

City of Huntsville
Electric, Natural Gas, and Water Systems

**COMPONENT UNIT
FINANCIAL STATEMENTS**

September 30, 2006 and 2005

City of Huntsville
Electric, Natural Gas, and Water Systems

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**City of Huntsville Electric, Gas and Water Systems
Management Discussion and Analysis
Fiscal Year 2006**

Overview of the Financial Statements

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

Required Financial Statements

The Huntsville Utilities are comprised of three separate operating Systems. Where practical and cost effective, they share common functions and each System pays a pro-rata share of those expenses. As each System must support its operations through its own sales revenues and fees, there are three sets of financial statements enclosed. The financial statements of the Utilities report information using accounting methods similar to those used by private sector companies. These statements offer short and long term financial information about their activities. The Statements of Net Assets include all of the individual System's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the System and assessing the liquidity and financial flexibility of the System.

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

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

CITY OF HUNTSVILLE ELECTRIC SYSTEM

Net Assets

Table A-1
Condensed Statement of Net Assets
(000's)

	FY 2006	FY 2005	\$ Change
Current and Other Assets	\$ 115,675	\$ 96,691	\$ 18,984
Capital Assets (Net)	199,883	193,825	6,058
Total Assets	<u>315,558</u>	<u>290,516</u>	<u>25,042</u>
Long-Term Debt Outstanding	24,726	26,155	(1,429)
Other Liabilities	75,306	66,280	9,284
Total Liabilities	<u>100,032</u>	<u>92,435</u>	<u>7,855</u>
Invested in Capital Assets, Net of Related Debt	173,777	166,352	7,425
Restricted	6,879	6,850	29
Unrestricted	34,870	24,879	9,733
Total Net Assets	<u>\$ 215,526</u>	<u>\$ 198,081</u>	<u>\$ 17,187</u>

Current and Other Assets grew 19 million dollars. Our customer base increased over 3,400 or 2.3% vs. 2.4% last year. This brings our total customer count to over 151,000 customers. Cash and Temporary Investments grew by \$5.8 million and Restricted Assets and Board designated funds grew by \$6.8 million. This maintains our cash position within the Board's desired range of approximately 45 days of budgeted operating and capital expenses without considering any of the Board's designated funds. Our bad debt write-offs rose to .0007 of revenues (.07%) from .0004.

Capital Assets (Net) grew by over 6 million dollars. \$23.1 million of capital work was closed to plant this year, the "net" figure being offset by depreciation expense.

Long-Term Debt Outstanding decreased by \$1.4 million due to principal payments.

The Trade Accounts Payable increase of \$5.7 million was more than half of the increase in Other Liabilities. This was due to the increase in power sales and TVA wholesale rates in September over September of last year. The TVA wholesale bill is a Trade Payable as it is not due until October in the following fiscal year. Accounts Payable – Other Utility Systems increased \$.8 million. Customer deposits with accrued interest (5% per annum) increased \$2.4 million due to growth and an increase in deposit amount.

Invested in Capital Assets, Net of Related Debt increased \$7.4 million as explained above in Capital Assets (Net) and Long-Term Debt Outstanding.

Unrestricted Assets reflects the increase in Cash and Temporary Investments and Board designated funds.

CITY OF HUNTSVILLE ELECTRIC SYSTEM

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

	<u>FY 2006</u>	<u>FY 2005</u>	<u>\$ Change</u>
Operating Revenues	\$ 355,522	\$ 301,719	\$ 53,803
Non-Operating Revenues	4,299	2,235	2,064
Total Revenues	<u>359,821</u>	<u>303,954</u>	<u>55,867</u>
Depreciation Expense	10,177	9,656	521
Other Operating Expense	320,392	265,359	55,033
Non-Operating Expense	2,659	2,602	57
Total Expenses	<u>333,228</u>	<u>277,617</u>	<u>55,611</u>
Income (Loss) Before Transfers	26,593	26,337	256
Transfers Out – Tax Equivalents	<u>(9,148)</u>	<u>(8,831)</u>	<u>(317)</u>
Change in Net Assets	17,445	17,506	(61)
Beginning Net Assets	<u>198,081</u>	<u>180,575</u>	
Ending Net Assets	<u>\$ 215,526</u>	<u>\$ 198,081</u>	

The change in Operating Revenues was an increase of \$53.8 million due to a pass-through of two TVA rate increases and an increase in sales of Kilowatt-hours (kWh) of 5.4%. Non-Operating Revenues increased \$2.1 million due to improved market interest rates. Other Operating Expense increased \$55.0 million, \$52.5 million of which was for wholesale power to TVA. Purchases of kWh increased 6.6%, which with significant increases in wholesale rates for the year (6.9% in October 2005 and 9.22% in April 2006) accounts for the increase. While Huntsville's dollar margin on sales remained constant with a straight pass-through to consumers of TVA increases, the percentage margin fell due to the mathematics of constant dollars being divided by rate-inflated dollars.

CITY OF HUNTSVILLE GAS SYSTEM

Net Assets

Table B-1
Condensed Statement of Net Assets
(000's)

	FY 2006	FY 2005	\$ Change
Current and Other Assets	\$ 32,492	\$ 32,215	\$ 277
Capital Assets (Net)	74,552	71,806	2,746
Total Assets	<u>107,044</u>	<u>104,021</u>	<u>3,023</u>
Long-term Debt Outstanding	10,250	10,645	(395)
Other Liabilities	10,430	10,757	(327)
Total Liabilities	<u>20,680</u>	<u>21,402</u>	<u>(722)</u>
Invested in Capital Assets, Net of Related Debt	64,065	60,912	3,153
Restricted	10,297	12,289	(1,993)
Unrestricted	12,002	9,418	2,584
Total Net Assets	<u>\$ 86,364</u>	<u>\$ 82,620</u>	<u>\$ (3,754)</u>

Current and Other Assets increased by \$0.2 million from FY 2005. The composition of these assets, however, changed with the replenishment of stored gas in preparation for the 2007 heating season. Cash and Temporary Cash Investments was reduced by \$8.1 million and Stored Gas increased by \$7.5 million.

In Significant Subsequent Events following the close of the 2006 fiscal year a cash settlement of our lawsuit was made in the amount of \$21.6 million.

Internally generated construction funds rose \$1.7 million or 61%. Capital Assets (Net) grew by \$2.7 million as bond proceeds (Restricted Assets decrease of \$2.0 million) were expended on capital improvements of the system.

Four million dollars was closed from Construction-In-Progress to Plant-In-Service in 2006.

CITY OF HUNTSVILLE GAS SYSTEM

Table B-2
City of Huntsville Natural Gas System
Condensed Statement of Revenues, Expenses and Changes in Net Assets
(000's)

	FY 2006	FY 2005	\$ Change
Operating Revenues	\$ 64,699	\$ 47,309	\$ 17,390
Non-Operating Revenues	783	567	216
Total Revenues	65,482	47,876	17,606
Depreciation Expense	2,173	2,250	(77)
Other Operating Expense	56,834	41,938	14,896
Non-Operating Expense	280	4,189	(3909)
Total Expenses	59,287	48,377	10,910
Income (Loss) Before Contributions			
And Transfers	6,195	(499)	6,696
Capital Contributions	1,288	831	457
Transfers Out – Tax Equivalents	(3,739)	(2,755)	(984)
Change in Net Assets	3,744	(2,423)	6,169
Beginning Net Assets	82,620	85,043	
Ending Net Assets	\$ 86,364	\$ 82,620	

Operating Revenues increased over 17 million dollars. Retail rate increases, in accordance with wholesale gas costs, accounted for all of this difference as sales in Mcf were 495,216 less than last year.

Other Operating Expense increased by \$14.9 million. While we purchased 467,850 less Mcf in gas, the wholesale price increases accounted for \$15.3 million in additional expense. The average cost per Mcf of gas delivered rose from \$7.83 in FY 2005 to \$12.51 in FY 2006. Gas purchasing remains in-house using trained buyers and a Gas Purchasing Committee comprised of management members. The Committee acts as an advisory committee to the President of Huntsville Utilities. Gas purchasing internal controls, policies and procedures are under constant review by this committee.

Non-Operating Expense dropped \$3.9 million as last year expenses related to the disposal and removal from capital assets of the Propane Air Plant were booked.

Tax Equivalents increased \$1.0 million as the Gas System pays 6% of revenues to the City of Huntsville for in-lieu-of taxes.

CITY OF HUNTSVILLE WATER WORKS

Net Assets

**Table C-1
Condensed Statement of Net Assets
(000's)**

	FY 2006	FY 2005	\$ Change
Current and Other Assets	\$ 14,825	\$ 8,840	\$ 5,985
Capital Assets (Net)	126,799	124,010	2,788
Total Assets	141,624	132,851	8,777
Long-Term Debt Outstanding	17,938	19,013	(1,075)
Other Liabilities	7,762	6,942	820
Total Liabilities	25,700	25,955	(255)
Invested in Capital Assets, Net of Related Debt	107,579	103,766	3,813
Restricted	2,296	2,148	148
Unrestricted	6,049	982	5,067
Total Net Assets	\$ 115,924	\$ 106,896	\$ 9,028

Current and Other Assets increased by \$6.0 million. Cash and Temporary Cash Investments increased \$4.9 million. The remaining one million dollar increase was split between Accounts Receivable and Inventory.

\$3.8 million in construction work in progress was closed to plant in 2006.

CITY OF HUNTSVILLE WATER WORKS


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

	<u>FY 2006</u>	<u>FY 2005</u>	<u>\$ Change</u>
Operating Revenues	\$ 21,353	\$ 16,866	\$ 4,487
Non-Operating Revenues	407	154	253
Total Revenues	<u>21,760</u>	<u>17,020</u>	<u>4,740</u>
Depreciation Expense	4,001	3,871	130
Other Operating Expense	11,225	10,081	1,144
Non-Operating Expense	1,127	1,362	(235)
Total Expenses	<u>16,353</u>	<u>15,314</u>	<u>1,039</u>
Income (Loss) Before Contributions And Transfers	5,407	1,707	3,700
Capital Contributions	4,790	4,205	585
Transfers Out – Tax Equivalents	<u>(1,169)</u>	<u>(914)</u>	<u>(255)</u>
Change in Net Assets	9,028	4,998	4,030
Beginning Net Assets	<u>106,896</u>	<u>101,898</u>	
Ending Net Assets	<u>\$ 115,924</u>	<u>\$ 106,896</u>	


The summer of 2006 was very hot and dry which increased water sales by 28%. Several pumping records were set this summer. As peaks hit into the 80% range of total capacity, aggressive planning has begun for a plant expansion in the near future and a new water plant on the river in longer range plans.

Other Operating Expense rose by \$1.1 million. Pumping expense for the additional water was \$400 thousand. Maintenance increased by \$275 thousand as work on the replacement of cast iron pipe continued. Chemical expense rose by \$130,000.

Capital Contributions increased again this year by \$585,000 with continued growth in our service area.



 William Pippin, President



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INDEPENDENT AUDITOR'S REPORT

City of Huntsville
Electric, Natural Gas and Water Boards
Huntsville, Alabama

We have audited the accompanying statements of net assets of the City of Huntsville Electric, Natural Gas and Water Systems (the Utilities), a component unit of the City of Huntsville, Alabama, as of September 30, 2006, and the related statements of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit. The September 30, 2005 financial statements were examined by other auditors whose report dated December 6, 2005 expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Huntsville Electric, Natural Gas, and Water Systems, as of September 30, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

December 7, 2006

Mercer & Associates, PC

City of Huntsville Electric System

STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005

ASSETS

	2006	2005
Current Assets		
Cash and cash equivalents	\$ 46,087,216	\$ 40,313,363
Accounts receivable - trade, net of allowance for doubtful accounts of \$249,732 in 2006 and \$253,672 in 2005	25,739,839	20,598,853
Materials and supplies	4,071,867	3,643,248
Prepaid expenses	223,994	377,272
Accrued interest, rent and other receivables	3,049,114	1,797,679
Total Current Assets	79,172,030	66,730,415
Restricted and Board Designated Assets (Note 1)		
Emergency Funds - Designated	3,000,000	2,894,651
Insurance Funds - Designated	1,042,233	1,042,233
Construction Funds - Designated	10,394,377	9,945,398
Renewal & Replacement Funds - Designated	14,349,884	8,334,548
Other special funds - Designated	309,673	332,245
Improvement Funds - Bond Restricted	500,000	500,000
Debt Service Funds - Bond Restricted	1,664,106	1,640,032
Reserve Debt Service Funds - Bond Restricted	2,705,428	2,705,428
Worker's Compensation Funds - Restricted	2,009,475	2,005,028
Total Restricted Assets and Designated Assets	35,975,176	29,399,563
Deferred Charges		
Unamortized bond expense (Note 5)	400,455	433,082
Other deferred charges	128,100	128,100
Total Deferred Charges	528,555	561,182
Utility Plant (Note 1)		
Plant in service	336,169,803	316,534,753
Construction in progress	6,127,529	11,095,360
Retirement work in process	3,891	3,891
	342,301,223	327,634,004
Less: Accumulated depreciation	(142,418,415)	(133,808,775)
Total Utility Plant	199,882,808	193,825,229
TOTAL ASSETS	\$ 315,558,569	\$ 290,516,389

City of Huntsville Electric System

STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005

NET ASSETS AND LIABILITIES

	<u>2006</u>	<u>2005</u>
Current Liabilities		
Accounts payable - trade	\$ 34,023,756	\$ 28,241,537
Accounts payable - other utility departments (Note 1)	7,979,062	7,188,596
Customer meter deposits, including accrued interest of \$9,029,173 in 2006 and \$8,351,046 in 2005	27,783,108	25,650,848
Compensated absences	2,537,358	2,381,958
Other current liabilities	1,074,622	938,009
Total Current Liabilities	<u>73,397,906</u>	<u>64,400,948</u>
Liabilities Payable from Restricted Assets		
Current maturities of long-term debt (Note 5)	1,505,000	1,460,000
Interest payable	403,873	419,243
Total Liabilities Payable from Restricted Assets	<u>1,908,873</u>	<u>1,879,243</u>
Long-Term Debt (Note 5)		
Electric revenue bonds, excluding current portion	25,025,000	26,530,000
Less: Unamortized debt retirement	(299,318)	(374,754)
Total Long-Term Debt	<u>24,725,682</u>	<u>26,155,246</u>
Total Liabilities	<u>100,032,461</u>	<u>92,435,437</u>
Net Assets		
Invested in capital assets, net of related debt	173,776,808	166,351,922
Restricted	6,879,009	6,850,488
Unrestricted	34,870,291	24,878,542
Total Net Assets	<u>215,526,108</u>	<u>198,080,952</u>
TOTAL NET ASSETS AND LIABILITIES	<u>\$ 315,558,569</u>	<u>\$ 290,516,389</u>

City of Huntsville Electric System

**STATEMENTS OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
FOR YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	2006	2005
Operating Revenue		
Residential	\$ 168,251,842	\$ 141,028,422
Large commercial and industrial	147,101,644	125,487,047
Small commercial	27,255,006	23,644,456
Public street and highway lighting	3,466,112	3,224,216
Other operating revenue	9,447,333	8,334,613
Total Operating Revenue	355,521,937	301,718,754
Operating Expenses		
Purchased power	298,081,799	245,587,078
Transmission	212,779	217,965
Distribution	11,409,061	9,712,253
Customer accounting	3,919,425	3,710,233
Administrative and general	5,872,508	5,287,360
Depreciation	10,177,455	9,655,620
Payroll taxes	895,604	843,918
Total Operating Expenses	330,568,631	275,014,427
Operating Income	24,953,306	26,704,327
Other Revenue and (Expenses)		
Interest income	4,298,623	2,235,033
Interest expense	(2,626,644)	(2,568,982)
Amortization of bond discount	(32,628)	(32,628)
Total Other Revenue (Expenses)	1,639,351	(366,577)
Change in Net Assets before Transfers	26,592,657	26,337,750
Transfers Out - Tax Equivalent	(9,147,501)	(8,831,529)
Change in Net Assets	17,445,156	17,506,221
Beginning Net Assets	198,080,952	180,574,731
Ending Net Assets	\$ 215,526,108	\$ 198,080,952

City of Huntsville Electric System

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	2006	2005
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES		
Received from customers	\$ 350,380,951	\$ 299,619,232
Paid to suppliers for goods and services	(301,785,729)	(246,371,616)
Paid to employees for goods and services	(11,059,829)	(10,421,246)
Net cash flows from (used for) operating activities	37,535,393	42,826,370
CASH FLOWS FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES		
Transfers out - tax equivalent	(9,147,501)	(8,831,529)
Net cash provided from (used for) noncapital financing activities	(9,147,501)	(8,831,529)
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES		
Interest income earned on investments	4,298,623	2,235,033
Net cash provided (used for) from investing activities	4,298,623	2,235,033
CASH FLOWS FROM (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of principal on long-term debt	(1,460,000)	(1,425,000)
Change in deferred charges	0	(14,875)
Additions to plant in service	(16,235,034)	(15,708,097)
Changes in special funds, net	(6,575,614)	(1,151,938)
Interest paid	(2,642,014)	(2,554,107)
Net cash from (used for) capital and related financing activities	(26,912,662)	(20,854,017)
INCREASE (DECREASE) IN CASH	5,773,853	15,375,857
CASH AT BEGINNING OF YEAR	40,313,363	24,937,506
CASH AT END OF YEAR	\$ 46,087,216	\$ 40,313,363

City of Huntsville Electric System

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income	\$ 24,953,306	\$ 26,704,327
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation and amortization included in operating	10,252,891	10,656,641
Change in accounts receivable - customer	(5,140,986)	(2,099,522)
Change in accounts receivable - other	(1,251,435)	38,359
Change in inventory	(428,619)	(704,609)
Change in prepaid expenses	153,278	(8,629)
Change in accounts payable	6,572,685	6,474,392
Change in customer deposits	2,132,260	1,388,138
Change in accrued expenses and other current liabilities	292,013	377,273
Net Adjustments	<u>12,582,087</u>	<u>16,122,043</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 37,535,393</u>	<u>\$ 42,826,370</u>



City of Huntsville Gas System

STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005

ASSETS

	<u>2006</u>	<u>2005</u>
Current Assets		
Cash and cash equivalents	\$ 3,652,713	\$ 11,747,224
Accounts receivable - trade, net of allowance for doubtful accounts of \$10,389 in 2006 and \$16,178 in 2005	1,334,197	1,346,921
Stored gas	10,030,801	2,487,569
Materials and supplies	562,823	565,441
Prepaid expenses	222,137	76,210
Accrued interest, rent and other receivables	1,050,146	95,708
Total Current Assets	<u>16,852,817</u>	<u>16,319,073</u>
Restricted Assets and Board Designated Assets		
Insurance Funds - Designated	597,670	597,670
Construction Funds - Designated	2,660,663	1,430,663
Renewal & Replacement Funds - Designated	1,855,315	1,375,315
Construction Funds - Restricted	7,859,031	10,009,178
Debt Service Funds - Restricted	818,244	818,244
Bond Sinking Funds - Restricted	196,870	136,517
Worker's Compensation Fund - Restricted	1,423,437	1,324,734
Restricted Assets and Designated Assets	<u>15,411,230</u>	<u>15,692,321</u>
Other Assets		
Unamortized debt expense	227,646	203,723
Utility Plant (Note 1)		
Plant in service	106,199,774	102,168,798
Construction in progress	1,497,857	1,416,444
	<u>107,697,631</u>	<u>103,585,242</u>
Less: Accumulated depreciation	(33,145,395)	(31,778,789)
Total Utility Plant	<u>74,552,236</u>	<u>71,806,453</u>
TOTAL ASSETS	<u>\$ 107,043,929</u>	<u>\$ 104,021,570</u>

City of Huntsville Gas System

STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005

LIABILITIES AND NET ASSETS

	2006	2005
Current Liabilities		
Accounts payable - trade	\$ 2,036,039	\$ 3,162,705
Customer meter deposits, including accrued interest of \$1,941,407 in 2006 and \$1,791,976 in 2005	6,617,571	5,929,073
Compensated absences	859,705	775,817
Customer advances for construction	199,989	217,628
Other current liabilities	251,315	218,969
Total Current Liabilities	9,964,619	10,304,192
Liabilities Payable from Restricted Assets		
Current maturities of revenue bonds	395,000	380,000
Interest payable	70,284	72,818
Total Liabilities Payable from Restricted Assets	465,284	452,818
Long-Term Debt		
Revenue bonds - less current maturity	10,250,000	10,645,000
Total Liabilities	20,679,903	21,402,010
Net Assets		
Invested in capital assets, net of related debt	64,064,598	60,912,358
Restricted	10,297,582	12,288,673
Unrestricted	12,001,846	9,418,529
Total Net Assets	86,364,026	82,619,560
TOTAL NET ASSETS AND LIABILITIES	\$ 107,043,929	\$ 104,021,570

City of Huntsville Gas System

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Operating Revenue		
Residential	\$ 26,509,388	\$ 18,074,300
Commercial	29,711,814	19,396,787
Industrial	6,000,042	5,773,129
Governmental	99,314	2,676,000
Other operating revenue	2,378,074	1,389,275
Total Operating Revenue	<u>64,698,632</u>	<u>47,309,491</u>
Operating Expenses		
Purchased gas	50,649,245	35,382,767
Production	29,888	38,280
Distribution	2,971,454	2,915,766
Customer accounting	587,785	522,299
Administrative and general	2,319,532	2,800,991
Depreciation	2,172,695	2,249,687
Payroll taxes	276,003	276,725
Total Operating Expenses	<u>59,006,602</u>	<u>44,186,515</u>
Operating Income	<u>5,692,030</u>	<u>3,122,976</u>
Other Revenue and (Expenses)		
Interest income	783,361	566,760
Loss on sale of fixed assets	0	(3,868,614)
Interest expense	(268,999)	(320,459)
Amortization of debt discount	(11,077)	0
Total Other Revenue (Expenses)	<u>503,285</u>	<u>(3,622,313)</u>
Change in Net Assets Before Capital Contributions And Transfers	<u>6,195,315</u>	<u>(499,337)</u>
Capital Contributions	1,288,504	831,461
Transfers Out - Tax Equivalent	(3,739,353)	(2,755,311)
Change in Net Assets	3,744,466	(2,423,187)
Beginning Net Assets	<u>82,619,560</u>	<u>85,042,747</u>
Ending Net Assets	<u>\$ 86,364,026</u>	<u>\$ 82,619,560</u>

City of Huntsville Gas System

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	2006	2005
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES		
Received from customers	\$ 64,711,356	\$ 47,695,808
Paid to suppliers for goods and services	(61,737,011)	(36,117,521)
Paid to employees for goods and services	(4,077,448)	(4,037,948)
Net cash flows from (used for) operating activities	(1,103,103)	7,540,339
CASH FLOWS FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES		
Transfers out - tax equivalent	(3,739,353)	(2,755,311)
Net cash from (used for) noncapital financing activities	(3,739,353)	(2,755,311)
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES		
Interest income earned on investments	783,361	566,760
Net cash from (used for) investing activities	783,361	566,760
CASH FLOWS FROM (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of principal on long-term debt	(380,000)	0
Additions to plant in service, includes capitalized interest of \$436,906	(4,921,012)	(3,847,665)
Proceeds from new bonds	0	11,025,000
Debt expense paid	(35,000)	0
Capital contributions	1,288,504	831,461
Changes in special funds, net	281,091	(12,204,259)
Interest paid and expensed	(268,999)	(247,641)
Net cash from (used for) capital and related financing activities	(4,035,416)	(4,443,104)
INCREASE (DECREASE) IN CASH	(8,094,511)	908,684
CASH AT BEGINNING OF YEAR	11,747,224	10,838,540
CASH AT END OF YEAR	\$ 3,652,713	\$ 11,747,224

City of Huntsville Gas System

**STATEMENTS OF CASH FLOWS - CONTINUED
FOR YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income	\$ 5,692,030	\$ 3,122,976
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation and amortization included in operating	2,172,695	2,596,032
Change in accounts receivable - customer	12,724	(419,958)
Change in accounts receivable - other	(954,438)	806,275
Change in inventory	(7,540,614)	755,573
Change in prepaid expenses	(145,927)	(9,223)
Change in accounts payable	(1,126,666)	21,663
Change in customer deposits	688,498	582,364
Change in accrued expenses and other current liabilities	98,595	84,637
Net Adjustments	<u>(6,795,133)</u>	<u>4,417,363</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (1,103,103)</u>	<u>\$ 7,540,339</u>



City of Huntsville Water System

STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005

ASSETS

	2006	2005
Current Assets		
Cash and cash equivalents	\$ 7,969,809	\$ 3,072,764
Accounts receivable - trade, net of allowance for doubtful accounts of \$17,858 in 2006 and \$17,211 in 2005	1,829,725	1,434,810
Materials and supplies	1,541,874	1,104,785
Prepaid expenses	42,721	55,005
Total Current Assets	11,384,129	5,667,364
Restricted Assets and Board Designated Assets		
Construction Funds - Designated	459,343	459,343
Insurance Funds - Designated	255,485	255,485
Debt Service Funds - Bond Restricted	1,424,989	1,395,445
Worker's Compensation Funds - Restricted	871,267	752,109
Total Restricted Assets and Board Designated Assets	3,011,084	2,862,382
Deferred Charges		
Unamortized bond expense (Note 5)	232,615	252,000
Other deferred charges	197,090	58,606
Total Deferred Charges	429,705	310,606
Utility Plant (Note 1)		
Plant in service	191,577,761	185,107,157
Construction in progress	5,916,783	5,605,420
	197,494,544	190,712,577
Less: Accumulated depreciation	(70,695,238)	(66,702,175)
Total Utility Plant	126,799,306	124,010,402
TOTAL ASSETS	\$ 141,624,224	\$ 132,850,754

City of Huntsville Water System

**STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005
LIABILITIES AND NET ASSETS**

	2006	2005
Current Liabilities		
Accounts payable - trade	\$ 823,853	\$ 610,412
Intercompany payables	307,719	248,236
Customer meter deposits, including accrued interest of \$1,062,386 in 2006 and \$990,516 in 2005	3,537,257	3,208,916
Customer advances for construction	147,137	151,437
Compensated absences	1,126,723	1,048,392
Other current liabilities	303,917	191,315
Total Current Liabilities	6,246,606	5,458,708
Liabilities Payable from Restricted Assets		
Current maturities of long-term debt (Note 5)	1,135,000	1,085,000
Interest payable	380,184	398,268
Total Liabilities Payable from Restricted Assets	1,515,184	1,483,268
Long-Term Debt (Note 5)		
Water revenue bonds, excluding current portion	18,430,000	19,565,000
Less: Unamortized bond retirement	(491,805)	(552,025)
Total Long-Term Debt	17,938,195	19,012,975
Total Liabilities	25,699,985	25,954,951
Net Assets		
Invested in capital assets, net of related debt	107,578,542	103,766,159
Restricted	2,296,256	2,147,554
Unrestricted	6,049,441	982,090
Total Net Assets	115,924,239	106,895,803
TOTAL NET ASSETS AND LIABILITIES	\$ 141,624,224	\$ 132,850,754

City of Huntsville Water System

**STATEMENTS OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
FOR YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	2006	2005
Operating Revenue		
Residential	\$ 11,027,490	\$ 8,915,531
Industrial	1,606,712	1,380,826
Commercial	5,138,038	4,075,290
Government	515,818	0
Fire hydrants	627,666	610,392
Other operating revenue	2,437,624	1,883,901
Total Operating Revenue	21,353,348	16,865,940
Operating Expenses		
Purification	608,326	478,049
Pumping	3,066,930	2,676,077
Distribution	3,566,333	3,180,539
Customer accounting	1,085,025	1,030,657
Administrative and general	2,500,827	2,338,893
Depreciation	4,001,441	3,870,694
Payroll taxes	397,226	377,124
Total Operating Expenses	15,226,108	13,952,033
Operating Income	6,127,240	2,913,907
Other Revenue and (Expenses)		
Interest income	406,630	154,219
Interest expense	(1,107,930)	(1,390,049)
Amortization of bond discount	(19,380)	28,483
Total Other Revenue (Expenses)	(720,680)	(1,207,347)
Change in Net Assets before Capital Contributions and Transfers	5,406,560	1,706,560
Capital Contributions	4,790,947	4,205,245
Transfers Out - Tax Equivalent	(1,169,071)	(913,642)
Change in Net Assets	9,028,436	4,998,163
Beginning Net Assets	106,895,803	101,897,640
Ending Net Assets	\$ 115,924,239	\$ 106,895,803

City of Huntsville Water System

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	2006	2005
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES		
Received from customers	\$ 20,958,433	\$ 16,524,605
Paid to suppliers for goods and services	(5,800,509)	(4,145,086)
Paid to employees for goods and services	(4,996,543)	(4,729,896)
Net cash flows from (used for) operating activities	10,161,381	7,649,623
CASH FLOWS FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES		
Transfers out - tax equivalents	(1,169,071)	(913,642)
Net cash flows from (used for) noncapital financing activities	(1,169,071)	(913,642)
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES		
Deferred charges	(138,484)	(66,309)
Interest income earned on investments	406,630	154,219
Net cash from (used for) investing activities	268,146	87,910
CASH FLOWS FROM (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of principal on long-term debt	(1,085,000)	(3,570,000)
Customer advances	(4,300)	0
Additions to plant in service	(6,790,342)	(6,060,682)
Capital contributions	4,790,947	4,205,245
Changes in special funds, net	(148,702)	951,159
Interest paid	(1,126,014)	(1,449,502)
Net cash from (used for) capital and related financing activities	(4,363,411)	(5,923,780)
INCREASE (DECREASE) IN CASH	4,897,045	900,111
CASH AT BEGINNING OF YEAR	3,072,764	2,172,653
CASH AT END OF YEAR	\$ 7,969,809	\$ 3,072,764

City of Huntsville Water System

**STATEMENTS OF CASH FLOWS - CONTINUED
FOR YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income	\$ 6,127,240	\$ 2,913,907
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation and amortization, included in operating	4,061,661	4,187,671
Change in accounts receivable - customer	(394,915)	(341,335)
Change in inventory	(437,089)	(144,687)
Change in prepaid expenses	12,284	29,238
Change in accounts payable	213,443	333,133
Change in customer deposits	328,341	431,789
Change in accrued expenses and other current liabilities	250,416	239,907
Net Adjustments	<u>4,034,141</u>	<u>4,735,716</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 10,161,381</u>	<u>\$ 7,649,623</u>

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Huntsville Utilities (the Utilities) have been prepared in accordance with generally accepted accounting principles (GAAP) of the United States of America as applied to government units. The Governmental Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Utilities' accounting principles are described below.

Reporting Entity

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

Financial Presentation

The Utilities are a component unit of the City of Huntsville and are operated by separate Boards for the electric, natural gas and water systems. The Boards are responsible for the day-to-day operations of the Utilities and for making recommendations to the City for major capital outlays and rate revisions. The Electric Board consists of three members appointed by the Huntsville City Council for staggered three year terms. The Natural Gas and Water Boards are made up of the same three members who serve on each board, simultaneously. The Boards have hired a President and CEO to administer all three utilities. Financial statements are presented for each Board. The footnotes are presented separately for each Board, where applicable, and jointly for areas where common descriptions exist.

Basis of Accounting

The Utilities use the accrual basis of accounting under which revenues are recognized when earned concurrent with billing to customers on a monthly basis and expenses are recognized when incurred, even though actual payment or receipt may not occur until after the period ends.

The Utilities have elected to follow Financial Accounting Standards Board pronouncements issued before November 30, 1989 and all pronouncements of the Governmental Accounting Standards Board (GASB) issued after November 30, 1989.

Huntsville Utilities has adopted the provisions of GASB Statement 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." GASB 34 establishes standards for external reporting for all state and local governmental entities and their component units that includes a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. GASB 34 requires the classification of net assets into three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. These classifications are defined as follows:

- 1) Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the capital assets.

The accompanying notes and independent auditor's report are an integral part of these financial statements.

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Accounting - Continued

- 2) Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, such as debt covenants, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional or enabling legislation.
- 3) Unrestricted – This component of nets assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Huntsville Utilities has also adopted the provisions of Governmental Accounting Standards Board Statement 33, Accounting for Financial Reporting for Non-exchange transactions. This statement requires that capital contributions – aid to construction – to the Utilities be presented as a change in net assets.

Board Designated Cash and Board Designated Unrestricted Net Assets

The Boards have designated that cash assets be set aside in each System to fund construction and renewal and replacement activity. The designations are segregated in the statements of net assets as special funds. Designations are relieved once the Board has approved expenditures from those funds. The designated balances are fully funded and are not separately stated in the net assets portion of the statements of net assets at September 30, 2006 and 2005.

Grants in Aid of Construction

It is the Electric System’s policy not to record amounts as grants in aid of construction. The authoritative support for this is Federal Power Commission order number 490. The substance of this accounting treatment is to reduce the cost of operating the Electric System by reducing depreciation expense.

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

Utility Plant

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

Revenue and Concentration of Credit Risk

Huntsville Utilities does not accrue unbilled receivables from the most recent meter reading to the end of the year. Huntsville Utilities’ customers are located in the City of Huntsville and Madison County Alabama.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts Receivable Trade

The Electric System acts as a billing and collection agent for other City of Huntsville and Madison County utility departments. Current earnings are charged with an allowance for doubtful accounts based on a percent of gross revenue, determined from prior years' bad debt experience. Accounts considered uncollectible throughout the year are charged against the allowance.

Materials and Supplies Inventories

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

Stored Gas Inventory

Under the Federal Energy Regulatory Commission Order 636, Huntsville Utilities' natural gas and propane supply and storage from its vendor are unbundled. The result led to an election by the utility to store gas rather than be penalized for no notice service. The stored inventory is reflected at the aggregate amount of the lower of cost (average cost) or market.

Accounts Receivable/Payable from/to Other Utilities

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

Cash and Cash Equivalents

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

Estimates

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

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 2 - TAX EQUIVALENTS

Since the Utilities are owned by the City of Huntsville, they are not subject to income taxes, either at the federal or state level. The Electric System, however, does pay to the City of Huntsville a tax equivalent which is determined by applying the current property tax rates to net plant in service at the end of the preceding year. The Natural Gas and Water Systems each pay a tax equivalent which is a predetermined (6%) percentage of sales revenue. The tax equivalent for the years ended September 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Electric System	\$ 9,147,501	\$ 8,831,529
Natural Gas System	3,739,353	2,755,310
Water System	1,169,071	913,642

NOTE 3 - EMPLOYEE BENEFITS

The annual leave policy allows each employee to accumulate up to thirty-five days of annual leave. The utilities follow the practice of accruing the dollar amount of the leave accrued per each employee on a monthly basis. Actual leave time taken is charged against this account. The sick leave policy provides that at the time of retirement, each employee will be paid 25% of the accumulated sick leave based on the employee's average salary during the last five years. The Utilities follow the practice of accruing 25% of accumulated sick leave based on average salaries for the past five years for employees who have attained a specified period of service or age. Accrued annual leave and sick leave at September 30, 2006 and 2005 are as follows:

	<u>Accrued Annual Leave</u>		<u>Accrued Sick Leave</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Electric System	\$1,507,132	\$1,388,254	\$1,030,226	\$ 993,704
Natural Gas System	480,037	442,535	379,668	333,282
Water System	590,581	544,260	536,142	504,131

NOTE 4 - DEFINED BENEFIT PENSION PLAN AND DESCRIPTION

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

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

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 4 - DEFINED BENEFIT PENSION PLAN AND DESCRIPTION - CONTINUED

During 2006 and 2005, the Utilities were required to contribute the following percentages of gross payroll to the plan:

	<u>2006</u>	<u>2005</u>
Electric System	11.58%	10.39%
Natural Gas System	8.38%	7.68%
Water System	7.17%	6.35%

Based on an actuarial valuation completed as of September 30, 2005, the Annual Pension Cost for the System is as follows:

	<u>Annual Pension Cost (APC) 2005</u>	<u>Annual Pension Cost (APC) 2004</u>	<u>Percentage of APC Contributed 2005 and 2004</u>
Electric System	\$ 930,327	\$ 791,975	100%
Natural Gas System	1,050,686	916,167	100%
Water System	285,555	251,142	100%

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

The Huntsville Utilities' Funding Progress in the schedules below is equal to the Utilities' required and actual contributions. The required contribution was determined as part of the September 30, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) an 8% investment rate of return (net of administrative expenses), (b) projected salary increases of between 4.61% and 7.75% a year, (c) 0% per year cost of living adjustments. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of the System's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The system's unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2005 was 20 years for the Gas System, 19 years for the Water System and 18 years for the Electric System.

Based on an actuarial valuation done in September 30, 2005, the most recent year for which information is available the schedule of Funding Progress for the System is as follows:

Electric

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under/(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
2001	\$26,897,697	\$30,704,074	\$3,806,377	87.6%	\$7,163,032	53.1%
2002	\$26,699,922	\$33,384,867	\$6,684,945	80.0%	\$7,192,757	92.9%
2003	\$26,956,436	\$35,183,389	\$8,226,953	76.6%	\$7,531,556	109.2%
2004	\$27,424,773	\$37,059,535	\$9,634,762	74.0%	\$7,651,882	125.9%
2005	\$28,094,541	\$42,619,069	\$14,524,528	65.9%	\$9,080,096	160.0%

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 4 - DEFINED BENEFIT PENSION PLAN AND DESCRIPTION - CONTINUED

Water

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under/(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
2001	\$12,859,028	\$13,202,781	\$ 343,753	97.4 %	\$3,717,548	9.2%
2002	\$12,959,131	\$14,358,190	\$1,399,059	90.3%	\$3,897,992	35.9%
2003	\$13,330,583	\$15,267,065	\$1,936,482	87.3%	\$4,023,046	48.1%
2004	\$13,778,429	\$16,325,253	\$2,546,825	84.4%	\$4,076,420	62.5%
2005	\$14,284,170	\$18,502,405	\$4,218,235	77.2%	\$4,600,552	91.7%

Natural Gas

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Funding Under/(Over) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Payroll
2001	\$31,817,804	\$33,997,594	\$ 2,179,790	93.6%	\$10,666,138	20.4%
2002	\$31,857,924	\$37,239,217	\$ 5,381,293	85.5%	\$10,760,278	50.0%
2003	\$32,493,171	\$39,553,224	\$ 7,060,053	82.2%	\$11,646,101	60.6%
2004	\$33,538,692	\$41,626,982	\$ 8,088,290	80.6%	\$12,498,042	64.7%
2005	\$34,905,665	\$47,605,902	\$12,700,237	73.3%	\$13,842,546	91.7%

NOTE 5 - LONG-TERM DEBT

City of Huntsville, Alabama Electric System Revenue Refunding Warrants, Series 2001

Electric System Revenue Warrants, Series 2001, were issued in the original amount of \$6,070,000. The warrants mature serially on December 1 each year and bear interest according to stated maturity dates:

Fiscal Year	2001 Principal	2001 Interest	2001 Rate
2007	\$ 400,000	\$ 176,720	3.800%
2008	415,000	161,028	3.900%
2009	430,000	144,335	4.000%
2010	450,000	126,610	4.100%
2011	465,000	107,520	4.200%
2012	490,000	87,343	4.250%
2013	510,000	65,965	4.300%
2014	535,000	41,625	5.000%
2015	565,000	14,125	5.000%
	<u>4,260,000</u>		
Current	<u>400,000</u>		
	<u>\$ 3,860,000</u>		

The 2001 issue contained deferred cost of \$75,861 that is being amortized over 13 years. At September 30, 2006, the unamortized deferred cost is \$46,360.

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - LONG-TERM DEBT - CONTINUED

City of Huntsville, Alabama Electric System Revenue Refunding Warrants, Series 2001 - Continued

The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2006, the balance in the fund is the minimum required by the indenture. The bond indenture requires the Electric System to establish a cash reserve account equal to one-twelfth (1/12) of the principal of the Series 2001 warrants coming due on December 1 each year and one-sixth (1/6) of the interest due each year. At September 30, 2006, the balance in the funds is in compliance with the indenture. The Electric System Revenue Warrants, Series 2001 are in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

The 2001 warrants are secured by the net revenues from the operations of the Electric System after payment of the cost of its operations and maintenance and by the monies and investments on deposit in trust funds created by the Trust Indenture under which the warrants were issued.

The 2001 Series Warrants maturing in 2008 will be subject to redemption at the option of the City of Huntsville, Alabama, on December 1, 2008, and on any date thereafter, plus accrued interest as follows:

<u>Redemption Dates</u>	<u>Redemption Price</u>
December 1, 2008, through November 30, 2009	102%
December 1, 2009, through November 30, 2010	101%
December 1, 2010, and thereafter	100%

City of Huntsville, Alabama Electric System Revenue Warrants, Series 1998

Electric System Revenue Warrants, Series 1998, were issued in the original amount of \$15,505,000. The warrants mature serially on December 1 each year and bear interest according to stated maturity dates as follows:

<u>Fiscal Year</u>	<u>1998 Principal</u>	<u>1998 Interest</u>	<u>1998 Rate</u>
2007	\$ 0	\$ 754,660	4.90%
2008	815,000	736,730	4.40%
2009	850,000	699,675	4.50%
2010	890,000	660,080	4.60%
2011	935,000	617,638	4.70%
2012	980,000	572,145	4.80%
2013	1,025,000	524,025	4.80%
2014	1,075,000	473,088	4.90%
2015	1,130,000	418,500	5.00%
2016	1,805,000	345,125	5.00%
2017	1,900,000	252,500	5.00%
2018	2,000,000	155,000	5.00%
2019	<u>2,100,000</u>	52,500	5.00%
	15,505,000		
Current	<u>0</u>		
	<u>\$ 15,505,000</u>		

The 1998 issue contained deferred cost of \$366,737 that is being amortized over 20 years. At September 30, 2006, the unamortized deferred cost is \$213,930.

The accompanying notes and independent auditor's report are an integral part of these financial statements.

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - LONG-TERM DEBT - CONTINUED

City of Huntsville, Alabama Electric System Revenue Warrants, Series 1998 - Continued

The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2006, the balance in the fund is the minimum required by the indenture. The bond indenture requires the Electric System to establish a cash reserve account equal to one-twelfth (1/12) of the principal of the Series 1998 Warrants coming due on December 1 each year and one-sixth (1/6) of the interest due each year. At September 30, 2006, the balance in the funds is in compliance with the indenture. The Electric System Revenue Warrants, Series 1998 is in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

The 1998 Warrants are secured by the net revenues from the operations of the Electric System after payment of the cost of its operations and maintenance and by the monies and investments on deposit in trust funds created by the Trust Indenture under which the warrants were issued.

1998 Series Warrants maturing in 2008 will be subject to redemption at the option of the City of Huntsville, Alabama, on December 1, 2007, and on any date thereafter, plus accrued interest as follows:

<u>Redemption Dates</u>	<u>Redemption Price</u>
December 1, 2007, through November 30, 2008	102%
December 1, 2008, through November 30, 2009	101%
December 1, 2009, and thereafter	100%

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

Electric System Revenue Warrants, Series 2002, were issued in the original amount of \$8,525,000. Electric System Term Warrants, Series 2002, were issued in the original amount of \$1,395,000. The warrants mature serially on December 1 each year and bear interest according to stated maturity dates as follows:

<u>Fiscal Year</u>	<u>2002 Principal</u>	<u>2002 Interest</u>	<u>2002 Rate</u>
2007	\$ 1,105,000	\$ 272,640	2.50%
2008	260,000	245,015	3.00%
2009	265,000	237,215	3.10%
2010	275,000	229,000	3.40%
2011	285,000	219,600	3.65%
2012	295,000	209,247	3.90%
2013	310,000	197,743	4.00%
2014	320,000	185,342	4.15%
2015	335,000	172,063	4.25%
2016	350,000	157,825	4.40%
2017	365,000	142,425	4.50%
2018	385,000	126,000	4.60%
2019	400,000	108,290	4.70%
2020	420,000	89,490	4.70%
2021*	440,000	69,750	5.00%*
2022*	465,000	47,750	5.00%*
2023*	490,000	24,500	5.00%*
	6,765,000		
Current	1,105,000		
	<u>\$ 5,660,000</u>		

* - Term Warrants

The accompanying notes and independent auditor's report are an integral part of these financial statements.

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - LONG-TERM DEBT - CONTINUED

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

2002 Series Serial Warrants maturing in 2012 will be subject to redemption at the option of the City of Huntsville, Alabama, on December 1, 2012, and on any date thereafter, plus accrued interest as follows:

<u>Redemption Dates</u>	<u>Redemption Price</u>
December 1, 2012, through November 30, 2013	101%
December 1, 2013 and thereafter	100%

2002 Series Term Warrants maturing in 2022 will be subject to mandatory redemption by the City of Huntsville, Alabama. The principal required to be redeemed plus accrued interest is as follows:

<u>Redemption Dates</u>	<u>Redemption Price</u>
December 1, 2020	\$440,000
December 1, 2021	465,000
December 1, 2022	490,000

The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2006, the balance in the fund is the minimum required by the indenture. The bond indenture requires the Electric System to establish a cash reserve account equal to one-twelfth (1/12) of the principal of the Series 2002 Warrants coming due on December 1 each year and one-sixth (1/6) of the interest due each year. At September 30, 2006, the balance in the fund is in compliance with the indenture. The Electric System Revenue Warrants, Series 2002 is in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

The 2002 Warrants are secured by the net revenues from the operations of the Electric System after payment of the cost of its operations and maintenance and by the monies and investments on deposit in trust funds created by the Trust Indenture under which the warrants were issued.

The 2002 issue contained deferred cost of \$171,056 that is being amortized over 20 years. At September 30, 2006, the unamortized deferred cost is \$140,167.

The Series 2002 Revenue Warrants were issued to redeem the Series 1993 Warrants and to pay costs of capital improvements to the Electric System.

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - LONG-TERM DEBT - CONTINUED

City of Huntsville, Alabama Natural Gas System Revenue Warrants, Series 2005

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

<u>Fiscal Year</u>	<u>2005 Principal Maturity</u>	<u>2005 Interest Maturity</u>	<u>2005 Rate</u>
2007	\$ 395,000	\$ 421,706	4.00%
2008	410,000	405,906	3.75%
2009	425,000	390,531	3.25%
2010	440,000	376,719	3.25%
2011	455,000	362,419	3.50%
2012	470,000	346,494	3.50%
2013	485,000	330,044	3.60%
2014	505,000	312,584	3.80%
2015	520,000	293,394	3.88%
2016	545,000	273,244	4.00%
2017	565,000	251,444	4.00%
2018	585,000	228,844	4.00%
2019	610,000	205,444	4.13%
2020	635,000	180,281	4.13%
2021	660,000	154,087	4.13%
2022	690,000	126,863	4.25%
2023	720,000	97,537	4.25%
2024	750,000	66,938	4.38%
2025	780,000	34,125	4.38%
	<u>10,645,000</u>		
Current	<u>395,000</u>		
	<u>\$ 10,250,000</u>		

The Natural Gas System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2006, the balance in the fund is the minimum required by the indenture. The bond indenture requires the Natural Gas System to establish a cash reserve account equal to one-twelfth (1/12) of the principal of the Series 2005 Warrants coming due on August 1 each year and one-sixth (1/6) of the interest due each August 1 and February 1 each year. At September 30, 2006, the balance in the funds is in compliance with the indenture. The Natural Gas Revenue Warrants, Series 2005 is in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

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

The 2005 issue contained deferred cost of \$241,756 that is being amortized over 20 years. At September 30, 2006, the unamortized deferred cost is \$227,646.

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

The accompanying notes and independent auditor's report are an integral part of these financial statements.

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - LONG-TERM DEBT - CONTINUED

City of Huntsville, Alabama Water System Revenue Refunding Warrants, Series 1998

Water System Revenue Warrants, Series 1998, were issued in the original principal amount of \$21,140,000. The warrants mature serially on November 1 each year and bear interest according to stated maturity dates, as follows:

<u>Fiscal Year</u>	<u>1998 Principal</u>	<u>1998 Interest</u>	<u>1998 Rate</u>
2007	\$ 1,135,000	\$ 886,196	4.625%
2008	1,185,000	835,656	4.100%
2009	1,235,000	785,429	4.200%
2010	1,290,000	732,081	4.250%
2011	1,345,000	675,247	4.375%
2012	1,405,000	614,213	4.500%
2013	1,475,000	548,675	4.600%
2014	1,545,000	478,443	4.700%
2015	1,620,000	403,255	4.800%
2016	1,700,000	322,938	4.875%
2017	1,785,000	236,875	5.000%
2018	1,875,000	145,375	5.000%
2019	1,970,000	49,250	5.000%
	19,565,000		
Current	1,135,000		
	<u>\$ 18,430,000</u>		

The 1998 issues contain deferred costs of \$382,846 that are being amortized over 20 years. At September 30, 2006, the unamortized deferred cost for the 1998 issue is \$232,615. In accordance with the terms of the bond indenture, the Water System is required to establish a debt service reserve fund in an amount equal to the Maximum Annual Net Debt Service Requirement or such lesser amount as then required by the Internal Revenue Code of 1986. In lieu of funding of the Debt Service Reserve Fund, the Indenture authorizes the City of Huntsville to obtain a Surety Bond. Accordingly, application was made to AMBAC Indemnity Corporation for the issuance of a Surety Bond for the purpose of funding the Debt Service Reserve Fund. Therefore, no deposit shall be required to be made into the Reserve Fund so long as the Surety Bond is in effect. The Water System revenue Warrants, Series 1998, is in compliance with Internal Revenue Code Sections 103(b)(2) and 148.

The 1998 Warrants are secured by the Water System Revenues after payment of the cost of its operations and maintenance and by the monies and investments on deposit in trust funds created by the Trust Indenture under which the warrants were issued.

The 1998 Warrants maturing in 2009 will be subject to redemption at the option of the City of Huntsville, Alabama, on November 1, 2008, and on any date thereafter, plus accrued interest as follows:

<u>Redemption Dates</u>	<u>Redemption Price</u>
November 1, 2008, to October 31, 2009	101%
November 1, 2009, to October 31, 2010	100.5%
November 1, 2010, and thereafter	100%

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - LONG-TERM DEBT - CONTINUED

City of Huntsville, Alabama Water System Revenue Refunding Warrants, Series 2003

Water System Revenue Warrants, Series 2003, were issued in the original principal amount of \$6,805,000. The warrants were retired on November 1, 2005.

At September 30, 2006, the Water System also recognizes deferred costs related to prior year bond retirements in the amount of \$491,805, including related amortization expenses of \$60,220.

Long-Term Debt by System

Principal activity for the year is summarized as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
Electric	\$ 27,990,000	\$ 0	\$ 1,460,000	\$ 26,530,000
Gas	11,025,000	0	380,000	10,645,000
Water	20,650,000	0	1,085,000	19,565,000
Total	<u>\$ 59,665,000</u>	<u>\$ 0</u>	<u>\$ 2,925,000</u>	<u>\$ 56,740,000</u>

NOTE 6 - DEPOSITS WITH FINANCIAL INSTITUTIONS

At September 30, 2006, all cash and cash equivalents of the Utilities are entirely insured or collateralized as provided by the Security for Alabama Funds Enhancement Act (SAFE) as prescribed in section 41-14A of the code of the state of Alabama with a Qualified Public Fund Depository. Funds held by the banks' trust departments or agents are invested in U. S. governmental securities or are secured by U. S. government securities.

A summary of cash and investments is as follows:

<u>Description</u>	<u>Electric System</u>	<u>Natural Gas System</u>	<u>Water System</u>
Cash on hand	\$ 10,100	\$ 0	\$ 0
Carrying amounts of:			
Deposits	77,182,758	10,189,798	9,555,904
Investments	4,869,534	8,874,145	1,424,989
Total	<u>\$ 82,062,392</u>	<u>\$ 19,063,943</u>	<u>\$ 10,980,893</u>
Deposits - Cash	\$ 46,087,216	\$ 3,652,713	\$ 7,969,809
Investments:			
Debt service accounts	4,869,534	8,874,145	1,424,989
Other third party restricted	2,009,475	1,423,437	871,267
Board designated accounts:			
Renewal and replacement	14,349,884	1,855,315	
Construction	10,394,377	2,660,663	459,343
Emergency	3,000,000		
Insurance	1,042,233	597,670	255,485
Other	309,673		
Total	<u>\$ 82,062,392</u>	<u>\$ 19,063,943</u>	<u>\$ 10,980,893</u>

The accompanying notes and independent auditor's report are an integral part of these financial statements.

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 7 - PROPERTY AND RIGHTS HELD UNDER DEFERRED COMPENSATION PLAN

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

NOTE 8 - CONTINGENCIES

Huntsville Utilities and ProLiance Energy LLC announced on November 21, 2006 that they had reached a settlement of the lawsuit between them which involved disputes over a gas supply contract between the parties. A federal court jury rendered a verdict in favor of the utility in February of 2005, and at the time of settlement the case was pending appeal before the U.S. Court of Appeals for the Eleventh Circuit in Atlanta. ProLiance agreed to pay Huntsville Utilities 21.6 million dollars in the settlement. The current financial statement do not reflect any changes based on the above settlement as the information was not known at September 30, 2006.

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

NOTE 9 - GAS PURCHASE COMMITMENTS

The Gas System has entered into purchase contracts with vendors to establish the purchase price for natural gas. The contracts allow the Gas System to lock in certain volumes of gas to be purchased and prices for that gas. For the next two years, Huntsville Utilities has committed to purchase \$23,343,368 for 2007, \$11,272,250 for 2008 and \$8,341,234 for 2009. The Gas System has also committed to purchase 388,425 MMBtu for 2007 and 346,800 MMBtu for 2008 at prices that have not been fixed at this time.

NOTE 10 - ELECTRIC PURCHASE COMMITMENTS

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

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 11 – INSURANCE IN FORCE

Insurance coverage is combined for the Electric, Water and Gas Utilities with the expense prorated to each department on a predetermined percentage:

Blanket Real and Personal Property		
Real property	\$	246,835,969
Flood and earthquake		10,000,000
Blanket Crime		1,000,000
Automobile Liability		1,000,000
Public Officials and Employment Liability		1,000,000
Workers Compensation		
Bodily injury (accident and disease)		Statutory
Excess coverage per occurrence (SIR)		500,000
Comprehensive General Liability		Self-insured

The Utilities are self-insured for general liability, health insurance and worker’s compensation. Reinsurance is purchased to limit the exposure to catastrophic loss for health and worker’s compensation. The health insurance program is administered by Blue Cross/Blue Shield of Alabama. The general liability self-insurance program is administered internally. Liberty Mutual Insurance Company administers worker’s compensation claims. The Boards have designated that cash assets be set aside in each system to fund these activities. The balances have been fully funded in segregated accounts in the special funds section of the statements of net assets and except for workers compensation are not separately stated in the net assets portion of the statements of net assets. Worker’s compensation funds are included in restricted net assets.

NOTE 12 – UNPAID INSURANCE CLAIMS, CLAIMS PAID AND CLAIMS PAYMENTS

	Health 2006	Health 2005	Workers Comp-2006	Workers Comp-2005
Unpaid-beginning	\$ 295,000	\$ 320,000	\$ 78,307	\$ 221,468
Incurred costs	3,757,991	3,592,736	333,552	382,550
Amount paid	(3,742,991)	(3,617,736)	(242,051)	(525,711)
Unpaid-ending	\$ 310,000	\$ 295,000	\$ 169,808	\$ 78,307

NOTE 13 – RESTATED PRIOR YEAR FINANCIAL STATEMENTS

The September 30, 2005 customer deposits on the Electric Department financial statements were restated by \$258,107. This restatement was due to management’s adjustment to reconcile customer deposits to the subsidiary ledger.

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 14 - UTILITY PLANT IN SERVICE

ELECTRIC SYSTEM

	Balance October 1, 2004	Additions	Retirements	Balance September, 30 2005
Land and land rights	\$3,908,608	\$0	\$0	\$3,908,608
Structures and improvements	284,629,653	14,333,317	(2,352,205)	296,610,765
Furniture, fixtures and other	<u>14,361,328</u>	<u>2,232,894</u>	<u>(578,842)</u>	<u>16,015,380</u>
Total	302,899,589	16,566,211	(2,931,047)	316,534,753
Less accumulated depreciation	(125,714,821)	(10,624,013)	2,530,059	(133,808,775)
Retirement in progress	3,891	0	0	3,891
Construction in progress	<u>11,524,556</u>	16,484,789	(16,913,985)	<u>11,095,360</u>
	<u>\$188,713,215</u>			<u>\$193,825,229</u>
	Balance October 1, 2005	Additions	Retirements	Balance September, 30 2006
Land and land rights	3,908,608	113,972	(15,313)	4,007,267
Structures and improvements	296,610,765	21,436,360	(2,506,300)	315,540,825
Furniture, fixtures and other	<u>16,015,380</u>	<u>1,289,153</u>	<u>(682,822)</u>	<u>16,621,711</u>
Total	316,534,753	22,839,485	(3,204,435)	336,169,803
Less accumulated depreciation	(133,808,775)	(11,905,788)	3,296,148	(142,418,415)
Retirement in progress	3,891	0	0	3,891
Construction in progress	<u>11,095,360</u>	18,204,123	(23,171,954)	<u>6,127,529</u>
	<u>\$193,825,229</u>			<u>\$199,882,808</u>

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 14 - UTILITY PLANT IN SERVICE

NATURAL GAS SYSTEM

	Balance October 1, 2004	Additions	Retirements	Balance September, 30 2005
Land and land rights	\$406,332	\$0	\$0	\$406,332
Structures and improvements	99,587,302	3,661,629	(8,272,016)	94,976,915
Furniture, equipment and other	<u>6,272,962</u>	<u>560,589</u>	<u>(48,000)</u>	<u>6,785,551</u>
Total	106,266,596	4,222,218	(8,320,016)	102,168,798
Less accumulated depreciation	(32,875,352)	(2,596,032)	3,692,594	(31,778,789)
Construction in progress	<u>1,235,913</u>	3,487,015	(3,306,484)	<u>1,416,444</u>
	<u>\$74,627,157</u>			<u>\$71,806,453</u>
	Balance October 1, 2005	Additions	Retirements	Balance September, 30 2006
Land and land rights	406,332	0	(22,597)	383,735
Structures and improvements	94,976,915	4,804,255	(664,699)	99,116,471
Furniture, equipment and other	<u>6,785,551</u>	<u>500,835</u>	<u>(586,818)</u>	<u>6,699,568</u>
Total	102,168,798	5,305,090	(1,274,114)	106,199,774
Less accumulated depreciation	(31,778,789)	(2,595,031)	1,228,425	(33,145,395)
Construction in progress	<u>1,416,444</u>	4,029,997	(3,948,584)	<u>1,497,857</u>
	<u>\$71,806,453</u>			<u>\$74,552,236</u>

City of Huntsville Electric, Natural Gas and Water Systems

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

NOTE 14 - UTILITY PLANT IN SERVICE

WATER SYSTEM

	Balance October 1, 2004	Additions	Retirements	Balance September, 30 2005
Land and land rights	\$1,748,064	\$0	\$0	\$1,748,064
Structures and improvements	172,976,505	5,853,803	(6,889)	178,823,419
Furniture, equipment and other	<u>4,379,134</u>	<u>268,450</u>	<u>(111,910)</u>	<u>4,535,674</u>
Total	179,103,703	6,122,253	(118,799)	185,107,157
Less accumulated depreciation	(62,645,793)	(4,159,188)	102,806	(66,702,175)
Construction in progress	<u>5,542,702</u>	3,232,294	(3,169,576)	<u>5,605,420</u>
	<u>\$122,000,612</u>			<u>\$124,010,402</u>
	Balance October 1, 2005	Additions	Retirements	Balance September, 30 2006
Land and land rights	1,748,064	0	0	1,748,064
Structures and improvements	178,823,419	6,593,929	(96,400)	185,320,948
Furniture, equipment and other	<u>4,535,674</u>	<u>186,766</u>	<u>(213,691)</u>	<u>4,508,749</u>
Total	185,107,157	6,780,695	(310,091)	191,577,761
Less accumulated depreciation	(66,702,175)	(4,303,154)	310,091	(70,695,238)
Construction in progress	<u>5,605,420</u>	3,945,987	(3,634,624)	<u>5,916,783</u>
	<u>\$124,010,402</u>			<u>\$126,799,306</u>

WILLIAM C. PIPPIN
PRESIDENT

TIMOTHY D. MCKEE, SR.
VICE PRESIDENT
OF ADMINISTRATION AND
CHIEF FINANCIAL OFFICER

JAY C. STOWE
VICE PRESIDENT OF
OPERATIONS

JOHN THOMAS
VICE PRESIDENT OF SERVICES

STEVE WRIGHT
ELECTRIC MANAGER

BOBBY COOPER
ELECTRIC OPERATIONS
SUPERINTENDENT

MARKO SIMMS
ELECTRIC UNDERGROUND
LINE SUPERINTENDENT

WAYNE JORDAN
ELECTRIC OVERHEAD
LINE SUPERINTENDENT

MIKE COUNTS
ELECTRIC ENGINEERING
SUPERINTENDENT

STACY CANTRELL
ELECTRIC ENGINEERING
SERVICES SUPERINTENDENT

JIMMIE BUTLER
GAS MANAGER

DAVID PRITCHETT
GAS OPERATIONS
SUPERINTENDENT

RICHARD BAKER
GAS LINE SUPERINTENDENT

ANTHONY F. OWENS
WATER MANAGER

DARRELL WALKER
WATER OPERATIONS
SUPERINTENDENT

SAM MCELROY
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SUPERINTENDENT

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HUMAN RESOURCES DIRECTOR

KERRY M. WILLIAMS
DIRECTOR OF INTERNAL AUDITOR

LARRY DENMAN
COMMUNITY RELATIONS
SUPERINTENDENT

BILL YELL
COMMUNICATIONS DIRECTOR



Public safety education concerning utilities is a priority for Huntsville Utilities. Partnering with Alabama One-Call and other North Alabama utility companies, the Gas Department presented underground utility safety training to local developers, builders, and emergency response personnel, pictured above. During 2006 the Natural Gas Department also joined with the Alabama Public Service Commission to offer gas fire safety training to local fire department personnel (left).

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