Gainesville Regional Utilities

Financial Statements & Supplemental Schedules
Years ended September 30, 2007 and 2006

FINANCIAL STATEMENTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006 & 2007

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, 2007 and 2006. It should be read in conjunction with the financial statements that follow this section.

REQUIRED FINANCIAL STATEMENTS

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

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

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

Notes to Financial Statements. The notes provide additional information that is essential to fully understanding the data provided in the financial statements. The notes to the financial statements can be found on pages 39 – 51 of this report.

FINANCIAL ANALYSIS OF THE COMBINED UTILITY SYSTEM

The Utilities' System net assets increased by $19.1 million from 2006 to 2007, and decreased by $5.3 million from 2005 to 2006. Table 1 focuses on the net assets.

Table 1

Combined Utility System Net Assets (In thousands)

		September 30	
	2007	2006	2005
Current and other assets	$ 395,996	$ 470,462	$ 345,937
Capital assets, net	839,422	761,539	732,361
Total assets	1,235,418	1,232,001	1,078,298
Long-term debt outstanding	574,164	592,315	434,983
Current and other liabilities	295,290	292,808	291,160
Total liabilities	869,454	885,123	726,143
Net assets:			
Invested in capital assets, net of related debt	319,757	299,811	297,056
Restricted	37,862	41,400	48,187
Unrestricted	8,345	5,666	6,912
Total net assets	$ 365,964	$ 346,877	$ 352,155

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

Table 2

Combined Utilities System Changes in Net Assets (In thousands)

		September 30	
	2007	2006	2005
Operating revenues	$ 294,840	$ 290,039	$ 252,217
Interest income	11,317	10,025	4,390
Loss on sale of investments	0	0	(168)
Total revenues	306,157	300,064	256,439
Operating expenses	243,869	253,698	216,174
Interest expense, net	26,943	26,920	19,445
Total expenses	270,812	280,618	235,619
Income before contributions and transfers	35,345	19,446	20,820
Capital contributions, net	14,139	4,707	5,036
Operating transfer to City of Gainesville	(30,398)	(29,431)	(27,280)
Change in net assets	19,087	(5,278)	(1,424)
Net assets, beginning of year	346,877	352,155	353,579
Net assets, end of year	$ 365,964	$ 346,877	$ 352,155

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. GRU's investment in capital assets as of September 30, 2007, amounts to $839.4 million (net of accumulated depreciation). This investment in capital assets includes land, generation, transmission and distribution systems, buildings and fixed equipment, and furniture, fixtures and equipment. The net increase in the investment in capital assets (net of accumulated depreciation) for the current fiscal year was 10.0%. In fiscal 2006 it increased 4.0%.

The following table summarizes the System's capital assets, net of accumulated depreciation and changes for the years ended September 30, 2007 and 2006.

Combined Utilities System Capital Assets (net of accumulated depreciation) (In thousands)

	September 30 2007	2006	2005
Generation	$ 162,613	$ 164,413	$ 173,998
Transmission, distribution and collection	368,347	364,403	350,178
Treatment	62,842	64,924	67,919
General plant	44,825	28,460	30,201
Plant held for future use	6,054	6,054	6,054
Plant unclassified	8,959	8,704	5,458
Construction work in progress	185,782	124,581	98,553
Total net utility plant	$ 839,422	$ 761,539	$ 732,361

Major capital asset events included the following:

- General Plant was expanded $16.4 million in 2007 highlighted by the $8.4 million Customer Information System implemented in April 2007. Upgrades to the phone system, network storage area and other system applications were also accomplished.
- Electric transmission and distribution expansion was $4.8 million in 2007 and $6.4 million in 2006 and included $1.9 million in system substation improvements in 2007.
- Wastewater collection system expansion was $6.1 million in 2007 and $8.0 million in 2006. In 2007, a large development in SW Gainesville included $2.3 million of this expansion mostly through developer contributions.
- Telecommunication fiber cable expansion was $0.9 million in 2007 and $1.1 million in 2006.
- Gas distribution plant was expanded $0.6 million in 2007 compared to $4.3 million in 2006 which was a busy year in both residential and gas main system projects.
- GRU began work on its Air Quality Control project at Deerhaven 2. The project incurred $26.2 million in 2007 and expects to be completed by summer 2009 at a total cost of $141 million. Other significant 2007 projects in progress include the Shands Central Energy Plant ($7.0 million), the Eastside Operations Center ($3.0 million) and the DH2 Boiler Roof Enclosure ($2.6 million).

The Utility's 2008 capital budget is $189.3 million and was $123.7 million in 2007. These projects will be funded from a combination of internal equity and debt.

Additional information on capital assets may be found in Note 3 on page 42 of this report.

Long-Term Debt. At September 30, 2007 and September 30, 2006, GRU had total long-term debt outstanding of $616 million and $620.1 million, respectively, comprised of revenue bonds and other long-term debt.

Outstanding Debt at September 30 (In thousands)

	September 30 2007	2006	2005
Senior Lien revenue bonds	$ 550,750	$ 551,665	$ 298,935
Subordinated revenue bonds	65,300	68,500	71,600
Tax-exempt Commercial Paper	-	-	80,591
Taxable Commercial Paper	-	-	16,231
Total	$ 616,050	$ 620,165	$ 467,357

On March 1, 2007, the City issued Utilities System Revenue Bonds, Series 2007A in the amount of $139,505,000. The 2007A Bonds were issued to advance-refund a portion of the City's outstanding Utilities System Revenue Bonds, 2005 Series A and a portion of the City's outstanding Utilities System Revenue Bonds, 2003 Series A.

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

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

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

On September 21, 2005, the City entered into an interest rate swap agreement with a November 16, 2005, effective date with Bear Stearns Financial Products, Inc. (BSFP) for an initial notional amount of $55.1 million amortizing

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006 & 2007

Long Term Debt (Continued)

down to zero on October 1, 2026. Under the terms of this swap, the City would pay BSFP 3.20% interest on certain payment dates and, in return, BSFP would pay the City a floating rate based on a specified index.

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

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

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

Additional information on long-term debt can be found in Note 4 on pages 43 – 47 of this report.

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

- Operating sales revenue increased $6.3 million or approximately 2.2% and $45.5 million, or approximately 18.9%, in fiscal 2007 and 2006, respectively. Included in this amount is a reduction in revenue of approximately $10.4 million related to lower fuel costs in fiscal 2007, and approximately $32 million associated with higher fuel costs incurred in fiscal 2006. Fuel costs are passed directly through to our customers as part of a fuel adjustment charge, which is recorded as revenue.
- Fiscal 2007 year end fuels payable decreased $2.3 million, or approximately 23.6%, compared to fiscal 2006 year end. The primary reason for this decrease is a reduction in coal deliveries received but not yet invoiced at year end. At 2007 year end, there was $1.6 million in coal shipments not invoiced, as compared to $4.2 million at 2006 year end. Coal shipments belong to GRU at the time they leave the mine.
- Net capital contributions from developers increased in fiscal 2007 over fiscal 2006 by $9.4 million and decreased in fiscal 2006 over fiscal 2005 by $329,000. This increase is primarily due to a large number of developments being put into service during fiscal 2007. Contributions are recorded when the project is placed in service.
- Gross utility plant in service increased $45.5 million, or 4.2%, and net capital assets increased $77.9 million, or 10.2% in fiscal 2007. In fiscal 2006, gross utility plant in service increased $30.5 million, or 2.9%, and net capital assets increased $29.2 million, or 4.0%. This is summarized under "Capital Assets," on page 42.
- Long-term debt decreased $18.1 million, 3.1%, in fiscal 2007, due to the scheduled paydown of principal. Long-term debt increased $157.7 million, or 36.2%, in fiscal 2006, because of the issuance of Revenue Bonds totaling $367 million, offset by refunding and paydown of other debt and scheduled paydown of principal. See "Long-Term Debt" on pages 29 – 30, and the detail, on pages 43 – 47.
- The number of customers for electric, water, wastewater and gas services increased 1.4%, 1.9%, 1.7%, and 1.9 %, respectively in fiscal 2007, and 1.4%, 2.7%, 2.6%, and 2.4% respectively, in fiscal 2006 .
- GRU is in the process of remediation efforts at a former manufactured gas plant site. The costs incurred to date total $3.2 million and GRU estimates that remaining costs of the project will be approximately $9 million. However, to date GRU has recovered $3.3 million from insurance, including $450,000 of that total in fiscal 2005. After recognizing collection fees paid, a net recovery of $2.2 million has been realized which will directly reduce the amount to be recovered through customer billings. GRU has accrued a regulatory asset and liability to account for the cost and cost recovery of the expense, which is being amortized as costs are incurred and customer revenues are received. Further explanation of this activity is presented in note 13, page 49 – 50 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006 & 2007

CURRENTLY KNOWN FACTS OR CONDITIONS THAT MAY HAVE A SIGNIFICANT EFFECT ON GRU'S FINANCIAL CONDITION OR RESULTS OF OPERATIONS

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

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

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

Restructuring of wholesale markets and the formation of independent transmission systems have 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.

On October 1, 2007, GRU implemented a 10.8% revenue requirement increase in the electric system to be recovered across all classes. The customer charge for all classes and all service was increased to the cost of service.

GRU also increased rates for the water system by 13%, for the wastewater system by 17% and for the gas system by 11%.

To meet increased costs of service, GRU increased water and wastewater connection fees 3.2%.

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

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

GRU currently forecasts the need for new electric supply by 2018, in order to maintain a 15% reserve margin. This time frame is later than previous studies had indicated due to the incorporation of additional Demand Side Management (DSM) measures, and is reflected in the System's load forecast which is lower than previous forecasts. In 2002, GRU initiated an Integrated Resource Planning (IRP) process to investigate options to satisfy its customer demand and supply needs. In early 2005, Management proposed to the City Commission an IRP comprised of DSM programs; additional solid fuel capacity able to use a mix of coal, petroleum coke, and biomass; and a greenhouse gas fund to develop local carbon offsets. The Commission has reviewed the proposals and had two separate individual consultants provide additional insight and analysis. On April 12, 2006, the Commission voted and gave Management direction for developing the System's long-term energy supply plan, consisting of two key components. The first is to pursue all cost-effective and feasible DSM measures. The second component is to develop additional generation capacity for the balance of the System's needs. On June 18, 2007 the City Commission authorized GRU staff to develop a power supply Request for Proposal for biomass-fueled base load generation capacity, and this request for proposal was issued on October 15th.

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006 & 2007

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

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

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

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

REQUESTS FOR INFORMATION

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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

January 9, 2008

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, 2007 and 2006, 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, 2007 and 2006, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2008 on our consideration of Gainesville Regional Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Ernst + Young LLP

Ernst & Young LLP
Orlando, Florida
January 9, 2008

BALANCE SHEETS

September 30, 2006 & 2007

	September 30	
	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 497,495**	$ 4,678,783
Accounts receivable, net of allowance for uncollectible accounts of $1,650,589 in 2007 and $1,499,741 in 2006.	**48,982,445**	40,976,035
Prepaid rent – lease/leaseback	**10,686,909**	10,686,909
Fuels contracts	**2,753,935**	1,906,469
Deferred charges	**10,698,039**	8,746,370
Inventories:		
Fuel	**10,346,461**	9,768,662
Materials and supplies	**9,047,385**	9,012,292
Total current assets	**93,012,669**	85,775,520
Restricted assets:		
Utility deposits – cash and investments	**4,900,401**	4,362,713
Debt service – cash and investments	**29,560,285**	25,297,802
Rate stabilization – cash and investments	**52,828,569**	54,638,485
Construction Fund – cash and investments	**66,740,573**	135,641,205
Utility plant improvement fund – cash and investments	**16,071,384**	19,240,324
Investment in The Energy Authority	**2,513,497**	2,528,440
Decommissioning reserve – cash and investments	**7,594,434**	6,799,280
Total restricted assets	**180,209,143**	248,508,249
Prepaid rent – lease/leaseback	**108,650,241**	119,337,150
Other noncurrent assets	**14,124,276**	16,840,667
Capital assets:		
Utility plant in service	**1,129,689,362**	1,084,222,648
Plant unclassified	**9,636,128**	9,063,632
Less: accumulated depreciation and amortization	**491,739,199**	462,382,543
	647,586,291	630,903,737
Plant held for future use	**6,053,926**	6,053,926
Construction in progress	**185,781,802**	124,581,507
Net capital assets	**839,422,019**	761,539,170
Total assets	**$ 1,235,418,348**	$ 1,232,000,756

Continued on next page

BALANCE SHEETS

September 30, 2006 & 2007

	September 30	
	2007	2006
LIABILITIES AND NET ASSETS		
Current liabilities:		
Fuel payable	**$ 7,449,745**	$ 9,750,092
Accounts payable and accrued liabilities	**11,587,288**	10,142,233
Operating lease - lease/leaseback	**12,461,916**	12,461,916
Deferred credits	**21,022,919**	15,666,529
Due to other funds	**3,216,566**	3,012,110
Total current liabilities	**55,738,434**	51,032,880
Payable from restricted assets:		
Utility deposits	**4,900,401**	4,502,113
Rate stabilization deferred credit	**52,828,569**	54,638,482
Construction fund: accounts payable and accrued liabilities	**6,824,337**	207,720
Debt payable – current portion	**18,555,000**	13,015,000
Accrued interest payable	**11,053,714**	12,205,931
Total payable from restricted assets	**94,162,021**	84,569,246
Long-term debt:		
Utilities system revenue bonds	**535,495,000**	541,850,000
Subordinated utilities system revenue bonds	**62,000,000**	65,300,000
Unamortized loss on refinancing	**(31,167,400)**	(26,071,113)
Unamortized bond premium/discount	**7,836,301**	11,235,855
Total long-term debt	**574,163,901**	592,314,742
Operating lease – lease/leaseback	**126,686,285**	139,147,397
Other noncurrent liabilities	**18,703,314**	18,059,220
Total liabilities	**869,453,955**	885,123,485
Net assets:		
Invested in capital assets, net of related debt	**319,757,469**	299,811,373
Restricted	**37,861,548**	41,399,503
Unrestricted	**8,345,376**	5,666,395
Total net assets	**365,964,393**	346,877,271
Total liabilities and net assets	**$ 1,235,418,348**	$ 1,232,000,756

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

September 30, 2006 & 2007

	Year Ended September 30	
	2007	2006
Operating revenue:		
Sales and service charges	**$ 291,686,112**	$ 285,356,101
Transfers to rate stabilization	**(6,759,131)**	(5,585,261)
Other operating revenue	**9,912,886**	10,268,167
Total operating revenue	**294,839,867**	290,039,007
Operating expenses:		
Operation and maintenance	**172,451,692**	188,648,249
Administrative and general	**31,220,383**	26,501,727
Depreciation and amortization	**40,197,132**	38,548,308
Total operating expenses	**243,869,207**	253,698,284
Operating income	**50,970,660**	36,340,723
Non-operating income (expense):		
Interest income	**11,317,499**	10,024,843
Interest expense, net of AFUDC	**(26,942,796)**	(26,919,503)
Total non-operating expense	**(15,625,297)**	(16,894,660)
Income before contributions and transfers	**35,345,363**	19,446,063
Capital contributions:		
Contributions from developers	**14,310,635**	4,933,594
Reduction of plant costs recovered through contributions	**(171,349)**	(226,440)
Net capital contributions	**14,139,286**	4,707,154
Operating transfer to City of Gainesville General Fund	**(30,397,527)**	(29,431,037)
Change in net assets	**19,087,122**	(5,277,820)
Net assets – beginning of year	**346,877,271**	352,155,091
Net assets – end of year	**$ 365,964,393**	$ 346,877,271

See accompanying notes.

financial statements

STATEMENTS OF CASH FLOWS

September 30, 2006 & 2007

	Year Ended September 30	
	2007	2006
Cash flows from operating activities		
Cash received from customers	**$ 284,077,990**	$ 281,277,935
Cash payments to suppliers for goods and services	**(147,890,172)**	(158,488,664)
Cash payments to employees for services	**(48,477,008)**	(46,384,562
Cash payments for operating transactions with other funds	**(7,968,835)**	(7,758,806)
Other operating receipts	**1,379,552**	2,908,703
Net cash provided by operating activities	**81,121,528**	71,554,606
Cash flows from noncapital financing activities		
Transfers to other funds	**(30,397,527)**	(29,431,037)
Net cash used in noncapital financing activities	**(30,397,527)**	(29,431,037)
Cash flows from capital and related financing activities		
Principal repayments on long-term debt	**(143,620,000)**	(214,172,250)
Interest paid on long-term debt	**(34,286,420)**	(31,717,022)
Other receipts	**55,128**	115,679
Acquisition and construction of fixed assets (including allowance for funds used during construction)	**(93,100,494)**	(51,831,018)
Proceeds from new debt and commercial paper	**139,505,000**	366,980,000
Cash received for connection charges	**3,143,418**	5,040,201
Net cash used in capital and related financing activities	**(128,303,368)**	74,415,589
Cash flows from investing activities		
Interest received	**5,268,057**	6,029,922
Purchase of investments	**(441,486,603)**	(617,916,567)
Investment in The Energy Authority	**(1,200,000)**	(1,200,000)
Distributions from The Energy Authority	**1,215,070**	923,245
Proceeds from investment maturities	**499,350,520**	479,977,545
Net cash provided by/(used in) investing activities	**63,147,043**	(132,185,855)
Net change in cash and cash equivalents	**(14,432,324)**	(15,646,697)
Cash and cash equivalents, beginning of year	**16,539,354**	32,186,051
Cash and cash equivalents, end of year	**$ 2,107,030**	$ 16,539,354

Continued on next page.

STATEMENTS OF CASH FLOWS

September 30, 2006 & 2007

Statements of Cash Flows (Continued)

	Year Ended September 30	
	2007	2006
Reconciliation of operating income to net cash provided by operating activities		
Operating income	**$ 50,970,660**	$ 36,340,723
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**40,197,132**	38,548,308
Operating lease - lease/leaseback revenue	**(1,774,203)**	(1,774,203)
Increase (decrease) in cash attributable to change in assets and liabilities:		
Receivables	**(8,006,410)**	(4,538,840)
Prepaid expenses	**(847,466)**	2,937,545
Inventories	**(612,892)**	(1,544,105)
Deferred charges	**3,590,270**	(596,596)
Accounts payable and accrued liabilities	**5,761,328**	2,237,123
Due to other funds	**204,456**	(1,743,601)
Utility deposits	**398,288**	460,674
Other liabilities and deferred credits	**(8,759,635)**	1,227,578
Net cash provided by operating activities	**$ 81,121,528**	$ 71,554,606

Noncash, investing, capital and financing activities

Utility plant contributed by developers in aid of construction was $14,139,286 and $4,707,154 in 2007 and 2006, respectively.

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 & 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

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

BASIS OF ACCOUNTING

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

GAINESVILLE REGIONAL UTILITIES REPORTS NET ASSETS IN THE FOLLOWING CLASSIFICATIONS:

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

USE OF ESTIMATES

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

INVESTMENTS

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

RISK MANAGEMENT/FUTURES AND OPTIONS CONTRACTS

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

The information below provides a summary of results based on GRU's risk management activity during Fiscal Years 2007 and 2006.

	September 30	
	2007	2006
Deposits	**$ 4,961,685**	$ 7,791,350
Unrealized Gain/(Loss)	**(2,207,750)**	(5,884,880)
Net Investment in Derivatives	**$ 2,753,935**	$ 1,906,470

Gains or losses from hedging transactions are applied to GRU's monthly fuel expenses as an offset to fuel cost when recognized. Realized gains and losses related to hedging positions are deferred under the rate-setting policy. During fiscal years 2007 and 2006, GRU recognized losses of $5.4 million and $4.8 million, respectively. Realized, but unrecognized, losses of $2.2 million and $5.9 million have been deferred at September 30, 2007 and September 30, 2006, 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, 2006 & 2007

1. Summary of Significant Accounting Policies (Continued)

CAPITAL ASSETS

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

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

DEPRECIATION AND NUCLEAR GENERATING PLANT DECOMMISSIONING

An independent evaluation of GRU's depreciation rates and accumulated reserve was performed by an outside consultant in 2004. The study recommended an update to depreciation rates and allowance reserve balances. Depreciation of utility plant is computed using the straight-line method over estimated service lives ranging from 6 to 50 years. GRU implemented the recommended rates in fiscal 2005. The overall depreciation rate was 3.29% in fiscal 2007 and 3.22% in fiscal 2006. 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 $14,390,000 and $17,210,000 for 2007 and 2006, respectively. Fuel adjustment revenue is recognized based on the actual fuel costs. Amounts charged to customers for fuel are based on estimated costs, which are adjusted for any differences between the actual and estimated costs once actual fuel costs are known. If the amount recovered through billings exceeds actual fuel costs, GRU records deferred fuel as a liability. If the amount recovered through billings is less than the actual fuel costs, GRU records deferred fuel as an asset, for amounts to be collected through future rates. As of September 30, deferred fuel costs were a receivable of $5,523,000 and $1,152,000 in 2007 and 2006, 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 FY2007, GRU paid $1.5 million for joint services.

Nonmetered and Metered Service Charges – GRU bills the City's governmental funds on a monthly basis for all nonmetered, metered and other administrative services. In FY2007, GRU billed the City $3.7 million for these services.

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

FUNDS IN ACCORDANCE WITH BOND RESOLUTIONS

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

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

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

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

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

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

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

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

OPERATING, NON-OPERATING REVENUES

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

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)

An allowance for interest on borrowed funds used during construction of $359,000 and $243,000 in 2007 and 2006, respectively, is included in construction in progress and as a reduction of interest expense. These amounts are computed by applying the effective interest rate on the funds borrowed to finance the projects to the monthly balance of projects under construction. The effective interest rate was approximately 4.2%.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 & 2007

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.

2. RATES AND REGULATION

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 & 2007

3. CAPITAL ASSETS AND CHANGES IN ACCUMULATED DEPRECIATION

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

	Plant in Service						
	Treatment	**Generation**	**Transmission, Distribution and Collection**	**General**	**Unclassified**	**CWIP/Plant held for Future Use**	**Combined**
Balance, October 1, 2006	**$ 109,677,811**	**$ 354,276,054**	**$ 553,684,313**	**$ 66,584,468**	**$ 9,063,632**	**$ 130,635,433**	**$ 1,223,921,711**
Capital additions and transfers	**1,730,760**	**8,136,708**	**21,455,959**	**21,301,766**	**52,495,380**	**115,037,440**	**220,158,013**
Sales, retirements and transfers	**102,635**	**1,597,227**	**1,368,501**	**4,090,115**	**51,922,884**	**53,837,145**	**112,918,507**
Balance, September 30, 2007	**$ 111,305,936**	**$ 360,815,536**	**$ 573,771,771**	**$ 83,796,119**	**$ 9,636,128**	**$ 191,835,728**	**$ 1,331,161,218**
Accumulated depreciation, October 1, 2006	**$ 44,753,789**	**$ 189,863,548**	**$ 189,280,483**	**$ 38,124,845**	**$ 359,878**	**n/a**	**$ 462,382,543**
Depreciation expense	**3,812,913**	**9,828,319**	**17,512,093**	**4,879,748**	**677,023**	**n/a**	**36,710,096**
Retirements/adjustments	**102,635**	**1,489,620**	**1,367,882**	**4,033,425**	**359,878**	**n/a**	**7,353,440**
Accumulated depreciation, September 30, 2007	**$ 48,464,067**	**$ 198,202,247**	**$ 205,424,694**	**$ 38,971,168**	**$ 677,023**	**n/a**	**$ 491,739,199**
Average depreciation rate	**3.45%**	**2.75%**	**3.11%**	**6.49%**	**7.24%**	**n/a**	**3.29%**

	Plant in Service						
	Treatment	Generation	Transmission, Distribution and Collection	General	Unclassified	CWIP/Plant held for Future Use	Combined
Balance, October 1, 2005	$ 109,031,512	$ 360,244,726	$ 523,819,974	$ 63,959,999	$ 5,720,667	$ 104,606,661	$ 1,167,383,539
Capital additions and transfers	782,605	92,443	30,889,786	2,624,469	37,732,268	64,516,373	136,637,944
Sales, retirements and transfers	136,306	6,061,115	1,025,447	-	34,389,303	38,487,601	80,099,772
Balance, September 30, 2006	$ 109,677,811	$ 354,276,054	$ 553,684,313	$ 66,584,468	$ 9,063,632	$ 130,635,433	$ 1,223,921,711
Accumulated depreciation, October 1, 2005	$ 41,111,766	$ 186,246,835	$ 173,641,541	$ 33,759,461	$ 263,263	n/a	$ 435,022,866
Depreciation expense	3,778,329	9,677,138	16,663,566	4,250,193	359,878	n/a	34,729,104
Retirements/adjustments	136,306	6,060,425	1,024,624	(115,191)	263,263	n/a	7,369,427
Accumulated depreciation, September 30, 2006	$ 44,753,789	$ 189,863,548	$ 189,280,483	$ 38,124,845	$ 359,878	n/a	$ 462,382,543
Average depreciation rate	3.46%	2.71%	3.09%	6.51%	4.87%	n/a	3.22%

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 & 2007

4. LONG-TERM DEBT

Long-term debt outstanding at September 30, 2007 and 2006, consisted of the following:

	September 30	
Utilities System Revenue Bonds:	**2007**	2006
Series 1983 (1983 Bonds) – interest payable semi-annually to October 1, 2014 at a rate of 6.0%	**$ 4,675,000**	$ 4,675,000
1992 Series B (1992 B Bonds) – interest payable semi-annually to October 1, 2013 at various rates between 6.5% and 7.5%	**24,630,000**	24,630,000
1996 Series A (1996 A Bonds) – interest payable semi-annually to October 1, 2009 at rates between 5% and 5.75%	**10,595,000**	13,315,000
2002 Subordinated Series A (2002 Series A) – interest at variable rates; 3.67% at September 30, 2007	**25,300,000**	28,500,000
2002 Subordinated Series B (2002 Series B) – interest at variable rates; 3.95% at September 30, 2007	**40,000,000**	40,000,000
2003 Series A (2003 A Bonds) – interest payable semi-annually to October 1, 2023 at rates between 4.625% and 5.25%	**7,525,000**	33,000,000
2003 Series B (2003 B Bonds) – interest payable semi-annually to October 1, 2013 at a 4.4% interest rate (Federally Taxable)	**5,670,000**	6,350,000
2003 Series C (2003 C Bonds) – interest payable semi-annually to October 1, 2013 at rates between 4.0% and 5.0%	**96,300,000**	102,715,000
2005 Series A (2005 A Bonds) – interest payable semi-annually to October 1, 2036 at rates between 4.75% and 5.0%	**91,820,000**	196,950,000
2005 Series B (2005 B Bonds) – interest payable semi-annually to October 1, 2021 at rates between 5.14% and 5.31%	**61,590,000**	61,590,000
2005 Series C (2005 C Bonds) – interest payable semi-annually to October 1, 2026, interest at variable market rates; 4.05% at September 30, 2007	**55,135,000**	55,135,000
2006 Series A (2006 A Bonds) – interest payable semi-annually to October 1, 2026, interest at variable market rates; 4.07% at September 30, 2007	**53,305,000**	53,305,000
2007 Series A (2007 A Bonds) – interest payable semi-annually to October 1, 2036, interest at variable market rates; 3.88% at September 30, 2007	**139,505,000**	-
	616,050,000	620,165,000
Current portion of long-term debt	**(18,555,000)**	(13,015,000)
Unamortized loss on refinancing	**(31,167,400)**	(26,071,113)
Unamortized premium/discount	**7,836,301**	11,235,855
Total long-term debt	**$ 574,163,901**	$ 592,314,742

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 & 2007

4. Long-Term Debt (Continued)

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

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

The 1996A Bonds matured at various dates through October 1, 2026. Those Bonds maturing on or after October 1, 2010 were subject to redemption at the option of the City on or after October 1, 2006 as a whole or in part at any time at a redemption price of 102% in 2006, 101% in 2007, and 100% thereafter. In August 2003, the 2003C Utility System Revenue Bonds were issued to advance-refund to the maturity dates a portion of the bonds maturing from October 1, 2004 through October 1, 2008 ($6.235 million). The bonds were defeased, in substance, and will be paid from escrowed funds. There were $2,705,000 in defeased bonds outstanding as of September 30, 2007. In November 2005, the 2005 Series C Bonds were issued to advance-refund to the maturity dates a portion ($53,190,000) of the bonds maturing from October 1, 2010 to October 1, 2026. In July 2006, the 2006 Series A Bonds were issued to refund to the maturity dates the remainder ($51,675,000) of the bonds maturing from October 1, 2010 to October 1, 2026. The proceeds related to the refunded Bonds for both series were deposited into an escrow account to refund the Bonds on October 1, 2006 at 102% of par.

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

The 2003A Utilities System Revenue Bonds mature on various dates from October 1, 2015 through October 1, 2033. The 2003B Bonds mature on various dates from October 1, 2005 through October 1, 2013. The 2003A Bonds maturing on or after October 1, 2013 are subject to redemption at the option of the City on or after October 1, 2013 at 100%. In March 2007, the 2007 Series A Bonds ($139,505,000) were issued to advance-refund to the maturity dates a portion of the bonds maturing from October 1, 2020 to October 1, 2033. The proceeds related to the refunded Bonds were deposited into an escrow account to refund the Bonds on October 1, 2013 at 100% of par. The 2003B Bonds maturing are not subject to redemption prior to maturity. The 2003C Utilities System Revenue Bonds mature at various dates from October 1, 2004 to October 1, 2013. The 2003C bonds are not subject to redemption prior to maturity.

On November 16, 2005, the City issued Utilities System Revenue Bonds, Series 2005A, 2005B, and 2005C in the amounts of $196,950,000, $61,590,000, and $55,135,000 respectively. The 2005A Bonds were issued to (a) pay a portion of the cost of acquisition and construction of certain improvements to the City's electric, natural gas, water, wastewater and telecommunications systems and (b) to refund the City's Utilities System Commercial Paper Notes, Series C. The 2005B Bonds were issued to (a) pay a portion of the cost of acquisition and construction of certain improvements to the System and (b) to refund the City's Utilities System Commercial Paper Notes, Series D. The 2005C Bonds were issued to refund a portion of the City's outstanding Utilities System Revenue Bonds, 1996 Series A. The 2005A Bonds mature on various dates from October 1, 2021 to October 1, 2036. The 2005B Bonds mature on various dates from October 1, 2015 to October 1, 2021. The 2005C Bonds mature on various dates from October 1, 2010 to October 1, 2026. The 2005A Bonds will be subject to redemption at the option of the City on and after October 1, 2015 as a whole or in part at any time, at a redemption price of 100% of the principal amount, plus accrued interest to the date of redemption. In March 2007, the 2007 Series A Bonds ($139,505,000) were issued to advance-refund to the maturity dates a portion of the 2005A bonds maturing from October 1, 2030 to October 1, 2036. The proceeds related to the refunded Bonds were deposited into an escrow account to refund the Bonds on October 1, 2015 at 100% of par. The 2005B Bonds will be subject to redemption prior to maturity at the option of the City, in whole or in part, on any date, at a redemption price equal to the greater of: (i) 100% of the principal amount of the Bonds to be redeemed, plus accrued and unpaid interest on the Bond; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2005C Bonds will be subject to redemption prior to maturity at the election of the City at a redemption price of 100 percent of the principal amount plus accrued interest. The 2005C Bonds created a net present value savings of over $6,700,000, with yearly cash savings ranging from approximately $370,000 to over $1,085,000.

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

Utilities System Commercial Paper Notes, Series C Notes (tax-exempt) in a principal amount not to exceed $85 million may continue to be issued to refinance maturing Series C Notes or provide for other costs. Liquidity support for the Series C Notes is provided under a long-term credit agreement dated as of March 1, 2000 with Bayerische Landesbank Girozentrale. This agreement has been extended to November 30, 2015. The obligation of the bank may be substituted by another bank which meets certain credit standards and which is approved by GRU and the Agent. Under the terms of the agreement, GRU may borrow up to $85 million with same day availability ending on the termination date, as defined in the agreement. Series C Notes of $80.6 million and $3.2 million were redeemed during 2006 and 2005, respectively. There are no Series C Notes outstanding as of September 30, 2007 or September 30, 2006.

In June 2000, a Utilities System Commercial Paper Note Program, Series D (taxable) was established in a principal amount not to exceed $25 million. Liquidity support for the Series D Notes is provided under a long-term credit agreement dated June 1, 2000 with SunTrust Bank. This agreement has been extended to September 14, 2008. The obligation of the bank may be substituted by another bank that meets certain credit standards and is approved by GRU. Under the terms of the agreement, GRU may borrow up to $25 million with same day availability ending on the termination date, as defined in the agreement. Series D Notes of $16.2 million and $833,000 were redeemed during 2006 and 2005, respectively. There are no Series D Notes outstanding as of September 30, 2007 or September 30, 2006.

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

The following table lists the Debt Service requirements (principal and interest) on long-term debt outstanding at September 30, 2007:

Period ending September 30	**Principal**	**Interest**	Total Debt Service Requirements [1]
2008	$ 18,555,000	$ 25,739,944	$ 44,294,944
2009	21,985,000	27,093,062	49,078,062
2010	23,185,000	25,891,215	49,076,215
2011	25,420,000	24,723,334	50,143,334
2012	26,650,000	23,454,734	50,104,734
2013 – 2017	120,470,000	98,103,379	218,573,379
2018 – 2022	100,565,000	72,087,349	172,652,349
2023 – 2027	79,595,000	51,110,000	130,705,000
2028 – 2032	108,065,000	31,471,378	139,536,378
2033 – 2037	91,560,000	10,083,709	101,643,709
	$ 616,050,000	$ 389,758,104	$ 1,005,808,104

(1) – Interest rates on variable-rate long-term debt were valued to be equal to 4.05% for the 2005C Series Bonds, 4.07% for the 2006A Series Bonds, 3.88% for the 2007A Series Bonds, 3.67% for the 2002A Series Subordinated Bonds and 3.95% for the 2002B Series Subordinated Bonds. These are the rates in effect as of September 30, 2007.

The table below shows the changes in net long-term debt balances that occurred during the years ended September 30, 2007 and 2006.

	September 30	
	2007	2006
Long-term debt outstanding at beginning of year	**$ 592,314,742**	$ 434,982,551
Changes in long-term debt:		
Series 2005A issued	-	196,950,000
Series 2005B issued	-	61,590,000
Series 2005C issued	-	55,135,000
Series 2006A issued	-	53,305,000
Series 2007A issued	**139,505,000**	-
Fixed rate debt redeemed - Senior Lien and Subordinated	**(18,555,000)**	(13,015,000)
TECP redeemed during the year	-	(77,372,500)
Taxable CP redeemed during the year	-	(15,398,000)
Series 1996A refunded	-	(104,865,000)
Series 2003A refunded (partial)	**(25,475,000)**	-
Series 2005A refunded (partial)	**(105,130,000)**	-
Change in unamortized loss/bond discount	**(8,495,841)**	1,002,691
Long-term debt outstanding at end of year	**$ 574,163,901**	$ 592,314,742
Current portion of long-term debt	**$ 18,555,000**	$ 13,015,000

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 & 2007

4. Long-Term Debt (Continued)

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

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

DERIVATIVES

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

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

Terms, fair values and credit risk. The terms, fair values and credit ratings of the outstanding swaps as of September 30, 2007, were as follows. The notional amounts of the swaps match the principal amounts of the associated debt.

Associated Bond Issue	2002A*	2005B*	2005C *
Notional Amounts	$ 25,300,000	$ 45,000,000	$ 55,135,000
Effective Date	7/3/02	11/16/05	11/16/05
Fixed Payer Rate	4.100%	BMA	3.200%
Variable Receiver Rate	BMA	77.14% of LIBOR	68% of LIBOR
Fair Value	$ (919,288)	$ 796,774	$ 1,263,631
Termination Date	10/1/17	10/1/21	10/1/26
Counterparty Credit Rating	Aa3/AA-/AA-	Aaa/AAA	Aaa/AAA

Associated Bond Issue	2006A *	2008 *	2008 *
Notional Amounts	$ 53,305,000	$ 58,500,000	$ 31,500,000
Effective Date	7/6/06	2/1/08	2/1/08
Fixed Payer Rate	3.224%	4.222%	4.222%
Variable Receiver Rate	68% of 10 YR LIBOR	BMA	BMA
Fair Value	$ 1,443,791	(1,293,034)	(680,061)
Termination Date	10/1/26	10/1/38	10/1/38
Counterparty Credit Rating	Aaa/AAA	Aaa/AAA	Aaa/AA

Associated Bond Issue	2007A *
Notional Amounts	$ 139,505,000
Effective Date	3/1/07
Fixed Payer Rate	3.944%
Variable Receiver Rate	BMA
Fair Value	$ 323,611
Termination Date	10/1/36
Counterparty Credit Rating	Aaa/AAA

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

Fair Value. Three of the swap agreements currently have a negative fair value as of September 30, 2007. Due to the low interest rate environment, as compared to the period when the swaps were entered into, our fixed payer rates currently exceed the variable receiver rates. This is anticipated to be a short term event. The remaining four swap agreements in place currently have a positive fair value as of September 30, 2007. These swaps are based on a different variable receiver rate, which is partially responsible to the difference in performance.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 & 2007

Swap payments and associated debt. Assuming interest rates remain the same at September 30, 2007, debt service requirements on the auction rate notes and the interest rate swap would be as follows:

Fiscal Year	Variable Rate		Fixed Rate		Interest Rate	
Ending Sept 30	Principal	Interest	Principal	Interest	Swaps, Net	Total
2008	$ 3,300,000	$ 10,861,225	$ 750,000	$ 3,226,351	$ 37,231	$ 18,174,807
2009	245,000	10,735,362	790,000	3,186,773	157,515	15,114,650
2010	255,000	10,725,662	830,000	3,145,139	151,170	15,106,971
2011	6,155,000	10,596,013	875,000	3,101,321	158,622	20,885,956
2012	6,360,000	10,342,455	920,000	3,055,189	166,251	20,843,895
2013-2017	53,545,000	47,009,524	18,185,000	13,839,787	938,526	133,517,837
2018-2022	51,380,000	34,609,458	39,240,000	4,799,709	1,579,141	131,608,308
2023-2027	28,710,000	26,491,641	-	-	1,844,861	57,046,502
2028-2032	39,430,000	21,692,886	-	-	1,467,044	62,589,930
2033-2037	83,865,000	8,084,465	-	-	597,156	92,546,621
TOTAL	$ 273,245,000	$ 191,148,691	$ 61,590,000	$ 34,354,269	$ 7,097,517	$ 567,435,477

Credit Risk. As of September 30, 2007, the fair value of the 2002A and 2008 swaps were negative, therefore the City is not subject to credit risk. However, the fair value of the 2005B, 2005C, 2006A and 2007A swaps are positive, exposing the City to credit risk in the amount of the derivative's fair value. To mitigate the potential for credit risk, the City has negotiated additional termination event and collateralization requirements in the event of a ratings downgrade. Failure to deliver the Collateral Agreement to the City as negotiated and detailed in the Schedule to the International Swap and Derivative Agreement (ISDA) for each counterparty would constitute an event of default with respect to that counterparty.

Basis Risk. The swaps expose the City to basis risk. The 2002A swap is exposed to the difference between the weekly BMA index and a 35-day rollover based on current market conditions. As a result, savings may not be realized. As of September 30, 2007, BMA was 3.84%. The 2005B Swap is exposed to basis risk through the potential mismatch of 77.14% of LIBOR and the BMA rate. The swap for the 2005C Series is exposed to basis risk through the potential mismatch of 68% of 1-month LIBOR and the BMA rate. As of September 30, 2007, the one-month LIBOR rate was at 5.12%, which places the BMA at approximately 75.00% of LIBOR on that date. The swap for the 2006A Series is exposed to basis risk through the potential mismatch of 68% of 10-year LIBOR less .365% and the BMA rate. As of September 30, 2007, the 10-year LIBOR rate was 5.213%, while the BMA traded at approximately 73.6% of this rate. The 2007A swap is exposed to the difference between the BMA index and a 31-day rollover.

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

5. DEPOSITS AND INVESTMENTS

Deposits are held in qualified public depository institutions insured by the Federal Depository Insurance Corporation 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, 2007, GRU had the following investments and maturities (amounts are in thousands).

		Maturities in Years	
Investment Type	**Fair Value**	Less than 1	1-5
Commercial Paper	$ 80,935	$ 80,935	$ -
U.S. Agencies	87,424	30,042	57,382
TOTAL	$ 168,359	$ 110,977	$ 57,382

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 & 2007

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

Credit Risk: GRU's investment policy and Bond Resolution limits investments in state and local taxable or tax exempt debt, corporate fixed income securities and other corporate indebtedness to investments that are rated by both Moody's and Standard and Poor's in either of their two highest rating categories. As of September 30, 2007, all of GRU's commercial paper investments were rated P-1 or better by Moody's Investors Services and/or A-1 or better by Standard and Poor's.

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, 2007, GRU had more than 5% of the investment portfolio of the following:

Issuer	Percent of Total Investments
Federal National Mortgage Association	10.17
Federal Home Loan Bank	36.04

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

	2007	2006
Restricted assets	**$ 180,209,143**	$ 248,508,249
Current assets:		
Cash and cash equivalents	**497,495**	4,678,783
Total cash and investments	**180,706,638**	253,187,032
Less cash and cash equivalents	**(2,107,030)**	(16,539,354)
Less Investment in TEA	**(2,513,497)**	(2,528,440)
Less CR3 Decommissioning Reserve	**(7,594,434)**	(6,799,280)
Less accrued interest receivable and accounts receivable	**(132,996)**	(438,739)
Total investments	**$ 168,358,681**	$ 226,881,219

6. JOINTLY-OWNED ELECTRIC PLANT

GRU-owned resources for supplying electric power and energy requirements include its 1.4079% undivided ownership interest in the Crystal River Unit 3 (CR3) nuclear power plant operated by Progress Energy. GRU's net investment in CR3 at September 30, 2007 and 2006 is approximately $9,971,000 and $8,320,000 respectively. CR3 operation and maintenance costs, which represent GRU's part of expenses attributable to operation of CR3, are recorded in accordance with the instructions as set forth in the FERC uniform system of accounts. Payments are made to Progress Energy in accordance with the CR3 participation agreement.

GRU, as a part of this participation agreement, is responsible for its share of future decommissioning costs. Decommissioning costs are funded and expensed annually and are recovered through rates charged to customers. The most recent decommissioning cost estimates provided by Progress Energy in September 2006, estimated GRU's share of total future decommissioning costs to be $7,744,000. At September 30, 2007, GRU has funded $7,594,000 of this cost.

7. RESTRICTED NET ASSETS

Certain assets are restricted by bond resolution and other external requirements. Following is a summary of the computation of restricted net assets at September 30, 2007 and 2006, and the restricted purposes of the net asset balances:

	2007	2006
Restricted net assets:		
Total restricted assets	**$ 180,209,143**	$ 248,508,249
Unspent debt proceeds	**(66,740,573)**	(135,554,500)
Payable from restricted assets	**(75,607,022)**	(71,554,246)
Restricted net assets	**$ 37,861,548**	$ 41,399,503

Net assets are restricted as follows:

	2007	2006
Debt covenants:		
Debt service	**$ 11,682,233**	$ 12,831,459
Utility plant improvement	**16,071,384**	19,240,324
Total restricted pursuant to debt covenants	**27,753,617**	32,071,783
Other restrictions:		
Investment in The Energy Authority	**$ 2,513,497**	$ 2,528,440
Nuclear decommissioning reserve	**7,594,434**	6,799,280
Total other restrictions	**10,107,931**	9,327,720
Restricted net assets	**$ 37,861,548**	$ 41,399,503

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, 2007, Comprehensive Annual Financial Report.

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

The City accounts for and funds the costs of the Employee Plan as they accrue. Such costs are based on contribution rates determined by the most recent actuarial valuation. The total contributions by GRU, including amortization of prior service costs, were $1,826,200 and $1,730,500 for the years ended September 30, 2007 and 2006, respectively.

Certain limited employees are eligible to participate in defined contribution plans managed by outside fiscal agents for the City. Under the first plan, the City contributes a percentage of an employee's annual salary and employees contribute a specified percentage. All employees have the option to participate in the second defined contribution plan. The total defined contribution cost for GRU for the years ended September 30, 2007 and 2006, was $101,600 and $108,700, respectively.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 & 2007

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 .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, 2007 and 2006 was $236,000 and $221,000, respectively.

10. DISAGGREGATION OF RECEIVABLES AND PAYABLES

RECEIVABLES

For the years ended September 30, 2007 and 2006 respectively, net accounts receivable represent 88.0% and 92.0% from customers for billed and unbilled utility services, and 12.0% and 8.0% from other receivables. There are no receivables expected to take longer than one year to collect.

PAYABLES

As of September 30, 2007 and 2006 respectively, payable balances represent 25.6% and 41.2% related to fuels payable, 47.1% and 27.4% to standard vendor payables, 10.9% and 10.2% to accrued vacation payable, 11.1% and 15.1% to intergovernmental payables and 5.3% and 6.1% to other payables.

11. TRANSFERS TO GENERAL FUND

GRU makes transfers to the City's general government based on a formula that ties the transfer directly to the financial performance of the system. The transfer to the general fund may be made only to the extent such moneys are not necessary to pay operating and maintenance expenses and to pay debt service on the outstanding bonds and subordinated debt or to make other necessary transfers under the Bond Resolution. The formula-based fund transfer to the general fund for the years ended September 30, 2007 and 2006 was $30,397,527 and $29,431,037, respectively.

12. DEFERRED CHARGES

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

The deferred charge for estimated environmental costs is $8,423,000 and $9,149,000 at September 30, 2007 and 2006, respectively. An offset from the manufactured gas plant remediation of $2.2 million is a result of proceeds received from insurance coverage. See Note 13 for details on the manufactured gas plant remediation portion of this item.

Also included in deferred charges is unamortized bond issuance costs of approximately $6,314,000 and $8,047,000, respectively, at September 30, 2007 and 2006. These costs are being amortized straight-line over the life of the bonds, which approximates the effective interest method.

Unrecognized hedge adjustments were $3,005,000 at September 30, 2007 and $5,885,000 at September 30, 2006.

Accrued fuel adjustment was a deferred debit of $5,523,000 and $1,152,000 at September 30, 2007 and 2006, 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 $20,200,000 and $11,600,000 at September 30, 2007 and 2006, respectively. 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 $3,167,000 and $3,378,000 for September 30, 2007 and 2006, respectively, which are being amortized over the expected life of the acquired assets.

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

13. ENVIRONMENTAL LIABILITIES

GRU is subject to numerous federal, state and local environmental regulations. Under the Comprehensive Environmental Response Compensation and Liability Act, commonly known as "Superfund," GRU has been named as a potentially responsible party at several hazardous waste sites; however, GRU does not anticipate any more than "de minimus" liability at any of these sites. In January 1990, GRU purchased the natural gas distribution assets of a company and pursuant to the related purchase agreement, assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former manufactured gas plant. Based upon GRU's analysis of the cost to clean up these sites, GRU has accrued a liability to reflect the costs associated with the cleanup effort. Fiscal year 2007 and 2006 expenditures which reduce the liability balance were $169,000 and $466,000, respectively.

The reserve balance at September 30, 2007 and 2006 is $6,296,000 and $6,465,000, respectively. GRU is recovering the costs of this clean-up through customer charges. A regulatory asset was established as a deferred charge in the accompanying balance sheets to represent the balance of customer charges. Fiscal 2007 and 2006 billings were $726,000 and $630,000, respectively. This reduced the deferred asset balance to $6,173,000 and $6,898,000 as of September 30, 2007 and 2006.

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

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 & 2007

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 an AAA rated insurance company. The deposit instruments will mature in amounts sufficient to meet the annual payment obligations under the leaseback including the end of term fixed purchase option if elected by GRU.

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

Amortization of the net benefit was $1,775,000 in both 2007 and 2006, respectively, and was reported as a component of other operating revenue.

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

15. INVESTMENT IN THE ENERGY AUTHORITY

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

GRU had electric purchases transactions with TEA of $17,479,607 and $21,964,836 and sales transactions of $1,882,999 and $3,476,306 in fiscal years 2007 and 2006, respectively. TEA's profit on these transactions has been reflected as a reduction to GRU's reported revenue or expense. As of September 30, 2007, GRU's investment in TEA was $2,513,500 verses $2,528,440 on September 30, 2006.

GRU provides guarantees to TEA and to TEA's bank to secure letters of credit issued by the bank to cover purchase and sale contracts for electric energy, natural gas and related transmission. In accordance with the membership agreement between GRU and its joint venture members and with the executed guaranties delivered to TEA and to TEA's bank, GRU's aggregate obligation for electric energy marketing transactions entered into by TEA on behalf of its members is $9,600,000 as of September 30, 2007. GRU's aggregate obligation for TEA's natural gas marketing transactions, under similar agreements and executed guaranties, is $18,800,000 as of September 30, 2007.

The following is a summary of the unaudited financial information of TEA for the twelve month periods ended September 30, 2007 and 2006:

	2007	2006
Condensed statement of operations:		
Total revenue	**$ 1,626,802,000**	$ 1,681,760,000
Total cost of sales and expenses	**1,495,487,000**	1,519,567,000
Operating income	**131,315,000**	162,193,000
Net revenue	**$ 133,969,000**	$ 164,323,000
Condensed balance sheet:		
Assets:		
Current assets	**$ 185,384,000**	$ 147,225,000
Noncurrent assets	**12,533,000**	7,015,000
Total assets	**$ 197,917,000**	$ 154,240,000
Liabilities:		
Current liabilities	**$ 163,218,000**	$ 120,812,000
Noncurrent liabilities	**419,000**	249,000
Total liabilities	**163,637,000**	121,061,000
Members' capital	**34,280,000**	33,179,000
Total equity and liabilities	**$ 197,917,000**	$ 154,240,000

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

16. RISK MANAGEMENT

GRU is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters and insures against these losses. GRU purchases plant and machinery insurance from a commercial carrier. There have been no significant reductions in insurance coverage from that in the prior year, and settlements have not exceeded insurance coverage for the past three fiscal years. The City is self-insured for workers' compensation, auto liability, and general liability but carries excess workers' compensation coverage. These risks are accounted for under the City of Gainesville's General Insurance Fund. GRU reimburses the City for premiums and claims paid on its behalf, recording the appropriate expense. However, GRU does maintain its own insurance reserve, for the self-insured portion, in the amount of $2,106,000, based on an actuarially computed liability. The present value calculation assumes a rate of return of 4.5% with a confidence level of 75%. This reserve is recorded as a fully amortized deferred credit. All claims for fiscal 2007 and 2006 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	Ending Balance
2005-2006	$ 2,106,000	$2,077,078	$2,077,078	$ 2,106,000
2006-2007	$ 2,106,000	$ 957,216	$ 957,216	$ 2,106,000

SCHEDULES OF COMBINED NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

September 30, 2007, 2006, 2005, 2004, 2003

	2007	2006	2005	2004	2003
REVENUE					
Electric fund:					
Sales of electricity	**$ 206,552,756**	$ 207,023,570	$ 174,046,209	$ 159,117,761	$ 154,865,704
Other electric revenue	**3,878,187**	2,614,880	2,692,565	2,887,861	2,273,293
Transfers from/(to) rate stabilization	**(4,372,298)**	(2,047,553)	(134,672)	6,451,678	(401,377)
Interest/Investment income	**3,597,057**	2,837,575	2,326,225	4,161,700	4,197,325
Total electric fund revenue	**209,655,702**	210,428,472	178,930,327	172,619,000	160,934,945
Gas fund:					
Gas sales	**27,614,405**	31,148,518	26,044,659	24,500,658	22,926,678
Other gas revenue (expenses)	**(8,750)**	1,138	(25,177)	(19,825)	(29,329)
Transfers from/(to) rate stabilization	**1,160,544**	(465,695)	761,130	(1,130,506)	(1,122,811)
Interest/Investment income	**561,892**	584,699	429,646	219,627	408,040
Total gas fund revenue	**29,328,091**	31,268,660	27,210,258	23,569,954	22,182,578
Water fund:					
Sales of water	**22,970,588**	17,987,383	13,826,209	13,998,249	12,533,489
Other water revenue	**1,852,072**	2,184,786	1,549,635	1,156,849	1,451,087
Transfers from/(to) rate stabilization	**(1,274,108)**	(878,017)	1,534,938	3,065,791	2,620,711
Interest/Investment income	**95,439**	172,476	279,053	328,649	569,102
Total water fund revenue	**23,643,991**	19,466,628	17,189,835	18,549,538	17,174,389
Wastewater fund:					
Wastewater billing	**25,554,311**	20,474,546	17,418,564	16,933,546	15,957,966
Other wastewater revenue	**2,200,469**	3,693,161	2,351,726	1,512,204	2,055,284
Transfers from/(to) rate stabilization	**(581,471)**	(1,157,713)	1,816,821	3,362,600	3,252,677
Interest/Investment income	**207,121**	429,598	555,058	471,352	824,618
Total wastewater fund revenue	**27,380,430**	23,439,592	22,142,169	22,279,702	22,090,545
GRUCom fund:					
Sales to customers	**9,275,122**	8,722,084	8,565,405	8,081,031	8,009,457
Transfers from/(to) rate stabilization	**(1,691,798)**	(1,036,283)	(5,391)	(688,811)	(543,194)
Interest/Investment income	**155,735**	133,002	79,455	90,022	31,100
Total GRUCom fund revenue	**7,739,059**	7,818,803	8,639,469	7,482,242	7,497,363
Total revenue	**$ 297,747,273**	$ 292,422,154	$ 254,112,058	$ 244,500,436	$ 229,879,820

Continued on next page

SCHEDULES OF COMBINED NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

September 30, 2007, 2006, 2005, 2004, 2003

	2007	2006	2005	2004	2003
OPERATION, MAINTENANCE AND ADMINISTRATIVE					
Electric fund:					
Fuel expense	**$ 104,940,526**	$ 116,303,116	$ 89,398,658	$ 76,259,729	$ 69,667,757
Operation and maintenance	**32,076,530**	33,715,716	30,539,416	32,132,279	26,532,262
Administrative and general	**15,913,731**	12,585,157	12,320,230	11,466,706	10,202,723
Total electric fund expense	**152,930,787**	162,603,989	132,258,304	119,858,714	106,402,742
Gas fund:					
Fuel expense	**18,514,704**	21,919,984	16,881,895	14,593,903	12,950,876
Operation and maintenance	**1,571,781**	1,342,257	1,388,368	1,166,824	1,184,334
Administrative and general	**4,200,069**	3,427,848	3,107,252	2,919,393	2,775,614
Total gas fund expense	**24,286,554**	26,690,089	21,377,515	18,680,120	16,910,824
Water fund:					
Operation and maintenance	**6,711,674**	6,176,450	5,497,667	5,235,332	4,784,731
Administrative and general	**3,994,430**	3,629,681	3,590,193	3,688,337	3,248,742
Total water fund expense	**10,706,104**	9,806,131	9,087,860	8,923,669	8,033,473
Wastewater fund:					
Operation and maintenance	**6,316,884**	6,701,627	6,174,582	5,842,395	5,778,075
Administrative and general	**4,817,270**	4,603,576	4,212,466	4,224,198	3,658,970
Total wastewater fund expense	**11,134,154**	11,305,202	10,387,048	10,066,593	9,437,045
GRUCom fund:					
Operation and maintenance	**2,313,343**	2,489,099	2,365,838	2,321,615	2,618,525
Administrative and general	**2,294,882**	2,255,465	2,142,330	1,651,046	1,286,735
Total GRUCom fund expense	**4,608,225**	4,744,565	4,508,168	3,972,661	3,905,260
Total operation, maintenance and administrative	**203,665,825**	215,149,976	177,618,895	161,501,757	144,689,344
NET REVENUE IN ACCORDANCE WITH BOND RESOLUTION					
Electric	**56,724,915**	47,824,483	46,672,023	52,760,286	54,532,203
Gas	**5,041,537**	4,578,570	5,832,743	4,889,834	5,271,754
Water	**12,937,887**	9,660,498	8,101,975	9,625,869	9,140,916
Wastewater	**16,246,276**	12,134,389	11,755,121	12,213,109	12,653,500
GRUCom	**3,130,834**	3,074,238	4,131,301	3,509,581	3,592,103
Total net revenue in accordance with bond resolution	**$ 94,081,449**	$ 77,272,178	$ 76,493,163	$ 82,998,679	$ 85,190,476
Aggregate bond debt service	**$ 40,545,456**	$ 34,107,669	$ 24,876,978	$ 26,673,276	$ 25,502,972
Aggregate bond debt service coverage ratio	**2.32**	2.27	3.07	3.11	3.34
Total debt service	**$ 45,942,353**	$ 41,050,956	$ 35,476,481	$ 33,554,604	$ 33,704,853
Total debt service coverage ratio	**2.05**	1.88	2.16	2.47	2.53

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

Electric Utility Fund | September 30, 2006 & 2007

	2007	2006
REVENUE		
Sales of electricity:		
Residential sales	$ 50,908,035	$ 49,708,745
General service and large power	45,894,630	38,684,129
Fuel adjustment	89,624,417	100,035,917
Street and traffic lighting	4,503,222	3,589,071
Utility surcharge	2,828,347	3,006,246
Sales for resale	7,140,373	6,867,310
Interchange sales	5,653,732	5,132,152
Total sales of electricity	206,552,756	207,023,570
Other electric revenue:		
Service charges	2,308,671	2,327,973
Pole rentals	1,183,047	(65,880)
Miscellaneous	386,469	352,787
Total other electric revenue	3,878,187	2,614,880
Transfers to rate stabilization	(4,372,298)	(2,047,553)
Interest income	3,597,057	2,837,575
Total revenue	209,655,702	210,428,472
OPERATION, MAINTENANCE AND ADMINISTRATIVE EXPENSE		
Operation and maintenance:		
Fuel expense:		
Retail and purchased power	101,310,097	112,985,672
Interchange	3,630,429	3,317,444
Total fuel expense	104,940,526	116,303,116
Power production	20,015,804	23,006,308
Transmission	1,024,280	891,931
Distribution	11,036,446	9,817,476
Total operation and maintenance	137,017,056	150,018,832
Administrative and general:		
Customer accounts	$ 5,871,016	$ 3,979,862
Administrative and general	10,042,715	8,605,295
Total administrative and general	15,913,731	12,585,157
Total operation, maintenance and administrative expense	152,930,787	162,603,989
NET REVENUE IN ACCORDANCE WITH BOND RESOLUTION		
Retail	54,701,612	46,009,774
Interchange	2,023,303	1,814,708
Total net revenue in accordance with bond resolution	$ 56,724,915	$ 47,824,483

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

Gas Utility Fund | September 30, 2006 & 2007

	2007	2006
REVENUE		
Sales of gas:		
Residential	**$ 14,016,737**	$ 14,346,989
Interruptible/commercial	**13,194,451**	16,168,009
Other sales	**403,217**	633,520
Total sales of gas	**27,614,405**	31,148,518
Other gas revenue (expense)	**(8,750)**	1,138
Transfers (to) from rate stabilization	**1,160,544**	(465,695)
Interest income	**561,892**	584,699
Total revenue	**29,328,090**	31,268,660
OPERATION, MAINTENANCE AND ADMINISTRATIVE EXPENSE		
Operation and maintenance:		
Fuel expense	**18,514,704**	21,919,984
Operation and maintenance	**1,571,781**	1,342,257
Total operation and maintenance	**20,086,485**	23,262,241
Administrative and general:		
Customer accounts	**2,164,294**	2,099,847
Administrative and general	**2,035,774**	1,328,001
Total administrative and general	**4,200,068**	3,427,848
Total operation, maintenance and administrative expense	**24,286,553**	26,690,089
Total net revenue in accordance with bond resolution	**$ 5,041,537**	$ 4,578,570

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

Water Utility Fund | September 30, 2006 & 2007

	2007	2006
REVENUE		
Sales of water:		
General customers	**$ 19,898,854**	$ 15,275,821
University of Florida	**951,324**	862,850
Fire protection	**3,122**	51,618
Generating stations	**13,549**	44,215
Utility surcharge	**2,103,739**	1,752,879
Total sales of water	**22,970,588**	17,987,383
Other water revenue:		
Connection charges	**1,652,098**	2,130,642
Miscellaneous	**199,974**	54,144
Total other water revenue	**1,852,072**	2,184,786
Transfers from rate stabilization	**(1,274,108)**	(878,017)
Interest income	**95,439**	172,476
Total revenue	**23,643,991**	19,466,628
OPERATION, MAINTENANCE AND ADMINISTRATIVE EXPENSE		
Operation and maintenance:		
Source of supply	**13,868**	12,057
Pumping	**1,561,803**	1,640,158
Water treatment	**3,282,644**	2,726,618
Transmission and distribution	**1,853,359**	1,797,617
Total operation and maintenance	**6,711,674**	6,176,450
Administrative and general:		
Customer accounts	**1,155,815**	1,067,857
Administrative and general	**2,838,615**	2,561,824
Total administrative and general	**3,994,430**	3,629,681
Total operation, maintenance and administrative expense	**10,706,104**	9,806,131
Total net revenue in accordance with bond resolution	**$ 12,937,887**	$ 9,660,498

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

Wastewater Utility Fund | September 30, 2006 & 2007

	2007	2006
REVENUE		
Wastewater billings:		
Billings	$ 23,500,197	$ 18,561,207
Utility surcharge	2,054,114	1,913,339
Total wastewater billings	25,554,311	20,474,546
Other wastewater revenue:		
Connection charges	1,662,669	3,135,999
Miscellaneous	537,800	557,162
Total other wastewater revenue	2,200,469	3,693,161
Transfers from rate stabilization	(581,471)	(1,157,713)
Interest income	207,121	429,598
Total revenue	27,380,430	23,439,592
OPERATION, MAINTENANCE AND ADMINISTRATIVE EXPENSE		
Operation and maintenance:		
Collection	1,363,521	1,563,750
Treatment and pumping	4,953,363	5,137,877
Total operation and maintenance	6,316,884	6,701,627
Administrative and general:		
Customer accounts	991,642	896,133
Administrative and general	3,825,628	3,707,443
Total administrative and general	4,817,270	4,603,576
Total operation, maintenance and administrative expense	11,134,153	11,305,202
Total net revenue in accordance with bond resolution	$ 16,246,277	$ 12,134,389

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

GRUCom Utility Fund | September 30, 2006 & 2007

	2007	2006
REVENUE		
Sales to customers	**$ 9,275,122**	$ 8,722,084
Transfers to rate stabilization	**(1,691,798)**	(1,036,283)
Interest income	**155,735**	133,002
Total revenue	**7,739,059**	7,818,803
OPERATION, MAINTENANCE AND ADMINISTRATIVE EXPENSE		
Operation and maintenance	**2,313,343**	2,489,099
Total operation and maintenance	**2,313,343**	2,489,099
Administrative and general:		
Customer accounts	**379,636**	452,305
Administrative and general	**1,915,246**	1,803,160
Total administrative and general	**2,294,882**	2,255,465
Total operation, maintenance and administrative expense	**4,608,225**	4,744,565
Total net revenue in accordance with bond resolution	**$ 3,130,834**	$ 3,074,238

NOTES TO SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

September 30, 2006 & 2007

"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 includes fees for connection, installation, and backflow prevention.
- Transfers to the general fund are excluded.
- Revenue from lease/leaseback transaction is excluded (see financial statement Note 14).

COMBINING BALANCE SHEET

September 30, 2007

	Electric	Gas	Water	Wastewater	GRUCom	Combined
ASSETS						
Current assets:						
Cash and cash equivalents	$ 89,866	$ 54,758	$ 133,662	$ 72,256	$ 146,953	$ 497,495
Accounts receivable, net	37,639,135	2,331,820	3,606,412	3,518,650	1,886,428	48,982,445
Prepaid rent – LILO	10,686,909	-	-	-	-	10,686,909
Deferred charges	8,477,320	1,984,969	90,779	116,253	28,718	10,698,039
Prepaid Expenses	1,220,591	1,533,344	-	-	-	2,753,935
Inventories:						
Fuel	10,346,461	-	-	-	-	10,346,461
Materials and inventories	7,612,953	390,311	520,383	(2,831)	526,569	9,047,385
Total current assets	76,073,235	6,295,202	4,351,236	3,704,328	2,588,668	93,012,669
Restricted assets:						
Utility deposits – cash and investments	4,581,178	81,689	126,518	111,016	-	4,900,401
Debt service fund – cash and investments	18,430,270	1,475,042	3,382,841	5,349,897	922,235	29,560,285
Rate stabilization – cash and investments	41,796,436	3,650,000	566,386	2,757,253	4,058,494	52,828,569
Construction Fund – cash and investments	49,721,242	5,038,559	55,199	11,874,873	50,700	66,740,573
Utility plant improvement fund – cash and investments	2,310,909	5,515,285	2,520,651	5,723,178	1,361	16,071,384
Decommission reserve – cash and investments	7,594,434	-	-	-	-	7,594,434
Investment in The Energy Authority	2,513,497	-	-	-	-	2,513,497
Total restricted assets	126,947,966	15,760,575	6,651,595	25,816,217	5,032,790	180,209,143
Prepaid rent – LILO	108,650,241	-	-	-	-	108,650,241
Other noncurrent assets	8,759,033	3,599,466	655,298	862,158	248,321	14,124,276
Capital assets:						
Utility plant in service	674,387,280	49,430,540	159,178,376	210,624,744	36,068,422	1,129,689,362
Plant unclassified	2,255,383	1,313,360	3,285,965	2,477,080	304,340	9,636,128
Less: accumulated depreciation and amortization	308,195,084	24,505,172	60,771,640	81,561,622	16,705,681	491,739,199
	368,447,579	26,238,728	101,692,701	131,540,202	19,667,081	647,586,291
Plant held for future use	6,053,926	-	-	-	-	6,053,926
Construction in progress	122,695,973	5,454,333	26,955,846	23,377,819	7,257,831	185,741,802
Net capital assets	497,197,478	31,693,061	128,648,547	154,918,021	26,924,912	839,382,019
Total assets	$ 817,627,953	$ 57,348,304	$ 140,306,676	$ 185,300,724	$ 34,794,691	$ 1,235,418,348

Continued on next page

COMBINING BALANCE SHEET

September 30, 2007

	Electric	Gas	Water	Wastewater	GRUCom	Combined
LIABILITIES AND NET ASSETS						
Current liabilities:						
Fuels payable	$ 6,558,660	$ 891,085	$ -	$ -	$ -	$ 7,449,745
Accounts payable and accrued liabilities	7,629,487	987,314	997,256	1,500,952	472,279	11,587,288
Operating lease – LILO	12,461,916	-	-	-	-	12,461,916
Deferred charges	15,757,795	2,660,917	1,758,127	351,556	494,524	21,022,919
Due to other funds	2,606,641	(20,097)	720,280	103,602	(193,860)	3,216,566
Total current liabilities	45,014,499	4,519,219	3,475,663	1,956,110	772,943	55,738,434
Payable from restricted assets:						
Utility deposits	4,581,178	81,689	126,518	111,016	-	4,900,401
Rate stabilization deferred credit	41,796,436	3,650,000	566,386	2,757,253	4,058,493	52,828,569
Construction fund: accounts payable and accrued liabilities	5,120,832	114,031	109,535	613,514	866,425	6,824,337
Debt payable – current portion	11,095,643	1,175,890	2,324,300	3,049,067	910,100	18,555,000
Accrued interest payable	6,335,311	689,762	1,516,641	1,794,482	717,518	11,053,714
Total payable from restricted assets	68,929,400	5,711,372	4,643,380	8,325,332	6,552,537	94,162,021
Long-term debt:						
Utilities system revenue bonds	305,633,469	31,804,971	78,736,414	90,614,198	28,705,948	535,495,000
Subordinated utilities system revenue bonds	32,907,630	10,540,120	5,337,350	13,214,900	-	62,000,000
Commercial paper notes	-	-	-	-	-	-
Unamortized loss on refunding	(19,636,592)	(1,618,539)	(4,602,971)	(5,054,933)	(254,365)	(31,167,400)
Unamortized bond prem\disc	5,332,200	203,568	1,050,208	1,204,391	45,934	7,836,301
Total long-term debt	324,236,707	40,930,120	80,521,001	99,978,556	28,497,517	574,163,901
Operating lease – LILO	126,686,285	-	-	-	-	126,686,285
Other noncurrent liabilities	12,407,383	5,611,121	193,506	471,221	20,083	18,703,314
Total liabilities	577,274,274	56,771,832	88,833,550	110,731,219	35,843,080	869,453,955
Net assets:						
Invested in capital assets, net of related debt	215,516,832	(4,982,941)	46,641,303	64,737,243	(2,154,967)	319,757,469
Restricted	19,392,965	6,186,534	4,277,313	8,665,081	(660,347)	37,861,548
Unrestricted	5,443,882	(627,121)	594,508	1,167,184	1,766,925	8,345,376
Total net assets	240,353,679	576,472	51,513,125	74,569,508	(1,048,389)	365,964,393
Total liabilities and net assets	$ 817,627,953	$ 57,348,304	$ 140,346,676	$185,300,724	$34,794,691	$1,235,418,348

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

September 30, 2007

	Electric	Gas	Water	Wastewater	GRUCom	Combined
Operating revenue:						
Sales and service charges	$ 206,552,756	$ 27,333,336	$ 22,970,589	$ 25,554,308	$ 9,275,123	$ 291,686,112
Transfers from/(to) rate stabilization	(4,372,298)	1,160,544	(1,274,108)	(581,471)	(1,691,798)	(6,759,131)
Other operating revenue	5,652,390	272,319	1,852,072	2,200,469	(64,364)	9,912,886
Total operating revenue	207,832,848	28,766,199	23,548,553	27,173,306	7,518,961	294,839,867
Operating expenses:						
Operation and maintenance	137,023,306	20,086,486	6,711,674	6,316,884	2,313,343	172,451,692
Administrative and general	15,913,731	4,200,069	3,994,430	4,817,270	2,294,882	31,220,383
Depreciation and amortization	24,585,800	1,543,273	4,643,618	6,965,671	2,458,771	40,197,132
Total operating expenses	177,522,837	25,829,827	15,349,722	18,099,825	7,066,996	243,869,207
Operating income	30,310,011	2,936,372	8,198,832	9,073,481	451,965	50,970,660
Non-operating income (expense):						
Interest income	9,274,557	782,516	420,033	681,446	158,947	11,317,499
Interest expense	(15,335,016)	(1,942,124)	(3,604,115)	(4,682,369)	(1,379,172)	(26,942,796)
Loss on sale of investments	-	-	-	-	-	-
Total non-operating income (expense)	(6,060,459)	(1,159,608)	(3,184,082)	(4,000,923)	(1,220,225)	(15,625,297)
Income before contributions and transfers	24,249,552	1,776,764	5,014,749	5,072,558	(768,260)	35,345,363
Capital contributions:						
Contributions from developers	171,349	-	5,523,733	8,615,553	-	14,310,635
Reduction of plant cost recovered from contributions	(171,349)					(171,349)
Net capital contributions	-	-	5,523,733	8,615,553	-	14,139,286
Operating transfer to City of Gainesville general fund	18,927,179	1,689,018	4,360,878	5,095,672	324,780	30,397,527
Change in net assets	5,322,373	87,746	6,177,604	8,592,439	(1,093,040)	19,087,122
Net assets – beginning of year	235,031,306	488,726	45,335,522	65,977,066	44,651	346,877,271
Net assets – end of year	$240,353,679	$ 576,472	$51,513,126	$74,569,505	$(1,048,389)	$365,964,393

SCHEDULE OF UTILITY PLANT PROPERTIES— COMBINED UTILITY FUND

September 30, 2007

	Balance September 30, 2006	Additions	Sales, Retirements & Transfers	Balance September 30, 2007
PLANT IN SERVICE				
Electric utility fund:				
Production plant	$ 352,110,144	$ 7,434,216	$ 867,347	$ 358,677,013
Nuclear fuel	2,165,910	702,492	729,881	2,138,521
Transmission and distribution plant	240,491,498	4,834,302	1,189,783	244,136,017
General and common plant	52,736,325	19,555,045	2,855,643	69,435,727
Plant unclassified	3,084,509	30,994,437	31,823,563	2,255,383
Total electric utility fund	650,588,386	63,520,492	37,466,217	676,642,661
Gas utility fund:				
Distribution plant	41,403,663	574,266	34,825	41,943,104
General plant	2,194,374	833,987	191,560	2,836,801
Plant acquisition adjustment	4,650,635	-	-	4,650,635
Plant unclassified	273,780	2,448,106	1,408,526	1,313,360
Total gas utility fund	48,522,452	3,856,359	1,634,911	50,743,900
Water utility fund:				
Supply, pumping and treatment plant	26,553,989	1,176,197	-	27,730,186
Transmission and distribution plant	121,136,524	5,998,966	10,687	127,124,803
General plant	4,604,844	109,406	390,863	4,323,387
Plant unclassified	3,284,722	7,285,722	7,284,479	3,285,965
Total water utility fund	155,580,079	14,570,291	7,686,029	162,464,341
Wastewater utility fund:				
Pumping and treatment plant	83,123,822	554,563	102,635	83,575,750
Collection plant	107,819,400	6,149,012	132,981	113,835,431
Reclaimed water plant	5,295,227	1,539,546	-	6,834,773
General plant	6,300,227	730,612	652,049	6,378,790
Plant unclassified	2,012,190	9,438,623	8,973,733	2,477,080
Total wastewater utility fund	204,550,866	18,412,356	9,861,398	213,101,824
GRUCom utility fund:				
Distribution plant	32,887,366	2,359,867	225	35,247,008
General plant	748,698	72,716	-	821,414
Plant unclassified	408,431	2,328,492	2,432,583	304,340
Total GRUCom utility fund	34,044,495	4,761,075	2,432,808	36,372,762
Total plant in service	$ 1,093,286,278	$ 105,120,573	$ 59,081,363	$ 1,139,325,488
Plant held for future use – electric	$ 6,053,926	$ -	$ -	$ 6,053,926
Construction in progress				
Electric utility fund	$ 78,607,559	$ 76,098,675	$ 32,010,261	$ 122,695,973
Gas utility fund	4,355,128	3,570,320	2,471,115	5,454,333
Water utility fund	20,517,825	13,769,740	7,291,719	26,995,846
Wastewater utility fund	15,101,543	18,011,184	9,734,908	23,377,819
GRUCom utility fund	5,999,452	3,587,521	2,329,142	7,257,831
Total construction in progress	$ 124,581,507	$ 115,037,440	$ 53,837,145	$ 185,781,802

SCHEDULE OF ACCUMULATED DEPRECIATION & AMORTIZATION—COMBINED UTILITY FUND

September 30, 2007

	Balance September 30, 2006	Additions	Sales, Retirements & Transfers	Balance September 30, 2007
Electric utility fund:				
Production plant	$ 187,956,493	$ 9,455,684	$ 867,347	$ 196,544,830
Nuclear fuel	1,907,055	372,635	622,272	1,657,418
Transmission and distribution plant	74,242,616	7,447,646	1,189,164	80,501,098
General and common plant	27,829,177	4,100,845	2,837,053	29,092,969
Plant unclassified	213,774	398,769	213,774	398,769
Total electric utility fund	292,149,115	21,775,579	5,729,610	308,195,084
Gas utility fund:				
Distribution plant	17,545,321	1,213,795	34,824	18,724,292
General plant	1,089,891	189,711	176,005	1,103,597
Plant acquisition adjustment	4,650,637	-	-	4,650,637
Plant unclassified	12,725	26,646	12,725	26,646
Total gas utility fund	23,298,574	1,430,152	223,554	24,505,172
Water utility fund:				
Supply, pumping and treatment plant	11,504,842	848,888	-	12,353,730
Transmission and distribution plant	41,501,717	3,338,156	10,686	44,829,187
General plant	3,664,842	227,261	387,187	3,504,916
Plant unclassified	44,374	83,807	44,374	83,807
Total water utility fund	56,715,775	4,498,112	442,247	60,771,640
Wastewater utility fund:				
Pumping and treatment plant	33,248,947	2,964,025	102,637	36,110,335
Collection plant	36,817,246	2,953,535	132,981	39,637,800
Reclaimed water plant	700,104	194,306	-	894,410
General plant	5,130,496	300,029	633,180	4,797,345
Plant unclassified	64,895	121,732	64,895	121,732
Total wastewater utility fund	75,961,688	6,533,627	933,693	81,561,622
GRUCom utility fund:				
Distribution plant	13,822,842	2,364,655	226	16,187,271
General plant	410,439	61,902	-	472,341
Plant unclassified	24,110	46,069	24,110	46,069
Total GRUCom utility fund	14,257,391	2,472,626	24,336	16,705,681
Total	$ 462,382,543	$ 36,710,096	$ 7,353,440	$ 491,739,199

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INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Gainesville Regional Utilities (a department of the City of Gainesville, Florida) as of and for the year ended September 30, 2007, and have issued our report thereon dated January 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Gainesville Regional Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gainesville Regional Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gainesville Regional Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the following two paragraphs to be significant deficiencies in internal control over financial reporting.

ACCOUNT AND SYSTEM RECONCILIATIONS

During the 2007 fiscal year, GRU implemented a new billing system, which involved the conversion of data from the legacy system, changes in processes, and the significant commitment of time and resources to accomplish. In connection with this implementation project, certain normal routine account reconcilements and other activities were not timely performed for a period of time. One major area affected by the conversion was the posting and reconcilement of daily billing and cash activity between the general ledger and the billing system. As a result, a key internal control activity, the preparation and review of monthly bank reconciliations, was not performed for an extended period beginning in April 2007. This delay in the bank reconciliation process combined with other similar delays in account and system reconcilations enabled errors and unreconciled differences to remain undetected and/or unadjusted during this period of time and as of year end.

While we recognize that the deficiencies described herein were due primarily to complications associated with the billing system conversion, we also noted that GRU's accounting department was not completely staffed throughout the year and that several positions have been recently filled with new employees. In addition, as we have noted in prior years, GRU's general ledger system makes the financial statement close process more complex and cumbersome than is necessary and requires a great deal of manual processing. However, we continue to recommend that cash and other system and account reconciliations be prepared properly at all times throughout the year, and that identified adjustments be posted timely to the general ledger. We also recommend that as GRU moves forward with its financial management system project management evaluates the current staffing levels of its accounting and finance function to ensure staffing and experience levels are appropriate given the significant commitment of personnel resources that will no doubt be required for a successful implementation.

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MANAGEMENT'S RESPONSE

Management agrees with this recommendation. The delays in reconciliation were primarily due to implementation of the new billing system and a lack of critical financial reporting necessary to perform reconciliations of cash and other accounts affected by cash transactions. A team has been assigned to address GRU's reporting needs, which will provide the tools to ensure accurate data and allow GRU to reconcile cash and other accounts on a timely basis. As noted, many of our staff in both Accounting and Cash areas have been hired within the last year, which contributed to the delays, as we had new personnel dealing with a new system. The staff is now trained and familiar with the tasks assigned to them. We have just begun our Financial Management Information System project, which will replace our current general ledger system. It is a primary goal of this project to automate many of the manual processes currently performed in Ellipse, with the result of more timely closing and financial reporting. The new system should be implemented by January of 2009. As a part of this project, we will evaluate our staffing needs to ensure adequate staff to close the books and reconcile accounts timely.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be a material weakness.

COMPLIANCE AND OTHER MATTERS

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

Gainesville Regional Utilities' response to the finding identified in our audit is included above. We did not audit Gainesville Regional Utilities' response and accordingly, we express no opinion on it.

We also noted certain additional matters that we reported to management of Gainesville Regional Utilities in a separate letter dated January 9, 2008.

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

Ernst + Young LLP

Ernst & Young LLP
Orlando, Florida
January 9, 2008