686	37,884
Capital fund program receivable	600,000	800,000
Total other long-term assets	1,020,824	1,235,477
SPECIAL FUNDS INVESTED:		
Debt service fund (restricted)	2,945,007	2,951,845
Reserve and contingency fund	50,000	50,000
Total special funds invested	2,995,007	3,001,845
CURRENT ASSETS:		
Funds invested:		
Revenue fund	14,501,217	17,232,827
Operation and maintenance fund	13,033,407	17,361,675
Special funds — debt service fund (restricted)	243,766	244,008
Total funds invested	27,778,390	34,838,510
Participant receivables	23,119,326	16,490,370
Other receivables	38,013	40,484
Materials and supplies	164,310	169,259
Capital fund program receivable	200,000	225,499
Prepaid expenses	96,796	98,175
Total current assets	51,396,835	51,862,297
DEFERRED COSTS:		
Regulatory assets	2,597,442	1,961,643
Unamortized bond issuance costs — net of accumulated amortization of $541,508 (2010) and $469,798 (2009)	984,264	1,055,974
Total deferred costs	3,581,706	3,017,617
TOTAL	$ 90,737,560	$ 92,686,991

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ALABAMA MUNICIPAL ELECTRIC AUTHORITY

BALANCE SHEETS
AS OF SEPTEMBER 30, 2010 AND 2009

LIABILITIES AND NET ASSETS	2010	2009
LONG-TERM DEBT — Revenue bonds — net of unamortized discounts	$ 38,339,542	$ 39,299,673
REGULATORY LIABILITIES — Net costs to be refunded to participants	15,060,175	18,655,641
CURRENT LIABILITIES:		
Current maturities of revenue bonds	970,000	940,000
Amounts payable under power supply contracts	17,754,316	15,678,065
Special funds — accrued interest on revenue bonds	162,933	165,675
Other current liabilities	869,738	889,299
Total current liabilities	19,756,987	17,673,039
Total liabilities	73,156,704	75,628,353
NET ASSETS:		
Invested in capital assets — net of related debt	(7,566,355)	(6,669,918)
Restricted for debt service	3,188,773	3,195,853
Unrestricted	21,958,438	20,532,703
Total net assets	17,580,856	17,058,638
TOTAL	$ 90,737,560	$ 92,686,991

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, 2010 AND 2009

	2010	2009
OPERATING REVENUES:		
Sales of electricity to participants	$ 199,524,596	$ 195,282,708
Sales of electricity — other	323,279	619,088
Total operating revenues	199,847,875	195,901,796
OPERATING EXPENSES:		
Partial requirements services:		
Purchased power	178,316,713	176,496,838
Transmission and distribution	14,210,254	13,337,172
Plant operating expenses	1,162,059	657,439
Cost of other electricity sales	273,882	507,132
Other operating and maintenance expenses	533,849	778,707
Administrative and general expenses	4,330,858	4,244,290
Amortization and depreciation	2,303,938	2,373,440
Total operating expenses	201,131,553	198,395,018
NET OPERATING LOSS	(1,283,678)	(2,493,222)
OTHER INCOME (EXPENSE):		
Interest expense	(1,985,356)	(2,013,957)
Interest income	168,632	236,904
Investment gain (loss)	66,215	(49,217)
Other income	42,518	76,289
Amortization of bond discounts, issuance costs, and excess costs of bond refundings	(81,579)	(83,426)
Total other expense	(1,789,570)	(1,833,407)
CHANGES IN NET COSTS TO BE REFUNDED TO PARTICIPANTS	3,595,466	5,297,275
EXCESS OF EXPENSES OVER REVENUES	522,218	970,646
NET ASSETS:		
Balance — beginning of year	17,058,638	16,087,992
Balance — end of year	$ 17,580,856	$ 17,058,638

See notes to financial statements.

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
OPERATING ACTIVITIES:		
Cash received from sales of electricity	$ 193,187,334	$ 210,429,388
Cash paid under power supply contracts	(190,708,792)	(195,969,527)
Cash paid to other suppliers and employees	(6,076,227)	(5,737,259)
Other cash receipts and (payments)	299,079	(242,836)
Net cash (used in) provided by operating activities	(3,298,606)	8,479,766
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payment for acquisition of property and equipment	(1,081,834)	(147,259)
Principal paid on revenue bond maturities	(940,000)	(910,000)
Interest paid on revenue bonds	(1,988,098)	(2,016,308)
Net cash used in capital and related financing activities	(4,009,932)	(3,073,567)
INVESTING ACTIVITIES:		
Payments for purchases of funds invested	(3,046,222)	(12,996,221)
Proceeds from sale of funds invested	2,963,173	3,006,896
Interest income received	235,613	248,024
Net cash provided by (used in) investing activities	152,564	(9,741,301)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,155,974)	(4,335,102)
CASH AND CASH EQUIVALENTS — Beginning of year	24,621,821	28,956,923
CASH AND CASH EQUIVALENTS — End of year	$ 17,465,847	$ 24,621,821

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ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating loss	$ (1,283,678)	$ (2,493,222)
Adjustments to reconcile net operating loss to net cash (used in) provided by operating activities:		
Amortization and depreciation	2,303,938	2,373,440
Noncash operating expense amount		
Changes in assets and liabilities:		
(Increase) decrease in receivables	(6,344,089)	14,380,557
Decrease in prepaid expenses	1,379	20,587
Decrease in materials and supplies	4,949	15,333
Increase (decrease) in amounts payable under power supply contracts	2,076,251	(5,808,709)
Decrease in other liabilities	(57,356)	(8,220)
Total adjustments	(2,014,928)	10,972,988
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$ (3,298,606)	$ 8,479,766

See notes to financial statements. (Concluded)

1. ORGANIZATION AND OPERATIONS

Alabama Municipal Electric Authority (the "Authority") is a public corporation of 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 eleven 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 issuance; such proceeds 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 participants 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 do 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 June 2008, the GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. GASB Statement No. 53 became effective for the Authority in fiscal year 2010 and was adopted but did not have a material effect on the Authority's financial statements.

In February 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 will become effective in fiscal year 2011. Management has not yet determined the impact this statement will have on the Authority's financial statements.

In June 2010, the GASB issued GASB Statement No. 59, *Financial Instruments Omnibus*. This statement addresses the accounting and financial reporting of certain financial instruments and will become effective for the Authority in fiscal year 2011. Management has not yet determined the impact this statement will have on the Authority's financial statements.

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 in fiscal year 2012. 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 ASC 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 at September 30, 2010 and 2009, relate to the following:

	2010	2009	Note
PSA implementation costs	$ 353,454	$ 420,778	(a)
Delivery point development costs	2,123,289	1,299,467	(b)
Load management inventory costs	120,699	241,398	(c)
	$2,597,442	$1,961,643	

(a) Power Supply Agreement (PSA) implementation costs were incurred by the Authority in obtaining the PSA. The Authority Board of Directors directed the Authority to defer and amortize these costs over the term of the PSA contract. The recorded amounts are presented net of accumulated amortization of $319,792 for 2010 and $252,467 for 2009.
(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 primarily 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 $223,162 for 2010 and $165,012 for 2009.
(c) The Authority Board of Directors directed the Authority to defer and amortize these costs over a five-year period beginning October 1, 2006. The recorded amount is presented net of accumulated amortization of $482,796 for 2010 and $362,097 for 2009.

See Note 6 for discussion of the regulatory liabilities reflected in the Authority's balance sheet at September 30, 2010.

Amortization — Unamortized bond issuance costs and bond discounts are being amortized using 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 at September 30 as follows:

	2010	2009
Revenue fund — rate stabilization	$ 14,500,000	$ 17,200,000
Operation and maintenance fund	2,965,847	7,421,821
	$ 17,465,847	$ 24,621,821

As of September 30, 2010, the Authority maintained all of its cash deposits in two Alabama financial institutions. The carrying amount of the Authority's deposits as of September 30, 2010 and 2009, was $17,465,847 and $24,621,821, respectively. Of this amount, $500,000 and $500,000, respectively, was covered by the Federal Deposit Insurance Corporation (FDIC) and $16,949,801 and $24,103,576, 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 public depositor in the State of Alabama, the SAFE program provides loss coverage for all public funds deposited in excess of amounts covered by the FDIC.

Funds Invested — 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. During the year ended September 30, 2010, the Authority invested securities held in a Regions Morgan Keegan Trust Account. At September 30, 2010, the market value of this account was $10,083,606. This amount was insured under the State of Alabama SAFE program.

Participant Receivables — Receivables derived from sales of electricity to participants represent a substantial portion of the total participant 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 noninterest bearing. The maximum total amount of loans that can be made from this program is $300,000 as of September 30, 2010 and was approved by the Budget/Audit/Rate Committee of the Board (BAR). 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 generating 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 are 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 $2,057,764 and $2,135,913 for the years ended September 30, 2010 and 2009, respectively. Property and equipment consist of the following items at September 30:

	2010	**2009**
Electric plant	$41,375,116	$41,362,386
Building	1,391,185	1,438,313
Equipment	591,223	607,791
Transportation equipment	165,066	142,964
Load management and SCADA system	4,359,313	4,265,025
	47,881,903	47,816,479
Accumulated depreciation	16,138,715	14,246,724
Property and equipment — net	$31,743,188	$33,569,755

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 requirement 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 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 agreement with the Company. This agreement, the PSA, began January 1, 2006, and terminates 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 10% of its 2006 forecasted capacity needs during 2006, or up to 20% of its 2006 forecasted capacity needs during years 2007–2015. The Authority may provide all of the Authority's load growth after the first five years of the contract period.

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.

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.

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.

5. FUNDS INVESTED

The Authority's cash and other funds invested at September 30 are summarized as follows:

	2010		2009	
	Fair Value	Cost	Fair Value	Cost
U.S. government Treasury bonds and agency certificates — held by trustee in the Authority's name (uninsured and unregistered)	$ 2,945,007	$ 2,929,000	$ 2,951,845	$ 2,929,000
Money market instruments — mutual funds composed of U.S. Treasury obligations	293,766	293,766	294,008	294,008
	3,238,773	3,222,766	3,245,853	3,223,008
Interest-bearing cash and cash equivalent accounts	17,465,847	17,465,847	24,621,821	24,621,821
U.S government bonds and agency certificates	10,067,560	10,055,785	9,939,854	9,982,396
Accrued interest and other	1,217	1,217	32,827	32,827
Total funds invested	$ 30,773,397	$ 30,745,615	$ 37,840,355	$ 37,860,052
Consisting of:				
Special funds invested	$ 3,238,773		$ 3,245,853	
Current assets — funds invested	27,534,624		34,594,502	
	$ 30,773,397		$ 37,840,355	

Instruments 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.

Per the chart above, all instruments held by the Authority are in compliance with the Resolution and are investments in federal government instruments, which were rated AAA by Moody's Investors Service and Standard & Poor's.

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 depositaries must be held in accounts that are available by use at the time when needed.

6. NET COSTS TO BE REFUNDED TO PARTICIPANTS

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 participants include the following:

	Year Ended September 30		From Inception to September 30	
	2010	2009	2010	2009
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	81,579	83,426	11,037,669	10,956,090
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
(Increase) decrease in fair value of funds invested	6,838	(24,659)	(16,007)	(22,845)
Deferred depreciation on plant	1,691,722	1,691,772	10,846,513	9,154,791
Other	57,827	59,236	2,695,346	2,637,519
	1,837,966	1,809,775	216,202,708	214,364,742
Bond resolution requirements included in billings to participants:				
Debt service	942,500	912,500	215,660,084	214,717,584
Special funds deposits	(2,700,000)	(4,400,000)	14,500,000	17,200,000
Investment income not available for operating purposes			1,102,799	1,102,799
	(1,757,500)	(3,487,500)	231,262,883	233,020,383
	$ 3,595,466	$ 5,297,275	$ (15,060,175)	$ (18,655,641)

7. LONG-TERM DEBT

Long-term debt at September 30, 2010, consists of the following serial bonds:

	2003 Bonds	
Maturity	Effective Interest Rate	Amount
2011	3.75 %	$ 970,000
2012	4.00	1,010,000
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
2034		
2035		
		39,445,000
Less current maturities		970,000
Less unamortized bond discount		135,458
		$ 38,339,542

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, 2010, the Authority was in compliance with its debt covenants.

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 5.33% (2010) and 2.91% (2009). The Authority's contributions are designed to fund the normal contribution amount. The Authority's retirement expense for the years ended September 30, 2010 and 2009, was $75,418 and $40,272, respectively.

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 participants as discussed in Note 1, 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, 2010 and 2009, the Authority's costs to Sylacauga were $723,308 and $306,073, respectively, under the provisions of this agreement.

10. SUBSEQUENT EVENTS

The Authority has evaluated all events or transactions that occurred after September 30, 2010 through the date the accompanying financial statements were available to be issued, February 17, 2011. 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, 2010

	Funds Invested September 30, 2009	Power Billing Receipts	Income From Other Electricity Sales	Other Income	Investment Income (Loss)	Disbursements	Transfers	Funds Invested September 30, 2010
DEBT SERVICE FUND:								
Debt service account	$ 244,008	$ -	$ -	$ -	$ 666	$ (2,928,098)	$ 2,927,190	$ 243,766
Debt service reserve account	2,951,845				77,142		(83,980)	2,945,007
	3,195,853	-	-	-	77,808	(2,928,098)	2,843,210	3,188,773
GENERAL RESERVE FUND	-	-	-	-	-	-	-	-
RESERVE AND CONTINGENCY FUND	50,000	-	-	-	9	-	(9)	50,000
REVENUE FUND:								
Revenue account	32,827	192,884,021	321,309	122,988	(31,610)		(193,328,318)	1,217
Rate stabilization account	17,200,000						(2,700,000)	14,500,000
	17,232,827	192,884,021	321,309	122,988	(31,610)	-	(196,028,318)	14,501,217
OPERATION AND MAINTENANCE FUND:								
Operation and maintenance account						(199,604,867)	199,604,867	-
Working capital account	17,438,021				60,133		(4,464,747)	13,033,407
	17,438,021	-	-	-	60,133	(199,604,867)	195,140,120	13,033,407
	$37,916,701	$ 192,884,021	$321,309	$122,988	$106,340	$(202,532,965)	$ 1,955,003	$30,773,397

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENT OF CHANGES IN ASSETS OF FUNDS INVESTED
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Funds Invested September 30, 2008	Power Billing Receipts	Income From Other Electricity Sales	Other Income	Investment Income (Loss)	Disbursements	Transfers	Funds Invested September 30, 2009
DEBT SERVICE FUND:								
Debt service account	$ 243,859	$ -	$ -	$ -	$ 5,259	$ (2,926,307)	$ 2,921,197	$ 244,008
Debt service reserve account	2,927,186				74,081		(49,422)	2,951,845
	3,171,045	-	-	-	79,340	(2,926,307)	2,871,775	3,195,853
GENERAL RESERVE FUND	-	-	-	-	-	-	-	-
RESERVE AND CONTINGENCY FUND	50,000	-	-	-	271	-	(271)	50,000
REVENUE FUND:								
Revenue account	8,490	209,815,800	611,100	114,715	24,337		(210,541,615)	32,827
Rate stabilization account	21,600,000						(4,400,000)	17,200,000
	21,608,490	209,815,800	611,100	114,715	24,337	-	(214,941,615)	17,232,827
OPERATION AND MAINTENANCE FUND:								
Operation and maintenance account						(202,088,770)	202,088,770	-
Working capital account	7,356,923				99,757		9,981,341	17,438,021
	7,356,923	-	-	-	99,757	(202,088,770)	212,070,111	17,438,021
	$32,186,458	$209,815,800	$611,100	$114,715	$203,705	$(205,015,077)	$ -	$37,916,701

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

SCHEDULES OF REVENUES AND EXPENSES PER BOND RESOLUTION
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
REVENUES:		
Sales of electricity to participants	$ 199,524,596	$ 195,282,708
Sales of electricity — other	323,279	619,088
Investment revenues available for operations	241,685	163,028
Withdrawal from rate stabilization	2,700,000	4,400,000
Other income	42,518	76,289
Total revenues	202,832,078	200,541,113
EXPENSES:		
Partial requirements services:		
Purchased power	178,316,713	176,496,838
Transmission and distribution	14,210,254	13,337,172
Cost of other electricity sales	273,882	507,132
Deposit to rate stabilization account		
Other operating and maintenance expenses	1,088,238	1,401,139
Administrative and general expenses	5,492,917	4,901,729
Debt service	2,927,856	2,926,457
Total expenses	202,309,860	199,570,467
EXCESS OF REVENUES OVER EXPENSES	$ 522,218	$ 970,646