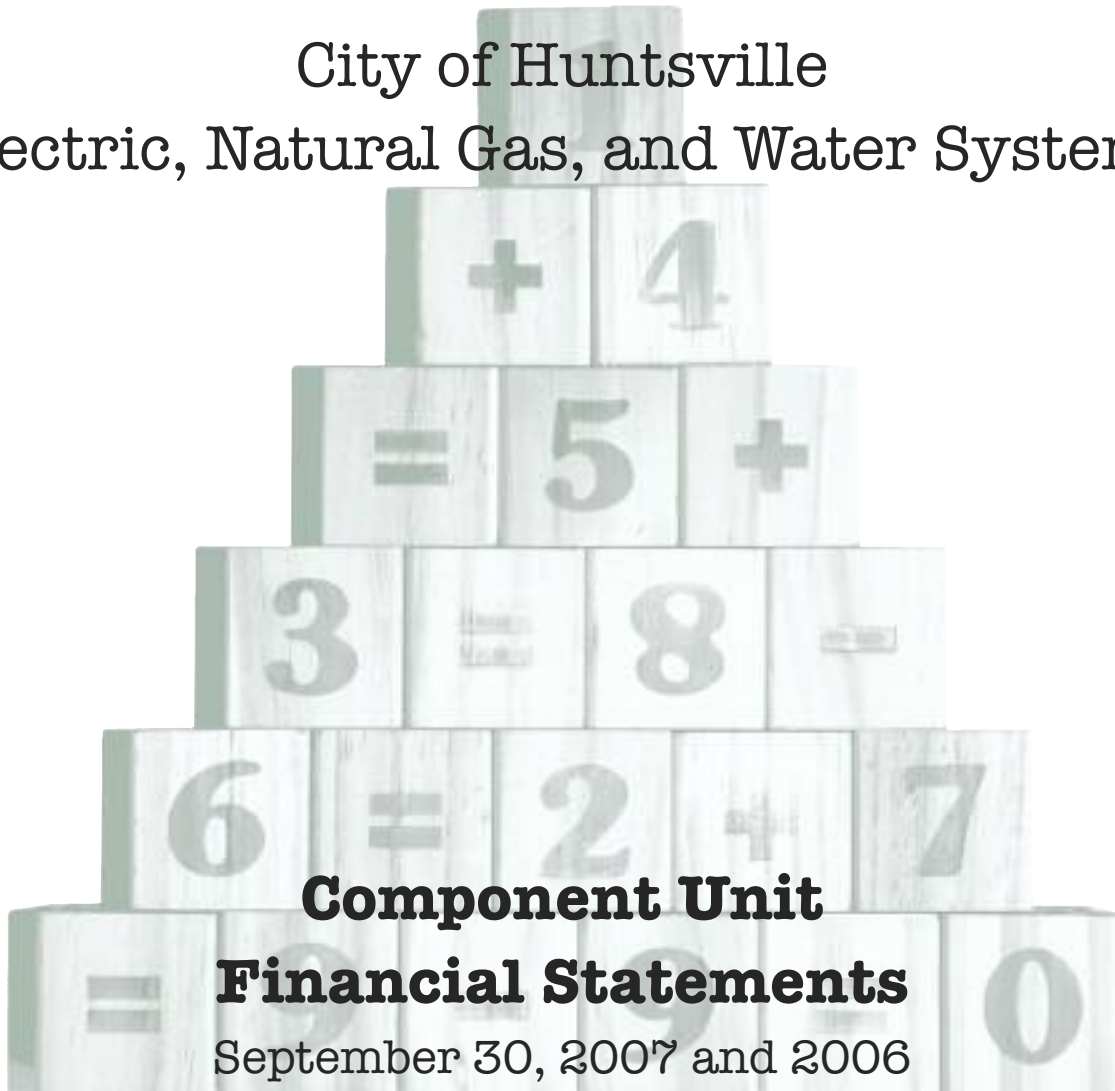




Huntsville Utilities: Appendix A

The Building Blocks of Our Community

City of Huntsville
Electric, Natural Gas, and Water Systems



Component Unit

Financial Statements

September 30, 2007 and 2006

Huntsville Utilities: Appendix A

The Building Blocks

of

Our Community

City of Huntsville
Electric, Natural Gas, and Water Systems

Financial Statements

Appendix A

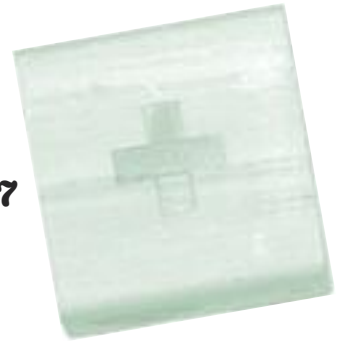
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City of Huntsville Electric, Natural Gas, and Water Works Systems

Management Discussion and Analysis

Fiscal Year 2007



Overview of the Financial Statements

The 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. Generally Accepted Accounting Principles (GAAP), however, are set by the Governmental Accounting Standards Board (GASB), not the FASB as the private sector. 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.

Net Assets

Table A-1

**Condensed Statement of Net Assets
(000's)**

	<u>FY 2007</u>	<u>FY 2006</u>	<u>\$ Change</u>
Current and Other Assets	\$ 125,116	\$ 115,675	\$ 9,441
Capital Assets (Net)	213,089	199,883	13,206
Total Assets	338,205	315,558	22,647
Long-Term Debt Outstanding	23,278	24,726	(1,448)
Other Liabilities	82,630	75,306	7,324
Total Liabilities	105,908	100,032	5,876
Invested in Capital Assets, Net of Related Debt	188,427	173,777	14,650
Restricted	6,870	6,879	(9)
Unrestricted	36,999	34,870	2,129
Total Net Assets	\$ 232,296	\$ 215,526	\$ 16,770

Current and Other Assets grew 9 million dollars. Our customer base increased almost 4,500 or 3.0% vs. 2.3% last year. This brings our total customer count to right at 156,000 customers. Cash and Temporary Investments grew by \$9.1 million and Restricted Assets and Board designated funds fell by \$0.8 million with an 8% reduction in Renewal & Replacement Funds. This brings our cash position to almost 84 days of budgeted operating and capital expenses. The Board's desired minimum is approximately 45 days of budgeted operating and capital expenses. Our bad debt write-offs fell to .0003 of revenues (.03%) from .0007.

Capital Assets (Net) grew by over 13 million dollars. \$23.3 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.

Other Liabilities increased by \$7.3 million from an increased September power bill payable of \$3.1 million and an increase in Customer Deposits with accrued interest of \$2.9 million.

Invested in Capital Assets, Net of Related Debt increased \$14.7 million as explained above in Capital Assets (Net) and Long-Term Debt Outstanding.

Unrestricted Assets reflects the increase in Cash and Temporary Investments.

Table A-2

**Condensed Statement of Revenues,
Expenses and Changes in Net Assets
(000's)**

	<u>FY 2007</u>	<u>FY 2006</u>	<u>\$ Change</u>
Operating Revenues	\$ 365,240	\$ 355,522	\$ 9,718
Non-Operating Revenues	4,939	4,299	640
Total Revenues	370,179	359,821	10,358
Depreciation Expense	10,831	10,177	654
Other Operating Expense	330,301	320,392	9,909
Non-Operating Expense	2,588	2,659	(71)
Total Expenses	343,720	333,228	10,492
Income (Loss) Before Transfers	26,459	26,593	(134)
Transfers Out – Tax Equivalents	(9,689)	(9,148)	(541)
Change in Net Assets	16,771	17,445	(674)
Beginning Net Assets	215,526	198,081	
Ending Net Assets	\$ 232,297	\$ 215,526	

The change in Operating Revenues was an increase of \$9.7 million due to a pass-through of a 4.5% TVA rate decrease offset by an increase in sales of Kilowatt-hours (kWh) of 12.7%. Fiscal year 2007 experienced another mild winter period but was another drought year with extreme summer temperatures. Non-Operating Revenues increased \$0.6 million due to additional cash balances earning interest.

Other Operating Expense increased \$10.0 million, \$6.0 million of which was for wholesale power from TVA. Purchases of kWh increased 13.6%, which with a net decrease in wholesale rates for the year (-4.5% in October 2006, and three minor fuel cost adjustments in January +.011%, April +.084% and July +.087%) accounts for the increase. Another \$2.6 million of the increase in Other Operating Expense was due to an increase in maintenance expense on the distribution system, most of which was tree trimming.

Net Assets

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

	<u>FY 2007</u>	<u>FY 2006</u>	<u>\$ Change</u>
Current and Other Assets	\$ 45,005	\$ 32,492	\$ 12,513
Capital Assets (Net)	77,416	74,552	2,864
Total Assets	122,421	107,044	15,377
Long-term Debt Outstanding	9,840	10,250	(410)
Other Liabilities	12,449	10,430	2,019
Total Liabilities	22,289	20,680	1,609
Invested in Capital Assets,			
Net of Related Debt	67,314	64,065	3,249
Restricted	9,251	10,297	(1,046)
Unrestricted	23,566	12,002	11,564
Total Net Assets	\$ 100,132	\$ 86,364	\$ 13,768

Current and Other Assets increased by \$12.5 million from FY 2006. A settlement was reached with a gas supplier over a billing dispute in the amount of \$21.6 million in favor of the Gas System. Final disposition of these funds by the Board was as follows: \$2.3 million to the Construction Fund; \$3.1 million to the Renewal and Replacement Fund; \$400,000 to the Insurance Fund; \$500,000 to the Workers Compensation Fund; \$1.0 million for legal fees; \$4.3 million to Cash and Cash Equivalents; and \$10 million re-funded to the customers.

Capital Assets (Net) grew by \$2.9 million as bond proceeds (Construction Funds – Restricted decrease of \$1.6 million) were expended on capital improvements of the system.

4.8 million dollars was closed from Construction-In-Progress to Plant-In-Service in 2007.

**Table B-2
Condensed Statement of Revenues,
Expenses and Changes in Net Assets
(000's)**

	<u>FY 2007</u>	<u>FY 2006</u>	<u>\$ Change</u>
Operating Revenues	\$ 58,429	\$ 64,699	(\$ 6,270)
Non-Operating Revenues	1,628	783	845
Other Non-Operating Revenues	11,600	0	11,600
Total Revenues	71,657	65,482	6,175
Depreciation Expense	2,267	2,173	94
Other Operating Expense	52,460	56,834	(4,374)
Non-Operating Expense	314	280	34
Total Expenses	55,041	59,287	(4,246)
Income (Loss) Before Contributions			
And Transfers	16,616	6,195	10,421
Capital Contributions	482	1,288	(806)
Transfers Out – Tax Equivalents	(3,330)	(3,739)	409
Change in Net Assets	13,768	3,744	0,024
Beginning Net Assets	86,364	82,620	
Ending Net Assets	\$ 100,132	\$ 86,364	

Operating Revenues decreased by 6 million dollars. Retail rate decreases, in accordance with wholesale gas costs, accounted for all of this difference as sales in Mcf were 71,712 more than last year. Other Non-Operating Revenues of \$11.6 million is the net amount of the billing dispute settlement after refunding \$10 million to our customers. The \$10 million was the amount paid additionally by the customers during the billing dispute period, which was in prior fiscal years 2001 and 2002. Each customer received a re-fund based on their purchased gas during that period.

Other Operating Expense decreased by \$4.4 million. While we purchased 94,419 more Mcf in gas, the wholesale price decreases accounted for \$5.5 million in less expense. The average cost per Mcf of gas delivered fell from \$12.51 in FY 2006 to \$10.89 in FY 2007. 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 the Gas System. Gas purchasing internal controls, policies and procedures are under constant review by this committee.

Capital Contributions dropped \$0.8 million as the continuing high commodity costs bring about less demand for an optional fuel source. Gas tax equivalents are paid to the City of Huntsville and are calculated as 6% of sales revenues.

Net Assets

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

	<u>FY 2007</u>	<u>FY 2006</u>	<u>\$ Change</u>
Current and Other Assets	\$ 16,074	\$ 14,825	\$ 1,249
Capital Assets (Net)	134,539	126,799	7,740
Total Assets	150,613	141,624	8,989
Long-Term Debt Outstanding	16,813	17,938	(1,125)
Other Liabilities	7,830	7,762	68
Total Liabilities	24,643	25,700	(1,057)
Invested in Capital Assets, Net of Related Debt	116,396	107,579	8,817
Restricted	2,920	2,296	624
Unrestricted	6,654	6,049	605
Total Net Assets	\$ 125,970	\$ 115,924	\$ 10,046

Current and Other Assets increased by \$1.2 million. First glance at the detail of these accounts appears to paint a very different picture. Cash and Temporary Cash Investments decreased \$4.2 million from a designation by the Board of the cash in the bank. The purpose of this designation was to more accurately reflect the ultimate intended use of these funds (construction and renewal and replacement). Water demand these past two years has brought to the forefront plans needed for a plant expansion and later a new plant on the river. The Board's desire to maintain available cash of approximately 45 days of budgeted operating and capital expenses is currently exceeded by over 3 times.

Net capital construction expenditures more than doubled this year to \$8.6 million. \$4.6 million in construction work in progress was closed to plant in 2006, leaving \$4.0 million in construction work in progress.

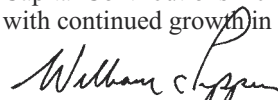
**Table C-2
Condensed Statement of Revenues,
Expenses and Changes in Net Assets
(000's)**


	<u>FY 2007</u>	<u>FY 2006</u>	<u>\$ Change</u>
Operating Revenues	\$ 23,081	\$ 21,353	\$ 1,728
Non-Operating Revenues	559	407	152
Total Revenues	23,640	21,760	1,880
Depreciation Expense	4,148	4,001	147
Other Operating Expense	12,355	11,225	1,130
Non-Operating Expense	1,096	1,127	(31)
Total Expenses	17,599	16,353	1,246
Income (Loss) Before Contributions And Transfers	6,041	5,407	634
Capital Contributions	5,268	4,790	478
Transfers Out – Tax Equivalents	(1,264)	1,169	(95)
Change in Net Assets	10,046	9,028	1,017
Beginning Net Assets	115,924	106,896	
Ending Net Assets	\$ 125,970	\$ 115,924	

2007 was another drought year. More pumping records were set and total water sales in gallons increased another 9% on top of the 15% increase of 2006. Sales revenues increased another 8% on top of the 28% increase in revenues of 2006. The differentials between the increases in sales in gallons and sales in revenues was the result of a 12% rate increase immediately preceding fiscal year 2006.

Other Operating Expense increased by \$1.1 million with the largest category of increase in Administrative and General expense and the largest single contributor to that category was the employer's pension expense. This is a percentage of payroll, set by the Employee's Retirement System of Alabama based on the Water System's estimated liability vs. its assets in the system. If the System's assets and earnings do not keep pace with the liabilities, additional contributions are required based on the Retirement System's actuarial studies.

Capital Contributions increased again this year by \$478,000 with continued growth in our service area.


William Pippin, President


Timothy D. McKee, Chief Financial Officer

MDA PROFESSIONAL GROUP, P.C.
Certified Public Accountants and Business Consultants

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INDEPENDENT AUDITORS' REPORT

Board of Directors
City of Huntsville
Electric, Natural Gas and Water Systems
Huntsville, Alabama

We have audited the accompanying statements of net assets of the City of Huntsville Electric, Natural Gas and Water Systems, a component unit of the City of Huntsville, Alabama, as of September 30, 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. The September 30, 2006 financial statements were examined by other auditors whose report dated December 7, 2006 expressed an unqualified opinion on those financial statements. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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, 2007, 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.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 express no opinion on it.

Huntsville, Alabama
January 28, 2008

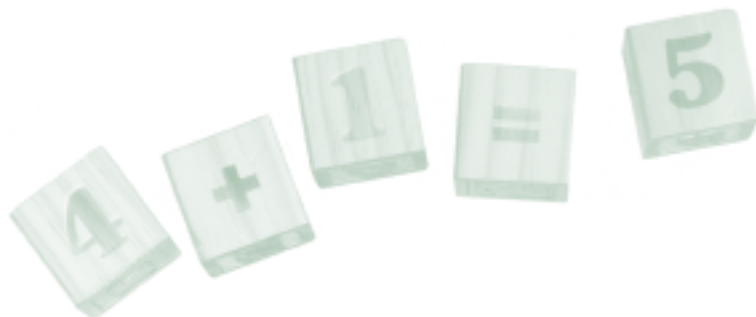
MDA Professional Group, P.C.



SEPTEMBER 30, 2007 AND 2006

STATEMENTS OF NET ASSETS

ASSETS	2007		2006		NET ASSETS AND LIABILITIES	2007		2006	
Current Assets					Current Liabilities				
Cash and cash equivalents	\$	55,203,229	\$	46,087,216	Accounts payable - trade		\$ 37,600,680		\$ 34,023,756
Accounts receivable - trade, net of allowance for doubtful accounts of \$376,392 in 2007 and \$249,732 in 2006		27,791,112		25,739,839	Accounts payable - other utility departments (Note 1)		8,622,487		7,979,062
Materials and supplies		4,353,253		4,071,867	Customer meter deposits, including accrued interest of \$9,694,878 in 2007 and \$9,029,173 in 2006		30,639,815		27,783,108
Prepaid expenses		210,159		223,994	Compensated absences		2,873,305		2,537,358
Accrued interest, rent and other receivables		1,918,036		3,049,114	Other current liabilities		1,014,415		1,074,622
Total Current Assets		89,475,789		79,172,030	Total Current Liabilities		80,750,702		73,397,906
Restricted and Board Designated Assets (Note 1)					Liabilities Payable from Restricted Assets				
Emergency Funds - Designated		3,000,000		3,000,000	Current maturities of long-term debt (Note 5)		1,490,000		1,505,000
Insurance Funds - Designated		1,042,233		1,042,233	Interest payable		389,598		403,873
Construction Funds - Designated		10,764,377		10,394,377	Total Liabilities Payable from Restricted Assets		1,879,598		1,908,873
Renewal & Replacement Funds - Designated		13,142,922		14,349,884	Long-Term Debt (Note 5)				
Other special funds - Designated		324,464		309,673	Electric revenue bonds, excluding current portion		23,535,000		25,025,000
Improvement Funds - Bond Restricted		500,000		500,000	Less: Unamortized debt retirement		(256,881)		(299,318)
Debt Service Funds - Bond Restricted		1,636,758		1,664,106	Total Long-Term Debt		23,278,119		24,725,682
Reserve Debt Service Funds - Bond Restricted		2,705,428		2,705,428	Total Liabilities		105,908,419		100,032,461
Worker's Compensation Funds - Restricted		2,028,129		2,009,475	Net Assets				
Total Restricted Assets and Board Designated Assets		35,144,311		35,975,176	Invested in capital assets, net of related debt		188,427,383		173,776,808
Deferred Charges					Restricted		6,870,315		6,879,009
Unamortized bond expense (Note 5)		367,829		400,455	Unrestricted		36,999,083		34,870,291
Other deferred charges		128,100		128,100	Total Net Assets		232,296,781		215,526,108
Total Deferred Charges		495,929		528,555	TOTAL NET ASSETS AND LIABILITIES		\$338,205,200		\$315,558,569
Utility Plant (Note 1)									
Plant in service		354,762,703		336,169,803					
Construction in progress		9,418,873		6,127,529					
Retirement work in process		3,891		3,891					
		364,185,467		342,301,223					
Less: Accumulated depreciation		(151,096,296)		(142,418,415)					
Total Utility Plant		213,089,171		199,882,808					
TOTAL ASSETS		\$ 338,205,200		\$ 315,558,569					



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

FOR YEARS ENDED SEPTEMBER 30, 2007 AND 2006

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

	2007	2006
Operating Revenue		
Residential	\$171,859,287	\$168,251,842
Large commercial and industrial	152,356,341	147,101,644
Small commercial	27,391,807	27,255,006
Public street and highway lighting	3,564,094	3,466,112
Other operating revenue	10,068,202	9,447,333
Total Operating Revenue	365,239,731	355,521,937
Operating Expenses		
Purchased power	304,030,993	298,081,799
Transmission	182,258	212,779
Distribution	13,741,720	11,409,061
Customer accounting	4,571,218	3,919,425
Administrative and general	6,849,649	5,872,508
Depreciation	10,830,593	10,177,455
Payroll taxes	924,855	895,604
Total Operating Expenses	341,131,286	330,568,631
Operating Income	24,108,445	24,953,306
Other Revenue and (Expenses)		
Interest income	4,938,997	4,298,623
Interest expense	(2,555,418)	(2,626,644)
Amortization of bond discount	(32,628)	(32,628)
Total Other Revenue (Expenses)	2,350,951	1,639,351
Change in Net Assets Before Transfers	26,459,396	26,592,657
Transfers Out - Tax Equivalent	(9,688,723)	(9,147,501)
Change in Net Assets	16,770,673	17,445,156
Beginning Net Assets	215,526,108	198,080,952
ENDING NET ASSETS	\$232,296,781	\$215,526,108

STATEMENTS OF CASH FLOWS

	2007	2006
Cash Flows From (Used For) Operating Activities		
Received from customers	\$ 363,188,458	\$ 350,380,951
Paid to suppliers for goods and services	(304,114,266)	(301,785,729)
Paid to employees for goods and services	(17,927,667)	(11,059,829)
Net cash flows from operating activities	41,146,525	37,535,393
Cash Flows (Used For) Noncapital Financing Activities		
Transfers out - tax equivalent	(9,688,723)	(9,147,501)
Net cash (used for) noncapital financing activities	(9,688,723)	(9,147,501)
Cash Flows From Investing Activities		
Interest income earned on investments	4,938,997	4,298,623
Net cash provided from investing activities	4,938,997	4,298,623
Cash Flows from (Used For) Capital and Related Financing Activities		
Payment of principal on long-term debt	(1,505,000)	(1,460,000)
Additions to plant in service	(24,036,957)	(16,235,034)
Changes in special funds, net	830,865	(6,575,614)
Interest paid	(2,569,693)	(2,642,014)
Net cash (used for) capital and related financing activities	(27,280,785)	(26,912,662)
Increase in Cash	9,116,014	5,773,853
Cash at Beginning of Year	46,087,216	40,313,363
CASH AT END OF YEAR	\$ 55,203,230	\$ 46,087,216

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

FOR YEARS ENDED SEPTEMBER 30, 2007 AND 2006

STATEMENTS OF CASH FLOWS - CONTINUED

	2007	2006
Reconciliation of Operating Income to Net Cash Flows from Operating Activities		
Operating Income	\$ 24,108,445	\$ 24,953,306
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation and amortization included in operating income	10,873,030	10,252,891
(Increase) in accounts receivable - customer	(2,051,273)	(5,140,986)
(Increase) Decrease in accounts receivable - other	1,131,078	(1,251,435)
(Increase) in inventory	(281,386)	(428,619)
Decrease in prepaid expenses	13,835	153,278
Increase in accounts payable	4,220,349	6,572,685
Increase in customer deposits	2,856,707	2,132,260
Increase in accrued expenses and other current liabilities	275,740	292,013
Net Adjustments	17,038,080	12,582,087
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 41,146,525	\$ 37,535,393



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

CITY OF HUNTSVILLE GAS SYSTEM

SEPTEMBER 30, 2007 AND 2006

STATEMENTS OF NET ASSETS

ASSETS			LIABILITIES AND NET ASSETS		
	2007	2006		2007	2006
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 14,224,082	\$ 3,652,713	Accounts payable - trade	\$ 2,901,981	\$ 2,036,039
Accounts receivable - trade, net of allowance for doubtful accounts of \$54,725 in 2007 and \$10,389 in 2006	1,223,653	1,334,197	Customer meter deposits, including accrued interest of \$2,130,788 in 2007 and \$1,941,407 in 2006	7,657,932	6,617,571
Stored gas	7,049,311	10,030,801	Compensated absences	965,170	859,705
Materials and supplies	523,058	562,823	Customer advances for construction	162,424	199,989
Prepaid expenses	95,116	222,137	Other current liabilities	284,204	251,315
Accrued interest, rent and other receivables	1,104,143	1,050,146	Total Current Liabilities	11,971,711	9,964,619
Total Current Assets	24,219,363	16,852,817	Liabilities Payable from Restricted Assets		
Restricted Assets and Board Designated Assets			Current maturities of revenue bonds	410,000	395,000
Insurance Funds - Designated	997,670	597,670	Interest payable	67,651	70,284
Construction Funds - Designated	5,440,663	2,660,663	Total Liabilities Payable from Restricted Assets	477,651	465,284
Renewal & Replacement Funds - Designated	4,880,337	1,855,315	Long-Term Debt		
Construction Funds - Restricted	6,217,100	7,859,031	Revenue bonds - less current maturities	9,840,000	10,250,000
Debt Service Funds - Restricted	818,244	818,244	Total Liabilities	22,289,362	20,679,903
Bond Sinking Funds - Restricted	139,169	196,870	Net Assets		
Worker's Compensation Fund - Restricted	2,076,731	1,423,437	Invested in capital assets, net of related debt	67,314,126	64,064,598
Restricted Assets and Board Designated Assets	20,569,914	15,411,230	Restricted	9,251,244	10,297,582
Other Assets			Unrestricted	23,566,322	12,001,846
Unamortized debt expense	215,558	227,646	Total Net Assets	100,131,692	86,364,026
Utility Plant (Note 1)			TOTAL NET ASSETS AND LIABILITIES		
Plant in service	111,105,148	106,199,774	\$122,421,054	\$107,043,929	
Construction in progress	1,584,565	1,497,857			
	112,689,713	107,697,631			
Less: Accumulated depreciation	(35,273,494)	(33,145,395)			
Total Utility Plant	77,416,219	74,552,236			
TOTAL ASSETS	\$122,421,054	\$107,043,929			

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

CITY OF HUNTSVILLE GAS SYSTEM

FOR YEARS ENDED SEPTEMBER 30, 2007 AND 2006

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

	2007	2006
Operating Revenue		
Residential	\$24,312,037	\$26,509,388
Commercial	26,702,910	29,711,814
Industrial	4,487,065	6,000,042
Governmental	0	99,314
Other operating revenue	2,926,497	2,378,074
Total Operating Revenue	58,428,509	64,698,632
Operating Expenses		
Purchased gas	45,103,947	50,649,245
Production	16,402	29,888
Distribution	3,141,327	2,971,454
Customer accounting	653,763	587,785
Administrative and general	3,266,608	2,319,532
Depreciation	2,267,102	2,172,695
Payroll taxes	277,672	276,003
Total Operating Expenses	54,726,821	59,006,602
Operating Income	3,701,688	5,692,030
Other Revenue and (Expenses)		
Interest income	1,628,199	783,361
Interest expense	(302,166)	(268,999)
Amortization of debt discount	(12,084)	(11,077)
Total Other Revenue (Expenses)	1,313,949	503,285
Change in Net Assets Before Capital Contributions And Transfers	5,015,637	6,195,315
Capital Contributions	482,415	1,288,504
Other Non-Operating Income	11,600,000	0
Transfers Out - Tax Equivalent	(3,330,386)	(3,739,353)
Change in Net Assets	13,767,666	3,744,466
Beginning Net Assets	86,364,026	82,619,560
ENDING NET ASSETS	\$100,131,692	\$86,364,026

STATEMENTS OF CASH FLOWS

	2007	2006
Cash Flows From (Used For) Operating Activities		
Received from customers	\$ 58,539,053	\$ 64,711,356
Paid to suppliers for goods and services	(40,896,945)	(61,737,011)
Paid to employees for goods and services	(6,461,403)	(4,077,448)
Net cash flows from (used for) operating activities	11,180,705	(1,103,103)
Cash Flows From (Used For) Noncapital Financing Activities		
Transfers out - tax equivalent	(3,330,386)	(3,739,353)
Proceeds from settlement of lawsuit	11,600,000	0
Net cash from (used for) noncapital financing activities	8,269,614	(3,739,353)
Cash Flows From Investing Activities		
Interest income earned on investments	1,628,199	783,361
Net cash from investing activities	1,628,199	783,361
Cash Flows From (Used For) Capital And Related Financing Activities		
Payment of principal on long-term debt	(395,000)	(380,000)
Additions to plant in service, includes capitalized interest of \$436,906	(5,133,714)	(4,921,012)
Debt expense paid	0	(35,000)
Capital contributions	482,415	1,288,504
Changes in special funds, net	(5,158,684)	281,091
Interest paid and expensed	(302,166)	(268,999)
Net cash (used for) capital and related financing activities	(10,507,149)	(4,035,416)
Increase (Decrease) In Cash	10,571,369	(8,094,511)
Cash At Beginning Of Year	3,652,713	11,747,224
CASH AT END OF YEAR	\$ 14,224,082	\$ 3,652,713

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

FOR YEARS ENDED SEPTEMBER 30, 2007 AND 2006

STATEMENTS OF CASH FLOWS - CONTINUED

	2007	2006
Reconciliation of Operating Income to Net Cash Flows from Operating Activities		
Operating Income	\$ 3,701,688	\$ 5,692,030
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation and amortization included in operating income	2,267,102	2,172,695
Decrease in accounts receivable - customer	110,544	12,724
(Increase) in accounts receivable - other	(53,997)	(954,438)
(Increase) Decrease in inventory	3,021,255	(7,540,614)
(Increase) Decrease in prepaid expenses	127,021	(145,927)
Increase (Decrease) in accounts payable	865,942	(1,126,666)
Increase in customer deposits	1,040,361	688,498
Increase in accrued expenses and other current liabilities	100,789	98,595
Net Adjustments	7,479,017	(6,795,133)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 11,180,705	\$(1,103,103)



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

CITY OF HUNTSVILLE WATER SYSTEM

SEPTEMBER 30, 2007 AND 2006

STATEMENTS OF NET ASSETS

ASSETS		LIABILITIES AND NET ASSETS	
	2007	2006	
Current Assets			Current Liabilities
Cash and cash equivalents	\$ 3,733,329	\$ 7,969,809	Accounts payable - trade
Accounts receivable - trade, net of allowance for doubtful accounts of \$33,598 in 2007 and \$17,858 in 2006	1,988,605	1,829,725	Intercompany payables
Materials and supplies	1,556,758	1,541,874	Customer meter deposits, including accrued interest of \$1,157,788 in 2007 and \$1,062,386 in 2006
Prepaid expenses	59,894	42,721	Customer advances for construction
Total Current Assets	7,338,586	11,384,129	Compensated absences
			Other current liabilities
Restricted Assets and Board Designated Assets			Total Current Liabilities
Construction Funds - Designated	3,742,605	459,343	
Insurance Funds - Designated	555,485	255,485	Liabilities Payable from Restricted Assets
Debt Service Funds - Bond Restricted	1,448,575	1,424,989	Current maturities of long-term debt (Note 5)
Worker's Compensation Funds - Restricted	1,470,993	871,267	Interest payable
Renewal and Replacement Funds - Designated	1,300,092	0	Total Liabilities Payable from Restricted Assets
Total Restricted Assets and Board Designated Assets	8,517,750	3,011,084	
			Long-Term Debt (Note 5)
Deferred Charges			Water revenue bonds, excluding current maturities
Unamortized bond expense (Note 5)	213,231	232,615	Less: Unamortized bond retirement
Other deferred charges	4,073	197,090	Total Long-Term Debt
Total Deferred Charges	217,304	429,705	
			Total Liabilities
Utility Plant (Note 1)			
Plant in service	199,348,711	191,577,761	Net Assets
Construction in progress	9,966,717	5,916,783	Invested in capital assets, net of related debt
	209,315,428	197,494,544	Restricted
Less: Accumulated depreciation	(74,776,033)	(70,695,238)	Unrestricted
Total Utility Plant	134,539,395	126,799,306	Total Net Assets
TOTAL ASSETS	\$150,613,035	\$141,624,224	TOTAL NET ASSETS AND LIABILITIES
			\$150,613,035
			\$141,624,224

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

CITY OF HUNTSVILLE WATER SYSTEM

FOR YEARS ENDED SEPTEMBER 30, 2007 AND 2006

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

	2007	2006
Operating Revenue		
Residential	\$ 11,127,051	\$ 11,027,490
Industrial	1,674,902	1,606,712
Commercial	5,365,353	5,138,038
Government	1,515,095	515,818
Fire hydrants	649,080	627,666
Other operating revenue	2,749,239	2,437,624
Total Operating Revenue	23,080,720	21,353,348
Operating Expenses		
Purification	754,902	608,326
Pumping	3,373,630	3,066,930
Distribution	3,625,171	3,566,333
Customer accounting	1,245,194	1,085,025
Administrative and general	2,934,269	2,500,827
Depreciation	4,148,119	4,001,441
Payroll taxes	421,460	397,226
Total Operating Expenses	16,502,745	15,226,108
Operating Income	6,577,975	6,127,240
Other Revenue and (Expenses)		
Interest income	558,925	406,630
Interest expense	(1,076,342)	(1,107,930)
Amortization of bond discount	(19,380)	(19,380)
Total Other Revenue (Expenses)	(536,797)	(720,680)
Change in Net Assets Before Capital Contributions and Transfers	6,041,178	5,406,560
Capital Contributions	5,268,421	4,790,947
Transfers Out - Tax Equivalent	(1,263,890)	(1,169,071)
Change in Net Assets	10,045,709	9,028,436
Beginning Net Assets	115,924,239	106,895,803
ENDING NET ASSETS	\$125,969,948	\$115,924,239

STATEMENTS OF CASH FLOWS

	2007	2006
Cash Flows From (Used For) Operating Activities		
Received from customers	\$ 22,921,840	\$ 20,958,433
Paid to suppliers for goods and services	(5,474,953)	(5,800,509)
Paid to employees for goods and services	(6,818,442)	(4,996,543)
Net cash flows from operating activities	10,628,445	10,161,381
Cash Flows From (Used For) Noncapital Financing Activities		
Transfers out - tax equivalents	(1,263,890)	(1,169,071)
Net cash flows (used for) noncapital financing activities	(1,263,890)	(1,169,071)
Cash Flows From (Used For) Investing Activities		
Deferred charges	193,017	(138,484)
Interest income earned on investments	558,925	406,630
Net cash from investing activities	751,942	268,146
Cash Flows From (Used For) Capital And Related Financing Activities		
Payment of principal on long-term debt	(1,135,000)	(1,085,000)
Customer advances	6,686	(4,300)
Additions to plant in service	(11,888,204)	(6,790,342)
Capital contributions	5,268,421	4,790,947
Changes in special funds, net	(5,506,666)	(148,702)
Interest paid	(1,098,214)	(1,126,014)
Net cash (used for) capital and related financing activities	(14,352,977)	(4,363,411)
Increase (Decrease) In Cash	(4,236,480)	4,897,045
Cash At Beginning Of Year	7,969,809	3,072,764
CASH AT END OF YEAR	\$ 3,733,329	\$ 7,969,809



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

FOR YEARS ENDED SEPTEMBER 30, 2007 AND 2006

STATEMENTS OF CASH FLOWS - CONTINUED

	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income	\$ 6,577,975	\$ 6,127,240
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation and amortization, included in operating income	4,208,340	4,061,661
(Increase) in accounts receivable		
- customer	(158,880)	(394,915)
(Increase) in inventory	(14,884)	(437,089)
(Increase) Decrease in prepaid expenses	(17,173)	12,284
Increase (Decrease) in accounts payable	(399,914)	213,443
Increase in customer deposits	303,070	328,341
Increase in accrued expenses and other current liabilities	129,911	250,416
Net Adjustments	4,050,470	4,034,141
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 10,628,445	\$ 10,161,381

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

CITY OF HUNTSVILLE ELECTRIC, NATURAL GAS AND WATER SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2007 AND 2006

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.
- 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 net 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2007 and 2006.

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.

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. Receivables are due 15 days after the issuance of the invoice. Receivables past due more than 25 days are considered delinquent. 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 average cost.

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.

The accompanying notes and independent auditors' 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

Investments

The allowable investments as defined in the Utilities' Funds Management Policy include the purchase of securities, in the name of the Utilities, and the participation in certain open-end or closed-end investment trusts which are invested in direct obligations of the United States or repurchase agreements respecting such U.S. obligations permitted by Section 11-81-21, Code of Alabama 1975, as amended. The Utilities' bond indentures for the outstanding Electric System Revenue Warrants, the Natural Gas Revenue Warrants, and the Water System Revenue Warrants, limit the investments of the various funds to the following: (a) securities that are direct obligations of the United States and any securities that are with respect to which the payment of the principal thereof and the interest thereon is unconditionally and irrevocably guaranteed by the United States; (b) custodial receipts evidencing ownership in United States Treasury obligations; and (c) demand or time deposits in domestic banks rated no less than "AA" by Standard & Poor's Ratings Services or "Aa" by Moody's Investors Service.

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.

Accounting for Derivative Instruments

The Utilities utilizes derivative financial instruments as part of their overall purchasing strategy. It is not the practice of the Utilities to use these derivative instruments for hedging the market risks or for speculation.

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, 2007 and 2006 are as follows:

	2007	2006
Electric System	\$ 9,688,723	\$ 9,147,501
Natural Gas System	3,330,386	3,739,353
Water System	1,263,890	1,169,071

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, 2007 and 2006 are as follows (Table 3.1):



Table 3.1: Accrued Annual Leave & Sick Leave

	Accrued Annual Leave		Accrued Sick Leave	
	2007	2006	2007	2006
Electric System	\$ 1,660,787	\$ 1,507,132	\$ 1,212,518	\$ 1,030,226
Natural Gas System	532,204	480,037	432,965	333,282
Water System	614,731	590,581	550,302	504,131

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

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."

During 2007 and 2006, the Utilities were required to contribute the following percentages of gross payroll to the plan:

	<u>2007</u>	<u>2006</u>
Electric System	16.68%	11.58%
Natural Gas System	10.79%	8.38%
Water System	11.31%	7.17%

Based on an actuarial valuation completed as of September 30, 2006, the Annual Pension Cost for the System is as follows (Table 4.1):

Table 4.1: Annual Pension Cost for the System

	Annual Pension Cost (APC) 2006	Annual Pension Cost (APC) 2005	Percentage of APC Contributed 2006 and 2005
Electric System	\$ 1,059,692	\$ 930,327	100%
Natural Gas System	1,176,530	1,050,686	100%
Water System	339,593	285,555	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, 2006 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, 2006 was 20 years for the Gas System, 20 years for the Water System and 20 years for the Electric System.

Based on an actuarial valuation done in September 30, 2006, the most recent year for which information is available the schedule of Funding Progress for the System is as follows (Table 4.2):



The accompanying notes and independent auditors' 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 4 - DEFINED BENEFIT PENSION PLAN AND DESCRIPTION - CONTINUED

Table 4.2: Funding Progress for the System

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
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%
2006	\$28,828,749	\$46,128,654	\$17,299,905	62.5%	\$9,238,666	187.3%

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
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%
2006	\$14,848,340	\$20,040,427	\$5,192,088	74.1%	\$4,709,711	110.2%

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
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%
2006	\$36,313,068	\$51,562,348	\$15,249,280	70.4%	\$14,631,348	104.2%

NOTE 5 - LONG-TERM DEBT

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
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%
	3,860,000		
Current	415,000		
	<u>\$ 3,445,000</u>		

The 2001 issue contained deferred cost of \$75,861 that is being amortized over 13 years. At September 30, 2007, the unamortized deferred cost is \$40,740.

The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2007, 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, 2007, 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 accompanying notes and independent auditors' 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

Electric System Revenue Refunding Warrants,
Series 2001 - Continued

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>
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	2,100,000	52,500	5.00%
	15,505,000		
Current	815,000		
	<u>\$ 14,690,000</u>		

The 1998 issue contained deferred cost of \$366,737 that is being amortized over 20 years. At September 30, 2007, the unamortized deferred cost is \$195,593.

The Electric System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2007, 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, 2007, 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>
2008	\$ 260,000	\$ 241,178	3.00%
2009	265,000	233,107	3.10%
2010	275,000	224,325	3.40%
2011	285,000	214,449	3.65%
2012	295,000	203,495	3.90%
2013	310,000	191,543	4.00%
2014	320,000	178,025	4.15%
2015	335,000	164,944	4.25%
2016	350,000	150,125	4.40%
2017	365,000	134,213	4.50%
2018	385,000	117,145	4.60%
2019	400,000	98,890	4.70%
2020	420,000	79,620	4.70%
2021*	440,000	58,750	5.00%
2022*	465,000	36,125	5.00% *
2023*	490,000	12,250	5.00% *
	5,660,000		
Current	260,000		
	<u>\$ 5,400,000</u>		

* - Term Warrants

The accompanying notes and independent auditors' 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

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:

Redemption Dates	Redemption Price
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:

Redemption Dates	Redemption Price
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, 2007, 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, 2007, 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, 2007, the unamortized deferred cost is \$131,496.

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, Alabama Natural Gas System Revenue Warrants, Series 2005 - Continued

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:

Fiscal Year	2005 Principal	2005 Interest	2005 Rate
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%
	10,250,000		
Current	410,000		
	<u>\$ 9,840,000</u>		

The Natural Gas System is required to establish a cash reserve fund equal to the maximum annual debt service requirement. At September 30, 2007, 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, 2007, 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 accompanying notes and independent auditors' 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 Natural Gas System Revenue Warrants, Series 2005 - Continued

The 2005 issue contained deferred cost of \$241,756 that is being amortized over 20 years. At September 30, 2007, the unamortized deferred cost is \$215,558.

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.

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:

Fiscal Year	1998 Principal	1998 Interest	1998 Rate
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%
	18,430,000		
Current	1,185,000		
	<u>\$ 17,245,000</u>		

The 1998 issues contain deferred costs of \$382,846 that are being amortized over 20 years. At September 30, 2007, the unamortized deferred cost for the 1998 issue is \$213,231. 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:

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

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, 2007, the Water System also recognizes deferred costs related to prior year bond retirements in the amount of \$431,584, including related amortization expenses of \$60,220.



The accompanying notes and independent auditors' 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

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	\$ 26,530,000	\$ 0	\$ 1,505,000	\$ 25,025,000
Gas	10,645,000	0	395,000	10,250,000
Water	19,565,000	0	1,135,000	18,430,000
Total	<u>\$ 56,740,000</u>	<u>\$ 0</u>	<u>\$ 3,035,000</u>	<u>\$ 53,705,000</u>

NOTE 6 - DEPOSITS WITH FINANCIAL INSTITUTIONS

At September 30, 2007, 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.

A summary of cash and investments is as follows (Table 6.1):

Table 6.1: System Cash & Investment Summary

<u>Description</u>	<u>Electric System</u>	<u>Natural Gas System</u>	<u>Water System</u>
Cash on hand	\$ 10,550	\$ 0	\$ 0
Carrying amounts of:			
Deposits	85,494,804	27,619,483	10,802,504
Investments	4,842,186	7,174,513	1,448,575
Total	<u>\$ 90,347,540</u>	<u>\$ 34,793,996</u>	<u>\$ 12,251,079</u>
Deposits - Cash	\$ 55,203,229	\$ 14,224,082	\$ 3,733,329
Investments:			
Improvement Fund	500,000	0	0
Other third party restricted	2,028,129	2,076,731	1,470,993
Board designated accounts:			
Renewal and replacement	13,142,922	4,880,337	1,300,092
Construction	10,764,377	5,440,663	3,742,605
Emergency	3,000,000	0	0
Insurance	1,042,233	997,670	555,485
Other	324,464	0	0
Total	<u>\$ 86,005,354</u>	<u>\$ 27,619,483</u>	<u>\$ 10,802,504</u>

The accompanying notes and independent auditors' 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 6 - DEPOSITS WITH FINANCIAL INSTITUTIONS - CONTINUED

At September 30, 2007, the Utilities had the following investments held by a trustee.

<u>Investment</u>	<u>Fair Value</u>	<u>Maturity</u>
Repurchase agreement	\$ 2,705,427	11/30/22
U.S. Treasury Securities Funds	\$ 10,259,847	Average maturity of the fund's securities 397 days or less
	\$ 12,965,274	

Interest rate risk - In accordance with its bond indenture, the Utilities manage its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio in the bond funds to such stated maturities as will assure the availability of cash sufficient to pay, on a timely basis, the interest and principal of the bonds coming due.

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

At September 30, 2007, the Utilities' investments consisted of RMK Select Treasury Money Market Funds and JP Morgan 100% U.S. Treasury Securities Money Market Funds which are primarily comprised of U.S. Treasury obligations maturing in 397 days or less. In addition, the Utilities have invested in a repurchase agreement which is collateralized by U.S. Treasury obligations.

Custodial Credit risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utilities will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Utilities' investments in the repurchase agreement, underlying securities having a fair value of approximately \$5 million at September 30, 2007 are held by the investment's counterparty, not in the name of the Utility.

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 Utilities received the settlement during the year ended September 30, 2007. A portion of the proceeds (10 million dollars) was paid to the Utilities' gas customers. The remaining 11.6 million dollars

The accompanying notes and independent auditors' 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 8 - CONTINGENCIES - CONTINUED

is reported as other non-operating revenue in the Statements of Revenues, Expenses, and Changes in Net Assets for the Gas System.

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 \$28,384,752 for 2008 and \$8,341,234 for 2009. The Gas System has also committed to purchase 475,750 MMBtu for 2008 and 790,750 MMBtu for 2009 at prices that have not been fixed at this time.

In December, 2006 the Gas System and the Tennessee Energy Acquisition Corporation modified their NAESB Base Contract. Under the new contract, the Gas System has committed to purchase between 537,000 and 1,582,000 MMBtus per year through December 2026 at index less fifty-six cents.

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.

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	\$ 249,152,819
Flood and earthquake	20,000,000
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 accompanying notes and independent auditors' report are an integral part of these financial statements.

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 2007	Health 2006	Workers Comp-2007	Workers Comp-2006
Unpaid-beginning	\$ 310,000	\$ 295,000	\$ 169,808	\$ 78,307
Incurring costs	4,317,457	3,757,991	324,332	333,552
Amount paid	<u>(4,298,457)</u>	<u>(3,742,991)</u>	<u>(320,870)</u>	<u>(242,051)</u>
Unpaid-ending	<u>\$ 329,000</u>	<u>\$ 310,000</u>	<u>\$ 173,270</u>	<u>\$ 169,808</u>

NOTE 13 - RESTATED GAS IN STORAGE

At September 30, 2007, the Utilities had 934,510 Dths of gas in storage. The average cost of the gas in storage at August 31, 2007 is \$7,049,311 (\$7.54 per Dths).

**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, <u>2005</u>	<u>Additions</u>	<u>Retirements</u>	Balance September, 30 <u>2006</u>
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>	<u>18,204,123</u>	<u>(23,171,954)</u>	<u>6,127,529</u>
	<u>\$193,825,229</u>	<u>\$29,137,820</u>	<u>\$(23,080,241)</u>	<u>\$199,882,808</u>
	Balance October 1, <u>2006</u>	<u>Additions</u>	<u>Retirements</u>	Balance September, 30 <u>2007</u>
Land and land rights	\$4,007,267	\$212,268	\$ 0	\$4,219,535
Structures and improvements	315,540,825	20,056,516	(2,506,039)	333,091,302
Furniture, fixtures and other	<u>16,621,711</u>	<u>2,219,387</u>	<u>(1,389,232)</u>	<u>17,451,866</u>
Total	336,169,803	22,488,171	(3,895,271)	354,762,703
Less accumulated depreciation	(142,418,415)	(12,585,571)	3,907,690	(151,096,296)
Retirement in progress	3,891	0	0	3,891
Construction in progress	<u>6,127,529</u>	<u>26,589,848</u>	<u>(23,298,504)</u>	<u>9,418,873</u>
	<u>\$199,882,808</u>	<u>\$36,492,448</u>	<u>\$(23,286,085)</u>	<u>\$213,089,171</u>

The accompanying notes and independent auditors' 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 14 - UTILITY PLANT IN SERVICE

NATURAL GAS SYSTEM

	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>	<u>4,029,997</u>	<u>(3,948,584)</u>	<u>1,497,857</u>
	<u><u>\$71,806,453</u></u>	<u><u>\$6,740,056</u></u>	<u><u>\$(3,994,273)</u></u>	<u><u>\$74,552,236</u></u>

	Balance October 1, 2006	Additions	Retirements	Balance September, 30 2007
Land and land rights	\$383,735	\$50,000	\$ 0	\$433,735
Structures and improvements	99,116,471	4,570,432	(157,865)	103,529,038
Furniture, equipment and other	<u>6,699,568</u>	<u>937,956</u>	<u>(495,149)</u>	<u>7,142,375</u>
Total	106,199,774	5,558,388	(653,014)	111,105,148
Less accumulated depreciation	(33,145,395)	(2,781,113)	653,014	(35,273,494)
Construction in progress	<u>1,497,857</u>	<u>5,084,076</u>	<u>(4,997,368)</u>	<u>1,584,565</u>
	<u><u>\$74,552,236</u></u>	<u><u>\$7,861,351</u></u>	<u><u>\$(4,997,368)</u></u>	<u><u>\$77,416,219</u></u>

The accompanying notes and independent auditors' 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 14 - UTILITY PLANT IN SERVICE

WATER SYSTEM

	Balance October 1, 2005	<u>Additions</u>	<u>Retirements</u>	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>	<u>3,945,987</u>	<u>(3,634,624)</u>	<u>5,916,783</u>
	<u>\$124,010,402</u>	<u>\$6,423,528</u>	<u>\$(3,634,624)</u>	<u>\$126,799,306</u>

	Balance October 1, 2006	<u>Additions</u>	<u>Retirements</u>	Balance September, 30 2007
Land and land rights	\$1,748,064	\$ 0	0 \$ 0	\$1,748,064
Structures and improvements	185,320,948	7,224,567	(180,198)	192,365,317
Furniture, equipment and other	<u>4,508,749</u>	<u>984,208</u>	<u>(257,627)</u>	<u>5,235,330</u>
Total	191,577,761	8,208,775	(437,825)	199,348,711
Less accumulated depreciation	(70,695,238)	(4,506,201)	425,406	(74,776,033)
Construction in progress	<u>5,916,783</u>	<u>8,618,602</u>	<u>(4,568,668)</u>	<u>9,966,717</u>
	<u>\$126,799,306</u>	<u>\$12,321,176</u>	<u>\$(4,581,087)</u>	<u>\$134,539,395</u>

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





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