

FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2010 & 2009

FINANCIAL STATEMENTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2009 & 2010

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, 2010 and 2009. It should be read in conjunction with the financial statements that follow this section.

Required Financial Statements

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

Statement of Revenues, Expenses and Changes in Net Assets.

All of the current year's revenues and expenses are accounted for in this statement. This statement measures the success of the combined utility system's operations over the past year.

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

Notes to Financial Statements. The notes provide additional information that is essential to fully understanding the data provided in the financial statements.

Financial Analysis of the Combined Utility System

The Combined Utility System net assets increased by \$23.0 million from 2009 to 2010, and \$33.6 million from 2008 to 2009. Table 1 following focuses on the net assets.

Table 1

Combined Utility System Net Assets (In Thousands)

		September 30	
	2010	2009	2008
Current assets	\$ 85,613	\$ 80,262	\$ 92,419
Other assets	321,566	370,486	394,039
Deferred outflows	58,166	38,081	12,085
Capital assets, net	1,088,642	1,055,637	954,761
Total assets	1,553,987	1,544,466	1,453,304
Long-term debt outstanding	868,458	915,589	748,603
Current liabilities	41,017	27,287	48,875
Other liabilities	145,445	145,628	259,433
Fair value of derivative instruments	58,166	38,081	12,085
Total liabilities	1,113,086	1,126,585	1,068,996
Net assets:			
Invested in capital assets, net of related debt	329,561	312,017	311,867
Restricted	73,943	66,048	57,247
Unrestricted	37,397	39,816	15,194
Total net assets	\$ 440,901	\$ 417,881	\$ 384,308

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2009 & 2010

Table 2

Combined Utility System Changes in Net Assets (In Thousands)

	September 30		
	2010	2009	2008
Operating revenues	\$ 370,459	\$ 369,874	\$ 349,970
Interest income	4,029	6,680	9,272
Other interest income, BABs	3,031	-	-
Gain on sale of investments	-	-	97
Total revenues	<u>377,519</u>	376,554	359,339
Operating expenses	279,035	285,822	285,831
Interest expense, net of AFUDC	38,257	26,417	28,195
Special items	5,269	-	-
Total expenses	<u>322,561</u>	312,239	314,026
Income before contributions and transfers	54,958	64,315	45,313
Capital contributions, net	2,410	3,746	4,483
Operating transfer to City of Gainesville	(34,349)	(34,488)	(31,452)
Change in net assets	<u>23,019</u>	33,573	18,344
Net assets, beginning of year	417,881	384,308	365,964
Net assets, end of year	<u>\$ 440,900</u>	\$ 417,881	\$ 384,308

Capital Asset and Debt Administration

Capital Assets. GRU's investment in capital assets as of September 30, 2010, amounts to \$1.09 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 3.1%. In fiscal 2009, it increased 10.6%.

The following table summarizes the System's capital assets, net of accumulated depreciation and changes for the years ended September 30, 2010, 2009 and 2008.

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

	September 30		
	2010	2009	2008
Generation	\$ 342,694	\$ 149,841	\$ 150,474
Transmission, distribution and collection	402,574	400,137	392,026
Treatment	55,061	57,933	62,172
General plant	61,973	49,072	42,164
Plant held for future use	-	6,054	6,054
Plant unclassified	-	-	776
Construction work in progress	226,340	392,600	301,095
Total net utility plant	<u>\$ 1,088,642</u>	\$ 1,055,637	\$ 954,761

Major capital asset events included the following:

- Construction for GRU's Eastside Operations facility is well underway and \$11.4 million has been incurred during 2010. \$1.7 million was incurred in 2009 for preliminary engineering costs. The project will total over \$50 million when complete in 2011.
- Electric transmission and distribution expansion was \$15.5 million in 2010 and \$13.1 million in 2009. For 2010, \$4.0 million was pertaining to underground system improvements.
- Construction on GRU's South Energy Center was completed in 2009, and the plant is fully operational. The South Energy Center is a combined heat and power facility built to provide the Shands medical campus with steam, chilled water and backup power in case of a disaster. \$15.7 million of the \$52 million project was incurred in 2009.
- Work is complete on the \$147 million Air Quality Control project at Deerhaven 2. \$7.7 million in final costs were added during 2010 and \$50.2 million in 2009.
- Murphree Water Treatment Plant has completed construction of an \$8.5 million expansion to its filter system. In 2010, GRU incurred final costs of \$1.0 million versus \$2.9 million in 2009.
- Telecommunication fiber cable expansion was \$2.1 million in 2010 and \$1.0 million in 2009.
- Gas distribution plant was expanded \$2.7 million in 2010 compared to 0.4 million in 2009.
- 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2009 & 2010

The Utility's 2011 capital budget is \$148.1 million and was \$128.9 million in 2010. 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, 2010 and 2009, GRU had total long-term debt outstanding of \$922 million and \$966 million, respectively, comprised of revenue bonds and other long-term debt.

Outstanding Debt at September 30 (In Thousands)

	September 30		
	2010	2009	2008
Senior lien revenue bonds	\$ 859,725	\$ 889,600	\$ 730,495
Commercial paper	62,000	76,000	62,000
Total	\$ 921,725	\$ 965,600	\$ 792,495

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, 2010 and \$14 million of Series D Notes outstanding as of September 30, 2009.

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.

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

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

The System maintains ratings of Aa2 and AA with Moody's Investors Services and Standard & Poor's (S&P), respectively for its revenue bonds. The System has ratings of P-1 and A-1+ for its commercial paper. Subsequent to September 30, 2009, 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 increased \$11.7 million, or approximately 3.4%, and \$12.5 million, or approximately 3.7%, in fiscal 2010 and 2009, respectively. The increase in sales revenue in fiscal 2010 is the result of rate increases implemented in October 2009, and 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. The increase in sales is offset by a decrease in revenue of approximately \$4.1 million related to lower fuel costs in fiscal 2010, as compared to 2009. Fuel costs are passed directly through to our customers as part of a fuel adjustment charge, which is recorded as revenue.
- Net capital contributions from developers decreased in fiscal 2010 over fiscal 2009 by \$1.3 million and decreased in fiscal 2009 over fiscal 2008 by \$0.7 million. This continued decrease is due to a decrease in new development.
- Fiscal 2010 year-end fuels payable decreased \$4.1 million, or approximately 47.7%, compared to fiscal 2009 year-end. The decrease was a result of lower fuel costs due a new coal contract initiated during fiscal 2009.
- Gross utility plant in service increased \$228 million, or 18.9%, and net capital assets increased \$33.0 million, or 3.1% in fiscal 2010. In fiscal 2009, gross utility plant in service increased \$37.5 million, or 3.2%, and net capital assets increased \$100.9 million, or 10.6%. This is summarized under "Capital Assets."
- Long-term debt decreased \$47.1 million, or 5.1%, in fiscal 2010, due the scheduled paydown of principal. Long-term debt increased \$167 million, or 22.3%, in fiscal 2009, due the issuance of new Revenue bonds totaling \$181 million, offset by the scheduled paydown of principal. See "Long-Term Debt" within Note 5 and this Management's Discussion and Analysis.
- 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. The number of customers for electric services increased 0.3%, while water, wastewater and gas services decreased 0.4%, 0.3% and 1.0%, respectively, in fiscal 2009.
- GRU is in the process of remediation efforts at a former manufactured gas plant site. The costs incurred to date total \$12.2 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2009 & 2010

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% 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. Recoveries of \$69,000 were received in 2010, with the remaining recovery expected in 2011.

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

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

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

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

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

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

On October 1, 2010, GRU implemented a 2.25% revenue requirement increase in the electric system to be recovered across all classes. The customer charge for Non-Residential General Service Non-Demand and Demand customers increased 1.9% and 11.1%, respectively. GRU also increased the revenue requirement by 7.00% for the water system, 3.50% for the wastewater system, and 2.25% for the gas system. When combined with the reduced fuel adjustment component of the bill, this represents an overall monthly decrease of \$2.55 for about 70% of GRU customers.

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2009 & 2010

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.

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

SEPTEMBER 30, 2009 & 2010

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, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Gainesville Regional Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

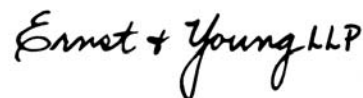
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gainesville Regional Utilities as of September 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, Gainesville Regional Utilities changed its method of accounting for its derivative instruments as a result of the adoption of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2011, 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
Orlando, Florida
February 4, 2011

BALANCE SHEETS

SEPTEMBER 30, 2009 & 2010

	September 30	
	2010	2009
Assets and deferred outflows		
Current assets:		
Cash and cash equivalents	\$ 14,061,821	\$ 9,099,550
Accounts receivable, net of allowance for uncollectible accounts of \$934,579 in 2010 and \$979,801 in 2009	46,178,592	46,307,955
Fuels contracts	1,600,015	5,910,868
Deferred charges	3,582,869	2,396,095
Inventories:		
Fuel	11,173,710	6,848,678
Materials and supplies	9,015,682	9,698,816
Total current assets	85,612,689	80,261,962
Restricted assets:		
Utility deposits - cash and investments	6,820,513	6,119,629
Debt service - cash and investments	51,754,240	44,620,351
Rate stabilization - cash and investments	51,349,384	59,429,168
Construction fund - cash and investments	146,784,934	201,597,608
Utility plant improvement fund - cash and investments	25,542,502	24,981,179
Investment in The Energy Authority	3,214,557	2,581,850
Decommissioning reserve - cash and investments	9,737,398	9,468,877
Total restricted assets	295,203,528	348,798,662
Noncurrent assets and deferred outflows:		
Noncurrent assets	26,363,374	21,687,450
Deferred outflows	58,166,255	38,080,662
Total noncurrent assets and deferred outflows	84,529,629	59,768,112
Capital assets:		
Utility plant in service	1,438,612,466	1,210,127,507
Less: accumulated depreciation and amortization	576,311,012	553,144,590
	862,301,454	656,982,917
Plant held for future use	-	6,053,926
Construction in progress	226,340,121	392,600,520
Net capital assets	1,088,641,575	1,055,637,363
Total assets and deferred outflows	\$ 1,553,987,421	\$ 1,544,466,099

Continued on next page

BALANCE SHEETS

SEPTEMBER 30, 2009 & 2010

	September 30	
	2010	2009
Liabilities and net assets		
Current liabilities and deferred inflows:		
Fuel payable	\$ 4,565,268	\$ 8,723,213
Accounts payable and accrued liabilities	11,760,763	9,288,891
Deferred credits and deferred inflows	19,619,048	4,689,589
Due to other funds of the City	5,071,713	4,585,219
Total current liabilities and deferred inflows	41,016,792	27,286,912
Payable from restricted assets:		
Utility deposits	6,820,407	6,119,318
Rate stabilization deferred credit	49,833,829	60,966,459
Construction fund:		
Accounts payable and accrued liabilities	9,901,504	7,619,732
Debt payable - current portion	35,045,000	29,875,000
Accrued interest payable	17,821,828	14,067,490
Total payable from restricted assets	119,422,568	118,647,999
Long-term debt:		
Utilities system revenue bonds	824,680,000	859,725,000
Commercial paper notes	62,000,000	76,000,000
Unamortized loss on refinancing	(22,577,252)	(25,603,711)
Unamortized bond premium/discount	4,354,919	5,468,070
Total long-term debt	868,457,667	915,589,359
Noncurrent liabilities and fair value of derivative instruments:		
Noncurrent liabilities	26,023,400	26,979,772
Fair value of derivative instruments	58,166,255	38,080,662
Total noncurrent liabilities and fair value of derivative instruments	84,189,655	65,060,434
Total liabilities	1,113,086,682	1,126,584,704
Net assets:		
Invested in capital assets, net of related debt	329,560,861	312,017,391
Restricted	73,942,530	66,047,786
Unrestricted	37,397,348	39,816,218
Total net assets	440,900,739	417,881,395
Total liabilities and net assets	\$ 1,553,987,421	\$ 1,544,466,099

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

SEPTEMBER 30, 2009 & 2010

	September 30	
	2010	2009
Operating revenue:		
Sales and service charges	\$ 357,584,673	\$ 345,859,675
Transfers from (to) rate stabilization	(4,967,370)	6,983,334
Other operating revenue	17,842,099	17,031,266
Total operating revenue	370,459,402	369,874,275
Operating expenses:		
Operation and maintenance	201,044,530	205,314,763
Administrative and general	33,432,407	32,898,438
Depreciation and amortization	44,558,540	47,608,793
Total operating expenses	279,035,477	285,821,994
Operating income	91,423,925	84,052,281
Non-operating income (expense):		
Interest income	4,028,636	6,680,018
Interest expense, net of AFUDC	(38,256,984)	(26,417,250)
Other interest related income, BABs	3,031,436	-
Total non-operating expense	(31,196,912)	(19,737,232)
Special items:		
Impairment of assets held for future use	(5,269,115)	-
Income before contributions and transfers	54,957,898	64,315,049
Capital contributions:		
Contributions from developers	2,450,862	4,256,461
Reduction of plant costs recovered through contributions	(40,585)	(509,614)
Net capital contributions	2,410,277	3,746,847
Operating transfer to City of Gainesville General Fund	(34,348,831)	(34,488,259)
Change in net assets	23,019,344	33,573,637
Net assets - beginning of year	417,881,395	384,307,758
Net assets - end of year	\$ 440,900,739	\$ 417,881,395

See accompanying notes.

STATEMENTS OF CASH FLOWS

SEPTEMBER 30, 2009 & 2010

	September 30	
	2010	2009
Operating activities		
Cash received from customers	\$ 358,415,125	\$ 351,278,521
Cash payments to suppliers for goods and services	(180,008,434)	(201,602,637)
Cash payments to employees for services	(53,103,508)	(53,885,835)
Cash payments for operating transactions with other funds	(9,168,428)	(8,351,032)
Other operating receipts	12,874,729	19,306,390
Net cash provided by operating activities	129,009,484	106,745,407
Noncapital financing activities		
Transfers to other funds	(34,348,831)	(34,488,259)
Net cash used in noncapital financing activities	(34,348,831)	(34,488,259)
Capital and related financing activities		
Principal repayments on long-term debt	(43,875,000)	(21,985,000)
Interest paid on long-term debt	(38,642,256)	(32,480,408)
Other receipts	113,885	76,925
Proceeds from interest rebate, BABs	3,031,436	-
Acquisition and construction of fixed assets (including allowance for funds used during construction)	(69,432,857)	(144,641,591)
Proceeds from new debt and commercial paper	-	195,090,000
Cash received for connection charges	1,670,692	2,215,771
Net cash used in capital and related financing activities	(147,134,100)	(1,724,303)
Investing activities		
Interest received	2,869,051	4,078,871
Purchase of investments	(935,938,311)	(658,364,048)
Investment in The Energy Authority	(1,300,000)	(1,200,000)
Distributions from The Energy Authority	747,292	1,065,595
Proceeds from investment maturities	929,148,633	654,369,261
Net cash used in investing activities	(4,473,335)	(50,321)
Net change in cash and cash equivalents	(56,946,782)	70,482,524
Cash and cash equivalents, beginning of year	83,921,296	13,438,772
Cash and cash equivalents, end of year	\$ 26,974,514	\$ 83,921,296

Continued on next page.

STATEMENTS OF CASH FLOWS

SEPTEMBER 30, 2009 & 2010

	September 30	
	2010	2009
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 91,423,925	\$ 84,052,281
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	44,558,540	47,608,793
Operating lease - lease/leaseback revenue	-	(4,708,210)
Increase (decrease) in cash attributable to change in assets and liabilities:		
Receivables	129,363	5,120,936
Prepaid expenses	4,310,853	5,943,628
Inventories	(3,641,898)	(1,124,233)
Deferred charges	(34,136,902)	(16,087,310)
Accounts payable and accrued liabilities	595,698	(11,057,040)
Due to other funds	486,494	926,906
Utility deposits	701,089	297,910
Other liabilities and deferred credits	24,582,322	(4,228,254)
Net cash provided by operating activities	<u>\$ 129,009,484</u>	<u>\$ 106,745,407</u>

Noncash, investing, capital, and financing activities

Utility plant contributed by developers in aid of construction was \$2,410,277 and \$3,746,847 in 2010 and 2009, respectively.

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

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

GRU reports net assets in the following classifications:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of “invested in capital assets, net of related debt.” Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

- The costs of capital assets include material, labor, vehicle and equipment usage, related overhead items, capitalized interest, and certain administrative and general expenses. Maintenance and replacements of minor items are charged to operating expenses. When units of depreciable property are retired, the original cost and removal cost, less salvage, are charged to accumulated depreciation.
- Restricted – This component of net assets consists of net assets subject to external constraints on their use imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Use of Estimates

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

Investments

Investments are reported at fair value in the balance sheets based on quoted market prices. All short-term commercial paper with maturities less than one year have been reported at cost which approximates fair value. More information is provided in Note 5, “Deposits and Investments.”

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.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

1. Summary of Significant Accounting Policies (continued)

Risk Management/Futures and Options Contracts

GRU has implemented 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 or a deferred outflow until such time that the transaction ends. Per GASB No. 53, the changes in value of ineffective hedging instruments are required to be recognized in investment income. However, GRU follows the guidelines of the Financial Accounting Standards Board (FASB) No. 71, *Accounting for the Effects of Certain Types of Regulation*, which permits the deferral of recognition of certain costs that would otherwise be charged to expense. Accordingly, GRU has deferred the changes in value of the ineffective instruments, which is consistent with its rate-setting model. At September 30, 2010 and 2009, deferred outflows of \$5.0 million and \$0.1 million, respectively, were included in current assets on the balance sheet. The related settled gains and losses from these transactions are recognized as fuel expenses on the statement of revenues, expenses and changes in net assets.

The information below provides a summary of results based on GRU's risk management activity during fiscal years 2010 and 2009.

	Fair Value of Interest Rate Swaps at September 30, 2010	Changes in Fair Value	Deferred Outflow	Notional Amount (MMBTU's)
Natural gas	\$ 1,600,015	\$ (4,310,853)	\$ (4,310,853)	4,900

	Fair Value of Interest Rate Swaps at September 30, 2009	Changes in Fair Value	Deferred Outflow	Notional Amount (MMBTU's)
Natural gas	\$ 5,910,868	\$ 4,743,282	\$ 4,743,282	3,950

Realized gains and losses related to hedging positions are deferred under the rate-setting policy. During fiscal years 2010 and 2009, GRU recognized losses of \$7.8 million and \$10.5 million, respectively. A realized, but unrecognized, loss of \$5.1 million and a gain of \$0.5 million have been deferred at September 30, 2010 and 2009, 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.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

Capital Assets

Property and equipment are recorded at cost. Maintenance and repairs are charged to operating expense as incurred. The average cost of depreciable plant retired is eliminated from the plant accounts and charged to accumulated depreciation. Associated cost of removal net of salvage is charged to depreciation expense as incurred. Currently, GRU has a capitalization threshold of \$2,500 for general plant assets.

Depreciation and Nuclear Generating Plant Decommissioning

Depreciation of utility plant is computed using the straight-line method over estimated service lives ranging from 6 to 50 years. The overall depreciation rate was 2.95% in fiscal 2010 and 3.84% in fiscal 2009. 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 \$12.8 million and \$13.9 million 2010 and 2009, respectively. Fuel adjustment revenue is recognized based on the actual fuel costs. Amounts charged to customers for fuel are based on estimated costs, which are adjusted for any differences between the actual and estimated costs once actual fuel costs are known. If the amount recovered through billings exceeds actual fuel costs, GRU records deferred fuel as a liability. If the amount recovered through billings is less than the actual fuel costs, GRU records deferred fuel as an asset, for amounts to be collected through future rates. As of September 30, 2010 and 2009, deferred fuel costs were a liability of \$8.3 million and \$0.4 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 2010 and 2009, GRU paid \$1.7 million and \$1.5 million, respectively, 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 2010 and 2009, GRU billed the City \$5.2 million and \$5.0 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.

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.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

1. Summary of Significant Accounting Policies (continued)

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 \$0.1 million and \$5.1 million in 2010 and 2009, 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 2.20% and 2.78% for fiscal years 2010 and 2009, respectively.

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 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, to address inconsistencies regarding the reporting of intangible assets among state and local governments and requires all intangible assets not specifically excluded by its scope provisions to be classified as capital assets. This statement is effective for periods beginning after June 15 2009, which is GRU's fiscal year 2010. There is no material impact on GRU's financial reporting at September 30, 2010 as a result of implementing this statement.

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 - reported as deferred outflows in the asset section and fair value of derivative instruments in the liabilities section 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 FAS No. 71. 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. As such, GRU has restated its 2009 financial statements to reflect the adoption of GASB No. 53. At September 30, 2010 and 2009, deferred outflows of \$58.2 million and \$38.1 million, respectively, have been recorded for interest rate swap agreements in deferred outflows on the balance sheets, and a deferred outflow of \$5.0 million and \$0.1 million, respectively, has been recorded for futures and options contracts in deferred charges and deferred inflows 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.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

In December 2009, GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB No. 58 is effective for periods beginning after June 15, 2009. GRU is in sound financial condition; therefore this statement did not apply since GRU has not petitioned for bankruptcy protection.

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 is not expected to have a material impact on GRU's financial position.

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 period beginning after December 15, 2011. This statement incorporates existing generally accepted accounting guidance into GASB authoritative literature and is not expected to have a material impact on GRU's financial position.

Reclassifications

Certain amounts in 2009 have been reclassified to conform to the 2010 presentation.

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

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

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					CWIP/Plant Held for Future Use	Combined
	Treatment	Generation	Transmission, Distribution and Collection	General	Unclassified		
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	N/A	2.95%

	Plant in Service					CWIP/Plant Held for Future Use	Combined
	Treatment	Generation	Transmission, Distribution and Collection	General	Unclassified		
Balance, October 1, 2008	\$ 113,828,341	\$ 358,603,486	\$ 610,531,921	\$ 89,686,956	\$ 1,294,690	\$ 307,148,736	\$ 1,481,094,130
Capital additions and transfers	942,597	10,343,282	35,598,222	9,998,627	-	144,483,824	201,366,552
Less: sales, retirements, and transfers	329,661	634,088	7,609,800	10,832,376	1,294,690	52,978,114	73,678,729
Balance, September 30, 2009	\$ 114,441,277	\$ 368,312,680	\$ 638,520,343	\$ 88,853,207	\$ -	\$ 398,654,446	\$ 1,608,781,953
Accumulated depreciation, October 1, 2008	\$ 51,656,625	\$ 208,128,979	\$ 220,416,610	\$ 45,612,367	\$ 518,768	N/A	\$ 526,333,349
Depreciation expense	5,121,985	10,708,267	24,068,738	5,916,049	-	N/A	45,815,039
Less: retirements/ adjustments	270,532	364,841	4,191,150	13,658,507	518,768	N/A	19,003,798
Accumulated depreciation, September 30, 2009	\$ 56,508,078	\$ 218,472,405	\$ 240,294,198	\$ 37,869,909	\$ -	N/A	\$ 553,144,590
Average depreciation rate	4.49%	2.95%	3.84%	6.77%	0.00%	N/A	3.84%

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

4. LONG-TERM DEBT

Long-term debt outstanding at September 30, 2010 and 2009 consisted of the following:

	September 30	
	2010	2009
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%	17,500,000	21,195,000
1996 Series A (1996A Bonds) - interest payable semi-annually to October 1, 2009 at a rate of 5.75%	-	4,680,000
2003 Series A (2003A Bonds) - interest payable semi-annually to October 1, 2023 at rates between 4.625% and 5.25%	7,525,000	7,525,000
2003 Series B (2003B Bonds) - interest payable semi-annually to October 1, 2013 at a 4.40% interest rate	3,445,000	4,220,000
2003 Series C (2003C Bonds) - interest payable semi-annually to October 1, 2013 at rates between 2.75% and 5.00%	58,695,000	71,645,000
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)	59,220,000	60,050,000
2005 Series C (2005C Bonds) - interest payable semi-annually to October 1, 2026, interest at variable market rates; 0.40% at September 30, 2010	55,135,000	55,135,000
2006 Series A (2006A Bonds) - interest payable semi-annually to October 1, 2026, interest at variable market rates; 0.38% at September 30, 2010	53,305,000	53,305,000
2007 Series A (2007A Bonds) - interest payable semi-annually to October 1, 2036, interest at variable market rates; 0.23% at September 30, 2010	139,005,000	139,260,000
2008 Series A (2008A Bonds) - interest payable semi-annually to October 1, 2020 at rates between 3.23% and 5.27%	98,310,000	105,000,000
2008 Series B (2008B Bonds) - interest payable semi-annually to October 1, 2038, interest at variable market rates; 0.31% at September 30, 2010	90,000,000	90,000,000
2009 Series A (2009A Bonds) - interest payable semi-annually to October 1, 2015 at rates between 0.85% and 3.59%	24,190,000	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
Utilities System Commercial Paper Notes, Series C (C Notes), interest at variable market rate; 0.55% at September 30, 2010 (Federally Taxable)	62,000,000	62,000,000
Utilities System Commercial Paper Notes, Series D (D Notes), interest at variable market rate; fully retired in fiscal year 2010	-	14,000,000
	921,725,000	965,600,000
Current portion of long-term debt	(35,045,000)	(29,875,000)
Unamortized loss on refinancing	(22,577,252)	(25,603,711)
Unamortized premium/discount	4,354,919	5,468,070
Total long-term debt	\$ 868,457,667	\$ 915,589,359

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

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 February 13, 2012 to March 1, 2014. Each of the SBPA termination dates may be extended. At September 30, 2010, there were no outstanding draws under the SBPA's.

For the commercial paper notes appearing in the above schedule of outstanding indebtedness, to provide liquidity support, Gainesville Regional Utilities 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, Gainesville Regional Utilities is entitled to make a borrowing under the credit agreement. The termination dates of the credit agreements as of September 30, 2010 are September 12, 2011 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, 2010 and October 1, 2013. Subsequent to September 30, 2010, the optional termination by the bank was not exercised. The credit agreement termination dates may be extended. At September 30, 2010, 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 maturing on or after October 1, 2010, were subject to redemption at the option of the City on or after October 1, 2006, as a whole or in part at any time at a redemption price of 102% in 2006, 101% in 2007, and 100% thereafter. In August 2003, the City issued the 2003C Utilities System Revenue Bonds to advance-refund a portion of the 1996A Bonds maturing from October 1, 2004 through October 1, 2008 (\$6.2 million). In November 2005, the City issued the 2005C Utilities System Revenue Bonds to advance-refund a portion (\$53.2 million) of the 1996A Bonds maturing from October 1, 2010 to October 1, 2026. In July 2006, the City issued the 2006A Utilities System Revenue Bonds to refund the remaining portion (\$51.7 million) of the 1996A Bonds maturing from October 1, 2010 to October 1, 2026.

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 on or after October 1, 2013, 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. In March 2007, the City issued the 2007A Utilities System Revenue Bonds to advance-refund a portion of the 2005A Bonds (\$105.1 million) maturing from October 1, 2030 to October 1, 2036.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

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 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.

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 which meets certain credit standards and which is approved by GRU and the Agent. Under the terms of the agreement, GRU may borrow up to \$85 million with same day availability ending on the termination date, as defined in the agreement. There were \$62 million of Series C Notes outstanding as of September 30, 2010 and 2009.

In June 2000, a Utilities System Commercial Paper Note Program, Series D (taxable) was established in a principal amount not to exceed \$25 million. Liquidity support for the Series D Notes was provided under a long-term credit agreement dated June 1, 2000, with SunTrust Bank. This agreement has been extended to September 13, 2011. The obligation of the bank may be substituted by another bank that meets certain credit standards and is approved by GRU. Under the terms of the agreement, GRU may borrow up to \$25 million with same day availability ending on the termination date, as defined in the agreement. 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, 2010 and \$14 million of Series D Notes outstanding as of September 30, 2009.

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.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

4. Long-Term Debt (continued)

The following table lists the Debt Service requirements (principal and interest) on long-term debt outstanding at September 30, 2010:

Period Ending September 30:	Principal	Interest	Total Debt Service Requirements ^{(1) (2)}
2011	\$ 35,045,000	\$ 26,884,921	\$ 61,929,921
2012	36,635,000	25,542,560	62,177,560
2013	38,195,000	24,106,858	62,301,858
2014	39,880,000	22,544,341	62,424,341
2015	35,050,000	21,130,344	56,180,344
2016 - 2020	180,770,000	87,811,295	268,581,295
2021 - 2025	136,740,000	59,539,738	196,279,738
2026 - 2030	146,720,000	38,942,172	185,662,172
2031 - 2035	171,040,000	21,054,456	192,094,456
2035 - 2039	101,650,000	7,179,550	108,829,550
	\$ 921,725,000	\$ 334,736,235	\$ 1,256,461,235

(1) Interest rates on variable-rate long-term debt were valued to be equal to 0.40% for the 2005C Series Bonds, 0.38% for the 2006A Series Bonds, 0.23% for the 2007A Series Bonds, 0.31% for the 2008B Series Bonds, and 0.55% for the 2008 TECP. These are the rates in effect as of September 30, 2010.

(2) Interest expense for the 2009B Series Bonds (Federally Taxable - Issuer Subsidy - Build America Bonds) has 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 revenue on the Statement of Revenue, Expense and Changes in Net Assets.

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, 2010.

The table below shows the changes in net long-term debt balances that occurred during the years ended September 30, 2010 and 2009.

	September 30	
	2010	2009
Long-term debt outstanding at beginning of year	\$ 915,589,359	\$ 748,603,054
Changes in long-term debt:		
Series 2009A issued	-	24,190,000
Series 2009B issued	-	156,900,000
TECP issued during the year	-	14,000,000
Fixed rate debt redeemed - Senior Lien and Subordinated	(35,045,000)	(29,875,000)
TECP refunded during the year	(14,000,000)	-
Change in unamortized loss/bond discount	1,913,308	1,771,305
Long-term debt outstanding at end of year	\$ 868,457,667	\$ 915,589,359
Current portion of long-term debt	\$ 35,045,000	\$ 29,875,000

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

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

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

Derivatives

GRU is a party to certain interest rate swap agreements. 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 and are included on the balance sheet in noncurrent assets and liabilities. 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 FAS No. 71, 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 assets. 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.

Terms, Fair Values and Credit Risk. 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

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

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

4. Long-Term Debt (continued)

The terms, fair values and credit ratings of the outstanding swaps as of September 30, 2009, were as follows. The notional amounts of the swaps match the principal amounts of the associated debt.

Associated Bond Issue	2008CP*	2005B*	2005C*	2006A*
Notional amounts	\$ 25,300,000	\$ 45,000,000	\$ 55,135,000	\$ 53,305,000
Effective date	7/3/2002	11/16/2005	11/16/2005	7/6/2006
Fixed payer rate	4.100%	BMA	3.200%	3.224%
Variable receiver rate	BMA	77.14% of LIBOR	68% of LIBOR	68% of 10 YR LIBOR
Fair value	\$ (2,647,360)	\$ (797,239)	\$ (1,701,130)	\$ (1,768,422)
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	4.222%	4.222%	3.944%
Variable receiver rate	BMA	BMA	BMA
Fair value	\$ (9,439,790)	\$ (5,084,046)	\$ (16,642,675)
Termination date	10/1/2038	10/1/2038	10/1/2036
Counterparty credit rating	Aa1/AA-/AA-	Aa1/AA-/AA-	Aaa/AAA

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

	Fair Value of Interest Rate Swaps at September 30, 2010	Changes in Fair Value	Deferred Outflow	Deferred Outflows 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

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

	Fair Value of Interest Rate Swaps at September 30, 2009	Changes in Fair Value	Deferred Outflow	Deferred Outflows for Ineffective Instruments
2008CP	\$ (2,647,360)	\$ (1,150,546)	\$ 1,253,971	\$ (103,425)
2005B	(797,239)	(154,433)	-	154,433
2005C	(1,701,130)	(1,341,486)	-	1,341,486
2006A	(1,768,422)	(1,441,401)	-	1,441,401
2008B	(9,439,790)	(5,644,444)	5,644,444	-
2008B	(5,084,046)	(3,007,830)	3,007,830	-
2007A	(16,642,675)	(13,255,072)	13,255,072	-
	<u>\$ (38,080,662)</u>	<u>\$ (25,995,212)</u>	<u>\$ 23,161,317</u>	<u>\$ 2,833,895</u>

Fair Value. All seven of the swap agreements currently have a negative fair value as of September 30, 2010. 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.

Swap Payments and Associated Debt

Assuming interest rates remain the same at September 30, 2010, debt service requirements on the interest rate swaps would be as follows:

Fiscal Year Ending September 30	Variable Rate		Fixed Rate		Interest Rate	
	Principal	Interest	Principal	Interest	Swaps, Net	Total
2011	\$ 6,155,000	\$ 1,374,579	\$ 875,000	\$ 3,101,321	\$ 11,177,533	\$ 22,683,433
2012	6,360,000	1,327,032	920,000	3,055,189	11,062,902	22,725,123
2013	6,580,000	1,302,239	965,000	3,006,745	10,944,271	22,798,255
2014	6,805,000	1,276,600	1,015,000	2,955,859	10,735,144	22,787,603
2015	10,830,000	1,224,583	1,070,000	2,902,274	10,401,454	26,428,311
2016-2020	61,715,000	5,258,758	40,980,000	9,214,546	45,746,145	162,914,449
2021-2025	51,375,000	4,307,409	13,395,000	560,072	41,332,316	110,969,797
2026-2030	66,095,000	3,303,224	-	-	32,420,700	101,818,924
2031-2035	130,120,000	1,535,040	-	-	16,171,909	147,826,949
2036-2039	53,410,000	202,854	-	-	1,215,844	54,828,698
Total	<u>\$ 399,445,000</u>	<u>\$ 21,112,318</u>	<u>\$ 59,220,000</u>	<u>\$ 24,796,006</u>	<u>\$ 191,208,218</u>	<u>\$ 695,781,542</u>

The interest rates used in this table are those in effect as of September 30, 2010.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

4. Long-Term Debt (continued)

Credit Risk. As of September 30, 2010, 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, 2010, the SIFMA rate was 0.27%.

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, 2010, the 1-month LIBOR rate was at 0.25625%, which places the SIFMA at approximately 105% 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, 2010, the 10-year LIBOR rate was at 2.591%.

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.

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.

As of September 30, 2010, GRU had the following investments and maturities (amounts are in thousands).

Investment type	Fair Value	Maturities in Years	
		Less than 1	1-5
Commercial paper	\$ 191,328,083	\$ 182,295,125	\$ 9,032,958
U.S. agencies	70,493,916	6,000,455	64,493,461
U.S. bonds	7,342,350	-	7,342,350
Total	\$ 269,164,349	\$ 188,295,580	\$ 80,868,769

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.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

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, 2010, all of GRU's commercial paper investments were rated "P-1" or better by Moody's Investor Services and/or "A-1" or better by Standard and Poor's and/or "F1" or better by Fitch.

Concentration of Credit Risk. State law does not limit the amount that may be invested in any one issuer. It does require, however, that investments be diversified to control risk of loss from over concentration of assets. As of September 30, 2010, GRU had more than 5% of the investment portfolio of the following:

Issuer:	Percent of Total Investments	
	2010	2009
Federal Farm Credit Banks	4.65%	5.95%
Federal Home Loan Bank	5.23	9.82
Federal Home Loan Mortgage Corporation	6.43	8.33
Federal National Mortgage Association	9.88	0.00

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

	2010	2009
Restricted assets	\$ 295,203,528	\$ 348,798,662
Current assets:		
Cash and cash equivalents	14,061,821	9,099,550
Total cash and investments	309,265,349	357,898,212
Less cash and cash equivalents	(26,894,514)	(83,921,296)
Less Investment in TEA	(3,214,557)	(2,581,850)
Less CR3 decommissioning reserve	(9,737,398)	(9,468,877)
Less accrued interest receivable and accounts receivable	(254,531)	(495,615)
Total investments	\$ 269,164,349	\$ 261,430,574

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, 2010 and 2009, is approximately \$15.7 million and \$13.5 million, respectively. CR3 operation and maintenance costs, which represent GRU's part of expenses attributable to operation of CR3, are recorded in

accordance with the instructions as set forth in the FERC uniform system of accounts. Payments are made to Progress Energy in accordance with the CR3 participation agreement.

GRU, as a part of this participation agreement, is responsible for its share of future decommissioning costs. Decommissioning costs are funded and expensed annually and are recovered through rates charged to customers. The most recent decommissioning cost estimates provided by Progress Energy in September 2006, estimated GRU's share of the total projected decommissioning funding requirements to be \$7.7 million of which \$5.2 million has already been deposited. This \$7.7 million is expected, with reinvestment and interest earnings, to reach \$24.7 million in total, which will be used in 2041 to pay for the projected costs of decommissioning the plant. The market value of the funds on deposit as of September 30, 2010, is \$9.7 million.

7. RESTRICTED NET ASSETS

Certain assets are restricted by bond resolution and other external requirements. Following is a summary of the computation of restricted net assets at September 30, 2010 and 2009, and the restricted purposes of the net asset balances:

	2010	2009
Restricted net assets:		
Total restricted assets	\$ 295,203,528	\$ 348,798,662
Unspent debt proceeds	(146,784,933)	(201,597,608)
Payable from restricted assets	(74,476,065)	(88,773,000)
Restricted net assets	\$ 73,942,530	\$ 58,428,054

Net assets are restricted as follows:

	2010	2009
Debt covenants:		
Debt service	\$ 35,448,073	\$ 21,396,148
Utility plant improvement	25,542,502	24,981,179
Total restricted pursuant to debt covenants	60,990,575	46,377,327
Other restrictions:		
Investment in The Energy Authority	3,214,557	2,581,850
Nuclear decommissioning reserve	9,737,398	9,468,877
Total other restrictions	12,951,955	12,050,727
Restricted net assets	\$ 73,942,530	\$ 58,428,054

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

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, 2010, Comprehensive Annual Financial Report.

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

The City accounts for and funds the costs of the Employee Plan as they accrue. Such costs are based on contribution rates determined by the most recent actuarial valuation. The total contributions by GRU, including amortization of prior service costs, were \$2.9 million for the year ended September 30, 2010 and \$2.2 million for the year ended September 30, 2009.

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, 2010 and 2009.

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, 2010 and 2009 was \$0.3 million each year.

10. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables

For the years ended September 30, 2010 and 2009, respectively, net accounts receivable represent 92.6% and 90.5% from customers for billed and unbilled utility services, and 7.4% and 9.5% from other receivables. There are no receivables expected to take longer than one year to collect.

Payables

As of September 30, 2010 and 2009, respectively, payable balances represent 14.6% and 29.0% related to fuels payable, 44.9% and 30.1% related to standard vendor payables, 18.6% and 17.5% related to accrued wages and vacation payable, 16.2% and 15.3% related to intergovernmental payables and 5.7% and 8.1% 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, 2010 and 2009 was \$34.3 million and \$34.5 million, respectively.

12. DEFERRED CHARGES AND DEFERRED OUTFLOWS

Deferred charges

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

The deferred charge for estimated environmental costs is \$20.3 million and \$15.1 million at September 30, 2010 and 2009, respectively. See Note 13 for details on the manufactured gas plant remediation portion of this item.

Also included in deferred charges are unamortized bond issuance costs of approximately \$6.8 million and \$7.2 million at September 30, 2010 and 2009, respectively. These costs are being amortized straight-line over the life of the bonds, which approximates the effective interest method.

Unrecognized hedge adjustments were \$1.0 million and \$0.5 million at September 30, 2010 and 2009, respectively.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

Accrued fuel adjustment was a deferred inflow of \$4.1 million and \$0.4 million at September 30, 2010 and 2009, respectively. See Note 1, "Revenue Recognition," for details on GRU's policy regarding fuel adjustment.

Also included in deferred charges as a current liability is a temporary transfer from the Rate Stabilization reserve of \$16.1 million to the operating fund. A transfer of \$3.0 million was made at September 30, 2009. This transfer is made in accordance with our bond resolution for the purpose of meeting temporary cash requirements, primarily due to timing differences.

Electric distribution plant acquisition costs of \$2.5 million and \$2.7 million for September 30, 2010 and 2009, respectively, are being amortized over the expected life of the acquired assets.

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

Deferred Outflows

Included in deferred outflows are the changes in fair value of the interest rate swap agreements for both effective and ineffective hedge instruments.

13. ENVIRONMENTAL LIABILITIES

GRU is subject to numerous federal, state and local environmental regulations. Under the Comprehensive Environmental Response Compensation and Liability Act, commonly known as "Superfund," GRU has been named as a potentially responsible party at several hazardous waste sites; however, GRU does not anticipate any more than "de minimus" liability at any of these sites. In January 1990, GRU purchased the natural gas distribution assets of a company and pursuant to the related purchase agreement, assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former manufactured gas plant. Based upon GRU's analysis of the cost to clean up these sites, GRU has accrued a liability to reflect the costs associated with the clean up effort. Fiscal year 2010 and 2009 expenditures which reduce the liability balance were \$7.2 million and \$0.6 million, respectively.

During fiscal year 2008, soil samplings from the site were collected and analyzed in order to determine alternatives to complete the remediation. On November 6, 2008, the City Commission voted to approve staff's recommendation to remove the soil to landfill. In 2009, GRU adopted GASB No. 49, which required GRU to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability. A pollution remediation liability of \$13.7 million and \$12.7 million was recorded as of September 30, 2010 and 2009, respectively. In accordance with GASB No. 49, the estimated liability to a balance of \$13.7 million at September 30, 2010 is based on new estimates and probabilities for project completion.

GRU is recovering the costs of this clean-up through customer charges. A regulatory asset was established as a deferred charge in the accompanying balance sheets to represent the balance of customer charges. Fiscal 2010 and 2009 billings were \$0.8 million and \$0.8 million, respectively. This reduced the deferred asset balance to \$20.3 million and \$12.9 million as of September 30, 2010 and 2009, 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. LEASE/LEASEBACK

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

14. Lease/Leaseback (continued)

On May 17, 2006, President Bush signed into law an act entitled the "Tax Increase Prevention and Reconciliation Act of 2005" (the Act). Among other provisions, the Act imposes an excise tax on certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions (including the City). Based on regulations released by the Internal Revenue Service in 2007, GRU currently anticipates that it will owe little, if any, excise tax under the Act, but this result is not certain given the interpretive questions that still remain with respect to the excise tax.

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

The remaining net benefit of \$4.7 million was recognized in 2009 as a part of other operating revenue.

15. INVESTMENT IN THE ENERGY AUTHORITY

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

GRU had electric purchases transactions with TEA of \$43.1 million and \$41.4 million and sales transactions of \$8.2 million and \$7.7 million in fiscal years 2010 and 2009, respectively. TEA's profit on these transactions has been reflected as a reduction to GRU's reported revenue or expense.

As of September 30, 2010, GRU's investment in TEA was \$3.2 million as compared to \$2.6 million on September 30, 2009.

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 \$9.6 million as of September 30, 2010 and 2009. GRU's aggregate obligation for TEA's natural gas marketing transactions, under similar agreements and executed guaranties, was \$30.5 million and \$18.8 million as of September 30, 2010 and 2009, respectively.

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

	2010	2009
Condensed statement of operations:		
Total revenue	\$929,770,000	\$1,039,280,000
Total cost of sales and expense	855,930,000	983,130,000
Operating income	73,840,000	56,150,000
Net revenue	\$ 74,029,000	\$ 56,549,000
Condensed balance sheet:		
Assets:		
Current assets	\$128,244,000	\$ 121,407,000
Noncurrent assets	26,022,000	16,473,000
Total assets	\$154,266,000	\$ 137,880,000
Liabilities:		
Current liabilities	\$ 104,381,000	\$ 101,775,000
Noncurrent liabilities	3,790,000	-
Total liabilities	108,171,000	101,775,000
Members' capital	46,095,000	36,105,000
Total equity and liabilities	\$154,266,000	\$ 137,880,000

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

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 & 2010

16. RISK MANAGEMENT

GRU is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters and insures against these losses. GRU purchases plant and machinery insurance from a commercial carrier. There have been no significant reductions in insurance coverage from that in the prior year, and settlements have not exceeded insurance coverage for the past three fiscal years. The City is self-insured for workers' compensation, auto liability, and general liability but carries excess workers' compensation coverage. These risks are accounted for under the City of Gainesville's General Insurance Fund. GRU reimburses the City for premiums and claims paid on its behalf, recording the appropriate expense. However, GRU does maintain its own insurance reserve, for the self-insured portion. An actuarial study completed during fiscal year 2008 resulted in an increase to a balance of \$3.3 million. The present value calculation assumes a rate of return of 4.5% with a confidence level of 75%. This reserve is recorded as a fully amortized deferred credit. All claims for fiscal 2010 and 2009 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
2008-2009	\$ 3,337,000	\$ 1,408,819	\$ 1,408,819	\$ -	\$ 3,337,000
2009-2010	\$ 3,337,000	\$ 1,237,502	\$ 1,237,502	\$ -	\$ 3,337,000

17. SUBSEQUENT EVENT

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 \$12,930,000 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 \$132,445,000 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. 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.

SCHEDULES OF COMBINED NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

SEPTEMBER 30, 2010, 2009, 2008, 2007, 2006

	2010	2009	2008	2007	2006
Revenue					
Electric fund:					
Sales of electricity	\$ 262,530,880	\$ 249,761,763	\$ 238,595,628	\$ 206,552,756	\$ 207,023,570
Other electric revenue	14,445,686	3,270,339	3,871,838	3,878,187	2,614,880
Transfers from (to) rate stabilization	(7,692,907)	11,054,541	6,532,390	(4,372,298)	(2,047,553)
Interest/investment income	1,183,493	2,709,170	2,859,539	3,597,057	2,837,575
Other interest related income, BABs	1,883,128	-	-	-	-
Total electric fund revenue	272,350,280	266,795,813	251,859,395	209,655,702	210,428,472
Water fund:					
Sales of water	25,705,213	25,712,256	25,094,181	22,970,588	17,987,383
Other water revenue	1,390,204	1,443,155	2,899,253	1,852,072	2,184,786
Transfers from (to) rate stabilization	2,289,274	997,637	(1,074,205)	(1,274,108)	(878,017)
Interest/investment income	587,446	347,095	206,230	95,439	172,476
Other interest related income, BABs	427,129	-	-	-	-
Total water fund revenue	30,399,266	28,500,143	27,125,459	23,643,991	19,466,628
Wastewater fund:					
Wastewater billing	30,640,750	31,976,105	29,819,878	25,554,311	20,474,546
Other wastewater revenue	918,285	831,350	2,840,164	2,200,469	3,693,161
Transfers from (to) rate stabilization	1,879,876	(901,588)	(1,271,208)	(581,471)	(1,157,713)
Interest/investment income	283,945	561,085	408,455	207,121	429,598
Other interest related income, BABs	334,064	-	-	-	-
Total wastewater fund revenue	34,056,920	32,466,952	31,797,289	27,380,430	23,439,592
Gas fund:					
Gas sales	27,403,504	28,923,505	29,842,601	27,614,405	31,148,518
Other gas revenue (expenses)	1,087,924	859	(63,412)	(8,750)	1,138
Transfers from (to) rate stabilization	(1,549,020)	(3,208,386)	1,987,360	1,160,544	(465,695)
Interest/investment income	528,859	485,981	635,757	561,892	584,699
Other interest related income, BABs	387,115	-	-	-	-
Total gas fund revenue	27,858,382	26,201,959	32,402,306	29,328,091	31,268,660
GRUCom fund:					
Sales to customers	11,304,326	10,162,231	10,277,819	9,275,122	8,722,084
Transfers from (to) rate stabilization	105,407	(958,870)	(1,085,755)	(1,691,798)	(1,036,283)
Interest/investment income	265,178	417,145	239,050	155,735	133,002
Total GRUCom fund revenue	11,674,911	9,620,506	9,431,114	7,739,059	7,818,803
Total revenue	\$ 376,339,759	\$ 363,585,373	\$ 352,615,563	\$ 297,747,273	\$ 292,422,154

Continued on next page

SCHEDULES OF COMBINED NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

SEPTEMBER 30, 2010, 2009, 2008, 2007, 2006

	2010	2009	2008	2007	2006
Operation, maintenance and administrative					
Electric fund:					
Fuel expense	\$ 129,092,299	\$ 131,849,819	\$ 127,233,223	\$ 104,940,526	\$ 116,303,116
Operation and maintenance	38,312,780	38,244,824	36,753,083	32,076,530	33,715,716
Administrative and general	16,770,146	18,273,573	20,654,480	15,913,731	12,585,157
Total electric fund expense	184,175,225	188,368,216	184,640,786	152,930,787	162,603,989
Water fund:					
Operation and maintenance	7,385,629	8,042,992	7,074,992	6,711,674	6,176,450
Administrative and general	5,104,686	4,547,293	5,120,270	3,994,430	3,629,681
Total water fund expense	12,490,315	12,590,285	12,195,262	10,706,104	9,806,131
Wastewater fund:					
Operation and maintenance	6,690,918	6,734,970	7,273,610	6,316,884	6,701,627
Administrative and general	5,960,940	5,939,526	5,773,158	4,817,270	4,603,576
Total wastewater fund expense	12,651,858	12,674,496	13,046,768	11,134,154	11,305,203
Gas fund:					
Fuel expense	14,632,694	15,458,942	20,107,903	18,514,704	21,919,984
Operation and maintenance	1,381,945	1,652,911	1,606,831	1,571,781	1,342,257
Administrative and general	3,643,805	2,033,561	4,504,748	4,200,069	3,427,848
Total gas fund expense	19,658,444	19,145,414	26,219,482	24,286,554	26,690,089
GRUCom fund:					
Operation and maintenance	3,423,128	2,761,702	2,632,075	2,313,343	2,489,099
Administrative and general	1,952,831	2,104,484	2,349,715	2,294,882	2,255,466
Total GRUCom fund expense	5,375,959	4,866,186	4,981,790	4,608,225	4,744,565
Total operation, maintenance and administrative	234,351,801	237,644,597	241,084,088	203,665,824	215,149,976
Net revenue in accordance with bond resolution					
Electric	88,175,055	78,427,597	67,218,609	56,724,915	47,824,483
Water	17,908,951	15,909,858	14,930,197	12,937,887	9,660,498
Wastewater	21,405,062	19,792,456	18,750,521	16,246,276	12,134,389
Gas	8,199,938	7,056,545	6,182,824	5,041,537	4,578,570
GRUCom	6,298,952	4,754,320	4,449,324	3,130,834	3,074,238
Total net revenue in accordance with bond resolution	\$ 141,987,958	\$ 125,940,776	\$ 111,531,475	\$ 94,081,449	\$ 77,272,178
Aggregate bond debt service	\$ 62,168,819	\$ 51,062,280	\$ 47,127,033	\$ 40,545,456	\$ 34,107,669
Aggregate bond debt service coverage ratio	2.28	2.47	2.37	2.32	2.27
Total debt service	\$ 73,332,609	\$ 61,390,337	\$ 52,626,846	\$ 45,942,353	\$ 41,050,956
Total debt service coverage ratio	1.94	2.05	2.12	2.05	1.88

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

ELECTRIC UTILITY FUND | SEPTEMBER 30, 2010 & 2009

	2010	2009
Revenue		
Sales of electricity:		
Residential sales	\$ 59,476,506	\$ 52,918,220
General service and large power	59,114,443	49,650,525
Fuel adjustment	122,302,347	125,607,941
Street and traffic lighting	5,323,089	5,265,691
Utility surcharge	3,722,332	3,509,911
Sales for resale	4,349,947	5,504,028
Interchange sales	8,242,216	7,305,447
Total sales of electricity	262,530,880	249,761,763
Other electric revenue:		
Service charges	1,595,555	1,982,547
Pole rentals	633,898	609,141
Miscellaneous	12,216,233	678,651
Total other electric revenue	14,445,686	3,270,339
Transfers from (to) rate stabilization	(7,692,907)	11,054,541
Interest income	1,183,493	2,709,170
Other interest related income, BABs	1,883,128	-
Total revenue	272,350,280	266,795,813
Operation, maintenance and administrative expense		
Operation and maintenance:		
Fuel expense:		
Retail and purchased power	122,302,347	125,607,941
Interchange	6,789,952	6,241,878
Total fuel expense	129,092,299	131,849,819
Power production	26,446,344	25,378,717
Transmission	1,105,421	1,119,094
Distribution	10,761,015	11,747,013
Total operation and maintenance	167,405,079	170,094,643
Administrative and general:		
Customer accounts	6,945,124	8,158,720
Administrative and general	9,825,022	10,114,853
Total administrative and general	16,770,146	18,273,573
Total operation, maintenance and administrative expense	184,175,225	188,368,216
Net revenue in accordance with bond resolution		
Retail	86,722,791	77,364,028
Interchange	1,452,264	1,063,569
Total net revenue in accordance with bond resolution	\$ 88,175,055	\$ 78,427,597

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

WATER UTILITY FUND | SEPTEMBER 30, 2010 & 2009

	2010	2009
Revenue		
Sales of water:		
General customers	\$ 22,148,212	\$ 22,336,244
University of Florida	1,677,385	1,578,263
Utility surcharge	1,879,616	1,797,749
Total sales of water	25,705,213	25,712,256
Other water revenue:		
Connection charges	735,879	1,256,990
Miscellaneous	654,325	186,165
Total other water revenue	1,390,204	1,443,155
Transfers from (to) rate stabilization	2,289,274	997,637
Interest income	587,446	347,095
Other interest related income, BABs	427,129	-
Total revenue	30,399,266	28,500,143
Operation, maintenance and administrative expense		
Operation and maintenance:		
Pumping	1,866,181	2,167,165
Water treatment	3,224,446	3,360,614
Transmission and distribution	2,295,002	2,515,213
Total operation and maintenance	7,385,629	8,042,992
Administrative and general:		
Customer accounts	1,396,206	1,421,807
Administrative and general	3,708,480	3,125,486
Total administrative and general	5,104,686	4,547,293
Total operation, maintenance and administrative expense	12,490,315	12,590,285
Total net revenue in accordance with bond resolution	\$ 17,908,951	\$ 15,909,858

**SCHEDULES OF NET REVENUES
IN ACCORDANCE WITH BOND RESOLUTION
WASTEWATER UTILITY FUND | SEPTEMBER 30, 2010 & 2009**

	2010	2009
Revenue		
Wastewater billings:		
Billings	\$ 28,517,595	\$ 29,177,217
Utility surcharge	2,123,155	2,798,888
Total wastewater billings	30,640,750	31,976,105
Other wastewater revenue:		
Connection charges	934,814	660,860
Miscellaneous	(16,529)	170,490
Total other wastewater revenue	918,285	831,350
Transfers from (to) rate stabilization	1,879,876	(901,588)
Interest income	283,945	561,085
Other interest related income, BABs	334,064	-
Total revenue	34,056,920	32,466,952
Operation, maintenance and administrative expense		
Operation and maintenance:		
Collection	2,072,366	1,448,291
Treatment and pumping	4,618,552	5,286,679
Total operation and maintenance	6,690,918	6,734,970
Administrative and general:		
Customer accounts	943,215	990,192
Administrative and general	5,017,725	4,949,334
Total administrative and general	5,960,940	5,939,526
Total operation, maintenance and administrative expense	12,651,858	12,674,496
Total net revenue in accordance with bond resolution	\$ 21,405,062	\$ 19,792,456

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

GAS UTILITY FUND | SEPTEMBER 30, 2010 & 2009

	2010	2009
Revenue		
Sales of gas:		
Residential	\$ 13,978,292	\$ 14,147,897
Interruptible/commercial	12,234,146	13,483,821
Other sales	1,191,066	1,291,787
Total sales of gas	27,403,504	28,923,505
Other gas revenue (expense)	1,087,924	859
Transfers from (to) from rate stabilization	(1,549,020)	(3,208,386)
Interest income	528,859	485,981
Other interest related income, BABs	387,115	-
Total revenue	27,858,382	26,201,959
Operation, maintenance and administrative expense		
Operation and maintenance:		
Fuel expense	14,632,694	15,458,942
Operation and maintenance	1,381,945	1,652,911
Total operation and maintenance	16,014,639	17,111,853
Administrative and general:		
Customer accounts	1,934,690	1,908,725
Administrative and general	1,709,115	124,836
Total administrative and general	3,643,805	2,033,561
Total operation, maintenance and administrative expense	19,658,444	19,145,414
Total net revenue in accordance with bond resolution	\$ 8,199,938	\$ 7,056,545

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

GRUCOM UTILITY FUND | SEPTEMBER 30, 2010 & 2009

	2010	2009
Revenue		
Sales to customers	\$ 11,304,326	\$ 10,162,231
Transfers from (to) rate stabilization	105,407	(958,870)
Interest income	265,178	417,145
Total revenue	11,674,911	9,620,506
Operation, maintenance and administrative expense		
Operation and maintenance	3,423,128	2,761,702
Total operation and maintenance	3,423,128	2,761,702
Administrative and general:		
Customer accounts	299,442	348,248
Administrative and general	1,653,389	1,756,236
Total administrative and general	1,952,831	2,104,484
Total operation, maintenance and administrative expense	5,375,959	4,866,186
Total net revenue in accordance with bond resolution	\$ 6,298,952	\$ 4,754,320

NOTES TO SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

SEPTEMBER 30, 2010 & 2009

“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.

COMBINING BALANCE SHEET

SEPTEMBER 30, 2010

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Assets						
Current assets:						
Cash and cash equivalents	\$ 16,881,208	\$ (1,420,454)	\$ 1,140,879	\$ (2,186,191)	\$ (353,621)	\$ 14,061,821
Accounts receivable, net	35,725,427	3,444,118	3,711,059	1,617,145	1,680,843	46,178,592
Fuel Contracts	860,616	-	-	739,399	-	1,600,015
Deferred charges	(1,125,691)	91,138	102,397	4,470,468	44,557	3,582,869
Inventories:						
Fuel	11,173,710	-	-	-	-	11,173,710
Materials and inventories	7,420,812	625,160	-	408,825	560,885	9,015,682
Total current assets	70,936,082	2,739,962	4,954,335	5,049,646	1,932,664	85,612,689
Restricted assets:						
Utility deposits – cash and investments	5,666,910	444,469	424,682	284,452	-	6,820,513
Debt service fund – cash and investments	33,265,855	5,161,532	6,947,963	2,482,251	3,896,639	51,754,240
Rate stabilization – cash and investments	39,190,645	(52,618)	2,484,800	3,206,571	6,519,986	51,349,384
Construction Fund – cash and investments	80,291,965	12,427,975	22,114,263	18,125,633	13,825,098	146,784,934
Utility plant improvement fund – cash and investments	12,791,242	3,212,475	5,286,286	3,344,352	908,147	25,542,502
Investment in The Energy Authority	3,214,557	-	-	-	-	3,214,557
Decommission reserve – cash and investments	9,737,398	-	-	-	-	9,737,398
Total restricted assets	184,158,572	21,193,833	37,257,994	27,443,259	25,149,870	295,203,528
Noncurrent assets and deferred outflows						
Other noncurrent assets	7,101,521	664,318	682,398	17,569,337	345,800	26,363,374
Deferred outflow	43,531,892	5,800,347	5,798,452	1,942,770	1,092,794	58,166,255
Total noncurrent assets and deferred outflows	50,633,413	6,464,665	6,480,850	19,512,107	1,438,594	84,529,629
Capital assets:						
Utility plant in service	921,005,339	181,516,685	234,787,172	57,553,272	43,749,998	1,438,612,466
Less: accumulated depreciation and amortization	348,942,206	74,437,974	99,507,321	27,917,772	25,505,739	576,311,012
	572,063,133	107,078,711	135,279,851	29,635,500	18,244,259	862,301,454
Construction in progress	122,000,924	46,673,298	37,423,304	9,158,965	11,083,630	226,340,121
Net capital assets	694,064,057	153,752,009	172,703,155	38,794,465	29,327,889	1,088,641,575
Total assets	\$ 999,792,124	\$ 184,150,469	\$ 221,396,334	\$ 90,799,477	\$ 57,849,017	\$ 1,553,987,421

COMBINING BALANCE SHEET

SEPTEMBER 30, 2010

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Liabilities and net assets						
Current liabilities:						
Fuels payable	\$ 3,980,450	\$ -	\$ -	\$ 584,818	\$ -	\$ 4,565,268
Accounts payable and accrued liabilities	9,697,137	822,210	487,679	358,163	395,574	11,760,763
Deferred charges	14,706,737	387,039	1,283,372	3,084,475	157,425	19,619,048
Due to other funds	3,877,874	587,898	325,250	238,749	41,942	5,071,713
Total current liabilities	32,262,198	1,797,147	2,096,301	4,266,205	594,941	41,016,792
Payable from restricted assets:						
Utility deposits	5,666,804	444,469	424,682	284,452	-	6,820,407
Rate stabilization deferred credit	38,004,764	(92,047)	2,397,915	3,030,962	6,492,235	49,833,829
Construction fund:						
accounts payable and accrued liabilities	6,394,508	699,408	1,651,874	1,044,308	111,406	9,901,504
Debt payable - current portion	22,544,202	3,285,102	4,451,012	1,630,830	3,133,854	35,045,000
Accrued interest payable	11,342,458	2,106,171	2,162,130	1,077,147	1,133,922	17,821,828
Total payable from restricted assets	83,952,736	6,443,103	11,087,613	7,067,699	10,871,417	119,422,568
Long-term debt:						
Utilities system revenue bonds	519,127,421	102,926,045	107,597,365	47,457,958	47,571,211	824,680,000
Commercial paper notes	32,907,630	5,337,350	13,214,900	10,540,120	-	62,000,000
Unamortized loss on refunding	(13,479,152)	(3,498,035)	(3,942,590)	(1,441,092)	(216,383)	(22,577,252)
Unamortized bond prem\disc	2,873,941	600,258	700,583	144,910	35,227	4,354,919
Total long-term debt	541,429,840	105,365,618	117,570,258	56,701,896	47,390,055	868,457,667
Noncurrent liabilities and fair value of derivative instruments:						
Noncurrent liabilities	11,737,359	598,326	546,333	13,136,086	5,296	26,023,400
Fair value of derivative instruments	43,531,892	5,800,347	5,798,452	1,942,770	1,092,794	58,166,255
Total noncurrent liabilities and fair value of derivative instruments	55,269,251	6,398,673	6,344,785	15,078,856	1,098,090	84,189,655
Total liabilities	712,914,025	120,004,541	137,098,957	83,114,656	59,954,503	1,113,086,682
Net assets:						
Invested in capital assets, net of related debt	209,232,672	57,574,522	71,914,681	(2,064,547)	(7,096,467)	329,560,861
Restricted	48,852,583	6,307,264	10,159,004	4,925,065	3,698,614	73,942,530
Unrestricted	28,792,844	264,142	2,223,692	4,824,303	1,292,367	37,397,348
Total net assets	286,878,099	64,145,928	84,297,377	7,684,821	(2,105,486)	440,900,739
Total liabilities and net assets	\$ 999,792,124	\$ 184,150,469	\$ 221,396,334	\$ 90,799,477	\$ 57,849,017	\$ 1,553,987,421

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

SEPTEMBER 30, 2010

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Operating revenue:						
Sales and service charges	\$262,530,880	\$ 25,705,213	\$ 30,640,750	\$ 27,403,504	\$ 11,304,326	\$ 357,584,673
Transfers from (to) rate stabilization	(7,692,907)	2,289,274	1,879,876	(1,549,020)	105,407	(4,967,370)
Other operating revenue	14,445,686	1,390,203	918,285	1,087,925	-	17,842,099
Total operating revenue	269,283,659	29,384,690	33,438,911	26,942,409	11,409,733	370,459,402
Operating expenses:						
Operation and maintenance	167,530,217	7,385,629	6,690,917	16,014,639	3,423,128	201,044,530
Administrative and general	16,770,146	5,104,686	5,960,940	3,643,804	1,952,831	33,432,407
Depreciation and amortization	26,431,343	5,217,091	7,358,814	2,482,220	3,069,072	44,558,540
Total operating expenses	210,731,706	17,707,406	20,010,671	22,140,663	8,445,031	279,035,477
Operating income	58,551,953	11,677,284	13,428,240	4,801,746	2,964,702	91,423,925
Non-operating income (expense):						
Interest income	1,901,249	744,527	409,703	668,407	304,750	4,028,636
Interest expense	(24,057,725)	(4,573,955)	(4,902,295)	(2,452,110)	(2,270,899)	(38,256,984)
Other interest – related income, BABs	1,883,128	427,129	334,064	387,115	-	3,031,436
Total non-operating expense	(20,273,348)	(3,402,299)	(4,158,528)	(1,396,588)	(1,966,149)	(31,196,912)
Special items:						
Impairment of assets held for future use	(5,269,115)	-	-	-	-	(5,269,115)
Income before contributions and transfers	33,009,490	8,274,985	9,269,712	3,405,158	998,553	54,957,898
Capital contributions:						
Contributions from developers	40,585	1,300,904	1,109,373	-	-	2,450,862
Reduction of plant cost recovered from contributions	(40,585)	-	-	-	-	(40,585)
Net capital contributions	-	1,300,904	1,109,373	-	-	2,410,277
Operating transfer to City of Gainesville general fund	(20,164,841)	(5,391,123)	(6,347,683)	(2,090,288)	(354,896)	(34,348,831)
Change in net assets	12,844,649	4,184,766	4,031,402	1,314,870	643,657	23,019,344
Net assets – beginning of year	274,033,452	59,961,162	80,265,976	6,369,949	(2,749,144)	417,881,395
Net assets – end of year	\$ 286,878,101	\$ 64,145,928	\$ 84,297,378	\$ 7,684,819	\$ (2,105,487)	\$ 440,900,739

SCHEDULE OF UTILITY PLANT PROPERTIES – COMBINED UTILITY FUNDS

SEPTEMBER 30, 2010

	Balance September 30, 2009	Additions	Sales, Retirements and Transfers	Balance September, 302010
Plant in service				
Electric utility fund:				
Production plant	\$ 365,454,641	\$ 203,287,164	\$ 3,970,691	\$ 564,771,114
Nuclear fuel	2,858,039	-	-	2,858,039
Transmission and distribution plant	266,350,118	13,511,198	3,806,943	276,054,373
General and common plant	73,510,019	10,846,369	7,034,575	77,321,813
Total electric utility fund	708,172,817	227,644,731	14,812,209	921,005,339
Gas utility fund:				
Distribution plant	47,530,177	1,668,419	71,730	49,126,866
General plant	2,883,405	1,008,024	115,658	3,775,771
Plant acquisition adjustment	4,650,635	-	-	4,650,635
Total gas utility fund	55,064,217	2,676,443	187,388	57,553,272
Water utility fund:				
Supply, pumping and treatment plant	28,561,565	345,705	4,122	28,903,148
Transmission and distribution plant	142,040,912	4,486,634	6,354	146,521,192
General plant	4,711,296	1,632,686	251,637	6,092,345
Total water utility fund	175,313,773	6,465,025	262,113	181,516,685
Wastewater utility fund:				
Pumping and treatment plant	85,879,712	668,079	32,254	86,515,537
Collection plant	128,486,535	3,181,837	589	131,667,783
Reclaimed water plant	7,520,579	169,340	-	7,689,919
General plant	6,755,516	2,529,135	370,718	8,913,933
Total wastewater utility fund	228,642,342	6,548,391	403,561	234,787,172
GRUCom utility fund:				
Distribution plant	41,941,387	262,882	3,399	42,200,870
General plant	992,971	559,986	3,829	1,549,128
Total GRUCom utility fund	42,934,358	822,868	7,228	43,749,998
Total plant in service	\$ 1,210,127,507	\$ 244,157,458	\$ 15,672,499	\$ 1,438,612,466
Construction in progress				
Plant held for future use – electric	\$ 6,053,926	\$ -	\$ 6,053,926	\$ -
Construction in progress				
Electric utility fund	\$ 315,516,587	\$ 34,129,069	\$ 227,644,731	\$ 122,000,925
Gas utility fund	6,741,765	5,093,644	2,676,444	9,158,965
Water utility fund	38,386,824	14,751,499	6,465,025	46,673,298
Wastewater utility fund	26,451,913	17,519,781	6,548,391	37,423,303
GRUCom utility fund	5,503,431	6,403,067	822,868	11,083,630
Total construction in progress	\$ 392,600,520	\$ 77,897,060	\$ 244,157,459	\$ 226,340,121

SCHEDULE OF ACCUMULATED DEPRECIATION AND AMORTIZATION – COMBINED UTILITY FUNDS

SEPTEMBER 30, 2010

	Balance September 30, 2009	Additions	Sales, Retirements and Transfers	Balance September, 302010
Electric utility fund:				
Production plant	\$ 216,085,828	\$ 11,384,741	\$ 4,802,423	\$ 222,668,146
Nuclear fuel	2,386,577	-	119,559	2,267,018
Transmission and distribution plant	91,179,215	6,233,745	3,082,568	94,330,392
General and common plant	31,899,926	4,811,300	7,034,576	29,676,650
Total electric utility fund	341,551,546	22,429,786	15,039,126	348,942,206
Gas utility fund:				
Distribution plant	21,012,942	1,262,977	71,730	22,204,189
General plant	978,109	200,493	115,656	1,062,946
Plant acquisition adjustment	4,650,637	-	-	4,650,637
Total gas utility fund	26,641,688	1,463,470	187,386	27,917,772
Water utility fund:				
Supply, pumping and treatment plant	14,366,932	867,211	4,123	15,230,020
Transmission and distribution plant	53,103,640	3,927,481	6,354	57,024,767
General plant	2,249,568	185,256	251,637	2,183,187
Total water utility fund	69,720,140	4,979,948	262,114	74,437,974
Wastewater utility fund:				
Pumping and treatment plant	42,141,146	3,018,506	32,255	45,127,397
Collection plant	46,941,293	3,545,527	588	50,486,232
Reclaimed water plant	1,455,094	272,751	-	1,727,845
General plant	2,216,947	319,618	370,718	2,165,847
Total wastewater utility fund	92,754,480	7,156,402	403,561	99,507,321
GRUCom utility fund:				
Distribution plant	21,951,377	2,965,951	3,399	24,913,929
General plant	525,359	70,280	3,829	591,810
Total GRUCom utility fund	22,476,736	3,036,231	7,228	25,505,739
Total	\$ 553,144,590	\$ 39,065,837	\$ 15,899,415	\$ 576,311,012