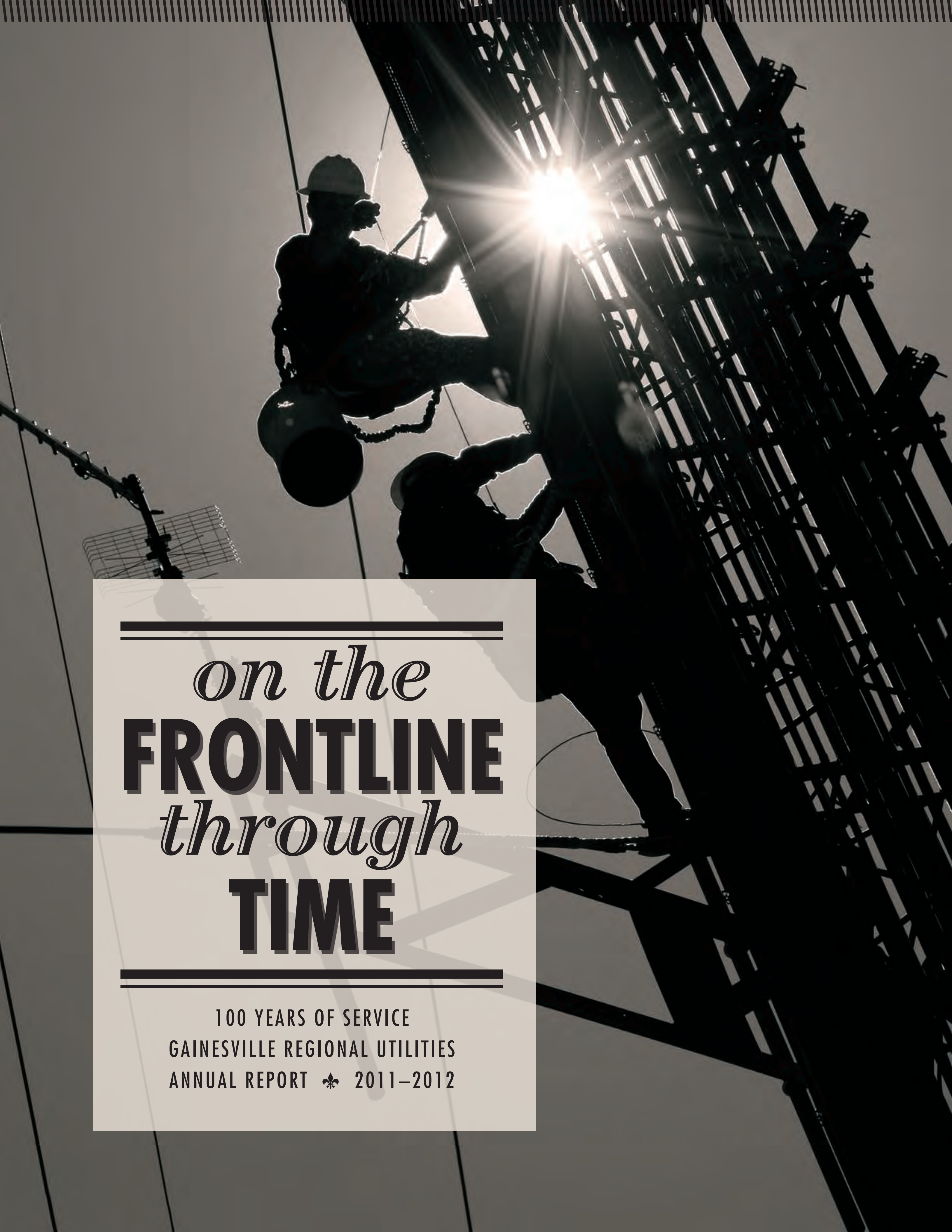

on the FRONTLINE through TIME

100 YEARS OF SERVICE
GAINESVILLE REGIONAL UTILITIES
ANNUAL REPORT ⚜ 2011–2012

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THE NIGHT THE LIGHTS WENT OUT

On January 26, 1912, Gainesville went dark. Citizens were plunged into darkness as Gainesville Gas and Electric Company (GG&E), the community's private electric service provider, turned off the lights over a $7.30 dispute with the City of Gainesville.

GG&E had been providing unreliable arc lighting to illuminate streets downtown. In response to the outages, the Gainesville City Council insisted on a $10 deduction from its December utility bill. GG&E would accept only a $2.70 reduction, so tensions mounted as both sides refused to budge.

After the outage on January 26, outraged citizens organized a grassroots effort demanding the creation of a city-run electric utility. The people were heard, and a publically-owned utility was created. Construction of Gainesville's downtown power plant, today known as the John R. Kelly Generating Station, began the following year.

While the landscape of Gainesville has changed dramatically over the past century, GRU's commitment to serving the community has never wavered. Today, GRU is the most comprehensive utility in Florida, providing reliable electric, water, wastewater, telecommunications and natural gas service to more than 93,000 business and residential customers.

LETTER FROM THE GENERAL MANAGER

GRU, along with our customers and community, celebrated 100 years as a municipal electric utility this year. But GRU is more than an electric utility, also providing water, wastewater, natural gas, fiber-optic telecommunications and public safety radio services to our community. We also deliver a significant financial return to the City of Gainesville, providing more than $36 million in FY 2012 to the City's General Fund.

For 100 years, we have worked diligently for our customers. We maintain our plants and facilities, and continually examine compatible new business opportunities to provide long-term value for our customers and community.

That process began with a public water supply in 1891, which was followed by the creation of our public electric power system a century ago in 1912. Wastewater treatment was added in 1930. We successfully expanded into the competitive natural gas market in 1990, began offering reclaimed water in 1993, and used our own fiber-optic network to enter the telecommunications market in 1995. We currently provide the fastest Internet connections available in North Central Florida.

This year, we added more value for our community by upgrading our public service radio system. We provide this service, not only for our city, but for the entire county, supporting virtually all emergency services including police, sheriff and fire rescue.

Our mission is to provide safe, reliable, competitively priced utility services in an environmentally responsible manner to enhance the quality of life in our community. We support that mission through our core values of safety, professionalism, efficiency and environmental responsibility.

In order to achieve our mission and maintain those values, GRU continued our emphasis on long-term energy and water planning by finding new sources of revenue, operating efficiently, and serving the community effectively.

The approximately 850 employees of GRU are proud to be a part of this community and play a major role in supporting its success and sustainability. Whether it's partnering in economic development or planning for future generation resources, we are committed to providing long-term value to our customers.

Many things have changed in 100 years, and change will continue at perhaps an even greater pace in the future. I am proud of the dedicated and knowledgeable employees who work all hours to help make this community a wonderful place for families to grow and thrive.

Bob Hunzinger
General Manager

GRU *on the* FRONTLINE *through* TIME...

1891

Boulware Springs became the first community-wide water supply.

1906

UF came to Gainesville after the city offered free water.

1912

Gainesville created a public-owned power system.

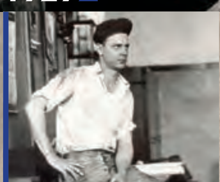
This Page: GRU's Wastewater Collection Department anticipated the capacity requirements of Innovation Square by laying new pipe to serve the area's projected increase in flow.

Opposite Page: Using a "snowshoe," GRUCom lineworkers extend the reach of GRU's fiber-optic network, which offers Gainesville's fastest data transmission service.

1914

The city-owned downtown power plant was completed.

1929



Future first Utility Director John R. Kelly began working as an oiler.

FINDING NEW REVENUE SOURCES

LOCAL HIGH-TECH DEVELOPMENT

The Innovation District is located between the University of Florida (UF) and downtown Gainesville. UF, GRU and other local stake-holders envision the area to be a high-tech, research-focused community. The area will have state-of-the-art storm water treatment, pedestrian and driver-friendly streets, and a common space for collaboration and research labs.

In addition to the more traditional utility services of electric, natural gas, water, wastewater and reclaimed water, GRU is providing the businesses of the Innovation District with chilled water for air conditioning, emergency power and gigabit-level broadband connections.

GRU worked with local contractors to develop a unique business model known as Special Infrastructure Assessment (SIA) to make development more affordable and appealing for businesses. The new model anticipates development needs for utilities, constructs them, and then bills per square foot to businesses and residents as they connect to our facilities. This system encourages more businesses to locate in the Innovation District by reducing costs for developers and shortening the time to market.

Innovation Square, a concentrated area of business at the center of the district, is served by GRU's Innovation Energy Center. The center provides cooling and power services to the Innovation Hub at UF and to the rest of the square and district through a modular chiller plant.

ECONOMIC GROWTH AND COMMUNITY SAFETY

The Innovation District's gigabit-level broadband connections will be provided by GRUCom, GRU's telecommunications division, which offers connectivity 100 times faster than standard DSL or cable services. Through GRUCom, district residents and businesses can transport high volumes of data to one another and the UF Campus Core Network at high speeds, a feature that will encourage entrepreneurial and technological development.

GRUCom also enhanced the trunked radio system for Alachua County's public safety agencies. The upgrades lowered costs, offered flexibility in choosing providers, strengthened reliability and provided options for additional radio features.

GRUCom's colocation center also expanded, increasing cooling and power capacity, which allows the system to support a growing customer base.

1930

The Main Street Wastewater Treatment Plant offered sanitary sewer service.

1948

The first plant that treated drinking water opened downtown.

SUPPORT FOR NEW POWER DISTRICT

The Power District in downtown Gainesville was created when GRU relocated several operational departments to the new Eastside Operations Center. GRU is collaborating with the City of Gainesville and the Community Redevelopment Agency (CRA) to make the land and associated buildings available for private redevelopment in the downtown area.

While supporting the Power District, GRU protects its customers' interests by selling the property to the CRA at a fair price that provides value to both our customers and the community. Prioria Robotics, Inc. leased one of the buildings from the CRA to house an enterprise that creates military and civilian unmanned aircraft. Prioria will have 30 employees on site and plans to expand its workforce to 70 within the next three years.

NATURAL GAS EXPANSION

As of the end of fiscal year 2012, GRU had 752 miles of natural gas main lines and 33,200 natural gas customers, making GRU one of the 25 largest municipal gas providers in the nation. By offering natural gas, GRU provides customers with another choice for energy at some of the lowest prices in the state.

GRU has expanded natural gas services to new areas in Gainesville and nearby High Springs. The addition of several large schools and two residential neighborhoods has increased the natural gas load.

The natural gas line replacement program continues to replace aging infrastructure. The proactive replacement of cast iron and black plastic pipes with modern polyethylene materials will reduce the likelihood of leaks and service interruptions, increasing customer satisfaction. All remaining cast iron pipes are on track to be replaced by the end of 2013.

1950

Linemen used pick-up trucks and wooden ladders to scale poles.

1952

John R. Kelly became first utility director in September.

MEDICAL COMMUNITY ENERGY PROVIDER

Since its opening in 2009, the South Energy Center (SEC) has provided Shands Cancer Hospital at the University of Florida with reliable, super-efficient and cost-effective energy.

The SEC provides all of the hospital's power needs, as well as air conditioning through a unified chilled water system. Chilled water is both environmentally friendly and economical, in that it recycles water and is more efficient than independent power-cooled chillers. Since last year, the SEC has extended its services to a Shands-owned office building, providing a new source of revenue for GRU.

This Page: Chilled water from GRU's South Energy Center provides a large cancer hospital with reliable, cost-effective and environmentally friendly air conditioning.

Opposite Page: By selling land from a vacated operations site to Gainesville's Community Redevelopment Agency, GRU has protected customer interests while helping to draw new business to the downtown "Power District."

1957

The downtown power plant was upgraded to meet growing electric demands.

1959

Gainesville Gas Co. received a 30-year franchise. The City acquired it in 1990.

The GRU Kelly Generating Station's 110-megawatt natural gas-fueled Combined Cycle Unit 1 has been upgraded from an intermediate unit to a base load unit to take advantage of lower natural gas fuel prices.

FINANCIAL STRENGTH AND STABILITY

Continued efforts to reduce expenses and identify non-traditional revenue sources contributed to holding prices steady.

Reductions in the purchased gas adjustment and the price of natural gas for residential customers offset increases in the water and wastewater systems needed to maintain quality service levels, meet financial obligations and ensure environmental regulatory compliance.

Company-wide saving measures were accomplished through budget reductions, judiciously filling positions, improving operational efficiencies and following prudent fuel management practices.

In 2012, Moody's reaffirmed GRU's "Double A" bond rating with "stable outlook" while concerns over our changing financial metrics led to a slight downgrade by Fitch to "Double A minus." Standard and Poor's affirmed its "Double A" rating with "negative outlook."

We continue to balance these financial concerns with meeting the needs of our customers and work to maintain the strong ratings that have kept us among the top municipal utilities in the nation since the 1980s.

ADAPTABLE GENERATION

Taking advantage of significant drops in natural gas prices, GRU reduced the base-load reliance on its primarily coal-fired Deerhaven Unit 2 (DH2) and managed its intermediate load natural gas-fired Combined-Cycle Unit 1 (CC1) to serve as a base load unit.

Before the changes, 25 percent of GRU's energy portfolio was natural gas. Currently, 45 percent of GRU's net overall generation comes from natural gas.

For CC1 to become a base load unit, it had to go through several upgrades in automation as well as control and process systems. The upgrades give operators greater flexibility, including the ability to provide faster response times when changes in power demand occur.

Another way GRU is improving the efficiency of its generating fleet is by increasing the amount of natural gas burned in DH2 to roughly 20 percent. Since DH2 is designed primarily to burn coal, 20 percent is close to the limit of natural gas usage, but it resulted in a fuel cost savings of $852,000 during the fiscal year.

DH2 also completed a turbine replacement and upgrade last year under budget and ahead of schedule. The upgrade increased the energy output of the 30-year-old unit by six percent, enough to power more than 8,000 homes. After improvements, net generation increased by 5.5 percent and the heat rate improved by 4.9 percent, exceeding targets for output and thermal efficiency.

1960s

The "Go Electric" campaign highlighted a 20 percent demand growth.

1971

Deerhaven Unit 1 was one of the largest municipal oil-fired units in Florida.

UNDERGROUND RELIABILITY

This past year GRU initiated an underground distribution electric cable rejuvenation program that will improve service reliability and quality, and will save our customers money by extending the useful life of existing infrastructure. The electric system has approximately 120 miles of direct buried electric cable nearing the end of their projected life and located largely within residential neighborhoods.

Past practice has been to replace those cables by excavating a new trench, placing conduits and installing new cables. This activity has been very costly and at times has been a disruptive and lengthy construction practice. The rejuvenation process involves the injection of a restorative fluid at high pressure into these cables. The fluid displaces any captured water within the cable and repairs any electrical insulation that may have become compromised.

The end result is a 40-year extension of cable life realized with minimal disruption to our customers and at a fraction of the traditional replacement cost. Additional maintenance and renewal work is being performed along with the rejuvenation program to ensure that the neighborhood's distribution system has been reworked comprehensively for decades of trouble-free operation.

REALIGNMENT OF HUMAN RESOURCES

Through planning for future vacancies, internal training and consolidating departments, GRU has maintained a strong workforce that produces excellent service in the midst of a struggling economy.

Organizational changes were made this year to increase efficiency. Among those changes: employees in Strategic Planning were realigned within the new departments they supported, Community Relations expanded legislative duties, Energy Delivery took over certain compliance responsibilities, and the City's General Government IT Department consolidated into GRU's IT Department to take advantage of economies of scale.

Above Left: GRU went into the neighborhoods last year to explain how the cable system restoration project benefits residents, with decreased maintenance costs and increased reliability.

Above Right: A few of the bright young interns from the University of Florida and Santa Fe College who provide talent and assistance to GRU's professional staff.

1976

The state-of-the-art Walter E. Murphree Water Treatment Plant came on line.

1977

Kanapaha Wastewater Treatment Plant opened due to growth in the western part of GRU's service area.

Cross-training between departments speeds customer service, especially during the high-volume student rush period at the beginning of the fall terms for the University of Florida and Santa Fe College.

CROSS TRAINING FOR EFFICIENCY

GRU's cross-training program in electric, water and natural gas field services diversifies employees' skill sets, which increases efficiency, especially during high-volume periods. Cross training serves as a catalyst to bring the operational aspects of different services together, minimizing customer wait time and maximizing resources. Meter readers are taught how to process service orders and assist with the high number of service requests during peak periods such as the annual "student rush."

Running from late July to mid-August, student rush is GRU's busiest time of year due to the influx of University of Florida and Santa Fe College students returning to town. This year, student rush created nearly 20,000 service requests in three weeks, roughly four times the number of requests normally processed. GRU was able to process all requests within standard response time.

1979

Gainesville's public utility became Gainesville Regional Utilities (GRU).

1981

Deerhaven Unit 2 was the largest city-owned coal-fired unit in the state when it went online.

Gainesville Renewable Energy Center will provide 100 megawatts of biomass-fueled energy, bringing diversity to GRU's energy portfolio.

1985

GRU modernized its operations by switching to computerized systems.

1991

The GRU Administration Building consolidated services.

THE FUTURE OF FUELS

The nearly completed Gainesville Renewable Energy Center (GREC) will be a 100 MW wood waste-fueled biomass plant located on GRU's Deerhaven site. Although GREC will be owned and operated by GREC Holdings, LLC, GRU will purchase 100 percent of the energy produced for 30 years.

This purchase power agreement greatly expands GRU's renewable energy portfolio and adds to the choice of fuels, creating stability during fuel market fluctuations. When the plant comes online, GRU will produce at least 20 percent of its power from local, renewable sources.

GRU's energy portfolio consists mostly of coal and natural gas, with some renewables such as solar and landfill gas. By adding biomass, GRU will help protect customers from the rising prices of any one fuel type and provide long-term, cost-effective energy.

The plant will improve reliability, as a majority of GRU's current generation fleet is more than 30 years old. GREC is more than 75 percent complete and expected to come online in late 2013.

LOCAL RENEWABLE ENERGY

As part of GRU's overall energy portfolio, local renewable energy helps provide environmentally friendly power to meet customers' energy needs. Landfill gas and solar, mainly through the Solar Feed-in-Tariff (FIT) program, comprise GRU's current renewable portfolio.

This past year, the Solar FIT program saw 68 projects installed, producing 5.6 MW of capacity. GRU's nation-leading Solar FIT program began in 2009 and now produces more than 14 MW of energy from 149 projects. GRU's earlier net metering solar program, established in 2002, provides 1.4 MW of capacity resulting in an overall total of nearly 15.5 MW of solar capacity.

GRU's landfill gas supply comes from neighboring Marion County, producing 3.6 MW of reliable energy. GRU has an agreement to purchase the gas for 15 years, with a 5-year extension option, ensuring a long-term source of renewable energy at a cost-effective price.

GRU's Solar Feed-in-Tariff program has made Gainesville one of the nation's leaders in solar photovoltaic generation and has helped to create a local solar industry.

1993

The Springhill Service Center sped service to Gainesville's western areas.

1993

Reclaimed water was offered for irrigation to conserve drinking water.

WATER IS THE MOST IMPORTANT RESOURCE

Thanks to a strong community conservation ethic, GRU is working to minimize water use despite a growing population. Due to conservation efforts that reduced consumption, the reuse of reclaimed water for irrigation, and recycling water back into the Floridan Aquifer, GRU projects that no increase in our consumptive use permit will be needed through 2033, even though the community is expected to experience a 25 percent increase in residents by 2032.

Our residential customers use only 71 gallons of water per day, compared with the regional average of 109 gallons per day. Since 2001, residential water customers have reduced water use by a quarter. This is due in part to GRU's educational efforts, conservation programs and rebates. Among the newest rebate programs are ultra-low-flow toilets and high-efficiency commercial kitchen spray nozzles.

GRU has reduced the amount of water drawn from the aquifer by reclaiming wastewater and reusing it for irrigation and cooling systems as well as recharging the Floridan Aquifer. In fact, 70 percent of all potable supply water drawn from the aquifer by GRU is returned to its source.

GRU has been investing in improvements to its 40-year-old Murphree Water Treatment Plant over the past several years. Improvements this year include a new high-service pump and a diesel backup engine to ensure the plant's operation if power is lost.

This Page: Long retired and now restored as a community meeting place, the historic Boulware Springs Pump House provided Gainesville with its first public drinking water supply and still produces pure spring water today.

Opposite Page: GRU's award-winning Murphree Water Treatment Plant supplies customers with high-quality drinking water from the Floridan Aquifer. Gainesville households have helped reduce demand on the aquifer by responding to conservation programs with a 25 percent reduction in water use over the past decade.

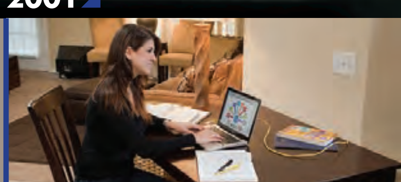
1995

GRUCom, GRU's telecommunications service, offered high speed service.

2001

CC1 at Kelly offered four times the energy for half the emissions of older units. Community neighbors helped design the surrounding campus.

2001



GRUCom extended fiber-optic Internet service to some new subdivisions.

By restoring the natural sheetflow of water onto Paynes Prairie, GRU will achieve the dual purpose of enhancing a local natural treasure and reducing reclaimed water disposal costs for customers.

SHEETFLOW RESTORATION

Construction of the Paynes Prairie Sheetflow Restoration Project started in August 2012 to better return reclaimed water to the environment and further GRU's mission of environmental responsibility. The project will restore 1,300 acres of wetlands by re-establishing the natural sheetflow dispersion pattern of water flowing onto the prairie from Sweetwater Branch.

The natural sheetflow was disrupted in the 1930s by a two-mile long canal built through the prairie by cattle ranching operations. The canal diverted the water directly to Alachua Sink to dry the prairie and make it more suitable for cattle. The project will remove the canal and help rehydrate the prairie naturally by constructing a 125-acre wetland to filter and clean the water before it sheetflows onto the prairie.

This initiative has a dual purpose. It will not only improve the prairie environment, but also will provide a very cost-effective means of recycling the reclaimed water from GRU's Main Street Wastewater Treatment Facility, which will provide significant savings for the utility and its customers.

GRU, in conjunction with several local and state agencies, began construction with the help of several grants. Recently, the Florida Department of Environmental Protection's Recreational Trails Program (Federal Highway Administration) provided a $200,000 grant. The Florida Fish and Wildlife Conservation Commission, Aquatic Habitat and Restoration Section Fund, awarded another $500,000. These funds will supplement the cost of removing the canal and installing hiking trails, including a 3.5-mile walking path and eight viewpoint shelters.

In another community restoration project, GRU's principal role in the Depot Park Redevelopment Project – remediating soil contaminated by a defunct gas manufacturing company – was completed during the fiscal year. In the future, the City of Gainesville's Depot Park will offer residents opportunities to experience the renovated historic train depot, enjoy a system of walking paths, visit a science and innovation museum, and participate in family activities.

2009

The SEC provided the Shands Cancer Hospital at UF with power.

2009

DH2's Air Quality Control System was added to meet and better new federal legislation.

EFFICIENT OPERATIONS

Fiscal year 2012 marked the first full year of operation for the Eastside Operations Center (EOC), which is more strategically located compared with the former downtown site, with better roads with less traffic.

The EOC has greatly improved efficiency by having many departments under one roof. Employees can now interact easily and work on projects more effectively. The employee field training area not only provides a place for employees to develop in their respected fields, but also fosters team unity.

The new facilities offer modern technologies and security systems that provide state-of-the-art response to emergencies. The new System Control Center at the EOC is a hardened building with controlled access to help ensure the reliable operation of our electric generation, transmission and distribution systems. Security and reliability are enhanced further by a team dedicated to compliance with federal standards.

The EOC earned prestigious Gold and Silver LEED certifications from the U.S. Green Building Council (USGBC) for its environmentally-friendly buildings with five buildings receiving Gold certification and three others earning Silver. Additionally, the EOC received a City Beautification Award based on originality, sustainability, compatibility with the surrounding area and effectiveness in planning.

The new warehouse at the Eastside Operations Center reduces the cost of supplying materials to GRU's utility services through a central location that has more efficient facilities and equipment.

2009

GRU began cleanup of contamination from a former private gas company. A community park is now being constructed onsite.

2009

GRU became a world leader in Solar Power with its Feed-in-Tariff program.

SAFETY AND EFFICIENCY

As part of its commitment to providing reliable service, GRU has adopted a power-line safety technique that allows line workers to maintain high-voltage transmission lines without taking those lines out of service. This process is known in the industry as "Bird on a Wire" since it allows line workers to work on live lines without harm, much like birds that perch safely on live wires.

The line workers wear special clothing that effectively conducts electricity in order to ensure that their entire body becomes equal to the voltage of the wire. A metal wand is used to draw the arc that will make, and eventually break, electrical contact between the line worker and the electric line. Once electric contact has been established, the line workers can fix damaged lines with speed and great efficiency, saving money and avoiding a disruption to the electric transmission system.

OUR FRIENDS AND NEIGHBORS

Demonstrating a deep commitment to community involvement, GRU raised more than $69,000 for the 2012 United Way campaign, entirely from employee donations, making GRU one of the largest United Way contributors in the area.

Employees also volunteered at GRU's Adopt-A-School, Williams Elementary, through mentoring and activities such as caulking school windows for the United Way's Day of Action. The weatherization efforts will help the school save on energy costs.

GRU's annual golf tournament raised $13,000 for Williams Elementary. Ninety-five golfers hit the greens to help raise funds for computer equipment, supplies and teacher training. Over the past 13 years, the tournament has generated more than $137,000 for the school.

In other community educational activities, the "Full STEAM Ahead" summer camp was coordinated by GRU in partnership with the Cade Museum and University of Florida student groups. Local children learned about careers in science, technology, engineering, art and math (STEAM).

The "Brighter Tomorrow" initiative also promoted educational opportunities by providing $16,000 in scholarships to local students pursuing engineering degrees at the University of Florida.

Through yet another community commitment, GRU's "Project SHARE" raised approximately $80,000 to help nearly 500 customers pay their utility bills. This assistance program is administered by independent agencies and gives special preference to the elderly and those experiencing medical difficulties.

2010

The Administration Building's lobby was renovated to improve service.

2012

The Eastside Operations Center opened to provide more efficient services.

This page: GRU's employees are among the most generous in Gainesville, giving both money and time to help with community projects such as caulking windows at a local elementary school.

Opposite: Electric line workers use the "Bird on a Wire" technique to save time and money and increase safety while working on live, high-voltage power lines.

2013

Construction of the GREC biomass plant began in 2012. It will come online in 2013.

2011-2012 STATISTICS

ENERGY SUPPLY

Deerhaven Generating Station Net Summer Capability	417 MW
Kelly Generating Station Net Summer Capability	177.2 MW
Share Ownership of Crystal River 3 Net Summer Capability	11.8 MW
South Energy Center Gross Capability	3.5 MW
Combined System Net Summer Capability	609.5 MW

ENERGY DELIVERY – ELECTRIC SYSTEM

Service Area	124.5 sq. miles
Transmission	120.2 circuit miles
Overhead Distribution (40%)	568 circuit miles
Underground Distribution (60%)	846 circuit miles
Total	1,414 circuit miles
Distribution Substations	10 (138 kV/12kV)

ENERGY DELIVERY – NATURAL GAS SYSTEM

Service Area	115 sq. miles
Distribution Mains	752 miles
Delivery Points	6

WATER SYSTEM

Walter E. Murphree Water Treatment Plant: Treatment Capacity	54 MGD
Storage Capacity	19.5 MGD
Supply Wells	16
Distribution Mains	1,127.9 miles
Water Service Area	118 sq. miles

WASTEWATER SYSTEM

Kanapaha Water Reclamation Facility: Treatment Capacity	14.9 MGD (AADF)
Main Street Water Reclamation Facility: Treatment Capacity	7.5 MGD (AADF)
Combined Treatment Capacity	22.4 MGD (AADF)
Collection Service Area	115 sq. miles
Lift Stations	165
Gravity Mains	628.5 miles
Force Mains	139.3 miles

TELECOMMUNICATIONS

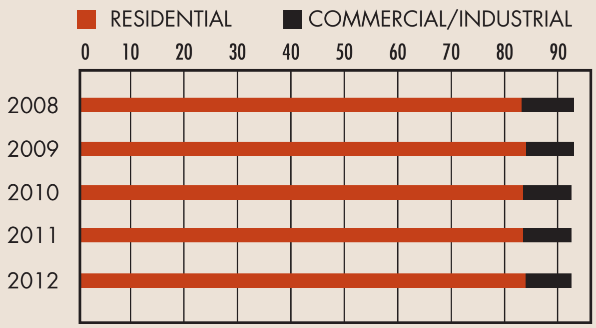
Fiber-optic cable (miles)	420.42
Maximum bandwidth	10 Gigabit Ethernet/OC-192 SONET
On-net locations	503

FISCAL YEAR 2012 HIGHLIGHTS

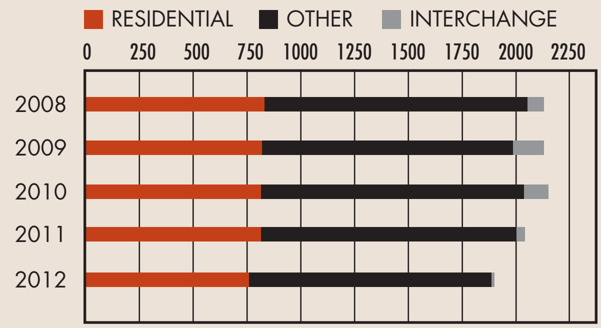
	2012	2011	% CHANGE
Financial			
Net revenues	$ 149,549,879	$ 153,547,019	-2.6%
Aggregate debt service	63,755,940	64,007,046	-0.4%
Aggregate bond coverage ratio	2.35	2.40	-2.1%
Total debt service coverage ratio	2.14	2.19	-2.3%
Long-term debt	948,831,704	887,326,176	6.9%
Net utility plant	1,202,100,960	1,171,601,421	2.6%
Cash and investments, Rate stabilization and revenue funds	$ 95,199,913	$ 99,769,501	-4.6%
Customers (12-month average)			
Residential electric	82,039	81,900	0.2%
Non-residential electric	10,422	10,372	0.5%
Total electric	92,461	92,272	0.2%
Water	69,329	68,952	0.5%
Wastewater	62,536	62,164	0.6%
Natural gas, Retail	33,264	33,208	0.2%
Sales of energy (gigawatt-hours)			
Residential	753.5	820.6	-8.2%
Non-Residential	945.1	967.0	-2.3%
Total Retail	1,698.6	1,787.6	-5.0%
Sales for resale (wholesale)	193.7	206.8	-6.3%
Total Native (retail+wholesale)	1,892.4	1,994.4	-5.1%
Interchange	10.7	45.5	-76.5%
Grand Total	1,903.0	2,039.9	-6.7%
Sales of water (million gallons)	7,368.9	7,775.1	-5.2%
Wastewater billed (million gallons)	4,706.1	4,665.9	0.9%
Natural gas, retail (million therms)	17.8	21.7	-17.9%

ELECTRIC

Customers (thousands of customers)

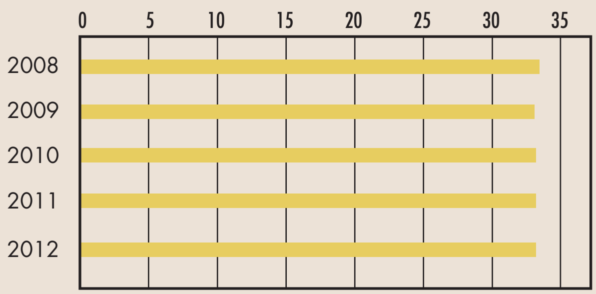


Sales (gigawatt hours)

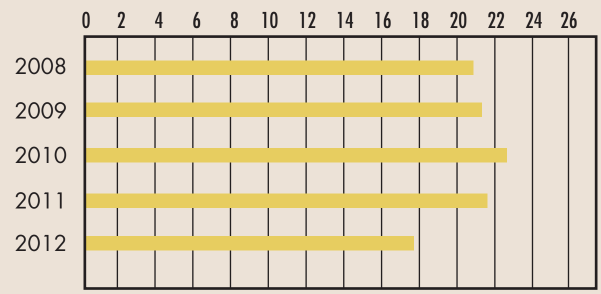


NATURAL GAS

Customers (thousands of customers)

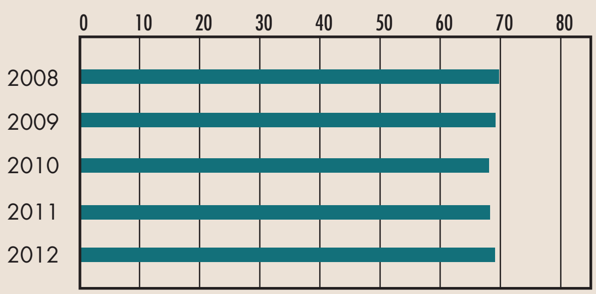


Sales (millions of therms)

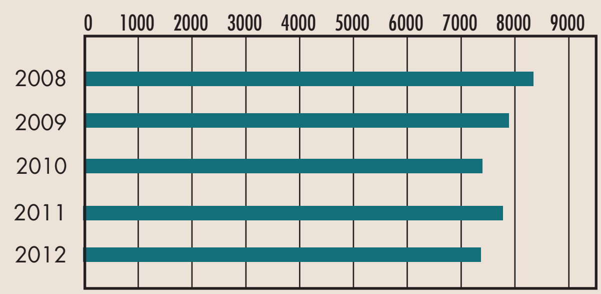


WATER

Customers (thousands of customers)

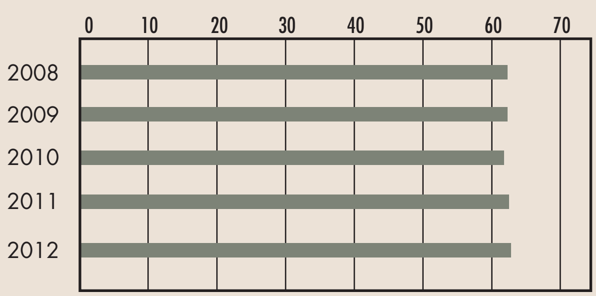


Sales (millions of gallons)

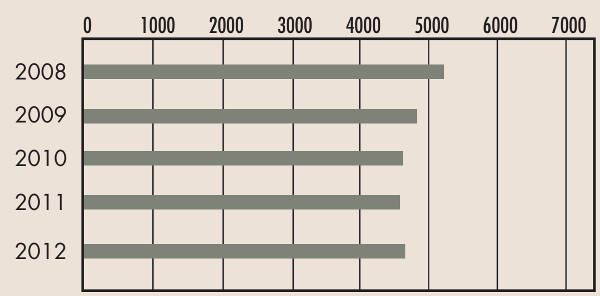


WASTEWATER

Customers (thousands of customers)



Billings (millions of gallons)



FINANCIAL STATEMENTS

SUPPLEMENTAL SCHEDULES

OTHER REPORT

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, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of Gainesville Regional Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gainesville Regional Utilities as of September 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 27, 2013, on our consideration of Gainesville Regional Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in the supplemental schedules, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

February 27, 2013

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, 2012 and 2011. 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, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. 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. Over time, increases or decreases in net position may serve as a useful indicator whether the financial position of GRU is improving or deteriorating.

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

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

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

FINANCIAL ANALYSIS OF THE COMBINED UTILITY SYSTEM

The Combined Utility System net position increased by $17.3 million from 2011 to 2012, and $31.8 million from 2010 to 2011. Table 1 below focuses on the net position.

TABLE 1

COMBINED UTILITY SYSTEM NET POSITION

	September 30		
	2012	**2011**	**2010**
	(In Thousands)		
Current assets	**$ 117,347**	$ 103,231	$ 84,681
Other assets	**317,155**	373,375	321,566
Capital assets, net	**1,202,101**	1,171,601	1,088,642
Deferred outflow of resources	**76,433**	68,674	63,181
Total assets and deferred outflows	**1,713,036**	1,716,881	1,558,070
Long-term debt outstanding	**948,832**	977,326	868,458
Current liabilities	**45,609**	39,304	45,100
Other liabilities	**142,268**	152,625	145,445
Fair value of derivative instruments	**85,397**	74,936	58,166
Deferred inflows of resources	**986**	–	–
Total liabilities and deferred inflows	**1,223,092**	1,244,191	1,117,169
Net position:			
Net investment in capital assets	**321,371**	309,898	329,561
Restricted	**84,513**	84,472	70,728
Unrestricted	**84,060**	78,320	40,612
Total net position	**$ 489,944**	$ 472,690	$ 440,901

Changes in net position can be further explained using the following Combined Utility System Changes in Net Position.

TABLE 2
COMBINED UTILITY SYSTEM CHANGES IN NET POSITION

	September 30		
	2012	**2011**	**2010**
		(In Thousands)	
Operating revenues	**$ 348,858**	$ 368,471	$ 370,459
Interest income	**3,184**	3,884	4,029
Other income, BABs	**5,766**	5,363	3,032
Total revenues	**357,808**	377,718	377,520
Operating expenses	**262,523**	272,392	279,035
Interest expense, net of AFUDC	**43,454**	42,860	38,257
Special items	–	–	5,269
Total expenses	**305,977**	315,252	322,561
Income before contributions and transfers	**51,831**	62,466	54,959
Capital contributions, net	**1,428**	4,556	2,410
Operating transfer to City of Gainesville	**(36,005)**	(35,233)	(34,349)
Change in net position	**17,254**	31,789	23,020
Net position, beginning of year	472,690	440,901	417,881
Net position, end of year	**$ 489,944**	$ 472,690	$ 440,901

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. GRU's investment in capital assets as of September 30, 2012, amounts to $1.2 billion (net of accumulated depreciation). This investment in capital assets includes land, generation, transmission and distribution systems, buildings and fixed equipment, and furniture, fixtures, and equipment. The net increase in the investment in capital assets (net of accumulated depreciation) for fiscal years 2012 and 2011 was 2.6% and 7.6%, respectively.

The following table summarizes the System's capital assets, net of accumulated depreciation and changes for the years ended September 30, 2012, 2011, and 2010.

COMBINED UTILITY SYSTEM CAPITAL ASSETS
(NET OF ACCUMULATED DEPRECIATION)

	September 30		
	2012	**2011**	**2010**
		(In Thousands)	
Generation	**$ 403,654**	$ 345,953	$ 342,694
Transmission, distribution and collection	**451,981**	415,865	402,574
Treatment	**73,241**	54,678	55,061
General plant	**134,926**	59,996	61,973
Construction work-in-progress	**138,299**	295,109	226,340
Total net utility plant	**$1,202,101**	$ 1,171,601	$1,088,642

Major capital asset events included the following:

- Electric transmission and distribution expansion was $15.8 million in 2012 and $16.2 million in 2011. For 2012, $7.4 million was pertaining to underground system improvements.
- Energy supply capital included an expenditure of $6 million in FY12, which marked the completion of the multiyear, $14.1 million Deerhaven 2 (DH2) Turbine Upgrade. In addition, an expenditure of $0.5 million completed the multiyear, $5.6 million DH2 Low Burners project. Progress payments for the DH2 High Temperature Reheater project were approximately $0.5 million, which are expected to be installed in FY13. Other significant capitalizations taking place in 2012 were $3.9 million for the DH2 cooling tower refurbishment project, $2.4 million for the Deerhaven 1 cooling tower upgrades, $1.8 million for DH2 Boiler roof replacement and $1.5 million for a DH2 Simulator.
- Telecommunication fiber cable and electronics expansion was $2.2 million in 2012, which included approximately $2 million in fiber and related infrastructure installation and approximately $0.2 million in electronics upgrades.
- Gas distribution plant was expanded $3.5 million in 2012 compared to $3.2 million in 2011. This included $1.2 million in Gas Distribution mains, $1.1 million in residential gas services, and $0.4 million in meter change outs.
- In 2010, GRU made a decision to sell some parcels of land previously held for construction of a railspur in the future. When the first parcels were sold, the land was removed from Plant Held for Future Use and recorded in plant assets at its original book value. In 2012, GRU sold 14 of the 15 remaining parcels for $0.8 million. Proceeds from the sale were recorded to miscellaneous revenue.

The Utility's 2013 capital budget is $95.2 million and was $89.9 million in 2012. These projects will be funded from a combination of internal equity and debt.

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

Long-Term Debt. At September 30, 2012 and 2011, GRU had total long-term debt outstanding of $1.007 billion and $1.025 billion, respectively, comprised of revenue bonds and other long-term debt.

Outstanding Debt at September 30

	2012	2011	2010
		(In Thousands)	
Senior lien revenue bonds	**$ 944,695**	$ 963,180	$ 859,725
Commercial paper	**62,000**	62,000	62,000
Total	**$1,006,695**	$ 1,025,180	$ 921,725

In August 2012, the City issued two series of 2012 Utilities System Revenue Bonds. The 2012 Series A Bonds in the amount of $81.9 million were issued to: (a) provide funds to refund $1.6 million in aggregate principal amount of the 2003 Series A Bonds; (b) provide funds to refund $78.7 million in aggregate principal amount of the 2005 Series A Bonds; and (c) pay costs of issuance of the 2012 Series A Bonds. Those Bonds mature at various dates from October 1, 2021 to October 1, 2028. Those Bonds maturing on and after October 1, 2023, will be subject to redemption prior to maturity, at a redemption price so specified.

The 2012 Series B Bonds in the amount of $100.5 million were issued to: (a) provide funds to refund $31.6 million in aggregate principal amount of the 2005 Series B Bonds; (b) provide funds to refund $17.6 million in aggregate principal amount of the 2005 Series C Bonds; (c) provide funds to refund $25.9 million in aggregate principal amount of the 2006 Series A Bonds; (d) provide funds to refund $14.4 million in aggregate principal amount of the 2008 Series A Bonds; and (e) pay costs of issuance of the 2012 Series B Bonds. The 2012 Series B Bonds are subject to redemption prior to maturity, at a redemption price so specified.

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

The System has ratings of Aa2, AA, and AA- with Moody's Investors Services, Standard & Poor's (S&P), and Fitch Ratings, respectively, for its revenue bonds. The System has ratings of VMG-1, A-1+, and F1+ with Moody's Investors Services, Standard & Poor's (S&P), and Fitch Ratings, respectively, for its commercial paper.

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

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

- Operating sales and service revenue decreased $23.5 million, or approximately 6.7%, and decreased $2.0 million, or approximately 0.5%, in fiscal 2012 and 2011, respectively. The decrease in sales revenue in fiscal 2012 is the result of lower consumption offset by rate increases implemented in October 2011, along with a decrease in fuel costs of approximately $15.6 million. Fuel costs are passed directly through to our customers, as part of a fuel adjustment charge, which is recorded as revenue. The decrease in sales and service revenue in fiscal 2011 is the result of lower consumption offset by rate increases implemented in October 2010, along with a decrease in fuel costs of approximately $12.3 million.

- Net capital contributions from developers decreased in fiscal 2012 over fiscal 2011 by $3.1 million and increased in fiscal 2011 over fiscal 2010 by $2.1 million. Although residential new development has remained steady, there was a spike in development of churches, schools, and commercial offices during fiscal 2011, which has now returned to prior-year levels.

- Year-end fuels payable decreased $2.4 million, or approximately 30.9%, in fiscal 2012 and increased $3.1 million, or approximately 68.6%, in fiscal 2011. The decrease at the end of fiscal 2012 is a result of timing of coal invoices at year-end.

- Gross utility plant in service increased $194.2 million, or 13.1%, and net capital assets increased $30.5 million, or 2.6% in fiscal 2012. In fiscal 2011, gross utility plant in service increased $41.7 million, or 2.9%, and net capital assets increased $83.0 million, or 7.6%. This is summarized under "Capital Assets."

- Long-term debt decreased $28.5 million, or 2.9%, in fiscal 2012, due to the issuance of new debt in August 2012, offset by refunding of 2003A Series bonds, partial refunding of 2005A, 2005B, and 2006C Series bonds, 2006A and 2008A Series bonds and scheduled paydown of principal. Long-term debt increased $108.9 million, or 12.5%, in fiscal 2011, due to the issuance of new debt in November 2010, offset by refunding and scheduled paydown of principal. See "Long-Term Debt" within this Management's Discussion and Analysis and Note 4 to the financial statements for details.

- The number of customers for electric services increased 0.2%, water and wastewater services increased 0.5% and 0.6%, respectively, and gas services increased 0.2% in fiscal 2012. The number of customers for electric services decreased 0.2%, while water and wastewater services increased 0.2% and 0.3%, respectively, in fiscal 2011. There was no change in the number of customers for gas services.
- GRU is in the process of remediation efforts at a former manufactured gas plant site. The costs incurred to date total $26.7 million, and GRU estimates that total project costs will be approximately $28.5 million. However, to date GRU has recovered $3.3 million from insurance. After recognizing collection fees paid, a net recovery of $2.2 million has been realized, which will directly reduce the amount to be recovered through customer billings. GRU has accrued a regulatory asset and liability to account for the cost and cost recovery of the expense, which is being amortized as costs are incurred and customer revenues are received. Further explanation of this activity is presented in Note 13.
- GRU's service territory incurred approximately $1.1 million of damage to its facilities as a result of Tropical Storm Fay in September 2008. Requests for Federal Emergency Management Agency (FEMA) funding were submitted and a receivable of $1 million, or 87.5%, of expenses was recorded in fiscal year 2008. An additional $0.1 million in expenses were incurred during the first quarter of fiscal 2009. In March 2012, GRU received the final reimbursement of $1 million from FEMA.

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

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

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

EPA's Cross State Air Pollution Rule has been stayed pending litigation, which has resulted in reinstatement of the Clean Air Interstate Rule (CAIR). Facilities are currently in place at the Deerhaven and JR Kelly generating stations, which will enable them to comply with these rules at a known cost for operations and reagents. EPA has recently promulgated the Mercury Air Toxics Rule (MATS). The potential effect of this rule on the capital, operating, and reagent costs for the Deerhaven 2 plant are pending the results for operational testing of the co-benefits of the new air quality control systems at Deerhaven 2. These are tests have not been scheduled, and costs for additional mercury control may be significant.

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

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

On October 1, 2012, GRU implemented a 3.5% increase in the revenue requirement for the water system and a 3.00% increase for the wastewater system. There was no increase in the rates for the electric or gas systems. To meet increased costs of service, GRU increased residential water connection fees by 2.72% and residential wastewater connection fees by 11.83%.

GRU's long-term energy supply strategy is to aggressively pursue the maximum cost-effective energy conservation and renewable energy while managing potential regulatory requirements. Based on the most recent forecasts, which include the effects of aggressive conservation programs, GRU has adequate reserves of generating capacity to meet forecasted loads plus a 15% reserve margin through 2022. This forecast incorporates additional generation capacity, new population forecasts, and changed economic circumstances. Additional capacity includes 19.0 megawatts of distributed generation (4.0 MW combined heat and power and 15.0 MW renewable). GRU implemented the first Solar Feed-In-Tariff in the United States in 2009, under which solar developers own and install solar systems that feed directly to GRU's grid, the utility purchases the power under a 20-year contract and GRU retains all of the renewable energy credits accrued by the system. The program allows for additional capacity of up to 4 MW per year and has been a resounding success, receiving commitment from developers for the full 4 MW of capacity in each year through 2016, adding a growing renewable resource to GRU's supply portfolio. Management bases its forecast of future energy needs upon the population forecast for Gainesville produced annually by the Bureau of Economic and Business Research at the University of Florida. GRU management, with the approval of the City Commission, has negotiated a long-term contract to secure the output from a 100 megawatt biomass fueled power plant. The proposed facility will be located on a portion of land leased from GRU's Deerhaven power plant site, but owned by a third party. Construction of the plant is scheduled to be completed by the end of 2013, with GRU selling the excess system capacity to other utilities until the capacity is needed by GRU. The project is expected to provide a long-term hedge against volatile fossil fuel costs and potential federal and state renewable energy requirements and/or carbon regulations.

GRU has a possible environmental liability related to an oil contamination at the Kelly Generating Station. In July of 2006, GRU was notified by the Florida Department of Environmental Protection (FDEP) that provisions of Chapter 62-780, F.A.C. must be complied with on this site. This Rule is currently being utilized to establish a process and time schedule for assessment and remediation of the site. GRU's liability utilizing this Rule is unknown and cannot be reasonably estimated at this time.

GRU has potential additional financial liability due to its partial ownership in Crystal River Unit 3 nuclear power plant. The Utility may be required to fund additional decommissioning costs of the unit. See Note 17, "Subsequent Events," for more information.

REQUESTS FOR INFORMATION

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

BALANCE SHEETS

SEPTEMBER 30, 2012 & 2011

	September 30 2012	2011
Assets		
Current assets:		
Cash and investments	**$ 32,464,543**	$ 32,310,955
Accounts receivable, net of allowance for uncollectible accounts of $702,743 in 2012 and $842,099 in 2011	**44,100,965**	46,386,956
Fuels contracts	**3,759,467**	1,892,018
Deferred charges	**2,944,549**	3,307,371
Inventories:		
Fuel	**24,019,055**	10,002,581
Materials and supplies	**10,058,407**	9,330,888
Total current assets	**117,346,986**	103,230,769
Restricted assets:		
Utility deposits – cash and investments	**8,067,395**	6,992,651
Debt service – cash and investments	**52,496,078**	52,756,371
Rate stabilization – cash and investments	**62,735,370**	67,458,546
Construction fund – cash and investments	**106,704,641**	154,390,593
Utility plant improvement fund – cash and investments	**39,096,417**	42,431,680
Decommissioning reserve – cash and investments	**10,278,134**	10,083,308
Total restricted assets	**279,378,035**	334,113,149
Noncurrent assets	**37,776,588**	39,262,150
Capital assets:		
Utility plant in service	**1,674,493,431**	1,480,340,734
Less: accumulated depreciation and amortization	**610,691,631**	603,848,220
	1,063,801,800	876,492,514
Construction-in-progress	**138,299,160**	295,108,907
Net capital assets	**1,202,100,960**	1,171,601,421
Total assets	**1,636,602,569**	1,648,207,489
Deferred outflows of resources:		
Accumulated decrease in fair value of hedging derivatives	**76,433,187**	68,673,611
Total assets and deferred outflows of resources	**$ 1,713,035,756**	$ 1,716,881,100

Continued on next page

	September 30 2012	September 30 2011
Liabilities and net position		
Current liabilities:		
Fuel payable	**$ 5,317,975**	$ 7,697,276
Accounts payable and accrued liabilities	**15,197,662**	12,839,378
Deferred credits	**20,399,041**	13,985,877
Due to other funds of the City	**4,693,877**	4,782,216
Total current liabilities	**45,608,555**	39,304,747
Payable from restricted assets:		
Utility deposits	**8,067,395**	6,992,651
Rate stabilization deferred credit	**61,766,734**	66,230,719
Construction fund:		
Accounts payable and accrued liabilities	**6,702,712**	7,712,798
Debt payable – current portion	**31,900,000**	31,055,000
Accrued interest payable	**18,326,542**	22,027,069
Total payable from restricted assets	**126,763,383**	134,018,237
Long-term debt:		
Utilities system revenue bonds	**912,794,998**	932,124,999
Commercial paper notes	**62,000,000**	62,000,000
Unamortized loss on refinancing	**(38,625,322)**	(21,362,491)
Unamortized bond premium/discount	**12,662,026**	4,563,668
Fair value of derivative instruments	**85,396,996**	74,935,599
Total long-term debt	**1,034,228,698**	1,052,261,775
Other noncurrent liabilities	**15,505,161**	18,606,308
Total liabilities	**1,222,105,797**	1,244,191,067
Deferred inflows of resources:		
Accumulated increase in fair value of hedging derivative	**985,750**	–
Net position:		
Net investment in capital assets	**321,371,187**	309,898,040
Restricted	**84,512,723**	84,472,117
Unrestricted	**84,060,299**	78,319,876
Total net position	**489,944,209**	472,690,033
Total liabilities, deferred inflows of resources and net position	**$ 1,713,035,756**	$ 1,716,881,100

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

SEPTEMBER 30, 2012 & 2011

	Year Ended September 30	
	2012	**2011**
Operating revenue:		
Sales and service charges	**$ 327,681,055**	$ 351,158,192
Transfers from (to) rate stabilization	**4,463,986**	(296,890)
Other operating revenue	**16,712,465**	17,609,891
Total operating revenue	**348,857,506**	368,471,193
Operating expenses:		
Operation and maintenance	**169,176,110**	184,238,962
Administrative and general	**37,964,486**	38,468,609
Depreciation and amortization	**55,382,057**	49,684,507
Total operating expenses	**262,522,653**	272,392,078
Operating income	**86,334,853**	96,079,115
Non-operating income (expense):		
Interest income	**3,184,630**	3,884,081
Interest expense, net of AFUDC	**(43,454,408)**	(42,859,851)
Other interest-related income, BABs	**5,766,086**	5,362,729
Total non-operating expense	**(34,503,692)**	(33,613,041)
Income before contributions and transfers	**51,831,161**	62,466,074
Capital contributions:		
Contributions from developers	**1,484,423**	4,593,532
Reduction of plant costs recovered through contributions	**(56,450)**	(37,772)
Net capital contributions	**1,427,973**	4,555,760
Operating transfer to City of Gainesville General Fund	**(36,004,958)**	(35,232,540)
Change in net position	**17,254,176**	31,789,294
Net position – beginning of year	**472,690,033**	440,900,739
Net position – end of year	**$ 489,944,209**	$ 472,690,033

See accompanying notes.

STATEMENTS OF CASH FLOWS

SEPTEMBER 30, 2012 & 2011

	September 30	
	2012	2011
Operating activities		
Cash received from customers	$ 331,041,790	$ 351,122,072
Cash payments to suppliers for goods and services	(157,513,660)	(163,257,041)
Cash payments to employees for services	(56,469,098)	(53,927,127)
Cash payments for operating transactions with other funds	(10,206,225)	(9,449,615)
Other operating receipts	21,176,451	17,313,001
Net cash provided by operating activities	128,029,258	141,801,290
Noncapital financing activities		
Transfers to other funds	(36,004,958)	(35,232,540)
Net cash used in noncapital financing activities	(36,004,958)	(35,232,540)
Capital and related financing activities		
Principal repayments and refunding on long-term debt	(218,077,831)	(58,285,000)
Interest paid on long-term debt	(36,354,756)	(39,660,622)
Other receipts	98,274	155,352
Proceeds from interest rebate, BABs	5,766,086	5,362,729
Acquisition and construction of fixed assets (including allowance for funds used during construction)	(72,079,688)	(121,372,640)
Proceeds from new debt and commercial paper	182,330,000	161,740,000
Cash received for connection charges	2,085,602	1,824,449
Net cash used in capital and related financing activities	(136,232,313)	(50,235,732)
Investing activities		
Interest received	1,887,173	2,688,769
Purchase of investments	(653,895,910)	(904,040,741)
Investment in The Energy Authority	(1,437,151)	(1,463,669)
Distributions from The Energy Authority	1,711,166	1,677,043
Proceeds from investment maturities	732,236,975	835,168,800
Net cash provided by (used in) investing activities	80,502,253	(65,969,798)
Net change in cash and cash equivalents	36,294,240	(9,636,780)
Cash and cash equivalents, beginning of year	17,337,734	26,974,514
Cash and cash equivalents, end of year	$ 53,631,974	$ 17,337,734

Continued on next page.

STATEMENTS OF CASH FLOWS

SEPTEMBER 30, 2012 & 2011

	Year Ended September 30	
	2012	**2011**
Reconciliation of operating income to net cash provided by operating activities		
Operating income	**$ 86,334,853**	$ 96,079,115
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**55,382,047**	49,684,507
Increase (decrease) in cash attributable to change in assets and liabilities:		
Receivables	**2,285,991**	(208,364)
Prepaid expenses	**(1,867,449)**	(292,003)
Inventories	**(14,743,993)**	855,923
Deferred charges	**848,726**	(20,729,130)
Accounts payable and accrued liabilities	**(1,031,103)**	2,021,917
Due to other funds	**(88,340)**	(289,496)
Utility deposits	**1,074,744**	172,245
Other liabilities and deferred credits	**(166,218)**	14,506,576
Net cash provided by operating activities	**$ 128,029,258**	$ 141,801,290

Noncash, investing, capital, and financing activities

Utility plant contributed by developers in aid of construction was $1,427,973 and $4,555,760 in 2012 and 2011, respectively

See accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

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

BASIS OF ACCOUNTING

The financial statements are presented on the accrual basis of accounting. Under this basis, revenues are recognized in the period earned and expenses are recognized in the period incurred. GRU applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. In accordance with the Utilities System Revenue Bond Resolution as Supplemented and Amended (Bond Resolution), rates are designed to cover operating and maintenance expense, debt service, and other revenue requirements, which exclude depreciation expense and other noncash expense items. This method of rate setting results in costs being included in the determination of rates in different periods than when these costs are recognized for financial statement purposes. The effects of these differences are recognized in the determination of operating income in the period that they occur, in accordance with GRU's accounting policies. GRU has adopted the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and substantially all provisions of the National Association of Regulatory Utility Commissioners (NARUC). Rates are approved annually by the City Commission.

GRU reports net position in the following classifications:

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

NET POSITION FLOW ASSUMPTION

Sometimes GRU will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is GRU's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

USE OF ESTIMATES

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

INVESTMENTS

Investments in U.S. Treasury and government agencies are reported at fair value, as determined by quoted market prices or independent pricing sources. Investments in commercial paper are recorded at cost, which approximates fair value. More information is provided in Note 5, "Deposits and Investments."

RISK MANAGEMENT/FUTURES AND OPTIONS CONTRACTS

GRU conducts a risk management program with the intent of reducing the impact of fuel price spikes for its customers. The program utilizes futures and options contracts that are traded on the New York Mercantile Exchange (NYMEX) so that prices may be fixed or reduced for given volumes of gas that the utility projects to consume during a given production month. This program is based on feedback and direction from GRU's Risk Oversight Committee, consultation and recommendations from reputable risk management sources, and close monitoring of the market.

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

In accordance with GASB No. 62, paragraphs 476-500, *Regulated Operations,* GRU defers recognition of fair value change for the ineffective portion of certain derivative instruments. GRU currently has two types of hedging instruments, interest rate swap agreements and commodity futures contracts. Each has been associated with an item that is eligible to be hedged. Of the interest rate swap agreements, three have been determined to be effective, while four have been deemed ineffective. Of the commodity futures contracts, all have been determined to be effective. At September 30, 2012, deferred outflows of $76.4 million have been recorded for interest rate swap agreements in accumulated decrease in fair value of hedging derivatives and deferred inflows of $1.0 million have been recorded for gas hedging agreements in accumulated increase in fair value of hedging derivatives. At September 30, 2011, deferred outflows of $65.9 million for interest rate swap agreements and $2.8 million for gas hedging agreements have been recorded in accumulated decrease in fair value of hedging derivatives on the accompanying balance sheets.

The information below provides a summary of results based on GRU's risk management activity during fiscal years 2012 and 2011 (in thousands, except MMBTUs).

	Fair Value of Cash Flow Hedges	Changes in Fair Value	Deferred (Inflows)/ Outflows of Resources	Notional Amount (MMBTU's)
September 30, 2012				
Natural gas	$ 3,759	$ (1,867)	$ (985)	3,920
September 30, 2011				
Natural gas	$ 1,892	$ (292)	$ 2,794	4,330

Realized gains and losses related to hedging positions are deferred under the rate-setting policy. During fiscal years 2012 and 2011, GRU recognized losses of $8.4 million and $5.4 million, respectively.

INVENTORIES

Inventories are stated at cost using the weighted average unit cost method for materials, and the last-in, first-out (LIFO) method for fuel. Obsolete and unusable items are reduced to estimated salvage values. The cost of fuel used for electric generation is charged to expense as consumed.

CAPITAL ASSETS

Property and equipment are recorded at cost. Associated cost of removal net of salvage is charged to depreciation expense as incurred. Currently, GRU has a capitalization threshold of $2,500 for general plant assets.

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

DEPRECIATION AND NUCLEAR GENERATING PLANT DECOMMISSIONING

Depreciation of utility plant is computed using the straight-line method over estimated service lives ranging from 10 to 80 years. The overall depreciation rate was 3.12% in fiscal 2012 and 3.14% in fiscal 2011. 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 $15.4 million and $16.2 million 2012 and 2011, 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, 2012 and 2011, deferred fuel costs were a liability of $15.2 million and $9.1 million, respectively. The deferred fuel balances are reported as part of current deferred charges on the accompanying balance sheets.

TRANSACTIONS WITH THE CITY

As an enterprise fund of the City, 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 2012 and 2011, GRU paid $1.8 million each year for joint services.
- Nonmetered and Metered Service Charges – GRU bills the City's governmental funds on a monthly basis for all nonmetered, metered, and other administrative services. In 2012 and 2011, GRU billed the City $5.3 million and $5.9 million, respectively, for these services.
- Transfers to the general fund – GRU budgets an annual transfer to the general fund based on a City Commission approved formula. For details, see Note 11.

FUNDS IN ACCORDANCE WITH BOND RESOLUTIONS

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

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

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

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

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

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

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

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

OPERATING, NON-OPERATING REVENUES

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

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)

An allowance for interest on borrowed funds used during construction of $0.4 million and $1.4 million in 2012 and 2011, 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 4.08% and 3.09% for fiscal years 2012 and 2011, respectively.

CONTRIBUTIONS IN AID OF CONSTRUCTION

GRU recognizes capital contributions to the water, wastewater, and GRUCom divisions, from developers and other third parties as revenues in the period received. Contributions to the electric and gas divisions are also reported as capital contribution revenues; however, the related capital asset amounts are also expensed in the same period consistent with the requirements of the FERC Uniform System of Accounts.

CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, bank demand accounts, and overnight repurchase agreements.

UNAMORTIZED LOSS ON REFINANCING

Losses resulting from the refinancing of bonds are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

NEW ACCOUNTING STANDARDS

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

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

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

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position.* This statement is intended to provide guidance for reporting deferred outflows of resources, deferred inflow of resources, and net position in a statement of financial position and related disclosures. This adoption of this statement requires GRU to modify the balance sheets and replace the statements of revenues, expenses, and changes in net assets with a statement of revenues, expenses, and changes in net position. While there is no material impact to GRU's financial position, the presentation of the statements is modified to report deferred inflows and outflows of resources as separate items, not included in total assets and total liabilities. This statement is effective for periods beginning after December 15, 2011; however, GRU opted to early-implement this statement in fiscal 2011.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – and amendment of GASB Statement No. 64.* This Statement sets forth the criteria that established when the effective hedging relationship continues and when hedge accounting should be applied. This Statement is effective for periods beginning after June 15, 2011. GRU adopted this Statement in the current year and no transactions (i.e., changes in swap counter parties or terms) were subject to this Statement in fiscal year 2012.

In March 2012, GASB issued Statement No. 65, *Reporting Items previously recognized as assets and liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities. This Statement is effective for periods beginning after December 15, 2012, with early adoption encouraged. The impact of adopting this standard is currently being evaluated by GRU and as such, the impact on GRU's financial position has not yet been determined.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plan.* This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and Statement No. 50, *Pension Disclosures,* as they related to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement is effective for periods beginning after June 15, 2013, with early adoption encouraged. The impact of adopting this standard is currently being evaluated by GRU and as such, the impact on GRU's financial position has not yet been determined.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions.* This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures,* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. This Statement is effective for periods beginning after June 15, 2014, with early adoption encouraged. The impact of adopting this standard is currently being evaluated by GRU and as such, the impact on GRU's financial position has not yet been determined.

RECLASSIFICATIONS

Certain amounts in 2011 have been reclassified to conform to the 2012 presentation.

2. RATES AND REGULATION

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

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

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

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

GRU prepares its financial statements in accordance with GASB No. 62, paragraphs 476-500, Regulated Operations, and records various regulatory assets and liabilities. For a government to report under GASB No. 62, the Utility's rates must be designed to recover its costs of providing services, and the Utility's must be able to collect those rates from customers. If it were determined, whether due to competition or regulatory action, that these standards no longer applied, GRU could be required to write off its regulatory assets and liabilities. Management believes that GRU currently meets the criteria for continued application of GASB No. 62, but will continue to evaluate significant changes in the regulatory and competitive environment to assess continuing applicability of the criteria.

3. CAPITAL ASSETS AND CHANGES IN ACCUMULATED DEPRECIATION

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

	Plant in Service					
	Treatment	Generation	Transmission, Distribution and Collection	General	CWIP/Plant Held for Future Use	Combined
Balance, October 1, 2011	**$ 117,994,120**	**$ 582,503,658**	**$ 682,402,100**	**$ 97,440,857**	**$ 295,108,907**	**$ 1,775,449,642**
Capital additions and transfers	**20,345,647**	**71,873,018**	**53,779,398**	**82,891,371**	**72,079,688**	**300,969,122**
Less: sales, retirements, and transfers	**1,804,031**	**21,306,693**	**8,687,055**	**2,938,959**	**228,889,435**	**263,626,173**
Balance, September 30, 2012	**$ 136,535,736**	**$ 633,069,983**	**$ 727,494,443**	**$ 177,393,269**	**$ 138,299,160**	**$ 1,812,792,591**
Accumulated depreciation, October 1, 2011	**$ 63,316,338**	**$ 236,549,956**	**$ 266,537,355**	**$ 37,444,571**	**N/A**	**$ 603,848,220**
Depreciation expense	**3,162,450**	**14,866,867**	**23,484,224**	**7,685,075**	**N/A**	**49,198,616**
Less: retirements/ adjustments	**3,184,922**	**22,000,433**	**14,507,719**	**2,662,131**	**N/A**	**42,355,205**
Accumulated depreciation, September 30, 2012	**$ 63,293,866**	**$ 229,416,390**	**$ 275,513,860**	**$ 42,467,515**	**N/A**	**$ 610,691,631**
Average depreciation rate	**2.48%**	**2.45%**	**3.33%**	**5.59%**	**N/A**	**3.12%**

	Plant in Service					
	Treatment	Generation	Transmission, Distribution and Collection	General	CWIP/Plant Held for Future Use	Combined
Balance, October 1, 2010	$ 115,418,685	$ 567,629,153	$ 657,911,638	$ 97,652,990	$ 226,340,121	$ 1,664,952,587
Capital additions and transfers	3,152,263	16,729,975	33,020,303	4,257,073	125,928,400	183,088,014
Less: sales, retirements, and transfers	576,828	1,855,470	8,529,841	4,469,206	57,159,614	72,590,959
Balance, September 30, 2011	$ 117,994,120	$ 582,503,658	$ 682,402,100	$ 97,440,857	$ 295,108,907	$ 1,775,449,642
Accumulated depreciation, October 1, 2010	$ 60,357,417	$ 224,935,164	$ 255,337,991	$ 35,680,440	N/A	$ 576,311,012
Depreciation expense	3,936,910	14,887,461	21,023,274	6,014,825	N/A	45,862,470
Less: retirements/ adjustments	977,989	3,272,669	9,823,910	4,250,694	N/A	18,325,262
Accumulated depreciation, September 30, 2011	$ 63,316,338	$ 236,549,956	$ 266,537,355	$ 37,444,571	N/A	$ 603,848,220
Average depreciation rate	3.37%	2.59%	3.14%	6.17%	N/A	3.14%

4. LONG-TERM DEBT

Long-term debt outstanding at September 30, 2012 and 2011 consisted of the following:

	September 30 2012	September 30 2011
Utilities System Revenue Bonds		
Series 1983 (1983 Bonds) – interest payable semi-annually to October 1, 2014 at a rate of 6.00%	**$ 4,675,000**	$ 4,675,000
1992 Series B (1992B Bonds) – interest payable semi-annually to October 1, 2013 at a rate of 6.50%	**9,300,000**	13,530,000
2003 Series A (2003A Bonds) – interest payable semi-annually to October 1, 2023 at a rate of 4.625%	**–**	1,605,000
2003 Series B (2003B Bonds) – interest payable semi-annually to October 1, 2013 at a rate of 4.40%	**1,800,000**	2,640,000
2003 Series C (2003C Bonds) – interest payable semi-annually to October 1, 2013 at a rate of 5.00%	**30,780,000**	45,080,000
2005 Series A (2005A Bonds) – interest payable semi-annually to October 1, 2036 at rates between 4.75% and 5.00%	**13,130,000**	91,820,000
2005 Series B (2005B Bonds) – interest payable semi-annually to October 1, 2021 at rates between 5.14% and 5.31% (Federally Taxable)	**25,865,000**	58,345,000
2005 Series C (2005C Bonds) – interest payable semi-annually to October 1, 2026, interest at variable market rates; 0.19% at September 30, 2012	**31,465,000**	52,135,000
2006 Series A (2006A Bonds) – interest payable semi-annually to October 1, 2026, interest at variable market rates; 0.20% at September 30, 2012	**21,500,000**	50,415,000
2007 Series A (2007A Bonds) – interest payable semi-annually to October 1, 2036, interest at variable market rates; 0.17% at September 30, 2012	**138,465,000**	138,740,000
2008 Series A (2008A Bonds) – interest payable semi-annually to October 1, 2020 at rates between 3.94% and 5.27%	**60,340,000**	75,165,000
2008 Series B(2008B Bonds) – interest payable semi-annually to October 1, 2038 interest at variable market rates; 0.14% at September 30, 2012	**90,000,000**	90,000,000
2009 Series A (2009A Bonds) – interest payable semi-annually to October 1, 2015 at rates between 2.37% and 3.59%	**16,405,000**	20,390,000
2009 Series B (2009B Bonds) – interest payable semi-annually to October 1, 2039 at rates between 3.59% and 5.65% (Federally Taxable)	**156,900,000**	156,900,000
2010 Series A (2010A Bonds) – interest payable semi-annually to October 1, 2030 at a rate of 5.87% (Federally Taxable)	**12,930,000**	12,930,000
2010 Series B (2010B Bonds) – interest payable semi-annually to October 1, 2040 at a rate of 6.02% (Federally Taxable)	**132,445,000**	132,445,000
2010 Series C (2010C Bonds) – interest payable semi-annually to October 1, 2034 at rates between 5.00% and 5.25%	**16,365,000**	16,365,000
2012 Series A (2012A Bonds) – interest payable semi-annually to October 1, 2028 at rates between 2.50% and 5.00%	**81,860,000**	–
2012 Series B (2012B Bonds) – interest payable semi-annually to October 1, 2042 interest at variable market rates; 0.16% at September 30, 2012	**100,470,000**	–
Utilities System Commercial Paper Notes, Series C (C Notes), interest at variable market rate; 0.30% at September 30, 2012 (Federally Taxable)	**62,000,000**	62,000,000
	1,006,695,000	1,025,180,000
Current portion of long-term debt	**(31,900,000)**	(31,055,000)
Unamortized loss on refinancing	**(38,625,322)**	(21,362,491)
Unamortized premium/discount	**12,662,026**	4,563,668
Total long-term debt	**$ 948,831,704**	$ 977,326,177

For the Electric, Water, Sewer, Gas, and Telecommunication System variable rate demand obligations (VRDO) appearing in the above schedule of outstanding indebtedness support is provided in connection with tenders for purchase with various liquidity providers pursuant to standby bond purchase agreements (SBPA) relating to that series of obligation. The purchase price of the obligations tendered or deemed tendered for purchase is payable solely from the proceeds of the remarketing thereof and moneys drawn under the applicable SBPA. The current stated termination dates of the SBPA's range from November 15, 2012 to December 31, 2014. Each of the SBPA termination dates may be extended. At September 30, 2011, there were no outstanding draws under the SBPA's. The 2005C Bonds and the 2006A Bonds are supported by SBPA's that expire on November 15, 2012 and July 5, 2013, respectively. See Note 17, "Subsequent Events," for further information.

For the commercial paper notes appearing in the above schedule of outstanding indebtedness, to provide liquidity support, GRU has entered into a revolving credit agreement with commercial banks. If moneys are not available to pay the principal of any maturing commercial paper notes during the term of the credit agreement, GRU is entitled to make a borrowing under the credit agreement. The termination dates of the credit agreements as of September 30, 2012, are September 11, 2014 and November 30, 2015. The credit agreement with the termination date of November 30, 2015, has the option to terminate the agreement on October 1, 2013. The credit agreement termination dates may be extended. At September 30, 2012, there were no outstanding draws under the credit agreements.

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

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

On February 20, 2003, the City issued the 2003A and 2003B Utilities System Revenue Bonds. The 2003A Bonds were issued in the amount of $33 million and previously matured on various dates through October 1, 2023. The 2003B Bonds were issued in the amount of $7.6 million and mature on various dates through October 1, 2013. The 2003A Bonds were fully refunded as part of the 2012A Utilities System Revenue Bonds issuance. However, due to current or advanced refunding from prior years, the amount of principal outstanding is $33 million on the 2003A Bonds. The 2003B Bonds are not subject to redemption prior to maturity.

On November 16, 2005, the City issued the 2005A, 2005B, and 2005C Utilities System Revenue Bonds in the amounts of $197.0 million, $61.6 million, and $55.1 million, respectively. The 2005A Bonds mature on various dates from October 1, 2029 to October 1, 2036, and were partially refunded as part of the 2012A Utilities System revenue Bonds issuance. However, due to current or advanced refunding from prior years, the amount of principal outstanding is $183.8 million on the 2005A Bonds. The 2005B Bonds mature on various dates through October 1, 2021. The 2005C Bonds mature on various dates from October 1, 2010 to October 1, 2026. The 2005A Bonds are subject to redemption at the option of the City on and after October 1, 2015, as a whole or in part at any time, at a redemption price of 100% of the principal amount, plus accrued interest to the date of redemption. The 2005B Bonds are subject to redemption prior to maturity at the option of the City, in whole or in part, on any date, at a redemption price equal to the greater of: (i) 100% of the principal amount of the Bonds to be redeemed, plus accrued and unpaid interest on the Bond; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Bonds to be redeemed discounted to the date of redemption on a semiannual basis, plus 12.5 basis points. The 2005C Bonds are subject to redemption prior to maturity at the election of the City at a redemption price of 100% of the principal amount plus accrued interest.

On July 6, 2006, the City issued the Utilities System Revenue Bonds, 2006A in the amount of $53.3 million. The 2006A Bonds mature on various dates through October 1, 2026. The 2006A Bonds were issued to refund a portion of the City's outstanding 1996A Bonds ($51.6 million) maturing from October 1 2010 to October 1, 2026, and to pay costs of acquisition and construction of the City's utilities system. The 2006A Bonds are subject to redemption prior to maturity at the election of the City as follows, in whole or in part, at a redemption price of 100% of the principal amount plus accrued interest to the redemption date.

On March 1, 2007, the City issued the 2007A Utilities System Revenue Bonds in the amount of $139.5 million. A portion of the 2007A Bonds ($130.6 million) were issued to advance-refund a portion of the City's outstanding 2003A Bonds ($25.5 million) and 2005A Bonds ($105.1 million) maturing from October 1, 2020 to October 1, 2033, and from October 1, 2030 to October 1, 2036, respectively. The 2007A Bonds are subject to redemption prior to maturity at the election of the City, in whole or in part, at a redemption price of 100% of the principal amount plus accrued interest to the redemption date.

On February 13, 2008, the City issued the Utilities System Revenue Bonds, 2008A in the amount of $105 million and 2008B in the amount of $90 million. The 2008A Bonds mature on various dates through October 1, 2020. The 2008B Bonds mature on various dates from October 22, 2022 to October 1, 2038. The 2008A Bonds and the 2008B Bonds were issued to pay costs of acquisition and construction of the City's utilities system. The 2008A Bonds are subject to redemption prior to

4. LONG-TERM DEBT (CONTINUED)

maturity at the election of the City as follows, in whole or in part, at a redemption price of 100% of the principal amount plus accrued interest to the redemption date. The 2008B Bonds are subject to redemption prior to maturity at the election of the City as follows, in whole or in part, at a redemption price of 100% of the principal amount plus accrued interest to the redemption date.

On September 16, 2009, the City issued the 2009A and 2009B Utilities System Revenue Bonds, in the amounts of $24.2 million and $156.9 million, respectively. The 2009A Bonds mature on various dates through October 1, 2015. The 2009B Bonds mature on various dates from October 1, 2015 to October 1, 2039. The 2009A and 2009B Bonds were issued to pay costs of acquisition and construction of the City's utilities system. The 2009A and 2009B Bonds are subject to redemption prior to maturity at the election of the City, in whole or in part, at a redemption price of 100% of the principal amount plus accrued interest to the redemption date.

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

The 2010B Bonds in the amount of $132.4 million were issued to: (a) provide funds for the payment of the cost of acquisition and construction of certain improvements to the System; (b) to provide for the payment of certain capitalized interest on the 2010B Bonds; and (c) to pay the costs of issuance of the 2010B Bonds. Those Bonds mature at various dates from October 1, 2034 to October 1, 2040. The Bonds are subject to redemption prior to maturity at the option of the City, in whole or in part, at a redemption price so specified.

The 2010C Bonds in the amount of $16.4 million were issued to (a) provide funds to refund $5.9 million in aggregate principal amount of the 2003A Bonds and (b) provide funds to refund $10.5 million in aggregate principal amount of the 2008A Bonds. Those Bonds mature at various dates from October 1, 2015 to October 1, 2019 and from October 1, 2030 to October 1, 2034. Those Bonds maturing on and prior to October 1, 2019, will not be subject to redemption prior to maturity. Those bonds maturing October 1, 2034, are subject to redemption at the option of the City, at a redemption price so specified.

In August 2012, the City issued two series of 2012 Utilities System Revenue Bonds. The 2012A Bonds in the amount of $81.9 million were issued to: (a) provide funds to refund $1.6 million in aggregate principal amount of the 2003A Bonds; (b) provide funds to refund $78.7 million in aggregate principal amount of the 2005A Bonds; and (c) pay costs of issuance of the 2012A Bonds. Those Bonds mature at various dates from October 1, 2021 to October 1, 2028. Those Bonds maturing on and after October 1, 2023, will be subject to redemption prior to maturity, at a redemption price so specified.

The 2012B Bonds in the amount of $100.5 million were issued to: (a) provide funds to refund $31.6 million in aggregate principal amount of the 2005B Bonds; (b) provide funds to refund $17.6 million in aggregate principal amount of the 2005C Bonds; (c) provide funds to refund $25.9 million in aggregate principal amount of the 2006A Bonds; (d) provide funds to refund $14.4 million in aggregate principal amount of the 2008A Bonds; and (e) pay costs of issuance of the 2012B Bonds. The 2012B Bonds are subject to redemption prior to maturity, at a redemption price so specified.

Utilities System Commercial Paper Notes, Series C Notes (tax-exempt) in a principal amount not to exceed $85 million may continue to be issued to refinance maturing Series C Notes or provide for other costs. Liquidity support for the Series C Notes is provided under a long-term credit agreement dated as of March 1, 2000, with Bayerische Landesbank Girozentrale. This agreement has been extended to October 1, 2013. The obligation of the bank may be substituted by another bank that meets certain credit standards and which is approved by GRU and the Agent. Under the terms of the agreement, GRU may borrow up to $85 million with same-day availability ending on the termination date, as defined in the agreement. There were $62 million of Series C Notes outstanding as of September 30, 2012 and 2011.

The balance outstanding at September 30, 2012 and 2011, for defeased bonds was $216.8 million and $136.5 million, respectively.

In June 2000, a Utilities System Commercial Paper Note Program, Series D (taxable) was established in a principal amount not to exceed $25 million. Liquidity support for the Series D Notes was provided under a long-term credit agreement dated June 1, 2000, with SunTrust Bank, which was extended through September 11, 2014. On October 22, 2009, $14 million of the proceeds from the Utilities System Revenue Bonds Series 2009A bonds were used to refund the entire outstanding balance of $14 million of the Series D Notes. Accordingly, there were no Series D Notes outstanding as of September 30, 2012 and 2011.

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, 2012:

	Principal	Interest	Total Debt Service Requirements [1] [2]
Period Ending September 30:			
2013	$ 31,900,000	$ 21,964,939	$ 53,864,939
2014	26,845,000	22,717,317	49,562,317
2015	21,480,000	21,664,786	43,144,786
2016	22,320,000	20,909,692	43,229,692
2017	23,170,000	20,164,273	43,334,273
2018–2022	127,225,000	88,034,721	215,259,721
2023–2027	135,120,000	69,928,609	205,048,609
2028–2032	195,260,000	51,517,722	246,777,722
2033–2037	208,470,000	36,623,899	245,093,899
2038–2042	198,170,000	12,518,772	210,688,772
2043	16,735,000	16,735	16,751,735
	$ 1,006,695,000	$ 366,061,465	$ 1,372,756,465

(1) Interest rates on variable-rate long-term debt were valued to be equal to 0.21% for the 2005C Bonds, 0.23% for the 2006A Bonds, 0.19% for the 2007A Bonds, 0.15% for the 2008B Bonds, 0.20% for the 2012B Bonds, and 0.28% for the 2008 TECP. These are the rates in effect as of September 30, 2012.

(2) Interest expense for the 2009B Bonds and the 2010B Bonds have been shown net of the federal interest subsidy, which is equal to 35% of the annual interest expense for the duration of the bonds. The subsidy is recorded as non-operating revenue on the Statement of Revenue, Expense and Changes in Net Assets.

The interest rates used in this table are per GASB No. 38, which requires the rate used in the calculations be that in effect as of September 30, 2012.

The table below shows the changes in net long-term debt balances that occurred during the years ended September 30, 2012 and 2011.

	September 30	
	2012	**2011**
Long-term debt outstanding at beginning of year	**$ 977,326,176**	$ 868,457,667
Changes in long-term debt:		
Series 2010A issued	–	12,930,000
Series 2010B issued	–	132,445,000
Series 2010C issued	–	16,365,000
Series 2012A issued	**81,860,000**	–
Series 2012B issued	**100,470,000**	–
Fixed rate debt redeemed – Senior Lien and Subordinated	**(31,900,000)**	(31,055,000)
Series 2003A refunded	**–**	(5,920,000)
Series 2008A refunded	**–**	(17,320,000)
Series 2003A refunded	**(1,605,000)**	–
Series 2005A refunded	**(78,690,000)**	–
Series 2005B refunded	**(31,560,000)**	–
Series 2005C refunded	**(17,570,000)**	–
Series 2006A refunded	**(25,930,000)**	–
Series 2008A refunded	**(14,405,000)**	–
Change in unamortized loss/bond discount	**(9,164,475)**	1,423,509
Long-term debt outstanding at end of year	**$ 948,831,701**	$ 977,326,176
Current portion of long-term debt	**$ 31,900,000**	$ 31,055,000

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 that may be established pursuant to the Bond Resolution for decommissioning and certain other specified purposes), including any investments and income thereof.

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

DERIVATIVES

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

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

Objective of the Interest Rate Swap. To protect against the potential of rising interest rates, the City has entered into interest rate swap transactions.

Terms, Fair Values, and Credit Risk. The terms, fair values, and credit ratings of the outstanding swaps as of September 30, 2012, were as follows. The notional amounts of the swaps match the principal amounts of the associated debt.

Associated Bond Issue	2008CP*	2005B*	2005C*	2006A*
Notional amounts	$ 22,000,000	$ 45,000,000	$ 55,135,000	$ 53,305,000
Effective date	7/3/2002	11/16/2005	11/1/2006	7/6/2006
Fixed payer rate	4.100%	SIFMA	3.200%	3.224%
Variable receiver rate		77.14% of	60.36% of	68% of
	SIFMA	1 MO LIBOR	10 YR LIBOR	10 YR LIBOR -.365%
Fair value	$ (3,288,930)	$ (213,690)	$ (4,202,114)	$ (4,543,753)
Termination date	10/1/2017	10/1/2021	10/1/2026	10/1/2026
Counterparty credit rating	Baa2/A-/A	Aa2/AAA	Aa3/A+/A+	Aa2/AAA

Associated Bond Issue	2008B*	2008B*	2007A*
Notional amounts	$ 58,500,000	$ 31,500,000	$ 139,505,000
Effective date	2/1/2008	2/1/2008	3/1/2007
Fixed payer rate	4.229%	4.229%	3.944%
Variable receiver rate	SIFMA	SIFMA	SIFMA
Fair value	$ (20,089,489)	$ (10,821,202)	$ (42,237,818)
Termination date	10/1/2038	10/1/2038	10/1/2036
Counterparty credit rating	Aa3/A+/A+	Aa3/A+/A+	Aa2/AAA

* See "Basis Risk," in Note 4, Long-Term Debt.

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

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

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

	Fair Value of Interest Rate Swaps at September 30, 2012	**Changes in Fair Value**	**Deferred (Inflows)/ Outflow**	**Regulatory Asset/Liability for Ineffective Instruments**
2008CP	**$ (3,288,930)**	**$ 213,814**	**$ (154,921)**	**$ (58,893)**
2005B	**(213,690)**	**539,867**	**–**	**(539,867)**
2005C	**(4,202,114)**	**(231,745)**	**–**	**231,745**
2006A	**(4,543,753)**	**(274,356)**	**–**	**274,356**
2008B	**(20,089,489)**	**(2,783,796)**	**2,783,796**	**–**
2008B	**(10,821,202)**	**(1,499,116)**	**1,499,116**	**–**
2007A	**(42,237,818)**	**(6,426,066)**	**6,426,066**	**–**
	$ (85,396,996)	**$ (10,461,398)**	**$ 10,554,057**	**$ (92,659)**

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

4. LONG-TERM DEBT (CONTINUED)

Fair Value. All seven of the swap agreements currently have a negative fair value as of September 30, 2012. Due to the low interest rate environment, as compared to the period when the swaps were entered into, our fixed payer rates currently exceed the variable receiver rates. These swaps are based on a different variable receiver rate, which is partially responsible for the difference in performance.

Swap Payments and Associated Debt. Assuming interest rates remain the same at September 30, 2012, debt service requirements on the interest rate swaps would be as follows:

Fiscal Year Ending	Variable Rate		Fixed Rate		Net Swap	
September 30	Principal	Interest	Principal	Interest	Interest	Total
2013	$ 6,580,000	$ 750,998	$ 435,000	$ 1,914,258	$ 11,716,527	$ 21,396,783
2014	300,000	672,548	460,000	1,331,261	11,563,169	14,326,978
2015	5,410,000	657,688	485,000	1,306,974	11,232,398	19,092,060
2016	6,425,000	641,230	3,320,000	1,209,186	10,818,200	22,413,616
2017	6,620,000	623,469	3,495,000	1,031,069	10,393,839	22,163,377
2018–2022	36,090,000	2,909,982	17,670,000	2,161,701	47,726,282	106,557,965
2023–2027	57,310,000	2,453,485	–	–	40,154,805	99,918,290
2028–2032	97,780,000	1,767,966	–	–	29,872,697	129,420,663
2033–2037	116,715,000	567,354	–	–	10,370,446	127,652,800
2038–2042	10,200,000	15,450	–	–	211,574	10,427,024
Total	$ 343,430,000	$ 11,060,170	$ 25,865,000	$ 8,954,449	$ 184,059,937	$ 573,369,556

The interest rates used in this table are those in effect as of September 30, 2012.

Credit Risk. As of September 30, 2012, the fair value of all of the swaps were negative; therefore, the City is not subject to credit risk. To mitigate the potential for credit risk, the City has negotiated additional termination event and collateralization requirements in the event of a ratings downgrade. Failure to deliver the Collateral Agreement to the City as negotiated and detailed in the Schedule to the International Swap and Derivative Agreement (ISDA) for each counterparty would constitute an event of default with respect to that counterparty.

Basis Risk. The swaps expose the City to basis risk. The 2008C swap (formerly the 2002A swap) is exposed to the difference between the weekly SIFMA index and CP maturity rate of less than 90 days based on current market conditions. As a result, savings may not be realized. As of September 30, 2012, the SIFMA rate was 0.18%.

The 2005B swap is exposed to basis risk through the potential mismatch of 77.14% of 1-month LIBOR and the SIFMA rate. As a result, savings may not be realized. As of September 30, 2012, the 1-month LIBOR rate was at 0.21425%, which places the SIFMA at approximately 84.01% of 1-month LIBOR on that date.

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

The 2006A swap is exposed to basis risk through the potential mismatch of 68% of 10-year LIBOR less 0.365% and the variable 31-day rollover rate. As a result, savings may not be realized. As of September 30, 2012, the 10-year LIBOR rate was at 1.672%.

The 2007A and the 2008B swaps are exposed to the difference between SIFMA and the variable 31-day rollover rate.

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

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

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

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

5. DEPOSITS AND INVESTMENTS

Deposits are held in qualified public depository institutions insured by the Federal Deposit Insurance Corporation up to the applicable limits and, as required by the Bond Resolution, in banks, savings and loan associations, trust companies of the United States, or national banking associations having capital stock, surplus, and undivided earnings aggregating at least $10 million.

In accordance with state laws and the Bond Resolution, GRU is authorized to invest in obligations, which are unconditionally guaranteed by the United States of America or its agencies or instrumentalities, repurchase agreement obligations unconditionally guaranteed by the United States of America or its agencies, corporate indebtedness, direct and general obligations of any state of the United States of America or of any agency, instrumentality, or local governmental unit of any such state (provided such obligations are rated by a nationally recognized bond rating agency in either of its two highest rating categories), public housing bonds, and certain certificates of deposit. Investments in corporate indebtedness must be rated in the highest rating category of a nationally recognized rating agency and in one of the two highest rating categories of at least one other nationally recognized rating agency.

As of September 30, 2012, GRU had the following investments and maturities (amounts are in thousands).

		Maturities in Years	
	Fair Value	Less than 1	1–5
Investment type:			
Commercial paper	$ 172,194	$ 172,194	$ –
Corporate Bonds	9,522	4,694	4,828
U.S. agencies	58,658	–	58,658
U.S. bonds	7,275	–	7,275
Total	$ 247,649	$ 176,888	$ 70,761

INTEREST RATE RISK

GRU's investment policy limits its investments to securities with terms of 10 years or less to reduce exposure to rising interest rates, unless investments are matched to meet specific cash flow needs. Additionally, the average portfolio term is not to exceed seven years. GRU's Bond Resolution further limits investments in the Utility Plant Improvement Fund and Rate Stabilization Fund to five years.

CREDIT RISK

GRU's investment policy and Bond Resolution limits investments in state and local taxable or tax-exempt debt, corporate fixed income securities, and other corporate indebtedness to investments that are rated by a nationally recognized rating agency in its highest rating category, and at least one other nationally recognized rating agency in either of its two highest rating categories. As of September 30, 2012, all of GRU's commercial paper investments were rated P 2 or better by Moody's Investor Services and/or A-2 or better by Standard and Poor's and/or F1 or better by Fitch.

CONCENTRATION OF CREDIT RISK

State law does not limit the amount that may be invested in any one issuer. It does require, however, that investments be diversified to control risk of loss from over concentration of assets.

As of September 30, 2012, GRU had more than 5% of the investment portfolio of the following:

	Percent of Total Investments	
	2012	**2011**
Issuer:		
Federal Home Loan Bank	**0.40%**	2.96%
Federal Home Loan Mortgage Corporation	**–**	3.77
Federal National Mortgage Association	**21.46**	13.76
Federal Farm Credit Bank	**1.70**	4.44

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

	2012	2011
Restricted assets	**$ 279,378,035**	$ 334,113,149
Current assets:		
Cash and investments	**32,464,543**	32,310,955
Total cash and investments	**311,842,578**	366,424,104
Less cash and cash equivalents	**(53,631,974)**	(17,337,734)
Less CR3 decommissioning reserve	**(10,278,134)**	(10,083,308)
Less accrued interest receivable and accounts receivable	**(283,658)**	(264,045)
Total investments	**$ 247,648,812**	$ 338,739,017

6. JOINTLY OWNED ELECTRIC PLANT

GRU-owned resources for supplying electric power and energy requirements include its 1.4079% undivided ownership interest in Crystal River Unit 3 (CR3) nuclear power plant operated by Progress Energy Florida (PEF), a subsidiary of Duke Energy. GRU's net investment in CR3 at September 30, 2012 and 2011, is approximately $19.5 million and $17.6 million, respectively. CR3 operation and maintenance costs, which represent GRU's part of expenses attributable to operation of CR3, are recorded in accordance with the instructions as set forth in the FERC uniform system of accounts. Payments are made to PEF 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 PEF in September 2006, estimated GRU's share of the total projected decommissioning funding requirements to be $7.7 million of which $5.2 million has already been deposited. This $7.7 million is expected, with reinvestment and interest earnings, to reach

6. JOINTLY OWNED ELECTRIC PLANT (CONTINUED)

$24.7 million in total, which will be used in 2041 to pay for the projected costs of decommissioning the plant. The market value of the funds on deposit as of September 30, 2012, is $10.3 million. See Note 17, "Subsequent Events," for further information.

7. RESTRICTED NET POSITION

Certain assets are restricted by bond resolution and other external requirements. Following is a summary of the computation of restricted net position at September 30, 2012 and 2011, and the restricted purposes of the asset balances:

	2012	2011
Restricted net position:		
Total restricted assets	**$ 279,378,035**	$ 334,113,149
Unspent debt proceeds	**(106,704,641)**	(154,390,593)
Payable from restricted assets	**(88,160,671)**	(95,250,439)
Restricted net position	**$ 84,512,723**	$ 84,472,117

Assets are restricted as follows:

	2012	2011
Debt covenants:		
Debt service	**$ 35,138,172**	$ 31,957,129
Utility plant improvement	**39,096,417**	42,431,680
Total restricted pursuant to debt covenants	**74,234,589**	74,388,809
Other restrictions:		
Nuclear decommissioning reserve	**10,278,134**	10,083,308
Restricted net position	**$ 84,512,723**	$ 84,472,117

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, 2012, Comprehensive Annual Financial Report.

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

The City accounts for and funds the costs of the Employee Plan as they accrue. Such costs are based on contribution rates determined by the most recent actuarial valuation. The total contributions by GRU, including amortization of prior service costs, were $5.4 million for the year ended September 30, 2012, and $5.5 million for the year ended September 30, 2011.

Certain limited employees are eligible to participate in defined contribution plans managed by outside fiscal agents for the City. Under the first plan, the City contributes a percentage of an employee's annual salary and employees contribute a specified percentage. All employees have the option to participate in the second defined contribution plan. The total defined contribution cost for GRU was $0.1 million for each of the years ended September 30, 2012 and 2011.

9. POSTRETIREMENT BENEFITS

In addition to providing pension benefits, the City provides certain health care insurance benefits for retired employees of the City and GRU. The City also permits retirees to participate in the life insurance program. Most permanent full and part-time employees who are eligible for normal, early, or disability retirement are eligible for these benefits. Individual benefits are the same for all employees, but the cost to the City may vary. Contributions by the City to fund these benefits are neither mandated nor guaranteed. The actuarial costs of these plans are determined and funded by the City. A portion of this funding comes from bonds issued by the City to cover post-employment benefits. GRU contributes 0.5% of payroll to fund the remaining portion.

The cost of providing these benefits to GRU retirees were $0.2 million for each of the fiscal years ended September 30, 2012 and 2011.

10. DISAGGREGATION OF RECEIVABLES AND PAYABLES

RECEIVABLES

For the years ended September 30, 2012 and 2011, respectively, net accounts receivable represent 98.9% and 96.0% from customers for billed and unbilled utility services, and 1.1% and 4.0% from other receivables. There are no receivables expected to take longer than one year to collect.

PAYABLES

As of September 30, 2012 and 2011, respectively, payable balances represent 16.7% and 24.3% related to fuels payable, 42.7% and 33.5% related to standard vendor payables, 19.2% and 19.4% related to accrued wages and vacation payable, 14.7% and 16.0% related to intergovernmental payables, and 6.7% and 6.7% related to other payables.

11. TRANSFERS TO GENERAL FUND

GRU makes transfers to the City's general government based on a pre-defined formula that predominantly ties the transfer directly to the financial performance of the system. The transfer to the general fund may be made only to the extent such moneys are not necessary to pay operating and maintenance expenses and to pay debt service on the outstanding bonds and subordinated debt or to make other necessary transfers under the Bond Resolution. The formula-based fund transfer to the general fund for the years ended

September 30, 2012 and 2011, was $36.0 million and $35.2 million, respectively.

12. DEFERRED CHARGES AND DEFERRED CREDITS

DEFERRED CHARGES

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

Unamortized bond issuance costs of approximately $7.3 million and $7.0 million at September 30, 2012 and 2011, respectively, are included in deferred charges. These costs are being amortized straight-line over the life of the bonds, which approximates the effective interest method.

Electric distribution plant acquisition costs of $2.1 million and $2.3 million at September 30, 2012 and 2011, respectively, are being amortized over the expected life of the acquired assets. Of this amount, $0.2 million is recorded in deferred charges at September 30, 2012 and 2011, with the remaining portion included in noncurrent assets.

The fair value of ineffective interest rate swaps of $9.0 million and $9.1 million at September 30, 2012 and 2011, respectively, are recorded as regulatory assets and included in noncurrent assets.

DEFERRED CREDITS

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

The deferred credit for estimated environmental costs is $2.6 million and $5.9 million at September 30, 2012 and 2011, respectively, and is recorded as a noncurrent liability. See Note 13 for details on the manufactured gas plant remediation portion of this item.

Accrued electric fuel adjustment was a deferred credit of $15.2 million and $9.1 million at September 30, 2012 and 2011, respectively. See Note 1, "Revenue Recognition," for details on GRU's policy regarding fuel adjustment.

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. During fiscal year 2012 and 2011, expenditures that reduced the liability balance were $3.1 million and $9.2 million, respectively. In accordance with GASB No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* the reserve was reduced $0.2 million due to new project estimates and probabilities, bringing the reserve balance at September 30, 2012, to $2.6 million as compared to $5.9 million at September 30, 2011.

GRU is recovering the costs of this cleanup through customer charges. A regulatory asset was established as a deferred charge in the accompanying balance sheets to represent the balance of customer charges. Fiscal 2012 and 2011 billings were $0.9 million and $0.9 million, respectively. This reduced the deferred asset balance to $19.7 million and $20.8 million as of September 30, 2012 and 2011, respectively.

Although some uncertainties associated with environmental assessment and remediation activities remain, GRU believes that the current provision for such costs is adequate and additional costs, if any, will not have a material adverse effect on GRU's financial position, results of operations, or liquidity.

GRU has a possible environmental liability related to an oil contamination at the Kelly Generating Station. In July of 2006, GRU was notified by the Florida Department of Environmental Protection (FDEP) that provisions of Chapter 62-780, F.A.C. must be complied with on this site. This rule is currently being utilized to establish a process and time schedule for assessment and remediation of the site. GRU's liability utilizing this rule is unknown and cannot be reasonably estimated at this time.

14. INVESTMENT IN THE ENERGY AUTHORITY

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

GRU had electric purchases transactions with TEA of $25.2 million and $29.8 million and sales transactions of $0.4 million and $2.3 million in fiscal years 2012 and 2011, respectively. TEA's profit on these transactions has been reflected as a reduction to GRU's reported revenue or expense.

14. INVESTMENT IN THE ENERGY AUTHORITY (CONTINUED)

As of September 30, 2012, GRU's investment in TEA was $2.7 million as compared to $3.0 million on September 30, 2011.

GRU provides guarantees to TEA and to TEA's bank to secure letters of credit issued by the bank to cover purchase and sale contracts for electric energy, natural gas, and related transmission. In accordance with the membership agreement between GRU and its joint venture members and with the executed guaranties delivered to TEA and to TEA's bank, GRU's aggregate obligation for electric energy marketing transactions entered into by TEA on behalf of its members was $9.6 million and $9.6 million as of September 30, 2012 and 2011. GRU's aggregate obligation for TEA's natural gas marketing transactions, under similar agreements and executed guaranties, was $13.7 million and $30.5 million as of September 30, 2012 and 2011, respectively.

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

	2012	2011
	(In Thousands)	
Condensed statement of operations:		
Total revenue	**$ 1,203,021**	$ 1,119,391
Total cost of sales and expense	**1,118,804**	1,024,268
Operating income	**$ 84,217**	$ 95,123
Net revenue	**$ 84,397**	$ 95,585
Condensed balance sheets:		
Assets:		
Current assets	**$ 146,749**	$ 131,102
Noncurrent assets	**17,675**	20,435
Total assets	**$ 164,424**	$ 151,537
Liabilities:		
Current liabilities	**$ 118,566**	$ 105,318
Noncurrent liabilities	**–**	984
Total liabilities	**118,566**	106,302
Members' capital	**45,858**	45,235
Total equity and liabilities	**$ 164,424**	$ 151,537

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

15. RISK MANAGEMENT

GRU is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters and insures against these losses. GRU purchases plant and machinery insurance from a commercial carrier. There have been no significant reductions in insurance coverage from that in the prior year, and settlements have not exceeded insurance coverage for the past three fiscal years. The City is self-insured for workers' compensation, auto liability, and general liability but carries excess workers' compensation coverage. These risks are accounted for under the City's General Insurance Fund. GRU reimburses the City for premiums and claims paid on its behalf, recording the appropriate expense. However, GRU does maintain its own insurance reserve, for the self-insured portion. An actuarial study completed during fiscal year 2008 resulted in an increase to a balance of $3.3 million. The present value calculation assumes a rate of return of 4.5% with a confidence level of 75%. This reserve is recorded as a fully amortized deferred credit. All claims for fiscal 2012 and 2011 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
2010–2011	$ 3,337,000	$ 1,241,943	$ 1,241,943	$ 3,337,000
2011–2012	**$3,337,000**	**$ 1,175,634**	**$ 1,175,634**	**$ 3,337,000**

16. NONCURRENT LIABILITIES

Long-term liability activity for the years ended December 31, 2012 and 2011, were as follows (in thousands):

	2011	Additions	Reductions	2012	Amounts Due within One Year
Other Noncurrent Liabilities					
Reserve for Insurance Claims	$ 3,337	$ 1,176	$ (1,176)	$ 3,337	$ –
Reserve for Decommissioning CR3	10,083	195	–	10,278	–
Reserve for Environmental	5,186	–	(3,296)	1,890	–
Total	$ 18,606	$ 1,371	$ (4,472)	$ 15,505	$ –

	2010	Additions	Reductions	2011	Amounts Due within One Year
Other Noncurrent Liabilities					
Reserve for Insurance Claims	$ 3,337	$ 1,242	$ (1,242)	$ 3,337	$ –
Reserve for Decommissioning CR3	9,737	346	–	10,083	–
Reserve for Environmental	12,949	–	(7,763)	5,186	–
Total	$ 26,023	$ 1,588	$ (9,005)	$ 18,606	$ –

17. SUBSEQUENT EVENTS (UNAUDITED)

SUBSEQUENT LIQUIDITY FACILITY

As of December 21, 2012, GRU has obtained a "Substitute Liquidity Facility" (as defined in the Supplemental Resolution) for both the 2005C Bonds and the 2006A Bonds. The substitute liquidity facilities are in the form of a SBPA between GRU and Union Bank, N.A. for each series. These substitute liquidity facilities replace the previous SBPAs between the City and SunTrust Bank that were set to expire on November 15, 2012 and July 5, 2013, for the 2005C Bonds and the 2006A Bonds, respectively. The substitution facilities both have an expiration date of December 21, 2015.

CRYSTAL RIVER 3

As stated in Note 6, GRU owns a 1.4079% interest in CR3 nuclear power plant operated by PEF. The plant has been offline since late 2009. As of the balance sheet date, the intent of PEF was that all necessary repairs were going to be complete in order to bring the plant safely back online.

Subsequent to the balance sheet date, PEF announced that it will retire the CR3 plant. The decision comes after a comprehensive analysis of the CR3 containment structure. PEF is working to develop a comprehensive decommissioning plan, which will determine the resources needed as well as other elements of the decommissioning.

As GRU has an ownership interest in the facility, the Utility may be required to fund a portion of the decommissioning costs. In accordance with GASB 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards,* GRU management believes this to be a nonrecognized subsequent event, as the decision to close the plant occurred subsequent to the balance sheet date. Potential costs to GRU for the decommissioning of the plant include a range of values from $0, in the event that enough assets are liquidated and insurance proceeds are sufficient to fund the decommissioning; to $19.5 million in the event that GRU's investment in the plant assets are impaired; to an amount that is indeterminate if there are additional decommissioning costs and costs for containment and disposal of spent fuel rods.

GRU management is working with PEF to estimate and understand the nature and extent of GRU's potential losses as a result of the plant's retirement and will recognize any such losses in accordance with generally accepted accounting principles.

SCHEDULES OF COMBINED NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

SEPTEMBER 30, 2012, 2011, 2010, 2009, 2008

	2012	2011	2010	2009	2008
REVENUE					
Electric fund:					
Sales of electricity	**$ 230,805,656**	$ 250,057,293	$ 262,530,880	$ 249,761,763	$ 238,595,628
Other electric revenue	**12,853,882**	13,521,707	14,445,686	3,270,339	3,871,838
Transfers from (to) rate stabilization	**1,068,547**	(3,017,205)	(7,692,907)	11,054,541	6,532,390
Interest/investment income	**1,233,211**	1,404,284	1,183,493	2,709,170	2,859,539
Other interest related income, BABs	**3,193,181**	2,998,763	1,883,128	–	–
Total electric fund revenue	**249,154,477**	264,964,842	272,350,280	266,795,813	251,859,395
Water fund:					
Sales of water	**29,872,976**	29,846,372	25,705,213	25,712,256	25,094,181
Other water revenue	**1,824,302**	1,893,964	1,390,204	1,443,155	2,899,253
Transfers from (to) rate stabilization	**(655,733)**	(373,250)	2,289,274	997,637	(1,074,205)
Interest/investment income	**150,488**	167,351	587,446	347,095	206,230
Other interest related income, BABs	**894,819**	826,087	427,129	–	–
Total water fund revenue	**32,086,852**	32,360,524	30,399,266	28,500,143	27,125,459
Wastewater fund:					
Wastewater billing	**34,476,880**	32,258,966	30,640,750	31,976,105	29,819,878
Other wastewater revenue	**1,080,063**	1,057,091	918,285	831,350	2,840,164
Transfers from (to) rate stabilization	**(379,508)**	1,100,815	1,879,876	(901,588)	(1,271,208)
Interest/investment income	**246,283**	284,526	283,945	561,085	408,455
Other interest related income, BABs	**1,009,614**	911,114	334,064	–	–
Total wastewater fund revenue	**36,433,332**	35,612,512	34,056,920	32,466,952	31,797,289
Gas fund:					
Gas sales	**21,633,032**	27,153,898	27,403,504	28,923,505	29,842,601
Other gas revenue (expenses)	**954,219**	1,089,778	1,087,924	859	(63,412)
Transfers from (to) rate stabilization	**1,475,567**	820,268	(1,549,020)	(3,208,386)	1,987,360
Interest/investment income	**251,631**	275,191	528,859	485,981	635,757
Other interest related income, BABs	**668,472**	626,795	387,115	–	–
Total gas fund revenue	**24,982,921**	29,965,930	27,858,382	26,201,959	32,402,306
GRUCom fund:					
Sales to customers	**10,892,510**	11,889,016	11,304,326	10,162,231	10,277,819
Construction in progress	**2,955,113**	1,172,482	105,407	(958,870)	(1,085,755)
Interest/investment income	**175,443**	201,875	265,178	417,145	239,050
Total GRUCom fund revenue	**14,023,066**	13,263,373	11,674,911	9,620,506	9,431,114
Total revenue	**$ 356,680,648**	$ 376,167,181	$ 376,339,759	$ 363,585,373	$ 352,615,563

SCHEDULES OF COMBINED NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

SEPTEMBER 30, 2012, 2011, 2010, 2009, 2008

	2012	2011	2010	2009	2008
OPERATION, MAINTENANCE AND ADMINISTRATIVE					
Electric fund:					
Fuel expense	**$ 100,219,350**	$ 112,075,262	$ 129,092,299	$ 131,849,819	$ 127,233,223
Operation and maintenance	**39,301,044**	39,041,379	38,312,780	38,244,824	36,753,083
Administrative and general	**21,049,516**	21,484,263	16,770,146	18,273,573	20,654,480
Total electric fund expense	**160,569,910**	172,600,904	184,175,225	188,368,216	184,640,786
Water fund:					
Operation and maintenance	**7,475,797**	7,410,001	7,385,629	8,042,992	7,074,992
Administrative and general	**5,138,472**	4,980,853	5,104,686	4,547,293	5,120,270
Total water fund expense	**12,614,269**	12,390,854	12,490,315	12,590,285	12,195,262
Wastewater fund:					
Operation and maintenance	**7,242,859**	7,230,689	6,690,918	6,734,970	7,273,610
Administrative and general	**5,506,621**	6,331,392	5,960,940	5,939,526	5,773,158
Total wastewater fund expense	**12,749,480**	13,562,081	12,651,858	12,674,496	13,046,768
Gas fund:					
Fuel expense	**9,950,085**	13,800,865	14,632,694	15,458,942	20,107,903
Operation and maintenance	**1,362,351**	1,259,693	1,381,945	1,652,911	1,606,831
Administrative and general	**3,968,444**	3,698,336	3,643,805	2,033,561	4,504,748
Total gas fund expense	**15,280,880**	18,758,894	19,658,444	19,145,414	26,219,482
GRUCom fund:					
Operation and maintenance	**3,614,797**	3,333,664	3,423,128	2,761,702	2,632,075
Administrative and general	**2,301,433**	1,973,765	1,952,831	2,104,484	2,349,715
Total GRUCom fund expense	**5,916,230**	5,307,429	5,375,959	4,866,186	4,981,790
Total operation, maintenance and administrative	**207,130,769**	222,620,162	234,351,801	237,644,597	241,084,088
NET REVENUE IN ACCORDANCE WITH BOND RESOLUTION					
Electric	**88,584,567**	92,363,938	88,175,055	78,427,597	67,218,609
Water	**19,472,583**	19,969,670	17,908,951	15,909,858	14,930,197
Wastewater	**23,683,852**	22,050,431	21,405,062	19,792,456	18,750,521
Gas	**9,702,041**	11,207,036	8,199,938	7,056,545	6,182,824
GRUCom	**8,106,836**	7,955,944	6,298,952	4,754,320	4,449,324
Total net revenue in accordance with bond resolution	**$ 149,549,879**	$ 153,547,019	$ 141,987,958	$ 125,940,776	$ 111,531,475
Aggregate bond debt service	**$ 63,755,940**	$ 64,007,046	$ 62,168,819	$ 51,062,280	$ 47,127,033
Aggregate bond debt service coverage ratio	**2.35**	2.40	2.28	2.47	2.37
Total debt service	**$ 69,793,875**	$ 70,268,626	$ 73,332,609	$ 61,390,337	$ 52,626,846
Total debt service coverage ratio	**2.14**	2.19	1.94	2.05	2.12

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

ELECTRIC UTILITY FUND SEPTEMBER 30, 2012 & 2011

	2012	2011
REVENUE		
Sales of electricity:		
Residential sales	**$ 52,431,384**	$ 58,319,720
General service and large power	**65,947,347**	66,034,575
Fuel adjustment	**99,838,993**	110,015,494
Street and traffic lighting	**5,358,632**	5,412,467
Utility surcharge	**3,447,327**	3,711,839
Sales for resale	**4,137,619**	4,306,071
Interchange sales	**(355,646)**	2,257,127
Total sales of electricity	**230,805,656**	250,057,293
Other electric revenue:		
Service charges	**948,868**	1,228,124
Pole rentals	**644,342**	618,960
Miscellaneous	**11,260,672**	11,674,623
Total other electric revenue	**12,853,882**	13,521,707
Transfers to rate stabilization	**1,068,547**	(3,017,205)
Interest income	**1,233,211**	1,404,284
Other interest related income, BABs	**3,193,181**	2,998,763
Total revenue	**249,154,477**	264,964,842
OPERATION, MAINTENANCE AND ADMINISTRATIVE EXPENSE		
Operation and maintenance:		
Fuel expense:		
Retail and purchased power	**97,243,613**	107,988,432
Fuel-related operating expense	**2,638,041**	2,027,061
Interchange	**337,696**	2,059,769
Total fuel expense	**100,219,350**	112,075,262
Power production	**27,161,341**	27,256,591
Transmission	**2,343,115**	1,135,379
Distribution	**9,796,588**	10,649,409
Total operation and maintenance	**139,520,394**	151,116,641
Administrative and general:		
Customer accounts	**$ 5,829,976**	$ 8,234,957
Administrative and general	**15,219,540**	13,249,306
Total administrative and general	**21,049,516**	21,484,263
Total operation, maintenance and administrative expense	**160,569,910**	172,600,904
NET REVENUE IN ACCORDANCE WITH BOND RESOLUTION		
Retail	**89,277,909**	92,166,580
Interchange	**(693,342)**	197,358
Total net revenue in accordance with bond resolution	**$ 88,584,567**	$ 92,363,938

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

WATER UTILITY FUND SEPTEMBER 30, 2012 & 2011

	2012	2011
REVENUE		
Sales of water:		
General customers	**$ 25,842,351**	$ 26,075,820
University of Florida	**1,804,734**	1,417,683
Utility surcharge	**2,225,891**	2,352,869
Total sales of water	**29,872,976**	29,846,372
Other water revenue:		
Connection charges	**844,890**	769,370
Miscellaneous	**979,412**	1,124,594
Total other water revenue	**1,824,302**	1,893,964
Transfers from (to) rate stabilization	**(655,733)**	(373,250)
Interest income	**150,488**	167,351
Other interest related income, BABs	**894,819**	826,087
Total revenue	**32,086,852**	32,360,524
OPERATION, MAINTENANCE AND ADMINISTRATIVE EXPENSE		
Operation and maintenance:		
Pumping	**2,031,000**	2,127,130
Water treatment	**3,232,184**	3,273,391
Transmission and distribution	**2,212,613**	2,009,480
Total operation and maintenance	**7,475,797**	7,410,001
Administrative and general:		
Customer accounts	**1,023,028**	1,137,715
Administrative and general	**4,115,444**	3,843,138
Total administrative and general	**5,138,472**	4,980,853
Total operation, maintenance and administrative expense	**12,614,269**	12,390,854
Total net revenue in accordance with bond resolution	**$ 19,472,583**	$ 19,969,670

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

WASTEWATER UTILITY FUND SEPTEMBER 30, 2012 & 2011

	2012	2011
REVENUE		
Wastewater billings:		
Billings	$ 32,034,244	$ 29,899,690
Utility surcharge	2,442,636	2,359,276
Total wastewater billings	34,476,880	32,258,966
Other wastewater revenue:		
Connection charges	1,240,713	1,055,110
Miscellaneous	(160,650)	1,981
Total other wastewater revenue	1,080,063	1,057,091
Transfers (to) from rate stabilization	(379,508)	1,100,815
Interest income	246,283	284,526
Other interest related income, BABs	1,009,614	911,114
Total revenue	36,433,332	35,612,512
OPERATION, MAINTENANCE AND ADMINISTRATIVE EXPENSE		
Operation and maintenance:		
Collection	2,395,872	2,282,302
Treatment and pumping	4,846,987	4,948,387
Total operation and maintenance	7,242,859	7,230,689
Administrative and general:		
Customer accounts	1,028,312	1,343,721
Administrative and general	4,478,309	4,987,671
Total administrative and general	5,506,621	6,331,392
Total operation, maintenance and administrative expense	12,749,480	13,562,081
Total net revenue in accordance with bond resolution	$ 23,683,852	$ 22,050,431

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

GAS UTILITY FUND SEPTEMBER 30, 2012 & 2011

	2012	2011
REVENUE		
Sales of gas:		
Residential	**$ 9,952,951**	$ 13,189,609
Interruptible/commercial	**9,115,092**	10,996,772
Other sales	**2,564,989**	2,967,517
Total sales of gas	**21,633,032**	27,153,898
Other gas revenue	**954,219**	1,089,778
Transfers from rate stabilization	**1,475,567**	820,268
Interest income	**251,631**	275,191
Other interest related income, BABs	**668,472**	626,795
Total revenue	**24,982,921**	29,965,930
OPERATION, MAINTENANCE AND ADMINISTRATIVE EXPENSE		
Operation and maintenance:		
Fuel expense	**9,950,085**	13,800,865
Operation and maintenance	**1,362,351**	1,259,693
Total operation and maintenance	**11,312,436**	15,060,558
Administrative and general:		
Customer accounts	**2,151,119**	2,027,744
Administrative and general	**1,817,325**	1,670,592
Total administrative and general	**3,968,444**	3,698,336
Total operation, maintenance and administrative expense	**15,280,880**	18,758,894
Total net revenue in accordance with bond resolution	**$ 9,702,041**	$ 11,207,036

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

GRUCOM UTILITY FUND SEPTEMBER 30, 2012 & 2011

	2012	2011
REVENUE		
Sales to customers	**$ 10,892,510**	$ 11,889,016
Transfers from rate stabilization	**2,955,113**	1,172,482
Interest income	**175,443**	201,875
Total revenue	**14,023,066**	13,263,373
OPERATION, MAINTENANCE AND ADMINISTRATIVE EXPENSE		
Operation and maintenance	**3,614,797**	3,333,664
Total operation and maintenance	**3,614,797**	3,333,664
Administrative and general:		
Customer accounts	**244,832**	354,050
Administrative and general	**2,056,601**	1,619,715
Total administrative and general	**2,301,433**	1,973,765
Total operation, maintenance and administrative expense	**5,916,230**	5,307,429
Total net revenue in accordance with bond resolution	**$ 8,106,836**	$ 7,955,944

NOTES TO SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

SEPTEMBER 30, 2012

"Net revenue in accordance with bond resolution" differs from "Net income," which is determined in accordance with generally accepted accounting principles. Following are the more significant differences:

- Interest income does not include interest earned on construction funds.
- Operation and maintenance expense does not include depreciation, amortization, or interest expense.
- Other water and wastewater revenue include fees for connection, installation and backflow prevention.
- Transfers to the general fund are excluded.

COMBINING BALANCE SHEET
SEPTEMBER 30, 2012

	Electric	Water	Wastewater	Gas	GRUCom	Combined
ASSETS						
Current assets:						
Cash and cash equivalents	$ 24,463,001	$ 187,897	$ 2,128,443	$ 5,751,011	$ (65,809)	$ 32,464,543
Accounts receivable, net	33,773,934	3,603,036	3,904,509	1,345,560	1,473,926	44,100,965
Fuel contracts	2,862,896	–	–	896,571	–	3,759,467
Deferred charges	(1,005,650)	10,792	14,389	3,920,522	4,496	2,944,549
Inventories:						
Fuel	24,019,055	–	–	–	–	24,019,055
Materials and inventories	8,070,438	757,323	–	486,933	743,713	10,058,407
Total current assets	92,183,674	4,559,048	6,047,341	12,400,597	2,156,326	117,346,986
Restricted assets:						
Utility deposits – cash and investments	6,103,596	824,524	799,979	339,296	–	8,067,395
Debt service fund – cash and investments	31,077,931	6,120,963	8,262,513	2,958,554	4,076,117	52,496,078
Rate stabilization – cash and investments	50,441,189	1,171,603	2,699,690	6,118,112	2,304,776	62,735,370
Construction Fund – cash and investments	50,534,426	10,132,329	30,238,126	6,210,341	9,589,419	106,704,641
Utility plant improvement fund – cash and investments	16,202,958	8,486,550	8,719,232	3,547,061	2,140,616	39,096,417
Decommission reserve – cash and investments	10,278,134	–	–	–	–	10,278,134
Total restricted assets	164,638,234	26,735,969	50,719,540	19,173,364	18,110,928	279,378,035
Noncurrent assets	14,486,565	2,247,725	2,629,051	17,789,591	623,656	37,776,588
Capital assets:						
Utility plant in service	1,055,857,295	223,945,112	270,758,897	66,891,703	57,040,424	1,674,493,431
Less: accumulated depreciation and amortization	366,512,849	81,317,819	106,736,049	31,364,926	24,759,988	610,691,631
	689,344,446	142,627,293	164,022,848	35,526,777	32,280,436	1,063,801,800
Construction in progress	60,214,738	32,327,971	27,888,393	8,587,640	9,280,418	138,299,160
Net capital assets	749,559,184	174,955,264	191,911,241	44,114,417	41,560,854	1,202,100,960
Total assets	1,020,867,657	208,498,006	251,307,173	93,477,969	62,451,764	1,636,602,569
Deferred outflows of resources:						
Accumulated decrease in fair value hedging derivatives	54,278,633	9,302,032	8,985,054	2,569,160	1,298,308	76,433,187
Total assets and deferred outflows of resources	$ 1,075,146,290	$ 217,800,038	$ 260,292,227	$ 96,047,129	$ 63,750,072	$ 1,713,035,756

	Electric	Water	Wastewater	Gas	GRUCom	Combined
LIABILITIES AND NET POSITION						
Current liabilities:						
Fuels payable	$ 4,491,131	$ –	$ –	$ 826,844	$ –	$ 5,317,975
Accounts payable and accrued liabilities	12,602,517	1,190,123	747,611	411,098	246,313	15,197,662
Deferred credits	21,141,374	134,669	170,325	(1,143,823)	96,496	20,399,041
Due to other funds of the City	2,613,714	1,006,138	736,390	182,144	155,491	4,693,877
Total current liabilities	40,848,736	2,330,930	1,654,326	276,263	498,300	45,608,555
Payable from restricted assets:						
Utility deposits	6,103,596	824,524	799,979	339,296	–	8,067,395
Rate stabilization deferred credit	49,553,423	1,136,936	2,676,608	6,035,127	2,364,640	61,766,734
Construction fund:						
Accounts payable and accrued liabilities	2,658,919	1,244,478	2,050,797	453,364	295,154	6,702,712
Debt payable – current portion	18,399,933	3,608,137	4,906,390	1,815,435	3,170,105	31,900,000
Accrued interest payable	10,898,121	2,409,969	2,662,093	1,335,663	1,020,696	18,326,542
Total payable from restricted assets	87,613,992	9,224,044	13,095,867	9,978,885	6,850,595	126,763,383
Long-term debt:						
Utilities system revenue bonds	547,844,242	118,835,476	130,791,223	57,772,915	57,551,142	912,794,998
Commercial paper notes	32,907,630	5,337,350	13,214,900	10,540,120	–	62,000,000
Unamortized loss on refunding	(22,838,509)	(4,652,259)	(5,405,986)	(2,098,318)	(3,630,250)	(38,625,322)
Unamortized bond premium\discount	7,224,266	1,946,124	2,339,556	842,185	309,895	12,662,026
Fair value of derivative instruments	59,513,237	10,701,480	10,671,031	3,129,729	1,381,519	85,396,996
Total long-term debt	624,650,866	132,168,171	151,610,724	70,186,631	55,612,306	1,034,228,698
Noncurrent liabilities	12,278,094	598,327	546,333	2,077,111	5,296	15,505,161
Total liabilities	765,391,688	144,321,472	166,907,250	82,518,890	62,966,497	1,222,105,797
Deferred inflows of resources:						
Accumulated increase in fair value hedging derivatives	750,665	–	–	235,085	–	985,750
Net position:						
Net investment in capital assets	213,897,129	58,768,287	74,252,487	(19,000,943)	(6,545,773)	321,371,187
Restricted	47,548,668	12,232,211	14,342,734	5,252,937	5,136,173	84,512,723
Unrestricted	47,558,140	2,478,068	4,789,756	27,041,160	2,193,175	84,060,299
Total net position	309,003,937	73,478,566	93,384,977	13,293,154	783,575	489,944,209
Total liabilities and net position	$ 1,075,146,290	$ 217,800,038	$ 260,292,227	$ 96,047,129	$ 63,750,072	$ 1,713,035,756

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED SEPTEMBER 30, 2012

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Operating revenue:						
Sales and service charges	$ 230,805,656	$ 29,872,977	$ 34,476,880	$ 21,633,032	$ 10,892,510	$ 327,681,055
Transfers from (to) rate stabilization	1,068,547	(655,733)	(379,508)	1,475,567	2,955,113	4,463,986
Other operating revenue	12,853,882	1,824,301	1,080,063	954,219	–	16,712,465
Total operating revenue	244,728,085	31,041,545	35,177,435	24,062,818	13,847,623	348,857,506
Operating expenses:						
Operation and maintenance	139,530,222	7,475,797	7,242,859	11,312,436	3,614,796	169,176,110
Administrative and general	21,049,516	5,138,472	5,506,621	3,968,444	2,301,433	37,964,486
Depreciation and amortization	34,914,059	6,311,909	8,054,631	3,541,941	2,559,517	55,382,057
Total operating expenses	195,493,797	18,926,178	20,804,111	18,822,821	8,475,746	262,522,653
Operating income	49,234,288	12,115,367	14,373,324	5,239,997	5,371,877	86,334,853
Non-operating income (expense):						
Interest income	1,493,490	316,032	509,764	342,148	523,196	3,184,630
Interest expense	(25,937,253)	(5,519,068)	(6,251,620)	(3,066,858)	(2,679,609)	(43,454,408)
Other interest related income, BABs	3,193,181	894,819	1,009,614	668,472	–	5,766,086
Total non-operating expense	(21,250,582)	(4,308,217)	(4,732,242)	(2,056,238)	(2,156,413)	(34,503,692)
Income before contributions and transfers	27,983,706	7,807,150	9,641,082	3,183,759	3,215,464	51,831,161
Capital contributions:						
Contributions from developers	56,450	827,057	600,916	–	–	1,484,423
Reduction of plant cost recovered from contributions	(56,450)	–	–	–	–	(56,450)
Net capital contributions	–	827,057	600,916	–	–	1,427,973
Operating transfer to City of Gainesville general fund	(19,311,443)	(5,641,623)	(6,540,719)	(2,134,664)	(2,376,509)	(36,004,958)
Change in net position	8,672,263	2,992,584	3,701,279	1,049,095	838,955	17,254,176
Net position – beginning of year	300,331,674	70,485,982	89,683,698	12,244,059	(55,380)	472,690,033
Net position – end of year	$ 309,003,937	$ 73,478,566	$ 93,384,977	$ 13,293,154	$ 783,575	$ 489,944,209

SCHEDULE OF UTILITY PLANT PROPERTIES – COMBINED UTILITY FUND

SEPTEMBER 30, 2012

	Balance September 30, 2011	Additions	Sales Retirements, and Transfers	Balance September 30, 2012
PLANT IN SERVICE				
Electric utility fund:				
Production plant	$ 579,645,619	$ 71,873,018	$ 21,306,694	$ 630,211,943
Nuclear fuel	2,858,039	–	–	2,858,039
Transmission and distribution plant	286,617,948	25,214,648	2,329,006	309,503,590
General and common plant	76,499,444	39,131,636	2,347,357	113,283,723
Total electric utility fund	945,621,050	136,219,302	25,983,057	1,055,857,295
Water utility fund:				
Supply, pumping and treatment plant	29,078,648	15,773,441	183,453	44,668,636
Transmission and distribution plant	151,450,292	7,259,458	137,193	158,572,557
General plant	6,203,396	14,580,123	79,600	20,703,919
Total water utility fund	186,732,336	37,613,022	400,246	223,945,112
Wastewater utility fund:				
Pumping and treatment plant	88,915,472	4,572,206	1,620,578	91,867,100
Collection plant	135,939,433	12,023,117	1,664,739	146,297,811
Reclaimed water plant	8,372,691	43,324	–	8,416,015
General plant	9,331,034	15,089,726	242,789	24,177,971
Total wastewater utility fund	242,558,630	31,728,373	3,528,106	270,758,898
Gas utility fund:				
Distribution plant	52,036,654	2,244,410	10,461	54,270,603
General plant	3,856,123	4,299,667	185,325	7,970,465
Plant acquisition adjustment	4,650,635	–	–	4,650,635
Total gas utility fund	60,543,412	6,544,077	195,786	66,891,703
GRUCom utility fund:				
Distribution plant	43,334,447	6,994,441	4,545,656	45,783,232
General plant	1,550,860	9,790,220	83,888	11,257,192
Total GRUCom utility fund	44,885,307	16,784,661	4,629,544	57,040,424
Total plant in service	$ 1,480,340,735	$ 228,889,435	$ 34,736,738	$ 1,674,493,431
CONSTRUCTION IN PROGRESS				
Electric utility fund	$ 159,701,816	$ 36,732,225	$ 136,219,303	$ 60,214,738
Water utility fund	57,135,056	12,805,936	37,613,021	32,327,971
Wastewater utility fund	49,163,527	10,453,239	31,728,373	27,888,393
Gas utility fund	11,444,864	3,686,853	6,544,077	8,587,640
GRUCom utility fund	17,663,643	8,401,435	16,784,660	9,280,418
Total construction in progress	$ 295,108,906	$ 72,079,688	$ 228,889,434	$ 138,299,160

SCHEDULE OF ACCUMULATED DEPRECIATION AND AMORTIZATION – COMBINED UTILITY FUND

SEPTEMBER 30, 2012

	Balance September 30, 2011	Additions	Sales, Retirements, and Transfers	Balance September 30, 2012
Electric utility fund:				
Production plant	$ 234,455,889	$ 14,866,867	$ 22,000,433	$ 227,322,323
Nuclear fuel	2,094,067	–	–	2,094,067
Transmission and distribution plant	97,009,573	10,777,230	5,136,505	102,650,298
General and common plant	31,169,625	5,444,037	2,167,501	34,446,161
Total electric utility fund	364,729,154	31,088,134	29,304,439	366,512,849
Water utility fund:				
Supply, pumping and treatment plant	15,620,441	935,505	997,467	15,558,479
Transmission and distribution plant	59,365,617	4,139,584	349,244	63,155,957
General plant	2,133,310	513,905	43,832	2,603,383
Total water utility fund	77,119,368	5,588,994	1,390,543	81,317,819
Wastewater utility fund:				
Pumping and treatment plant	47,695,897	2,226,945	2,187,455	47,735,387
Collection plant	54,146,706	4,100,243	4,613,262	53,633,687
Reclaimed water plant	2,025,659	185,220	(108,540)	2,319,419
General plant	2,258,858	991,403	202,705	3,047,556
Total wastewater utility fund	106,127,120	7,503,811	6,894,882	106,736,049
Gas utility fund:				
Distribution plant	23,038,537	2,197,432	3,368	25,232,601
General plant	1,255,406	395,412	169,130	1,481,688
Plant acquisition adjustment	4,650,637	–	–	4,650,637
Total gas utility fund	28,944,580	2,592,844	172,498	31,364,926
GRUCom utility fund:				
Distribution plant	26,300,626	2,084,515	4,513,880	23,871,261
General plant	627,372	340,318	78,963	888,727
Total GRUCom utility fund	26,927,998	2,424,833	4,592,843	24,759,988
Total	$ 603,848,220	$ 49,198,616	$ 42,355,205	$ 610,691,631

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 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, FL

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, 2012, and have issued our report thereon dated February 27, 2013. 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

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

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

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

COMPLIANCE AND OTHER MATTERS

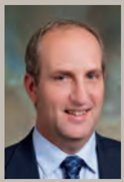
As part of obtaining reasonable assurance about whether Gainesville Regional Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct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

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

Ernst + Young LLP

February 27, 2013

GRU EXECUTIVE STAFF



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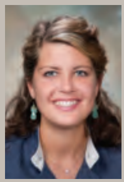

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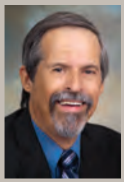

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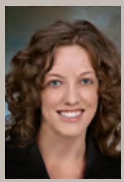

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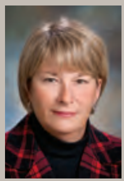

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GAINESVILLE CITY COMMISSION

From left: Commissioner and Mayor Pro Tem Lauren Poe, Commissioner Susan Bottcher, Commissioner Randy Wells, Mayor Craig Lowe, Commissioner Todd Chase, Commissioner Thomas Hawkins, Commissioner Yvonne Hinson-Rawls

THE VALUE OF PUBLIC POWER

For the past century, the residents and businesses of Gainesville have benefitted from having their own public utility, which offers local decision making, service and jobs; a not-for-profit design; support for community projects; and control by a board of directors elected by its citizens.

Through governance by the citizen-elected City Commission, our customers' opinions are heard and reflected in our operations. The very concept of Public Power means that service, reliability, products and communications are tailored to the specific needs of our community. GRU is proud to have delivered power on demand 99.99 percent of the time last year.

As a local employer and not-for-profit company, we contribute to the community's current and future economic prosperity. GRU employs approximately 850 residents and funds a portion of the City's budget. GRU's profits go to the City through a general fund transfer that keeps taxes down and provides support for vital community services such as police and fire protection.

Public Power also means direct contributions to the community. GRU works with residents, schools and nonprofit organizations like the United Way to make a difference. GRU is honored to be part of the Gainesville community and is dedicated to continuing to meet its needs for many years to come.

DISCOVER HOW GRU HAS BEEN MEETING CUSTOMER NEEDS FOR THE PAST 100 YEARS

Visit www.youtube.com/GRU4U to watch *A Century of Service*!

GRU100
100 YEARS of SERVICE | 1912-2012

CITY OF GAINESVILLE
every path starts with passion
FLORIDA

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