Financial Statements

Management's Discussion and Analysis 26

Report of Independent Certified Public Accountants 31

Audited Financial Statements 32

- Balance Sheets 32
- Statements of Revenues, Expenses and Changes in Net Assets 34
- Statements of Cash Flows 35
- Notes to Financial Statements. 37

Supplemental Schedules

Schedules of Combined Net Revenues in Accordance with Bond Resolution 52

Schedules of Net Revenues in Accordance with Bond Resolution –

- Electric Utility Fund 54
- Water Utility Fund 55
- Wastewater Utility Fund 56
- Gas Utility Fund 57
- GRUCom Utility Fund 58

Notes to Schedules of Net Revenues in Accordance with Bond Resolution 59

Combining Balance Sheet 60

Combining Statement of Revenues, Expenses and Changes in Net Assets 62

Schedule of Utility Plant Properties—Combined Utility Fund 63

Schedule of Accumulated Depreciation and Amortization – Combined Utility Fund 64

Other Reports

Independent Certified Public Accountants' 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 64

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, 2009 and 2008. 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 38 - 51 of this report.

Financial Analysis of the Combined Utility System

The Combined Utility System net assets increased by $33.6 million from 2008 to 2009, and $18.3 million from 2007 to 2008. Table 1 focuses on the net assets.

Table 1

Combined Utility System Net Assets (In Thousands)

	September 30		
	2009	**2008**	**2007**
Current and other assets	**$ 450,748**	$ 486,458	$ 395,996
Capital assets, net	**1,055,637**	954,761	839,422
Total assets	**1,506,385**	1,441,219	1,235,418
Long-term debt outstanding	**915,589**	748,603	574,164
Current and other liabilities	**172,915**	308,308	295,290
Total liabilities	**1,088,504**	1,056,911	869,454
Net assets:			
Invested in capital assets, net of related debt	**319,637**	322,253	319,757
Restricted	**58,428**	46,861	37,862
Unrestricted	**39,816**	15,194	8,345
Total net assets	**$ 417,881**	$ 384,308	$ 365,964

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

Table 2

Combined Utility System Changes in Net Assets (In Thousands)

	September 30		
	2009	**2008**	**2007**
Operating revenues	**$ 369,874**	$ 349,970	$ 294,840
Interest income	**6,680**	9,272	11,317
Gain on sale of investments	**–**	97	–
Total revenues	**376,554**	359,339	306,157
Operating expenses	**285,822**	285,831	243,869
Interest expense, net	**26,417**	28,195	26,943
Total expenses	**312,239**	314,026	270,812
Income before contributions and transfers	**64,315**	45,313	35,345
Capital contributions, net	**3,746**	4,483	14,139
Operating transfer to City of Gainesville	**(34,488)**	(31,452)	(30,397)
Change in net assets	**33,573**	18,344	19,087
Net assets, beginning of year	**384,308**	365,964	346,877
Net assets, end of year	**$ 417,881**	$ 384,308	$ 365,964

Capital Asset and Debt Administration

Capital Assets. GRU's investment in capital assets as of September 30, 2009, amounts to $1.06 billion (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 10.6%. In fiscal 2008, it increased 13.7%.

The following table summarizes the System's capital assets, net of accumulated depreciation and changes for the years ended September 30, 2009, 2008 and 2007.

Combined Utility System Capital Assets
(Net of accumulated depreciation) (In Thousands)

	September 30		
	2009	**2008**	**2007**
Generation	**$ 149,841**	$ 150,474	$ 162,613
Transmission, distribution and collection	**400,137**	392,026	368,347
Treatment	**57,933**	62,172	62,842
General plant	**49,072**	42,164	44,825
Plant held for future use	**6,054**	6,054	6,054
Plant unclassified	**–**	776	8,959
Construction work in progress	**392,600**	301,095	185,782
Total net utility plant	**$ 1,055,637**	$ 954,761	$ 839,422

Major capital asset events included the following:

- In May of this year, GRU successfully went live with its Financial Management Information System. $7.4 million was incurred in 2009 bringing the total project cost to $9.3 million, which is being amortized over 7 years. $1.9 million was incurred in 2008.
- Electric transmission and distribution expansion was $13.1 million in 2009 and $13.8 million in 2008. For 2009, $2.2 million was pertaining to underground system improvements.
- Construction on GRU's South Energy Center is now complete and the plant is fully operational. The South Energy Center is a combined heat and power facility built to provide the Shands medical campus with steam, chilled water and backup power in case of a disaster. $15.7 million of the $52 million project was incurred in 2009. $30 million of construction expenditures were incurred in 2008.
- Work is nearly complete on the $141 million Air Quality Control project at Deerhaven 2 with sections of the unit currently in operation. $50.2 million in costs were added in 2009 and $62.6 million in 2008.
- Murphree Water Treatment Plant has completed construction and is in the final testing phase of a significant expansion to its filter system. In 2009, GRU incurred costs of $2.9 million versus $3.4 million in 2008. The project will total an estimated $8.5 million when the final testing phase is complete in 2010.
- Groundbreaking is set to begin in 2010 for GRU's Eastside Operations facility as $1.7 million was incurred in 2009 for preliminary engineering costs. The project will total over $50 million when complete in 2011.
- Telecommunication fiber cable expansion was $1.0 million in 2009 and $1.7 million in 2008.
- Gas distribution plant was expanded $0.4 million in 2009 compared to $1.0 million in 2008.

The Utility's 2010 capital budget is $128.9 million and was $181.6 million in 2009. 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 40 of this report.

Long-Term Debt. At September 30, 2009 and 2008, GRU had total long-term debt outstanding of $966 million and $792 million, respectively, comprised of revenue bonds and other long-term debt.

Outstanding Debt at September 30 (In Thousands)

	September 30		
	2009	**2008**	**2007**
Senior Lien revenue bonds	**$ 889,600**	$ 730,495	$ 550,750
Subordinated revenue bonds	**–**	–	65,300
Commercial Paper	**76,000**	62,000	–
Total	**$ 965,600**	$ 792,495	$ 616,050

On September 16, 2009, the City issued Utilities System Revenue Bonds, 2009 Series A (Federally Taxable) in the amount of $24.2 million and the 2009 Series B (Federally Taxable – Issuer Subsidy – Build America Bonds) in the amount of $156.9 million. A portion of the 2009 Series B bonds in the amount of $14 million was used to refund the Utilities System Taxable Commercial Paper Notes, Series D on October 22, 2009.

On April 2, 2009, the City issued Utilities System Taxable Commercial Paper Notes, Series D in the amount of $14 million in order to fund the payment associated with the termination of the LILO agreement, as explained in Note 14, page 49 of the notes to the financial statements.

On April 28, 2008, the City issued Utilities System Commercial Paper Notes, Series C in the amount of $62 million to refund the 2002 Series A Bonds and the 2002 Series B Bonds.

On February 13, 2008, the City issued Utilities System Revenue Bonds, Series 2008A in the amount of $105 million and Utilities System Revenue Bonds, Series 2008B in the amount of $90 million. The 2008A Bonds mature on various dates from October 1, 2009 to October 1, 2020. The 2008B Bonds mature on various dates from October 1, 2022 to October 1, 2038. The 2008A Bonds and the 2008B Bonds were issued to pay costs of acquisition and construction of the City's utilities systems.

The System maintains ratings of Aa2 and AA with Moody's Investors Services and Standard & Poor's (S&P), 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 41 - 46 of this report.

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

- Operating sales revenue increased $12.5 million or approximately 3.7% and $41.7 million or approximately 14.3%, in fiscal 2009 and 2008, respectively. Included in this amount is an increase in revenue of approximately $23.9 million related to higher fuel costs in fiscal 2008, as compared to 2007. Fuel costs are passed directly through to our customers as part of a fuel adjustment charge, which is recorded as revenue. The increase in sales revenue in fiscal 2009 is primarily a result of rate increases implemented in October 2008.
- Net capital contributions from developers decreased in fiscal 2009 over fiscal 2008 by $0.7 million and decreased in fiscal 2008 over fiscal 2007 by $9.7 million. This continued decrease is due to a decrease in new development.
- Fiscal 2009 year-end fuels payable decreased $0.6 million, or approximately 6.2%, compared to fiscal 2008 year-end. The decrease was a result of lower fuel costs due a new coal contract initiated during fiscal 2009.
- Gross utility plant in service increased $37.5 million, or 3.2%, and net capital assets increased $100.9 million, or 10.6% in fiscal 2009. In fiscal 2008, gross utility plant in service increased $43.0 million, or 3.8%, and net capital assets increased $115.3 million, or 13.7%. This is summarized under "Capital Assets," on page 40.
- Long-term debt increased $167 million, or 22.3%, in fiscal 2009, due the issuance of new Revenue bonds totaling $181 million, offset by the scheduled paydown of principal. Long-term debt decreased $18.1 million, or 3.1%, in fiscal 2008, due to scheduled paydown of principal. See "Long-Term Debt" on page 27, and the detail, on pages 41 - 46.
- The number of customers for electric services increased 0.3%, while water, wastewater and gas services decreased 0.4%, 0.3% and 1.0%, respectively, in fiscal 2009, and increased 3.3%, 3.0%, 2.2%, and 2.0%, respectively, in fiscal 2008.
- GRU is in the process of remediation efforts at a former manufactured gas plant site. The costs incurred to date total $5 million and GRU estimates that remaining costs of the project will be approximately $11.9 million. However, to date GRU has recovered $3.3 million from insurance. 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, pages 48 - 49 of this report.
- GRU's service territory incurred approximately $1.1 million of damage to its facilities as a result of Tropical Storm Fay in September 2008. The $1.1 million in storm-related expenses were accrued as fiscal 2008 activity and reported in current liabilities. Requests for Federal Emergency Management Agency (FEMA) funding have been submitted. GRU expects to receive a recovery of 75% from federal and 12.5% from state emergency funds as a result of this request. A receivable of $1 million, or 87.5%, of expenses was recorded in FY2008. An additional $0.1 million in expenses were incurred during the first quarter of fiscal 2009. The recoveries are expected to be received in fiscal year 2010.

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.

Reinstatement of the Clean Air Interstate Rule (CAIR) and Clean Air Mercury Rule (CAMR), or the promulgation of other rules to the same end, create uncertainty as to the capital, operating and maintenance expenditures which will be required by the Deerhaven and JR Kelly generating stations in 2009 and 2010, which may be significant.

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. Currently, there is no initiative concerning retail electric deregulation in Florida or nationwide.

Legislation and regulation at a federal level has been proposed to mandate the use of renewable energy and to constrain the emission of greenhouse gases. GRU's institution of a solar feed-in-tariff and intention to purchase power from a 100 megawatt (MW) biomass fueled power plant will hedge against these uncertainties as well as achieve other local policy objectives.

On October 1, 2009, GRU implemented a 6.90% 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 the revenue requirement by 4.50% for the water system, and by 2.25% for the wastewater system. There was no increase for the gas system. When combined with the reduced fuel adjustment component of the bill, this represents an overall monthly decrease of $1.77 for a typical residential customer with all four services.

To meet increased costs of service, GRU increased water connection fees 5.00% and wastewater connection fees 3.50%.

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

GRU's long-term energy supply strategy is to aggressively pursue the maximum cost effective energy conservation and renewable energy while managing potential regulatory requirements. Based on the most recent forecasts, which include the effects of aggressive conservation programs, GRU has adequate reserves of generating capacity to meet forecasted loads plus a 15% reserve margin through 2022. This forecast differs from previous years due to additional generation capacity, new population forecasts, and changed economic circumstances. Additional capacity includes 7 MW of distributed generation (4 combined heat and power and 3 renewable), and 2.5 MW of additional nuclear capacity due to Progress Energy Florida's planned upgrade of the Crystal River 3 nuclear unit (of which GRU owns a small share). GRU implemented the first Solar Feed-In-Tariff in the United States in 2009, under which solar developers own and install solar systems that feed directly to GRU's grid, the utility purchases the power under a 20-year contract and GRU retains all of the renewable energy credits accrued by the system. The program allows for additional capacity of up to 4 MW per year and has been a resounding success, receiving commitment from developers for the full 4 MW of capacity in each year through 2016, adding a growing renewable resource to GRU's supply portfolio. Management bases its forecast of future energy needs upon the population forecast for Gainesville produced annually by the Bureau of Economic and Business Research at the University of Florida. GRU management, with the approval of the City Commission, has negotiated a long-term contract to secure the output from a 100 MW biomass fueled power plant. The proposed facility will be located on a portion of land leased from GRU's Deerhaven power plant site, but owned by a third party. Construction of the plant is scheduled to be completed by the end of 2013, with GRU taking 50 MW of the output and reselling the remaining 50 MW to other utilities until the capacity is needed by GRU. The project is expected to provide a long-term hedge against volatile fossil fuel costs and potential federal and state renewable energy requirements and/or carbon regulations.

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

On December 10, 1998, the City entered into a lease/leaseback (LILO) 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 had an option to buy out the remainder of the lease for a fixed purchase option amount.

Under the terms of the transaction, the City continued 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 Ambac Assurance Corporation (Ambac), a financial guaranty insurance company that also provided credit enhancement for the transaction. The deposit instruments matured 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 was 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). Based on regulations released by the Internal Revenue Service in 2007, GRU currently anticipates that it will owe little, if any, excise tax under the Act, but this result is not certain given the interpretive questions that still remain with respect to the excise tax.

In November 2008, Moody's Investors Service and Standard & Poor's downgraded their respective credit ratings of Ambac. Under the terms of the lease/leaseback transaction documents, the City is required to provide substitute credit enhancement within 30 days of the occurrence of Ambac's ratings downgrades. GRU worked with its financial advisor and legal counsel to evaluate its options. Based on that evaluation, GRU determined that the termination of the LILO transaction was the most appropriate action. GRU staff negotiated the termination price with the equity investor and worked with Ambac to value the GIC. In February 2009, the parties terminated the LILO transaction on mutually acceptable terms and GRU, on behalf of the City, paid a termination payment of approximately $13.3 million. In order to fund this termination payment, GRU issued $14 million of additional Series D CP Notes. Following the termination, the System continues to retain possession of, and entitlement to, the output of the LILO units.

GRU has a possible environmental liability related to an 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 estimated 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.

GRU has established a reserve for environmental liability of $2.3 million to cover any unknown liabilities which may be identified in the future.

Requests for Information

This financial report is designed to provide a general overview of the Combined Utility System's finances for all those with an interest in the Combined Utility 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, Florida 32614-7117.

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, 2009 and 2008, 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, 2009 and 2008, 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 February 26, 2010, 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 performed for the purpose of forming an opinion on the basic financial statements taken as a whole. 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.

Ernst + Young LLP

Ernst & Young LLP
Orlando, Florida
February 26, 2010

BALANCE SHEETS

September 30, 2008 & 2009

	September 30	
	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	**$ 9,099,550**	$ 4,568,881
Accounts receivable, net of allowance for uncollectible accounts of $979,801 in 2009 and $757,161 in 2008	**46,307,955**	51,428,892
Prepaid rent – lease/leaseback	**–**	10,686,909
Fuels contracts	**5,910,868**	1,167,586
Deferred charges	**2,396,095**	8,670,229
Inventories:		
Fuel	**6,848,678**	5,961,105
Materials and supplies	**9,698,816**	9,935,476
Total current assets	**80,261,962**	92,419,078
Restricted assets:		
Utility deposits – cash and investments	**6,119,629**	5,821,407
Debt service – cash and investments	**44,620,351**	37,683,248
Rate stabilization – cash and investments	**59,429,168**	63,886,197
Construction Fund – cash and investments	**201,597,608**	131,330,393
Utility plant improvement fund – cash and investments	**24,981,179**	24,495,171
Investment in The Energy Authority	**2,581,850**	2,447,440
Decommissioning reserve – cash and investments	**9,468,877**	8,529,188
Total restricted assets	**348,798,662**	274,193,044
Prepaid rent – lease/leaseback	**–**	97,963,332
Other noncurrent assets	**21,687,450**	21,882,979
Capital assets:		
Utility plant in service	**1,210,127,507**	1,172,650,704
Plant unclassified	**–**	1,294,690
Less: accumulated depreciation and amortization	**553,144,590**	526,333,349
	656,982,917	647,612,045
Plant held for future use	**6,053,926**	6,053,926
Construction in progress	**392,600,520**	301,094,810
Net capital assets	**1,055,637,363**	954,760,781
Total assets	**$ 1,506,385,437**	$ 1,441,219,214

Continued on next page

	September 30	
	2009	2008
Liabilities and net assets		
Current liabilities:		
Fuel payable	**$ 8,723,213**	$ 9,297,148
Accounts payable and accrued liabilities	**9,288,891**	17,005,247
Operating lease – lease/leaseback	**–**	12,461,916
Deferred credits	**4,689,589**	6,452,527
Due to other funds	**4,585,219**	3,658,313
Total current liabilities	**27,286,912**	48,875,151
Payable from restricted assets:		
Utility deposits	**6,119,318**	5,821,408
Rate stabilization deferred credit	**60,966,459**	63,886,197
Construction fund: Accounts payable and accrued liabilities	**7,619,732**	10,386,482
Debt payable – current portion	**29,875,000**	21,984,991
Accrued interest payable	**14,067,490**	15,907,528
Total payable from restricted assets	**118,647,999**	117,986,606
Long-term debt:		
Utilities system revenue bonds	**859,725,000**	708,510,009
Commercial paper notes	**76,000,000**	62,000,000
Unamortized loss on refinancing	**(25,603,711)**	(28,600,928)
Unamortized bond premium/discount	**5,468,070**	6,693,973
Total long-term debt	**915,589,359**	748,603,054
Operating lease – lease/leaseback	**–**	114,225,173
Other noncurrent liabilities	**26,979,772**	27,221,470
Total liabilities	**1,088,504,042**	1,056,911,454
Net assets:		
Invested in capital assets, net of related debt	**319,637,123**	322,253,279
Restricted	**58,428,054**	46,861,035
Unrestricted	**39,816,218**	15,193,446
Total net assets	**417,881,395**	384,307,760
Total liabilities and net assets	**$ 1,506,385,437**	$ 1,441,219,214

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

September 30, 2008 & 2009

	Year Ended September 30	
	2009	2008
Operating revenue:		
Sales and service charges	**$ 345,859,675**	$ 333,371,432
Transfers from rate stabilization	**6,983,334**	5,088,582
Other operating revenue	**17,031,266**	11,509,582
Total operating revenue	**369,874,275**	349,969,596
Operating expenses:		
Operation and maintenance	**205,314,763**	202,704,048
Administrative and general	**32,898,438**	38,402,370
Depreciation and amortization	**47,608,793**	44,724,361
Total operating expenses	**285,821,994**	285,830,779
Operating income	**84,052,281**	64,138,817
Non-operating income (expense):		
Interest income	**6,680,018**	9,272,250
Interest expense, net of AFUDC	**(26,417,250)**	(28,194,844)
Gain on sale of investments	**–**	97,050
Total non-operating expense	**(19,737,232)**	(18,825,544)
Income before contributions and transfers	**64,315,049**	45,313,273
Capital contributions:		
Contributions from developers	**4,256,461**	4,805,277
Reduction of plant costs recovered through contributions	**(509,614)**	(323,300)
Net capital contributions	**3,746,847**	4,481,977
Operating transfer to City of Gainesville General Fund	**(34,488,259)**	(31,451,885)
Change in net assets	**33,573,637**	18,343,365
Net assets – beginning of year	**384,307,758**	365,964,393
Net assets – end of year	**$ 417,881,395**	$ 384,307,758

See accompanying notes.

	Year Ended September 30	
	2009	2008
Operating activities		
Cash received from customers	**$ 351,278,521**	$ 331,845,993
Cash payments to suppliers for goods and services	**(201,602,637)**	(168,718,291)
Cash payments to employees for services	**(53,885,835)**	(52,805,765)
Cash payments for operating transactions with other funds	**(8,351,032)**	(8,676,985)
Other operating receipts	**19,306,390**	14,823,961
Net cash provided by operating activities	**106,745,407**	116,468,913
Noncapital financing activities		
Transfers to other funds	**(34,488,259)**	(31,451,885)
Net cash used in noncapital financing activities	**(34,488,259)**	(31,451,885)
Capital and related financing activities		
Principal repayments on long-term debt	**(21,985,000)**	(80,555,000)
Interest paid on long-term debt	**(32,480,408)**	(27,049,829)
Other receipts	**76,925**	65,200
Acquisition and construction of fixed assets (including allowance for funds used during construction)	**(144,641,591)**	(145,450,660)
Proceeds from new debt and commercial paper	**195,090,000**	257,000,000
Cash received for connection charges	**2,215,771**	4,436,762
Net cash (used in) provided by capital and related financing activities	**(1,724,303)**	8,446,473
Investing activities		
Interest received	**4,078,871**	5,605,430
Purchase of investments	**(658,364,048)**	(924,502,246)
Investment in The Energy Authority	**(1,200,000)**	(1,200,000)
Distributions from The Energy Authority	**1,065,595**	1,266,057
Proceeds from investment maturities	**654,369,261**	836,699,000
Net cash used in investing activities	**(50,321)**	(82,131,759)
Net change in cash and cash equivalents	**70,482,524**	11,331,742
Cash and cash equivalents, beginning of year	**13,438,772**	2,107,030
Cash and cash equivalents, end of year	**$ 83,921,296**	$ 13,438,772

STATEMENTS OF CASH FLOWS

September 30, 2008 & 2009

	Year Ended September 30	
	2009	**2008**
Reconciliation of operating income to net cash provided by operating activities		
Operating income	**$ 84,052,281**	$ 64,138,817
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**47,608,793**	44,724,361
Operating lease – lease/leaseback revenue	**(4,708,210)**	(1,774,203)
Increase (decrease) in cash attributable to change in assets and liabilities:		
Receivables	**5,120,936**	(2,446,447)
Prepaid expenses	**5,943,628**	1,586,349
Inventories	**(1,124,233)**	3,497,265
Deferred charges	**(16,087,310)**	2,993,347
Accounts payable and accrued liabilities	**(11,057,040)**	10,827,507
Due to other funds	**926,906**	441,747
Utility deposits	**297,910**	921,007
Other liabilities and deferred credits	**(4,228,254)**	(8,440,837)
Net cash provided by operating activities	**$ 106,745,407**	$ 116,468,913

Noncash, investing, capital, and financing activities

Utility plant contributed by developers in aid of construction was $3,746,847 and $4,481,977 in 2009 and 2008, respectively.

See accompanying notes.

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.

GRU 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. The costs of capital assets include material, labor, vehicle and equipment usage, related overhead items, capitalized interest, and certain administrative and general expenses. Maintenance and replacements of minor items are charged to operating expenses. When units of depreciable property are retired, the original cost and removal cost, less salvage, are charged to accumulated depreciation.
- 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."

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. 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 2009 and 2008.

	September 30	
	2009	2008
Deposits	**$ 6,000,188**	$ 2,973,066
Unrealized loss	**(89,320)**	(1,805,480)
Net Investment in derivatives	**$ 5,910,868**	$ 1,167,586

Gains or losses from hedging transactions are applied to GRU's monthly fuel expenses as an offset to fuel cost when recognized. Realized gains and losses related to hedging positions are deferred under the rate-setting policy. During fiscal years 2009 and 2008, GRU recognized losses of $10.5 million and $1.0 million, respectively. Realized, but unrecognized, losses of $0.5 million and $3.1 million have been deferred at September 30, 2009 and 2008, respectively.

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.

1. Summary of Significant Accounting Policies (continued)

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. Currently, GRU has a capitalization threshold of $2,500 for general plant assets.

Depreciation and Nuclear Generating Plant Decommissioning

Depreciation of utility plant is computed using the straight-line method over estimated service lives ranging from 6 to 50 years. The overall depreciation rate was 3.84% in fiscal 2009 and 3.40% in fiscal 2008. 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.

Revenue Recognition

Revenue is recorded as earned. GRU accrues for services rendered but unbilled, which amounted to approximately $13.9 million and $14.2 million 2009 and 2008, 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, fuel costs were a payable in 2009 of $0.4 million and a receivable of $3.1 million in 2008. 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 2009, GRU paid $1.5 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 2009, GRU billed the City $5.0 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

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.

Allowance for Funds Used During Construction (AFUDC)

An allowance for interest on borrowed funds used during construction of $5.1 million and $2.6 million in 2009 and 2008, 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 3.34%.

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.

New Accounting Standards

In November 2006, the Government Accounting Standards Board (GASB) issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligation*, to address accounting and financial reporting for current and potential pollution remediation obligations, which was effective for periods beginning after December 15, 2007. GRU adopted Statement No. 49 during fiscal year 2009. The implementation of Statement No. 49 did not have a material impact on GRU's financial statements (see Note 13).

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, to address inconsistencies regarding the reporting of intangible assets among state and local governments and requires all intangible assets not specifically excluded by its scope provisions to be classified as capital assets. This statement is effective for periods beginning after June 15, 2009, which is GRU's fiscal year 2010. The impact on GRU's financial position is currently being evaluated and has not yet been determined.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to address the recognition, measurement and disclosure of information for derivative instruments. This statement is effective for periods beginning after June 15, 2009, which is GRU's fiscal year 2010. The impact on GRU's financial position is currently being evaluated and has not yet been determined.

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Types*, which establishes accounting and financial reporting standards for all governments that report governmental funds. As a unit of the City, this standard is not applicable to GRU.

In March 2008, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements*, which was effective upon issuance. These statements incorporate existing generally accepted accounting guidance into GASB authoritative literature and did not have a material impact on GRU's financial position.

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 FASB Accounting Standards Codification 980 (ASC 980), *Regulated Operations*, formerly known as Statement of Financial Accounting Standards No. 71, and records various regulatory assets and liabilities. For a company to report under ASC 980, 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 ASC 980, but will continue to evaluate significant changes in the regulatory and competitive environment to assess continuing applicability of the criteria.

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						
	Treatment	**Generation**	**Transmission, Distribution and Collection**	**General**	**Unclassified**	**CWIP/Plant held for Future Use**	**Combined**
Balance, October 1, 2008	**$ 113,828,341**	**$ 358,603,486**	**$ 612,442,835**	**$ 87,776,042**	**$ 1,294,690**	**$ 307,148,736**	**$1,481,094,130**
Capital additions and transfers	**942,597**	**10,343,282**	**35,598,222**	**9,998,627**	**—**	**144,483,824**	**201,366,552**
Less: sales, retirements, and transfers	**329,661**	**634,088**	**7,609,800**	**10,832,376**	**1,294,690**	**52,978,114**	**73,678,729**
Balance, September 30, 2009	**$ 114,441,277**	**$ 368,312,680**	**$ 640,431,257**	**$ 86,942,293**	**$ —**	**$ 398,654,446**	**$1,608,781,953**
Accumulated depreciation, October 1, 2008	**$ 51,656,625**	**$ 208,128,979**	**$ 220,416,610**	**$ 45,612,367**	**$ 518,768**	**n/a**	**$ 526,333,349**
Depreciation expense	**5,121,985**	**10,708,267**	**24,068,738**	**5,916,049**	**—**	**n/a**	**45,815,039**
Less: retirements/adjustments	**270,532**	**364,841**	**4,191,150**	**13,658,507**	**518,768**	**n/a**	**19,003,798**
Accumulated depreciation, September 30, 2009	**$ 56,508,078**	**$ 218,472,405**	**$ 240,294,198**	**$ 37,869,909**	**$ —**	**n/a**	**$ 553,144,590**
Average depreciation rate	**4.49%**	**2.95%**	**3.84%**	**6.77%**	**0.00%**	**n/a**	**3.84%**

	Plant in Service						
	Treatment	**Generation**	**Transmission, Distribution and Collection**	**General**	**Unclassified**	**CWIP/Plant held for Future Use**	**Combined**
Balance, October 1, 2007	$ 111,305,936	$ 360,815,534	$ 573,771,771	$ 83,796,119	$ 9,636,128	$ 191,835,728	$1,331,161,216
Capital additions and transfers	3,278,716	839,222	39,445,779	3,979,923	38,020,397	156,484,960	242,048,997
Less: sales, retirements, and transfers	756,311	3,051,270	774,715	–	46,361,835	41,171,952	92,116,083
Balance, September 30, 2008	$ 113,828,341	$ 358,603,486	$ 612,442,835	$ 87,776,042	$ 1,294,690	$ 307,148,736	$1,481,094,130
Accumulated depreciation, October 1, 2007	$ 48,464,065	$ 198,202,248	$ 205,424,695	$ 38,971,168	$ 677,023	n/a	$ 491,739,199
Depreciation expense	3,948,871	9,926,731	18,817,722	6,575,999	56,758	n/a	39,326,081
Less: retirements/adjustments	756,311	–	3,825,807	(65,200)	215,013	n/a	4,731,931
Accumulated depreciation, September 30, 2008	$ 51,656,625	$ 208,128,979	$ 220,416,610	$ 45,612,367	$ 518,768	n/a	$ 526,333,349
Average depreciation rate	3.51%	2.76%	3.17%	7.67%	1.04%	n/a	3.40%

4. Long-Term Debt

Long-term debt outstanding at September 30, 2009 and 2008, consisted of the following:

	September 30	
	2009	2008
Utilities System Revenue Bonds		
Series 1983 (1983 Bonds) – interest payable semi-annually to October 1, 2014 at a rate of 6.00%	**$ 4,675,000**	$ 4,675,000
1992 Series B (1992 B Bonds) – interest payable semi-annually to October 1, 2013 at various rates between 6.50% and 7.50%	**21,195,000**	24,630,000
1996 Series A (1996 A Bonds) – interest payable semi-annually to October 1, 2009 at a rate of 5.75%	**4,680,000**	7,720,000
2003 Series A (2003 A Bonds) – interest payable semi-annually to October 1, 2033 at rates between 4.625% and 5.25%	**7,525,000**	7,525,000
2003 Series B (2003 B Bonds) – interest payable semi-annually to October 1, 2013 at a 4.4% interest rate	**4,220,000**	4,960,000
2003 Series C (2003 C Bonds) – interest payable semi-annually to October 1, 2013 at rates between 2.75% and 5.00%	**71,645,000**	85,380,000
2005 Series A (2005 A Bonds) – interest payable semi-annually to October 1, 2036 at rates between 4.75% and 5.00%	**91,820,000**	91,820,000
2005 Series B (2005 B Bonds) – interest payable semi-annually to October 1, 2021 at rates between 5.14% and 5.31% (Federally Taxable)	**60,050,000**	60,840,000
2005 Series C (2005 C Bonds) – interest payable semi-annually to October 1, 2026, interest at variable market rates; 0.45% at September 30, 2009	**55,135,000**	55,135,000
2006 Series A (2006 A Bonds) – interest payable semi-annually to October 1, 2026, interest at variable market rates; 0.45% at September 30, 2009	**53,305,000**	53,305,000
2007 Series A (2007 A Bonds) – interest payable semi-annually to October 1, 2036, interest at variable market rates; 0.25% at September 30, 2009	**139,260,000**	139,505,000
2008 Series A (2008 A Bonds) – interest payable semi-annually to October 1, 2020 at rates between 2.98% and 5.27%	**105,000,000**	105,000,000
2008 Series B (2008 B Bonds) – interest payable semi-annually to October 1, 2038, interest at variable market rates; 0.25% at September 30, 2009	**90,000,000**	90,000,000
2009 Series A (2009 A Bonds) – interest payable semi-annually to October 1, 2015 at rates between 0.85% and 3.59%	**24,190,000**	–
2009 Series B (2009 B Bonds) – interest payable semi-annually to October 1, 2039 at rates between 3.59% and 5.65% (Federally Taxable)	**156,900,000**	–
Utilities System Commercial Paper Notes, Series C (C Notes), interest at variable market rate; 0.70% at September 30, 2009 (Federally Taxable)	**62,000,000**	62,000,000
Utilities System Commercial Paper Notes, Series D (D Notes), interest at variable market rate; 2.07% at September 30, 2009 (Federally Taxable)	**14,000,000**	–
	965,600,000	792,495,000
Current portion of long-term debt	**(29,875,000)**	(21,984,991)
Unamortized loss on refinancing	**(25,603,711)**	(28,600,928)
Unamortized premium/discount	**5,468,070**	6,693,973
Total long-term debt	**$ 915,589,359**	$ 748,603,054

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, 2013. 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 ($6.2 million). The bonds were defeased, in substance, and will be paid from escrowed funds. There were $1.4 million in defeased bonds outstanding as of September 30, 2008. In November 2005, the 2005 Series C Bonds were issued to advance-refund to the maturity dates a portion ($53.2 million) of the bonds maturing from October 1, 2010 to October 1, 2026. In July 2006, the 2006 Series A Bonds were issued to refund to the maturity dates the remainder ($51.7 million) 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, 2006, at 102% of par.

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. In April 2008, the Utilities System Commercial Paper Notes, Series C, were issued to refund the 2002 Series A Bonds ($22 million) and 2002 Series B Bonds ($40 million). This refunding is anticipated to result in approximately $0.9 million of net present value savings for GRU, with yearly cash savings from approximately $5,000 to $0.1 million.

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%. In March 2007, the 2007 Series A Bonds ($139.5 million) were issued to advance-refund to the maturity dates a portion of the bonds maturing from October 1, 2020 to October 1, 2033. The proceeds related to the refunded Bonds were deposited into an escrow account to refund the Bonds on October 1, 2013, at 100% of par. 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.

The City issued Utilities System Revenue Bonds, Series 2005A, 2005B, and 2005C in the amounts of $197.0 million, $61.6 million, and $55.1 million, 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. 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. In March 2007, the 2007 Series A Bonds ($139.5 million) were issued to advance-refund to the maturity dates a portion of the 2005A bonds maturing from October 1, 2030 to October 1, 2036. The proceeds related to the refunded Bonds were deposited into an escrow account to refund the Bonds on October 1, 2015, at 100% of par. 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% of the principal amount plus accrued interest. The 2005C Bonds created a net present value savings of over $6.7 million, with yearly cash savings ranging from approximately $0.4 million to over $1.1 million.

The City issued Utilities System Revenue Bonds, Series 2006A in the amount of $53.3 million. 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% of the principal amount plus accrued interest to the redemption date. The 2006A Bonds created a net present value savings of over $6.2 million, with yearly cash savings ranging from approximately $0.4 million to over $0.9 million.

On February 13, 2008, the City issued Utilities System Revenue Bonds, Series 2008A in the amount of $105 million and Utilities System Revenue Bonds, Series 2008B in the amount of $90 million. The 2008A Bonds mature on various dates from October 1, 2009 to October 1, 2020. The 2008B Bonds mature on various dates from October 22, 2022 to October 1, 2038. The 2008A Bonds and the 2008B Bonds were issued to pay costs of acquisition and construction of the City's utilities system. The 2008A 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% of the principal amount plus accrued interest to the redemption date. The 2008B 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% of the principal amount plus accrued interest to the redemption date.

On September 16, 2009, the City issued Utilities System Revenue Bonds, Series 2009A in the amount of $24.2 million and Utilities System Revenue Bonds, Series 2009B in the amount of $156.9 million. The 2009A Bonds mature on various dates from October 1, 2010 to October 1, 2015. The 2009B Bonds mature on various dates from October 1, 2015 to October 1, 2039. The 2009A Bonds and the 2009B Bonds were issued to pay costs of acquisition and construction of the City's utilities system. The 2009A 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% of the principal amount plus accrued interest to the redemption date. The 2009B 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% of the principal amount plus accrued interest to the redemption date.

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. There are $62 million of Series C Notes outstanding as of September 30, 2009 and 2008.

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 was provided under a long-term credit agreement dated June 1, 2000, with SunTrust Bank. This agreement has been extended to September 13, 2010. 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. There are $14 million Series D Notes outstanding as of September 30, 2009, and no Series D notes outstanding as of September 30, 2008.

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, 2009:

Period ending September 30	Principal	Interest	Total Debt Service Requirements (1)
2010	$ 29,875,000	$ 24,385,063	$ 54,260,063
2011	35,045,000	27,281,051	62,326,051
2012	36,635,000	25,958,618	62,593,618
2013	38,195,000	24,519,159	62,714,159
2014	39,880,000	22,952,755	62,832,755
2015 – 2019	181,690,000	95,768,822	277,458,822
2020 – 2024	153,780,000	65,611,116	219,391,116
2025 – 2029	145,860,000	43,375,274	189,235,274
2030 – 2034	173,810,000	24,017,625	197,827,625
2035 – 2040	130,830,000	10,290,945	141,120,945
	$ 965,600,000	$ 364,160,428	$ 1,329,760,428

(1) Interest rates on variable-rate long-term debt were valued to be equal to 0.45% for the 2005C Series Bonds, 0.45% for the 2006A Series Bonds, 0.25% for the 2007A Series Bonds, 0.25% for the 2008B Series Bonds, 0.70% for the 2008 TECP, and 2.07% for the 2009 TCP. These are the rates in effect as of September 30, 2009.

The interest rates used in this table are per GASB 38, which requires the rate used in the calculations be that in effect as of September 30, 2009.

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, 2009 and 2008.

	September 30 2009	2008
Long-term debt outstanding at beginning of year	**$ 748,603,054**	$ 574,163,901
Changes in long-term debt:		
Series 2008A issued	**–**	105,000,000
Series 2008B issued	**–**	90,000,000
Series 2009A issued	**24,190,000**	–
Series 2009B issued	**156,900,000**	–
TECP issued during the year	**14,000,000**	62,000,000
Fixed rate debt redeemed – Senior Lien and Subordinated	**(29,875,000)**	(21,984,991)
Series 2002A refunded	**–**	(22,000,000)
Series 2002B refunded	**–**	(40,000,000)
Change in unamortized loss/bond discount	**1,771,305**	1,424,144
Long-term debt outstanding at end of year	**$ 915,589,359**	$ 748,603,054
Current portion of long-term debt	**$ 29,875,000**	$ 21,984,991

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.

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, 2009, were as follows. The notional amounts of the swaps match the principal amounts of the associated debt.

Associated Bond Issue	2008CP*	2005B*	2005C *	2006A *	2008B *	2008B *	2007A*
Notional amounts	$ 25,300,000	$ 45,000,000	$ 55,135,000	$ 53,305,000	$ 58,500,000	$ 31,500,000	$139,505,000
Effective date	7/3/2002	11/16/2005	11/16/2005	7/6/2006	2/1/2008	2/1/2008	3/1/2007
Fixed payer rate	4.100%	BMA	3.200%	3.224%	4.222%	4.222%	3.944%
Variable receiver rate	BMA	77.14% of LIBOR	68% of LIBOR	68% of 10 YR LIBOR	BMA	BMA	BMA
Fair value	$ (2,647,360)	$ (797,239)	$ (1,880,768)	$ (1,963,566)	$ (8,719,507)	$ (5,084,046)	$ (16,642,675)
Termination date	10/1/2017	10/1/2021	10/1/2026	10/1/2026	10/1/2038	10/1/2038	10/1/2036
Counterparty credit rating	A2/A/A+	Aa1/AAA	Aa1/AA-/AA-	Aa1/AAA	Aa1/AA-/AA-	Aa1/AA-/AA-	Aaa/AAA

*See “basis risk” in Note 4, “Long-Term Debt.”

Fair Value. All seven of the swap agreements currently have a negative fair value as of September 30, 2009. 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. These swaps are based on a different variable receiver rate, which is partially responsible for the difference in performance.

Swap Payments and Associated Debt

Assuming interest rates remain the same at September 30, 2009, debt service requirements on the interest rate swap would be as follows:

Fiscal Year Ending Sept 30	Variable Rate Principal	Variable Rate Interest	Fixed Rate Principal	Fixed Rate Interest	Interest Rate Swaps, Net	Total
2010	$ 255,000	$ 1,741,010	$ 830,000	$ 3,145,139	$ 10,640,524	$ 16,611,673
2011	6,155,000	1,480,909	875,000	3,101,321	10,566,326	22,178,556
2012	6,360,000	1,453,290	920,000	3,055,189	10,489,627	22,278,106
2013	6,580,000	1,424,741	965,000	3,006,745	10,410,131	22,386,617
2014	6,805,000	1,395,214	1,015,000	2,955,859	10,327,915	22,498,988
2015-2019	64,855,000	5,931,727	32,985,000	11,164,870	47,206,645	162,143,242
2020-2024	47,285,000	4,717,416	22,460,000	1,512,023	42,314,121	118,288,560
2025-2029	63,585,000	3,754,749	–	–	34,621,994	101,961,743
2030-2034	123,890,000	1,990,450	–	–	21,983,377	147,863,827
2035-2040	73,930,000	344,538	–	–	3,787,792	78,062,330
Total	$ 399,700,000	$ 24,234,044	$ 60,050,000	$ 27,941,146	$ 202,348,452	$ 714,273,642

The interest rates used in this table are per GASB Technical Bulletin 2003-1, which requires the rate used in the calculations be that in effect as of September 30, 2009.

4. Long-Term Debt (continued)

Credit Risk. As of September 30, 2009, the fair value of all of the swaps were negative, therefore the City is not subject to credit risk. 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 an event of default with respect to that counterparty.

Basis Risk. The swaps expose the City to basis risk. The 2008C swap (formerly the 2002A swap) is exposed to the difference between the weekly SIFMA index and CP maturity rate of less than 90 days based on current market conditions. As a result, savings may not be realized. As of September 30, 2009, the SIFMA rate was 0.34%.

The 2005B Swap is exposed to basis risk through the potential mismatch of 77.14% of 1-month LIBOR and the SIFMA rate. As a result, savings may not be realized. As of September 30, 2009, the 1-month LIBOR rate was at 0.24563%, which places the SIFMA at approximately 138% of 1-month LIBOR on that date.

The swap for the 2005C Series is exposed to basis risk through the potential mismatch of 68% of 10-year LIBOR and the variable 31-day rollover rate. As a result, savings may not be realized.

The swap for the 2006A Series is exposed to basis risk through the potential mismatch of 68% of 10-year LIBOR less 0.365% and the variable 31-day rollover rate. As a result, savings may not be realized. As of September 30, 2009, the 10-year LIBOR rate was at 3.443%.

The 2007A Swap is exposed to the difference between SIFMA and the variable 31-day rollover 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.

5. Deposits and Investments

Deposits are held in qualified public depository institutions insured by the Federal Depository Insurance Corporation up to the applicable limits 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, 2009, GRU had the following investments and maturities (amounts are in thousands).

		Maturities in Years	
Investment Type	**Fair Value**	Less than 1	1-5
Commercial Paper	$ 181,912	$ 174,933	$ 6,979
U.S. Agencies	74,539	–	74,539
U.S. Bonds	4,980	–	4,980
Total	$ 261,431	$ 174,933	$ 86,498

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 a nationally recognized rating agency in its highest rating category, and at least one other nationally recognized rating agency in either of its two highest rating categories. As of September 30, 2009, all of GRU's commercial paper investments were rated P-1 or better by Moody's Investor Services and/or A-1 or better by Standard and Poor's and/or F1 or better by Fitch.

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, 2009, GRU had more than 5% of the investment portfolio of the following:

Issuer	**Percent of Total Investments**
Federal Farm Credit Banks	5.95%
Federal Home Loan Bank	9.82%
Federal Home Loan Mortgage Corporation	8.33%

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

	2009	2008
Restricted assets	**$ 348,798,662**	$ 274,193,044
Current assets:		
Cash and cash equivalents	**9,099,550**	4,568,881
Total cash and investments	**357,898,212**	278,761,925
Less cash and cash equivalents	**(83,921,296)**	(13,438,772)
Less Investment in TEA	**(2,581,850)**	(2,447,440)
Less CR3 decommissioning reserve	**(9,468,877)**	(8,529,188)
Less accrued interest receivable and accounts receivable	**(495,615)**	(782,299)
Total investments	**$ 261,430,574**	$ 253,564,226

6. Jointly Owned Electric Plant

GRU-owned resources for supplying electric power and energy requirements include its 1.4079% undivided ownership interest in Crystal River Unit 3 (CR3) nuclear power plant operated by Progress Energy. GRU's net investment in CR3 at September 30, 2009 and 2008, is approximately $13.5 million and $10.9 million, 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 September 2006, estimated GRU's share of the total projected decommissioning funding requirements to be $7.7 million of which $5.2 million has already been deposited. This $7.7 million is expected, with reinvestment and interest earnings, to reach $24.7 million in total, which will be used in 2041 to pay for the projected costs of decommissioning the plant. The market value of the funds on deposit as of September 30, 2009, is $9.5 million.

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, 2009 and 2008, and the restricted purposes of the net asset balances:

	2009	2008
Restricted net assets:		
Total restricted assets	**$ 348,798,662**	$ 274,193,044
Unspent debt proceeds	**(201,597,608)**	(131,330,393)
Payable from restricted assets	**(88,773,000)**	(96,001,616)
Restricted net assets	**$ 58,428,054**	$ 46,861,035

Net assets are restricted as follows:

	2009	2008
Debt covenants:		
Debt service	**$ 21,396,148**	$ 11,389,236
Utility plant improvement	**24,981,179**	24,495,171
Total restricted pursuant to debt covenants	**46,377,327**	35,884,407
Other restrictions:		
Investment in The Energy Authority	**2,581,850**	2,447,440
Nuclear decommissioning reserve	**9,468,877**	8,529,188
Total other restrictions	**12,050,727**	10,976,628
Restricted net assets	**$ 58,428,054**	$ 46,861,035

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, 2009, 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 $2.2 million for each of the years ended September 30, 2009 and 2008.

8. Retirement Plans (continued)

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 was $0.1 million for each of the years ended September 30, 2009 and 2008.

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. A portion of this funding comes from bonds issued by the City to cover Post Employment Benefits. GRU contributes 0.5% of payroll to fund the remaining portion. The cost of providing these benefits for the GRU retirees for the fiscal years ended September 30, 2009 and 2008 was $0.3 million each year.

10. Disaggregation of Receivables and Payables

Receivables

For the years ended September 30, 2009 and 2008, respectively, net accounts receivable represent 90.5% and 82.8% from customers for billed and unbilled utility services, and 9.5% and 17.2% from other receivables. There are no receivables expected to take longer than one year to collect.

Payables

As of September 30, 2009 and 2008, respectively, payable balances represent 29.0% and 23.0% related to fuels payable, 30.1% and 53.9% related to standard vendor payables, 17.5% and 11.7% related to accrued wages and vacation payable, 15.3% and 9.1% related to intergovernmental payables and 8.1% and 2.2% related to other payables.

11. Transfers to General Fund

GRU makes transfers to the City's general government based on a pre-defined formula that predominantly 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, 2009 and 2008 was $34.5 million and $31.5 million, respectively.

12. Deferred Charges

Deferred charges are presented on the balance sheets under current assets, other noncurrent assets, current liabilities and other noncurrent liabilities.

The deferred charge for estimated environmental costs is $15.1 million and $15.9 million at September 30, 2009 and 2008, respectively. 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 $6.6 million and $6.8 million at September 30, 2009 and 2008, respectively. These costs are being amortized straight-line over the life of the bonds, which approximates the effective interest method.

Unrecognized hedge adjustments were $0.5 million and $3.1 million at September 30, 2009 and 2008, respectively.

Accrued fuel adjustment was a deferred credit of $0.4 million and a deferred debit of $3.1 million at September 30, 2009 and 2008, respectively. See Note 1, "Revenue Recognition," for details on GRU's policy regarding fuel adjustment.

Also included in deferred charges as a current liability is a temporary transfer from the Rate Stabilization reserve of $4.0 million at September 30, 2008. A transfer of $3.0 million was made at September 30, 2009. With our new financial system, this transfer is recorded as a contribution to the Operating fund. This transfer is made in accordance with our bond resolution for the purpose of meeting temporary cash requirements, primarily due to timing differences.

Electric distribution plant acquisition costs of $2.7 million and $3.0 million for September 30, 2009 and 2008, respectively, 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 several hazardous waste sites; however, GRU does not anticipate any more than "de minimus" liability at any of these sites. 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 2009 and 2008 expenditures which reduce the liability balance were $0.6 million and $1.1 million, respectively.

During fiscal year 2008, soil samplings from the site were collected and analyzed in order to determine alternatives to complete the remediation. On November 6, 2008, the City Commission voted to approve staff's recommendation to remove the soil to landfill. In 2009, GRU adopted GASB 49, which required GRU to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability. GRU recorded reserves of $13.3 million at September 30, 2008. Management reviewed the obligating events discussed in GASB 49 and concluded the liability, as original recorded under ASC 450, *Contingencies*, was in fact a triggering event under GASB 49. Management performed a probability analysis as of October 1, 2007 (the date the GASB 49 was effective for GRU), September 30, 2008 and September 30, 2009. A reserve of $14.4 million at October 1, 2007 would have been recorded. The impact of the adoption did not have a material impact on GRU's financial statements and did not require restatement for retroactive application as an offsetting regulatory asset of $14.4 million also would have been recorded at October 1, 2007. A reserve of $12.7 million and $13.3 million was recorded as of September 30, 2009 and 2008, respectively.

The reserve balance at September 30, 2009 and 2008, is $11.9 million and $13.3 million, 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 2009 and 2008 billings were $0.8 million and $0.7 million, respectively. This reduced the deferred asset balance to $12.9 million and $13.7 million as of September 30, 2009 and 2008, 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 operations or liquidity.

GRU has a possible environmental liability related to an 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 estimated 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.

GRU has established a reserve for environmental liability of $2.3 million to cover any unknown liabilities which may be identified in the future.

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 option amount.

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 Ambac Assurance Corporation (Ambac), a financial guaranty insurance company that also provided credit enhancement for the transaction. 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 was 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). Based on regulations released by the Internal Revenue Service in 2007, GRU currently anticipates that it will owe little, if any, excise tax under the Act, but this result is not certain given the interpretive questions that still remain with respect to the excise tax.

In November 2008, Moody's Investors Service and Standard & Poor's downgraded their respective credit ratings of Ambac. Under the terms of the lease/leaseback transaction documents, the City is required to provide substitute credit enhancement within 30 days of the occurrence of Ambac's ratings downgrades. GRU worked with its financial advisor and legal counsel to evaluate its options. Based on that evaluation, GRU determined that the termination of the LILO transaction was the most appropriate action. GRU staff negotiated the termination price with the equity investor and worked with Ambac to value the GIC. In February 2009, the parties terminated the LILO transaction on mutually acceptable terms and GRU, on behalf of the City, paid a termination payment of approximately $13.3 million. In order to fund this termination payment, GRU issued $14.0 million of additional Series D CP Notes. Following the termination, the System continues to retain possession of, and entitlement to, the output of the LILO units.

Amortization of the net benefit was $1.8 million annually through in 2008, and was reported as a component of other operating revenue. The remaining net benefit of $4.7 million was recognized in 2009 as a part of other operating revenue.

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 $1.0 million and a membership fee of $0.9 million. 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 $41.4 million and $29.6 million and sales transactions of $7.7 million and $8.1 million in fiscal years 2009 and 2008, respectively. TEA's profit on these transactions has been reflected as a reduction to GRU's reported revenue or expense.

As of September 30, 2009, GRU's investment in TEA was $2.6 million as compared to $2.4 million on September 30, 2008.

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 $9.6 million as of September 30, 2009. GRU's aggregate obligation for TEA's natural gas marketing transactions, under similar agreements and executed guaranties, is $18.8 million as of September 30, 2009.

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

	2009	2008
Condensed statement of operations:		
Total revenue	**$ 1,039,280,000**	$ 1,693,794,000
Total cost of sales and expenses	**983,130,000**	1,531,232,000
Operating income	**56,150,000**	162,562,000
Net revenue	**$ 56,549,000**	$ 162,928,000
Condensed balance sheet:		
Assets:		
Current assets	**$ 121,407,000**	$ 169,877,000
Noncurrent assets	**16,473,000**	12,907,000
Total assets	**$ 137,880,000**	$ 182,784,000
Liabilities:		
Current liabilities	**$ 101,775,000**	$ 144,639,000
Noncurrent liabilities	**–**	2,447,000
Total liabilities	**101,775,000**	147,086,000
Members' capital	**36,105,000**	35,698,000
Total equity and liabilities	**$ 137,880,000**	$ 182,784,000

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

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. An actuarial study completed during fiscal year 2008 resulted in an increase to a balance of $3.3 million. The present value calculation assumes a rate of return of 4.5% with a confidence level of 75%. This reserve is recorded as a fully amortized deferred credit. All claims for fiscal 2009 and 2008 were paid from current year's revenues.

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

Fiscal Year	Beginning Balance	Claims	Payments	Increase to Reserve	Ending Balance
2007-2008	$ 2,106,000	$ 908,677	$ 908,677	$ 1,231,000	$ 3,337,000
2008-2009	$ 3,337,000	$ 1,408,819	$ 1,408,819	–	$ 3,337,000

SCHEDULES OF COMBINED NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

September 30, 2009, 2008, 2007, 2006, 2005

	2009	2008	2007	2006	2005
Revenue					
Electric fund:					
Sales of electricity	**$ 249,761,763**	$ 238,595,628	$ 206,552,756	$ 207,023,570	$ 174,046,209
Other electric revenue	**3,270,339**	3,871,838	3,878,187	2,614,880	2,692,565
Transfers from (to) rate stabilization	**11,054,541**	6,532,390	(4,372,298)	(2,047,553)	(134,672)
Interest/Investment income	**2,709,170**	2,859,539	3,597,057	2,837,575	2,326,225
Total electric fund revenue	**266,795,813**	251,859,395	209,655,702	210,428,472	178,930,327
Water fund:					
Sales of water	**25,712,256**	25,094,181	22,970,588	17,987,383	13,826,209
Other water revenue	**1,443,155**	2,899,253	1,852,072	2,184,786	1,549,635
Transfers from (to) rate stabilization	**997,637**	(1,074,205)	(1,274,108)	(878,017)	1,534,938
Interest/Investment income	**347,095**	206,230	95,439	172,476	279,053
Total water fund revenue	**28,500,143**	27,125,459	23,643,991	19,466,628	17,189,835
Wastewater fund:					
Wastewater billing	**31,976,105**	29,819,878	25,554,311	20,474,546	17,418,564
Other wastewater revenue	**831,350**	2,840,164	2,200,469	3,693,161	2,351,726
Transfers from (to) rate stabilization	**(901,588)**	(1,271,208)	(581,471)	(1,157,713)	1,816,821
Interest/Investment income	**561,085**	408,455	207,121	429,598	555,058
Total wastewater fund revenue	**32,466,952**	31,797,289	27,380,430	23,439,592	22,142,169
Gas fund:					
Gas sales	**28,923,505**	29,842,601	27,614,405	31,148,518	26,044,659
Other gas revenue (expenses)	**859**	(63,412)	(8,750)	1,138	(25,177)
Transfers from (to) rate stabilization	**(3,208,386)**	1,987,360	1,160,544	(465,695)	761,130
Interest/Investment income	**485,981**	635,757	561,892	584,699	429,646
Total gas fund revenue	**26,201,959**	32,402,306	29,328,091	31,268,660	27,210,258
GRUCom fund:					
Sales to customers	**10,162,231**	10,277,819	9,275,122	8,722,084	8,565,405
Transfers to rate stabilization	**(958,870)**	(1,085,755)	(1,691,798)	(1,036,283)	(5,391)
Interest/Investment income	**417,145**	239,050	155,735	133,002	79,455
Total GRUCom fund revenue	**9,620,506**	9,431,114	7,739,059	7,818,803	8,639,469
Total revenue	**$ 363,585,373**	$ 352,615,563	$ 297,747,273	$ 292,422,154	$ 254,112,058

Continued on next page

	2009	2008	2007	2006	2005
Operation, maintenance and administrative					
Electric fund:					
Fuel expense	**$ 131,849,819**	$ 127,233,223	$ 104,940,526	$ 116,303,116	$ 89,398,658
Operation and maintenance	**38,244,824**	36,753,083	32,076,530	33,715,716	30,539,416
Administrative and general	**18,273,573**	20,654,480	15,913,731	12,585,157	12,320,230
Total electric fund expense	**188,368,216**	184,640,786	152,930,787	162,603,989	132,258,304
Water fund:					
Operation and maintenance	**8,042,992**	7,074,992	6,711,674	6,176,450	5,497,667
Administrative and general	**4,547,293**	5,120,270	3,994,430	3,629,681	3,590,193
Total water fund expense	**12,590,285**	12,195,262	10,706,104	9,806,131	9,087,860
Wastewater fund:					
Operation and maintenance	**6,734,970**	7,273,610	6,316,884	6,701,627	6,174,582
Administrative and general	**5,939,526**	5,773,158	4,817,270	4,603,576	4,212,466
Total wastewater fund expense	**12,674,496**	13,046,768	11,134,154	11,305,202	10,387,048
Gas fund:					
Fuel expense	**15,458,942**	20,107,903	18,514,704	21,919,984	16,881,895
Operation and maintenance	**1,652,911**	1,606,831	1,571,781	1,342,257	1,388,368
Administrative and general	**2,033,561**	4,504,748	4,200,069	3,427,848	3,107,252
Total gas fund expense	**19,145,414**	26,219,482	24,286,554	26,690,089	21,377,515
GRUCom fund:					
Operation and maintenance	**2,761,702**	2,632,075	2,313,343	2,489,099	2,365,838
Administrative and general	**2,104,484**	2,349,715	2,294,882	2,255,465	2,142,330
Total GRUCom fund expense	**4,866,186**	4,981,790	4,608,225	4,744,565	4,508,168
Total operation, maintenance and administrative	**237,644,597**	241,084,088	203,665,825	215,149,976	177,618,895
Net revenue in accordance with bond resolution					
Electric	**78,427,597**	67,218,609	56,724,915	47,824,483	46,672,023
Water	**15,909,858**	14,930,197	12,937,887	9,660,498	8,101,975
Wastewater	**19,792,456**	18,750,521	16,246,276	12,134,389	11,755,121
Gas	**7,056,545**	6,182,824	5,041,537	4,578,570	5,832,743
GRUCom	**4,754,320**	4,449,324	3,130,834	3,074,238	4,131,301
Total net revenue in accordance with bond resolution	**$ 125,940,776**	$ 111,531,475	$ 94,081,449	$ 77,272,178	$ 76,493,163
Aggregate bond debt service	**$ 51,062,280**	$ 47,127,033	$ 40,545,456	$ 34,107,669	$ 24,876,978
Aggregate bond debt service coverage ratio	**2.47**	2.37	2.32	2.27	3.07
Total debt service	**$ 61,390,337**	$ 52,626,846	$ 45,942,353	$ 41,050,956	$ 35,476,481
Total debt service coverage ratio	**2.05**	2.12	2.05	1.88	2.16

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

Electric Utility Fund | September 30, 2009 & 2008

	2009	2008
Revenue		
Sales of electricity:		
Residential sales	**$ 52,918,220**	$ 52,464,529
General service and large power	**49,650,525**	50,931,403
Fuel adjustment	**125,607,941**	111,127,690
Street and traffic lighting	**5,265,691**	4,885,527
Utility surcharge	**3,509,911**	3,460,602
Sales for resale	**5,504,028**	7,679,975
Interchange sales	**7,305,447**	8,045,902
Total sales of electricity	**249,761,763**	238,595,628
Other electric revenue:		
Service charges	**1,982,547**	2,415,365
Pole rentals	**609,141**	582,895
Miscellaneous	**678,651**	873,578
Total other electric revenue	**3,270,339**	3,871,838
Transfers from rate stabilization	**11,054,541**	6,532,390
Interest income	**2,709,170**	2,859,539
Total revenue	**266,795,813**	251,859,395
Operation, maintenance and administrative expense		
Operation and maintenance:		
Fuel expense:		
Retail and purchased power	**125,607,941**	121,077,624
Interchange	**6,241,878**	6,155,599
Total fuel expense	**131,849,819**	127,233,223
Power production	**25,378,717**	23,774,403
Transmission	**1,119,094**	1,162,906
Distribution	**11,747,013**	11,815,774
Total operation and maintenance	**170,094,643**	163,986,306
Administrative and general:		
Customer accounts	**8,158,720**	8,007,249
Administrative and general	**10,114,853**	12,647,231
Total administrative and general	**18,273,573**	20,654,480
Total operation, maintenance and administrative expense	**188,368,216**	184,640,786
Net revenue in accordance with bond resolution		
Retail	**77,364,028**	65,328,306
Interchange	**1,063,569**	1,890,303
Total net revenue in accordance with bond resolution	**$ 78,427,597**	$ 67,218,609

	2009	2008
Revenue		
Sales of water:		
General customers	$ 22,336,244	$ 21,662,066
University of Florida	1,578,263	1,216,708
Utility surcharge	1,797,749	2,215,407
Total sales of water	25,712,256	25,094,181
Other water revenue:		
Connection charges	1,256,990	2,630,509
Miscellaneous	186,165	268,744
Total other water revenue	1,443,155	2,899,253
Transfers from (to) rate stabilization	997,637	(1,074,205)
Interest income	347,095	206,230
Total revenue	28,500,143	27,125,459
Operation, maintenance and administrative expense		
Operation and maintenance:		
Source of supply	–	18,790
Pumping	2,167,165	1,891,732
Water treatment	3,360,614	3,318,548
Transmission and distribution	2,515,213	1,845,922
Total operation and maintenance	8,042,992	7,074,992
Administrative and general:		
Customer accounts	1,421,807	1,293,922
Administrative and general	3,125,486	3,826,348
Total administrative and general	4,547,293	5,120,270
Total operation, maintenance and administrative expense	12,590,285	12,195,262
Total net revenue in accordance with bond resolution	$ 15,909,858	$ 14,930,197

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

Wastewater Utility Fund | September 30, 2009 & 2008

	2009	2008
Revenue		
Wastewater billings:		
Billings	**$ 29,177,217**	$ 26,833,136
Utility surcharge	**2,798,888**	2,986,742
Total wastewater billings	**31,976,105**	29,819,878
Other wastewater revenue:		
Connection charges	**660,860**	2,269,836
Miscellaneous	**170,490**	570,328
Total other wastewater revenue	**831,350**	2,840,164
Transfers to rate stabilization	**(901,588)**	(1,271,208)
Interest income	**561,085**	408,455
Total revenue	**32,466,952**	31,797,289
Operation, maintenance and administrative expense		
Operation and maintenance:		
Collection	**1,448,291**	1,475,925
Treatment and pumping	**5,286,679**	5,797,685
Total operation and maintenance	**6,734,970**	7,273,610
Administrative and general:		
Customer accounts	**990,192**	1,152,713
Administrative and general	**4,949,334**	4,620,445
Total administrative and general	**5,939,526**	5,773,158
Total operation, maintenance and administrative expense	**12,674,496**	13,046,768
Total net revenue in accordance with bond resolution	**$ 19,792,456**	$ 18,750,521

	2009	2008
Revenue		
Sales of gas:		
Residential	**$ 14,147,897**	$ 13,238,530
Interruptible/commercial	**13,483,821**	16,062,893
Other sales	**1,291,787**	541,178
Total sales of gas	**28,923,505**	29,842,601
Other gas revenue (expense)	**859**	(63,412)
Transfers from (to) from rate stabilization	**(3,208,386)**	1,987,360
Interest income	**485,981**	635,757
Total revenue	**26,201,959**	32,402,306
Operation, maintenance and administrative expense		
Operation and maintenance:		
Fuel expense	**15,458,942**	20,107,903
Operation and maintenance	**1,652,911**	1,606,831
Total operation and maintenance	**17,111,853**	21,714,734
Administrative and general:		
Customer accounts	**1,908,725**	2,176,975
Administrative and general	**124,836**	2,327,773
Total administrative and general	**2,033,561**	4,504,748
Total operation, maintenance and administrative expense	**19,145,414**	26,219,482
Total net revenue in accordance with bond resolution	**$ 7,056,545**	$ 6,182,824

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

GRUCom Utility Fund | September 30, 2009 & 2008

	2009	2008
Revenue		
Sales to customers	**$ 10,162,231**	$ 10,277,819
Transfers to rate stabilization	**(958,870)**	(1,085,755)
Interest income	**417,145**	239,050
Total revenue	**9,620,506**	9,431,114
Operation, maintenance and administrative expense		
Operation and maintenance	**2,761,702**	2,632,075
Total operation and maintenance	**2,761,702**	2,632,075
Administrative and general:		
Customer accounts	**348,248**	429,351
Administrative and general	**1,756,236**	1,920,364
Total administrative and general	**2,104,484**	2,349,715
Total operation, maintenance and administrative expense	**4,866,186**	4,981,790
Total net revenue in accordance with bond resolution	**$ 4,754,320**	$ 4,449,324

"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).

COMBINING BALANCE SHEET

September 30, 2009

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Assets						
Current assets:						
Cash and cash equivalents	$ 7,062,561	$ 115,916	$ 108,941	$ 1,785,745	$ 26,387	$ 9,099,550
Accounts receivable, net	34,217,226	4,003,220	3,687,166	2,528,035	1,872,308	46,307,955
Prepaid rent – LILO	–	–	–	–	–	–
Deferred charges	3,459,312	–	–	2,451,556	–	5,910,868
Prepaid Expenses	564,895	82,496	89,771	1,618,776	40,157	2,396,095
Inventories:						–
Fuel	6,848,678	–	–	–	–	6,848,678
Materials and inventories	8,280,472	504,227	–	392,350	521,767	9,698,816
Total current assets	60,433,144	4,705,859	3,885,878	8,776,462	2,460,619	80,261,962
Restricted assets:						
Utility deposits – cash and investments	5,139,440	347,506	399,772	232,911	–	6,119,629
Debt service fund – cash and investments	29,786,902	4,578,747	5,766,953	2,245,883	2,241,866	44,620,351
Rate stabilization – cash and investments	41,181,674	926,208	5,035,999	6,900,862	5,384,425	59,429,168
Construction Fund – cash and investment	112,888,076	21,450,967	31,118,895	18,016,075	18,123,595	201,597,608
Utility plant improvement fund – cash and investments	8,177,494	2,961,822	5,694,524	5,703,557	2,443,782	24,981,179
Investment in The Energy Authority	2,581,850	–	–	–	–	2,581,850
Decommission reserve – cash and investments	9,468,877	–	–	–	–	9,468,877
Total restricted assets	209,224,313	30,265,250	48,016,143	33,099,288	28,193,668	348,798,662
Prepaid rent - LILO	–	–	–	–	–	–
Other noncurrent assets	9,797,176	688,944	735,515	10,102,483	363,332	21,687,450
Capital assets:						
Utility plant in service	708,172,817	175,313,773	228,642,342	55,064,217	42,934,358	1,210,127,507
Plant unclassified	–	–	–	–	–	–
Less: accumulated depreciation and amortization	341,551,545	69,720,140	92,754,480	26,641,689	22,476,736	553,144,590
	366,621,272	105,593,633	135,887,862	28,422,528	20,457,622	656,982,917
Plant held for future use	6,053,926	–	–	–	–	6,053,926
Construction in progress	315,516,587	38,386,824	26,451,913	6,741,765	5,503,431	392,600,520
Net capital assets	688,191,785	143,980,457	162,339,775	35,164,293	25,961,053	1,055,637,363
Total assets	$ 967,646,418	$ 179,640,510	$ 214,977,311	$ 87,142,526	$ 56,978,672	$ 1,506,385,437

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Liabilities and net assets						
Current liabilities:						
Fuels payable	$ 8,236,607	$ –	$ –	$ 486,606	$ –	$ 8,723,213
Accounts payable and accrued liabilities	6,560,723	1,332,303	853,052	503,572	39,241	9,288,891
Operating lease – LILO						
Deferred charges	5,341,947	160,557	205,036	(1,133,127)	115,176	4,689,589
Due to other funds	3,569,237	553,857	27,968	678,401	(244,244)	4,585,219
Total current liabilities	23,708,514	2,046,717	1,086,056	535,452	(89,827)	27,286,912
Payable from restricted assets:						
Utility deposits	5,139,129	347,507	399,772	232,910	–	6,119,318
Rate stabilization deferred credit	39,911,857	2,397,227	5,277,791	6,781,942	6,597,642	60,966,459
Construction fund: accounts payable and accrued liabilities	5,920,331	894,370	504,641	199,368	101,022	7,619,732
Debt payable – current portion	19,856,082	2,965,948	4,022,320	1,469,932	1,560,718	29,875,000
Accrued interest payable	9,360,399	1,652,755	1,816,481	593,666	644,189	14,067,490
Total payable from restricted assets	80,187,798	8,257,807	12,021,005	9,277,818	8,903,571	118,647,999
Long-term debt:						
Utilities system revenue bonds	541,671,624	106,211,147	112,048,376	49,088,788	50,705,065	859,725,000
Commercial paper notes	46,907,630	5,337,350	13,214,900	10,540,120	–	76,000,000
Unamortized loss on refunding	(15,590,600)	(3,878,584)	(4,360,825)	(1,543,795)	(229,907)	(25,603,711)
Unamortized bond prem/disc	3,659,378	745,103	861,005	165,798	36,786	5,468,070
Total long-term debt	576,648,032	108,415,016	121,763,456	58,250,911	50,511,944	915,589,359
Operating lease – LILO	–	–	–	–	–	–
Other noncurrent liabilities	13,718,836	598,326	546,334	12,110,980	5,296	26,979,772
Total liabilities	694,263,180	119,317,866	135,416,851	80,175,161	59,330,984	1,088,504,042
Net assets:						
Invested in capital assets, net of related debt	210,079,617	54,819,751	68,496,418	(6,174,043)	(7,584,620)	319,637,123
Restricted	36,004,521	3,522,425	8,898,563	7,275,326	2,727,219	58,428,054
Unrestricted	27,299,100	1,980,468	2,165,479	5,866,082	2,505,089	39,816,218
Total net assets	273,383,238	60,322,644	79,560,460	6,967,365	(2,352,312)	417,881,395
Total liabilities and net assets	$ 967,646,418	$ 179,640,510	$ 214,977,311	$ 87,142,526	$ 56,978,672	$ 1,506,385,437

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

September 30, 2009

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Operating revenue:						
Sales and service charges	$ 249,761,764	$ 25,430,651	$ 31,581,525	$ 28,923,504	$ 10,162,231	$ 345,859,675
Transfers from/(to) rate stabilization	11,054,541	997,637	(901,588)	(3,208,386)	(958,870)	6,983,334
Other operating revenue	7,970,497	2,264,823	829,628	5,966,265	53	17,031,266
Total operating revenue	268,786,802	28,693,111	31,509,565	31,681,383	9,203,414	369,874,275
Operating expenses:						
Operation and maintenance	170,663,247	8,042,992	6,734,970	17,111,853	2,761,701	205,314,763
Administrative and general	18,273,574	4,547,293	5,939,526	2,033,561	2,104,484	32,898,438
Depreciation and amortization	27,442,653	5,247,597	7,930,718	3,840,935	3,146,890	47,608,793
Total operating expenses	216,379,474	17,837,882	20,605,214	22,986,349	8,013,075	285,821,994
Operating income	52,407,328	10,855,229	10,904,351	8,695,034	1,190,339	84,052,281
Non-operating income (expense):						
Interest income	4,004,683	552,561	987,301	487,690	647,783	6,680,018
Interest expense	(15,016,527)	(3,602,459)	(4,272,419)	(1,497,109)	(2,028,736)	(26,417,250)
Gain on sale of investments	–	–	–	–	–	–
Total non-operating expense	(11,011,844)	(3,049,898)	(3,285,118)	(1,009,419)	(1,380,953)	(19,737,232)
Income before contributions and transfers	41,395,484	7,805,331	7,619,233	7,685,615	(190,614)	64,315,049
Capital contributions:						
Contributions from developers	509,614	2,497,640	1,249,207	–	–	4,256,461
Reduction of plant cost recovered from contributions	(509,614)	–	–	–	–	(509,614)
Net capital contributions	–	2,497,640	1,249,207	–	–	3,746,847
Operating transfer to City of Gainesville general fund	(20,229,721)	(5,179,080)	(6,231,640)	(2,503,259)	(344,559)	(34,488,259)
Change in net assets	21,165,763	5,123,891	2,636,800	5,182,356	(535,173)	33,573,637
Net assets – beginning of year	252,217,475	55,198,753	76,923,660	1,785,009	(1,817,139)	384,307,758
Net assets – end of year	$ 273,383,238	$ 60,322,644	$ 79,560,460	$ 6,967,365	$ (2,352,312)	$ 417,881,395

SCHEDULE OF UTILITY PLANT PROPERTIES — COMBINED UTILITY FUND

September 30, 2009

	Balance September 30, 2008	Additions	Sales, Retirements, and Transfers	Balance September 30,2009
Plant in service				
Electric utility fund:				
Production plant	$ 355,745,447	$ 10,343,282	$ 634,088	**$ 365,454,641**
Nuclear fuel	2,858,039	–	–	**2,858,039**
Transmission and distribution plant	254,130,651	21,312,572	7,307,991	**268,135,232**
General and common plant	72,838,351	7,259,846	8,373,292	**71,724,905**
Plant unclassified	604,609	–	604,609	**–**
Total electric utility fund	686,177,097	38,915,700	16,919,980	**708,172,817**
Gas utility fund:				
Distribution plant	46,272,310	1,388,127	130,260	**47,530,177**
General plant	2,921,055	443,093	480,743	**2,883,405**
Plant acquisition adjustment	4,650,635	–	–	**4,650,635**
Plant unclassified	287,905	–	287,905	**–**
Total gas utility fund	54,131,905	1,831,220	898,908	**55,064,217**
Water utility fund:				
Supply, pumping and treatment plant	28,503,432	58,133	–	**28,561,565**
Transmission and distribution plant	138,174,652	3,968,368	8,308	**142,134,712**
General plant	4,476,121	750,974	609,599	**4,617,496**
Plant unclassified	118,742	–	118,742	**–**
Total water utility fund	171,272,947	4,777,475	736,649	**175,313,773**
Wastewater utility fund:				
Pumping and treatment plant	85,324,909	884,464	329,661	**85,879,712**
Collection plant	124,514,927	4,120,825	156,569	**128,479,183**
Reclaimed water plant	7,531,647	32,837	4,553	**7,559,931**
General plant	6,598,456	1,317,407	1,192,347	**6,723,516**
Plant unclassified	166,063	–	166,063	**–**
Total wastewater utility fund	224,136,002	6,355,533	1,849,193	**228,642,342**
GRUCom utility fund:				
Distribution plant	37,168,013	4,775,493	2,119	**41,941,387**
General plant	942,059	227,307	176,395	**992,971**
Plant unclassified	117,371	–	117,371	**–**
Total GRUCom utility fund	38,227,443	5,002,800	295,885	**42,934,358**
Total plant in service	$ 1,173,945,394	$ 56,882,728	$ 20,700,615	**$ 1,210,127,507**
Plant held for future use—electric	$ 6,053,926	$ –	$ –	**$ 6,053,926**
Construction in progress				
Electric utility fund	$ 236,520,133	$ 114,697,621	$ 35,701,167	**$ 315,516,587**
Gas utility fund	5,185,572	3,099,509	1,543,316	**6,741,765**
Water utility fund	30,109,435	12,936,121	4,658,732	**38,386,824**
Wastewater utility fund	21,484,450	11,156,933	6,189,470	**26,451,913**
GRUCom utility fund	7,795,220	2,593,640	4,885,429	**5,503,431**
Total construction in progress	$ 301,094,810	$ 144,483,824	$ 52,978,114	**$ 392,600,520**

SCHEDULE OF ACCUMULATED DEPRECIATION AND AMORTIZATION — COMBINED UTILITY FUND

September 30, 2009

	Balance September 30, 2008	Additions	Sales, Retirements, and Transfers	Balance September 30,2009
Electric utility fund:				
Production plant	$ 206,096,898	$ 10,353,771	$ 364,841	**$ 216,085,828**
Nuclear fuel	2,032,081	354,496	–	**2,386,577**
Transmission and distribution plant	85,076,960	10,017,501	3,915,246	**91,179,215**
General and common plant	34,933,546	5,265,310	8,298,930	**31,899,926**
Plant unclassified	495,441	–	495,441	**–**
Total electric utility fund	328,634,926	25,991,078	13,074,458	**341,551,546**
Gas utility fund:				
Distribution plant	19,889,432	1,253,499	129,989	**21,012,942**
General plant	1,310,455	148,397	480,743	**978,109**
Plant acquisition adjustment	4,650,637	–	–	**4,650,637**
Plant unclassified	2,234	–	2,234	**–**
Total gas utility fund	25,852,758	1,401,896	612,966	**26,641,688**
Water utility fund:				
Supply, pumping and treatment plant	13,228,038	1,138,894	–	**14,366,932**
Transmission and distribution plant	48,142,685	4,965,995	5,040	**53,103,640**
General plant	3,725,541	159,387	1,635,360	**2,249,568**
Plant unclassified	7,026	–	7,026	**–**
Total water utility fund	65,103,290	6,264,276	1,647,426	**69,720,140**
Wastewater utility fund:				
Pumping and treatment plant	38,428,587	3,983,091	270,532	**42,141,146**
Collection plant	42,679,039	4,397,650	135,396	**46,941,293**
Reclaimed water plant	1,160,779	298,868	4,553	**1,455,094**
General plant	5,105,773	178,253	3,067,079	**2,216,947**
Plant unclassified	10,205	–	10,205	**–**
Total wastewater utility fund	87,384,383	8,857,862	3,487,765	**92,754,480**
GRUCom utility fund:				
Distribution plant	18,817,078	3,135,225	926	**21,951,377**
General plant	537,052	164,702	176,395	**525,359**
Plant unclassified	3,862	–	3,862	**–**
Total GRUCom utility fund	19,357,992	3,299,927	181,183	**22,476,736**
Total	$ 526,333,349	$ 45,815,039	$ 19,003,798	**$ 553,144,590**

Independent Certified Public Accountants' 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, 2009, and have issued our report thereon dated February 26, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gainesville Regional Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gainesville Regional Utilities' internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 also noted certain additional matters that we reported to management of Gainesville Regional Utilities in a separate letter dated February 26, 2010.

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

Ernst & Young LLP

Ernst & Young LLP
Orlando, Florida
February 26, 2010