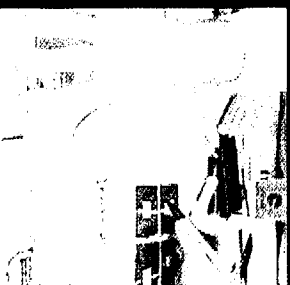


Gainesville Regional Utilities 1998-99 Annual Report



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A Letter to Our Bondholders

**"We've been meeting new challenges
and creating new opportunities to**

serve our community

IT'S BEEN A BUSY YEAR at GRU. We've been meeting new challenges and creating new opportunities to serve our community better. While electric deregulation has not arrived in Florida, GRU is already competing.

We provide more than reliable electric service at competitive prices to our customers. We also offer water, wastewater, natural gas and



“We know one thing for sure: to be a successful business in the future, we must be ready.”

telecommunications services at some of the lowest rates in Florida. This combination of available services means that customer choice is already here.

For example, with GRUCom — our telecommunications service — we are competing to provide Internet service to our customers. We are expanding our natural gas market; we added 1000 new gas customers this past year alone. Given the privatization of water and wastewater systems occurring across the country, we continue to ensure that our systems are operating as efficiently as possible.

Of course, the prospect of electric deregulation is not being taken for granted at GRU. To date, Florida has taken a “wait and see” approach to deregulation, but in spite of this, we are prepared for competition. We know one thing for sure: to be a successful business in the future, we must be ready.

As president-elect of the American Public Power Association (APPA), I have been and will continue to be an advocate for public power. Our mayor and city commission are fully engaged in the debate over local control, and we are convinced that our message is being



“Our research shows that public power utilities like GRU are well positioned for customer choice and have a decided advantage over competitors.”

heard by state and federal legislators.

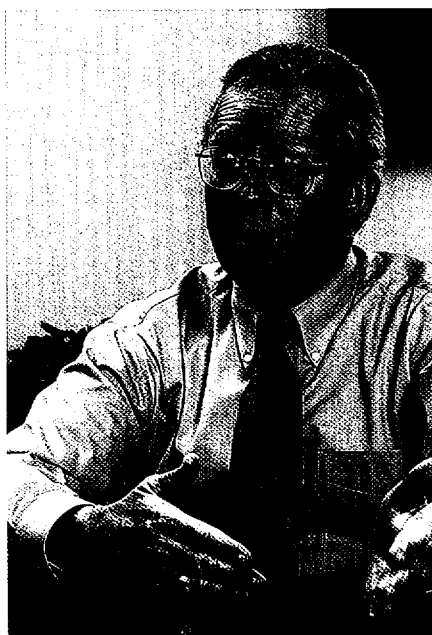
Our research shows that public power utilities like GRU are well positioned for customer choice and have a decided advantage over competitors. According to research done by the APPA, U.S. consumers believe municipal utilities care more

better.”

about their local communities, help economic development, and offer the lowest electric rates.

GRU is proud of the many successes we have experienced in keeping with this public perception — many of which are reflected in this *Annual Report*. We are committed to making all of these a reality at GRU now and into the future.

MIKE KURTZ
GRU GENERAL MANAGER



“...I have been and will continue to be an advocate for public power.”

a community-owned utility.

Gainesville Regional Utilities, or GRU, is a community-owned utility in north central Florida. As a multi-service utility, we offer electric, natural gas, water, wastewater and telecommunications services to approximately 76,000 retail customers in Gainesville and its surrounding areas.

GRU is a part of our community in important ways — ways that ultimately improve everyone's quality of life. Because we are owned by the citizens of Gainesville, we are able to transfer funds from GRU to the city of Gainesville through a designated transfer formula. During this fiscal year, for example, we transferred more than \$27 million, including a one-time transfer of approximately \$5 million resulting from net savings associated with a successful financial transaction. These funds are then used to fund government operations such as police and fire protection, recreation, parks and transportation.

There are many other ways that GRU offers superior value to the community. We are committed to providing the highest quality services to our customers. We also are dedicated to providing safe, reliable and competitively priced services — with an eye on the environment — that consistently meet or exceed our customers' needs and expectations.

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“...I have been and will continue to be an advocate for public power.”

Proud to be a community-owned utility.

Gainesville Regional Utilities, or GRU, is a community-owned utility in north-central Florida. As a multi-service utility, we offer electric, natural gas, water, wastewater and telecommunications services to approximately 76,000 retail customers in Gainesville and its surrounding areas. As one of our community's largest businesses, we employ more than 750 people.

GRU is an important utility in important ways — ways that ultimately improve everyone's quality of life. Because we are owned by the citizens of Gainesville, we provide a significant return on investment to the City of Gainesville through

its dedicated financial support. During this recent year, for example, we transferred more than \$27 million to the city, including a dividend payment of approximately \$6 million (resulting from net savings associated with a successful financial restructuring). These funds are then used to fund government operations such as police and fire protection, education, parks and transportation.

There are many other ways that GRU offers significant value to the community. Few utilities can match GRU for the degree of volunteerism demonstrated by our employees. We also are

dedicated to providing safe, reliable and uninterrupted service to our customers with an eye on the environment. In fact, our commitment to exceed our customers' needs and expectations is



KEEPING COSTS DOWN is a priority at GRU. We know it's an important strategy in preparing for deregulation and competition. From lowering generation costs to debt reduction, GRU is constantly implementing ways to improve how we do business. Because about two thirds of

the cost of electric generation is related to fuel, much of GRU's emphasis is on managing fuel costs.

"On the international market this past year a lot of coal was purchased from non-U.S. sources," said Darrell DuBose, GRU's assistant general manager for Energy Supply. "With coal being purchased elsewhere, U.S.

producers found that their export market had dried up, so domestic coal prices dropped."

GRU took advantage of this decrease in coal prices by purchasing additional inventory at lower prices than normal, using this soft market as the time to renegotiate fuel contracts. The combined effect was overall lower



wholesale marketing on our behalf provides a strategic advantage for GRU. Deregulation of the wholesale

involving our Deerhaven Generating Facility in December 1998 and netted a little over \$35 million up front from that transaction. Funding from this arrangement was combined with other GRU funds to reduce almost \$43 million of generation debt, which also assists in making our generation more competitive. This, in effect, lowers the mortgage payment on the plant, which

municipal utilities in the nation.

electric market created the opportunity and need to participate in the market on a regional and national basis, as

.....
"...consultants recognized Deerhaven's... maintenance program as being 'much better than the industry norm'... [and] for its application of 'current technological developments.'"
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During the assessment for this transaction, financial and technical consultants recognized the Deerhaven Generating Facility's maintenance program as being "much better than the industry norm." Deerhaven, which produces energy for most of the residents of Alachua County, was noted for replacing "outdated and inefficient components and systems." The plant also was commended for its application of "current technological developments."

Based on this and other factors, GRU continues to maintain bond ratings that are among the best in the nation, which helps GRU hold down

opposed to the more localized nature of the market prior to deregulation.

"TEA, as a dedicated trading organization for its members, provides access to the larger market in a much more efficient manner than we could have achieved on our own," DuBose said.

"Our community has assets in this utility," DuBose explained. "And we are interested in getting the most value for our assets, which is where power marketing and our alliance with TEA come into play. Profits from power marketing go back to offset our generating costs — and that equals lower prices to our community."

Keeping costs down also means being aggressive about debt reduction. GRU closed a financial transaction


fuel and generation costs for GRU and, as an extension of that, more competitive prices for our customers.

Through power marketing, we also have been able to improve our ability to provide competitive electric prices.

"Electric power marketing has really changed in the last few years. Before it was a cost-based market — now the price is market driven. The result has been a significant increase in the price of electricity in the wholesale market," DuBose said.

GRU has been proactive in making the most of what power marketing has to offer. An agreement with The Energy Authority (TEA) to manage





Commercial customers — like the Nationwide Insurance Service Center — benefit from GRU's competitive pricing. Serving the entire southeastern United States, this large commercial enterprise also takes advantage of GRU's Business Partners program, which provides discounts to business customers in exchange for 10-year service agreements.

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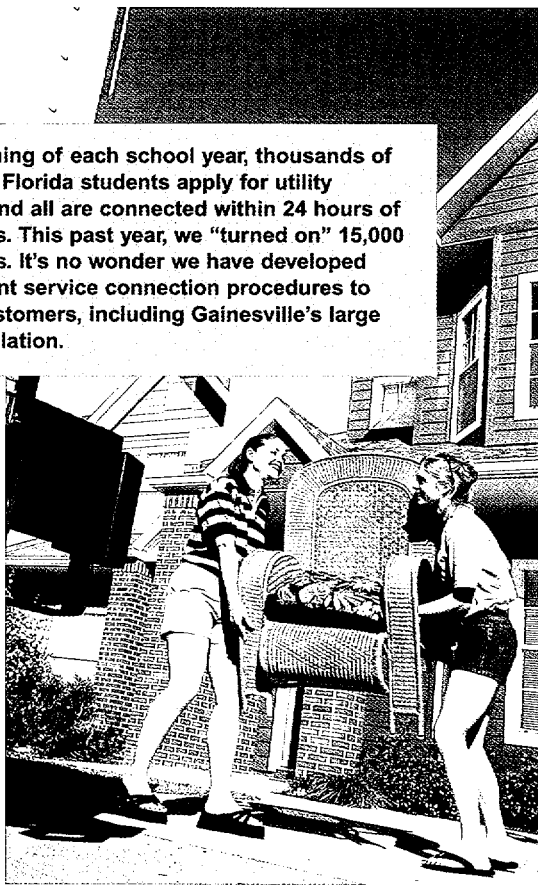
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Keeping costs down also means being aggressive about debt reduction. GRU closed a financial transaction



At the beginning of each school year, thousands of University of Florida students apply for utility services — and all are connected within 24 hours of their requests. This past year, we "turned on" 15,000 new accounts. It's no wonder we have developed highly efficient service connection procedures to serve our customers, including Gainesville's large student population.

Successful Rollover to the new

millennium

Since 1996 more than 100 employees have worked hard to inventory, assess, remediate and test GRU's mission critical systems in preparation for the rollover to the new millennium. During our work, we investigated more than 300 systems and determined which systems needed to be upgraded or replaced to meet our Y2K ready standard. We used the process recommended by the North American Electric Reliability Council that included inventory, assessment, remediation, testing and contingency planning.

"We committed the necessary resources and had the backing of our general manager and city commission," said Dave Beaulieu, GRU's assistant general manager for Energy Delivery and our Y2K project team leader. "We are extremely pleased with our results and the commitment of our employees. Our goal from day one has been to provide safe, reliable service to our customers during the rollover to the new millennium and beyond." We're pleased to announce that GRU had a successful rollover to the Year 2000. We were Y2K ready!

costs. Moody's Investors Service rates GRU as "Aa"; Standard and Poor's Corporation rates GRU's debt as "AA." Our Tax Exempt Commercial Paper Program is rated P1 and A1+.

"Moody's believes [GRU's] management has the proven ability to control costs and provide reliable service. It has reduced employee levels 7 percent through attrition since 1989, is investing in new technology and systems including addressing Year 2000 compliance, has been lowering fuel costs, and upgrading its primary generating plants," according to a news release issued by Moody's in July 1998.

"We are certainly proud of the fact that we are viewed by external, independent parties as being one of the best municipal utilities in the nation," said GRU's Finance Director Kim Simpson.

"These bond ratings represent a culmination of all of our efforts over

the years to keep rates competitive, to do the right things for our customers, and to keep costs down," Simpson added. "They reflect how hard we are working and that we are committed to retaining these ratings."

Beyond generation and debt reduction, you'll find other smart business decisions being made at GRU to maximize our resources.

"We've made a conscious effort in Energy Delivery to reduce crew sizes to improve productivity and better manage our resources," said Dave Beaulieu, GRU's assistant general manager for Energy Delivery.

Line crews are now largely composed of two people, rather than four or five. As a result, Energy Delivery has seen considerable gains in productivity and resource management.

"What we've done is create compact work units, or crews, that can be combined in ways that make sense

for the job," Beaulieu explained. "We are fitting our resources to the work rather than work to the resources."

Resource management also can benefit from the advantages technology can bring to bear on the issue. At GRU, we know that in order to stay competitive in a deregulated environment, we need to be able to assess costs of production and delivery so we can keep costs low. MIMS is an enterprise management system recently implemented across all of GRU's operating divisions to assist with this effort.

"There have been many changes at GRU since we began our preparation for deregulation of our industry," said GRU's General Manager Mike Kurtz. "We have responded to this challenge by developing a framework, or strategic plan, for our continued

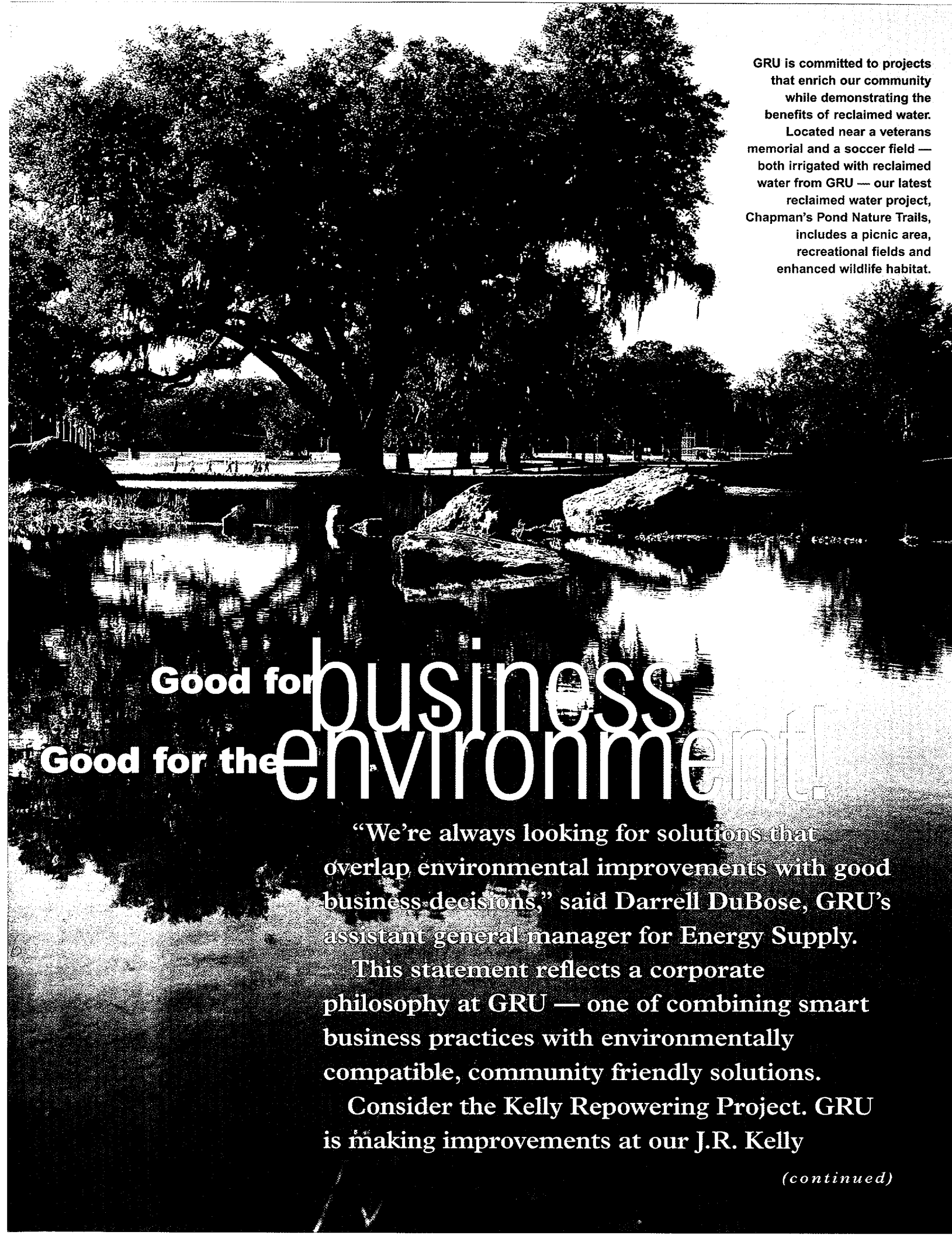
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success. Mincom's Enterprise Asset Management Software, or MIMS, provides the best-fit solution to support our strategic plan.

"By providing us with the ability to analyze and determine the cost of providing services to our customers, MIMS is an important tool to help us improve our competitive advantage," Kurtz said.

At GRU, we know that keeping costs down translates into lower prices and better service for our customers.

S



GRU is committed to projects that enrich our community while demonstrating the benefits of reclaimed water. Located near a veterans memorial and a soccer field — both irrigated with reclaimed water from GRU — our latest reclaimed water project, Chapman's Pond Nature Trails, includes a picnic area, recreational fields and enhanced wildlife habitat.

Good for business Good for the environment!

“We’re always looking for solutions that overlap environmental improvements with good business decisions,” said Darrell DuBose, GRU’s assistant general manager for Energy Supply.

This statement reflects a corporate philosophy at GRU — one of combining smart business practices with environmentally compatible, community friendly solutions.

Consider the Kelly Repowering Project. GRU is making improvements at our J.R. Kelly

(continued)

Generating Station, located in downtown Gainesville, to meet future electric demand and bring other benefits to our customers and community.

completed in 1914. So, in keeping, the Kelly project will be coordinated with other nearby redevelopment initiatives.

"We brought in a premiere urban design firm — Dover, Kohl and

owner, The Timber Company, which uses the land for timber production. However, by prohibiting future development of the land, this conservation easement will protect GRU's existing well field and provide locations for new wells to meet increasing water demands.

The total cost of the conservation easement is approximately \$6 million, of which GRU will pay approximately \$1.1 million. An additional \$600,000 will be used from a grant provided by the USDA's Natural Resources Conservation Service, with the remainder of the cost being shared by the St. Johns and Suwannee River Water Management Districts.

"This is one of the finest examples I've seen of what great things can be achieved when private industry and public agencies team up together," said John Carver, Suwannee River Water Management District governing board chairperson.

Then there is GRU's new reclaimed water project: Chapman's Pond Nature Trails. Through percolation, this nature trails project — located near our Kanapaha Water Reclamation Facility — will recycle approximately 1 million gallons of reclaimed water each day via a series of shallow ponds and swales constructed on GRU-owned land. The park, when completed, will include nature trails designed for jogging, walking and biking along with a picnic area, recreational fields and enhanced wildlife habitat.

"This project is a good addition to our other uses of reclaimed water in the community," said Bob McVay, GRU's assistant general manager for

As the sole source of drinking water for GRU's customers, the Murphree Water Treatment Plant must be protected. By purchasing a conservation easement that prohibits development on more than 7,000 acres located near the plant, we've secured additional protection for our existing wellfield and locations for new wells that will meet our community's increasing water demands.

Partners — with experience in taking large, diverse groups of people and ending up with a common vision," Regan said.

With help from Dover, Kohl and Partners, GRU held neighborhood meetings, or design charrettes, that allowed citizens to be involved with the project. The result: widespread community support.

Elsewhere, at GRU's Deerhaven Generating Station, new coal pulverizers and controls are now in place. A project four years in the making, the new pulverizers allow better control of fuel handling in the boiler; the new state-of-the-art digital controls more tightly direct processes for Deerhaven's Unit 2 generator.

"The combined effect is to allow us to fine-tune air and fuel mixtures," DuBose explained. That's good for business — and the environment.

Purchasing a conservation easement to protect Gainesville's drinking water is another GRU project that balances business and the environment. GRU and two local water management districts have negotiated a purchase agreement for a conservation easement on 7,100 acres located

"It's important that GRU meet the future energy needs of our customers, but we wanted to meet them in a way that's cost effective, competitive and environmentally responsible..."

near GRU's Murphree Water Treatment Plant — the source of drinking water for all GRU water customers, more than 70 percent of Alachua County's population.

With the easement, the land will continue to be owned by its current

Water and Wastewater. "And more importantly it will help us cost effectively address increased need for reclaimed water capacity anticipated for the year 2002," he said.

Reclaimed water is treated to drinking water standards at the

"It's important that GRU meet the future energy needs of our customers, but we wanted to meet them in a way that's cost effective, competitive and environmentally responsible," DuBose explained. "Our primary responsibility is to create an energy supply portfolio that results in a competitive, low-cost energy supply for our customers that is environmentally sound. The Kelly Repowering Project met all three criteria."

The repowered unit will be more efficient and use cleaner technology, which results in improved air emissions and better conservation of fuel. The project involves rebuilding existing equipment and adding new technology to create a 110-megawatt combined cycle unit. The project will cost about \$41 million and is targeted for completion in 2001.

According to GRU's Director of Strategic Planning Ed Regan, the Kelly Repowering Project will provide GRU with five times the energy for half the emissions. Preserving Gainesville's history also will be part of this project. The Kelly Generating Station was Gainesville's first public power plant,

"We have reduced the number of distribution-related outages significantly because of our proactive and effective approach to vegetation management..."

Kanapaha Water Reclamation Facility — the only plant of its kind in Florida permitted to discharge effluent directly into the lower regions of the Floridan Aquifer. Much of this reclaimed water, however, is cost effectively reused for local irrigation and in community projects like this park. These reclaimed water projects benefit our system because they have high regulatory acceptance and a short lead time, and they do not require any changes in our current treatment methods.

It's not enough, though, to implement solutions for GRU-related projects that are environmentally friendly — we know it's important to help our business customers with the same type of decisions.

In 1998, the U.S. Environmental Protection Agency (EPA) designated GRU as the National "Outstanding Utility Ally" for support of the

ENERGY STAR Homes program. Now GRU also is an ENERGY STAR Building Ally. A new initiative from the EPA and the U.S. Department of Energy, the ENERGY STAR Label for Buildings recognizes commercial buildings with superior energy performance. GRU is participating as an ENERGY STAR Building Ally to show how business practices that are good for the bottom line can be good for the environment too.

Another important environmental concern is vegetation management. As a community-owned utility, GRU is committed to a vegetation management approach that helps balance complex issues such as electric service

reliability, community concerns and the environment. That's why we participate in Project Habitat, a vegetation management program that helps utilities manage rights-of-way while protecting wildlife habitat.

"We have reduced the number of distribution-related outages significantly because of our proactive and effective approach to vegetation management," said Dave Beaulieu, GRU's assistant general manager for Energy Delivery. "And we've done so in a way that's environmentally responsible." That is important in a community designated as "Tree City USA."

As a community-owned utility, GRU is committed to programs, like these, that benefit Gainesville and make good business sense. We know that providing reliable service with an eye on the environment makes sense for all of us — today and tomorrow.

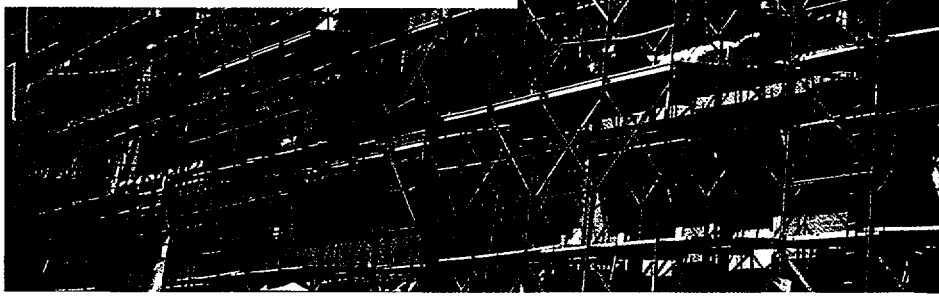
In order to meet our city's growing power needs, GRU is building an environmentally friendly combined-cycle natural gas-fired 110-megawatt electric generating unit at our downtown J. R. Kelly Generating Station. A community consensus for the project was achieved through a series of public charrettes at which Gainesville's citizens contributed design ideas for the neighborhood renovation, helping to revitalize our downtown community.



GRU's business strategy builds customer base

GRU, as a multi-service utility, provides more than competitively priced electricity. We also provide water, wastewater, natural gas and telecommunications services, including our expanded Internet service now available to all residents in the Gainesville urban area.

Called GRUNet, this Internet service is a subsidiary of GRUCom, GRU's telecommunications utility, which is a high-speed, high-volume data communications service for the local market.

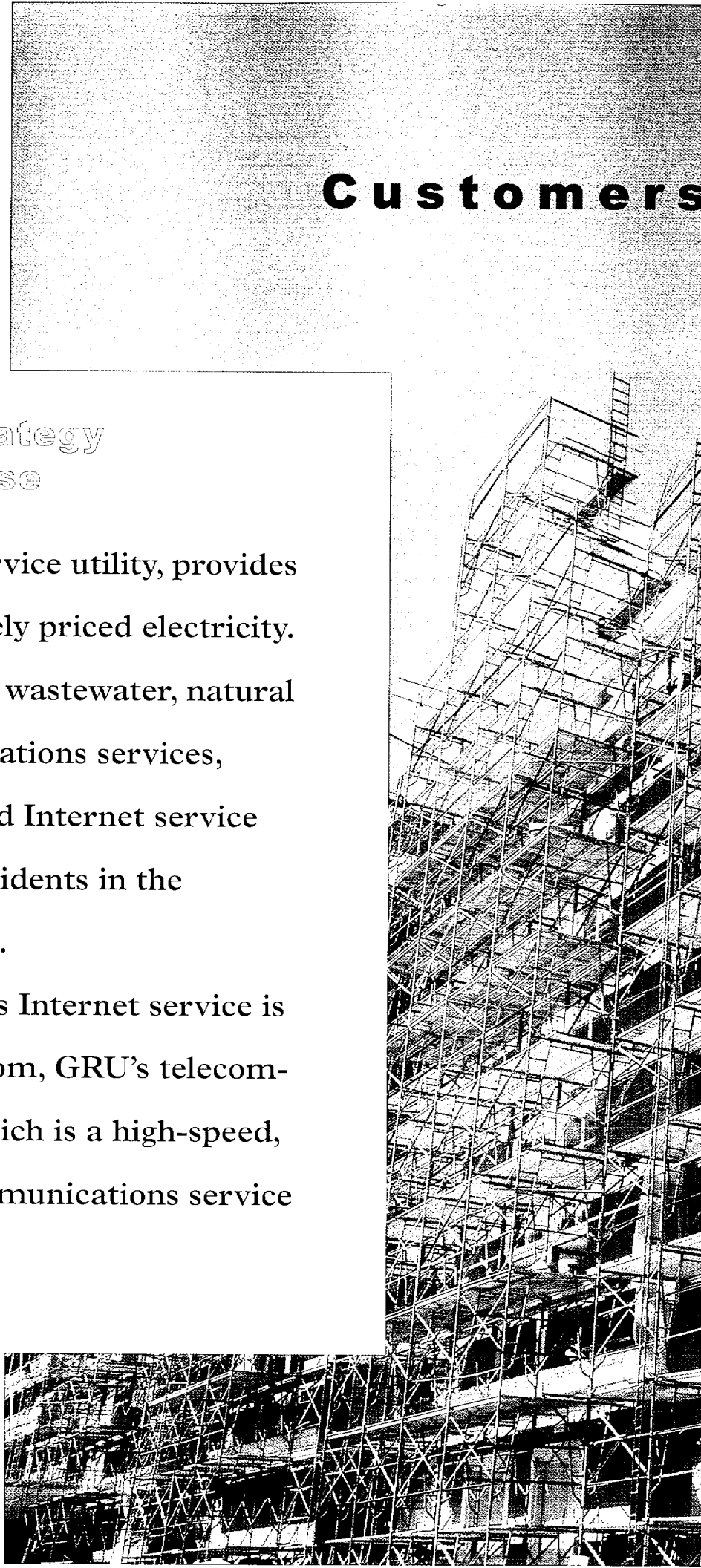


Customers

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can get it all

With GRU

ALIMAK

Currently under construction, the University of Florida Hotel and Conference Center will feature state-of-the-art meeting and conference facilities. GRU won the contract to provide five utility services to the center through open competition against a large, investor-owned utility, demonstrating our ability to succeed in the marketplace.



Clean, reliable and cost-effective, natural gas is a natural choice for many of our customers. GRU's prices are among the lowest in the state for this environmentally friendly energy choice. We even offer rebates to homeowners who switch to natural gas water heaters and central heating systems.

Now, with GRUNet, GRU is providing residential and commercial customers with Internet service at a competitive price.

"One thing we have heard expressed over and over again is that our customers want an Internet Service Provider, or ISP, that will be here for a while," said Ed Regan,

GRU's director of Strategic Planning. "GRUNet allows us to meet that need."

With an annual revenue of more than \$2.5 million, GRUCom also is meeting the needs of customers at a nearby municipal utility: Ocala Electric Utility.

"By selling wholesale Internet service to Ocala Electric, we have established a fiberoptic connection that allows us to provide networks that cross physical boundaries," Regan explained.

"We also are leveraging our initial investment [in telecommunications] with this new business relationship," he said.

Of course, electric, gas, water and wastewater services are still critical components of GRU's portfolio. For example, GRU added approximately 1000 natural gas customers this past year — expanding services primarily to new residential developments.

"Our positive working relationships with local developers, contractors and builders have really paid off in helping us increase our number of customers," explained Gas Sales Manager Mike Brown.

"We also are looking at additional expansion opportunities to increase our base load," he said.

Positive working relationships also have evolved to include new commercial customers. The University of Florida Hotel and Conference Center, scheduled to open in March 2000, is a new GRU customer. A Doubletree Hotel on leased university property, the University of Florida Hotel and Conference Center will be a 7-story facility featuring state-of-the-art meeting and conference facilities, 248 luxury guest rooms and 3 deluxe suites.

"Because of its unique location at the University of Florida, the conference center could have bypassed GRU for electric, gas and wastewater services," Regan explained.

By offering facility and financial incentives, however, GRU was able to secure a 10-year contract for electric, water, wastewater, gas and some telecommunications services.

Nordstrom Inc. also is in the process of bringing one of its distribution centers to Gainesville. By offering Nordstrom the convenience of "one-stop shopping" — that is, multiple services from one company — GRU was able to provide them with the rates and facilities they needed to come to Gainesville.

"We believe providing multiple services is a competitive advantage," said Karen Johnson, GRU's assistant general manager for Customer and Administrative Services.

"In today's fast-paced world, busy people are looking for ways to meet their needs and desires without spending a lot of time and energy," she added. "High quality customer service and products are ways that GRU can meet those needs."

Our customers appreciate the convenience of five utility services under one roof. They can address their needs for all of these services with just one phone call or Internet visit — and pay for all of them on just one bill. Whether cooking on a gas stove from a recipe on the Internet, using food from an electric refrigerator and water from the tap, and then washing up in the sink — GRU is there. Natural gas, Internet access, electric, water and wastewater — all services provided by GRU!





**When we say we're the
"Power of Our Community,"**

WE MEAN IT!

**GRU's programs help
build customer loyalty.**

At GRU, we know the value of supporting those things that our customers are passionate about. According to the "1999 Cone/Roper Cause Related Trends Report," nearly two thirds of Americans would likely switch brands or retailers to one associated with a good cause when price and quality are equal. The study further supports the value of sponsorships when it comes to the bottom line. "Good corporate citizens reap the

reward of enhanced consumer and employee loyalty while improving their neighborhoods," the study affirmed.

Because we know that increasing customer loyalty is critical to the long-term health of GRU and its ability to provide revenue for the City of Gainesville, GRU has a long-standing commitment to various community and civic-oriented programs. Recent additions to this tradition round out our efforts to increase customer loyalty.

For example, GRU is now the "Official Energy Sponsor of the Florida Gators." The agreement with the University of Florida Athletic

Association involves a broad range of UF sports that target the Gainesville community and appeal to diverse audiences. The sponsorship — which provides exclusivity in gas, electric and water — will include signage at sporting events, the right to use the

ABOVE: Just days away from initiating operations, Nordstrom Inc. is one of the newest businesses in Gainesville. This center will distribute merchandise to all Nordstrom department stores in the southeastern United States. As our Business Partner, the center will enjoy substantial discounts for agreeing to a long-term contract with GRU.

Official Gator Licensed Trademark, game event involvement, and other tie-ins with advertising and promotional opportunities.

"We are very excited about the tremendous opportunity this new partnership offers in reaching key audiences and in continuing to reinforce GRU as a vital member of the community," said GRU's General Manager Mike Kurtz.

With the new sponsorship, GRU will have a presence at numerous Gator sports programs including football, baseball, men's and women's basketball, soccer, volleyball, tennis, gymnastics, softball, and track and field. GRU is proud to support these nationally prominent athletic events that contribute to the high quality of life in Gainesville and generate such excitement throughout our community.

A new green pricing initiative also should go a long way in supporting those things about which our customers are passionate — in this case, the environment. Called "Solar for Schools," this new capacity-based program will put solar electric panels on rooftops of local middle schools to generate "green" power.

Our customer research has indicated a strong interest from residents in purchasing electricity from a company that has a reputation for being environmentally friendly.

GRU is now the "Official Energy Sponsor of the Florida Gators." The agreement with the University of Florida Athletic Association involves a broad range of UF sports that target the Gainesville community and appeal to diverse audiences.

"Green power is important to our customers because they feel in order to prepare for the future, we need to explore renewable energy sources and choose the most appropriate technology available for our power sources," said GRU Utility Analyst Mark Spiller.

Along with grant funding, this "Solar for Schools" program will be funded by customers who wish to contribute to the program, allowing them to demonstrate their commitment to renewable energy sources. Local students will benefit from this tangible demonstration of renewable energy technology at their schools.

An image of sustainability is important to GRU customers. "This program will demonstrate GRU's commitment to exploring renewable energy sources as viable alternatives,

which customers have indicated is important to them," Spiller added.

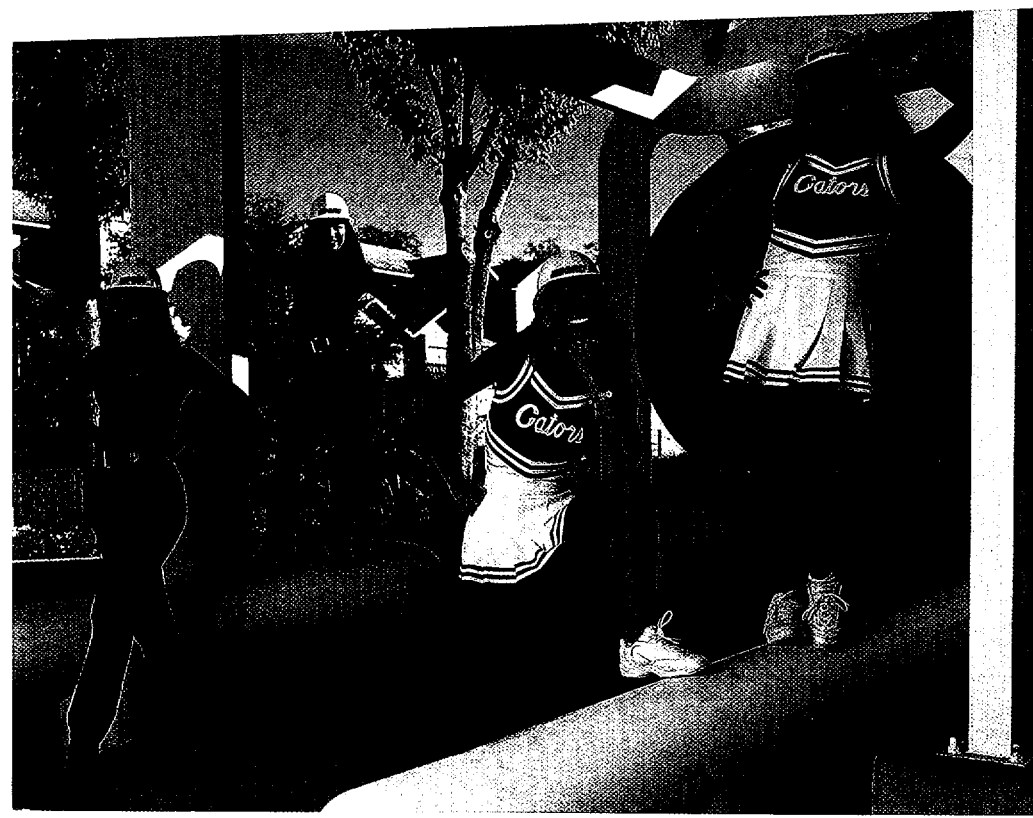
And because the program is funded by grants and interested customers, it also creates a funding mechanism for implementing renewable energy.

Also designed to increase customer loyalty and retention, our Business Partners program provides discounts of either 7 or 10 percent to businesses when they agree to purchase electricity from GRU for 10 years. GRU has been one of the most successful utilities in the nation in signing customers to this type of agreement. Approximately 60 percent of GRU's top 100 customers, representing more than 70 percent of that revenue, have signed Business Partners contracts. In fact, in its January 4, 1999, issue of *Credit Week Municipal*, bond rating agency Standard and Poor's Corporation referenced our Business Partners program when it affirmed our AA credit rating.

According to GRU Senior Large Accounts Marketing Representative Steve Stagliano, the number of customers who have signed up as Business Partners continues to grow. Stagliano notes that over the past six months, GRU has signed 45 new Business Partners and has recently signed 8 new "Top 100" accounts. These eight alone represent well over \$1 million in revenues for GRU.

"We know that price is important to customers, but there are many other factors that influence buying," said Kathy Viehe, GRU's director of Corporate Communications. "Why do some people choose a Mercedes over a Chevrolet or a Seiko over a Timex? Our goal is to know the 'something' that drives our customers' buying decisions and then do our best to meet their needs — better than anyone else can."

LEFT: GRU is the "Official Energy Sponsor of the Florida Gators," and these University of Florida "Dazzlers" and Cheerleaders are wearing commemorative "hardhats" to celebrate this partnership. This sponsorship focuses attention on the important relationship between UF and Gainesville.



People MAKE IT HAPPEN

Talk to GRU employees and, at some point in the conversation, you'll very likely hear about self-directed work teams. Being used throughout the organization to improve processes, teams have been very successful in streamlining the utility work smarter.

Take, for instance, the Review Crew. Composed of employees from throughout GRU, the Review Crew was put in place to improve processes followed by builders and developers in securing utility connections.

"We developed the self-directed work team to improve our relationships with businesses and developers," said Dave Neundorfer, GRU's assistant general manager for direct delivery.

"Our charge was to improve, to streamline, to make more effective and quicker the utility connection process," added Dan Jesse, a Review Crew team member and a member of GRU's Corporate Communications staff.

The team used a task group composed of local developers, builders and engineers to help identify ways to improve field processes. One of the results of the team's efforts was a more streamlined process that benefits customers.

The team worked very hard and benefited from very diverse points of view," Jesse said. "Our new system is very efficient, and the customers appreciate that their work was simplified."

"We have changed the way we do business by eliminating needless situations," Jesse said.

Teams, though, aren't confined to working on specific utility-related processes. A group of union and management representatives now is working together as a team in the Interest-Based Bargaining Team (IBBT).

The IBBT was put in place to identify ways to make GRU more competitive, including developing a pay plan more responsive to our organization's needs.

The process this team is following is called "mutual gains negotiations." With it, the team focuses on solving problems by identifying common interests rather than emphasizing differences. This type of negotiating encourages cooperation and open communication. That's a big change from previous union negotiations when management was trying to "beat"



the union or when, in order for the union to "win," management had to "lose."

"With electric deregulation coming, the union and management had to learn to work together effectively," said Karen Johnson, GRU's assistant general manager for Customer and Administrative Services.

Our true competitive advantage, after all, is the people who make it happen at GRU.

PICTURED ABOVE: Builders and developers in our community benefit from streamlined processes for new service connections recommended by one of GRU's self-directed work teams. In order to respond effectively to changing forces in the marketplace, we know it's important to tap into the information, ideas and know-how of our employees. Using teams throughout our organization gives us a tool for doing just that.

People MAKE IT HAPPEN

and, at some point in the conversation, you'll very likely hear about self-directed work teams. Being used throughout the organization to improve processes, teams have been very successful at GRU in helping the utility work smarter.

Take, for instance, the Review Crew. Composed of employees from throughout GRU, the Review Crew was put in place to improve processes followed by builders and developers in securing utility connections.

"We developed this self-directed work team to improve our relationships with businesses and developers," said Dave Beaulieu, GRU's assistant general manager for Energy Delivery.

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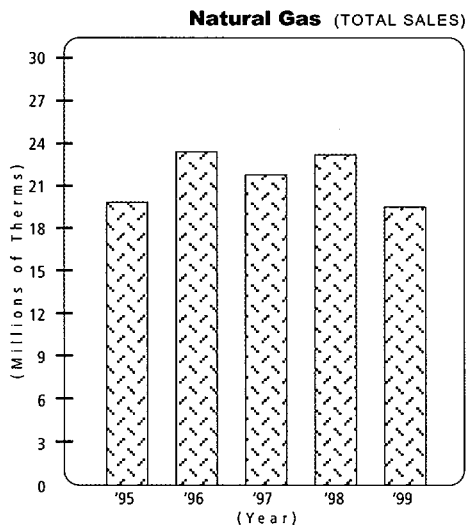
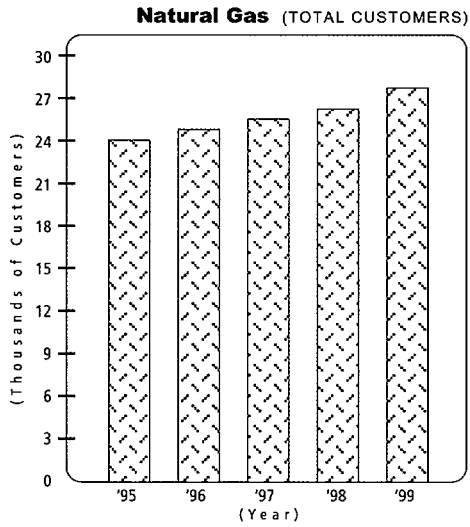
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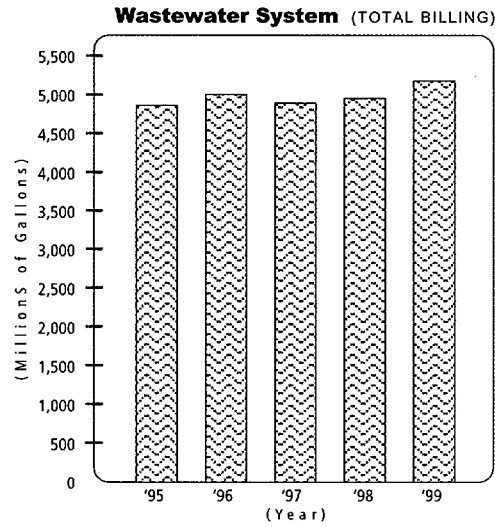
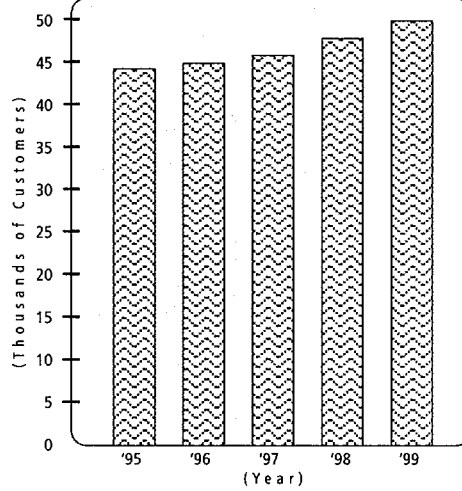
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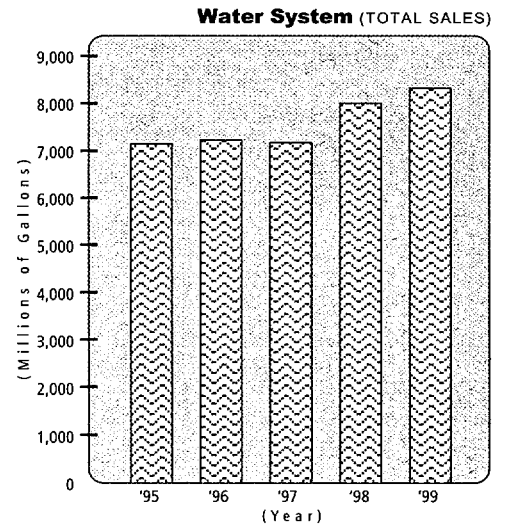
NATURAL GAS



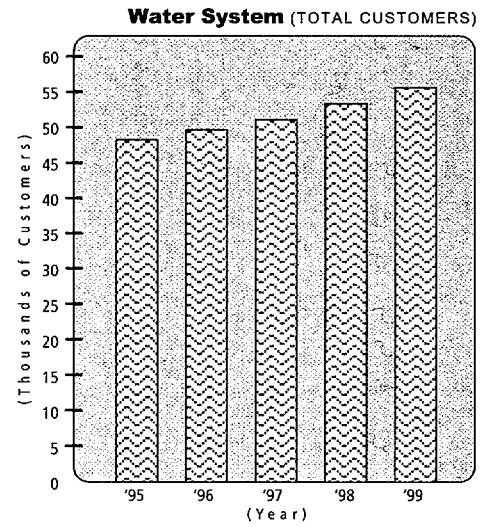
Wastewater System (TOTAL CUSTOMERS)



WASTEWATER



WATER



h i g h l i g h t s

	1999	1998	%chg
FINANCIAL			
Net revenues	331,155,218	80,273,040	312.5
Aggregate debt service	29,899,917	30,782,845	-2.7
Aggregate bond coverage ratio	11.08	2.61	324.5
Total debt service coverage ratio	9.77	2.03	
Long-term debt	375,528,009	414,418,079	-10.4
Net utility plant	574,693,490	549,142,945	4.7
Cash and investments:			
Rate stabilization fund and revenue fund . .	63,987,256	83,564,896	-23.4
CUSTOMERS (12 MONTHS AVERAGE)			
Residential electric	68,096	66,317	2.7
Non-residential electric	8,151	7,852	3.8
Total electric	76,247	74,169	2.8
Water	55,568	53,040	4.8
Wastewater	49,423	47,329	4.4
Natural gas	27,273	26,420	3.2
SALES OF ENERGY (GIGAWATT-HOURS)			
Residential	764.7	776.1	-1.5
General service/large power	819.0	783.5	4.5
Lighting	21.6	21.1	2.4
Sales for resale	107.0	108.5	-1.4
Sub-total	1,712.3	1,689.3	1.4
Interchange	147.2	312.5	-52.9
Total	1,859.5	2,001.8	-7.1
SALES OF WATER			
(million gallons)	8,324.7	8,063.2	3.2
WASTEWATER BILLED			
(million gallons)	5,215.6	4,964.7	5.1
NATURAL GAS			
(million therms)	19.7	23.0	-14.3

s t a t i s t i c s

ENERGY SUPPLY

DEERHAVEN GENERATING STATION

Net Capability 424 megawatts (MW)

JOHN R. KELLY GENERATING STATION

Net Capability 115 MW

Share Ownership of Crystal River 3 . . . Net Capability 11 MW

Combined System Net Capability 550 MW

ELECTRIC SYSTEM OPERATIONS

Service Area 130 sq. miles

Transmission 116.5 miles of 138 kilovolts (kV)

2.5 miles of 230 kV

119.0 total circuit miles

Distribution 617 Overhead (OH) circuit miles at 12 kV

588 Underground (UG) circuit miles at 12 kV

1,205 total circuit miles

Distribution Substations 6 (138 kV/12kV)

NATURAL GAS SYSTEM

Service Area 83 sq. miles

Distribution Mains 556 miles

Delivery Points 5

WATER SYSTEM

WALTER E. MURPHREE WATER TREATMENT PLANT

Treatment Capacity . . . 40 million gallons/day (MGD), peak day

Storage Capacity 19.5 million gallons (MG)

Supply Wells 11

Water Service Area 118 sq. miles

Distribution Mains 929 miles

WASTEWATER SYSTEM

KANAPAHA WATER RECLAMATION FACILITY

Treatment Capacity . . .10 MGD, Avg. Annual Daily Flow (AADF)

MAIN STREET WASTEWATER TREATMENT PLANT

Treatment Capacity 7.5 MGD, AADF

Combined Treatment Capacity 17.5 MGD, AADF

Collection Service Area 115 sq. miles

Gravity Mains 514 miles

Force Mains 121 miles

Lift Stations 143

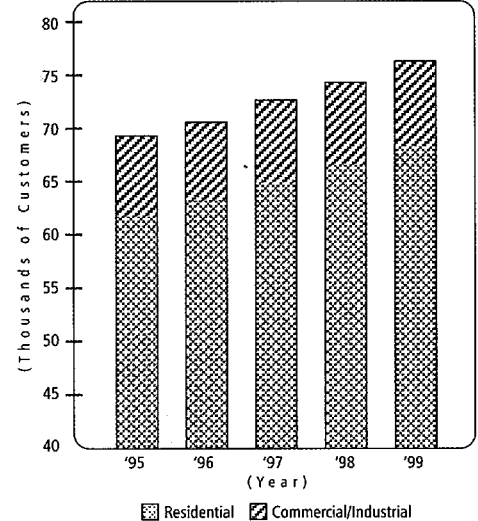
COMMUNICATIONS

Miles of Fiber Optic Cable 127 miles

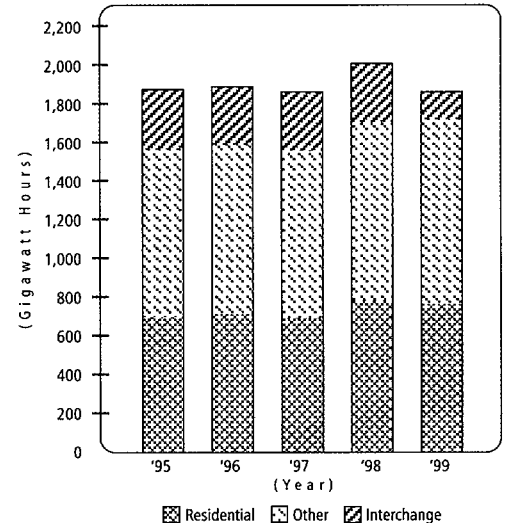
On-net Locations 97

Maximum Band Width OC-48 (2.5 gigabits/second)

Electric System (TOTAL CUSTOMERS)



Electric System (TOTAL SALES)



E L E C T R I C

Report on Audit

of Financial Statements

and Supplementary Data

September 30, 1999

and 1998

Gainesville

Regional Utilities

The Combined

Utility Funds

of the City of

Gainesville, Florida

T A B L E O F C O N T E N T S

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**The Combined Utility Funds of the City of Gainesville, Florida
Report on Audit of Financial Statements and Supplementary Data**

SEPTEMBER 30, 1999 AND 1998

Independent Auditors' Report

The Honorable Mayor and Members of the
City Commission City of Gainesville:

We have audited the accompanying balance sheets of Gainesville Regional Utilities (the Combined Utility Funds of the City of Gainesville, Florida) as of September 30, 1999 and 1998, and the related statements of revenue and expense and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles and significant estimates made by management, as well as 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 Funds of the City of Gainesville, Florida) and are not intended to present fairly the financial position of the City of Gainesville, Florida, and the results of its operations and the cash flows of its proprietary fund types and non-expendable trust funds, in conformity with generally accepted accounting principles.

In our opinion, the 1999 and 1998 financial statements referred to above present fairly, in all material respects, the financial position of Gainesville Regional Utilities, as of September 30, 1999 and 1998, and the results of its operations and its cash flows of its proprietary fund types and non-expendable trust funds, in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 36 is not a required part of the general purpose financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that Gainesville Regional Utilities is or will become year 2000 compliant, that Gainesville Regional Utilities' year 2000 remediation efforts will be successful in whole or in part, or that parties with which Gainesville Regional Utilities does business are or will become year 2000 compliant.

Our audits were made for the purpose of forming an opinion on the basic financial statements of Gainesville Regional Utilities taken as a whole. The supplementary information included in the accompanying schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information for 1999, 1998, 1997, 1996, and 1995 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Davis, Monk & Company
Gainesville, Florida


KPMG LLP
St. Petersburg, Florida

December 17, 1999

**Gainesville
Regional Utilities
Report on Audit
of Financial
Statements**

Balance Sheets

SEPTEMBER 30, 1999 AND 1998

Assets

	1999	1998
Utility plant:		
Utility plant in service	\$ 806,430,226	788,733,437
Plant held for future use	6,047,876	6,041,826
Plant unclassified	10,333,029	—
Construction in progress	49,612,613	31,584,719
	872,423,744	826,359,982
Less accumulated depreciation and amortization	(297,730,254)	(277,217,037)
Net utility plant	574,693,490	549,142,945
Current assets:		
Cash and short-term investments	3,526,307	25,499,351
Accounts receivable, net of allowance for uncollectible accounts of \$611,000 in 1999 and \$643,000 in 1998	24,448,212	21,843,427
Fuels contracts	—	2,356,000
Prepaid rent — lease/leaseback	10,686,909	—
Prepaid expenses — other	—	284,995
Inventories:		
Fuel	12,729,874	6,215,787
Materials and supplies	5,444,719	5,207,179
Total current assets	56,836,021	61,406,739
Long-term investments	1,763,565	3,819,070
Restricted assets — cash and investments:		
Utility deposits	4,486,110	5,380,479
Debt service fund	56,987,168	60,695,941
Rate stabilization fund	58,697,384	54,246,475
Construction fund	19,319,321	24,327,764
Utility plant improvement fund	11,707,978	15,713,040
Decommissioning reserve fund	2,849,617	2,678,351
Total restricted assets	154,047,578	163,042,050
Prepaid rent — lease/leaseback	194,145,513	—
Deferred charges	50,482,723	50,016,022
Total assets	\$ 1,031,968,890	827,426,826

See accompanying notes to financial statements.

Balance Sheets

SEPTEMBER 30, 1999 AND 1998

Liabilities and Fund Equity

	1999	1998
Long-term debt and fund equity:		
Long-term debt:		
Utilities system revenue bonds	\$ 351,570,000	361,735,000
Utilities system commercial paper notes	<u>28,508,000</u>	<u>57,529,000</u>
	380,078,000	419,264,000
Less unamortized bond discount	<u>(4,549,991)</u>	<u>(4,845,921)</u>
Total long-term debt	<u>375,528,009</u>	<u>414,418,079</u>
Fund equity:		
Contributions in aid of construction	99,898,660	96,597,910
Retained earnings	<u>261,006,852</u>	<u>242,828,208</u>
Total fund equity	<u>360,905,512</u>	<u>339,426,118</u>
Total long-term debt and fund equity	<u>736,433,521</u>	<u>753,844,197</u>
Current liabilities:		
Fuel payable	6,842,052	6,054,585
Accounts payable and accrued liabilities	6,118,894	5,631,093
Operating lease	12,461,112	—
Due to other funds	<u>3,326,691</u>	<u>2,639,147</u>
Total current liabilities	<u>28,748,749</u>	<u>14,324,825</u>
Payable from restricted assets:		
Utility deposits	4,611,212	5,356,266
Long-term debt payable-current	10,165,000	23,925,000
Accrued interest payable	10,198,478	10,842,917
Construction fund:		
Accounts payable and accrued liabilities	<u>3,139,932</u>	<u>3,034,027</u>
Total payable from restricted assets	<u>28,114,622</u>	<u>43,158,210</u>
Operating lease — lease/leaseback	226,376,869	—
Other liabilities and deferred credits	<u>12,295,129</u>	<u>16,099,594</u>
Total liabilities and fund equity	<u>\$ 1,031,968,890</u>	<u>827,426,826</u>

Gainesville
Regional Utilities
Report on Audited
Financial Statements

Statements of Revenue and Expense and Retained Earnings

YEARS ENDED SEPTEMBER 30, 1999 AND 1998

	1999	1998
Operating revenue:		
Sales and service charges	\$ 176,461,165	172,798,424
Other operating revenue	<u>5,149,371</u>	<u>3,453,718</u>
Total operating revenue	<u>181,610,536</u>	<u>176,252,142</u>
Operating expenses:		
Operation and maintenance	78,943,699	82,125,224
Administrative and general	21,329,710	21,376,205
Depreciation and amortization	<u>22,863,419</u>	<u>21,757,937</u>
Total operating expenses	<u>123,136,828</u>	<u>125,259,366</u>
Operating income	<u>58,473,708</u>	<u>50,992,776</u>
Non-operating income (expense):		
Interest income	9,411,921	12,446,076
Interest expense, net of AFUDC	(23,916,528)	(25,958,150)
Gain (loss) on sale of investments	<u>1,705,461</u>	<u>(93,319)</u>
Total non-operating expense	<u>(12,799,146)</u>	<u>(13,605,393)</u>
Net income	45,674,562	37,387,383
Retained earnings, beginning of year	242,828,208	226,850,561
Operating transfer to City of Gainesville General Fund	<u>(27,495,918)</u>	<u>(21,409,736)</u>
Retained earnings, end of year	<u>\$ 261,006,852</u>	<u>242,828,208</u>

See accompanying notes to financial statements.

Gainesville
Regional Utilities
Report on Audit
of Financial
Statements

Statements of Cash Flows

YEARS ENDED SEPTEMBER 30, 1999 AND 1998

	1999	1998
Cash flows from operating activities:		
Cash received from customers.	\$173,111,325	173,516,482
Cash payments to suppliers for goods and services	(70,325,344)	(67,350,868)
Cash payments to employees for services	(24,103,708)	(23,921,004)
Cash payments for operating transactions with other funds.	(3,875,888)	(3,727,013)
Other operating receipts	5,149,370	3,453,718
Net cash provided by operating activities	<u>79,955,755</u>	<u>81,971,315</u>
Cash flows from noncapital financing activities:		
Transfers to other funds	<u>(27,495,918)</u>	<u>(21,409,736)</u>
Net cash used in noncapital financing activities.	<u>(27,495,918)</u>	<u>(21,409,736)</u>
Cash flows from capital and related financing activities:		
Principal repayments on long-term debt.	(52,946,000)	(11,698,000)
Proceeds from sale of property and equipment.	418,974	310,003
Interest paid on long-term debt	(24,265,038)	(25,808,381)
Capital grants	108,633	—
Acquisition and construction of fixed assets (including allowance for funds used during construction)	(51,012,326)	(41,145,733)
Proceeds from lease/leaseback transaction	249,305,589	—
Payments for lease/leaseback transaction	213,738,179	—
Cash received for connection charges	3,947,419	3,458,036
Net cash used in capital and related financing activities.	<u>(88,180,928)</u>	<u>(74,884,075)</u>
Cash flows from investing activities:		
Interest received	8,078,020	9,169,791
Purchase of investments	(529,022,096)	(505,653,727)
Proceeds from investment maturities	555,894,291	508,510,893
Net cash provided by investing activities	<u>34,950,215</u>	<u>12,026,957</u>
Net decrease in cash and cash equivalents	(770,876)	(2,295,539)
Cash and cash equivalents, beginning of year	<u>6,760,237</u>	<u>9,055,776</u>
Cash and cash equivalents, end of year	<u>\$ 5,989,361</u>	<u>6,760,237</u>

Gainesville
Regional Utilities
Report on Audit
of Financial
Statements

(Continued)

Statements of Cash Flows, Continued

YEARS ENDED SEPTEMBER 30, 1999 AND 1998

	1999	1998
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 58,473,708	50,992,776
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	22,863,419	21,757,937
Receivables	(2,604,785)	1,162,609
Prepaid expenses	(8,045,914)	292,704
Inventories	(6,751,627)	(2,201,413)
Deferred charges	957,387	6,463,024
Accounts payable and accrued liabilities	13,842,285	1,629,836
Due to other funds	687,544	(128,348)
Utility deposits	(745,054)	(444,550)
Other liabilities and deferred credits	<u>1,278,792</u>	<u>2,446,740</u>
Net cash provided by operating activities	\$ <u>79,955,755</u>	<u>81,971,315</u>

Noncash, investing, capital and financing activities:

Utility plant contributed by developers in aid of construction was \$2,502,898 and \$4,115,097 in 1999 and 1998, respectively.

See accompanying notes to financial statements.

Gainesville
Regional Utilities
Report on Audit
of Financial
Statements

(1) Summary of Significant Accounting Policies**(a) Organization**

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

(b) Basis of Accounting

The financial statements are presented on the accrual basis of accounting. Under this basis, revenues are recognized in the period earned and expenses are recognized in the period incurred. GRU applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, in accounting and reporting for its operations. In accordance with government accounting standards, GRU has elected not to apply FASB pronouncements issued after that date. In accordance with the Utilities System Revenue Bond Resolution (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 effect of these differences is recognized in the determination of net income in the period that they occur in accordance with GRU's accounting policies. GRU has adopted the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the National Association of Regulatory Utility Commissioners (NARUC). Rates are approved annually by the City Commission.

(c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions 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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

(d) Investments

In fiscal 1998, GRU adopted the provisions of Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Statement No. 31 requires governmental entities to report investments at fair value in the balance sheet. All short-term commercial paper with maturities less than one year have been reported at cost.

(e) Fuels Contracts

In 1997, GRU began using futures contracts to hedge a portion of its commodity natural gas price risk. Natural gas contracts are traded on the New York Mercantile Exchange (NYMEX) in fixed units of 10,000 MMBtus. NYMEX requires both parties (buyers and sellers) to futures contracts to deposit cash or other assets (margins) with a broker at the time the contract is initiated. Brokers mark open positions to the market daily with the margin account requirements adjusted for market swings or changes in NYMEX requirements. At September 30, 1998, GRU had net deposits of \$241,180, with brokers for margin accounts, included in current assets and \$2,356,000 included in the fuels contracts lines on the balance sheet.

At contract maturity date, gains or losses on hedging transactions are recognized into the fuel account. At September 30, 1998, there was \$154,840 in deferred gains from outstanding contracts. There were no futures contracts outstanding at September 30, 1999.

(f) 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.

(g) Utility Plant

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

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(h) Depreciation and Nuclear Generating Plant

Decommissioning

Depreciation of utility plant is computed using the straight-line method over estimated service lives ranging from 6 to 50 years. Depreciation was equivalent to 2.98% and 2.87% of average depreciable property for 1999 and 1998, respectively. Depreciation expense includes a provision for decommissioning costs related to the jointly owned nuclear power plant (see note 5).

(i) Amortization of Nuclear Fuel

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.

(j) Revenue Recognition

Revenue is recorded as earned. GRU accrues for services rendered but unbilled which amounted to approximately \$9,605,000 and \$7,763,000 for 1999 and 1998, 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.

(k) Interfund Transactions

Interfund balances between electric, gas, water, wastewater and GRUCom funds are offset for the combined utility funds. Interfund revenues and expenses are not eliminated in the combined utility funds. Additionally, there are interfund transactions between GRU and general government operations of the City, which do not bear interest.

(l) 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.

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.

(m) Allowance for Funds Used During Construction (AFUDC)

An allowance for interest on borrowed funds used during construction of \$284,000 and \$440,000 in 1999 and 1998, 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 rates were approximately 5.5%.

(n) Contributions in Aid of Construction

Utility plant in service for the water, wastewater and GRUCom funds includes assets received from contributions in aid of construction (CIAC). Contributions in aid of construction are amortized on a straight-line method over the life of the related asset. The amount of amortization expense included in the statement of revenue and expense and retained earnings relating to the contributed assets is credited to depreciation and amortization expense and amounted to \$3,258,000 and \$3,049,000 in 1999 and 1998, respectively.

(o) 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.

(Continued)

(2) Rates and Regulation

GRU's rates are established in accordance with the Utilities System Bond Resolution and the Utilities System Subordinated Bond Resolution as adopted and amended. Under these documents, rates are set to recover Operation and Maintenance Expenses, Debt Service, Utility Plant Improvement Fund (UPIF) 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 true up for actual costs from previous months into a current month electric fuel adjustment and natural gas purchased gas adjustment. Amounts

overbilled or underbilled are passed along to customers and are either accrued or deferred at year end.

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

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

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(3) Long-Term Debt

Long-term debt outstanding at September 30, 1999 and 1998 consisted of the following:

	1999	1998
Utilities System Revenue Bonds:		
Series 1983 (1983 Bonds) — interest payable semi-annually to October 1, 2014 at a rate of 6.0%	\$ 4,675,000	18,860,000
1992 Series A (1992 A Bonds) — interest payable semi-annually to October 1, 2002 at various rates between 6.6% and 6.1%	5,720,000	6,965,000
1992 Series B (1992 B Bonds) — interest payable semi-annually to October 1, 2017 at various rates between 6.0% and 7.5%	61,920,000	61,920,000
1993 Series A (1993 A Bonds) — interest payable semi-annually to October 1, 2006 at various rates between 4.40% and 5.30%	28,675,000	31,995,000
1993 Series B (1993 B Bonds) — interest payable semi-annually to October 1, 2013 at various rates between 4.40% and 5.5%	121,625,000	125,370,000
1996 Utilities System Revenue Bonds — 1996 Series A (1996 Series A) — interest payable semi-annually to October 1, 2026 at rates between 4.0% and 5.75%	139,120,000	140,550,000
Utilities System Commercial Paper Notes, Series C (C Notes) —		
interest at various market rates	<u>28,508,000</u>	<u>57,529,000</u>
	390,243,000	443,189,000
Less current portion of long-term debt	(10,165,000)	(23,925,000)
Less unamortized bond discount	<u>(4,549,991)</u>	<u>(4,845,921)</u>
Total long-term debt	\$ <u>375,528,009</u>	<u>414,418,079</u>

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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 the Long-Term Debt (excludes Utilities System Commercial Paper) outstanding at September 30, 1999:

Period ending October 1.	Total debt service requirements
2000	\$ 29,458,516
2001	29,765,187
2002	29,762,722
2003	29,769,389
2004	29,192,355
2005	28,036,308
2006	28,032,395
2007	32,223,754
2008	34,633,734
2009	34,635,408
2010	34,634,435
2011	34,633,459
2012	34,625,435
2013	34,641,735
2014	20,425,950
2015	18,653,430
2016	18,441,580
2017	18,250,480
2018	11,605,260
2019	9,507,140
2020	9,509,300
2021	9,511,960
2022	9,509,080
2023	3,949,880
2024	3,947,180
2025	3,950,900
2026	3,950,260
	<u>\$ 585,257,232</u>

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 revenues (exclusive of any funds which may be established pursuant to the Bond Resolution for decommissioning and certain other specified purposes), including the investments and income, if any, thereof.

The Bond Resolution contains certain restrictions and commitments, including GRU's covenant to establish and maintain rates and other charges to produce revenues 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.

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

The 1992 A Bonds mature at various dates through October 1, 2002. Those Bonds are not subject to redemption.

The 1992 B Bonds mature at various dates from October 1, 2001 to October 1, 2017. Those Bonds maturing on or after October 1, 2003 through October 1, 2007, amounting to \$14,310,000, are subject to redemption at the option of the City on and after October 1, 2002, as a whole at any time or in part on any interest payment date, at a redemption price of 102% in 2002, 101% in 2003 and 100% thereafter. The 1992 B Bonds maturing on October 1, 2017, amounting to \$22,335,000, are subject to redemption at the option of the City on and after October 1, 2002, as a whole at any time or in part on any interest payment date, at a redemption price of 100%.

The 1993 A and B Bonds mature at various dates through October 1, 2013. Those Bonds maturing on or after October 1, 2004, amounting to \$113,925,000, are subject to redemption at the option of the City on and after October 1, 2003, as a whole at any time or in part on any interest payment date, at a redemption price of 102% in 2003, 101% in 2004 and 100% thereafter.

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The 1996 A Bonds mature at various dates through October 1, 2026. Those Bonds maturing on or after October 1, 2010 are subject to redemption at the option of the City on or after October 1, 2006 as a whole or in part at any time at a redemption price of 102% in 2006, 101% in 2007, and 100% thereafter.

Utilities System Commercial Paper Notes, Series C Notes in a principal amount not to exceed \$85,000,000 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 October 1, 1992 (as amended) with Bank of America National Trust and Savings Association (Bank of America) and Sun Trust, National Association with Bank of America as Agent. Each bank's obligation is for \$42,500,000 and is a several but not joint obligation. The obligation of a bank may be substituted by another bank which meets certain credit standards and which is approved by GRU and the Agent. Under the terms of the agreement, GRU may borrow up to \$85,000,000 with same day availability ending on the termination date, as defined in the agreement. Series C Notes of \$45,521,000 were redeemed during 1999 with proceeds from GRU's lease/leaseback transaction, along with other funds on hand. See also, footnotes 14 and 15.

GRU issued \$16,500,000 of Series C Notes in 1999 to finance future electric construction projects.

(4) Deposits and Investments

Deposits are held in a qualified public depository institution insured by the Federal Depository Insurance Corporation and as required by the Bond Resolution in a bank, savings and loan association or trust company of the United States or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$10,000,000.

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.

Investments are categorized in the following table in accordance with Governmental Accounting Standards Board Statement No. 3. All of GRU's investments fall under category 1, which includes investments that are insured or registered or held by the Utility or its agent in GRU's name.

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September 30, 1999	Carrying value	Market value
U.S. Government securities	\$ 67,051,507	67,051,507
U.S. Government bonds	21,010,132	21,010,132
Corporate commercial paper	64,008,509	64,280,323
Total	<u>\$152,070,148</u>	<u>152,341,962</u>
September 30, 1998		
U.S. Government securities	\$ 46,058,222	46,058,222
U.S. Government bonds	23,434,514	23,434,514
Corporate commercial paper	114,609,780	115,399,285
Total	<u>\$184,102,516</u>	<u>184,892,021</u>

Cash and investments are contained in the following balance sheet accounts:

	1999	1998
Restricted assets:		
Utility deposits	\$ 4,486,110	5,380,479
Debt service fund	56,987,167	60,695,941
Rate stabilization fund	58,697,384	54,246,475
Construction fund	19,319,321	24,327,764
Utility plant improvement fund	11,707,979	15,713,040
Decommissioning reserve	2,849,617	2,678,351
Current assets —		
Cash and short-term investments	3,526,307	25,499,351
Long-term investments	<u>1,763,565</u>	<u>3,819,070</u>
Total cash and investments	159,337,450	192,360,471
Less cash and cash equivalents	5,989,361	6,760,237
Less accrued interest receivable	<u>1,277,941</u>	<u>1,497,718</u>
Total investments	<u>\$152,070,148</u>	<u>184,102,516</u>

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(5) Jointly-Owned Electric Plant

GRU-owned resources for supplying electric power and energy requirements include its 1.4079% undivided ownership interest in the Crystal River Unit 3 (CR3) nuclear power plant operated by Florida Power Corporation. GRU's net investment in CR3 at September 30, 1999 and 1998 is approximately \$8,578,000 and \$8,127,000, respectively. CR3 operation and maintenance costs, which represent GRU's part of expenses attributable to operation of CR3, are recorded in accordance with the instructions as set forth in the FERC uniform system of accounts. Payments are made to Florida Power Corporation 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 Florida Power Corporation in April 1999, estimated GRU's share of total future decommissioning costs to be \$9,113,000. At September 30, 1999, GRU has funded \$2,564,000 of this cost.

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(6) Contributions in Aid of Construction

Contributions in aid of construction are as follows:

	1999	1998
Contributions in aid of construction:		
Utility plant, property and equipment contributed by municipality	\$ 3,982,276	3,982,276
Federal and state grants in aid of construction	22,772,374	22,663,741
Contributions from customers and developers:		
Plant contributed by developers	57,044,826	54,541,928
Connection charges	59,547,682	55,600,266
	<u>143,347,158</u>	<u>136,788,211</u>
Accumulated amortization	(43,448,498)	(40,190,301)
Contributions in aid of construction	<u>\$ 99,898,660</u>	<u>96,597,910</u>

(7) Retained Earnings

Retained earnings reserved for debt service and unappropriated are as follows:

	1999	1998
Reserved for debt service	\$ 36,644,898	40,113,026
Unappropriated	<u>224,361,954</u>	<u>202,715,182</u>
Total retained earnings	<u>\$261,006,852</u>	<u>242,828,208</u>

Retained earnings balances at September 30, 1999 and 1998 reserved in debt service fund accounts are as follows:

	1999	1998
Reserve account	\$ 36,456,039	39,836,407
Debt service account	20,057,198	20,409,970
Subordinated indebtedness fund account	493,000	435,000
Commercial paper note payment account	<u>2,138</u>	<u>14,567</u>
	57,008,375	60,695,944
Less amounts appropriated for current interest and principal payable	<u>20,363,477</u>	<u>20,582,918</u>
	<u>\$ 36,644,898</u>	<u>40,113,026</u>

(Continued)

(8) Retirement Plans

The City sponsors and administers one defined benefit pension plan and two defined contribution plans (collectively, the Plans) that includes 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, 1998 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 Employees 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, for the years ended September 30, 1999 and 1998 were \$1,218,000 and \$1,159,000, respectively.

Certain limited employees are eligible to participate in defined contribution plans managed by outside fiscal agents for the City. Under these plans, the City contributes a percentage of an employee's annual salary and employees may contribute either a specified percentage or dollar amount. Total defined contribution cost for GRU for the years ended September 30, 1999 and 1998 was \$373,000 and \$432,660, respectively.

(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 retirement, or disability 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. Funds are appropriated annually to fund the actuarially determined costs of the health insurance program and to cover the costs of other programs. The City recognizes the cost of these benefits on a monthly basis by contributing a percentage of active payroll costs. The cost of providing these benefits for the GRU retirees for the fiscal years ended September 30, 1999 and 1998 were \$734,000 and \$723,000, respectively.

(10) Transfers to General Fund

GRU makes transfers to the City's general government based on a formula that ties the transfer directly to the financial performance of the system. The transfer to the general fund may be made only to the extent such moneys are not necessary to pay operating and maintenance expenses and to pay debt service on the outstanding bonds and subordinated debt or to make other necessary transfers under the Bond Resolution. The formula-based fund transfer to the general fund for the years ended September 30, 1999 and 1998 was \$22,357,105 and \$21,409,736, respectively.

In addition, a one-time transfer of \$5,138,813 was made as a result of a Lease/Leaseback transaction in 1999 (see note 14). The total transfer to the general fund in 1999 was \$27,495,918.

(11) Deferred Charges

Included in deferred charges at September 30, 1999 and 1998 is the unamortized balance of \$3,469,000 and \$5,583,000, respectively, remaining of the original payment of \$27,375,000, in full settlement in connection with the City's cancellation of a contract for supply of coal to the Deerhaven II generating plant. The settlement payment is being recovered through future utility fuel adjustment revenue through the year 2003.

The remaining balance in deferred charges at September 30, 1999 and 1998 is comprised of unamortized bond issuance costs of approximately \$35,247,000 and \$37,437,000, amortized straight-line over the life of the bonds (which approximates the effective interest method), respectively, environmental costs of \$5,075,000 in 1999 and \$2,750,000 in 1998 (see note 12), and other miscellaneous items, all of which are being recovered over periods from 7 to 30 years.

(12) 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 two hazardous waste sites. In addition, 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

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operation of the former manufactured gas plant. Based upon GRU's analysis of the cost to clean up these sites and other identified environmental contingencies, GRU has accrued a liability of \$5,075,000 and \$2,750,000 as of September 30, 1999 and 1998 respectively. The increase in the accrued liability from 1998 was the result of obtaining additional information that indicated the level of anticipated clean-up would be increased. Because GRU anticipates recovering the costs of environmental clean-up through future customer rates, a related asset of equal amount has been reflected as a deferred charge in the accompanying balance sheet. Although 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.

(13) Required Supplementary Information — Year 2000 Remediation (Unaudited)

The year 2000 issue is a result of concerns regarding possible shortcomings in automated systems and electronic equipment that will make these systems or equipment inoperable for year 2000 purposes.

For several years, GRU has been undertaking efforts to make all automated systems and other electronic equipment year 2000 compliant and is currently in the remediation stage as defined in GASB Technical Bulletin 99-1. More recently, this effort has become a more formalized process. Management will continue such remediation efforts towards successful completion, however, the effects and success of these efforts will not be fully determinable until the year 2000 and after. The cost of Year 2000 efforts are not considered material to the financial position and results of operations of GRU.

(14) Lease/Leaseback

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

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

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

The net benefit of this transaction, after payment of transaction expenses, was approximately \$35 million and resulted in a deferred gain, which will be amortized as income on a straight-line basis over the leaseback period of 20 years. Of the \$35 million net benefit, approximately \$5 million was transferred to the City of Gainesville's General Fund with the remainder being used, along with other funds on hand, to pay off approximately \$43 million of tax-exempt commercial paper.

GRU accounted for the lease/leaseback transaction as an operating lease in 1999. Amortization of the net benefit was \$1,479,000 in 1999 and was reported as a component of other electric revenues.

(15) Subsequent Event

In November, 1999, GRU issued \$37,200,000 additional Utilities System Commercial Paper Notes, Series C Notes for the costs of acquisition and construction which, at that time, brought the outstanding balance to \$65,708,000.

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**Schedules of Combined Net Revenues
in Accordance with Bond Resolution**

YEARS ENDED SEPTEMBER 30, 1999, 1998, 1997, 1996, AND 1995

	1999	1998	1997	1996	1995
Revenues:					
Electric fund:					
Sales of electricity	\$ 135,625,527	132,144,457	126,465,575	128,402,775	118,091,955
Lease/leaseback revenue	249,220,553	—	—	—	—
Other electric revenues	2,419,798	2,715,250	2,258,951	2,116,497	1,664,914
Transfers to rate stabilization	(12,199,403)	(6,440,936)	(2,199,957)	(3,932,344)	(2,782,560)
Interest income	<u>6,405,429</u>	<u>6,705,946</u>	<u>4,990,841</u>	<u>5,227,158</u>	<u>4,571,431</u>
Total electric fund revenues	<u>381,471,904</u>	<u>135,124,717</u>	<u>131,515,410</u>	<u>131,814,086</u>	<u>121,545,740</u>
Gas fund:					
Gas sales	12,309,930	14,421,979	14,712,153	15,238,782	10,758,387
Other gas revenues (expenses)	(5,839)	3,485	68,391	65,131	117,522
Transfers from (to) rate stabilization	306,100	(262,546)	642,016	(908,478)	(240,377)
Interest income	<u>456,378</u>	<u>560,866</u>	<u>309,943</u>	<u>411,727</u>	<u>360,591</u>
Total gas fund revenues	<u>13,066,569</u>	<u>14,723,784</u>	<u>15,732,503</u>	<u>14,807,162</u>	<u>10,996,123</u>
Water fund:					
Sales of water	12,183,647	11,520,726	10,645,851	10,240,394	10,223,855
Other water revenues	1,775,024	1,539,268	1,209,873	1,373,707	1,066,593
Transfers to rate stabilization	(435,500)	(301,322)	(14,874)	(1,494,278)	(2,149,333)
Interest income	<u>1,264,766</u>	<u>1,169,324</u>	<u>862,158</u>	<u>890,854</u>	<u>837,589</u>
Total water fund revenues	<u>14,787,937</u>	<u>13,927,996</u>	<u>12,703,008</u>	<u>11,010,677</u>	<u>9,978,704</u>
Wastewater fund:					
Wastewater billings	15,115,652	14,155,134	14,146,461	13,839,294	13,439,876
Other wastewater revenues	2,370,807	1,924,334	1,558,309	1,924,636	1,227,638
Transfers from (to) rate stabilization	468,024	592,711	239,220	(2,651,214)	(2,537,345)
Interest income	<u>1,854,421</u>	<u>1,892,685</u>	<u>1,467,280</u>	<u>1,609,603</u>	<u>1,369,598</u>
Total wastewater fund revenues	<u>19,808,904</u>	<u>18,564,864</u>	<u>17,411,270</u>	<u>14,722,319</u>	<u>13,499,767</u>
GRUCom fund:					
Sales to customers	1,226,409	556,127	965,938	854,353	—
Other GRUCom revenues	1,058,495	729,419	387,479	—	—
Transfers from (to) rate stabilization	—	62,000	728,000	(790,613)	—
Interest income	<u>8,410</u>	<u>85,562</u>	<u>98,274</u>	<u>1,291</u>	<u>—</u>
Total GRUCom fund revenues	<u>2,293,314</u>	<u>1,433,108</u>	<u>2,179,691</u>	<u>65,031</u>	<u>—</u>
Total revenues	<u>\$ 431,428,628</u>	<u>183,774,469</u>	<u>179,541,882</u>	<u>172,419,275</u>	<u>156,020,334</u>

(Continued)

**Schedules of Combined Net Revenues
in Accordance with Bond Resolution, Continued**

YEARS ENDED SEPTEMBER 30, 1999, 1998, 1997, 1996, AND 1995

	1999	1998	1997	1996	1995
Operation, maintenance, and administrative:					
Electric fund:					
Fuel expense	\$ 44,564,775	45,762,356	46,003,652	44,988,387	37,960,173
Operation and maintenance	19,121,149	19,426,427	18,648,302	19,568,982	18,738,547
Administrative and general	11,476,499	11,806,671	10,896,966	11,807,272	12,354,722
Total electric fund expense	<u>75,162,423</u>	<u>76,995,454</u>	<u>75,548,920</u>	<u>76,364,641</u>	<u>69,053,442</u>
Gas fund:					
Fuel expense	5,800,620	7,502,765	8,076,857	7,849,998	4,763,599
Operation and maintenance	542,303	573,941	555,819	1,043,298	1,043,594
Administrative and general	2,935,549	2,942,988	3,073,681	2,070,371	1,830,024
Total gas fund expense	<u>9,278,472</u>	<u>11,019,694</u>	<u>11,706,357</u>	<u>10,963,667</u>	<u>7,637,217</u>
Water fund:					
Operation and maintenance	3,630,657	3,605,347	3,437,563	3,556,204	3,414,065
Administrative and general	2,733,859	2,626,502	2,633,090	2,155,092	1,922,686
Total water fund expense	<u>6,364,516</u>	<u>6,231,849</u>	<u>6,070,653</u>	<u>5,711,296</u>	<u>5,336,751</u>
Wastewater fund:					
Operation and maintenance	4,628,489	4,711,541	4,964,647	4,885,952	4,630,032
Administrative and general	3,533,424	3,384,955	3,151,861	2,320,753	2,174,520
Total wastewater fund expense	<u>8,161,913</u>	<u>8,096,496</u>	<u>8,116,508</u>	<u>7,206,705</u>	<u>6,804,552</u>
GRUCom fund:					
Operation and maintenance	655,707	542,847	418,594	49,470	—
Administrative and general	650,379	615,089	133,841	15,561	—
Total GRUCom fund expense	<u>1,306,086</u>	<u>1,157,936</u>	<u>552,435</u>	<u>65,031</u>	<u>—</u>
Total operation, maintenance, and administrative	<u>100,273,410</u>	<u>103,501,429</u>	<u>101,994,873</u>	<u>100,311,340</u>	<u>88,831,962</u>
Net revenues in accordance with bond resolution:					
Electric	306,309,481	58,129,263	55,966,490	55,449,445	52,492,298
Gas	3,788,097	3,704,090	4,026,146	3,843,495	3,358,906
Water	8,423,421	7,696,147	6,632,355	5,299,381	4,641,953
Wastewater	11,646,991	10,468,368	9,294,762	7,515,614	6,695,215
GRUCom	<u>987,228</u>	<u>275,172</u>	<u>1,627,256</u>	<u>—</u>	<u>—</u>
Total net revenues in accordance with bond resolution	<u>\$ 331,155,218</u>	<u>80,273,040</u>	<u>77,547,009</u>	<u>72,107,935</u>	<u>67,188,372</u>
Aggregate bond debt service	<u>\$ 29,899,917</u>	<u>30,782,845</u>	<u>30,744,550</u>	<u>28,956,424</u>	<u>26,131,343</u>
Aggregate debt service coverage ratio . . .	11.08	2.61	2.52	2.49	2.57
Total debt service	<u>\$ 33,891,908</u>	<u>39,470,246</u>	<u>44,196,126</u>	<u>51,396,381</u>	<u>47,234,795</u>
Total debt service coverage ratio	9.77	2.03	1.75	1.40	1.42

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See note on page 45.

**Schedules of Net Revenues in Accordance With Bond Resolution
Electric Utility Fund**

YEARS ENDED SEPTEMBER 30, 1999 AND 1998

	1999	1998
Revenue:		
Sales of electricity:		
Residential sales	\$ 43,591,629	43,585,052
General service and large power	37,428,687	36,081,915
Fuel adjustment	32,133,088	27,668,248
Street and traffic lighting	2,770,087	2,581,620
Utility surcharge	3,104,062	3,018,355
Sales for resale	5,442,996	5,473,905
Interchange sales	<u>11,154,978</u>	<u>13,735,362</u>
Total sales of electricity	<u>135,625,527</u>	<u>132,144,457</u>
Other revenue:		
Lease/Leaseback revenue	249,220,553	—
Service charges	1,924,691	1,873,374
Pole rentals	142,106	700,555
Miscellaneous	<u>353,001</u>	<u>141,321</u>
Total other revenue	<u>251,640,351</u>	<u>2,715,250</u>
Transfers to rate stabilization	(12,199,403)	(6,440,936)
Interest income	<u>6,405,429</u>	<u>6,705,946</u>
Total revenue	<u>381,471,904</u>	<u>135,124,717</u>
Operation, maintenance, and administrative expense:		
Operation and maintenance:		
Fuel expense:		
Retail and purchased power	40,896,025	38,283,265
Interchange	<u>3,668,750</u>	<u>7,479,091</u>
Total fuel expense	<u>44,564,775</u>	<u>45,762,356</u>
Power production	13,643,855	13,779,841
Transmission	576,637	719,966
Distribution	<u>4,900,657</u>	<u>4,926,620</u>
Total operation and maintenance	<u>63,685,924</u>	<u>65,188,783</u>
Administrative and general:		
Customer accounts	2,549,042	2,353,994
Administrative and general	<u>8,927,457</u>	<u>9,452,677</u>
Total administrative and general	<u>11,476,499</u>	<u>11,806,671</u>
Total operation, maintenance, and administrative expense	<u>75,162,423</u>	<u>76,995,454</u>
Net revenue in accordance with bond resolution:		
Retail	298,823,253	51,872,992
Interchange	<u>7,486,228</u>	<u>6,256,271</u>
Total net revenue in accordance with bond resolution	<u>\$ 306,309,481</u>	<u>58,129,263</u>

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Schedules of Net Revenues in Accordance With Bond Resolution Gas Utility Fund

YEARS ENDED SEPTEMBER 30, 1999 AND 1998

	1999	1998
Revenue:		
Sales of gas:		
Residential	\$ 6,392,810	7,595,412
Interruptible/commercial	5,365,609	6,206,203
Other sales	<u>551,511</u>	<u>620,364</u>
Total sales of gas	12,309,930	14,421,979
Other revenues	(5,839)	3,485
Transfers (to) from rate stabilization	306,100	(262,546)
Interest income	<u>456,378</u>	<u>560,866</u>
Total revenue	<u>13,066,569</u>	<u>14,723,784</u>
Operation, maintenance, and administrative expense:		
Operation and maintenance:		
Fuel expense	5,800,620	7,502,765
Operation and maintenance	<u>542,303</u>	<u>573,941</u>
Total operation and maintenance	<u>6,342,923</u>	<u>8,076,706</u>
Administrative and general:		
Customer accounts	1,222,579	1,202,264
Administrative and general	<u>1,712,970</u>	<u>1,740,724</u>
Total administrative and general	<u>2,935,549</u>	<u>2,942,988</u>
Total operation, maintenance, and administrative expense	<u>9,278,472</u>	<u>11,019,694</u>
Total net revenue in accordance with bond resolution	<u>\$ 3,788,097</u>	<u>3,704,090</u>

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**Schedules of Net Revenues in Accordance With Bond Resolution
Water Utility Fund**

YEARS ENDED SEPTEMBER 30, 1999 AND 1998

	1999	1998
Revenue:		
Sales of water:		
General customers	\$ 9,593,105	9,074,266
University of Florida	601,453	567,714
Fire protection	970,460	940,376
Generating stations	58,194	42,565
Utility surcharge	<u>960,435</u>	<u>895,805</u>
Total sales of water	<u>12,183,647</u>	<u>11,520,726</u>
Other revenue:		
Connection charges	1,769,775	1,534,582
Miscellaneous	<u>5,249</u>	<u>4,686</u>
Total other revenue	<u>1,775,024</u>	<u>1,539,268</u>
Transfers to rate stabilization	(435,500)	(301,322)
Interest income	<u>1,264,766</u>	<u>1,169,324</u>
Total revenue	<u>14,787,937</u>	<u>13,927,996</u>
Operation, maintenance, and administrative expense:		
Operation and maintenance:		
Source of supply	15,703	13,604
Pumping	941,695	910,803
Water treatment	1,917,120	1,931,285
Transmission and distribution	<u>756,139</u>	<u>749,655</u>
Total operation and maintenance	<u>3,630,657</u>	<u>3,605,347</u>
Administrative and general:		
Customer accounts	712,521	679,033
Administrative and general	<u>2,021,338</u>	<u>1,947,469</u>
Total administrative and general	<u>2,733,859</u>	<u>2,626,502</u>
Total operation, maintenance, and administrative expense	<u>6,364,516</u>	<u>6,231,849</u>
Total net revenue in accordance with bond resolution	<u>\$ 8,423,421</u>	<u>7,696,147</u>

See note on page 45.

**Schedules of Net Revenues in Accordance With Bond Resolution
Wastewater Utility Fund**

YEARS ENDED SEPTEMBER 30, 1999 AND 1998

	1999	1998
Revenue:		
Wastewater billings:		
Billings	\$ 13,906,750	13,059,629
Utility surcharge	<u>1,208,902</u>	<u>1,095,505</u>
Total wastewater billings	<u>15,115,652</u>	<u>14,155,134</u>
Other revenue:		
Connection charges	2,179,479	1,923,456
Miscellaneous	<u>191,328</u>	<u>878</u>
Total other revenue	<u>2,370,807</u>	<u>1,924,334</u>
Transfers from rate stabilization	468,024	592,711
Interest income	<u>1,854,421</u>	<u>1,892,685</u>
Total revenue	<u>19,808,904</u>	<u>18,564,864</u>
Operation, maintenance, and administrative expense:		
Operation and maintenance:		
Collection	1,047,032	898,674
Treatment and pumping	<u>3,581,457</u>	<u>3,812,867</u>
Total operation and maintenance	<u>4,628,489</u>	<u>4,711,541</u>
Administrative and general:		
Customer accounts	639,266	591,793
Administrative and general	<u>2,894,158</u>	<u>2,793,162</u>
Total administrative and general	<u>3,533,424</u>	<u>3,384,955</u>
Total operation, maintenance, and administrative expense	<u>8,161,913</u>	<u>8,096,496</u>
Total net revenue in accordance with bond resolution	<u>\$ 11,646,991</u>	<u>10,468,368</u>

See note on page 45.

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**Schedules of Net Revenues in Accordance With Bond Resolution
GRUCom Utility Fund**

YEARS ENDED SEPTEMBER 30, 1999 AND 1998

	1999	1998
Revenue:		
Sales to customers	\$ 1,226,409	556,127
Other revenue	1,058,495	729,419
Transfers from rate stabilization	—	62,000
Interest income	8,410	85,562
Total revenue	<u>2,293,314</u>	<u>1,433,108</u>
Operation, maintenance, and administrative expense:		
Operation and maintenance	<u>655,707</u>	<u>542,847</u>
Total operation and maintenance	<u>655,707</u>	<u>542,847</u>
Administrative and general:		
Customer accounts	108,531	90,643
Administrative and general	<u>541,848</u>	<u>524,446</u>
Total administrative and general	<u>650,379</u>	<u>615,089</u>
Total operation, maintenance, and administrative expense	<u>1,306,086</u>	<u>1,157,936</u>
Total net revenue in accordance with bond resolution	\$ <u>987,228</u>	<u>275,172</u>

See note on page 45.

Notes to Schedules of Net Revenues in Accordance with Bond Resolution

YEARS ENDED SEPTEMBER 30, 1999 AND 1998

"Net revenues 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 expenses do not include depreciation, amortization, or interest expense.
- Other water and wastewater revenues include fees for connection, installation, and backflow prevention.
- Transfers to the general fund are excluded.
- Other revenues include transfers (to) from the rate stabilization fund.
- Revenues from lease/leaseback transaction (See note 14).

**Gainesville
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Schedule of Combining Balance Sheet

SEPTEMBER 30, 1999

Assets

	Electric	Gas	Water	Wastewater	GRUCom	Combined
Utility plant:						
Utility plant in service	\$ 510,446,418	32,723,131	109,873,387	144,958,139	8,429,151	806,430,226
Plant held for future use	6,047,876	—	—	—	—	6,047,876
Plant unclassified	8,616,946	745,865	292,480	677,552	186	10,333,029
Construction in progress	<u>29,341,646</u>	<u>856,757</u>	<u>6,101,427</u>	<u>9,095,543</u>	<u>4,217,240</u>	<u>49,612,613</u>
	554,452,886	34,325,753	116,267,294	154,731,234	12,646,577	872,423,744
Less accumulated depreciation and amortization	<u>(197,530,225)</u>	<u>(14,793,689)</u>	<u>(36,289,888)</u>	<u>(47,200,681)</u>	<u>(1,915,771)</u>	<u>(297,730,254)</u>
Net utility plant	<u>356,922,661</u>	<u>19,532,064</u>	<u>79,977,406</u>	<u>107,530,553</u>	<u>10,730,806</u>	<u>574,693,490</u>
Current assets:						
Cash and short-term investments	4,891,435	194,408	(935,753)	642,115	(1,265,898)	3,526,307
Accounts receivable, net	21,635,788	1,018,212	735,200	917,023	141,989	24,448,212
Fuels contracts	—	—	—	—	—	—
Prepaid rent-lease/leaseback . . .	10,686,909	—	—	—	—	10,686,909
Inventories:						
Fuel	12,729,874	—	—	—	—	12,729,874
Materials and supplies	<u>4,159,977</u>	<u>276,725</u>	<u>583,093</u>	<u>—</u>	<u>424,924</u>	<u>5,444,719</u>
Total current assets	<u>54,103,983</u>	<u>1,489,345</u>	<u>382,540</u>	<u>1,559,138</u>	<u>(698,985)</u>	<u>56,836,021</u>
Long-term investments	<u>1,763,565</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,763,565</u>
Restricted assets:						
Utility deposits —						
Cash and investments	4,486,110	—	—	—	—	4,486,110
Debt service fund —						
Cash and investments	39,569,174	3,178,386	6,096,614	8,142,994	—	56,987,168
Rate stabilization fund —						
Cash and investments	26,914,483	3,006,425	10,987,211	17,789,191	74	58,697,384
Construction fund —						
Cash and investments	17,646,531	577,751	(1,401,492)	2,496,531	—	19,319,321
Utility plant improvement fund —						
Cash and investments	2,379,200	1,668,455	3,179,718	4,362,646	117,959	11,707,978
Decommissioning reserve fund —						
Cash and investments	<u>2,849,617</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,849,617</u>
Total restricted assets	<u>93,845,115</u>	<u>8,431,017</u>	<u>18,862,051</u>	<u>32,791,362</u>	<u>118,033</u>	<u>154,047,578</u>
Prepaid rent — lease/leaseback . .	194,145,513	—	—	—	—	194,145,513
Deferred charges	<u>35,156,010</u>	<u>6,909,553</u>	<u>4,119,872</u>	<u>4,081,330</u>	<u>215,958</u>	<u>50,482,723</u>
Total assets	<u>\$ 735,936,847</u>	<u>36,361,979</u>	<u>103,341,869</u>	<u>145,962,383</u>	<u>10,365,812</u>	<u>1,031,968,890</u>

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Schedule of Combining Balance Sheet

SEPTEMBER 30, 1999

Liabilities and Fund Equity

	Electric	Gas	Water	Wastewater	GRUCom	Combined
Long-term debt and fund equity:						
Long-term debt:						
Utilities system revenue bonds	\$ 208,675,531	26,383,888	49,038,854	67,471,727	—	351,570,000
Utilities system commercial paper notes	21,980,000	—	2,274,091	4,253,909	—	28,508,000
	<u>230,655,531</u>	<u>26,383,888</u>	<u>51,312,945</u>	<u>71,725,636</u>	<u>—</u>	<u>380,078,000</u>
Less unamortized bond discount	(2,814,421)	(351,310)	(566,663)	(817,597)	—	(4,549,991)
Total long-term debt	<u>227,841,110</u>	<u>26,032,578</u>	<u>50,746,282</u>	<u>70,908,039</u>	<u>—</u>	<u>375,528,009</u>
Fund equity:						
Contribution in aid of construction	—	—	38,309,370	60,696,918	892,372	99,898,660
Retained earnings	<u>239,071,638</u>	<u>2,281,938</u>	<u>10,625,600</u>	<u>9,433,473</u>	<u>(405,797)</u>	<u>261,006,852</u>
Total fund equity	<u>239,071,638</u>	<u>2,281,938</u>	<u>48,934,970</u>	<u>70,130,391</u>	<u>486,575</u>	<u>360,905,512</u>
Total long-term debt and fund equity	<u>466,912,748</u>	<u>28,314,516</u>	<u>99,681,252</u>	<u>141,038,430</u>	<u>486,575</u>	<u>736,433,521</u>
Current liabilities:						
Fuel payable	6,254,478	587,574	—	—	—	6,842,052
Accounts payable and accrued liabilities	3,410,417	380,320	941,018	1,220,453	166,686	6,118,894
Operating lease	12,461,112	—	—	—	—	12,461,112
Due (from) to other funds	(5,940,523)	469,014	(318,609)	(254,644)	9,371,453	3,326,691
Total current liabilities	<u>16,185,484</u>	<u>1,436,908</u>	<u>622,409</u>	<u>965,809</u>	<u>9,538,139</u>	<u>28,748,749</u>
Payable from restricted assets:						
Utility deposits	4,611,212	—	—	—	—	4,611,212
Long-term debt payable	7,315,845	228,856	1,113,455	1,506,844	—	10,165,000
Accrued interest payable	5,917,733	785,844	1,444,030	2,050,871	—	10,198,478
Construction fund:						
Accounts payable and accrued liabilities	<u>2,305,493</u>	<u>94,006</u>	<u>314,197</u>	<u>110,904</u>	<u>315,332</u>	<u>3,139,932</u>
Total payable from restricted assets	<u>20,150,283</u>	<u>1,108,706</u>	<u>2,871,682</u>	<u>3,668,619</u>	<u>315,332</u>	<u>28,114,622</u>
Operating lease — lease/leaseback	<u>226,376,869</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>226,376,869</u>
Other liabilities and deferred credits	<u>6,311,463</u>	<u>5,501,849</u>	<u>166,526</u>	<u>289,525</u>	<u>25,766</u>	<u>12,295,129</u>
Total liabilities and fund equity	<u>\$ 735,936,847</u>	<u>36,361,979</u>	<u>103,341,869</u>	<u>145,962,383</u>	<u>10,365,812</u>	<u>1,031,968,890</u>

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**Schedule of Combining Statement of
Revenue and Expense and Retained Earnings**

YEAR ENDED SEPTEMBER 30, 1999

	Electric	Gas	Water	Wastewater	GRUCom	Combined
Operating revenue:						
Sales and service charges	\$ 135,625,529	12,309,930	12,183,647	15,115,651	1,226,408	176,461,165
Other operating revenue	<u>3,898,302</u>	<u>(5,839)</u>	<u>5,249</u>	<u>193,164</u>	<u>1,058,495</u>	<u>5,149,371</u>
Total operating revenue	<u>139,523,831</u>	<u>12,304,091</u>	<u>12,188,896</u>	<u>15,308,815</u>	<u>2,284,903</u>	<u>181,610,536</u>
Operating expenses:						
Operation and maintenance	63,685,924	6,342,923	3,630,657	4,628,488	655,707	78,943,699
Administrative and general	11,476,499	2,935,549	2,733,859	3,533,424	650,379	21,329,710
Depreciation and amortization . . .	<u>17,851,588</u>	<u>1,321,178</u>	<u>1,474,677</u>	<u>1,317,300</u>	<u>898,676</u>	<u>22,863,419</u>
Total operating expenses	<u>93,014,011</u>	<u>10,599,650</u>	<u>7,839,193</u>	<u>9,479,212</u>	<u>2,204,762</u>	<u>123,136,828</u>
Operating income	<u>46,509,820</u>	<u>1,704,441</u>	<u>4,349,703</u>	<u>5,829,603</u>	<u>80,141</u>	<u>58,473,708</u>
Non-operating income (expense):						
Interest income	5,583,376	554,790	1,268,866	1,995,625	9,264	9,411,921
Interest expense, net of AFUDC	(14,614,957)	(1,643,183)	(3,011,716)	(4,063,799)	(582,873)	(23,916,528)
Gain (loss) on sale of investments . .	<u>1,542,759</u>	<u>(6,216)</u>	<u>90,077</u>	<u>78,577</u>	<u>264</u>	<u>1,705,461</u>
Total non-operating expense	<u>(7,488,822)</u>	<u>(1,094,609)</u>	<u>(1,652,773)</u>	<u>(1,989,597)</u>	<u>(573,345)</u>	<u>(12,799,146)</u>
Net income	<u>39,020,998</u>	<u>609,832</u>	<u>2,696,930</u>	<u>3,840,006</u>	<u>(493,204)</u>	<u>45,674,562</u>
Retained earnings, beginning of year	219,996,700	2,793,658	10,546,327	9,184,116	307,407	242,828,208
Operating transfer to City of Gainesville General Fund	<u>(19,946,060)</u>	<u>(1,121,552)</u>	<u>(2,617,657)</u>	<u>(3,590,649)</u>	<u>(220,000)</u>	<u>(27,495,918)</u>
Retained earnings, end of year	<u>\$ 239,071,638</u>	<u>2,281,938</u>	<u>10,625,600</u>	<u>9,433,473</u>	<u>(405,797)</u>	<u>261,006,852</u>

**Gainesville
Regional Utilities
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**Schedule of Utility Plant Properties
Combined Utility Fund**

SEPTEMBER 30, 1999

	UTILITY PLANT PROPERTIES			
	Balance September 30, 1998	Additions	Sales, retirements and transfers	Balance September 30, 1999
PLANT IN SERVICE				
Electric utility fund:				
Production plant	\$ 281,445,066	1,416,798	759,529	282,102,335
Nuclear fuel	6,128,882	470,630	—	6,599,512
Transmission and distribution plant	176,216,914	9,204,673	1,445,628	183,975,959
General and common plant	36,717,146	1,594,419	542,953	37,768,612
Plant unclassified	—	8,616,946	—	8,616,946
Total electric utility fund	<u>500,508,008</u>	<u>21,303,466</u>	<u>2,748,110</u>	<u>519,063,364</u>
Gas utility fund:				
Distribution plant	25,029,779	1,705,306	73,750	26,661,335
General plant	1,320,332	90,828	—	1,411,160
Plant acquisition adjustment	4,650,635	—	—	4,650,635
Plant unclassified	—	745,865	—	745,865
Total gas utility fund	<u>31,000,746</u>	<u>2,541,999</u>	<u>73,750</u>	<u>33,468,995</u>
Water utility fund:				
Supply, pumping and treatment plant	18,155,994	8,017	—	18,164,011
Transmission and distribution plant	85,770,076	2,435,452	194,065	88,011,463
General plant	3,437,938	259,976	—	3,697,914
Plant unclassified	—	292,480	—	292,480
Total water utility fund	<u>107,364,008</u>	<u>2,995,925</u>	<u>194,065</u>	<u>110,165,868</u>
Wastewater utility fund:				
Pumping and treatment plant	56,667,824	341,050	121,311	56,887,563
Collection plant	78,241,948	2,545,714	59,342	80,728,320
Reclaimed water plant	2,084,956	—	—	2,084,956
General plant	5,170,010	89,255	1,965	5,257,300
Plant unclassified	—	677,552	—	677,552
Total wastewater utility fund	<u>142,164,738</u>	<u>3,653,571</u>	<u>182,618</u>	<u>145,635,691</u>
GRUCom utility fund:				
Distribution plant	7,422,264	717,866	726	8,139,404
General plant	273,673	16,074	—	289,747
Plant unclassified	—	186	—	186
Total GRUCom utility fund	<u>7,695,937</u>	<u>734,126</u>	<u>726</u>	<u>8,429,337</u>
Total plant in service	\$ <u>788,733,437</u>	<u>31,229,087</u>	<u>3,199,269</u>	<u>816,763,255</u>
Plant held for future use — electric	\$ <u>6,041,826</u>	<u>6,050</u>	<u>—</u>	<u>6,047,876</u>
CONSTRUCTION IN PROGRESS				
Electric utility fund	\$ 16,554,714	33,619,767	20,832,835	29,341,646
Gas utility fund	1,324,399	2,074,358	2,541,999	856,758
Water utility fund	4,324,157	4,773,194	2,995,925	6,101,426
Wastewater utility fund	8,014,929	4,734,185	3,653,571	9,095,543
GRUCom utility fund	<u>1,366,520</u>	<u>3,584,846</u>	<u>734,126</u>	<u>4,217,240</u>
Total construction in progress	\$ <u>31,584,719</u>	<u>48,786,350</u>	<u>30,758,456</u>	<u>49,612,613</u>

Gainesville
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**Schedule of Accumulated Depreciation and Amortization
Combined Utility Fund**

SEPTEMBER 30, 1999

	Balance September 30, 1998	Additions	Sales, retirements and transfers	Balance September 30, 1999
Electric utility fund:				
Production plant	\$ 130,256,730	8,114,344	833,154	137,537,920
Nuclear fuel	5,239,543	352,787	—	5,592,330
Transmission and distribution plant	38,547,154	5,117,404	2,108,899	41,555,659
General and common plant	<u>11,011,670</u>	<u>2,374,151</u>	<u>541,505</u>	<u>12,844,316</u>
Total electric utility fund	<u>185,055,097</u>	<u>15,958,686</u>	<u>3,483,558</u>	<u>197,530,225</u>
Gas utility fund:				
Distribution plant	10,339,604	878,253	73,750	11,144,107
General plant	571,962	181,523	—	753,485
Plant acquisition adjustment	<u>2,595,723</u>	<u>300,374</u>	<u>—</u>	<u>2,896,097</u>
Total gas utility fund	<u>13,507,289</u>	<u>1,360,150</u>	<u>73,750</u>	<u>14,793,689</u>
Water utility fund:				
Supply, pumping and treatment plant	6,790,453	524,042	—	7,314,495
Transmission and distribution plant	24,532,664	1,885,399	251,684	26,166,379
General plant	<u>2,555,670</u>	<u>253,344</u>	<u>—</u>	<u>2,809,014</u>
Total water utility fund	<u>33,878,787</u>	<u>2,662,785</u>	<u>251,684</u>	<u>36,289,888</u>
Wastewater utility fund:				
Pumping and treatment plant	18,045,959	1,796,854	121,311	19,721,502
Collection plant	22,025,516	1,547,382	59,342	23,513,556
Reclaimed water plant	133,552	43,963	—	177,515
General plant	<u>3,661,121</u>	<u>128,952</u>	<u>1,965</u>	<u>3,788,108</u>
Total wastewater utility fund	<u>43,866,148</u>	<u>3,517,151</u>	<u>182,618</u>	<u>47,200,681</u>
GRUCom utility fund:				
Distribution plant	881,849	975,995	727	1,857,117
General plant	<u>27,867</u>	<u>30,787</u>	<u>—</u>	<u>58,654</u>
Total GRUCom utility fund	<u>909,716</u>	<u>1,006,782</u>	<u>727</u>	<u>1,915,771</u>
Total	\$ <u>277,217,037</u>	<u>24,505,554</u>	<u>3,992,337</u>	<u>297,730,254</u>

Gainesville
Regional Utilities
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investor information

Certified Public Accountants
KPMG LLP and Davis, Monk & Company

Revenue Bonds
Trustee/Registrar/Paying Agent
U.S. Bank Trust National Association, New York, NY

Underwriting/Placement Agent
Goldman, Sachs and Company, New York, NY

Underwriting/Placement Agent
Bankers Trust, New York, NY

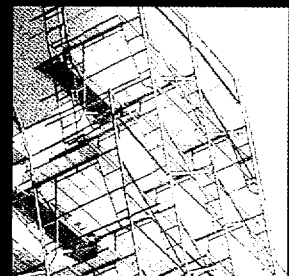
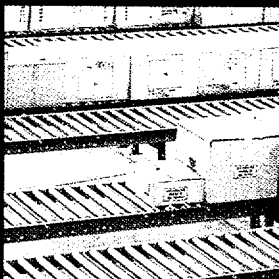
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Certified Public Accountants

Revenue Bonds

Tax Exempt Commercial Paper Dealer

Tax Exempt Commercial Paper Paying Agent



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