

Gainesville Regional Utilities

Quarterly Financial Statements

3rd Quarter Ending June 30, 2006



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Management Overview and Analysis

Overview

The City of Gainesville, Florida owns and operates a combined utility 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), wastewater collection and treatment systems (Wastewater System), 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 this management discussion and analysis of the utility system's financial statements for the quarter ending June 30, 2006. It should be read in conjunction with the financial statements that follow this section.

Basis of Accounting

The financial statements are presented on the accrual basis of accounting, under Generally Accepted Accounting Principles (GAAP). Under this basis, revenues are recognized in the period earned and expenses are recognized in the period incurred. Additionally, separate financial statements are presented in accordance with the amended and restated Utilities System Revenue Bond Resolution (Bond Resolution). In the Bond Resolution statements, rates are designed to cover operating and maintenance expense, debt service and other uses, which exclude depreciation expense and other non-cash expense items.

The Bond Resolution financial statement method of reporting results in costs being included in the determination of rates in different periods than when these costs are recognized for GAAP financial statement purposes.

Gainesville Regional Utilities has adopted the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the National Association of Regulatory Utility Commissioners (NARUC).

Financial Statements

GAINESVILLE REGIONAL UTILITIES
 COMBINED UTILITIES FUNDS
 STATEMENT OF OPERATING INCOME
 FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2006

(\$1,000)	YEAR TO DATE	ANNUAL BUDGET	TWELVE MONTH PROJECTION	DIFFERENCE PROJECTION VS. BUDGET	%
REVENUES:					
Total Native Load Sales of Electricity	70,935	102,741	102,649	(92)	(0.1)
Interchange Sales	2,662	3,397	3,611	214	6.3
Fuel Adjustment	66,233	77,236	95,618	18,382	23.8
Other Revenues	1,726	2,387	2,387	-	0.0
Rate Stabilization Fund Transfer	-	4,540	1,025	(3,515)	(77.4)
Interest Income	1,799	1,804	2,407	603	33.4
Total Electric Revenues	143,355	192,105	207,697	15,592	8.1
Sales of Water	12,864	18,172	17,004	(1,168)	(6.4)
Other Water Revenues	1,035	1,230	1,448	218	17.7
Rate Stabilization Fund Transfer	-	369	(111)	(480)	(130.1)
Interest Income	103	124	120	(4)	(3.2)
Total Water Revenues	14,002	19,895	18,461	(1,434)	(7.2)
Wastewater Billings	15,284	21,090	20,827	(263)	(1.2)
Other Wastewater Revenues	1,701	1,701	2,096	395	23.2
Rate Stabilization Fund Transfer	-	338	(644)	(982)	(290.5)
Interest Income	205	236	255	19	8.1
Total Wastewater Revenues	17,190	23,365	22,534	(831)	(3.6)
Sales of Gas and Service	8,594	11,668	11,396	(272)	(2.3)
Purchased Gas Adjustment	18,920	16,621	21,811	5,190	31.2
Rate Stabilization Fund Transfer	-	(343)	(2,161)	(1,818)	530.0
Interest Income	277	228	364	136	59.6
Total Gas Revenues	27,791	28,174	31,410	3,236	11.5
Sales of GRUCom Services	6,422	9,209	9,002	(207)	(2.2)
Rate Stabilization Fund Transfer	-	787	(672)	(1,459)	(185.4)
Interest Income	97	67	126	59	88.1
Total GRUCom Revenues	6,519	10,063	8,456	(1,607)	(16.0)
TOTAL REVENUES	208,857	273,602	288,558	14,956	5.5
OPERATION & MAINTENANCE EXPENSES:					
Electric Fund:					
Fuel Expense:					
Retail & Purchased Power	79,423	92,081	110,262	18,181	19.7
Interchange	1,948	2,114	2,462	348	16.5
Total Fuel Expense	81,371	94,195	112,724	18,529	19.7
Operation & Maintenance Expense	25,741	31,361	33,265	1,904	6.1
Administrative & General Expense	8,881	13,900	13,900	-	0.0
Total Electric Fund Expenses	115,993	139,456	159,889	20,433	14.7

COMBINED UTILITIES FUNDS
STATEMENT OF OPERATING INCOME
FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2006

(\$1,000)	YEAR TO DATE	ANNUAL BUDGET	TWELVE MONTH PROJECTION	DIFFERENCE PROJECTION VS. BUDGET	%
Water Fund:					
Operation & Maintenance Expense	4,482	5,382	5,497	115	2.1
Administrative & General Expense	2,487	3,735	3,735	-	0.0
Total Water Fund Expenses	6,969	9,117	9,232	115	1.3
Wastewater Fund:					
Operation & Maintenance Expense	4,898	6,163	6,487	324	5.3
Administrative & General Expense	3,004	4,430	4,430	-	0.0
Total Wastewater Fund Expenses	7,902	10,593	10,917	324	3.1
Gas Fund:					
Fuel Expense - Purchased Gas	18,762	18,136	22,192	4,056	22.4
Operation & Maintenance Expense	986	1,435	1,424	(11)	(0.8)
Administrative & General Expense	2,244	3,203	3,203	-	0.0
Total Gas Fund Expenses	21,992	22,774	26,819	4,045	17.8
GRUCom Fund:					
Operation & Maintenance Expense	1,843	3,596	3,332	(264)	(7.3)
Administrative & General Expense	1,688	2,232	2,232	-	0.0
Total GRUCom Fund Expenses	3,531	5,828	5,564	(264)	(4.5)
Total Operation & Maintenance Expenses	156,387	187,768	212,421	24,653	13.1
NET REVENUES IN ACCORDANCE WITH THE BOND RESOLUTION:					
Electric - Retail & Wholesale	26,648	51,366	46,659	(4,707)	(9.2)
Electric - Interchange	714	1,283	1,149	(134)	(10.4)
Total Electric Fund	27,362	52,649	47,808	(4,841)	(9.2)
Water Fund	7,033	10,779	9,229	(1,549)	(14.4)
Wastewater Fund	9,288	12,772	11,617	(1,155)	(9.0)
Gas Fund	5,799	5,400	4,591	(809)	(15.0)
GRUCom Fund	2,988	4,235	2,892	(1,343)	(31.7)
TOTAL NET REVENUES IN ACCORDANCE WITH THE BOND RESOLUTION	52,470	85,834	76,137	(9,697)	(11.3)
DEBT SERVICE					
UPIF CONTRIBUTIONS	16,901	30,806	21,685	(9,121)	(29.6)
TRANSFER TO GENERAL FUND	19,170	25,565	25,807	242	0.9
NUCLEAR DECOMMISSIONING/FUEL DISPOSAL	21,645	29,138	28,320	(818)	(2.8)
	219	325	325	-	0.0
NET INCOME/(DEFICIT)	(5,465)	-	-	-	N/A
(1) Projected Aggregate Debt Service Coverage Ratio		<u>76,137</u>	=	2.154	
		35,344			
(2) Projected Total Debt Service Coverage Ratio		<u>76,137</u>	=	1.849	
		41,185			

Electric Revenue Fund

Financial Performance Discussion

Total electric energy sales are projected to come in near budget for FY 2006. Variance in "other electric sales" revenues slightly exceeded five percent (5.3% greater than budget). The driver here is continued strong sales to the City of Alachua and Seminole (Clay – Farnsworth).

Fuel Adjustment Revenue and Fuel Expense are projected to be higher than budgeted by 23.8% and 19.7%, respectively. This is due primarily to higher than anticipated fuel costs and three unplanned outages of DH2 reflected in the performance-to-date. These outages necessitated the production of more power using natural gas and more than expected reliance on purchased power.

Interchange Sales and Interchange Fuel Expense are projected to be 6.3% and 16.5% higher than budgeted. This increase is due to increased cost of generation resulting in higher interchange prices, as mega-watt hours sold are projected to be below budget by 22.1%.

Projected interest income exceeds budget due to a combination of increasing interest rates and additional cash available in the operating funds. Despite increased fuel costs, the 2005 bond issuance resulted in additional cash available to be invested.

In previous quarters, O&M Expenses were reduced and Rate Stabilization Revenue was increased by \$3.2 million as reimbursements were received from FEMA for hurricane recovery costs sustained in FY2004 and FY2005. Based on the recommendation of our external auditor, the recovery has been removed from O&M Expenses and recorded directly to the Rate Stabilization Reserve. This was done in order to provide an accurate presentation of actual FY2006 expenses.

The total Operation and Maintenance (O&M) expense projection, less fuel expense, is projected to be \$1.9 million higher than budget. The increase in projection is due to \$1.3 million related to the Deerhaven Oil spill clean up, \$500K in additional nuclear fuel costs of Crystal River Nuclear Power Plant, and Transmission expenses \$100K higher than budget as a result of right-of-way work being done on the Serenola transmission line and due to the Lundgren washout.

Debt Service expenses are anticipated to come in well below budget. The change in debt service for FY06 is attributed to the 2005 financing which restructured the Utilities debt profile. This refinancing enabled the utility to take advantage of the recent interest rate environment while also creating more level debt service payments across periods. Lower debt service was achieved through a combination of refunding a portion of the 1996A Bond Series and the issuance of new monies for construction at a lower interest rate than budgeted.

ELECTRIC REVENUE FUND
STATEMENT OF OPERATING INCOME
FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2006

(\$1,000)	YEAR TO DATE	ANNUAL BUDGET	TWELVE MONTH PROJECTION	DIFFERENCE PROJECTION VS. BUDGET	%
REVENUES:					
Residential Sales	33,762	50,073	50,403	330	0.7
General Service Sales	23,419	34,484	33,330	(1,154)	(3.3)
Large Power Sales	4,173	5,547	5,673	126	2.3
Interchange Sales	2,662	3,397	3,611	214	6.3
Utility Surcharge	2,089	2,909	2,999	90	3.1
Other Electric Sales ⁽¹⁾	7,492	9,728	10,244	516	5.3
Total Sales of Elec. Before Fuel Adj	73,597	106,138	106,260	122	0.1
Fuel Adjustment	66,233	77,236	95,618	18,382	23.8
Total Sales of Electricity	139,830	183,374	201,878	18,504	10.1
Other Revenues ⁽²⁾	1,726	2,387	2,387	-	0.0
Rate Stabilization Fund Transfer	-	4,540	1,025	(3,515)	(77.4)
Interest Income	1,799	1,804	2,407	603	33.4
Total Revenues	143,355	192,105	207,697	15,592	8.1
OPERATION & MAINTENANCE EXPENSES:					
Power Production Expenses:					
Fuel Expense:					
Retail & Purchased Power	79,423	92,081	110,262	18,181	19.7
Interchange	1,948	2,114	2,462	348	16.5
Total Fuel Expense	81,371	94,195	112,724	18,529	19.7
Steam Power Generation Expense	15,755	17,199	18,499	1,300	7.6
Nuclear Power Generation Expense	1,450	1,514	2,014	500	33.0
Other Power Generation Expense	318	361	361	-	0.0
System Control & Load Dispatching	671	903	903	-	0.0
Total Power Production Expenses	99,565	114,172	134,501	20,329	17.8
Transmission & Distribution Expenses:					
Transmission Expense	638	781	885	104	13.3
Distribution Expense	6,909	10,603	10,603	-	0.0
Total Transmission & Distribution	7,547	11,384	11,488	104	0.9
Administrative & General Expenses:					
Customer Accounts & Sales Expense	2,854	4,181	4,181	-	0.0
Administrative & General Expense	6,027	9,719	9,719	-	0.0
Total Administrative & General	8,881	13,900	13,900	-	0.0
Total Operation & Maintenance Expenses	115,993	139,456	159,889	20,433	14.7
NET REVENUES IN ACCORDANCE WITH THE BOND RESOLUTION:					
Retail & Wholesale	26,648	51,366	46,659	(4,707)	(9.2)
Interchange	714	1,283	1,149	(134)	(10.4)
TOTAL NET REVENUE IN ACCORDANCE WITH BOND RESOLUTION	27,362	52,649	47,808	(4,841)	(9.2)
DEBT SERVICE	10,079	17,983	13,260	(4,723)	(26.3)
UPIF CONTRIBUTIONS	11,925	15,906	15,878	(28)	(0.2)
TRANSFER TO GENERAL FUND (Includes incentive)	13,662	18,435	18,345	(90)	(0.5)
NUCLEAR DECOMMISSIONING/FUEL DISPOSAL	219	325	325	-	0.0
NET INCOME/(DEFICIT)	(8,523)	-	-	-	N/A

⁽¹⁾ Other Electric Sales - Wholesale sales, traffic signals, streetlights and rental lights.

⁽²⁾ Other Revenues - Commercial lighting, service charges, miscellaneous.

Water Revenue Fund Financial Performance Discussion

Revenues from sales of water to general customers are tracking close to budget. Projected revenues from sales of water to the University of Florida are currently 8.7% above budget. This is primarily the result of increases to UF water rates not having been included in the budget. Revenues from fire hydrant rentals were included in the budget, but not in projections, because fire hydrant rental fees were incorporated into general customer water rates at the beginning of the fiscal year. Surcharge revenues include surcharges on connection fees, and other revenues include revenues from connection fees.

Projected interest income is below budget due to decreased cash available to invest, resulting from declining reserve balances.

In previous quarters, O&M Expenses were reduced and Rate Stabilization Revenue was increased by \$128,000 as reimbursements were received from FEMA for hurricane recovery costs sustained in FY2004 and FY2005. Based on the recommendation of our external auditor, the recovery has been removed from O&M Expenses and recorded directly to the Rate Stabilization Reserve. This was done in order to provide an accurate presentation of actual FY2006 expenses. With this correction, O&M expenses, less fuel expense, are currently projected to be within budget for the year. The impact of increased electrical rates is projected to result in \$191K over budget in the water treatment area.

Debt Service expenses are anticipated to come in well below budget. The change in debt service for FY06 is attributed to the 2005 financing which restructured the Utilities debt profile. This refinancing enabled the utility to take advantage of the recent interest rate environment while also creating more level debt service payments across periods. Lower debt service was achieved through a combination of refunding a portion of the 1996A Bond Series and the issuance of new monies for construction at a lower interest rate than budgeted.

WATER REVENUE FUND
STATEMENT OF OPERATING INCOME
FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2006

(\$1,000)	YEAR TO DATE	ANNUAL BUDGET	TWELVE MONTH PROJECTION	DIFFERENCE PROJECTION VS. BUDGET	%
REVENUES:					
General Customers	10,955	14,583	14,502	(81)	(0.6)
University of Florida	611	779	847	68	8.7
Utility Surcharge	1,197	1,638	1,532	(106)	(6.5)
Fire Hydrant Rentals	101	1,172	123	(1,049)	(89.5)
Total Sales of Water	12,864	18,172	17,004	(1,168)	(6.4)
Other Revenues ⁽¹⁾	1,035	1,230	1,448	218	17.7
Rate Stabilization Fund Transfer	-	369	(111)	(480)	(130.1)
Interest Income	103	124	120	(4)	(3.2)
Total Revenues	14,002	19,895	18,461	(1,434)	(7.2)
OPERATION & MAINTENANCE EXPENSES:					
Water Treatment Expense	3,043	3,810	4,001	191	5.0
Water Trans. & Dist. Expense	1,439	1,572	1,496	(76)	(4.8)
Customer Accounts & Sales Expense	764	1,171	1,171	-	0.0
Administrative & General Expense	1,723	2,564	2,564	-	0.0
Total Operation & Maintenance Expenses	6,969	9,117	9,232	115	1.3
TOTAL NET REVENUES IN ACCORDANCE WITH THE BOND RESOLUTION	7,033	10,778	9,229	(1,549)	(14.4)
DEBT SERVICE	2,477	4,531	3,208	(1,323)	(29.2)
UPIF CONTRIBUTIONS	1,620	2,155	2,125	(30)	(1.4)
TRANSFER TO GENERAL FUND	3,120	4,092	3,896	(196)	(4.8)
NET INCOME/(DEFICIT)	(184)	-	-	-	N/A

⁽¹⁾ Other Revenue - Connection fees and miscellaneous.

Wastewater Revenue Fund Financial Performance Discussion

Revenues from wastewater billings are 1.6% below budget through the third quarter. Revenues from surcharges, which include surcharges on connection fees, are 3.2% greater than the original budget. Other revenues, which are primarily revenues from connection charges, are running 23.2% ahead of budget. Connection fee revenues are a function of both the number of new connections, and the fee charged to each new connection, which varies significantly depending upon the size of the water meter installed.

Projected interest income exceeds budget due to a combination of increasing interest rates and additional cash available in the operating funds. Despite increased fuel costs, the 2005 bond issuance resulted in additional cash available to be invested.

In previous quarters, O&M Expenses were reduced and Rate Stabilization Revenue was increased by \$589K as reimbursements were received from FEMA for hurricane recovery costs sustained in FY2004 and FY2005. Based on the recommendation of our external auditor, the recovery has been removed from O&M Expenses and recorded directly to the Rate Stabilization Reserve. This was done in order to provide an accurate presentation of actual FY2006 expenses. With this correction, O&M expenses, less fuel expense, are currently projected to be within 3 % of budget for the year.

Debt Service expenses are anticipated to come in well below budget. The change in debt service for FY06 is attributed to the 2005 financing which restructured the Utilities debt profile. This refinancing enabled the utility to take advantage of the recent interest rate environment while also creating more level debt service payments across periods. Lower debt service was achieved through a combination of refunding a portion of the 1996A Bond Series and the issuance of new monies for construction at a lower interest rate than budgeted.

GAINESVILLE REVENUES
WASTEWATER REVENUE FUND
STATEMENT OF OPERATING INCOME
FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2006

(\$1,000)	YEAR TO DATE	ANNUAL BUDGET	TWELVE MONTH PROJECTION	DIFFERENCE PROJECTION VS. BUDGET	%
REVENUES:					
Wastewater Billings	13,970	19,408	19,092	(316)	(1.6)
Surcharge	1,314	1,682	1,735	53	3.2
Other Revenues ⁽¹⁾	1,701	1,701	2,096	395	23.2
Rate Stabilization Fund Transfer	-	338	(644)	(982)	(290.5)
Interest Income	205	236	255	19	8.1
Total Revenues	17,190	23,365	22,534	(831)	(3.6)
OPERATION & MAINTENANCE EXPENSES:					
Wastewater Collection Expense	1,416	1,518	1,699	181	11.9
Wastewater Treatment Expense	3,482	4,645	4,788	143	3.1
Customer Accounts & Sales Expense	644	960	960	-	0.0
Administrative & General Expense	2,360	3,470	3,470	-	0.0
Total Operation & Maintenance Expenses	7,902	10,593	10,917	324	3.1
TOTAL NET REVENUES IN ACCORDANCE WITH THE BOND RESOLUTION	9,288	12,772	11,617	(1,155)	(9.0)
DEBT SERVICE	2,590	4,232	3,134	(1,098)	(25.9)
UPIF CONTRIBUTIONS	2,844	3,794	3,923	129	3.4
TRANSFER TO GENERAL FUND	3,729	4,746	4,560	(186)	(3.9)
NET INCOME/(DEFICIT)	125	-	-	-	N/A

⁽¹⁾ Other Revenue - Connection fees and miscellaneous.

Gas Revenue Fund

Financial Performance Discussion

Overall, revenues from sales of natural gas are 2.3% below budget. Revenues from sales to residential customers are running 5.5% below budget. High prices, combined with relatively mild winter conditions, contributed to this deficit in sales revenues. Sales revenues in each of the other customer categories vary by less than 5% from the original budget.

The Purchased Gas Fuel Adjustment (PGA) revenue and Fuel Expense – Purchased Gas projections are 31.2% and 22.4%, respectively, higher than budgeted due to higher gas prices than anticipated. Since fuel expenses are passed through to the customer, revenues increase as fuel expenses increase. Even though the fuel expense is a pass through, there is a difference between PGA fuel revenue and fuel expense due to presenting the Cleanup Cost Recovery Factor separately and true-ups that affect the timing between reporting periods.

Projected interest income exceeds budget due to a combination of increasing interest rates and additional cash available in the operating funds. Despite increased fuel costs, the 2005 bond issuance resulted in additional cash available to be invested.

In previous quarters, O&M Expenses were reduced and Rate Stabilization Revenue was increased by \$105K as reimbursements were received from FEMA for hurricane recovery costs sustained in FY2004 and FY2005. Based on the recommendation of our external auditor, the recovery has been removed from O&M Expenses and recorded directly to the Rate Stabilization Reserve. This was done in order to provide an accurate presentation of actual FY2006 expenses. With this correction, O&M expenses, less fuel expense, are currently projected to be within budget for the year.

Debt Service expenses are anticipated to come in well below budget. The change in debt service for FY06 is attributed to the 2005 financing which restructured the Utilities debt profile. This refinancing enabled the utility to take advantage of the recent interest rate environment while also creating more level debt service payments across periods. Lower debt service was achieved through a combination of refunding a portion of the 1996A Bond Series and the issuance of new monies for construction at a lower interest rate than budgeted.

GAINESVILLE REGIONAL UTILITIES
 GAS REVENUE FUND
 STATEMENT OF OPERATING INCOME
 FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2006

(\$1,000)	YEAR TO DATE	ANNUAL BUDGET	TWELVE MONTH PROJECTION	DIFFERENCE PROJECTION VS. BUDGET	%
REVENUES:					
Sales of Gas and Service:					
Residential	4,745	6,742	6,368	(374)	(5.5)
Commerical & Industrial	2,266	2,801	2,806	5	0.2
Interruptible & Transportation	486	840	863	23	2.7
Purchased Gas Adjustment	18,920	16,621	21,811	5,190	31.2
Surcharge	280	346	362	16	4.6
Cleanup Cost Recovery Factor (MGP)	604	752	747	(5)	(0.7)
Other Revenue ⁽¹⁾	213	187	250	63	33.7
Total Sales	27,514	28,289	33,207	4,918	17.4
Miscellaneous Revenue:					
Rate Stabilization Fund Transfer	-	(343)	(2,161)	(1,818)	530.0
Interest Income	277	228	364	136	59.6
Total Revenues	27,791	28,174	31,410	3,236	11.5
OPERATION & MAINTENANCE EXPENSES:					
Fuel Expense - Purchased Gas	18,762	18,136	22,192	4,056	22.4
Operation & Maintenance Expenses	986	1,435	1,424	(11)	(0.8)
Customer Accounts & Sales Expense	1,486	2,242	2,242	-	0.0
Administrative & General Expense	758	961	961	-	0.0
Total Operation & Maintenance Expenses	21,992	22,774	26,819	4,045	17.8
TOTAL NET REVENUES IN ACCORDANCE WITH THE BOND RESOLUTION	5,799	5,400	4,591	(809)	(15.0)
DEBT SERVICE	988	1,693	1,042	(651)	(38.5)
UPIF CONTRIBUTIONS	1,620	2,157	2,345	188	8.7
TRANSFER TO GENERAL FUND	900	1,550	1,204	(346)	(22.3)
NET INCOME/(DEFICIT)	2,291	-	-	-	N/A

⁽¹⁾ Other Revenue - Liquid propane sales, service charges and miscellaneous.

GRUCom Revenue Fund

Financial Performance Discussion

GRUCom year to date revenues are lower than planned. The corporate consolidations in the personal wireless services industry have negatively affected GRUCom's circuit sales in the short run and the attrition in dial-up Internet access customers and revenue continues. However, the lower revenues were more than offset by lower operating expenses.

Increased revenue growth is expected in the fourth quarter of FY06 as new transport agreements with the surviving wireless providers have been executed. The wireless providers are rolling out expanded data services, and GRUCom has recently received orders for than eighty new transport circuits. GRUCom has also signed up several additional multi-family dwelling unit developments for Broadband Internet access services and these projects should begin generating revenues in the summer months as students return for fall classes.

Projected interest income exceeds budget due to a combination of increasing interest rates and additional cash available in the operating funds. The 2005 bond issuance resulted in additional cash available to be invested.

In the O&M area, total projections for the year are \$264K less than budgeted due to a continued reduction in circuit related costs (\$69K), and delay in the rollout of 2-way voice business services (\$107K). In previous quarters, O&M Expenses were reduced and Rate Stabilization Revenue was increased by \$10K as reimbursements were received from FEMA for hurricane recovery costs sustained in FY2004 and FY2005. Based on the recommendation of our external auditor, the recovery has been removed from O&M Expenses and recorded directly to the Rate Stabilization Reserve

Debt Service expenses are anticipated to come in well below budget. The change in debt service for FY06 is attributed to the 2005 financing which restructured the Utilities debt profile. This refinancing enabled the utility to take advantage of the recent interest rate environment while also creating more level debt service payments across periods. Lower debt service was achieved through a combination of refunding a portion of the 1996A Bond Series and the issuance of new monies for construction at a lower interest rate than budgeted.

GRUCOM REVENUE FUND
 STATEMENT OF OPERATING INCOME
 FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2006

(\$1,000)	YEAR TO DATE	ANNUAL BUDGET	TWELVE MONTH PROJECTION	DIFFERENCE PROJECTION VS. BUDGET	%
REVENUES:					
Sales :					
Telecommunication	3,118	4,509	4,429	(80)	(1.8)
Trunking Radio	1,385	1,887	1,846	(41)	(2.2)
Tower Lease Rental	964	1,272	1,437	165	13.0
Internet Access	955	1,541	1,290	(251)	(16.3)
Total Sales	6,422	9,209	9,002	(207)	(2.2)
Miscellaneous Revenue:					
Rate Stabilization Fund Transfer/Borrowings	-	787	(672)	(1,459)	(185.4)
Interest Income	97	67	126	59	88.1
Total Revenues	6,519	10,063	8,456	(1,607)	(16.0)
OPERATION & MAINTENANCE EXPENSES:					
Operation & Maintenance Expenses	1,843	3,596	3,332	(264)	(7.3)
Customer Accounts & Sales Expense	300	474	474	-	0.0
Administrative & General Expense	1,388	1,758	1,758	-	0.0
Total Operation & Maintenance Expenses	3,531	5,828	5,564	(264)	(4.5)
TOTAL NET REVENUES IN ACCORDANCE WITH THE BOND RESOLUTION	2,988	4,235	2,892	(1,343)	(31.7)
DEBT SERVICE	767	2,367	1,041	(1,326)	(56.0)
UPIF CONTRIBUTIONS	1,161	1,553	1,536	(17)	(1.1)
TRANSFER TO GENERAL FUND	234	315	315	-	0.0
NET INCOME/(DEFICIT)	826	-	-	-	N/A

Balance Sheet – Combined Funds

Cash, Investments and Accounts Receivable increased slightly due to increased Customer Accounts Receivable as a result of higher Electricity usage as we move into the summer months. A temporary transfer of \$13 million from Rate Stabilization to Operating Fund cash was necessary to meet a short term cash deficit, primarily due to high fuel costs and increased fuel inventory.

Other Current Assets has increased due to higher fuel inventory and increased volatility in the market for natural gas. Fuel inventory increases are caused by a combination of higher fuel costs which drive the dollar value of the inventory up, and an increase in coal inventory on hand to meet the higher summer demand.

In the Restricted Asset section, debt service cash is lower as of June 2006 by \$1.8 million due to semi-annual interest payments due on April 1st, offset by additional deposits to Debt Service Cash in preparation for July financing. The Utility Plant Improvement Fund has decreased due to the budgeted payments of debt service and the payment of current year construction costs. The Construction Fund is used to pay for Capital Improvements.

Included in the change for Current Liabilities is an increase in Fuels Payable, a result of increased fuel inventories as described above, an increase in amounts due from other funds, and an increase in the deferred credit for the Purchased Gas Adjustment.

Other Payables from Restricted Assets decreased \$4.4 million, primarily due to 6-month interest payments on April 1st, offset by the accrual of an additional 3 months interest payable. The decrease is tied to the timing of when our semi-annual debt interest payments are made, which is every April 1st and October 1st

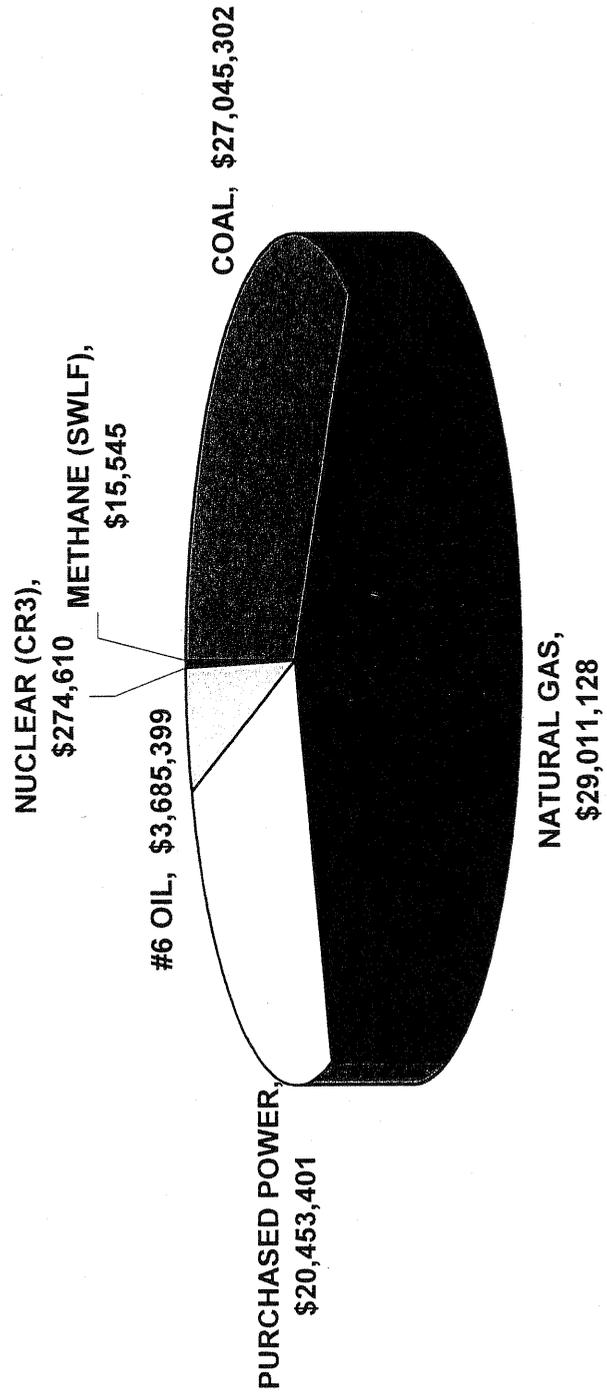
**GAINESVILLE REGIONAL UTILITIES
COMBINED FUNDS
BALANCE SHEET
JUNE 30, 2006**

(000's)	<u>ASSETS</u>	Jun 30, 2006	Mar 31, 2006	\$ Difference	% Difference
CURRENT ASSETS:					
	Cash, Investments & Accounts Receivable	37,189	35,959	1,230	3.3%
	Other Current Assets	41,422	29,917	11,505	27.8%
	TOTAL CURRENT ASSETS	<u>78,611</u>	<u>65,876</u>	<u>12,735</u>	<u>16.2%</u>
RESTRICTED ASSETS:					
	Debt Service Fund	17,475	19,312	(1,837)	-10.5%
	Construction Fund	144,997	161,799	(16,802)	-11.6%
	Utility Plant Improvement Fund	21,619	23,891	(2,272)	-10.5%
	Rate Stabilization Fund	47,908	56,889	(8,981)	-18.7%
	Other Restricted Assets	12,932	12,850	82	0.6%
	TOTAL RESTRICTED ASSETS	<u>244,931</u>	<u>274,741</u>	<u>(29,810)</u>	<u>-12.2%</u>
	OTHER NON-CURRENT ASSETS	<u>140,121</u>	<u>142,995</u>	<u>(2,874)</u>	<u>-2.1%</u>
	NET CAPITAL ASSETS	<u>748,071</u>	<u>741,382</u>	<u>6,689</u>	<u>0.9%</u>
	TOTAL ASSETS	<u>1,211,734</u>	<u>1,224,994</u>	<u>(13,260)</u>	<u>-1.1%</u>
 <u>LIABILITIES AND NET ASSETS</u>					
	CURRENT LIABILITIES	<u>27,794</u>	<u>18,730</u>	<u>9,064</u>	<u>32.6%</u>
PAYABLE FROM RESTRICTED ASSETS:					
	Rate Stabilization Deferred Credit	60,694	56,595	4,099	6.8%
	Other Payables From Restricted Assets	28,397	32,778	(4,381)	-15.4%
	TOTAL PAYABLE FROM RESTRICTED ASSETS	<u>89,091</u>	<u>89,373</u>	<u>(282)</u>	<u>-0.3%</u>
LONG TERM-DEBT:					
	Utilities System Revenue Bonds Payable-Senior Lien Debt	540,220	540,220	0	0.0%
	Utilities System Revenue Bonds Payable-Sub. Debt	65,300	65,300	0	0.0%
	Commercial Paper Notes Payable	0	0	0	100.0%
	Unamortized Bond Financing Costs	(13,336)	(13,755)	419	-3.1%
	TOTAL LONG-TERM DEBT	<u>592,184</u>	<u>591,765</u>	<u>419</u>	<u>0.1%</u>
	OTHER NON-CURRENT LIABILITIES	<u>160,391</u>	<u>163,704</u>	<u>(3,313)</u>	<u>-2.1%</u>
	TOTAL LIABILITIES	<u>869,460</u>	<u>863,572</u>	<u>5,888</u>	<u>0.7%</u>
	TOTAL NET ASSETS	<u>342,274</u>	<u>361,422</u>	<u>(19,148)</u>	<u>-5.6%</u>
	TOTAL LIABILITIES AND NET ASSETS	<u>1,211,734</u>	<u>1,224,994</u>	<u>(13,260)</u>	<u>-1.1%</u>

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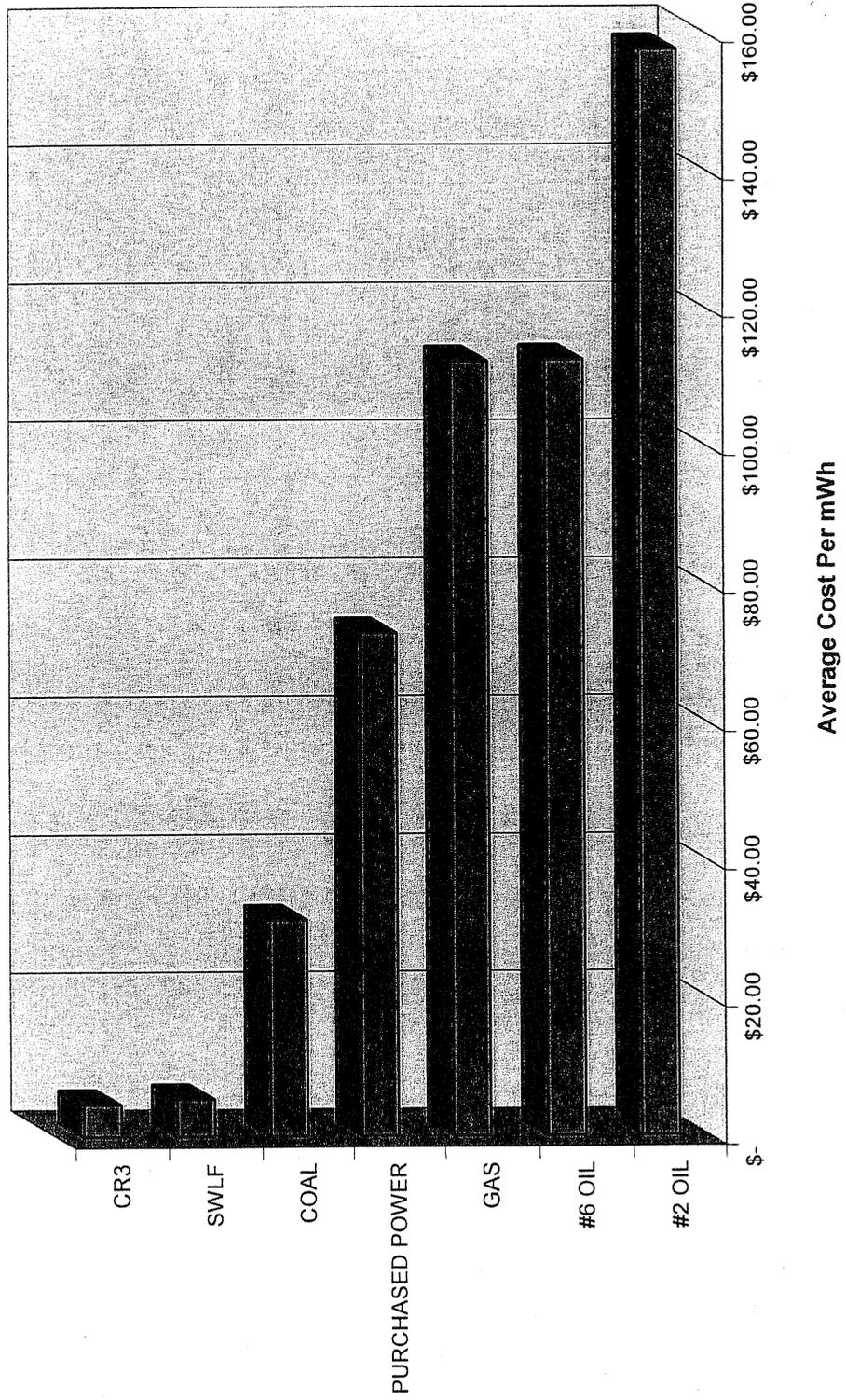
Supplemental Data

Electric Generation Fuel Expense by Fuel Type FY 06 Through June 30, 2006



- COAL
- NATURAL GAS
- PURCHASED POWER
- #6 OIL
- NUCLEAR (CR3)
- METHANE (SWLF)

**Average Electric Generation Fuel Cost Per mWh
FY 06 through June 30, 2006**



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**Definitions and Supplemental
Information**

Glossary of Terms Flow of Funds Statements

All Systems

Debt Service – Accounts for funds accumulated to provide payment of principal and interest on, or to redeem, outstanding debt.

Interest Income – As presented on our Flow of Funds Statement of Operating Income, it represents interest earnings on utility investments.

Operation & Maintenance Expense – Non-Fuel – This represents all operating, maintenance and administrative costs needed to support electric power generation, transmission and distribution, water treatment and distribution, wastewater collection and treatment, and telecommunication services provided by the utility.

Rate Stabilization Fund Transfer – This fund accounts for monies accumulated as a reserve for unplanned events, revenue changes, forecasting errors or unexpected losses and to stabilize rates over future periods through the transfer of funds to and from operations as necessary.

Surcharge – Additional charge to customers in the unincorporated service area, i.e. Electric – 10%, equal to the electric use tax; Gas – 10%; Water – 25% and Wastewater – 25% both per F.S Chapter 180.

UPIF Contributions – The Utility Plant Improvement Fund (UPIF) 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. The contribution level is established under a formula set forth in the Utilities System Revenue Bond Resolution. It represents the equity that the utility puts back into the system.

Electric System

Fuel Adjustment – Revenue from fuel cost recovered from customers beyond the amount that is recovered in the base energy charge. GRU's cost of fuel for the electric system is passed directly through to its customers. The base energy charge includes a portion of the fuel cost, 6.5 mils, or \$6.50 per 1,000 kWh. Fuel cost beyond this amount is applied to customer bills as calculated monthly, via a fuel adjustment rate.

Interchange Sales – Large blocks of energy sold to other utilities on a firm or non-firm basis. These sales are controlled through GRU's Control Area Services, which monitors excess availability of power generated.

Nuclear Decommissioning\Fuel Disposal – As a partial owner of the Crystal River Unit 3 (CR3) nuclear power plant operated by Progress Energy, GRU is responsible for its share of future decommissioning costs. These costs are expensed annually and recovered through rates charged to customers. The fuel disposal cost represents GRU's share of costs associated with safely disposing of CR3's spent nuclear fuel assembly units.

Fuel Expense – This represents the cost of the fuel supply needed to generate electric power, i.e. coal, oil and natural gas, as well as the fuel distributed directly to service accounts, i.e. natural gas.

Other Electric Sales – This includes wholesales sales (sales for resale) to City of Alachua and Seminole Electric Co-op, traffic signal and streetlight sales to the City and County.

Other Revenue – This includes miscellaneous revenue receipts not specified in other categories, such as commercial lighting and service charges.

Gas System

Cleanup Cost Recovery Factor (MGP) – Revenue collected, at a rate of \$.0321/therm, for the cleanup and renovation of the former manufactured gas plant site into the Depot Avenue Stormwater Park.

Commercial & Industrial (General Service) – Natural gas and liquefied propane service provided on a firm, non-interruptible basis for any purpose except for residential purposes.

Fuel Expense – Purchased Gas – The purchase of natural gas, through long-term contractual agreements, for direct distribution to our gas utility services.

Interruptible & Transportation – Natural gas service provided on a non-firm basis to nonresidential customers. This service is subject to interruption pursuant to the policies and conditions stipulated to by the customer and the System. Included also is revenue for gas transportation to the University of Florida.

Other Gas Sales – Includes other miscellaneous sales not specifically identified in other categories, such as Liquid Propane (LP) sales.

Other Revenue - This includes miscellaneous revenue receipts not specified in other categories, such as service charges.

Residential Gas Sales – Natural gas and liquified propane service provided on a firm, non-interruptible basis to households and other nonprofit living units.

Water System

Other Revenues – This includes connection fee charges for water service to new service locations plus miscellaneous revenue receipts not specified in other categories.

Wastewater System

Other Revenues – This includes connection fee charges for wastewater service to new service locations plus miscellaneous revenue receipts not specified in other categories

GRUCom System

Internet Access – Revenue generated from the sale of retail Internet access. GRUCom provides dial-up Internet access services under the domain names GRU.Net and Gator.Net. High speed Internet access is also provided to commercial customers, government entities and to residents at several apartment complexes in the Gainesville area. High speed Internet access services are typically delivered to the customer location utilizing the GRUCom fiber optic network. Revenue from periphery services such as Web Site Hosting and e-mail only accounts are also included in this category.

Telecommunications Revenue– Includes revenue for sales of point to point and carrier access circuits delivered in whole, or in part, on the GRUCom fiber optic network. These sales are primarily to other telecommunications carriers, commercial customers and government entities requiring high bandwidth connections for delivery of data, voice and video signals. Also includes revenues from switched services provided by GRUCom. Currently GRUCom utilizes its voice switch to provide call in lines for dial-up access to Internet Service Providers including GRU.Net/Gator.Net.

Tower Lease Rental – Revenue generated in conjunction with the lease of space on the City's communication and water towers for the location of antennas and related equipment. These leases are primarily with Cellular and Personal Communications Services (PCS) companies offering wireless communications in the Gainesville area. Also includes revenue from the rental of interface equipment to customers (Routers, Channel Service Units/Data Service Units, etc.) necessary for them to connect to GRUCom services delivered over the fiber optic network.

Trunking Radio – Revenue generated by the 800 MHz radio system, delivering switched voice and data services for public safety and other government entities. Revenues are collected through monthly subscriber unit charges.

Glossary of Terms Balance Sheet

Other Current Assets – Includes fuel and stores inventories and other miscellaneous current assets.

Restricted Assets – Those moneys or other resources that are restricted as to use by legal or contractual requirements.

Other Restricted Assets – GRU's investment in The Energy Authority (TEA) and our funded obligation for the decommissioning of our share of Crystal River #3 nuclear facility.

Other Non-Current Assets – Includes long-term portion of Lease In\Lease Out (LILO) of Deerhaven generation plant, plus other miscellaneous non-current assets.

Net Capital Assets – System plant assets net of accumulated depreciation.

Current Liabilities – Includes fuels, vendor and miscellaneous payables.

Payable from Restricted Assets – Obligations that are payable from GRU's restricted assets.

Other Payables from Restricted Assets – Includes the current year's portion of debt principal due and Construction Fund vendor payables.

Long-Term Debt – Bonds and commercial paper debt obligations.

Other Non-Current Liabilities – Includes deferred revenue due from LILO transaction.

Total Liabilities – The combination of Current Liabilities, Payable from Restricted Assets, Long-Term Debt and Other Non-Current Liabilities.

Net Assets – The net value or net worth of the system after deducting total liabilities from system assets.

