

FINANCIAL STATEMENTS

Gainesville Regional Utilities

Years ended September 30, 2006 and 2005  
with Report of Independent Certified Public Accountants

# Gainesville Regional Utilities

## Financial Statements

Years ended September 30, 2006 and 2005

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## Management's Discussion and Analysis

The City of Gainesville, Florida owns and operates a combined utility system (System) doing business as Gainesville Regional Utilities (GRU) which provides five separate utility functions. The utility functions consist of an electric generation, transmission and distribution system (Electric System), water production and distribution system (Water System), a wastewater collection and treatment system (Wastewater System), a natural gas distribution system (Gas System) and a telecommunication system (GRUCom). Each of these systems is accounted for internally as a separate enterprise fund but reported as a combined utility system for external financial reporting purposes.

We offer readers of GRU's financial statements this management discussion and analysis of GRU's financial statements for the fiscal years ended September 30, 2006 and 2005. It should be read in conjunction with the financial statements that follow this section.

### **Required Financial Statements**

**Balance Sheet.** This statement includes all of GRU's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to GRU's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the System and assessing the liquidity and financial flexibility of GRU.

**Statement of Revenues, Expenses and Changes in Net Assets.** All of the current year's revenues and expenses are accounted for in this statement. This statement measures the success of the combined utility system's operations over the past year.

**Statement of Cash Flows.** The primary purpose of this statement is to provide information about the combined utility system's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing and financing activities.

**Notes to Financial Statements.** The notes provide additional information that is essential to fully understanding the data provided in the financial statements. The notes to the financial statements can be found on pages 16 - 42 of this report.

## Financial Analysis of the Combined Utility System

The Utilities' System net assets decreased by \$5.3 million from 2005 to 2006 and decreased \$1.4 million from 2004 to 2005. Table 1 below focuses on the net assets.

**Table 1**  
**Combined Utility System Net Assets**

*(In thousands)*

	<b>2006</b>	<b>September 30 2005</b>	<b>2004</b>
Current and other assets	\$ 470,462	\$ 345,937	\$ 367,648
Capital assets, net	<u>761,539</u>	<u>732,361</u>	<u>710,010</u>
Total assets	<u>1,232,001</u>	<u>1,078,298</u>	<u>1,077,658</u>
Long-term debt outstanding	592,315	434,983	418,697
Current and other liabilities	<u>292,808</u>	<u>291,160</u>	<u>305,382</u>
Total liabilities	<u>885,123</u>	<u>726,143</u>	<u>724,079</u>
Net assets:			
Invested in capital assets, net of related debt	299,811	297,056	299,671
Restricted	41,400	48,187	48,744
Unrestricted	5,666	6,912	5,164
Total net assets	<u>\$ 346,877</u>	<u>\$ 352,155</u>	<u>\$ 353,579</u>

Changes in net assets can be further explained using the following condensed statements of revenues, expenses and changes in net assets.

**Table 2**  
**Combined Utilities System Changes in Net Assets**

*(In thousands)*

	<b>2006</b>	<b>September 30 2005</b>	<b>2004</b>
Operating revenues	\$ 290,039	\$ 252,217	\$ 240,755
Interest income	10,025	4,390	4,156
Gain/(loss) on sale of investments	0	(168)	2,720
Total revenues	<b>300,064</b>	256,439	247,631
Operating expenses	253,698	216,174	198,516
Interest expense, net	26,920	19,445	18,657
Total expenses	<b>280,618</b>	235,619	217,173
Income before contributions and transfers	19,446	20,820	30,458
Capital contributions, net	4,707	5,036	4,922
Operating transfer to City of Gainesville	(29,431)	(27,280)	(27,010)
Change in net assets	<b>(5,278)</b>	(1,424)	8,370
Net assets, beginning of year	352,155	353,579	345,209
Net assets, end of year	<b>\$ 346,877</b>	\$ 352,155	\$ 353,579

#### **Capital Asset and Debt Administration**

**Capital Assets.** GRU's investment in capital assets as of September 30, 2006, amounts to \$761.5 million (net of accumulated depreciation). This investment in capital assets includes land, generation, transmission and distribution systems, buildings and fixed equipment, and furniture, fixtures and equipment. The net increase in the investment in capital assets (net of accumulated depreciation) for the current fiscal year was 4.0%. In fiscal 2005 it increased 3.1%.

**Capital Assets (continued)**

The following table summarizes the System's capital assets, net of accumulated depreciation and changes for the years ended September 30, 2006 and 2005.

**Combined Utilities System Capital Assets  
(net of accumulated depreciation)**

*(In thousands)*

	September 30		
	2006	2005	2004
Generation	\$ 164,413	\$ 173,998	\$ 175,696
Transmission, distribution and collection	364,403	350,178	349,673
Treatment	64,924	67,919	68,291
General plant	28,460	30,201	32,157
Plant held for future use	6,054	6,054	6,054
Plant unclassified	8,704	5,458	5,178
Construction work in progress	124,581	98,553	72,961
Total net utility plant	\$ 761,539	\$ 732,361	\$ 710,010

Major capital asset events included the following:

- Water transmission and distribution system was expanded \$8.4 million in 2006 and \$2.4 million in 2005 which included \$2.4 million in Murphree wellfield improvements and \$1.0 million in water pressure improvements both in 2006.
- Electric transmission and distribution expansion was \$5.5 million in 2006 and \$8.3 million in 2005 and included \$2.3 million in system substation improvements in 2006.
- The utility is implementing a new Customer Information System and incurred \$3.8 million in 2006 and \$1.1 million in 2005 toward the project planned to go-live in Spring of 2007.
- Wastewater collection system expansion was \$8.0 million in 2006 and \$2.5 million in 2005.
- Telecommunication fiber cable expansion was \$1.1 million in 2006 and \$0.5 million in 2005.
- Gas distribution plant was expanded \$4.3 million in 2006 compared to \$1.3 million in 2005.

The Utility's 2007 capital budget is \$98.3 million and was \$62.1 million in 2006. These projects will be funded from a combination of internal equity and debt.

Additional information on capital assets may be found in Note 3 on page 23 of this report.

**Long-Term Debt.** At September 30, 2006 and September 30, 2005, GRU had total long-term debt outstanding of \$620.1 million and \$467.4 million, respectively, comprised of revenue bonds and other long-term debt.

**Outstanding Debt at September 30**

*(In thousands)*

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Senior Lien revenue bonds	\$ 551,665	\$ 298,935	\$ 309,035
Subordinated revenue bonds	68,500	71,600	74,500
Tax-exempt Commercial Paper	-	80,591	51,844
Taxable Commercial Paper	-	16,231	17,031
<b>Total</b>	<b>\$ 620,165</b>	<b>\$ 467,357</b>	<b>\$ 452,410</b>

On July 6, 2006, the City issued Utilities System Revenue Bonds, Series 2006A in the amount of \$53,305,000. The 2006A Bonds mature on various dates from October 1, 2010 to October 1, 2026. The 2006A Bonds were issued to refund a portion of the City's outstanding Utilities System Revenue Bonds, 1996 Series A and to pay costs of acquisition and construction of the City's utility systems.

On November 16, 2005, the City issued Utilities System Revenue Bonds, Series 2005A, 2005B, and 2005C in the amounts of \$196,950,000, \$61,590,000, and \$55,135,000 respectively. The 2005A Bonds were issued to (a) pay a portion of the cost of acquisition and construction of certain improvements to the City's electric, natural gas, water, wastewater and telecommunications systems and (b) to refund the City's Utilities System Commercial Paper Notes, Series C. The 2005B Bonds were issued to (a) pay a portion of the cost of acquisition and construction of certain improvements to the System and (b) to refund the City's Utilities System Commercial Paper Notes, Series D. The 2005C Bonds were issued to refund a portion of the City's outstanding Utilities System Revenue Bonds, 1996 Series A. The 2005A Bonds mature on various dates from October 1, 2021 to October 1, 2036. The 2005B Bonds mature on various dates from October 1, 2015 to October 1, 2021. The 2005C Bonds mature on various dates from October 1, 2010 to October 1, 2026.

On November 15, 2005, the City entered into an interest rate swap agreement with a November 16, 2005, effective date with Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP) for an initial notional amount of \$45.0 million amortizing down to zero on October 1, 2021. Under the terms of the swap, the City would pay GSMMDP the BMA Municipal Swap Index and, in return, GSMMDP would pay the City 77.14% of 1 month LIBOR.

On September 21, 2005, the City entered into an interest rate swap agreement with a November 16, 2005, effective date with Bear Stearns Financial Products, Inc. (BSFP) for an initial notional amount of \$55.1 million amortizing down to zero on October 1, 2026. Under the terms of this swap, the City would pay BSFP 3.20% interest on certain payment dates and, in return, BSFP would pay the City a floating rate based on a specified index.

On September 21, 2005, the City entered into an interest rate swap agreement with a July 6, 2006, effective date with Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP) for an initial notional amount of \$53.3 million amortizing down to zero on October 1, 2026. Under the terms of this swap, the City would pay GSMMDP 3.224% interest on certain payment dates and, in return, GSMMDP would pay the City a floating rate based on a specified index.

## Long-Term Debt (continued)

On April 28, 2005, the City issued Utilities System Commercial Paper Notes, Series C in the amount of \$31.0 million, to finance ongoing construction projects.

The System maintains ratings of Aa2 and AA with Moody's Investors Services and Standard & Poor's (SP), respectively for its revenue bonds. The System has ratings of A-1 and P-1 for its commercial paper.

Additional information on long-term debt can be found in Note 4 on pages 24 - 31 of this report.

**Financial Highlights.** The most significant changes in GRU's financial condition are summarized below:

- Operating sales revenue increased \$45.5 million, or approximately 18.9% and \$17.5 million, or approximately 7.9%, in fiscal 2006 and 2005, respectively. Included in this amount is approximately \$32 million and \$13.0 million associated with higher fuel costs incurred in fiscal 2006 and 2005, respectively. These higher fuel costs are passed directly through to our customers as part of a fuel adjustment charge which is recorded as revenue.
- Fiscal 2006 year end fuels payable decreased 2.4 million, or approximately 19.7%, compared to fiscal 2005 year end. The primary reason for this decrease is a reduction in coal inventory on hand at year end. At 2006 year end, there were 89,400 tons of coal in inventory, compared to 130,000 tons at fiscal 2005 year end. This reduction is partially offset by higher natural gas costs in 2006.
- Net capital contributions from developers decreased in fiscal 2006 over fiscal 2005 by \$329,000 and \$115,000 in fiscal 2005 over fiscal 2004. This drop in fiscal 2006 and 2005 is due to a leveling off of housing development in the area versus the increased activity seen in development in fiscal 2004.
- Gross utility plant in service increased \$30.5 million, or 2.9%, and net capital assets increased \$29.2 million, or 4.0% in fiscal 2006. In fiscal 2005, gross utility plant in service increased \$26.5 million, or 2.6%, and net capital assets increased \$22.4 million, or 3.1%. This is summarized under "Capital Assets",
- Long-term debt increased \$157.7 million, or 36.2%, in fiscal 2006, because of the issuance of Revenue Bonds totaling \$367 million, offset by refunding and paydown of other debt and scheduled paydown of principal. Long-term debt increased \$14.9 million, or 3.3%, in fiscal 2005 because of the issuance of Commercial Paper Notes totaling \$31.0 million, offset by scheduled debt paydown of principal. See "Long-Term Debt" on page 5, and the detail, on pages 24 - 31.
- The number of customers for electric, water, wastewater and gas services increased 1.4%, 2.7%, 2.6%, and 2.4% respectively, in fiscal 2006, and 1.8%, 3.2%, 3.4% and 3.6%, respectively, in fiscal 2005.
- GRU is in the process of remediation efforts at a former manufactured gas plant site. The costs incurred to date total \$3 million and GRU estimates that remaining costs of the project will be approximately \$9 million. However, to date GRU has recovered \$3.3 million from insurance, including \$450,000 of that total in fiscal 2005. After recognizing collection fees paid, a net recovery of \$2.2 million has been realized which will directly reduce the amount to be recovered through customer billings. GRU has accrued a regulatory asset and liability to account for the cost and cost recovery of the expense, which is being amortized as costs are incurred and customer revenues are received. Further explanation of this activity is presented in note 13, page 37 of this report.



**Financial Highlights (continued)**

- GRU's service area incurred approximately \$7.4 million of damage to its facilities as a result of two hurricanes in September 2004. Requests for Federal Emergency Management Agency (FEMA) funding have been submitted. \$4.4 million in storm-related expenses and \$3.0 million in capital replacements were accrued as part of fiscal 2004 activity and reported in current liabilities. In order to pay the unanticipated expenses associated with the hurricanes, GRU used Rate Stabilization funds; however, as FEMA reimbursements are received, those moneys are deposited back into the Rate Stabilization Fund. To date, \$6.8 million has been received, of which \$4.1 million has been deposited into the Rate Stabilization fund. \$2.7 million was used to cover capital expenditures. An additional recovery of \$335,000 is anticipated.

**Currently Known Facts or Conditions that May Have a Significant Effect on GRU's Financial Condition or Results of Operations**

The primary factors affecting the utility industry include environmental regulations, restructuring of the wholesale energy market, the formation of independent bulk power transmission systems and the increasing strategic and price differences among various types of fuels.

Utilities, and particularly electric utilities, are subject to increasing federal, state and local statutory and regulatory requirements with respect to the siting and licensing of facilities, safety and security, air and water quality, land use and other environmental factors.

The system's Deerhaven and JR Kelly generating stations are subject to Clean Air Interstate Rule (CAIR) and Clean Air Mercury Rule (CAMR) which were promulgated in 2005. As a result, significant capital and operating and maintenance expenditures will be required prior to 2009 and 2010.

Restructuring of wholesale markets and the formation of independent transmission systems has slowed considerably. No state legislation is pending or proposed at this time for retail competition in Florida. Any such restructuring of the Florida retail electric utility industry would be expected to affect the System.

On October 1, 2006, GRU implemented a 14% revenue requirement increase in the electric system to be recovered across all classes. The customer charge for all classes and all service was increased to the cost of service.

GRU also increased rates for both the water and wastewater systems by 25%. Fire hydrants for the University of Florida were rolled into the base rates, to complete the roll-in of hydrants to base rates to the General Service customers in 2006.

There were no changes in gas rates.

To meet increased costs of service, GRU also increased water and wastewater connection fees 77% and 33%, respectively.

The rate increases noted above may affect the financial condition and results of operations.

The emerging role of municipalities as telecommunications providers has resulted in a number of state-level legislative initiatives across the nation to curtail this activity. In Florida, this has culminated in the passage of SB1322. Although the system has special status as a grandfathered entity under this legislation, there are some implications should GRUCom seek to expand into additional areas of service.

## **Currently Known Facts or Conditions that May Have a Significant Effect on GRU's Financial Condition or Results of Operations (continued)**

GRU currently forecasts the need for new electric supply by about 2013, in order to maintain a 15% reserve margin. This is later than previous studies had indicated due to the incorporation of additional direct load control and Demand Side Management (DSM) into the System's integrated resource plan as well as more conservative customer growth and sales forecasts. In 2002, GRU initiated an Integrated Resource Planning (IRP) process to investigate options to satisfy its customer demand and supply needs. In early 2005, Management proposed to the City Commission an IRP comprised of DSM programs; additional solid fuel capacity able to use a mix of coal, petroleum coke, and biomass; and a greenhouse gas fund to develop local carbon offsets. The Commission has reviewed the proposals and had two separate individual consultants. In 2006 the Commission voted and gave Management direction for developing the System's long-term energy supply plan, consisting of two key components. The first is to pursue all cost-effective and feasible DSM measures. The second component is to develop additional generation capacity for the balance of the System's needs, to be provided as follows: (i) construction of a relatively small (100MW or less), fuel flexible, solid fuel facility at the Deerhaven Station plant site capable of utilizing up to 100% biomass as fuel; (ii) construction of an F-class integrated gasification combined cycle unit at the Deerhaven Station plant site of roughly 260 MW, preferably able to employ biomass as well as coal and petroleum coke; and/or (iii) participation in another unit not constructed at the Deerhaven Station plant site. Management was requested to return to the Commission with a recommendation in six to nine months.

On December 10, 1998, the City entered into a lease/leaseback transaction for all of the Deerhaven Unit 1 and a substantial portion of the Deerhaven Unit 2 generating facilities. Under the terms of the transaction, the City entered into a 38-year lease and simultaneously a 20-year leaseback. At the end of the leaseback period term, the City has an option to buy out the remainder of the lease for a fixed purchase option amount.

Under the terms of the transaction, the City continues to own, operate, maintain and staff the facilities.

The proceeds received by the City from this transaction were approximately \$249 million. From these proceeds, GRU deposited \$142 million as a payment undertaking agreement and a second deposit of \$72 million in the form of a collateralized Guaranteed Investment Contract (GIC), both with an AAA rated insurance company. The deposit instruments will mature in amounts sufficient to meet the annual payment obligations under the leaseback including the end of term fixed purchase option if elected by GRU.

The net benefit of this transaction, after payment of transaction expenses, was approximately \$35 million and resulted in a deferred gain, which is being amortized as income on a straight-line basis over the leaseback period of 20 years.

On May 17, 2006, President Bush signed into law an act entitled the "Tax Increase Prevention and Reconciliation Act of 2005" (the "Act"). Among other provisions, the Act imposes an excise tax on certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions (including the City). The City currently is evaluating this legislation. At this time, the magnitude of any excise tax that the City may owe under the Act (as a result of having entered into the lease/leaseback transaction) is uncertain because, among other reasons, the Act fails to define important terms relating to the application and measurement of the tax. Accordingly, the City is unable to determine at this time whether the imposition of the excise tax will have a material adverse effect on its results of utility operations or financial condition.

GRU currently carries a reserve balance of \$2.25 million, primarily for possible liability related to the oil contamination at the Kelly Generating Station. In July Of 2006, GRU was notified by the Florida Department of Environmental Protection, FDEP, that provisions of Chapter 62-780, F.A.C. must be complied with on this site. This Rule is currently being utilized to establish a process and time schedule for assessment and remediation of the site. GRU's liability utilizing this Rule is unknown and cannot be reasonable estimate at this time. Therefore, GRU will make no changes to the reserve balance until further information is received and a reasonable estimate can be established.

### **Requests for Information**

This financial report is designed to provide a general overview of the Utility System's finances for all those with an interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, City of Gainesville Regional Utilities, P.O. Box 147117, Station A-105, Gainesville, FL 32614-7117.

## Report of Independent Certified Public Accountants

The Honorable Mayor and  
Members of the City Commission  
City of Gainesville, Florida

We have audited the accompanying balance sheets of Gainesville Regional Utilities (a department of the City of Gainesville, Florida) as of September 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Gainesville Regional Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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. We were not engaged to perform an audit of Gainesville Regional Utilities' internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Gainesville Regional Utilities' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

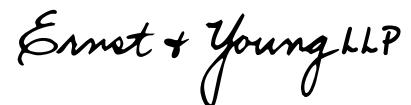
As discussed in Note 1, the financial statements present only Gainesville Regional Utilities (the Combined Utility Fund of the City of Gainesville, Florida) and are not intended to present fairly the financial position of the City of Gainesville, Florida, or the changes in its financial position and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gainesville Regional Utilities as of September 30, 2006 and 2005, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2006, on our consideration of Gainesville Regional Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The supplementary information included in the accompanying supplemental schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



November 17, 2006

Gainesville Regional Utilities  
Balance Sheets

	<b>September 30</b>	
	<b>2006</b>	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	<b>\$ 4,678,783</b>	\$ 1,435,928
Accounts receivable, net of allowance for uncollectible accounts of \$1,499,741 in 2006 and \$1,049,992 in 2005.	<b>40,976,035</b>	36,437,195
Prepaid rent – lease/leaseback	<b>10,686,909</b>	10,686,909
Fuels contracts	<b>1,906,469</b>	4,844,014
Deferred charges	<b>8,746,370</b>	4,784,233
Inventories:		
Fuel	<b>9,768,662</b>	9,825,661
Materials and supplies	<b>9,012,292</b>	7,411,188
Total current assets	<b>85,775,520</b>	75,425,128
Restricted assets:		
Utility deposits – cash and investments	<b>4,362,713</b>	3,900,543
Debt service – cash and investments	<b>25,297,802</b>	21,974,746
Rate stabilization – cash and investments	<b>54,638,485</b>	50,984,006
Construction Fund – cash and investments	<b>135,641,205</b>	10,566,567
Utility plant improvement fund – cash and investments	<b>19,240,324</b>	29,104,500
Investment in The Energy Authority	<b>2,528,440</b>	2,251,685
Decommissioning reserve – cash and investments	<b>6,799,280</b>	6,181,620
Total restricted assets	<b>248,508,249</b>	124,963,667
Prepaid rent – lease/leaseback	<b>119,337,150</b>	130,024,059
Other noncurrent assets	<b>16,840,667</b>	15,524,360
Capital assets:		
Utility plant in service	<b>1,084,222,648</b>	1,057,056,211
Plant unclassified	<b>9,063,632</b>	5,720,667
Less: accumulated depreciation and amortization	<b>462,382,543</b>	435,022,865
	<b>630,903,737</b>	627,754,013
Plant held for future use	<b>6,053,926</b>	6,053,926
Construction in progress	<b>124,581,507</b>	98,552,735
Net capital assets	<b>761,539,170</b>	732,360,674
Total assets	<b>\$ 1,232,000,756</b>	\$ 1,078,297,888

*Continued on next page.*

Gainesville Regional Utilities  
Balance Sheets (continued)

	<b>September 30</b>	
	<b>2006</b>	<b>2005</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Fuel payable	<b>\$ 9,750,092</b>	\$ 12,134,923
Accounts payable and accrued liabilities	<b>10,142,233</b>	2,850,419
Operating lease - lease/leaseback	<b>12,461,916</b>	12,461,916
Deferred credits	<b>15,666,529</b>	6,367,311
Due to other funds	<b>3,012,110</b>	4,755,711
Total current liabilities	<b>51,032,880</b>	38,570,280
Payable from restricted assets:		
Utility deposits	<b>4,502,113</b>	4,041,439
Rate stabilization deferred credit	<b>54,638,482</b>	50,984,006
Construction fund:		
accounts payable and accrued liabilities	<b>207,720</b>	2,877,580
Debt payable – current portion	<b>13,015,000</b>	16,536,750
Accrued interest payable	<b>12,205,931</b>	8,411,103
Total payable from restricted assets	<b>84,569,246</b>	82,850,878
Long-term debt:		
Utilities system revenue bonds	<b>541,850,000</b>	289,550,000
Subordinated utilities system revenue bonds	<b>65,300,000</b>	68,500,000
Commercial paper notes	-	92,770,500
Unamortized loss on refinancing	<b>(26,071,113)</b>	(24,647,778)
Unamortized bond premium\discount	<b>11,235,855</b>	8,809,829
Total long-term debt	<b>592,314,742</b>	434,982,551
Operating lease – lease/leaseback	<b>139,147,397</b>	151,608,509
Other noncurrent liabilities	<b>18,059,220</b>	18,130,579
Total liabilities	<b>885,123,485</b>	726,142,797
Net assets:		
Invested in capital assets, net of related debt	<b>299,811,373</b>	297,055,621
Restricted	<b>41,399,503</b>	48,187,290
Unrestricted	<b>5,666,395</b>	6,912,180
Total net assets	<b>346,877,271</b>	352,155,091
Total liabilities and net assets	<b>\$ 1,232,000,756</b>	\$ 1,078,297,888

*See accompanying notes.*

Gainesville Regional Utilities  
Statements of Revenues, Expenses and Changes in Net Assets

	<b>Year ended September 30</b>	
	<b>2006</b>	<b>2005</b>
Operating revenue:		
Sales and service charges	<b>\$ 285,356,101</b>	\$ 239,901,044
Transfers from/(to) rate stabilization	<b>(5,585,261)</b>	3,972,826
Other operating revenue	<b>10,268,167</b>	8,342,803
Total operating revenue	<b>290,039,007</b>	252,216,673
Operating expenses:		
Operation and maintenance	<b>188,648,249</b>	152,246,424
Administrative and general	<b>26,501,727</b>	25,372,471
Depreciation and amortization	<b>38,548,308</b>	38,554,797
Total operating expenses	<b>253,698,284</b>	216,173,692
Operating income	<b>36,340,723</b>	36,042,981
Non-operating income (expense):		
Interest income	<b>10,024,843</b>	4,389,747
Interest expense, net of AFUDC	<b>(26,919,503)</b>	(19,445,194)
Gain/(loss) on sale of investments	<b>-</b>	(167,756)
Total non-operating expense	<b>(16,894,660)</b>	(15,223,203)
Income before contributions and transfers	<b>19,446,063</b>	20,819,778
Capital contributions:		
Contributions from developers	<b>4,933,594</b>	5,227,336
Reduction of plant costs recovered through contributions	<b>(226,440)</b>	(191,028)
Net capital contributions	<b>4,707,154</b>	5,036,308
Operating transfer to City of Gainesville General Fund	<b>(29,431,037)</b>	(27,279,644)
Change in net assets	<b>(5,277,820)</b>	(1,423,558)
Net assets – beginning of year	<b>352,155,091</b>	353,578,649
Net assets – end of year	<b>\$ 346,877,271</b>	\$ 352,155,091

*See accompanying notes.*

Gainesville Regional Utilities  
Statements of Cash Flows

	<b>Year ended September 30</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 281,277,935	\$ 235,852,561
Cash payments to suppliers for goods and services	(158,488,664)	(134,267,782)
Cash payments to employees for services	(46,384,562)	(45,044,540)
Cash payments for operating transactions with other funds	(7,758,806)	(8,604,599)
Other operating receipts	2,908,703	10,541,426
Net cash provided by operating activities	<u>71,554,606</u>	<u>58,477,066</u>
<b>Cash flows from noncapital financing activities</b>		
Transfers to other funds	(29,431,037)	(27,279,644)
Net cash used in noncapital financing activities	<u>(29,431,037)</u>	<u>(27,279,644)</u>
<b>Cash flows from capital and related financing activities</b>		
Principal repayments on long-term debt	(214,172,250)	(16,252,500)
Interest paid on long-term debt	(31,717,022)	(20,826,831)
Other receipts	115,679	85,131
Acquisition and construction of fixed assets (including allowance for funds used during construction)	(51,831,018)	(47,009,854)
Proceeds from new debt and commercial paper	366,980,000	31,000,000
Cash received for connection charges	5,040,201	3,385,879
Net cash used in capital and related financing activities	<u>74,415,589</u>	<u>(49,618,175)</u>
<b>Cash flows from investing activities</b>		
Interest received	6,029,922	3,305,496
Purchase of investments	(617,916,567)	(245,158,401)
Investment in The Energy Authority	(1,200,000)	(1,161,361)
Distributions from The Energy Authority	923,245	896,881
Proceeds from investment maturities	479,977,545	262,172,155
Net cash provided by/(used in) investing activities	<u>(132,185,855)</u>	<u>20,054,770</u>
Net change in cash and cash equivalents	(15,646,697)	1,634,017
Cash and cash equivalents, beginning of year	32,186,051	30,552,034
Cash and cash equivalents, end of year	<u>\$ 16,539,354</u>	<u>\$ 32,186,051</u>

*Continued on next page.*



Gainesville Regional Utilities  
Statements of Cash Flows (continued)

	Year ended September 30	
	2006	2005
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 36,340,723	\$ 36,042,981
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	38,548,308	38,554,797
Operating lease - lease/leaseback revenue	(1,774,203)	(1,774,203)
Increase (decrease) in cash attributable to change in assets and liabilities:		
Receivables	(4,538,840)	(4,239,744)
Prepaid expenses	2,937,545	(1,750,445)
Inventories	(1,544,105)	(2,500,805)
Deferred charges	(596,596)	9,334,615
Accounts payable and accrued liabilities	2,237,123	2,563,788
Due to other funds	(1,743,601)	633,806
Utility deposits	460,674	191,261
Other liabilities and deferred credits	1,227,578	(18,578,985)
Net cash provided by operating activities	\$ 71,554,606	\$ 58,477,066

**Noncash, investing, capital and financing activities**

Utility plant contributed by developers in aid of construction was \$4,707,154 and \$5,036,308 in 2006 and 2005, respectively.

*See accompanying notes.*

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2006 and 2005

**1. Summary of Significant Accounting Policies**

**Organization**

Gainesville Regional Utilities (GRU or the Utility) is a combined municipal utility system operating electric, natural gas, water, wastewater, and telecommunications (GRUCom) utilities. GRU consists of the combined Utility Funds of the City of Gainesville, Florida (City). GRU is a unit of the City and, accordingly, the financial statements of GRU are included in the annual financial reports of the City.

**Basis of Accounting**

The financial statements are presented on the accrual basis of accounting. Under this basis, revenues are recognized in the period earned and expenses are recognized in the period incurred. GRU applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, in accounting for and reporting its operations. In accordance with government accounting standards, GRU has elected not to apply FASB pronouncements issued after that date. In accordance with the Utilities System Revenue Bond Resolution as Supplemented and Amended (Bond Resolution), rates are designed to cover operating and maintenance expense, debt service and other revenue requirements, which exclude depreciation expense and other noncash expense items. This method of rate setting results in costs being included in the determination of rates in different periods than when these costs are recognized for financial statement purposes. The effects of these differences are recognized in the determination of net income in the period that they occur, in accordance with GRU's accounting policies. GRU has adopted the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and substantially all provisions of the National Association of Regulatory Utility Commissioners (NARUC). Rates are approved annually by the City Commission.

**Gainesville Regional Utilities reports net assets in the following classifications:**

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted – This component of net assets consists of net assets subject to external constraints on their use imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – 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.”

Gainesville Regional Utilities  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies (continued)**

**Use of Estimates**

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

**Investments**

Investments are reported at fair value in the balance sheets based on quoted market prices. All short-term commercial paper with maturities less than one year have been reported at cost which approximates fair value. During fiscal 2005, GRU implemented GASB Statement No. 40, Deposit and Investment Disclosures, an amendment to GASB Statement No. 3. GASB Statement No. 40 modified some of the disclosure requirements related to deposits and investments. More information is provided in Note 5, "Deposits and Investments".

**Risk Management / Futures and Options Contracts**

GRU conducts a risk management program with the intent of reducing the impact of fuel price spikes for its customers. The program utilizes futures and options contracts that are traded on the New York Mercantile Exchange (NYMEX) so that prices may be fixed or reduced for given volumes of gas that the utility projects to consume during a given production month. Based on feedback and direction from GRU's Risk Oversight Committee, consultation and recommendations from reputable risk management sources, and close monitoring of the market on a daily basis, GRU makes every effort to take reasonable steps to minimize the customers' exposure to fuel spikes while, at the same time, attempting to reduce costs.

The information below provides a summary of results based on GRU's risk management activity during Fiscal Years 2006 and 2005.

	<b>September 30</b>	
	<b>2006</b>	2005
Deposits	\$ 7,791,350	\$ 5,452,103
Unrealized Gain/(Loss)	\$ (5,884,880)	\$ (608,089)
Net Investment in Derivatives	<b>1,906,470</b>	4,844,014

Gains or losses from hedging transactions are applied to GRU's monthly fuel expenses as an offset to fuel cost when realized. Unrealized gains and losses related to hedging positions are deferred under the rate-setting policy. During fiscal years 2006 and 2005, GRU recognized losses of \$4.8 million and gains of \$1.3 million, respectively.

Gainesville Regional Utilities  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies (continued)**

**Inventories**

Inventories are stated at cost using the weighted average unit cost method for materials, and the last-in, first-out (LIFO) method for fuel. Obsolete and unusable items are reduced to estimated salvage values. The cost of fuel used for electric generation is charged to expense as consumed.

**Capital Assets**

Property and equipment are recorded at cost. Maintenance and repairs are charged to operating expense as incurred. The average cost of depreciable plant retired is eliminated from the plant accounts and charged to accumulated depreciation. Associated cost of removal net of salvage is charged to depreciation expense as incurred.

Plant unclassified includes property and equipment related to projects placed into service that have not been classified in the related asset category within utility plant in service.

**Depreciation and Nuclear Generating Plant Decommissioning**

An independent evaluation of GRU's depreciation rates and accumulated reserve was performed by an outside consultant in 2004. The study recommended an update to depreciation rates and allowance reserve balances. Depreciation of utility plant is computed using the straight-line method over estimated service lives ranging from 6 to 50 years. GRU implemented the recommended rates in fiscal 2005. This change adjusted the overall depreciation rate to 3.27% of average depreciable property for 2005. In fiscal 2006, the rate was 3.22%. Depreciation expense includes a provision for decommissioning costs related to the jointly-owned nuclear power plant (see Note 6).

The cost of nuclear fuel, including estimated disposal cost, is amortized to fuel expense based on the quantity of heat produced for the generation of electric energy in relation to the quantity of heat expected to be produced over the life of the nuclear fuel core. These costs are charged to customers through the fuel adjustment clause.

Gainesville Regional Utilities  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies (continued)**

**Revenue Recognition**

Revenue is recorded as earned. GRU accrues for services rendered but unbilled, which amounted to approximately \$17,210,000 and \$15,891,000 for 2006 and 2005, respectively. Fuel adjustment revenue is recognized based on the actual fuel costs. Amounts charged to customers for fuel are based on estimated costs, which are adjusted for any differences between the actual and estimated costs once actual fuel costs are known. If the amount recovered through billings exceeds actual fuel costs, GRU records deferred fuel as a liability. If the amount recovered through billings is less than the actual fuel costs, GRU records deferred fuel as an asset, for amounts to be collected through future rates. As of September 30, deferred fuel costs were a receivable in 2006 of \$1,152,000 and \$2,394,000 in 2005. The deferred fuel balances are reported as part of current deferred charges on the balance sheets.

**Transactions with the City of Gainesville**

As an enterprise fund of the City of Gainesville, transactions occur between GRU and the City's governmental funds throughout the year in the ordinary course of operations. Below is a summary of significant transactions:

Administrative Services – GRU is billed monthly for various administrative and insurance services provided by the City's governmental functions. In FY2006, GRU paid \$1.4 million for joint services.

Nonmetered and Metered Service Charges – GRU bills the City's governmental funds on a monthly basis for all nonmetered, metered and other administrative services. In FY2006, GRU billed the City \$4 million for these services.

Transfers to the general fund – GRU budgets an annual transfer to the general fund based on a City Commission approved formula. See Note 11 for details.

**Funds in Accordance with Bond Resolutions**

Certain restricted funds of GRU are administered in accordance with bond resolutions. These funds are as follows:

- Debt Service Fund
- Subordinated Indebtedness Fund
- Rate Stabilization Fund
- Construction Fund
- Utility Plant Improvement Fund

## Gainesville Regional Utilities Notes to Financial Statements

### **1. Summary of Significant Accounting Policies (continued)**

The Debt Service Fund accounts for funds accumulated to provide payment of principal and interest on or redeem outstanding debt.

The Subordinated Indebtedness Fund, grouped in the Debt Service Fund for financial reporting purposes, accounts for funds accumulated to pay principal and interest on subordinated indebtedness.

The Rate Stabilization Fund accounts for funds accumulated to stabilize rates over future periods through the transfer of funds to and from operations as necessary and to provide operating reserves for the Utility.

The Construction Fund accounts for funds accumulated for the cost of acquisition and construction of the system.

The Utility Plant Improvement Fund accounts for funds used to pay for certain capital projects or debt service, the purchase or redemption of bonds, or otherwise provide for the repayment of bonds.

When both restricted and unrestricted resources are available for use, it is GRU's policy to use restricted resources first, then unrestricted resources as they are needed.

### **Operating, Non-Operating Revenues**

GRU has defined operating revenue as that revenue which is derived from customer sales or service while non-operating revenues include interest on investments and any gain from the sale of such investments. Substantially all of GRU's revenues are pledged to the repayment of revenue bonds.

Gainesville Regional Utilities  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies (continued)**

**Allowance for Funds Used During Construction (AFUDC)**

An allowance for interest on borrowed funds used during construction of \$242,654 and \$306,000 in 2006 and 2005, respectively, is included in construction in progress and as a reduction of interest expense. These amounts are computed by applying the effective interest rate on the funds borrowed to finance the projects to the monthly balance of projects under construction. The effective interest rate was approximately 4.14%.

**Contributions in Aid of Construction**

GRU recognizes capital contributions to the water, wastewater and GRUCom divisions, from developers and other third parties as revenues in the period received. Contributions to the electric and gas divisions are also reported as capital contribution revenues; however, the related capital asset amounts are also expensed in the same period consistent with the requirements of the FERC Uniform System of Accounts.

**Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, bank demand accounts, and overnight repurchase agreements.

**Unamortized Loss on Refinancing**

Losses resulting from the refinancing of bonds are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

## Gainesville Regional Utilities Notes to Financial Statements

### **2. Rates and Regulation**

GRU's rates are established in accordance with the Utilities System Bond Resolution and the Utilities System Subordinated Bond Resolution as adopted and amended. Under these documents, rates are set to recover Operation and Maintenance Expenses, Debt Service, Utility Plant Improvement Fund contributions and costs for any other lawful purpose such as the General Fund Transfer.

Each year during the budgeting process, and at any other time necessary, the City Commission approves rate changes and other changes to GRU's charges.

GRU's cost of fuel for the electric and natural gas systems is passed directly through to its customers. Each month, GRU staff estimates the cost of fuel and consumption for both the electric and natural gas systems. These estimates are combined with a true-up for actual costs from previous months into a current-month electric fuel adjustment and natural gas purchased gas adjustment. Amounts overbilled or underbilled are passed along to customers and are either accrued or deferred at year-end.

The Florida Public Service Commission does not regulate rate levels in any of GRU's utilities. They do, however, have jurisdiction over rate structure for the electric system.

Currently, GRU prepares its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, and records various regulatory assets and liabilities. For a company to report under SFAS No. 71, the company's rates must be designed to recover its costs of providing services, and the company must be able to collect those rates from customers. If it were determined, whether due to competition or regulatory action, that these standards no longer applied, GRU could be required to write off its regulatory assets and liabilities. Management believes that GRU currently meets the criteria for continued application of SFAS No. 71, but will continue to evaluate significant changes in the regulatory and competitive environment to assess continuing applicability of the criteria.



Gainesville Regional Utilities  
Notes to Financial Statements

**3. Capital Assets and Changes in Accumulated Depreciation**

A summary of capital assets, changes in accumulated depreciation and related depreciation provisions expressed as a percentage of average depreciable plant follows:

	Plant in Service						Combined
	Treatment	Generation	Transmission, Distribution and Collection	General	Unclassified	CWIP/Plant held for Future Use	
Balance, October 1, 2005	\$ 109,031,512	\$ 360,244,726	\$ 523,819,973	\$ 63,959,999	\$ 5,720,667	\$ 104,606,662	\$ 1,167,383,539
Capital additions and transfers	782,605	92,443	30,889,786	2,624,469	37,732,268	64,516,373	136,637,944
Sales, retirements and transfers	136,306	6,061,115	1,025,447	-	34,389,303	38,487,601	80,099,772
Balance, September 30, 2006	\$ 109,677,811	\$ 354,276,054	\$ 553,684,312	\$ 66,584,468	\$ 9,063,632	\$ 130,635,434	\$ 1,223,921,711
Accumulated depreciation, October 1, 2005	\$ 41,111,765	\$ 186,246,835	\$ 173,641,541	\$ 33,759,461	\$ 263,263	n/a	\$ 435,022,865
Depreciation expense	3,778,329	9,677,138	16,663,566	4,250,193	359,879	n/a	34,729,105
Retirements/adjustments	136,306	6,060,425	1,024,624	(115,191)	263,263	n/a	7,369,427
Accumulated depreciation, September 30, 2006	\$ 44,753,788	\$ 189,863,548	\$ 189,280,483	\$ 38,124,845	\$ 359,879	n/a	\$ 462,382,543
Average depreciation rate	3.46%	2.71%	3.09%	6.51%	4.87%	n/a	3.22%

	Plant in Service						Combined
	Treatment	Generation	Transmission, Distribution and Collection	General	Unclassified	CWIP/Plant held for Future Use	
Balance, October 1, 2004	\$ 106,485,440	\$ 353,036,776	\$ 508,717,127	\$ 62,905,397	\$ 5,177,664	\$ 79,014,973	\$ 1,115,337,377
Capital additions and transfers	3,361,175	8,067,277	16,893,468	2,453,415	31,318,339	57,935,455	120,029,129
Sales, retirements and transfers	815,103	859,327	1,790,622	1,398,813	30,775,336	32,343,766	67,982,967
Balance, September 30, 2005	\$ 109,031,512	\$ 360,244,726	\$ 523,819,973	\$ 63,959,999	\$ 5,720,667	\$ 104,606,662	\$ 1,167,383,539
Accumulated depreciation, October 1, 2004	\$ 38,194,156	\$ 177,341,277	\$ 159,043,942	\$ 30,748,406	n/a	n/a	\$ 405,327,781
Depreciation expense	3,732,712	9,764,885	16,388,221	4,179,478	263,263	n/a	34,328,559
Retirements/adjustments	815,103	859,327	1,790,622	1,168,423	n/a	n/a	4,633,475
Accumulated depreciation, September 30, 2005	\$ 41,111,765	\$ 186,246,835	\$ 173,641,541	\$ 33,759,461	\$ 263,263	n/a	\$ 435,022,865
Average depreciation rate	3.46%	2.74%	3.17%	6.59%	4.83%	n/a	3.27%

Gainesville Regional Utilities  
Notes to Financial Statements

**4. Long-Term Debt**

Long-term debt outstanding at September 30, 2006 and 2005, consisted of the following:

	September 30	
	2006	2005
<u>Utilities System Revenue Bonds:</u>		
Series 1983 (1983 Bonds)- interest payable semi-annually to October 1, 2014 at a rate of 6.0%	\$ 4,675,000	\$ 4,675,000
1992 Series B (1992 B Bonds)- interest payable semi-annually to October 1, 2013 at various rates between 6.5% and 7.5%	24,630,000	24,630,000
1996 Series A (1996 A Bonds) - interest payable semi-annually to October 1, 2026 at rates between 5% and 5.75%	13,315,000	120,750,000
2002 Subordinated Series A (2002 Series A)- interest at variable rates; 3.45% at September 30, 2006	28,500,000	31,600,000
2002 Subordinated Series B (2002 Series B)- interest at variable rates; 3.50% at September 30, 2006	40,000,000	40,000,000
2003 Series A (2003 A Bonds)- interest payable semi-annually to October 1, 2024 at rates between 4.625% and 5.25%	33,000,000	33,000,000
2003 Series B (2003 B Bonds)- interest payable semi-annually to October 1, 2013 at a 4.4% interest rate (Federally Taxable)	6,350,000	7,000,000
2003 Series C (2003 C Bonds)- interest payable semi-annually to October 1, 2013 at rates between 4.0% and 5.0%	102,715,000	108,880,000
2005 Series A (2005 A Bonds) - interest payable semi-annually to October 1, 2036 at rates between 4.75% and 5.0%	196,950,000	-
2005 Series B (2005 B Bonds) - interest payable semi-annually to October 1, 2021 at rates between 5.14% and 5.31%	61,590,000	-
2005 Series C (2005 C Bonds) - interest payable semi-annually to October 1, 2026, interest at variable market rates; 3.83% at September 30, 2006	55,135,000	-
2006 Series A (2006 A Bonds) - interest payable semi-annually to October 1, 2026, interest at variable market rates; 3.86% at September 30, 2006	53,305,000	-
Utilities System Commercial Paper Notes, Series C (C Notes), interest at variable market rates; 2.65% at September 30, 2005	-	80,591,250
Utilities System Taxable Commercial Paper Notes, Series D (D Notes), interest at variable market rates; 3.76% at September 30, 2005	-	16,231,000
	<b>620,165,000</b>	467,357,250
Current portion of long-term debt	<b>(13,015,000)</b>	(16,536,750)
Unamortized loss on refinancing	<b>(26,071,113)</b>	(24,647,778)
Unamortized premium\discount	<b>11,235,855</b>	8,809,829
Total long-term debt	<b>\$ 592,314,742</b>	<b>\$ 434,982,551</b>

Gainesville Regional Utilities  
Notes to Financial Statements

**4. Long-Term Debt (continued)**

The 1983 Bonds mature on October 1, 2014. Those Bonds are subject to redemption at the option of the City as a whole at any time or in part on any interest payment date, at a redemption price of 100% plus accrued interest to the date of redemption.

The 1992B Bonds mature at various dates from October 1, 2001 to October 1, 2017. Those bonds maturing on or after October 1, 2004 to October 1, 2007, amounting to \$14.3 million were redeemed at the option of the City on October 1, 2002.

The 1996A Bonds matured at various dates through October 1, 2026. Those Bonds maturing on or after October 1, 2010 were subject to redemption at the option of the City on or after October 1, 2006 as a whole or in part at any time at a redemption price of 102% in 2006, 101% in 2007, and 100% thereafter. In August 2003, the 2003C Utility System Revenue Bonds were issued to advance-refund to the maturity dates a portion of the bonds maturing from October 1, 2004 through October 1, 2008 (\$6.235 million). The bonds were defeased, in substance, and will be paid from escrowed funds. There were \$3,950,000 in defeased bonds outstanding as of September 30, 2006. In November 2005, the 2005 Series C Bonds (\$53,190,000) were issued to advance-refund to the maturity dates a portion of the bonds maturing from October 1, 2010 to October 1, 2026. In July 2006, the 2006 Series A Bonds (\$51,675,000) were issued to refund to the maturity dates the remainder of the bonds maturing from October 1, 2010 to October 1, 2026. The proceeds related to the refunded Bonds for both series were deposited into an escrow account to refund the Bonds on October 1,

The 2002A Subordinated Utilities System Revenue Bonds mature on October 1, 2017. The 2002B Subordinated Utility System Revenue Bonds mature on October 1, 2032. The 2002A and 2002B Series Bonds were issued as multi-modal variable interest-rate bonds, initially issued as variable-rate auction notes. As such, interest rates are reset by an auction process each 35 days based on market rates. Payment of principal and interest of the 2002A and 2002B Series Subordinated Bonds when due are insured by a municipal bond insurance policy issued by Financial Security Assurance. While in the variable auction-rate mode, the bonds may be redeemed at the option of the City in whole or in part on any interest payment date immediately following the end of an auction period without premium.

The 2003A Utilities System Revenue Bonds mature on various dates from October 1, 2015 through October 1, 2033. The 2003B Bonds mature on various dates from October 1, 2005 through October 1, 2013. The 2003A Bonds maturing on or after October 1, 2013 are subject to redemption at the option of the City on or after October 1, 2013 at 100%. The 2003B Bonds maturing are not subject to redemption prior to maturity. The 2003C Utilities System Revenue Bonds mature at various dates from October 1, 2004 to October 1, 2013. The 2003C bonds are not subject to redemption prior to maturity.

## Gainesville Regional Utilities Notes to Financial Statements

### 4. Long-Term Debt (continued)

On November 16, 2005, the City issued Utilities System Revenue Bonds, Series 2005A, 2005B, and 2005C in the amounts of \$196,950,000, \$61,590,000, and \$55,135,000 respectively. The 2005A Bonds were issued to (a) pay a portion of the cost of acquisition and construction of certain improvements of the City's electric, natural gas, water, wastewater and telecommunications systems and (b) to refund the City's Utilities System Commercial Paper Notes, Series C. The 2005B Bonds were issued to (a) pay a portion of the cost of acquisition and construction of certain improvements to the System and (b) to refund the City's Utilities System Commercial Paper Notes, Series D. The 2005C Bonds were issued to refund a portion of the City's outstanding Utilities System Revenue Bonds, 1996 Series A. The 2005A Bonds mature on various dates from October 1, 2021 to October 1, 2036. The 2005B Bonds mature on various dates from October 1, 2015 to October 1, 2021. The 2005C Bonds mature on various dates from October 1, 2010 to October 1, 2026. The 2005A Bonds will be subject to redemption at the option of the City on and after October 1, 2015 as a whole or in part at any time, at a redemption price of 100% of the principal amount, plus accrued interest to the date of redemption. The 2005B Bonds will be subject to redemption prior to maturity at the option of the City, in whole or in part, on any date, at a redemption price equal to the greater of: (i) 100% of the principal amount of the Bonds to be redeemed, plus accrued and unpaid interest on the Bond; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2005C Bonds will be subject to redemption prior to maturity at the election of the City at a redemption price of 100 percent of the principal amount plus accrued interest. The 2005C Bonds created a net present value savings of over \$6,700,000, with yearly cash savings ranging from approximately \$370,000 to over \$1,085,000.

On July 6, 2006, the City issued Utilities System Revenue Bonds, Series 2006A in the amount of \$53,305,000. The 2006A Bonds mature on various dates from October 1, 2010 to October 1, 2026. The 2006A Bonds were issued to refund a portion of the City's outstanding Utilities System Revenue Bonds, 1996 Series A and to pay costs of acquisition and construction of the City's utilities system. The 2006A Bonds will be subject to redemption prior to maturity at the election of the City as follows, in whole or in part, at a redemption price of 100 percent of the principal amount plus accrued interest to the redemption date. The 2006A Bonds created a net present value savings of over \$6,200,000, with yearly cash savings ranging from approximately \$371,000 to over \$890,000.

Utilities System Commercial Paper Notes, Series C Notes (tax-exempt) in a principal amount not to exceed \$85 million may continue to be issued to refinance maturing Series C Notes or provide for other costs. Liquidity support for the Series C Notes is provided under a long-term credit agreement dated as of March 1, 2000 with Bayerische Landesbank Girozentrale. This agreement has been extended to November 30, 2015. The obligation of the bank may be substituted by another bank which meets certain credit standards and which is approved by GRU and the Agent. Under the terms of the agreement, GRU may borrow up to \$85 million with same day availability ending on the termination date, as defined in the agreement. Series C Notes of \$80.6 million and \$3.2 million were redeemed during 2006 and 2005, respectively. There are no Series C Notes outstanding as of September 30, 2006.

Gainesville Regional Utilities  
Notes to Financial Statements

**4. Long-Term Debt (continued)**

In June 2000, a Utilities System Commercial Paper Note Program, Series D (taxable) was established in a principal amount not to exceed \$25 million. Liquidity support for the Series D Notes is provided under a long-term credit agreement dated June 1, 2000 with SunTrust Bank. This agreement has been extended to July 23, 2008. The obligation of the bank may be substituted by another bank that meets certain credit standards and is approved by GRU. Under the terms of the agreement, GRU may borrow up to \$25 million with same day availability ending on the termination date, as defined in the agreement. Series D Notes of \$16.2 million and \$833,000 were redeemed during 2006 and 2005, respectively. There are no Series D Notes outstanding as of September 30, 2006.

**Gainesville Regional Utilities**  
**Notes to Financial Statements**

**4. Long-Term Debt (continued)**

GRU is required to make monthly deposits into separate accounts for an amount equal to the required share of principal and interest becoming payable for the revenue bonds on the payment dates of April 1 and October 1.

The following table lists the Debt Service requirements (principal and interest) on long-term debt outstanding at September 30, 2006:

<b>Period ending September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service Requirements <sup>(1)</sup></b>
2007	\$ 13,015,000	\$ 26,733,958	\$ 39,748,957
2008	18,555,000	28,462,918	47,017,918
2009	21,740,000	27,567,966	49,307,966
2010	22,930,000	26,375,625	49,305,625
2011	25,155,000	25,217,638	50,372,638
2012 – 2016	121,925,000	106,901,299	228,826,299
2017 – 2021	102,690,000	81,111,016	183,801,016
2022 – 2026	81,115,000	59,792,211	140,907,211
2027 – 2031	98,365,000	40,989,735	139,354,735
2032 – 2036	97,265,000	17,330,000	114,595,000
2037	17,410,000	826,975	18,236,975
	<b>\$ 620,165,000</b>	<b>\$ 441,309,340</b>	<b>\$ 1,061,474,340</b>

(1) – Interest rates on variable-rate long-term debt were valued to be equal to 3.45% for the 2002A Series Subordinated Bonds and 3.50% for the 2002B Series Subordinated Bonds. These are the rates in effect as of September 30, 2006.

Gainesville Regional Utilities  
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**4. Long-Term Debt (continued)**

The table below shows the changes in net long-term debt balances that occurred during the years ended September 30, 2006 and 2005.

	September 30	
	2006	2005
Long-term debt outstanding at beginning of year	\$ 434,982,551	\$ 418,696,515
Changes in long-term debt:		
Series 2005A TECP issued		31,000,000
Series 2005A issued	196,950,000	-
Series 2005B issued	61,590,000	-
Series 2005C issued	55,135,000	-
Series 2006A issued	53,305,000	-
Fixed rate debt redeemed - Senior Lien and Subordinated	(13,015,000)	(12,485,000)
TECP redeemed during the year	(77,372,500)	(3,218,750)
Taxable CP redeemed during the year	(15,398,000)	(833,000)
Series 1996A refunded	(104,865,000)	-
Change in unamortized loss/bond discount	1,002,691	1,822,786
Long-term debt outstanding at end of year	\$ 592,314,742	\$ 434,982,551
Current portion of long-term debt	\$ 13,015,000	\$ 16,536,750

Under the terms of the Bond Resolution relating to the sale of the Utilities System Revenue Bonds, payment of the principal and interest is secured by an irrevocable lien on GRU's net revenue (exclusive of any funds which may be established pursuant to the Bond Resolution for decommissioning and certain other specified purposes), including any investments and income thereof.

The Bond Resolution contains certain restrictions and commitments, including GRU's covenant to establish and maintain rates and other charges to produce revenue sufficient to pay operation and maintenance expenses, amounts required for deposit in the debt service fund, and amounts required for deposit into the utility plant improvement fund.

Gainesville Regional Utilities  
Notes to Financial Statements

**4. Long-Term Debt (continued)**

**Derivatives**

GRU is a party to certain interest rate swap agreements, which are not recorded in the financial statements. Following is a disclosure of key aspects of the agreements.

Objective of the interest rate swap. To protect against the potential of rising interest rates, the City has entered into three separate floating-to-fixed interest rate swap transactions.

Terms, fair values and credit risk. The terms, fair values and credit ratings of the outstanding swaps as of September 30, 2006, were as follows. The notional amounts of the swaps match the principal amounts of the associated debt.

Associated Bond Issue	2002A*	2005B*	2005C *
Notional Amounts	\$ 31,600,000	\$ 45,000,000	\$ 55,135,000
Effective Date	7/3/2002	11/16/2005	11/16/2005
Fixed Payer Rate	4.100%	BMA	3.200%
Variable Receiver Rate	BMA	77.14% of LIBOR	68% of LIBOR
Fair Value	\$ (390,529)	\$ 632,095	\$ (1,187,994)
Termination Date	10/1/2017	10/1/2021	10/1/2026
Counterparty Credit Rating	Aa3/A+/AA-	Aaa/AAA	A1/A/A+
Associated Bond Issue	2006 *	2008 *	2008 *
Notional Amounts	\$ 53,305,000	\$ 58,500,000	\$ 31,500,000
Effective Date	7/6/2006	2/1/2008	2/1/2008
Fixed Payer Rate	3.224%	4.222%	4.222%
Variable Receiver Rate	68% of 10 YR LIBOR	BMA	BMA
Fair Value	\$ 710,196	n/a	n/a
Termination Date	10/1/2026	10/1/2038	10/1/2038
Counterparty Credit Rating	Aaa/AAA	A1/A/A+	Aa3/A+/A+

\* See "basis risk" in Note 4, "Long-Term Debt" and Note 17, "Subsequent Event", for details.

Fair Value. Two of the swap agreements currently have a negative fair value as of September 30, 2006. Due to the low interest rate environment, as compared to the period when the swaps were entered into, our fixed payer rates currently exceed the variable receiver rates. This is anticipated to be a short term event. The remaining two swap agreements in place currently have a positive fair value as of September 30, 2006. These swaps are based on a different variable receiver rate, which is partially responsible to the difference in performance.



Gainesville Regional Utilities  
Notes to Financial Statements

**4. Long-Term Debt (continued)**

Swap payments and associated debt. Assuming interest rates remain the same at September 30, 2006, debt service requirements on the auction rate notes and the interest rate swap would be as follows:

Fiscal Year Ending Sept 30	Variable Rate		Fixed Rate		Interest Rate	Total
	Principal	Interest	Principal	Interest	Swaps, Net	
2007	\$ 3,200,000	\$ 4,410,715	\$ -	\$ 2,839,923	\$ (221,077)	\$ 10,229,561
2008	3,300,000	5,042,094	-	3,245,626	(232,597)	\$ 11,355,123
2009	-	4,928,244	-	3,207,076	(244,477)	\$ 7,890,843
2010	-	4,928,244	-	3,166,470	(244,477)	\$ 7,850,237
2011	5,890,000	4,928,244	-	3,123,808	(244,477)	\$ 13,697,575
2012-2016	43,590,000	20,963,108	6,260,000	14,896,870	(1,106,024)	\$ 84,603,954
2017-2021	53,310,000	10,572,052	36,585,000	8,132,796	(771,931)	\$ 107,827,917
2022-2026	24,565,000	2,855,683	2,155,000	204,435	(2,214,928)	\$ 27,565,190
2027	3,085,000	118,610	-	-	(4,558)	\$ 3,199,052
<b>TOTAL</b>	<b>\$ 136,940,000</b>	<b>\$ 58,746,994</b>	<b>\$ 45,000,000</b>	<b>\$ 38,817,004</b>	<b>\$ (5,284,546)</b>	<b>\$ 274,219,452</b>

Credit Risk. As of September 30, 2006, the fair value of the 2002A and 2005C swaps were negative, therefore the City is not subject to credit risk. However, the fair value of the 2005B and 2006 swaps are positive, exposing the City to credit risk in the amount of the derivative's fair value. To mitigate the potential for credit risk, the City has negotiated additional termination event and collateralization requirements in the event of a ratings downgrade. Failure to deliver the Collateral Agreement to the City as negotiated and detailed in the Schedule to the International Swap and Derivative Agreement (ISDA) for each counterparty would constitute and event of default with respect to that counterparty.

Basis Risk. The swaps expose the City to basis risk. The 2002A swap is exposed to the difference between the weekly BMA index and a 35-day rollover based on current market conditions. As a result, savings may not be realized. As of September 30, 2006, BMA was 3.74%, while the last 35-day rollover rate was 3.45%. The 2005B Swap is exposed to basis risk through the potential mismatch of 77.14% of LIBOR and the BMA rate. The swap for the 2005C Series is exposed to basis risk through the potential mismatch of 68% of 1-month LIBOR and the BMA rate. As of September 30, 2006, the one-month LIBOR rate was at 5.32% trading at approximately 70.30% of BMA. The swap for the 2006A Series is exposed to basis risk through the potential mismatch of 68% of 10-year LIBOR less .365% and the BMA rate. As of September 30, 2005, the 10-year LIBOR rate was 5.084%, while the BMA taded at at approximately 73.6% of of this rate.

Termination Risk. The swap agreement will be terminated at any time if certain events occur that result in one party not performing in accordance with the agreement. The swap can be terminated due to illegality, a credit event upon merger, or an event of default and illegality. The swap can also be terminated if credit ratings fall below established levels.

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**5. Deposits and Investments**

Deposits are held in qualified public depository institutions insured by the Federal Depository Insurance Corporation and, as required by the Bond Resolution, in banks, savings and loan associations, trust companies of the United States or national banking associations having capital stock, surplus and undivided earnings aggregating at least \$10 million.

In accordance with state laws and the Bond Resolution, GRU is authorized to invest in obligations which are unconditionally guaranteed by the United States of America or its agencies or instrumentalities, repurchase agreement obligations unconditionally guaranteed by the United States of America or its agencies, corporate indebtedness, direct and general obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (provided such obligations are rated by a nationally recognized bond rating agency in either of its two highest rating categories), public housing bonds, and certain certificates of deposit. Investments in corporate indebtedness must be rated in the highest rating category of a nationally recognized rating agency and in one of the two highest rating categories of at least one other nationally recognized rating agency.

As of September 30, 2006, GRU had the following investments and maturities (amounts are in thousands).

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities in Years</u>	
		<u>Less than 1</u>	<u>1-5</u>
Commercial Paper	\$ 85,470	\$ 85,470	\$ -
U.S. Agencies	141,411	104,714	36,697
<b>TOTAL</b>	<b>\$ 226,881</b>	<b>\$ 190,184</b>	<b>\$ 36,697</b>

Interest Rate Risk: GRU's investment policy limits its investments to securities with terms of ten years or less to reduce exposure to rising interest rates, unless investments are matched to meet specific cash flow needs. Additionally, the average portfolio term is not to exceed seven years. GRU's Bond Resolution further limits investments in the Utility Plant Improvement Fund and Rate Stabilization Fund to five years.

Credit Risk: GRU's investment policy and Bond Resolution limits investments in state and local taxable or tax exempt debt, corporate fixed income securities and other corporate indebtedness to investments that are rated by both Moody's and Standard and Poor's in either of their two highest rating categories. As of September 30, 2006, all of GRU's commercial paper investments were rated P-1 or better by Moody's Investors Services and/or A-1 or better by Standard and Poor's.

Gainesville Regional Utilities  
Notes to Financial Statements

**5. Deposits and Investments (continued)**

*Concentration of Credit Risk:* State law does not limit the amount that may be invested in any one issuer. It does require, however, that investments be diversified to control risk of loss from over concentration of assets. As of September 30, 2006, GRU had more than 5% of the investment portfolio of the following:

<b><u>Issuer</u></b>	<b><u>Percent of Total Investments</u></b>
Federal Home Loan Mortgage Corp	25.66
Federal National Mortgage Association	12.40
Federal Home Loan Bank	22.40

Cash and investments are contained in the following balance sheet accounts as of September 30:

	<b>2006</b>	<b>2005</b>
Restricted assets	<b>\$ 248,508,249</b>	\$ 124,963,667
Current assets:		
Cash and cash equivalents	<b>4,678,783</b>	1,435,928
Total cash and investments	<b>253,187,032</b>	126,399,595
Less cash and cash equivalents	<b>(16,539,354)</b>	(32,186,051)
Less Investment in TEA	<b>(2,528,440)</b>	(2,251,685)
Less CR3 Decommissioning Reserve	<b>(6,799,280)</b>	(6,181,620)
Less accrued interest receivable and accounts receivable	<b>(438,739)</b>	(460,162)
Total investments	<b>\$ 226,881,219</b>	\$ 85,320,077

Gainesville Regional Utilities  
Notes to Financial Statements

**6. Jointly-Owned Electric Plant**

GRU-owned resources for supplying electric power and energy requirements include its 1.4079% undivided ownership interest in the Crystal River Unit 3 (CR3) nuclear power plant operated by Progress Energy. GRU's net investment in CR3 at September 30, 2006 and 2005 is approximately \$8,320,000 and \$7,894,000 respectively. CR3 operation and maintenance costs, which represent GRU's part of expenses attributable to operation of CR3, are recorded in accordance with the instructions as set forth in the FERC uniform system of accounts. Payments are made to Progress Energy in accordance with the CR3 participation agreement.

GRU, as a part of this participation agreement, is responsible for its share of future decommissioning costs. Decommissioning costs are funded and expensed annually and are recovered through rates charged to customers. The most recent decommissioning cost estimates provided by Progress Energy in March 2005, estimated GRU's share of total future decommissioning costs to be \$7,744,000. At September 30, 2006, GRU has funded \$6,799,000 of this cost.

**7. Restricted Net Assets**

Certain assets are restricted by bond resolution and other external requirements. Following is a summary of the computation of restricted net assets at September 30, 2006 and 2005, and the restricted purposes of the net asset balances:

	<u>2006</u>	<u>2005</u>
Restricted net assets:		
Total restricted assets	\$ 248,508,249	\$ 124,963,667
Unspent debt proceeds	(135,554,499)	(10,462,249)
Payable from restricted assets	(71,554,246)	(66,314,128)
Restricted net assets	<u>41,399,504</u>	<u>48,187,290</u>

Net assets are restricted as follows:

	<u>2006</u>	<u>2005</u>
Debt covenants:		
Debt service	\$ 12,831,459	\$ 10,649,485
Utility plant improvement	19,240,324	29,104,500
Total restricted pursuant to debt covenants	<u>32,071,783</u>	<u>39,753,985</u>

*Continued on next page.*

Gainesville Regional Utilities  
Notes to Financial Statements

**7. Restricted Net Assets (continued)**

	<b>2006</b>	<b>2005</b>
Other restrictions:		
Investment in The Energy Authority	\$ 2,528,440	\$ 2,251,685
Nuclear decommissioning reserve	6,799,280	6,181,620
Total other restrictions	9,327,720	8,433,305
Restricted net assets	\$ 41,399,503	\$ 48,187,290

**8. Retirement Plans**

The City sponsors and administers one defined benefit pension plan and two defined contribution plans (collectively, the Plans) that include GRU and other City employees. The Plans do not make separate measurements of assets and pension benefit obligations for individual units of the City. Such information is presented in the City of Gainesville, Florida, September 30, 2006, Comprehensive Annual Financial Report.

The General Employees Pension Plan (Employees Plan), a contributory defined benefit pension plan, covers all employees of GRU, except certain limited personnel who elect to participate only in a defined contribution plan.

The City accounts for and funds the costs of the Employee Plan as they accrue. Such costs are based on contribution rates determined by the most recent actuarial valuation. The total contributions by GRU, including amortization of prior service costs, were \$1,730,500 and \$1,326,000 for the years ended September 30, 2006 and 2005, respectively.

Certain limited employees are eligible to participate in defined contribution plans managed by outside fiscal agents for the City. Under the first plan, the City contributes a percentage of an employee's annual salary and employees contribute a specified percentage. All employees have the option to participate in the second defined contribution plan. The total defined contribution cost for GRU for the years ended September 30, 2006 and 2005, was \$108,700 and \$102,000, respectively.

## Gainesville Regional Utilities Notes to Financial Statements

### **9. Postretirement Benefits**

In addition to providing pension benefits, the City provides certain health care insurance benefits for retired employees of the City and GRU. The City also permits retirees to participate in the life insurance program. Most permanent full and part-time employees who are eligible for normal, early, or disability retirement are eligible for these benefits. Individual benefits are the same for all employees, but the cost to the City may vary. Contributions by the City to fund these benefits are neither mandated nor guaranteed. The actuarial costs of these plans are determined and funded by the City. The City recognizes the cost of these benefits on a monthly basis by contributing a percentage of active payroll costs. In September of 2005, the contribution was reduced from 3.5% to .5%, because a portion of the cost is being funded from bonds issued by the City to cover Post Employment Benefits. The cost of providing these benefits for the GRU retirees for the fiscal years ended September 30, 2006 and 2005 was \$221,000 and \$1,272,000, respectively.

### **10. Disaggregation of Receivables and Payables**

#### **Receivables**

For the years ended September 30, 2006 and 2005 respectively, net accounts receivable represent 92.0% and 92.5% from customers for billed and unbilled utility services, and 8.0% and 7.5% from other receivables. There are no receivables expected to take longer than one year to collect.

#### **Payables**

As of September 30, 2006 and 2005 respectively, payable balances represent 41.2 and 53.7% related to fuels payable, 27.4% and 5.6% to standard vendor payables, 10.2% and 11.4% to accrued vacation payable, 15.1% and 21.0% to intergovernmental payables and 6.1% and 8.4% to other payables.

### **11. Transfers to General Fund**

GRU makes transfers to the City's general government based on a formula that ties the transfer directly to the financial performance of the system. The transfer to the general fund may be made only to the extent such moneys are not necessary to pay operating and maintenance expenses and to pay debt service on the outstanding bonds and subordinated debt or to make other necessary transfers under the Bond Resolution. The formula-based fund transfer to the general fund for the years ended September 30, 2006 and 2005 was \$29,431,037 and \$27,279,644, respectively.

## Gainesville Regional Utilities Notes to Financial Statements

### 12. Deferred Charges

Deferred charges are presented on the balance sheets under current assets and as other noncurrent

The largest deferred charge is for estimated environmental costs of \$9,149,000 and \$9,779,000 at September 30, 2006 and 2005, respectively. An offset from the manufactured gas plant remediation of \$2.2 million is a result of proceeds received from insurance coverage. See Note 13 for details on the manufactured gas plant remediation portion of this item.

Also included in deferred charges is unamortized bond issuance costs of approximately \$8,047,000 and \$5,752,000, respectively, at September 30, 2006 and 2005. These costs are being amortized straight-line over the life of the bonds, which approximates the effective interest method.

Unrecognized hedge adjustments were \$5.9 million for September 30, 2006 and \$600,00 for September 30, 2005 are further detailed in Note 1, under Risk Management/Futures and Options Contracts.

Accrued fuel adjustment was a deferred debit of \$1,152,125 and \$2,394,000 at September 30, 2006 and 2005, respectively. See Note 1, Revenue Recognition for details on GRU's policy regarding fuel

Electric distribution plant acquisition costs of \$3,378,075 and \$3,589,000 for September 30, 2006 and 2005, respectively, which are being amortized over the expected life of the acquired assets.

Remaining smaller items make up the balance of the deferred charges.

### 13. Environmental Liabilities

GRU is subject to numerous federal, state and local environmental regulations. Under the Comprehensive Environmental Response Compensation and Liability Act, commonly known as "Superfund," GRU has been named as a potentially responsible party at one hazardous waste site. In addition, in January 1990, GRU purchased the natural gas distribution assets of a company and pursuant to the related purchase agreement, assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former manufactured gas plant. Based upon GRU's analysis of the cost to clean up these sites, GRU has accrued a liability to reflect the costs associated with the cleanup effort. Fiscal year 2006 and 2005 expenditures which reduce the liability balance were \$466,000 and \$297,000 respectively. In addition, GRU was able to recover a net of \$301,000 through insurance coverage in 2005. When applied against the reserve, it leaves a balance \$6,465,000 and \$6,931,000 as of September 30, 2006 and 2005, respectively. GRU is recovering the costs of this clean-up through customer charges. A regulatory asset was established as a deferred charge in the accompanying balance sheets to represent the balance of customer charges. Fiscal 2006 and 2005 billings were \$630,000 and \$718,000, respectively. This, plus the affect of the insurance recovery, reduced the deferred asset balance to \$6,898,000 and \$7,529,000 as of September 30, 2006 and 2005, respectively. Although some uncertainties associated with environmental assessment and remediation activities remain, GRU believes that the current provision for such costs is adequate and additional costs, if any, will not have a material adverse effect on GRU's financial position, results of

Gainesville Regional Utilities  
Notes to Financial Statements

**Environmental Liability (continued)**

GRU currently carries a reserve balance of \$2.25 million, primarily for possible liability related to the oil contamination at the Kelly Generating Station. In July of 2006, GRU was notified by the Florida Department of Environmental Protection, FDEP, that provisions of Chapter 62-780, F.A.C. must be complied with on this site. This Rule is currently being utilized to establish a process and time schedule for assessment and remediation of the site. GRU's liability utilizing this Rule is unknown and cannot be reasonably estimate at this time. Therefore, GRU will make no changes to the reserve balance until further information is received and a reasonable estimate can be established.

**14. Lease/Leaseback**

On December 10, 1998, GRU entered into a lease/leaseback transaction for all of the Deerhaven Unit 1 and a substantial portion of the Deerhaven Unit 2 generating facilities. Under the terms of the transaction, GRU entered into a 38-year lease and simultaneously a 20-year leaseback. At the end of the leaseback period term, GRU has an option to buy out the remainder of the lease for a fixed purchase

Under the terms of the transaction, GRU continues to own, operate, maintain and staff the facilities.

The proceeds received by GRU from this transaction were approximately \$249 million. From these proceeds, GRU deposited \$142 million as a payment undertaking agreement and a second deposit of \$72 million in the form of a collateralized Guaranteed Investment Contract (GIC), both with an AAA rated insurance company. The deposit instruments will mature in amounts sufficient to meet the annual payment obligations under the leaseback including the end of term fixed purchase option if elected by

The net benefit of this transaction, after payment of transaction expenses, was approximately \$35 million and resulted in a deferred gain, which is being amortized as income on a straight-line basis over the leaseback period of 20 years.

Amortization of the net benefit was \$1,775,000 in both 2006 and 2005, respectively, and was reported as a component of other operating revenue.

On May 17, 2006, President Bush signed into law an act entitled the "Tax Increase Prevention and Reconciliation Act of 2005" (the "Act"). Among other provisions, the Act imposes an excise tax on certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions (including the City). The City currently is evaluating this legislation. At this time, the magnitude of any excise tax that the City may owe under the Act (as a result of having entered into the lease/leaseback transaction) is uncertain because, among other reasons, the Act fails to define important terms relating to the application and measurement of the tax. Accordingly, the City is unable to determine at this time whether the imposition of the excise tax will have a material adverse effect on its results of utility operations or financial condition.



## Gainesville Regional Utilities Notes to Financial Statements

### **15. Investment in the Energy Authority**

In May 2000, GRU became an equity member of The Energy Authority (TEA), a power marketing joint venture. In May 2002, TEA began trading natural gas on behalf of GRU. As of September 30, 2005, this joint venture was comprised of six municipal utilities across the nation, all of which are participating in the electric marketing and five of which participate in the gas program. GRU's ownership interest was 7.1% in the electric venture and 7.7% in the gas venture, and it accounted for this investment using equity accounting. To become a member, GRU paid an initial capital contribution of \$1,000,000 and a membership fee of \$867,360. The membership fee was amortized over 24 months and, consequently, eliminated at September 30, 2002. GRU has reflected the capital contribution as an investment in TEA. The investment balance has been adjusted for GRU's subsequent share of TEA's net income or loss. In calculating GRU's share of net income or loss, profit on transactions between GRU and TEA have been eliminated. Such transactions primarily relate to purchases and sales of electricity between GRU and TEA.

GRU had electric purchases transactions with TEA of \$21,964,836 and \$11,747,684 and sales transactions of \$3,476,306 and \$2,507,996 in fiscal years 2006 and 2005, respectively. TEA's profit on these transactions has been reflected as a reduction to GRU's reported revenue or expense. As of September 30, 2006, GRU's investment in TEA was \$2,528,440 versus \$2,251,685 on September 30, 2005.

GRU provides guarantees to TEA and to TEA's bank to secure letters of credit issued by the bank to cover purchase and sale contracts for electric energy, natural gas and related transmission. In accordance with the membership agreement between GRU and its joint venture members and with the executed guaranties delivered to TEA and to TEA's bank, GRU's aggregate obligation for electric energy marketing transactions entered into by TEA on behalf of its members is \$9,600,000 as of September 30, 2006. GRU's aggregate obligation for TEA's natural gas marketing transactions, under similar agreements and executed guaranties, is \$18,800,000 as of September 30, 2006.

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Notes to Financial Statements

**15. Investment in The Energy Authority (continued)**

The following is a summary of the unaudited financial information of TEA for the twelve month periods ended September 30, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Condensed statement of operations:		
Total revenue	<b>\$ 1,681,760,000</b>	\$ 1,274,442,000
Total cost of sales and expenses	<b>1,519,567,000</b>	1,140,975,000
Operating income	<b>162,193,000</b>	133,467,000
 Net revenue	<b>\$ 164,323,000</b>	\$ 134,670,000
 Condensed balance sheet:		
Assets:		
Current assets	<b>\$ 147,225,000</b>	\$ 287,510,000
Noncurrent assets	<b>7,015,000</b>	7,574,000
Total assets	<b>\$ 154,240,000</b>	\$ 295,084,000
 Liabilities:		
Current liabilities	<b>\$ 120,812,000</b>	\$ 262,584,000
Noncurrent liabilities	<b>249,000</b>	2,572,000
Total liabilities	<b>121,061,000</b>	265,156,000
Members' capital	<b>33,179,000</b>	29,928,000
Total equity and liabilities	<b>\$ 154,240,000</b>	\$ 295,084,000

TEA issues separate audited financial statements on a calendar-year basis.

Gainesville Regional Utilities  
Notes to Financial Statements

**16. Risk Management**

GRU is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters and insures against these losses. GRU purchases plant and machinery insurance from a commercial carrier. There have been no significant reductions in insurance coverage from that in the prior year, and settlements have not exceeded insurance coverage for the past three fiscal years. The City is self-insured for workers' compensation, auto liability, and general liability but carries excess workers' compensation coverage. These risks are accounted for under the City of Gainesville's General Insurance Fund. GRU reimburses the City for premiums and claims paid on its behalf, recording the appropriate expense. However, GRU does maintain its own insurance reserve, for the self-insured portion, in the amount of \$2,106,000, based on an actuarially computed liability. The present value calculation assumes a rate of return of 4.5% with a This reserve is recorded as a fully amortized deferred credit. All claims for fiscal 2006 and 2005 were paid from current year's revenues.

Changes in the claims liability for the last two years are as follows:

<b>Fiscal Year</b>	<b>Beginning Balance</b>	<b>Claims</b>	<b>Payments</b>	<b>Ending Balance</b>
2004-2005	\$ 2,106,000	\$ 903,200	\$ 903,200	\$ 2,106,000
2005-2006	\$ 2,106,000	\$ 2,077,078	\$ 2,077,078	\$ 2,106,000

## Gainesville Regional Utilities Notes to Financial Statements

### **17. Subsequent Event**

In connection with a future debt issuance, the City entered into forward interest rate swap agreements with two different counterparties: Bear Stearns Financial Products, Inc. (BSFP) and JPMorgan Chase Bank (JP). The BSFP swap has a February 1, 2008 effective date for an initial notional amount of \$58,500,000 amortizing down to zero on October 1, 2038. Under the terms of this swap, the City would pay BSFP 4.22% on certain payment dates and, in return, BSFP would pay the City the BMA Municipal Swap Index Rate. The JP swap has a February 1, 2008 effective date for an initial notional amount of \$31,500,000 amortizing down to zero on October 1, 2038. Under the terms of this swap, the City would pay JP 4.22% on certain payment dates and, in return, JP would pay the City the BMA Municipal Swap Index Rate.

## Supplemental Schedules

**Gainesville Regional Utilities**  
**Schedules of Combined Net Revenues**  
**in Accordance with Bond Resolution**

	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Revenue</b>					
Electric fund:					
Sales of electricity	\$ 207,023,570	\$ 174,046,209	\$ 159,117,761	\$ 154,865,704	\$ 147,794,301
Other electric revenue	2,614,880	2,692,565	2,887,861	2,273,293	2,313,536
Transfers from/(to) rate stabilization	(2,047,553)	(134,672)	6,451,678	(401,377)	(267,583)
Interest/Investment income	2,837,575	2,326,225	4,161,700	4,197,325	4,873,647
<b>Total electric fund revenue</b>	<b>210,428,472</b>	<b>178,930,327</b>	172,619,000	160,934,945	154,713,901
Gas fund:					
Gas sales	31,148,518	26,044,659	24,500,658	22,926,678	15,913,737
Other gas revenue (expenses)	1,138	(25,177)	(19,825)	(29,329)	29,208
Transfers from/(to) rate stabilization	(465,695)	761,130	(1,130,506)	(1,122,811)	(683,493)
Interest/Investment income	584,699	429,646	219,627	408,040	313,548
<b>Total gas fund revenue</b>	<b>31,268,660</b>	<b>27,210,258</b>	23,569,954	22,182,578	15,573,000
Water fund:					
Sales of water	17,987,383	13,826,209	13,998,249	12,533,489	13,350,022
Other water revenue	2,184,786	1,549,635	1,156,849	1,451,087	785,894
Transfers from rate stabilization	(878,017)	1,534,938	3,065,791	2,620,711	3,400,560
Interest/Investment income	172,476	279,053	328,649	569,102	696,999
<b>Total water fund revenue</b>	<b>19,466,628</b>	<b>17,189,835</b>	18,549,538	17,174,389	18,233,475
Wastewater fund:					
Wastewater billing	20,474,546	17,418,564	16,933,546	15,957,966	16,038,915
Other wastewater revenue	3,693,161	2,351,726	1,512,204	2,055,284	1,218,747
Transfers from rate stabilization	(1,157,713)	1,816,821	3,362,600	3,252,677	5,089,796
Interest/Investment income	429,598	555,058	471,352	824,618	1,019,672
<b>Total wastewater fund revenue</b>	<b>23,439,592</b>	<b>22,142,169</b>	22,279,702	22,090,545	23,367,130
GRUCom fund:					
Sales to customers	8,722,084	8,565,405	8,081,031	8,009,457	6,943,275
Transfers to rate stabilization	(1,036,283)	(5,391)	(688,811)	(543,194)	(435,905)
Interest/Investment income	133,002	79,455	90,022	31,100	21,187
<b>Total GRUCom fund revenue</b>	<b>7,818,803</b>	<b>8,639,469</b>	7,482,242	7,497,363	6,528,557
<b>Total revenue</b>	<b>\$ 292,422,154</b>	<b>\$ 254,112,058</b>	\$ 244,500,436	\$ 229,879,820	\$ 218,416,063

Continued on next page.

**Gainesville Regional Utilities**  
**Schedules of Combined Net Revenues**  
in Accordance with Bond Resolution (continued)

	2006	2005	2004	2003	2002
<b>Operation, maintenance and administrative</b>					
Electric fund:					
Fuel expense	\$ 116,303,116	\$ 89,398,658	\$ 76,259,729	\$ 69,667,757	\$ 60,010,484
Operation and maintenance	33,715,716	30,539,416	32,132,279	26,532,262	23,739,551
Administrative and general	12,585,157	12,320,230	11,466,706	10,202,723	12,305,262
Total electric fund expense	<u>162,603,989</u>	<u>132,258,304</u>	119,858,714	106,402,742	96,055,297
Gas fund:					
Fuel expense	21,919,984	16,881,895	14,593,903	12,950,876	7,926,883
Operation and maintenance	1,342,257	1,388,368	1,166,824	1,184,334	572,690
Administrative and general	3,427,848	3,107,252	2,919,393	2,775,614	2,871,282
Total gas fund expense	<u>26,690,089</u>	<u>21,377,515</u>	18,680,120	16,910,824	11,370,855
Water fund:					
Operation and maintenance	6,176,450	5,497,667	5,235,332	4,784,731	4,361,166
Administrative and general	3,629,681	3,590,193	3,688,337	3,248,742	3,447,597
Total water fund expense	<u>9,806,131</u>	<u>9,087,860</u>	8,923,669	8,033,473	7,808,763
Wastewater fund:					
Operation and maintenance	6,701,627	6,174,582	5,842,395	5,778,075	5,167,674
Administrative and general	4,603,576	4,212,466	4,224,198	3,658,970	3,933,172
Total wastewater fund expense	<u>11,305,202</u>	<u>10,387,048</u>	10,066,593	9,437,045	9,100,846
GRUCom fund:					
Operation and maintenance	2,489,099	2,365,838	2,321,615	2,618,525	2,377,170
Administrative and general	2,255,465	2,142,330	1,651,046	1,286,735	1,240,869
Total GRUCom fund expense	<u>4,744,565</u>	<u>4,508,168</u>	3,972,661	3,905,260	3,618,039
Total operation, maintenance and administrative	<u>215,149,976</u>	<u>177,618,895</u>	161,501,757	144,689,344	127,953,800
<b>Net revenue in accordance with bond resolution</b>					
Electric	47,824,483	46,672,023	52,760,286	54,532,203	58,658,604
Gas	4,578,570	5,832,743	4,889,834	5,271,754	4,202,145
Water	9,660,498	8,101,975	9,625,869	9,140,916	10,424,712
Wastewater	12,134,389	11,755,121	12,213,109	12,653,500	14,266,284
GRUCom	3,074,238	4,131,301	3,509,581	3,592,103	2,910,518
Total net revenue in accordance with bond resolution	<u>\$ 77,272,178</u>	<u>\$ 76,493,163</u>	\$ 82,998,679	\$ 85,190,476	\$ 90,462,263
Aggregate bond debt service	<u>\$ 34,107,669</u>	<u>\$ 24,876,978</u>	\$ 26,673,276	\$ 25,502,972	\$ 29,312,587
Aggregate bond debt service coverage ratio	2.27	3.07	3.11	3.34	3.09
Total debt service	<u>\$ 41,050,956</u>	<u>\$ 35,476,481</u>	\$ 33,554,604	\$ 33,704,853	\$ 34,097,931
Total debt service coverage ratio	1.88	2.16	2.47	2.53	2.65

Gainesville Regional Utilities  
Schedules of Net Revenues  
in Accordance with Bond Resolution—  
Electric Utility Fund

	2006	2005
<b>Revenue</b>		
Sales of electricity:		
Residential sales	\$ 49,708,745	\$ 47,696,845
General service and large power	38,684,129	36,866,017
Fuel adjustment	100,035,917	73,264,660
Street and traffic lighting	3,589,071	3,476,840
Utility surcharge	3,006,246	2,856,803
Sales for resale	6,867,310	6,371,563
Interchange sales	5,132,152	3,513,481
Total sales of electricity	207,023,570	174,046,209
Other electric revenue:		
Service charges	2,327,973	1,928,241
Pole rentals	(65,880)	550,542
Miscellaneous	352,787	213,782
Total other electric revenue	2,614,880	2,692,565
Transfers (to) from rate stabilization	(2,047,553)	(134,672)
Interest income	2,837,575	2,326,225
Total revenue	210,428,472	178,930,327
<b>Operation, maintenance and administrative expense</b>		
Operation and maintenance:		
Fuel expense:		
Retail and purchased power	112,985,672	86,844,092
Interchange	3,317,444	2,554,566
Total fuel expense	116,303,116	89,398,658
Power production	23,006,308	19,503,775
Transmission	891,931	916,712
Distribution	9,817,476	10,118,929
Total operation and maintenance	150,018,832	119,938,074

*Continued on next page.*



Gainesville Regional Utilities  
Schedules of Net Revenues  
in Accordance with Bond Resolution—  
Electric Utility Fund (continued)

	<b>2006</b>	<b>2005</b>
Administrative and general:		
Customer accounts	\$ 3,979,862	\$ 3,889,275
Administrative and general	<b>8,605,295</b>	<b>8,430,955</b>
Total administrative and general	<b>12,585,157</b>	<b>12,320,230</b>
Total operation, maintenance and administrative expense	<b>162,603,989</b>	<b>132,258,304</b>
<b>Net revenue in accordance with bond resolution</b>		
Retail	<b>46,009,774</b>	45,713,108
Interchange	<b>1,814,708</b>	958,915
Total net revenue in accordance with bond resolution	<b>\$ 47,824,483</b>	\$ 46,672,023

Gainesville Regional Utilities  
Schedules of Net Revenues  
in Accordance with Bond Resolution—  
Gas Utility Fund

	2006	2005
<b>Revenue</b>		
Sales of gas:		
Residential	\$ 14,346,989	\$ 12,701,421
Interruptible/commercial	16,168,009	13,075,593
Other sales	633,520	267,645
Total sales of gas	31,148,518	26,044,659
Other gas revenue (expense)	1,138	(25,177)
Transfers (to) from rate stabilization	(465,695)	761,130
Interest income	584,699	429,646
Total revenue	31,268,660	27,210,258
<b>Operation, maintenance and administrative expense</b>		
Operation and maintenance:		
Fuel expense	21,919,984	16,881,895
Operation and maintenance	1,342,257	1,388,368
Total operation and maintenance	23,262,241	18,270,263
Administrative and general:		
Customer accounts	2,099,847	2,058,540
Administrative and general	1,328,001	1,048,712
Total administrative and general	3,427,848	3,107,252
Total operation, maintenance and administrative expense	26,690,089	21,377,515
Total net revenue in accordance with bond resolution	\$ 4,578,570	\$ 5,832,743

Gainesville Regional Utilities  
Schedules of Net Revenues  
in Accordance with Bond Resolution—  
Water Utility Fund

	<u>2006</u>	<u>2005</u>
<b>Revenue</b>		
Sales of water:		
General customers	\$ 15,275,821	\$ 10,719,360
University of Florida	862,850	765,828
Fire protection	51,618	1,094,539
Generating stations	44,215	48,880
Utility surcharge	1,752,879	1,197,602
Total sales of water	<u>17,987,383</u>	13,826,209
Other water revenue:		
Connection charges	2,130,642	1,430,329
Miscellaneous	54,144	119,306
Total other water revenue	<u>2,184,786</u>	1,549,635
Transfers from rate stabilization	(878,017)	1,534,938
Interest income	172,476	279,053
Total revenue	<u>19,466,628</u>	17,189,835
<b>Operation, maintenance and administrative expense</b>		
Operation and maintenance:		
Source of supply	12,057	9,657
Pumping	1,640,158	1,301,027
Water treatment	2,726,618	2,567,984
Transmission and distribution	1,797,617	1,618,999
Total operation and maintenance	<u>6,176,450</u>	5,497,667
Administrative and general:		
Customer accounts	1,067,857	1,070,461
Administrative and general	2,561,824	2,519,732
Total administrative and general	<u>3,629,681</u>	3,590,193
Total operation, maintenance and administrative expense	<u>9,806,131</u>	9,087,860
Total net revenue in accordance with bond resolution	<u>\$ 9,660,498</u>	<u>\$ 8,101,975</u>

Gainesville Regional Utilities  
Schedules of Net Revenues  
in Accordance with Bond Resolution—  
Wastewater Utility Fund

	2006	2005
<b>Revenue</b>		
Wastewater billings:		
Billings	\$ 18,561,207	\$ 15,892,998
Utility surcharge	1,913,339	1,525,566
Total wastewater billings	20,474,546	17,418,564
Other wastewater revenue:		
Connection charges	3,135,999	2,146,578
Miscellaneous	557,162	205,148
Total other wastewater revenue	3,693,161	2,351,726
Transfers from rate stabilization	(1,157,713)	1,816,821
Interest income	429,598	555,058
Total revenue	23,439,592	22,142,169
<b>Operation, maintenance and administrative expense</b>		
Operation and maintenance:		
Collection	1,563,750	1,388,654
Treatment and pumping	5,137,877	4,785,928
Total operation and maintenance	6,701,627	6,174,582
Administrative and general:		
Customer accounts	896,133	876,059
Administrative and general	3,707,443	3,336,407
Total administrative and general	4,603,576	4,212,466
Total operation, maintenance and administrative expense	11,305,202	10,387,048
Total net revenue in accordance with bond resolution	\$ 12,134,389	\$ 11,755,121

Gainesville Regional Utilities  
Schedules of Net Revenues  
in Accordance with Bond Resolution—  
GRUCom Utility Fund

	<b>2006</b>	<b>2005</b>
<b>Revenue</b>		
Sales to customers	\$ 8,722,084	\$ 8,565,405
Transfers to rate stabilization	(1,036,283)	(5,391)
Interest income	133,002	79,455
Total revenue	<b>7,818,803</b>	8,639,469
 <b>Operation, maintenance and administrative expense</b>		
Operation and maintenance	2,489,099	2,365,838
Total operation and maintenance	<b>2,489,099</b>	2,365,838
 Administrative and general:		
Customer accounts	452,305	421,979
Administrative and general	1,803,160	1,720,351
Total administrative and general	<b>2,255,465</b>	2,142,330
Total operation, maintenance and administrative expense	<b>4,744,565</b>	4,508,168
Total net revenue in accordance with bond resolution	<b>\$ 3,074,238</b>	\$ 4,131,301

Gainesville Regional Utilities  
Notes to Schedules of Net Revenues  
in Accordance with Bond Resolution

September 30, 2006

“Net revenue in accordance with bond resolution” differs from “Net income,” which is determined in accordance with generally accepted accounting principles. Following are the more significant differences:

- Interest income does not include interest earned on construction funds.
- Operation and maintenance expense does not include depreciation, amortization or interest expense.
- Other water and wastewater revenue include fees for connection, installation, and backflow prevention.
- Transfers to the general fund are excluded.
- Revenue from lease/leaseback transaction is excluded (see financial statement Note 14).

**Gainesville Regional Utilities  
Combining Balance Sheet  
September 30, 2006**

	Electric	Gas	Water	Wastewater	GRUCom	Combined
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	610,305	2,255,602	261,969	950,139	600,768	\$ 4,678,783
Accounts receivable, net	33,490,964	2,002,499	2,155,026	2,435,219	892,327	40,976,035
Prepaid rent – LILO	10,686,909	0	0	0	0	10,686,909
Deferred charges	6,907,490	1,603,131	90,779	116,253	28,717	8,746,370
Prepaid Expenses	2,325,455	(418,987)	0	0	0	1,906,469
<b>Inventories:</b>						
Fuel	9,768,662	0	0	0	0	9,768,662
Materials and inventories	7,469,280	440,741	559,953	413	541,904	9,012,292
<b>Total current assets</b>	<b>71,259,066</b>	<b>5,882,986</b>	<b>3,067,727</b>	<b>3,502,025</b>	<b>2,063,717</b>	<b>85,775,520</b>
<b>Restricted assets:</b>						
Utility deposits – cash and investments	4,362,713	0	0	0	0	4,362,713
Debt service fund – cash and investments	15,075,319	1,469,258	2,928,879	4,902,315	922,031	25,297,802
Rate stabilization – cash and investments	42,377,016	6,694,795	117,669	2,602,807	2,846,198	54,638,485
Construction Fund – cash and investment	97,258,447	8,529,931	10,090,700	18,149,640	1,612,487	135,641,205
Utility plant improvement fund – cash and investments	11,123,296	5,271,683	78,809	2,315,822	450,714	19,240,324
Investment in The Energy Authority	2,528,440					2,528,440
Decommission reserve – cash and investments	6,799,280					6,799,280
<b>Total restricted assets</b>	<b>179,524,511</b>	<b>21,965,667</b>	<b>13,216,057</b>	<b>27,970,584</b>	<b>5,831,430</b>	<b>248,508,249</b>
Prepaid rent - LILO	119,337,150	-	-	-	-	119,337,150
Other noncurrent assets	9,851,370	4,446,965	1,013,191	1,208,708	320,433	16,840,667
<b>Capital assets:</b>						
Utility plant in service	647,503,876	48,248,673	152,295,357	202,538,677	33,636,065	1,084,222,648
Plant unclassified	3,084,509	273,780	3,284,722	2,012,190	408,431	9,063,632
Less: accumulated depreciation and amortization	292,149,115	23,298,575	56,715,775	75,961,687	14,257,391	462,382,543
	358,439,270	25,223,878	98,864,304	128,589,180	19,787,105	630,903,737
Plant held for future use	6,053,926	-	-	-	-	6,053,926
Construction in progress	78,607,559	4,355,128	20,517,825	15,101,543	5,999,451	124,581,506
<b>Net capital assets</b>	<b>443,100,755</b>	<b>29,579,006</b>	<b>119,382,129</b>	<b>143,690,723</b>	<b>25,786,557</b>	<b>761,539,170</b>
<b>Total assets</b>	<b>\$ 823,072,852</b>	<b>\$ 61,874,625</b>	<b>\$ 136,679,104</b>	<b>\$ 176,372,040</b>	<b>\$ 34,002,136</b>	<b>\$ 1,232,000,756</b>

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**Gainesville Regional Utilities**  
**Combining Balance Sheet (continued)**  
**September 30, 2006**

	<b>Electric</b>	<b>Gas</b>	<b>Water</b>	<b>Wastewater</b>	<b>GRUCom</b>	<b>Combined</b>
<b>Liabilities and net assets</b>						
Current liabilities:						
Fuels payable	\$ 8,752,215	\$ 997,877	\$ -	\$ -	\$ -	\$ 9,750,092
Accounts payable and accrued liabilities	8,207,907	403,586	657,857	644,372	228,511	10,142,233
Operating lease – LILO	12,461,916	-	-	-	-	12,461,916
Deferred charges	10,854,942	3,931,406	950,033	(74,588)	4,736	15,666,529
Due to other funds	1,227,457	(388,130)	3,002,325	(816,175)	(13,367)	3,012,110
<b>Total current liabilities</b>	<b>41,504,437</b>	<b>4,944,739</b>	<b>4,610,216</b>	<b>(246,391)</b>	<b>219,880</b>	<b>51,032,880</b>
Payable from restricted assets:						
Utility deposits	4,502,113	-	-	-	-	4,502,113
Rate stabilization deferred credit	42,377,015	6,694,794	117,669	2,602,807	2,846,197	54,638,482
Construction fund:						
accounts payable and accrued liabilities	9,551	605	51,866	144,598	1,100	207,720
Debt payable – current portion	7,187,244	1,065,740	1,724,805	2,357,210	680,000	13,015,000
Accrued interest payable	6,855,109	825,359	1,719,409	2,055,702	750,352	12,205,931
<b>Total payable from restricted assets</b>	<b>60,931,033</b>	<b>8,586,499</b>	<b>3,613,749</b>	<b>7,160,317</b>	<b>4,277,649</b>	<b>84,569,246</b>
Long-term debt:						
Utilities system revenue bonds	311,807,679	31,497,343	78,766,059	90,457,732	29,321,187	541,850,000
Subordinated utilities system revenue bonds	33,794,340	11,370,400	5,837,300	14,297,960	-	65,300,000
Commercial paper notes	-	-	-	-	-	-
Unamortized loss on refunding	(18,040,411)	(1,120,507)	(3,378,889)	(3,531,306)	-	(26,071,113)
Unamortized bond prem\disc	7,255,644	350,877	1,706,532	1,793,938	128,864	11,235,855
<b>Total long-term debt</b>	<b>334,817,252</b>	<b>42,098,113</b>	<b>82,931,002</b>	<b>103,018,324</b>	<b>29,450,051</b>	<b>592,314,742</b>
Operating lease – LILO	139,147,397					139,147,397
Other noncurrent liabilities	11,641,428	5,756,548	188,615	462,724	9,905	18,059,220
<b>Total liabilities</b>	<b>588,041,546</b>	<b>61,385,899</b>	<b>91,343,582</b>	<b>110,394,973</b>	<b>33,957,485</b>	<b>885,123,484</b>
Net assets:						
Invested in capital assets, net of related debt	203,046,242	(4,549,333)	45,915,463	57,780,858	(2,381,857)	299,811,373
Restricted	28,607,920	5,914,977	1,237,475	5,017,837	621,294	41,399,503
Unrestricted	3,377,143	(876,917)	(1,817,417)	3,178,371	1,805,215	5,666,395
<b>Total net assets</b>	<b>235,031,306</b>	<b>488,726</b>	<b>45,335,522</b>	<b>65,977,066</b>	<b>44,651</b>	<b>346,877,271</b>
<b>Total liabilities and net assets</b>	<b>\$ 823,072,852</b>	<b>\$ 61,874,625</b>	<b>\$ 136,679,104</b>	<b>\$ 176,372,040</b>	<b>\$ 34,002,136</b>	<b>\$ 1,232,000,756</b>



**Gainesville Regional Utilities**  
**Combining Statement of Revenues, Expenses and Changes in Net Assets**  
**Year ended September 30, 2006**

	<b>Electric</b>	<b>Gas</b>	<b>Water</b>	<b>Wastewater</b>	<b>GRUCom</b>	<b>Combined</b>
<b>Operating revenue:</b>						
Sales and service charges	\$ 207,023,570	\$ 31,148,518	\$ 17,987,383	\$ 20,474,546	\$ 8,722,084	\$ 285,356,101
Transfers from/(to) rate stabilization	(2,047,553)	(465,695)	(878,017)	(1,157,713)	(1,036,283)	(5,585,261)
Other operating revenue	4,389,083	1,138	2,184,786	3,693,161	-	10,268,167
<b>Total operating revenue</b>	<b>209,365,100</b>	<b>30,683,960</b>	<b>19,294,152</b>	<b>23,009,994</b>	<b>7,685,801</b>	<b>290,039,007</b>
<b>Operating expenses:</b>						
Operation and maintenance	150,018,832	23,262,241	6,176,450	6,701,627	2,489,099	188,648,249
Administrative and general	12,585,157	3,427,848	3,629,681	4,603,575	2,255,466	26,501,727
Depreciation and amortization	22,880,844	2,031,151	4,838,928	6,492,406	2,304,979	38,548,308
<b>Total operating expenses</b>	<b>185,484,833</b>	<b>28,721,240</b>	<b>14,645,059</b>	<b>17,797,609</b>	<b>7,049,544</b>	<b>253,698,283</b>
<b>Operating income</b>	<b>23,880,267</b>	<b>1,962,720</b>	<b>4,649,093</b>	<b>5,212,385</b>	<b>636,257</b>	<b>36,340,723</b>
<b>Non-operating income (expense):</b>						
Interest income	7,388,323	857,559	647,742	980,087	151,132	10,024,843
Interest expense	(15,163,550)	(1,918,014)	(3,736,835)	(4,621,500)	(1,479,604)	(26,919,503)
Loss on sale of investments	-	-	-	-	-	-
<b>Total non-operating income (expense)</b>	<b>(7,775,227)</b>	<b>(1,060,456)</b>	<b>(3,089,093)</b>	<b>(3,641,413)</b>	<b>(1,328,472)</b>	<b>(16,894,660)</b>
<b>Income before contributions and transfers</b>	<b>16,105,041</b>	<b>902,265</b>	<b>1,560,000</b>	<b>1,570,973</b>	<b>(692,215)</b>	<b>19,446,063</b>
<b>Capital contributions:</b>						
Contributions from developers	226,440	-	2,235,298	2,471,856	-	4,933,594
Reduction of plant cost recovered from contributions	(226,440)	-	-	-	-	(226,440)
<b>Net capital contributions</b>	<b>-</b>	<b>-</b>	<b>2,235,298</b>	<b>2,471,856</b>	<b>-</b>	<b>4,707,154</b>
<b>Operating transfer to City of Gainesville general fund</b>	<b>18,573,892</b>	<b>1,203,984</b>	<b>4,363,581</b>	<b>4,974,257</b>	<b>315,324</b>	<b>29,431,037</b>
<b>Change in net assets</b>	<b>(2,468,851)</b>	<b>(301,719)</b>	<b>(568,283)</b>	<b>(931,428)</b>	<b>(1,007,539)</b>	<b>(5,277,820)</b>
Net assets - beginning of year	237,500,157	790,446	45,903,803	66,908,495	1,052,190	352,155,091
<b>Net assets - end of year</b>	<b>\$ 235,031,306</b>	<b>\$ 488,727</b>	<b>\$ 45,335,520</b>	<b>\$ 65,977,067</b>	<b>\$ 44,651</b>	<b>\$ 346,877,271</b>

Gainesville Regional Utilities  
Schedule of Utility Plant Properties—Combined Utility Fund  
September 30, 2006

	Balance September 30, 2005	Additions	Sales, Retirements & Transfers	Balance September 30, 2006
<b>Plant in service</b>				
Electric utility fund:				
Production plant	\$ 352,140,182	\$ 92,443	\$ 122,481	\$ 352,110,144
Nuclear fuel	8,104,544	-	5,938,634	2,165,910
Transmission and distribution plant	234,969,516	6,387,756	865,774	240,491,498
General and common plant	50,910,590	1,825,735	-	52,736,325
Plant unclassified	746,645	10,643,798	8,305,934	3,084,509
Total electric utility fund	<u>646,871,477</u>	<u>18,949,732</u>	<u>15,232,823</u>	<u>650,588,386</u>
Gas utility fund:				
Distribution plant	37,119,062	4,285,088	487	41,403,663
General plant	1,721,641	472,733	-	2,194,374
Plant acquisition adjustment	4,650,635	-	-	4,650,635
Plant unclassified	253,161	4,778,440	4,757,821	273,780
Total gas utility fund	<u>43,744,499</u>	<u>9,536,261</u>	<u>4,758,308</u>	<u>48,522,452</u>
Water utility fund:				
Supply, pumping and treatment plant	26,469,103	84,886	-	26,553,989
Transmission and distribution plant	112,795,891	8,481,312	140,679	121,136,524
General plant	4,512,243	92,601	-	4,604,844
Plant unclassified	2,409,066	9,534,455	8,658,799	3,284,722
Total water utility fund	<u>146,186,303</u>	<u>18,193,254</u>	<u>8,799,478</u>	<u>155,580,079</u>
Wastewater utility fund:				
Pumping and treatment plant	82,562,409	697,719	136,306	83,123,822
Collection plant	99,866,678	7,966,373	13,651	107,819,400
Reclaimed water plant	4,202,127	1,093,100	-	5,295,227
General plant	6,106,478	193,749	-	6,300,227
Plant unclassified	1,636,612	10,326,519	9,950,941	2,012,190
Total wastewater utility fund	<u>194,374,304</u>	<u>20,277,460</u>	<u>10,100,898</u>	<u>204,550,866</u>
GRUCom utility fund:				
Distribution plant	30,216,065	2,676,157	4,856	32,887,366
General plant	709,047	39,651	-	748,698
Plant unclassified	675,183	2,449,056	2,715,808	408,431
Total GRUCom utility fund	<u>31,600,295</u>	<u>5,164,864</u>	<u>2,720,664</u>	<u>34,044,495</u>
Total plant in service	<u>\$ 1,062,776,878</u>	<u>\$ 72,121,571</u>	<u>\$ 41,612,171</u>	<u>\$ 1,093,286,278</u>
Plant held for future use—electric	<u>\$ 6,053,926</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,053,926</u>
<b>Construction in progress</b>				
Electric utility fund	\$ 51,771,098	\$ 37,773,691	\$ 10,937,230	\$ 78,607,559
Gas utility fund	5,486,896	3,600,582	4,732,350	4,355,128
Water utility fund	18,476,734	10,215,735	8,174,644	20,517,825
Wastewater utility fund	17,206,236	10,075,052	12,179,745	15,101,543
GRUCom utility fund	5,611,771	2,851,313	2,463,632	5,999,452
Total construction in progress	<u>\$ 98,552,735</u>	<u>\$ 64,516,373</u>	<u>\$ 38,487,601</u>	<u>\$ 124,581,507</u>

Gainesville Regional Utilities  
Schedule of Accumulated Depreciation and Amortization—  
Combined Utility Fund  
September 30, 2006

	Balance September 30, 2005	Additions	Sales, Retirements & Transfers	Balance September 30, 2006
Electric utility fund:				
Production plant	\$ 178,704,318	\$ 9,373,966	\$ 121,791	\$ 187,956,493
Nuclear fuel	7,542,517	303,172	5,938,634	1,907,055
Transmission and distribution plant	67,820,826	7,287,228	865,438	74,242,616
General and common plant	24,198,769	3,584,965	(45,443)	27,829,177
Plant unclassified	157,180	213,775	157,180	213,775
Total electric utility fund	278,423,610	20,763,106	7,037,600	292,149,116
Gas utility fund:				
Distribution plant	16,434,994	1,110,327	-	17,545,321
General plant	984,588	99,441	(5,862)	1,089,891
Plant acquisition adjustment	4,650,637	-	-	4,650,637
Plant unclassified	9,030	12,725	9,030	12,725
Total gas utility fund	22,079,249	1,222,493	3,168	23,298,574
Water utility fund:				
Supply, pumping and treatment plant	10,664,147	840,694	-	11,504,841
Transmission and distribution plant	38,509,956	3,132,440	140,679	41,501,717
General plant	3,424,463	223,412	(16,968)	3,664,843
Plant unclassified	32,143	44,374	32,143	44,374
Total water utility fund	52,630,709	4,240,920	155,854	56,715,775
Wastewater utility fund:				
Pumping and treatment plant	30,447,618	2,937,635	136,306	33,248,947
Collection plant	34,072,287	2,758,610	13,651	36,817,246
Reclaimed water plant	540,551	159,553	-	700,104
General plant	4,807,992	282,382	(40,122)	5,130,496
Plant unclassified	47,107	64,895	47,107	64,895
Total wastewater utility fund	69,915,555	6,203,075	156,942	75,961,688
GRUCom utility fund:				
Distribution plant	11,612,290	2,215,408	4,856	13,822,842
General plant	343,649	59,993	(6,797)	410,439
Plant unclassified	17,803	24,110	17,803	24,110
Total GRUCom utility fund	11,973,742	2,299,511	15,862	14,257,391
Total	\$ 435,022,865	\$ 34,729,105	\$ 7,369,426	\$ 462,382,544

**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of the Financial Statements Performed in Accordance With  
*Government Auditing Standards***

The Honorable Mayor and  
Members of the City Commission  
City of Gainesville, Florida

We have audited the financial statements of Gainesville Regional Utilities (a department of the City of Gainesville, Florida) as of and for the year ended September 30, 2006, and have issued our report thereon dated November 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Gainesville Regional Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness, based on auditing standards generally accepted in the United States as established by the American Institute of Certified Public Accountants, is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

***Compliance and Other Matters***

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

We noted certain matters that we reported to management of Gainesville Regional Utilities in a separate letter dated November 17, 2006.

This report is intended solely for the information and use of the City Commission, management, and federal and state regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

November 17, 2006