Financial Statements

Gainesville Regional Utilities
Years Ended September 30, 2011 and 2010
With Report of Independent Certified Public Accountants

Ernst & Young LLP

ERNST & YOUNG

Gainesville Regional Utilities

Financial Statements

Years Ended September 30, 2011 and 2010

Contents

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Report of Independent Certified Public Accountants

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

We have audited the accompanying balance sheets of Gainesville Regional Utilities (a department of the City of Gainesville, Florida) as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net position 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, 2011 and 2010, and the changes in its financial position and its 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 9, 2012, 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 grant agreements 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

February 9, 2012

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, 2011 and 2010. 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 Position. 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.

Financial Analysis of the Combined Utility System

The Combined Utility System net position increased by $31.8 million from 2010 to 2011, and $23.0 million from 2009 to 2010. Table 1 below focuses on the net position.

Table 1

Combined Utility System Net Position

	September 30		
	2011	**2010**	**2009**
	(In Thousands)		
Current assets	**$ 103,231**	$ 84,681	$ 80,262
Other assets	**364,319**	321,566	370,486
Capital assets, net	**1,171,601**	1,088,642	1,055,637
Deferred outflow of resources	**77,730**	63,181	38,081
Total assets and deferred outflows	**1,716,881**	1,558,070	1,544,466
Long-term debt outstanding	**887,326**	868,458	915,589
Current liabilities	**39,304**	45,100	27,287
Other liabilities	**242,625**	145,445	145,628
Fair value of derivative instruments	**74,936**	58,166	38,081
Total liabilities and deferred inflows	**1,244,191**	1,117,169	1,126,585
Net position:			
Net investment in capital assets	**309,898**	329,561	312,017
Restricted	**84,472**	70,728	63,466
Unrestricted	**78,320**	40,612	42,398
Total net position	**$ 472,690**	$ 440,901	$ 417,881

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

Table 2
Combined Utility System Changes in Net Position

	September 30 2011	2010	2009
	(In Thousands)		
Operating revenues	**$ 368,471**	$ 370,459	$ 369,874
Interest income	**3,884**	4,029	6,680
Other income, BABs	**5,363**	3,032	–
Total revenues	**377,718**	377,520	376,554
Operating expenses	**272,392**	279,035	285,822
Interest expense, net of AFUDC	**42,860**	38,257	26,417
Special items	**–**	5,269	–
Total expenses	**315,252**	322,561	312,239
Income before contributions and transfers	**62,466**	54,959	64,315
Capital contributions, net	**4,556**	2,410	3,746
Operating transfer to City of Gainesville	**(35,233)**	(34,349)	(34,488)
Change in net position	**31,789**	23,020	33,573
Net position, beginning of year	**440,901**	417,881	384,308
Net position, end of year	**$ 472,690**	$ 440,901	$ 417,881

Capital Asset and Debt Administration

Capital Assets. GRU's investment in capital assets as of September 30, 2011, amounts to $1.17 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 7.5%. In fiscal 2010, it increased 3.1%.

The following table summarizes the System's capital assets, net of accumulated depreciation and changes for the years ended September 30, 2011, 2010 and 2009.

Combined Utility System Capital Assets
(Net of accumulated depreciation)

	September 30		
	2011	**2010**	**2009**
		(In Thousands)	
Generation	**$ 345,953**	$ 342,694	$ 149,841
Transmission, distribution and collection	**415,865**	402,574	400,137
Treatment	**54,678**	55,061	57,933
General plant	**59,996**	61,973	49,072
Plant held for future use	**–**	–	6,054
Construction work in progress	**295,109**	226,340	392,600
Total net utility plant	**$ 1,171,601**	$ 1,088,642	$ 1,055,637

Major capital asset events included the following:

- Construction for GRU's Eastside Operations facility was nearly completed in 2011 with construction cost of $56.3 million in 2011. In 2010, $11.4 million was incurred for the early stages of construction on the project. The project cost, including all overheads and related charges, will be more than $70 million when completed in 2012.

- Electric transmission and distribution expansion was $16.2 million in 2011 and $15.5 million in 2010. For 2011, $5.9 million was pertaining to underground system improvements.

- Energy Supply capital expenses included approximately $6.6 million in progress payments for the Deerhaven 2 Turbine upgrades to be installed in FY12 and $4.9 million for the installation of Low NOx burners at the Deerhaven 2. An expenditure of $2.8 million in FY11 completed the multiyear $150 million Deerhaven 2 Air Quality Control System project.

- Telecommunication fiber cable expansion was $2.8 million in 2011 and $2.1 million in 2010.

- Gas distribution plant was expanded $3.2 million in 2011 compared to $2.7 million in 2010.

- In 2010, GRU made a decision to sell some parcels of land previously held for construction of a railspur in the future. When the first parcels were sold, the land was removed from Plant Held for Future Use and recorded in plant assets at its original book value. The remaining project costs of $5.3 million were written off.

The Utility's 2012 capital budget is $89.9 million and was $148.1 million in 2011. These projects will be funded from a combination of internal equity and debt.

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

Long-Term Debt. At September 30, 2011 and 2010, GRU had total long-term debt outstanding of $1.025 billion and $922 million, respectively, comprised of revenue bonds and other long-term debt.

Outstanding Debt at September 30

	2011	2010	2009
		(In Thousands)	
Senior lien revenue bonds	**$ 963,180**	$ 859,725	$ 889,600
Commercial paper	**62,000**	62,000	76,000
Total	**$ 1,025,180**	$ 921,725	$ 965,600

In November 2010, the City issued three series of 2010 Utilities System Revenue Bonds. The 2010 Series A Bonds – Federally Taxable in the amount of $12.9 million were issued to (a) provide funds for the payment of the cost of acquisition and construction of certain improvements to the System, (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series A Bonds, and (c) to pay the costs of issuance of the Taxable 2010 Series A Bonds. The 2010 Series B Bonds – Federally Taxable in the amount of $132.4 million were issued to (a) provide funds for the payment of the cost of acquisition and construction of certain improvements to the System, (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series B Bonds, and (c) to pay the costs of issuance of the Taxable 2010 Series B Bonds. The 2010 Series C Bonds in the amount of $16.4 million were issued (a) to provide funds to refund $5.9 million in aggregate principal amount of the 2003 Series A Bonds, and (b) to provide funds to refund $10.5 million in aggregate principal amount of the 2008 Series A Bonds.

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. On October 22, 2009, $14 million of the proceeds from the Utilities System Revenue Bonds Series 2009A bonds were used to refund the entire outstanding balance of $14 million of the Series D Notes. Accordingly, there were no Series D Notes outstanding as of September 30, 2011 and 2010.

On October 22, 2009, 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. Accordingly, there were no Series D Notes outstanding as of September 30, 2009.

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 P-1 and A-1+ for its commercial paper. On November 4, 2010, GRU was rated AA for its revenue bonds and F1+ for its commercial paper by Fitch Ratings.

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

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

- Operating sales revenue decreased $2.0 million, or approximately 0.5%, and increased $11.7 million, or approximately 3.4%, in fiscal 2011 and 2010, respectively. The decrease in sales revenue in fiscal 2011 is the result of lower consumption offset by rate increases implemented in October 2010, along with a decrease in fuel costs of approximately $12.3 million. Fuel costs are passed directly through to our customers, as part of a fuel adjustment charge, which is recorded as revenue. The increase in FY2010 was due to higher consumption in Electric and Gas systems as a result of extended cold periods during the winter followed by a much hotter than average summer in FY 2010.

- Net capital contributions from developers increased in fiscal 2011 over fiscal 2010 by $2.1 million and decreased in fiscal 2010 over fiscal 2009 by $1.3 million. This increase suggest a slight improvement in the construction market, which has been declining since 2008.

- Year-end fuels payable increased $3.1 million, or approximately 68.6%, in fiscal 2011 and decreased $4.1 million, or approximately 47.7%, in fiscal 2010. The increase at the end of fiscal 2011 is a result of timing of coal invoices at year end.

- Gross utility plant in service increased $41.7 million, or 2.9%, and net capital assets increased $83.0 million, or 7.6% in fiscal 2011. In fiscal 2010, gross utility plant in service increased $228 million, or 18.9%, and net capital assets increased $33.0 million, or 3.1%. This is summarized under "Capital Assets."

- Long-term debt increased $18.9 million, or 2.2%, in fiscal 2011, due to the issuance of new debt in November 2010, offset by refunding and scheduled paydown of principal and reclassification of the 2008B Series bonds to short-term debt. Long-term debt decreased $47.1 million, or 5.1%, in fiscal 2010, due to scheduled repayment of principal. See "Long-Term Debt" within Note 4 and this Management's Discussion and Analysis for details.

- The number of customers for electric services decreased 0.2%, while water and wastewater services increased 0.2% and 0.3%, respectively, in fiscal 2011. There was no change in number of gas services. The number of customers for electric services decreased 0.8%, while water, wastewater and gas services decreased 1.0%, 0.1% and 0.7%, respectively, in fiscal 2010.

- GRU is in the process of remediation efforts at a former manufactured gas plant site. The costs incurred to date total $23.6 million and GRU estimates that total project costs will be approximately $25.9 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.

- 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 75.0% 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. To date, a recovery of $0.7 million has been received, with the remaining recovery expected in 2012.

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 citing and licensing of facilities, safety and security, air and water quality, land use and other environmental factors.

EPA's Cross State Air Pollution Rule has been stayed pending litigation, which has resulted in reinstatement of the Clean Air Interstate Rule (CAIR). Facilities are currently in place at the Deerhaven and JR Kelly generating stations, which will enable them to comply with these rules at a known cost for operations and reagents. EPA has recently promulgated the Mercury Air Toxics Rule (MATS). The potential effect of this rule on the capital, operating and reagent costs for the Deerhaven 2 plant are pending the results for operational testing of the co-benefits of the new air quality control systems at Deerhaven 2. These are scheduled in the second quarter of FY 2012, and costs for additional mercury control 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 MW biomass fueled power plant will hedge against these uncertainties, as well as achieve other local policy objectives.

On October 1, 2011, GRU implemented a 1.72% revenue requirement increase in the electric system to be recovered across the residential rate classes. The customer charge for Non-Residential General Service Non-Demand and Demand customers will not increase. GRU also increased the revenue requirement by 8.41% for the water system, and 4.40% for the wastewater system. There was no increase for the gas system.

To meet increased costs of service, GRU increased water connection fees 0.40% and wastewater connection fees 16.13%.

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

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 incorporates additional generation capacity, new population forecasts, and changed economic circumstances. Additional capacity includes 12.4 megawatts of distributed generation (4.0 mu combined heat and power and 8.4 mu renewable), and 2.5 megawatts 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 megawatt 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 using 50 MW of the output and selling 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.

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.

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.

Gainesville Regional Utilities

Balance Sheets

	September 30 2011	September 30 2010
Assets		
Current assets:		
Cash and investments	**$ 32,310,955**	$ 14,061,821
Accounts receivable, net of allowance for uncollectible accounts of $842,099 in 2011 and $934,579 in 2010	**46,386,956**	46,178,592
Fuels contracts	**1,892,018**	1,600,015
Deferred charges	**3,307,381**	2,650,693
Inventories:		
Fuel	**10,002,581**	11,173,710
Materials and supplies	**9,330,888**	9,015,682
Total current assets	**103,230,779**	84,680,513
Restricted assets:		
Utility deposits – cash and investments	**6,992,651**	6,820,513
Debt service – cash and investments	**52,756,371**	51,754,240
Rate stabilization – cash and investments	**67,458,546**	51,349,384
Construction fund – cash and investments	**154,390,593**	146,784,934
Utility plant improvement fund – cash and investments	**42,431,680**	25,542,502
Decommissioning reserve – cash and investments	**10,083,308**	9,737,398
Total restricted assets	**334,113,149**	291,988,971
Noncurrent assets	**30,205,672**	29,577,931
Capital assets:		
Utility plant in service	**1,480,340,734**	1,438,612,466
Less: accumulated depreciation and amortization	**603,848,220**	576,311,012
	876,492,514	862,301,454
Construction in progress	**295,108,907**	226,340,121
Net capital assets	**1,171,601,421**	1,088,641,575
Total assets	**1,639,151,021**	1,494,888,990
Deferred outflows of resources:		
Accumulated decrease in fair value of hedging derivatives	**77,730,079**	63,180,815
Total assets and deferred outflows of resources	**$ 1,716,881,100**	$ 1,558,069,805

	September 30	
	2011	**2010**
Liabilities and net position		
Current liabilities:		
Fuel payable	**$ 7,697,276**	$ 4,565,268
Accounts payable and accrued liabilities	**12,839,378**	11,760,763
Deferred credits	**13,985,877**	23,701,432
Due to other funds of the City	**4,782,216**	5,071,713
Total current liabilities	**39,304,747**	45,099,176
Payable from restricted assets:		
Utility deposits	**6,992,651**	6,820,407
Rate stabilization deferred credit	**66,230,719**	49,833,829
Construction fund:		
Accounts payable and accrued liabilities	**7,712,798**	9,901,504
Debt payable – current portion	**121,055,000**	35,045,000
Accrued interest payable	**22,027,069**	17,821,828
Total payable from restricted assets	**224,018,237**	119,422,568
Long-term debt:		
Utilities system revenue bonds	**842,124,999**	824,680,000
Commercial paper notes	**62,000,000**	62,000,000
Unamortized loss on refinancing	**(21,362,491)**	(22,577,252)
Unamortized bond premium/discount	**4,563,668**	4,354,919
Fair value of derivative instruments	**74,935,599**	58,166,255
Total long-term debt	**962,261,775**	926,623,922
Other noncurrent liabilities	**18,606,308**	26,023,400
Total liabilities	**1,244,191,067**	1,117,169,066
Net position:		
Net investment in capital assets	**309,898,040**	329,560,861
Restricted	**84,472,117**	70,727,973
Unrestricted	**78,319,876**	40,611,905
Total net position	**472,690,033**	440,900,739
Total liabilities and net position	**$ 1,716,881,100**	$ 1,558,069,805

See accompanying notes.

Gainesville Regional Utilities

Statements of Revenues, Expenses and Changes in Net Position

	Year Ended September 30	
	2011	**2010**
Operating revenue:		
Sales and service charges	**$ 351,158,192**	$ 357,584,673
Transfers to rate stabilization	**(296,890)**	(4,967,370)
Other operating revenue	**17,609,891**	17,842,099
Total operating revenue	**368,471,193**	370,459,402
Operating expenses:		
Operation and maintenance	**184,238,962**	201,044,530
Administrative and general	**38,468,609**	33,432,407
Depreciation and amortization	**49,684,507**	44,558,540
Total operating expenses	**272,392,078**	279,035,477
Operating income	**96,079,115**	91,423,925
Non-operating income (expense):		
Interest income	**3,884,081**	4,028,636
Interest expense, net of AFUDC	**(42,859,851)**	(38,256,984)
Other interest related income, BABs	**5,362,729**	3,031,436
Total non-operating expense	**(33,613,041)**	(31,196,912)
Special items:		
Impairment of assets held for future use	**–**	(5,269,115)
Income before contributions and transfers	**62,466,074**	54,957,898
Capital contributions:		
Contributions from developers	**4,593,532**	2,450,862
Reduction of plant costs recovered through contributions	**(37,772)**	(40,585)
Net capital contributions	**4,555,760**	2,410,277
Operating transfer to City of Gainesville General Fund	**(35,232,540)**	(34,348,831)
Change in net position	**31,789,294**	23,019,344
Net position – beginning of year	**440,900,739**	417,881,395
Net position – end of year	**$ 472,690,033**	$ 440,900,739

See accompanying notes.

Gainesville Regional Utilities

Statements of Cash Flows

	Year Ended September 30	
	2011	**2010**
Operating activities		
Cash received from customers	**$ 351,122,072**	$ 358,415,125
Cash payments to suppliers for goods and services	**(163,257,041)**	(180,008,434)
Cash payments to employees for services	**(53,927,127)**	(53,103,508)
Cash payments for operating transactions with other funds	**(9,449,615)**	(9,168,428)
Other operating receipts	**17,313,001**	12,874,729
Net cash provided by operating activities	**141,801,290**	129,009,484
Noncapital financing activities		
Transfers to other funds	**(35,232,540)**	(34,348,831)
Net cash used in noncapital financing activities	**(35,232,540)**	(34,348,831)
Capital and related financing activities		
Principal repayments on long-term debt	**(58,285,000)**	(43,875,000)
Interest paid on long-term debt	**(39,660,622)**	(38,642,256)
Other receipts	**155,352**	113,885
Proceeds from interest rebate, BABs	**5,362,729**	3,031,436
Acquisition and construction of fixed assets (including allowance for funds used during construction)	**(121,372,640)**	(69,432,857)
Proceeds from new debt and commercial paper	**161,740,000**	–
Cash received for connection charges	**1,824,449**	1,670,692
Net cash used in capital and related financing activities	**(50,235,732)**	(147,134,100)
Investing activities		
Interest received	**2,688,769**	2,869,051
Purchase of investments	**(904,040,741)**	(935,938,311)
Investment in The Energy Authority	**(1,463,669)**	(1,300,000)
Distributions from The Energy Authority	**1,677,043**	747,292
Proceeds from investment maturities	**835,168,800**	929,148,633
Net cash used in investing activities	**(65,969,798)**	(4,473,335)
Net change in cash and cash equivalents	**(9,636,780)**	(56,946,782)
Cash and cash equivalents, beginning of year	**26,974,514**	83,921,296
Cash and cash equivalents, end of year	**$ 17,337,734**	$ 26,974,514

Continued on next page.

Gainesville Regional Utilities

Statements of Cash Flows (continued)

	Year Ended September 30	
	2011	**2010**
Reconciliation of operating income to net cash provided by operating activities		
Operating income	**$ 96,079,115**	$ 91,423,925
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**49,684,507**	44,558,540
Increase (decrease) in cash attributable to change in assets and liabilities:		
Receivables	**(208,364)**	129,363
Prepaid expenses	**(292,003)**	4,310,853
Inventories	**855,923**	(3,641,898)
Deferred charges	**(20,729,130)**	(34,136,902)
Accounts payable and accrued liabilities	**2,021,917**	595,698
Due to other funds	**(289,496)**	486,494
Utility deposits	**172,244**	701,089
Other liabilities and deferred credits	**14,506,576**	24,582,322
Net cash provided by operating activities	**$ 141,801,289**	$ 129,009,484

Noncash, investing, capital, and financing activities

Utility plant contributed by developers in aid of construction was $4,555,760 and $2,410,277 in 2011 and 2010, 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, water, wastewater, natural gas, 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 Governmental Accounting Standards Board (GASB) pronouncements. 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 operating 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 position in the following classifications:

- Net investment in capital assets – This component of net position 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 "net investment in capital assets." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

1. Summary of Significant Accounting Policies (continued)

- Restricted – This component of net position consists of 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 – This component of net position consists of assets that do not meet the definition of “restricted” or “net investment in capital assets.”

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 in U.S. Treasury and government agencies are reported at fair value, as determined by quoted market prices or independent pricing sources. Investments in commercial paper are recorded 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. This program is 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.

1. Summary of Significant Accounting Policies (continued)

GRU records derivative instruments in accordance with GASB No. 53, *Accounting and Reporting for Financial and Derivative Instruments* (see "New Accounting Standards"). For effective hedging transactions, hedge accounting is applied and fair market value changes are recorded on the balance sheet as either a deferred inflow of resources or a deferred outflow of resources until such time that the transaction ends. The related settled gains and losses from these transactions are recognized as fuel expenses on the statement of revenues, expenses and changes in net position.

The information below provides a summary of results based on GRU's risk management activity during fiscal years 2011 and 2010 (in thousands, except MMBTU's).

	Fair Value of Cash Flow Hedges at September 30, 2011	Changes in Fair Value	Deferred Outflows of Resources	Notional Amount (MMBTU's)
Natural gas	**$ 1,892**	**$ (292)**	**$ (2,794)**	**4,330**

	Fair Value of Cash Flow Hedges at September 30, 2010	Changes in Fair Value	Deferred Outflows of Resources	Notional Amount (MMBTU's)
Natural gas	$ 1,600	$ (4,311)	$ (5,015)	4,900

Realized gains and losses related to hedging positions are deferred under the rate-setting policy. During fiscal years 2011 and 2010, GRU recognized losses of $5.4 million and $7.8 million, 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.

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.

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 3.14% in fiscal 2011 and 2.95% in fiscal 2010. 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 $16.2 million and $13.9 million 2011 and 2010, 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

1. Summary of Significant Accounting Policies (continued)

amounts to be collected through future rates. As of September 30, 2011 and 2010, deferred fuel costs were a liability of $9.1 million and $4.1 million, respectively. 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 2011 and 2010, GRU paid $1.7 million each year 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 2011 and 2010, GRU billed the City $5.9 million and $5.2 million, respectively, for these services.

- Transfers to the general fund – GRU budgets an annual transfer to the general fund based on a City Commission approved formula. For details, see Note 11.

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.

1. Summary of Significant Accounting Policies (continued)

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 $1.4 million and $0.1 million in 2011 and 2010, 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 3.09% and 2.20% for fiscal years 2011 and 2010, respectively.

1. Summary of Significant Accounting Policies (continued)

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 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 and GRU retroactively adopted GASB No. 53 in fiscal year 2010. The annual changes in the fair value of effective hedging instruments are required to be deferred and are reported as deferred inflows or deferred outflows of resources on the balance sheet. Deferral of changes in fair value generally last until the transaction involving the hedged item ends. The annual changes in fair value of ineffective hedging instruments are required to be reported in investment income. GRU has elected to defer the ineffective portions as regulatory assets in accordance with GASB No. 62, paragraphs 476-500, Regulated Operations. GRU currently has two types of hedging instruments, interest rate swap agreements and commodity futures contracts. Each has been associated with an item that is eligible to be hedged. Of the interest rate swap agreements, three have been determined to be effective, while four have been deemed ineffective. Of the commodity futures contracts, all have been determined to be effective. At September 30, 2011 and 2010, deferred outflows of $74.9 million and $58.2 million, respectively, have been recorded

1. Summary of Significant Accounting Policies (continued)

for interest rate swap agreements in accumulated decrease in fair value of hedging derivatives on the balance sheets. See Note 1 (Risk Management/Futures and Options Contracts) and Note 4 (Derivatives) for further information.

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 reporting as an enterprise fund, this standard is not applicable to GRU.

In June 2010, GASB issued Statement No. 59, *Financial Statements Omnibus,* which provides clarification regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. This statement is effective for financial periods beginning after June 15, 2010, which is GRU's fiscal year 2011. Implementation of this statement did not have a material impact on GRU's financial reporting.

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses issues related to service concession arrangements (SCAs). This statement is effective for financial periods beginning after December 2011 and does not have material impact on GRU's financial statements because GRU does not currently participate in SCAs.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement is intended to enhance usefulness of GASB codification by incorporating guidance, which previously could only be found in FASB or American Institute of Certified Public Accountants (AICPA) pronouncements. The statement is effective for periods beginning after December 15, 2011. GRU has adopted Statement No. 62 for the period beginning October 1, 2010. This statement incorporates existing generally accepted accounting guidance into GASB authoritative literature and does not have a material impact on GRU's financial position.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position*. This statement is intended to provide guidance for reporting deferred outflows of resources, deferred inflow of resources, and net position in a statement of financial position and related disclosures. This adoption of this statement requires GRU to modify the balance sheets and replace the statements of revenues,

1. Summary of Significant Accounting Policies (continued)

expenses and changes in net assets with a statement of revenues, expenses and changes in net position. While there is no material impact to GRU's financial position, the presentation of the statements is modified to report deferred inflows and outflows of resources as separate items, not included in total assets and total liabilities. This statement is effective for periods beginning after December 15, 2011; however, GRU has opted to early-implement this statement in fiscal 2011. GASB 63 was implemented retroactively and resulted in certain reclassifications and presentation change to the balance sheets.

2. Rates and Regulation

GRU's rates are established in accordance with the Utilities System Bond Resolution and the Utilities System Subordinated Bond Resolution was 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 over- or under- collected 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.

GRU prepares its financial statements in accordance with GASB No. 62, paragraphs 476-500, Regulated Operations, and records various regulatory assets and liabilities. For a government to report under GASB No. 62, the Utility's rates must be designed to recover its costs of providing services, and the Utility's 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 GASB No. 62, 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	CWIP/Plant Held for Future Use	Combined
Balance, October 1, 2010	**$ 115,418,685**	**$ 567,629,153**	**$ 657,911,638**	**$ 97,652,990**	**$ 226,340,121**	**$ 1,664,952,587**
Capital additions and transfers	**3,152,263**	**16,729,975**	**33,020,303**	**4,257,073**	**125,928,400**	**183,088,014**
Less: sales, retirements, and transfers	**576,828**	**1,855,470**	**8,529,841**	**4,469,206**	**57,159,614**	**72,590,960**
Balance, September 30, 2011	**$ 117,994,120**	**$ 582,503,658**	**$ 682,402,100**	**$ 97,440,857**	**$ 295,108,907**	**$ 1,775,449,641**
Accumulated depreciation, October 1, 2010	**$ 60,357,417**	**$ 224,935,164**	**$ 255,337,991**	**$ 35,680,440**	**N/A**	**$ 576,311,012**
Depreciation expense	**3,936,910**	**14,887,461**	**21,023,274**	**6,014,825**	**N/A**	**45,862,470**
Less: retirements/ adjustments	**977,989**	**3,272,669**	**9,823,910**	**4,250,694**	**N/A**	**18,325,262**
Accumulated depreciation, September 30, 2011	**$ 63,316,338**	**$ 236,549,956**	**$ 266,537,355**	**$ 37,444,571**	**N/A**	**$ 603,848,220**
Average depreciation rate	**3.37%**	**2.59%**	**3.14%**	**6.17%**	**N/A**	**3.14%**

	Plant in Service					
	Treatment	Generation	Transmission, Distribution and Collection	General	CWIP/Plant Held for Future Use	Combined
Balance, October 1, 2009	$ 114,441,277	$ 368,312,680	$ 638,520,343	$ 88,853,207	$ 398,654,446	$ 1,608,781,953
Capital additions and transfers	1,013,784	203,287,164	23,280,310	16,576,200	77,897,060	322,054,518
Less: sales, retirements, and transfers	36,376	3,970,691	3,889,015	7,776,417	250,211,385	265,883,884
Balance, September 30, 2010	$ 115,418,685	$ 567,629,153	$ 657,911,638	$ 97,652,990	$ 226,340,121	$ 1,664,952,587
Accumulated depreciation, October 1, 2009	$ 56,508,078	$ 218,472,405	$ 240,294,198	$ 37,869,909	N/A	$ 553,144,590
Depreciation expense	3,885,717	11,384,741	18,208,432	5,586,947	N/A	39,065,837
Less: retirements/ adjustments	36,378	4,921,982	3,164,639	7,776,416	N/A	15,899,415
Accumulated depreciation, September 30, 2010	$ 60,357,417	$ 224,935,164	$ 255,337,991	$ 35,680,440	N/A	$ 576,311,012
Average depreciation rate	3.38%	2.43%	2.81%	5.99%	N/A	2.95%

4. Long-Term Debt

Long-term debt outstanding at September 30, 2011 and 2010 consisted of the following:

	September 30 2011	September 30 2010
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 (1992B Bonds) – interest payable semi-annually to October 1, 2013 at a rate of 6.50%	**13,530,000**	17,500,000
2003 Series A (2003A Bonds) – interest payable semi-annually to October 1, 2023 at a rate of 4.625%	**1,605,000**	7,525,000
2003 Series B (2003B Bonds) – interest payable semi-annually to October 1, 2013 at a rate of 4.40%	**2,640,000**	3,445,000
2003 Series C (2003C Bonds) – interest payable semi-annually to October 1, 2013 at a rate of 5.00%	**45,080,000**	58,695,000
2005 Series A (2005A 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 (2005B Bonds) – interest payable semi-annually to October 1, 2021 at rates between 5.14% and 5.31% (Federally Taxable)	**58,345,000**	59,220,000
2005 Series C (2005C Bonds) – interest payable semi-annually to October 1, 2026, interest at variable market rates; 0.22% at September 30, 2011	**52,135,000**	55,135,000
2006 Series A (2006A Bonds) – interest payable semi-annually to October 1, 2026, interest at variable market rates; .20% at September 30, 2011	**50,415,000**	53,305,000
2007 Series A (2007A Bonds) – interest payable semi-annually to October 1, 2036, interest at variable market rates; .12% at September 30, 2011	**138,740,000**	139,005,000
2008 Series A (2008A Bonds) – interest payable semi-annually to October 1, 2020 at rates between 3.48% and 5.27%	**75,165,000**	98,310,000
2008 Series B(2008B Bonds) – interest payable semi-annually to October 1, 2038 interest at variable market rates; 0.11% at September 30,2011	**90,000,000**	90,000,000
2009 Series A (2009A Bonds) – interest payable semi-annually to October 1, 2015 at rates between 1.68% and 3.59%	**20,390,000**	24,190,000
2009 Series B (2009B Bonds) – interest payable semi-annually to October 1, 2039 at rates between 3.59% and 5.65% (Federally Taxable)	**156,900,000**	156,900,000
2010 Series A (2010A Bonds) – interest payable semi-annually to October 1, 2030 at a rate of 5.87% (Federally Taxable)	**12,930,000**	–
2010 Series B (2010B Bonds) – interest payable semi-annually to October 1, 2040 at a rate of 6.02% (Federally Taxable)	**132,445,000**	–
2010 Series B (2010B Bonds) – interest payable semi-annually to October 1, 2034 at rates between 5.00% and 5.25%	**16,365,000**	–
Utilities System Commercial Paper Notes, Series C (C Notes), interest at variable market rate; 0.28% at September 30, 2011 (Federally Taxable)	**62,000,000**	62,000,000
	1,025,180,000	921,725,000
Current portion of long-term debt	**(121,055,000)**	(35,045,000)
Unamortized loss on refinancing	**(21,362,491)**	(22,577,252)
Unamortized premium/discount	**4,563,668**	4,354,919
Total long-term debt	**$ 887,326,176**	$ 868,457,667

4. Long-Term Debt (continued)

For the Electric, Water, Sewer, Gas, and Telecommunication System variable rate demand obligations (VRDO) appearing in the above schedule of outstanding indebtedness support is provided in connection with tenders for purchase with various liquidity providers pursuant to standby bond purchase agreements (SBPA) relating to that series of obligation. The purchase price of the obligations tendered or deemed tendered for purchase is payable solely from the proceeds of the remarketing thereof and moneys drawn under the applicable SBPA. The current stated termination dates of the SBPA's range from May 10, 2012 to March 1, 2014. Each of the SBPA termination dates may be extended. At September 30, 2011, there were no outstanding draws under the SBPA's. The 2008B Bonds, which are supported by the SBPA that expires on May 10, 2012, have been reclassified to short-term debt in accordance with GASB Interpretation No. 1.

For the commercial paper notes appearing in the above schedule of outstanding indebtedness, to provide liquidity support, GRU has entered into a revolving credit agreement with commercial banks. If moneys are not available to pay the principal of any maturing commercial paper notes during the term of the credit agreement, GRU is entitled to make a borrowing under the credit agreement. The termination dates of the credit agreements as of September 30, 2011, are September 11, 2014 and November 30, 2015. The credit agreement with the termination date of November 30, 2015, has the option to terminate the agreement on October 1, 2013. The credit agreement termination dates may be extended. At September 30, 2011, there were no outstanding draws under the credit agreements.

On September 1, 1983, the City issued Utilities System Revenue Bonds Series 1983. 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.

On April 9, 1992, the City issued Utilities System Revenue Bonds, Series 1992B. The 1992 Series B Bonds mature at various dates through October 1, 2013.

On February 15, 1996, the City issued the 1996A Utilities System Revenue Bonds, in the amount of $143 million. The 1996A Bonds mature at various dates through October 1, 2026. Those Bonds are subject to redemption at the option of the City as a whole or in part at any time at a redemption price of 100% plus accrued interest to the date of redemption.

4. Long-Term Debt (continued)

On February 20, 2003, the City issued the 2003A and 2003B Utilities System Revenue Bonds. The 2003A Bonds were issued in the amount of $33 million and mature on various dates from October 1, 2015 through October 1, 2023. The 2003B Bonds were issued in the amount of $7.6 million and mature on various dates through October 1, 2013. The 2003A Bonds maturing on or after October 1, 2013, are subject to redemption at the option of the City at 100% of the principal amount, plus accrued interest to rate of redemption.

On November 16, 2005, the City issued the 2005A, 2005B and 2005C Utilities System Revenue Bonds in the amounts of $197.0 million, $61.6 million, and $55.1 million, respectively. 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 are subject to redemption at the option of the City on and after October 1, 2015, as a whole or in part at any time, at a redemption price of 100% of the principal amount, plus accrued interest to the date of redemption. The 2005B Bonds are 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 are 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.

On July 6, 2006, the City issued the Utilities System Revenue Bonds, 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 1996A Bonds ($51.6 million) maturing from October 1 2010 to October 1, 2026, and to pay costs of acquisition and construction of the City's utilities system. The 2006A Bonds are 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 March 1, 2007, the City issued the 2007A Utilities System Revenue Bonds in the amount of $139.5 million. A portion of the 2007A Bonds ($130.6 million) were issued to advance-refund a portion of the City's outstanding 2003A Bonds ($25.5 million) and 2005A Bonds ($105.1 million) maturing from October 1, 2020 to October 1, 2033, and from October 1, 2030 to

4. Long-Term Debt (continued)

October 1, 2036, respectively. The 2007A Bonds are subject to redemption prior to maturity at the election of the City, in whole or in part, at a redemption price of 100% of the principal amount plus accrued interest to the redemption date.

On February 13, 2008, the City issued the Utilities System Revenue Bonds, 2008A in the amount of $105 million and 2008B in the amount of $90 million. The 2008A Bonds mature on various dates through 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 are 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 are 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 the 2009A and 2009B Utilities System Revenue Bonds, in the amount of $24.2 million and $156.9 million, respectively. 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 and 2009B Bonds were issued to pay costs of acquisition and construction of the City's utilities system. The 2009A and 2009B Bonds are subject to redemption prior to maturity at the election of the City, in whole or in part, at a redemption price of 100% of the principal amount plus accrued interest to the redemption date.

In November 2010, the City issued three series of 2010 Utilities System Revenue Bonds. The 2010 Series A Bonds – Federally Taxable in the amount of $12.9 million were issued to (a) provide funds for the payment of the cost of acquisition and construction of certain improvements to the System, (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series A Bonds, and (c) to pay the costs of issuance of the Taxable 2010 Series A Bonds. Those Bonds mature at various dates from October 1, 2027 to October 1, 2030. The Bonds are subject to redemption at the option of the City, in whole or part, at a redemption price so specified.

The 2010 Series B Bonds – Federally Taxable in the amount of $132.4 million were issued to (a) provide funds for the payment of the cost of acquisition and construction of certain improvements to the System, (b) to provide for the payment of certain capitalized interest on the

4. Long-Term Debt (continued)

Taxable 2010 Series B Bonds, and (c) to pay the costs of issuance of the Taxable 2010 Series B Bonds. Those Bonds mature at various dates from October 1, 2034 to October 1, 2040. The Bonds are subject to redemption prior to maturity at the option of the City, in whole or in part, at a redemption price so specified.

The 2010 Series C Bonds in the amount of $16,365,000 were issued (a) to provide funds to refund $5,860,000 in aggregate principal amount of the 2003 Series A Bonds, and (b) to provide funds to refund $10,505,000 in aggregate principal amount of the 2008 Series A Bonds. Those Bonds mature at various dates from October 1, 2015 to October 1, 2019, and from October 1, 2030 to October 1, 2034. Those Bonds maturing on and prior to October 1, 2019, will not be subject to redemption prior to maturity. Those bonds maturing October 1, 2034 are subject to redemption at the option of the City, at a redemption price so specified.

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 October 1, 2013. The obligation of the bank may be substituted by another bank that meets certain credit standards and that 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 were $62 million of Series C Notes outstanding as of September 30, 2011 and 2010.

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, which was extended through September 13, 2011. On October 22, 2009, $14 million of the proceeds from the Utilities System Revenue Bonds Series 2009A bonds were used to refund the entire outstanding balance of $14 million of the Series D Notes. Accordingly, there were no Series D Notes outstanding as of September 30, 2011 and 2010.

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.

4. Long-Term Debt (continued)

The following table lists the Debt Service requirements (principal and interest) on long-term debt outstanding at September 30, 2011:

	Principal	Interest	Total Debt Service Requirements[1] [2]
Period Ending September 30:			
2012	$ 121,055,000	$ 27,768,386	$ 148,823,386
2013	32,430,000	26,482,028	58,912,028
2014	33,905,000	25,170,097	59,075,097
2015	35,050,000	23,906,115	58,956,115
2016	36,565,000	22,797,354	59,362,354
2017 – 2021	177,745,000	96,846,097	274,591,097
2022 – 2026	108,770,000	73,301,423	182,071,423
2027 – 2031	141,080,000	54,212,455	195,292,455
2032 – 2036	160,705,000	38,305,521	199,010,521
2037 – 2040	177,875,000	18,045,024	195,920,024
	$ 1,025,180,000	$ 406,834,500	$ 1,432,014,500

(1) Interest rates on variable-rate long-term debt were valued to be equal to 0.22% for the 2005C Series Bonds, 0.20% for the 2006A Series Bonds, 0.12% for the 2007A Series Bonds, 0.11% for the 2008B Series Bonds, and 0.28% for the 2008 TECP. These are the rates in effect as of September 30, 2011.

(2) Interest expense for the 2009B Series Bonds (Federally Taxable – Issuer Subsidy – Build America Bonds) and the 2010 Series B Bonds (Federally Taxable – Issuer Subsidy – Build America Bonds) have been shown net of the federal interest subsidy, which is equal to 35% of the annual interest expense for the duration of the bonds. The subsidy is recorded as non-operating income on the Statements of Revenues, Expenses and Changes in Net Position.

The interest rates used in this table are per GASB No. 38, which requires the rate used in the calculations be that in effect as of September 30, 2011.

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, 2011 and 2010.

	September 30	
	2011	**2010**
Long-term debt outstanding at beginning of year	**$ 868,457,667**	$ 915,589,359
Changes in long-term debt:		
Series 2010A issued	**12,930,000**	–
Series 2010B issued	**132,445,000**	–
Series 2010C issued	**16,365,000**	–
Fixed rate debt redeemed – Senior Lien and Subordinated	**(31,055,000)**	(35,045,000)
Series 2003A refunded	**(5,920,000)**	–
Series 2008A refunded	**(17,320,000)**	–
Reclassification of 2008B Bonds to current	**(90,000,000)**	–
TECP refunded during the year	**–**	(14,000,000)
Change in unamortized loss/bond discount	**1,423,509**	1,913,308
Long-term debt outstanding at end of year	**$ 887,326,176**	$ 868,457,667
Current portion of long-term debt	**$ 121,055,000**	$ 35,045,000

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 that 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.

4. Long-Term Debt (continued)

Derivatives

GRU is a party to certain interest rate swap agreements. In 2010, GRU implemented GASB No. 53 (See Note 1 "New Accounting Standards"), and applies hedge accounting where applicable for effective hedging instruments. For effective hedging instruments, the changes in fair value are recorded as deferred outflows and inflows on the balance sheet. According to GASB No. 53, the changes in fair value of ineffective hedging instruments would be recorded on the income statement as an adjustment to investment income. However, GRU has applied GASB No. 62, which permits for the change in fair value of ineffective hedging instruments to also be deferred as a regulatory item. Accordingly, GRU has elected to defer the ineffective portions as deferred outflows.

Under GRU's interest rate swap programs, GRU either pays a variable rate of interest, which is based on various indices, and receives a fixed rate of interest for a specific period of time (unless earlier terminated), or GRU pays a fixed rate of interest and receives a variable rate of interest, which is based on various indices for a specified period of time (unless earlier terminated). These indices are affected by changes in the market. The net amounts received or paid under the swap agreements are recorded as an adjustment to interest on debt in the statement of revenues, expenses, and changes in net position. No money is initially exchanged when GRU enters into a new interest rate swap transaction. 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 interest rate swap transactions.

4. Long-Term Debt (continued)

Terms, Fair Values and Credit Risk

The terms, fair values and credit ratings of the outstanding swaps as of September 30, 2011, were as follows. The notional amounts of the swaps match the principal amounts of the associated debt.

Associated Bond Issue	2008CP*	2005B*	2005C*	2006A*
Notional amounts	**$ 22,000,000**	**$ 45,000,000**	**$ 55,135,000**	**$ 53,305,000**
Effective date	**7/3/2002**	**11/16/2005**	**11/1/2006**	**7/6/2006**
Fixed payer rate	**4.100%**	**SIFMA**	**3.200%**	**3.224%**
Variable receiver rate	**SIFMA**	**77.14% of 1 MO LIBOR**	**60.36% of 10 YR LIBOR**	**68% of 10 YR LIBOR -.365%**
Fair value	**$ (3,502,745)**	**$ (753,558)**	**$ (3,970,369)**	**$ (4,269,396)**
Termination date	**10/1/2017**	**10/1/2021**	**10/1/2026**	**10/1/2026**
Counterparty credit rating	**Baa1/A/A+**	**Aa1/AAA**	**Aa1/AA-/AA-**	**Aa1/AAA**

Associated Bond Issue	2008B*	2008B*	2007A*
Notional amounts	**$ 58,500,000**	**$ 31,500,000**	**$ 139,505,000**
Effective date	**2/1/2008**	**2/1/2008**	**3/1/2007**
Fixed payer rate	**4.229%**	**4.229%**	**3.944%**
Variable receiver rate	**SIFMA**	**SIFMA**	**SIFMA**
Fair value	**$ (17,305,693)**	**$ (9,322,086)**	**$ (35,811,752)**
Termination date	**10/1/2038**	**10/1/2038**	**10/1/2036**
Counterparty credit rating	**Aa1/AA-/AA-**	**Aa1/AA-/AA-**	**Aa1/AAA**

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

4. Long-Term Debt (continued)

The terms, fair values and credit ratings of the outstanding swaps as of September 30, 2010, were as follows. The notional amounts of the swaps match the principal amounts of the associated debt.

Associated Bond Issue	2008CP*	2005B*	2005C*	2006A*
Notional amounts	$ 22,000,000	$ 45,000,000	$ 55,135,000	$ 53,305,000
Effective date	7/3/2002	11/16/2005	11/1/2006	7/6/2006
Fixed payer rate	4.100%	SIFMA	3.200%	3.224%
Variable receiver rate	SIFMA	77.14% of 1 MO LIBOR	60.36% of 10 YR LIBOR	68% of 10 YR LIBOR -.365%
Fair value	$ (3,669,231)	$ (840,366)	$ (3,233,388)	$ (3,417,464)
Termination date	10/1/2017	10/1/2021	10/1/2026	10/1/2026
Counterparty credit rating	A2/A/A+	Aa1/AAA	Aa1/AA-/AA-	Aa1/AAA

Associated Bond Issue	2008B*	2008B*	2007A*
Notional amounts	$ 58,500,000	$ 31,500,000	$ 139,505,000
Effective date	2/1/2008	2/1/2008	3/1/2007
Fixed payer rate	4.229%	4.229%	3.944%
Variable receiver rate	SIFMA	SIFMA	SIFMA
Fair value	$ (13,560,175)	$ (7,303,049)	$ (26,142,582)
Termination date	10/1/2038	10/1/2038	10/1/2036
Counterparty credit rating	Aa1/AA-/AA-	Aa1/AA-/AA-	Aa1/AAA

4. Long-Term Debt (continued)

	Fair Value of Interest Rate Swaps at September 30, 2011	Changes in Fair Value	Deferred (Inflow) Outflow	Deferred (Inflow) Outflow for Ineffective Instruments
2008CP	**$ (3,502,745)**	**$ 166,487**	**$ (119,753)**	**$ (46,734)**
2005B	**(753,558)**	**86,808**	**–**	**(86,808)**
2005C	**(3,970,369)**	**(736,981)**	**–**	**736,981**
2006A	**(4,269,396)**	**(851,932)**	**–**	**851,932**
2008B	**(17,305,693)**	**(3,745,518)**	**3,745,518**	**–**
2008B	**(9,322,086)**	**(2,019,037)**	**2,019,037**	**–**
2007A	**(35,811,752)**	**(9,669,170)**	**9,669,170**	**–**
	$ (74,935,599)	**$ (16,769,343)**	**$ 15,313,972**	**$ 1,455,371**

	Fair Value of Interest Rate Swaps at September 30, 2010	Changes in Fair Value	Deferred Outflow	Deferred (Inflow) Outflow for Ineffective Instruments
2008CP	$ (3,669,231)	$ (1,021,872)	$ 1,271,229	$ (249,357)
2005B	(840,366)	(43,126)	–	43,126
2005C	(3,233,388)	(1,532,257)	–	1,532,257
2006A	(3,417,464)	(1,649,042)	–	1,649,042
2008B	(13,560,175)	(4,120,386)	4,120,386	–
2008B	(7,303,049)	(2,219,003)	2,219,003	–
2007A	(26,142,582)	(9,499,907)	9,499,907	–
	$ (58,166,255)	$ (20,085,593)	$ 17,110,525	$ 2,975,068

Fair Value

All seven of the swap agreements currently have a negative fair value as of September 30, 2011. 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. These swaps are based on a different variable receiver rate, which is partially responsible for the difference in performance.

4. Long-Term Debt (continued)

Swap Payments and Associated Debt

Assuming interest rates remain the same at September 30, 2011, debt service requirements on the interest rate swaps would be as follows:

Fiscal Year Ending September 30	Variable Rate Principal	Variable Rate Interest	Fixed Rate Principal	Fixed Rate Interest	Net Swap Interest	Total
2012	$ 6,360,000	$ 699,606	$ 920,000	$ 3,055,189	$ 11,005,445	$ 22,040,240
2013	6,580,000	634,711	965,000	3,006,745	10,906,462	22,092,918
2014	6,805,000	620,911	1,015,000	2,955,859	10,804,093	22,200,863
2015	10,830,000	593,733	1,070,000	2,902,274	10,518,742	25,914,749
2016	14,515,000	563,300	7,375,000	2,685,238	10,168,747	35,307,285
2017–2021	56,530,000	2,389,929	43,150,000	6,987,164	46,683,495	155,740,588
2022–2026	54,320,000	1,928,589	3,850,000	102,218	41,012,348	101,213,155
2027–2031	81,415,000	1,431,652	–	–	31,861,796	114,708,448
2032–2036	123,895,000	537,716	–	–	14,340,559	138,773,275
2037–2040	32,040,000	35,414	–	–	617,234	32,692,648
Total	$ 393,290,000	$ 9,435,561	$ 58,345,000	$ 21,694,687	$ 187,918,921	$ 670,684,169

The interest rates used in this table are those in effect as of September 30, 2011.

Credit Risk

As of September 30, 2011, 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, 2011, the SIFMA rate was 0.16%.

4. Long-Term Debt (continued)

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, 2011, the 1-month LIBOR rate was at 0.23944%, which places the SIFMA at 66.82% 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, 2011, the 10-year LIBOR rate was at 2.107%.

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.

Interest Rate Risk

This risk is associated with the changes in interest rates that will adversely affect the fair values of GRU's swaps and derivatives. GRU's exposure to this risk is through its pay – fixed, variable interest rate swap agreements. GRU mitigates this risk by actively reviewing and negotiating its swap agreements.

Rollover Risk

GRU is exposed to this risk when its interest rate swap agreements mature or terminate prior to the maturity of the hedged debt. When the counterparty to the interest rate swap agreements choose to terminate early, GRU will be re-exposed to the rollover risk. Currently, there is no early termination option being exercised by any of GRU's interest rate swap counterparties.

4. Long-Term Debt (continued)

Market Access Risk

This risk is associated with the event that GRU will not be able to enter credit markets for interest rate swap agreements or that the credit market becomes more costly. GRU maintains a strong credit rating of “Aa2” from Moody’s, “AA” from Standard and Poor’s, and “AA” from Fitch. Currently GRU has not encountered any credit market barriers.

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.

5. Deposits and Investments (continued)

As of September 30, 2011, GRU had the following investments and maturities (amounts are in thousands).

	Fair Value	Maturities in Years: Less than 1	Maturities in Years: 1-5
Investment type:			
Commercial paper	$ 234,745	$ 234,745	$ –
Corporate Bonds	8,778	2,000	6,778
U.S. agencies	87,851	–	87,851
U.S. bonds	7,365	–	7,365
Total	$ 338,739	$ 236,745	$ 101,994

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, 2011, 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.

5. Deposits and Investments (continued)

As of September 30, 2011, GRU had more than 5% of the investment portfolio of the following:

	Percent of Total Investments	
	2011	**2010**
Issuer:		
Federal Home Loan Bank	**2.96%**	5.23%
Federal Home Loan Mortgage Corporation	**3.77%**	6.43%
Federal National Mortgage Association	**13.76%**	9.88%

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

	2011	**2010**
Restricted assets	**$ 334,113,149**	$ 291,988,971
Current assets:		
Cash and investments	**32,310,955**	14,061,821
Total cash and investments	**366,424,104**	306,050,792
Less cash and cash equivalents	**(17,337,734)**	(26,894,514)
Less CR3 decommissioning reserve	**(10,083,308)**	(9,737,398)
Less accrued interest receivable and accounts receivable	**(264,045)**	(254,531)
Total investments	**$ 338,739,017**	$ 269,164,349

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, 2011 and 2010, is approximately $17.6 million and $15.7 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.

6. Jointly Owned Electric Plant (continued)

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, 2011, is $10.0 million.

7. Restricted Net Position

Certain assets are restricted by bond resolution and other external requirements. Following is a summary of the computation of restricted net position at September 30, 2011 and 2010, and the restricted purposes of the asset balances:

	2011	2010
Restricted net position:		
Total restricted assets	**$ 334,113,149**	$ 291,988,971
Unspent debt proceeds	**(154,390,593)**	(146,784,933)
Payable from restricted assets	**(95,250,439)**	(74,476,065)
Restricted net position	**$ 84,472,117**	$ 70,727,973

Assets are restricted as follows:

	2011	2010
Debt covenants:		
Debt service	**$ 31,957,129**	$ 35,448,073
Utility plant improvement	**42,431,680**	25,542,502
Total restricted pursuant to debt covenants	**74,388,809**	60,990,575
Other restrictions:		
Nuclear decommissioning reserve	**10,083,308**	9,737,398
Restricted net position	**$ 84,472,117**	$ 70,727,973

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, 2011, 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 $5.5 million for the year ended September 30, 2011, and $2.9 million for the year ended September 30, 2010.

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, 2011 and 2010.

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, 2011 and 2010, was $0.3 million each year.

10. Disaggregation of Receivables and Payables

Receivables

For the years ended September 30, 2011 and 2010, respectively, net accounts receivable represent 96.0% and 92.6% from customers for billed and unbilled utility services, and 4.0% and 7.4% from other receivables. There are no receivables expected to take longer than one year to collect.

Payables

As of September 30, 2011 and 2010, respectively, payable balances represent 24.3% and 14.6% related to fuels payable, 33.5% and 44.9% related to standard vendor payables, 19.4% and 18.6% related to accrued wages and vacation payable, 16.0% and 16.2% related to intergovernmental payables, and 6.7% and 5.7% 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, 2011 and 2010, was $35.2 million and $34.3 million, respectively.

12. Deferred Charges and Deferred Credits

Deferred Charges

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

Unamortized bond issuance costs of approximately $7.0 million and $6.8 million at September 30, 2011 and 2010, respectively, are included in deferred charges. These costs are being amortized straight-line over the life of the bonds, which approximates the effective interest method.

12. Deferred Charges and Deferred Credits (continued)

Electric distribution plant acquisition costs of $2.3 million and $2.5 million for September 30, 2011 and 2010, respectively, are being amortized over the expected life of the acquired assets. Of this amount, $0.2 million is recorded in deferred charges at September 30, 2011 and 2010, with the remaining portion included in noncurrent assets.

Deferred Credits

Deferred credits are presented on the balance sheet under current liabilities and other noncurrent liabilities.

The deferred credit for estimated environmental costs is $5.9 million and $15.2 million at September 30, 2011 and 2010, respectively, and is recorded as a noncurrent liability. See Note 13 for details on the manufactured gas plant remediation portion of this item.

Accrued electric fuel adjustment was a deferred credit of $9.1 million and $4.1 million at September 30, 2011 and 2010, respectively. See Note 1, “Revenue Recognition,” for details on GRU’s policy regarding fuel adjustment.

At September 30, 2010, a temporary transfer from the Rate Stabilization reserve of $16.1 million to the operating fund was also recorded in deferred credits. This transfer is made in accordance with our bond resolution for the purpose of meeting temporary cash requirements, primarily due to timing differences.

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

13. Environmental Liabilities (continued)

to reflect the costs associated with the cleanup effort. At September 30, 2010, GRU has recorded a liability of $13.7 million to cover the expected remaining costs of the remediation. During fiscal year 2011, expenditures which reduced the liability balance were $9.2 million. In accordance with GASB 49, an additional $1.4 million was added to the reserve due to new project estimates and probabilities, bringing the reserve balance at September 30, 2011, to $5.9 million.

GRU is recovering the costs of this cleanup 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 2011 and 2010 billings were $0.9 million and $0.8 million, respectively. This reduced the deferred asset balance to $20.8 million and $20.3 million as of September 30, 2011 and 2010, 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.

14. 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. 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.

14. Investment in the Energy Authority (continued)

GRU had electric purchases transactions with TEA of $29.8 million and $43.1 million and sales transactions of $2.3 million and $8.2 million in fiscal years 2011 and 2010, respectively. TEA's profit on these transactions has been reflected as a reduction to GRU's reported revenue or expense.

As of September 30, 2011, GRU's investment in TEA was $3.0 million as compared to $3.2 million on September 30, 2010.

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 was $23.4 million and $30.5 million as of September 30, 2011 and 2010. GRU's aggregate obligation for TEA's natural gas marketing transactions, under similar agreements and executed guaranties, was $30.5 million and $30.5 million as of September 30, 2011 and 2010, respectively.

14. Investment in the Energy Authority (continued)

The following is a summary of the unaudited financial information of TEA for the 12-month periods ended September 30:

	2011	2010
	(In Thousands)	
Condensed statement of operations:		
Total revenue	**$ 1,119,391**	$ 929,770
Total cost of sales and expense	**1,024,268**	855,930
Operating income	**$ 95,123**	$ 73,840
Net revenue	**$ 95,585**	$ 74,029
Condensed balance sheet:		
Assets:		
Current assets	**$ 131,102**	$ 128,244
Noncurrent assets	**20,435**	26,022
Total assets	**$ 151,537**	$ 154,266
Liabilities:		
Current liabilities	**$ 105,318**	$ 104,381
Noncurrent liabilities	**984**	3,790
Total liabilities	**106,302**	108,171
Members' capital	**45,235**	46,095
Total equity and liabilities	**$ 151,537**	$ 154,266

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

15. 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's General Insurance Fund.

15. Risk Management (continued)

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 2011 and 2010 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
2009–2010	$ 3,337,000	$ 1,237,502	$ 1,237,502	$ –	$ 3,337,000
2010–2011	$ 3,337,000	$ 1,241,943	$ 1,241,943	$ –	$ 3,337,000

Supplemental Schedules

Gainesville Regional Utilities

Schedules of Combined Net Revenues in Accordance with Bond Resolution

	September 30				
	2011	**2010**	**2009**	**2008**	**2007**
Revenue					
Electric fund:					
Sales of electricity	**$ 250,057,293**	$ 262,530,880	$ 249,761,763	$ 238,595,628	$ 206,552,756
Other electric revenue	**13,521,707**	14,445,686	3,270,339	3,871,838	3,878,187
Transfers from (to) rate stabilization	**(3,017,205)**	(7,692,907)	11,054,541	6,532,390	(4,372,298)
Interest/investment income	**1,404,284**	1,183,493	2,709,170	2,859,539	3,597,057
Other interest related income, BABs	**2,998,763**	1,883,128	—	—	—
Total electric fund revenue	**264,964,842**	272,350,280	266,795,813	251,859,395	209,655,702
Water fund:					
Sales of water	**29,846,372**	25,705,213	25,712,256	25,094,181	22,970,588
Other water revenue	**1,893,964**	1,390,204	1,443,155	2,899,253	1,852,072
Transfers from (to) rate stabilization	**(373,250)**	2,289,274	997,637	(1,074,205)	(1,274,108)
Interest/investment income	**167,351**	587,446	347,095	206,230	95,439
Other interest related income, BABs	**826,087**	427,129	—	—	—
Total water fund revenue	**32,360,524**	30,399,266	28,500,143	27,125,459	23,643,991
Wastewater fund:					
Wastewater billing	**32,258,966**	30,640,750	31,976,105	29,819,878	25,554,311
Other wastewater revenue	**1,057,091**	918,285	831,350	2,840,164	2,200,469
Transfers from (to) rate stabilization	**1,100,815**	1,879,876	(901,588)	(1,271,208)	(581,471)
Interest/investment income	**284,526**	283,945	561,085	408,455	207,121
Other interest related income, BABs	**911,114**	334,064	—	—	—
Total wastewater fund revenue	**35,612,512**	34,056,920	32,466,952	31,797,289	27,380,430
Gas fund:					
Gas sales	**27,153,898**	27,403,504	28,923,505	29,842,601	27,614,405
Other gas revenue (expenses)	**1,089,778**	1,087,924	859	(63,412)	(8,750)
Transfers from (to) rate stabilization	**820,268**	(1,549,020)	(3,208,386)	1,987,360	1,160,544
Interest/investment income	**275,191**	528,859	485,981	635,757	561,892
Other interest related income, BABs	**626,795**	387,115	—	—	—
Total gas fund revenue	**29,965,930**	27,858,382	26,201,959	32,402,306	29,328,091
GRUCom fund:					
Sales to customers	**11,889,016**	11,304,326	10,162,231	10,277,819	9,275,122
Construction in progress	**1,172,482**	105,407	(958,870)	(1,085,755)	(1,691,798)
Interest/investment income	**201,875**	265,178	417,145	239,050	155,735
Total GRUCom fund revenue	**13,263,373**	11,674,911	9,620,506	9,431,114	7,739,059
Total revenue	**$ 376,167,181**	$ 376,339,759	$ 363,585,373	$ 352,615,563	$ 297,747,273

Gainesville Regional Utilities

Schedules of Combined Net Revenues in Accordance with Bond Resolution (continued)

	September 30				
	2011	**2010**	**2009**	**2008**	**2007**
Operation, maintenance and administrative					
Electric fund:					
Fuel expense	**$ 112,075,262**	$ 129,092,299	$ 131,849,819	$ 127,233,223	$ 104,940,526
Operation and maintenance	**39,041,379**	38,312,780	38,244,824	36,753,083	32,076,530
Administrative and general	**21,484,263**	16,770,146	18,273,573	20,654,480	15,913,731
Total electric fund expense	**172,600,904**	184,175,225	188,368,216	184,640,786	152,930,787
Water fund:					
Operation and maintenance	**7,410,001**	7,385,629	8,042,992	7,074,992	6,711,674
Administrative and general	**4,980,853**	5,104,686	4,547,293	5,120,270	3,994,430
Total water fund expense	**12,390,854**	12,490,315	12,590,285	12,195,262	10,706,104
Wastewater fund:					
Operation and maintenance	**7,230,689**	6,690,918	6,734,970	7,273,610	6,316,884
Administrative and general	**6,331,392**	5,960,940	5,939,526	5,773,158	4,817,270
Total wastewater fund expense	**13,562,081**	12,651,858	12,674,496	13,046,768	11,134,154
Gas fund:					
Fuel expense	**13,800,865**	14,632,694	15,458,942	20,107,903	18,514,704
Operation and maintenance	**1,259,693**	1,381,945	1,652,911	1,606,831	1,571,781
Administrative and general	**3,698,336**	3,643,805	2,033,561	4,504,748	4,200,069
Total gas fund expense	**18,758,894**	19,658,444	19,145,414	26,219,482	24,286,554
GRUCom fund:					
Operation and maintenance	**3,333,664**	3,423,128	2,761,702	2,632,075	2,313,343
Administrative and general	**1,973,765**	1,952,831	2,104,484	2,349,715	2,294,882
Total GRUCom fund expense	**5,307,429**	5,375,959	4,866,186	4,981,790	4,608,225
Total operation, maintenance and administrative	**222,620,162**	234,351,801	237,644,597	241,084,088	203,665,824
Net revenue in accordance with bond resolution					
Electric	**92,363,938**	88,175,055	78,427,597	67,218,609	56,724,915
Water	**19,969,670**	17,908,951	15,909,858	14,930,197	12,937,887
Wastewater	**22,050,431**	21,405,062	19,792,456	18,750,521	16,246,276
Gas	**11,207,036**	8,199,938	7,056,545	6,182,824	5,041,537
GRUCom	**7,955,944**	6,298,952	4,754,320	4,449,324	3,130,834
Total net revenue in accordance with bond resolution	**$ 153,547,019**	$ 141,987,958	$ 125,940,776	$ 111,531,475	$ 94,081,449
Aggregate bond debt service	**$ 64,007,046**	$ 62,168,819	$ 51,062,280	$ 47,127,033	$ 40,545,456
Aggregate bond debt service coverage ratio	**2.40**	2.28	2.47	2.37	2.32
Total debt service	**$ 70,268,626**	$ 73,332,609	$ 61,390,337	$ 52,626,846	$ 45,942,353
Total debt service coverage ratio	**2.19**	1.94	2.05	2.12	2.05

Gainesville Regional Utilities

Schedules of Net Revenues in Accordance with Bond Resolution –
Electric Utility Fund

	September 30	
	2011	**2010**
Revenue		
Sales of electricity:		
Residential sales	**$ 58,319,720**	$ 59,476,506
General service and large power	**66,034,575**	59,114,443
Fuel adjustment	**110,015,494**	122,302,347
Street and traffic lighting	**5,412,467**	5,323,089
Utility surcharge	**3,711,839**	3,722,332
Sales for resale	**4,306,071**	4,349,947
Interchange sales	**2,257,127**	8,242,216
Total sales of electricity	**250,057,293**	262,530,880
Other electric revenue:		
Service charges	**1,228,124**	1,595,555
Pole rentals	**618,960**	633,898
Miscellaneous	**11,674,623**	12,216,233
Total other electric revenue	**13,521,707**	14,445,686
Transfers to rate stabilization	**(3,017,205)**	(7,692,907)
Interest income	**1,404,284**	1,183,493
Other interest related income, BABs	**2,998,763**	1,883,128
Total revenue	**264,964,842**	272,350,280
Operation, maintenance and administrative expense		
Operation and maintenance:		
Fuel expense:		
Retail and purchased power	**107,988,432**	122,302,347
Fuel related operating expense	**2,027,061**	
Interchange	**2,059,769**	6,789,952
Total fuel expense	**112,075,262**	129,092,299
Power production	**27,256,591**	26,446,344
Transmission	**1,135,379**	1,105,421
Distribution	**10,649,409**	10,761,015
Total operation and maintenance	**151,116,641**	167,405,079

Continued on next page.

Schedules of Net Revenues in Accordance with Bond Resolution – Electric Utility Fund (continued)

	September 30	
	2011	**2010**
Administrative and general:		
Customer accounts	**$ 8,234,957**	$ 6,945,124
Administrative and general	**13,249,306**	9,825,022
Total administrative and general	**21,484,263**	16,770,146
Total operation, maintenance and administrative expense	**172,600,904**	184,175,225
Net revenue in accordance with bond resolution		
Retail	**92,166,580**	86,722,791
Interchange	**197,358**	1,452,264
Total net revenue in accordance with bond resolution	**$ 92,363,938**	$ 88,175,055

Gainesville Regional Utilities

Schedules of Net Revenues in Accordance with Bond Resolution –
Water Utility Fund

	September 30 2011	September 30 2010
Revenue		
Sales of water:		
General customers	**$ 26,075,820**	$ 22,148,212
University of Florida	**1,417,683**	1,677,385
Utility surcharge	**2,352,869**	1,879,616
Total sales of water	**29,846,372**	25,705,213
Other water revenue:		
Connection charges	**769,370**	735,879
Miscellaneous	**1,124,594**	654,325
Total other water revenue	**1,893,964**	1,390,204
Transfers from (to) rate stabilization	**(373,250)**	2,289,274
Interest income	**167,351**	587,446
Other interest related income, BABs	**826,087**	427,129
Total revenue	**32,360,524**	30,399,266
Operation, maintenance and administrative expense		
Operation and maintenance:		
Pumping	**2,127,130**	1,866,181
Water treatment	**3,273,391**	3,224,446
Transmission and distribution	**2,009,480**	2,295,002
Total operation and maintenance	**7,410,001**	7,385,629
Administrative and general:		
Customer accounts	**1,137,715**	1,396,206
Administrative and general	**3,843,138**	3,708,480
Total administrative and general	**4,980,853**	5,104,686
Total operation, maintenance and administrative expense	**12,390,854**	12,490,315
Total net revenue in accordance with bond resolution	**$ 19,969,670**	$ 17,908,951

Gainesville Regional Utilities

Schedules of Net Revenues in Accordance with Bond Resolution –
Wastewater Utility Fund

	September 30	
	2011	**2010**
Revenue		
Wastewater billings:		
Billings	**$ 29,899,690**	$ 28,517,595
Utility surcharge	**2,359,276**	2,123,155
Total wastewater billings	**32,258,966**	30,640,750
Other wastewater revenue:		
Connection charges	**1,055,110**	934,814
Miscellaneous	**1,981**	(16,529)
Total other wastewater revenue	**1,057,091**	918,285
Transfers from rate stabilization	**1,100,815**	1,879,876
Interest income	**284,526**	283,945
Other interest related income, BABs	**911,114**	334,064
Total revenue	**35,612,512**	34,056,920
Operation, maintenance and administrative expense		
Operation and maintenance:		
Collection	**2,282,302**	2,072,366
Treatment and pumping	**4,948,387**	4,618,552
Total operation and maintenance	**7,230,689**	6,690,918
Administrative and general:		
Customer accounts	**1,343,721**	943,215
Administrative and general	**4,987,671**	5,017,725
Total administrative and general	**6,331,392**	5,960,940
Total operation, maintenance and administrative expense	**13,562,081**	12,651,858
Total net revenue in accordance with bond resolution	**$ 22,050,431**	$ 21,405,062

Gainesville Regional Utilities

Schedules of Net Revenues in Accordance with Bond Resolution – Gas Utility Fund

	September 30	
	2011	**2010**
Revenue		
Sales of gas:		
Residential	**$ 13,189,609**	$ 13,978,292
Interruptible/commercial	**10,996,772**	12,234,146
Other sales	**2,967,517**	1,191,066
Total sales of gas	**27,153,898**	27,403,504
Other gas revenue	**1,089,778**	1,087,924
Transfers from (to) from rate stabilization	**820,268**	(1,549,020)
Interest income	**275,191**	528,859
Other interest related income, BABs	**626,795**	387,115
Total revenue	**29,965,930**	27,858,382
Operation, maintenance and administrative expense		
Operation and maintenance:		
Fuel expense	**13,800,865**	14,632,694
Operation and maintenance	**1,259,693**	1,381,945
Total operation and maintenance	**15,060,558**	16,014,639
Administrative and general:		
Customer accounts	**2,027,744**	1,934,690
Administrative and general	**1,670,592**	1,709,115
Total administrative and general	**3,698,336**	3,643,805
Total operation, maintenance and administrative expense	**18,758,894**	19,658,444
Total net revenue in accordance with bond resolution	**$ 11,207,036**	$ 8,199,938

Gainesville Regional Utilities

Schedules of Net Revenues in Accordance with Bond Resolution –
GRUCom Utility Fund

	September 30	
	2011	**2010**
Revenue		
Sales to customers	**$ 11,889,016**	$ 11,304,326
Transfers from rate stabilization	**1,172,482**	105,407
Interest income	**201,875**	265,178
Total revenue	**13,263,373**	11,674,911
Operation, maintenance and administrative expense		
Operation and maintenance	**3,333,664**	3,423,128
Total operation and maintenance	**3,333,664**	3,423,128
Administrative and general:		
Customer accounts	**354,050**	299,442
Administrative and general	**1,619,715**	1,653,389
Total administrative and general	**1,973,765**	1,952,831
Total operation, maintenance and administrative expense	**5,307,429**	5,375,959
Total net revenue in accordance with bond resolution	**$ 7,955,944**	$ 6,298,952

Gainesville Regional Utilities

Notes to Schedules of Net Revenues in Accordance with Bond Resolution

September 30, 2011

"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.

Gainesville Regional Utilities

Combining Balance Sheet

September 30, 2011

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Assets						
Current assets:						
Cash and cash equivalents	$ 23,550,642	$ (2,087)	$ 792,627	$ 6,315,853	$ 1,653,920	$ 32,310,955
Accounts receivable, net	34,933,967	4,273,274	3,836,299	1,823,130	1,520,286	46,386,956
Fuel contracts	1,076,134	–	–	815,884	–	1,892,018
Deferred charges	2,036,090	91,138	102,397	1,033,199	44,557	3,307,381
Inventories:						
Fuel	10,002,581	–	–	–	–	10,002,581
Materials and inventories	7,846,842	542,567	–	370,458	571,021	9,330,888
Total current assets	79,446,256	4,904,892	4,731,323	10,358,524	3,789,784	103,230,779
Restricted assets:						
Utility deposits – cash and investments	5,728,005	502,157	466,179	296,310	–	6,992,651
Debt service fund – cash and investments	31,255,485	6,115,207	8,249,603	2,951,958	4,184,118	52,756,371
Rate stabilization – cash and investments	51,682,930	512,171	2,339,594	7,630,059	5,293,792	67,458,546
Construction Fund – cash and investments	70,277,813	19,985,854	36,687,913	9,337,434	18,101,579	154,390,593
Utility plant improvement fund – cash and investments	18,898,306	6,916,195	10,788,324	4,564,525	1,264,330	42,431,680
Decommission reserve – cash and investments	10,083,308	–	–	–	–	10,083,308
Total restricted assets	187,925,847	34,031,584	58,531,613	24,780,286	28,843,819	334,113,149
Noncurrent assets	9,637,542	786,134	879,544	18,505,341	397,111	30,205,672
Capital assets:						
Utility plant in service	945,621,050	186,732,336	242,558,629	60,543,412	44,885,307	1,480,340,734
Less: accumulated depreciation and amortization	364,729,153	77,119,368	106,127,120	28,944,581	26,927,998	603,848,220
	580,891,897	109,612,968	136,431,509	31,598,831	17,957,309	876,492,514
Construction in progress	159,701,816	57,135,057	49,163,527	11,444,864	17,663,643	295,108,907
Net capital assets	740,593,713	166,748,025	185,595,036	43,043,695	35,620,952	1,171,601,421
Total assets	1,017,603,358	206,470,635	249,737,516	96,687,846	68,651,666	1,639,151,021
Deferred outflows of resources:						
Accumulated decrease in fair value hedging derivatives	54,953,537	8,763,325	8,752,275	3,881,901	1,379,041	77,730,079
Total assets and deferred outflows of resources	$ 1,072,556,895	$ 215,233,960	$ 258,489,791	$ 100,569,747	$ 70,030,707	$ 1,716,881,100

Gainesville Regional Utilities

Combining Balance Sheet (continued)

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Liabilities and net position						
Current liabilities:						
Fuels payable	$ 7,134,595	$ –	$ –	$ 562,681	$ –	$ 7,697,276
Accounts payable and accrued liabilities	9,857,094	1,177,681	800,386	452,063	552,154	12,839,378
Deferred credits	15,072,266	161,357	270,365	(1,670,130)	152,019	13,985,877
Due to other funds of the City	3,754,474	489,856	427,741	102,305	7,840	4,782,216
Total current liabilities	35,818,429	1,828,894	1,498,492	(553,081)	712,013	39,304,747
Payable from restricted assets:						
Utility deposits	5,728,006	502,157	466,179	296,309	–	6,992,651
Rate stabilization deferred credit	50,621,969	481,203	2,297,100	7,510,694	5,319,753	66,230,719
Construction fund:						
Accounts payable and accrued liabilities	2,359,696	1,582,247	1,898,391	1,004,265	868,199	7,712,798
Debt payable – current portion	84,568,381	14,809,650	16,680,035	1,721,236	3,275,698	121,055,000
Accrued interest payable	13,086,238	2,779,265	3,158,038	1,532,038	1,471,490	22,027,069
Total payable from restricted assets	156,364,290	20,154,522	24,499,743	12,064,542	10,935,140	224,018,237
Long-term debt:						
Utilities system revenue bonds	491,325,235	110,817,503	123,305,935	59,431,535	57,244,791	842,124,999
Commercial paper notes	32,907,630	5,337,350	13,214,900	10,540,120	–	62,000,000
Unamortized loss on refunding	(12,750,844)	(3,409,792)	(3,618,944)	(1,331,056)	(251,855)	(21,362,491)
Unamortized bond premium\discount	3,113,108	657,850	607,359	123,690	61,661	4,563,668
Fair value of derivative instruments	53,364,105	8,763,325	8,752,275	2,676,853	1,379,041	74,935,599
Total long-term debt	567,959,234	122,166,236	142,261,525	71,441,142	58,433,638	962,261,775
Noncurrent liabilities	12,083,268	598,326	546,333	5,373,085	5,296	18,606,308
Total liabilities	772,225,221	144,747,978	168,806,093	88,325,688	70,086,087	1,244,191,067
Net position:						
Net investment in capital assets	209,348,320	56,939,071	70,195,273	(19,108,661)	(7,475,963)	309,898,040
Restricted	48,211,821	10,283,105	15,922,383	6,103,811	3,950,997	84,472,117
Unrestricted	42,771,533	3,263,806	3,566,042	25,248,909	3,469,586	78,319,876
Total net position	300,331,674	70,485,982	89,683,698	12,244,059	(55,380)	472,690,033
Total liabilities and net position	$ 1,072,556,895	$ 215,233,960	$ 258,489,791	$ 100,569,747	$ 70,030,707	$ 1,716,881,100

Gainesville Regional Utilities

Combining Statement of Revenues, Expenses and Changes in Net Position

Year Ended September 30, 2011

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Operating revenue:						
Sales and service charges	$ 250,057,292	$ 29,846,372	$ 32,258,966	$ 27,153,898	$ 11,841,664	$ 351,158,192
Transfers from (to) rate stabilization	(3,017,205)	(373,250)	1,100,815	820,268	1,172,482	(296,890)
Other operating revenue	13,521,709	1,893,963	1,057,061	1,089,809	47,349	17,609,891
Total operating revenue	260,561,796	31,367,085	34,416,842	29,063,975	13,061,495	368,471,193
Operating expenses:						
Operation and maintenance	151,204,050	7,410,001	7,230,689	15,060,558	3,333,664	184,238,962
Administrative and general	21,484,262	4,980,853	6,331,393	3,698,336	1,973,765	38,468,609
Depreciation and amortization	30,778,967	5,451,162	7,694,259	2,706,074	3,054,045	49,684,507
Total operating expenses	203,467,279	17,842,016	21,256,341	21,464,968	8,361,474	272,392,078
Operating income	57,094,517	13,525,069	13,160,501	7,599,007	4,700,021	96,079,115
Non-operating income (expense):						
Interest income	2,185,897	384,109	557,102	423,013	333,960	3,884,081
Interest expense	(25,932,073)	(5,277,852)	(6,044,452)	(2,987,143)	(2,618,331)	(42,859,851)
Other interest related income, BABs	2,998,761	826,089	911,114	626,765	–	5,362,729
Total non-operating expense	(20,747,415)	(4,067,654)	(4,576,236)	(1,937,365)	(2,284,371)	(33,613,041)
Special items:						
Impairment of assets held for future use	–	–	–	–	–	–
Income before contributions and transfers	36,347,102	9,457,415	8,584,265	5,661,642	2,415,650	62,466,074
Capital contributions:						
Contributions from developers	37,772	1,749,030	2,806,730			4,593,532
Reduction of plant cost recovered from contributions	(37,772)	–	–	–	–	(37,772)
Net capital contributions	–	1,749,030	2,806,730	–	–	4,555,760
Operating transfer to City of Gainesville general fund	(22,893,529)	(4,866,391)	(6,004,675)	(1,102,402)	(365,543)	(35,232,540)
Change in net position	13,453,573	6,340,054	5,386,320	4,559,240	2,050,107	31,789,294
Net position – beginning of year	286,878,101	64,145,928	84,297,378	7,684,819	(2,105,487)	440,900,739
Net position – end of year	$ 300,331,674	$ 70,485,982	$ 89,683,698	$ 12,244,059	$ (55,380)	$ 472,690,033

Gainesville Regional Utilities

Schedule of Utility Plant Properties – Combined Utility Fund

September 30, 2011

	Balance September 30, 2010	Additions	Sales, Retirements, and Transfers	Balance September 30, 2011
Plant in service				
Electric utility fund:				
Production plant	$ 564,771,114	$ 16,729,975	$ 1,855,470	$ 579,645,619
Nuclear fuel	2,858,039	–	–	2,858,039
Transmission and distribution plant	276,054,373	16,352,853	5,789,278	286,617,948
General and common plant	77,321,813	2,854,063	3,676,432	76,499,444
Total electric utility fund	921,005,339	35,936,891	11,321,180	945,621,049
Water utility fund:				
Supply, pumping and treatment plant	28,903,148	436,054	260,554	29,078,648
Transmission and distribution plant	146,521,192	5,782,986	853,886	151,450,292
General plant	6,092,345	425,858	314,807	6,203,396
Total water utility fund	181,516,685	6,644,898	1,429,247	186,732,336
Wastewater utility fund:				
Pumping and treatment plant	86,515,537	2,716,209	316,274	88,915,472
Collection plant	131,667,783	4,271,650	–	135,939,433
Reclaimed water plant	7,689,919	682,772	–	8,372,691
General plant	8,913,933	742,294	325,194	9,331,033
Total wastewater utility fund	234,787,172	8,412,925	641,468	242,558,629
Gas utility fund:				
Distribution plant	49,126,866	3,274,098	364,310	52,036,654
General plant	3,775,771	172,480	92,128	3,856,123
Plant acquisition adjustment	4,650,635	–	–	4,650,635
Total gas utility fund	57,553,272	3,446,578	456,438	60,543,412
GRUCom utility fund:				
Distribution plant	42,200,870	2,655,944	1,522,367	43,334,447
General plant	1,549,128	62,378	60,645	1,550,861
Total GRUCom utility fund	43,749,998	2,718,322	1,583,012	44,885,308
Total plant in service	$ 1,438,612,466	$ 57,159,614	$ 15,431,345	$ 1,480,340,735
Construction in progress				
Electric utility fund	$ 122,000,925	$ 73,637,782	$ 35,936,891	$ 159,701,816
Water utility fund	46,673,298	17,106,656	6,644,898	57,135,056
Wastewater utility fund	37,423,303	20,153,149	8,412,925	49,163,527
Gas utility fund	9,158,965	5,732,478	3,446,579	11,444,864
GRUCom utility fund	11,083,630	9,298,335	2,718,321	17,663,644
Total construction in progress	$ 226,340,121	$ 125,928,400	$ 57,159,615	$ 295,108,907

Gainesville Regional Utilities

Schedule of Accumulated Depreciation and Amortization – Combined Utility Fund

September 30, 2011

	Balance September 30, 2010	Additions	Sales, Retirements, and Transfers	Balance September 30, 2011
Electric utility fund:				
Production plant	$ 222,668,146	$ 14,887,461	$ 3,099,718	$ 234,455,889
Nuclear fuel	2,267,018	–	172,951	2,094,067
Transmission and distribution plant	94,330,392	8,661,585	5,982,404	97,009,573
General and common plant	29,676,650	5,035,592	3,542,617	31,169,625
Total electric utility fund	348,942,206	28,584,638	12,797,690	364,729,154
Water utility fund:				
Supply, pumping and treatment plant	15,230,020	854,865	464,444	15,620,441
Transmission and distribution plant	57,024,767	4,040,448	1,699,598	59,365,617
General plant	2,183,187	239,679	289,556	2,133,310
Total water utility fund	74,437,974	5,134,992	2,453,598	77,119,368
Wastewater utility fund:				
Pumping and treatment plant	45,127,397	3,082,045	513,545	47,695,897
Collection plant	50,486,232	3,660,474	–	54,146,706
Reclaimed water plant	1,727,845	297,814	–	2,025,659
General plant	2,165,847	411,136	318,125	2,258,858
Total wastewater utility fund	99,507,321	7,451,469	831,670	106,127,120
Gas utility fund:				
Distribution plant	22,204,189	1,453,616	619,268	23,038,537
General plant	1,062,946	239,041	46,581	1,255,406
Plant acquisition adjustment	4,650,637	–	–	4,650,637
Total gas utility fund	27,917,772	1,692,657	665,849	28,944,580
GRUCom utility fund:				
Distribution plant	24,913,929	2,909,337	1,522,640	26,300,626
General plant	591,810	89,377	53,815	627,372
Total GRUCom utility fund	25,505,739	2,998,714	1,576,455	26,927,998
Total	$ 576,311,012	$ 45,862,470	$ 18,325,262	$ 603,848,220

Other Report

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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, 2011, and have issued our report thereon dated February 9, 2012. 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 entity's 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 was not designed to identify all deficiencies in internal control that might be deficiencies, 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*.

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

February 9, 2012

Ernst & Young LLP

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