



Crystal River Nuclear Plant  
Docket No. 50-302  
Operating License No. DPR-72

Ref: 10 CFR 50.71(b)

May 10, 2006  
3F0506-06

U.S. Nuclear Regulatory Commission  
Attn: Document Control Desk  
Washington, DC 20555-0001

Subject: Crystal River Unit 3 - 2005 Annual Financial Reports

Reference: Progress Energy to NRC letter dated April 20, 2006

Dear Sir:

Pursuant to 10 CFR 50.71(b), Florida Power Corporation, doing business as Progress Energy Florida, Inc., hereby submits the annual financial reports for five (5) of the nine (9) participating co-owners of the Crystal River Unit 3 (CR-3) Nuclear Station. The Progress Energy Annual Report 2005 was submitted in the above referenced correspondence.

Due to delays in printing production, annual financial reports for the City of Leesburg, the City of Ocala, Seminole Electric Cooperative, Inc. and the Utilities Commission, City of New Smyrna Beach are not yet available. These outstanding annual financial reports will be submitted to the Nuclear Regulatory Commission as soon as they are provided to Progress Energy Florida, Inc.

If you have any questions regarding this submittal, please contact me at (352) 563-4796.

Sincerely,



Paul E. Infanger  
Supervisor  
Licensing & Regulatory Programs

PEI/ff

Attachments

xc: NRR Project Manager (w/o att.)  
Regional Administrator, Region II (w/o att.)  
Senior Resident Inspector (w/o att.)

Progress Energy Florida, Inc.  
Crystal River Nuclear Plant  
15760 W. Powerline Street  
Crystal River, FL 34428

M004

**PROGRESS ENERGY FLORIDA, INC.**  
**CRYSTAL RIVER UNIT 3**  
**DOCKET NUMBER 50-302/LICENSE NUMBER DPR-72**

**2005 ANNUAL FINANCIAL REPORTS**

- Orlando Utilities Commission and City of Orlando
- Gainesville Regional Utilities
- City of Alachua
- City of Bushnell
- Kissimmee Utility Authority

**ANNUAL FINANCIAL REPORT  
OF THE  
CITY OF ALACHUA, FLORIDA**

**For the Fiscal Year Ended September 30, 2005**

CITY OF ALACHUA, FLORIDA  
 ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, City Commissioners,  
and City Manager  
City of Alachua, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alachua, Florida, as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Alachua's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alachua, Florida, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2005 on our consideration of the City of Alachua's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 18 and on page 55 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Alachua, Florida's basic financial statements. The combining statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*CPA Associates*

Bradenton, Florida  
December 15, 2005

**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

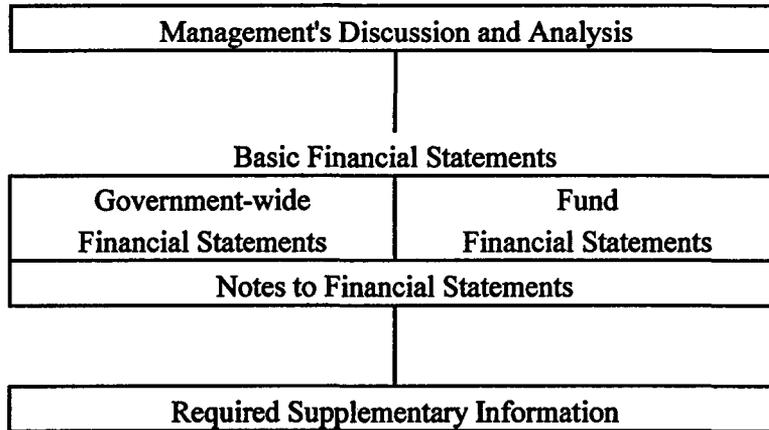
The City of Alachua's (the "City") discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, it should be read in conjunction with the City's financial statements (beginning on page 21). Please note the City provides prior year comparative financial information as required by GASB 34.

***Financial Highlights***

The following graph is provided to assist in understanding the component parts of the financial statements:

Required components of City's Annual Financial Report



**Government-Wide Statements**

- The City of Alachua's assets exceeded its liabilities at September 30, 2005 by \$11.3 million (*net assets*). Of this amount, \$8.2 million may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Alachua's total long-term debt decreased by \$493,524 (-3.18%) during the current fiscal year. The key factor in this decrease was the scheduled principal retirements of its debt.

**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

- Total net assets (\$11.3 million) are comprised of the following:
  - 1) \$2.0 million of capital assets, net of related debt, include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase of construction of those capital assets,
  - 2) \$1.1 million of net assets are restricted by constraints imposed from outside of the City such as debt covenants, grantors, laws, or regulations,
  - 3) \$8.2 million of unrestricted net assets represent the portion available to maintain the City's continuing obligations to citizens and creditors.

### **Fund Statements**

- At September 30, 2005, the City's governmental funds reported combined ending fund balances of \$1.73 million, an increase of \$261,385, in comparison with the prior fiscal year. This increase is due primarily to an increase in operating revenues collected during the year.
- At September 30, 2005, unreserved fund balance for the General Fund was \$1.3 million or 24% of General Fund operating revenue. This is within the Government Finance Officers Association's Best Practices guidelines for fund balance levels.
- Governmental funds revenues increased to \$7.3 million, \$1.4 million more than the previous fiscal year.

### ***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **Government-Wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business, and consist of the following two statements:

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is strengthening or weakening.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year, focusing on both the gross and net costs of various activities,

**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

both governmental and business-type, that are supported by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of the cost of various governmental services and/or subsidy to various business-type activities.

Both of these financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include administration, police, parks and recreation, fire, transportation (streets and roads), physical environment (solid waste), and planning and development. The business-type activities of the City include physical environment (electric, water, and wastewater utilities).

The government-wide financial statements include not only the City itself (known as the primary government), but also the following legally separate component unit: the City of Alachua Public Finance Authority for Affordable Housing. There have been no financial transactions for the Authority; therefore, no amounts related to its operations are reported in the accompanying financial statements. The City has a Community Redevelopment Agency, which was determined not to be a separate legal entity. Thus the Agency is presented in the basic financial statements of the City as a nonmajor governmental fund (page 58-59).

The government-wide financial statements can be found on pages 21-23 of this report.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All City funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

**Fund Financial Statements**

	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	Includes the City's basic services such as police, cultural activities, traffic control, and parks	Services provided by the City that are operated similar to private businesses and for which the City charges a fee	Funds for which the City is the trustee or agent for someone else's resources
<b>Examples</b>	Police, street maintenance, parks, recreational activities	Electric, water, wastewater, and mosquito control	City's retirement funds
<b>Required financial statements</b>	Balance sheet; Statement of revenues, expenditures, and changes in fund balances	Statement of net assets; Statement of revenues, expenses and changes in net assets; Statement of cash flows	Statement of fiduciary net assets; Statement of changes in fiduciary net assets
<b>Accounting basis and measurement focus</b>	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of asset/liability information</b>	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short and long-term	All assets and liabilities, both short and long-term
<b>Type of inflow/outflow information</b>	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

***Governmental Funds***

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of *spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Because of the different measurement focus (current financial resources versus total economic resources) a reconciliation of both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances is provided (see pages 25 and 27) to facilitate the comparison between governmental funds and governmental activities. The flow of current financial resources will reflect debt proceeds and interfund transfers as other financial sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations (bonds and others) into the governmental activities column (in the government-wide statements).

The City maintains fifteen (15) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered a major fund. Data from the other fourteen (14) governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* in the combining statement section of this report.

The City adopts an annual budget for its general, special revenue, debt service, and capital projects funds. A budgetary comparison statement has been provided for the General Fund to demonstrate budgetary compliance.

The basic governmental fund statements can be found on pages 24 and 26 of this report.

***Proprietary Funds***

The City maintains two different types of proprietary funds. *Enterprise funds* are used to report business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Public Utilities System (Electric, Water, Wastewater, and Mosquito Control). *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Utility Billing, Utility Administration, Utility Operations, and postage services. These services have been included within the government-wide financial statements as business type activities.

Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund

**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

financial statements provide separate information for the Public Utility System. The internal service fund is also presented in the proprietary fund financial statements. The basic proprietary fund financial statements can be found on pages 28 through 33.

***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is similar to proprietary funds.

The basic fiduciary fund financial statements can be found on page 34 of this report.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35 through 52 of this report.

**Other Information**

The combining statements referred to earlier present a more detailed view of the nonmajor governmental funds. Also included are statements for the pension trust funds. Combining statements can be found on pages 58 through 68 of this report.

**Infrastructure Assets**

Fiscal year ended September 30, 2005 has been the third full year since the City implemented all portions of GASB Statement No. 34. Historically, a government's largest group of assets (infrastructure, roads, bridges, traffic signals, underground pipes not associated with a utility) have not been reported nor depreciated in the governmental financial statements. The new standard requires that these assets be valued and reported within the governmental activities column of the government-wide statements.

The City is now depreciating its infrastructure assets in conformity with GASB Statement No. 34.

***Government-Wide Financial Analysis***

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$11.3 million at the close of the fiscal year ended September 30, 2005.

At the end of fiscal year 2005, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

A portion of the City's net assets, \$1,121,662, represents resources that are subject to external restriction on how they may be used. The balance of unrestricted net assets \$8,183,643, may be used to meet the government's ongoing obligations to citizens and creditors.

The second largest portion of the City's net assets (\$2,048,944 or 18%) reflects its investment in capital assets (e.g., land, infrastructure, buildings and equipment) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Net Assets  
As of September 30, 2004 and 2005**

	Governmental		Business-type		Total		Total %
	Activities		Activities				Change
	2004	2005	2004	2005	2004	2005	2004-2005
Current and other assets	\$1,803,617	\$2,611,102	\$9,419,547	\$10,916,115	\$11,223,164	\$13,527,217	20.5%
Capital Assets	4,158,076	4,311,713	12,853,141	11,719,927	17,011,217	16,031,640	-5.8%
<b>Total Assets</b>	<b>\$5,961,693</b>	<b>\$6,922,815</b>	<b>\$22,272,688</b>	<b>\$22,636,042</b>	<b>\$28,234,381</b>	<b>\$29,558,857</b>	<b>4.7%</b>
Long-term liabilities outstanding	\$3,543,712	\$3,667,926	\$11,614,912	\$11,135,739	\$15,158,624	\$14,803,665	-2.3%
Other liabilities	288,628	879,751	1,441,524	2,521,192	1,730,152	3,400,943	96.6%
<b>Total Liabilities</b>	<b>\$3,832,340</b>	<b>\$4,547,677</b>	<b>\$13,056,436</b>	<b>\$13,656,931</b>	<b>\$16,888,776</b>	<b>\$18,204,608</b>	<b>7.8%</b>
<b>Net Assets</b>							
Invested in capital assets, net of related debt	\$1,026,647	1,006,106	\$1,641,488	1,042,838	\$2,668,135	2,048,944	-23.2%
Restricted	51,490	175,489	918,000	946,173	969,490	1,121,662	15.7%
Unrestricted	1,051,216	1,193,543	6,656,764	6,990,100	\$7,707,980	8,183,643	6.2%
<b>Total Net Assets</b>	<b>\$2,129,353</b>	<b>\$2,375,138</b>	<b>\$9,216,252</b>	<b>\$8,979,111</b>	<b>\$11,345,605</b>	<b>\$11,354,249</b>	<b>0.1%</b>

For more detailed information see the Statement of Net Assets on page 21.

**Normal Impacts**

There are six (6) basic normal transactions that will affect the comparability of the Statement of Net Assets summary presentation.

- Net Results of Activities: which will impact (increase/decrease) current assets and unrestricted net assets.

**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

- **Borrowing of Capital:** which will increase current assets and long-term debt.
- **Spending Borrowed Proceeds on New Capital:** which will reduce current assets and increase capital assets. There is a second impact, an increase in invested in capital assets, and an increase in related net debt, will not change the invested in capital assets, net of debt.
- **Spending of Non-Borrowed Current Assets on New Capital:** which will reduce current assets, increase capital assets, reduce unrestricted net assets, and increase invested in capital assets, net of debt.
- **Principal Payment on Debt:** which will reduce current assets and reduce long-term debt, reduce unrestricted net assets, and increase invested in capital assets, net of debt.
- **Reduction of Capital Assets through Depreciation:** which will reduce capital assets and invested in capital assets, net of debt.

**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

**City of Alachua  
Changes in Net Assets**

	Governmental Activities		Business-type Activities		Totals		Totals % change
	2004	2005	2004	2005	2004	2005	2004-2005
<b>Revenues:</b>							
<b>Program Revenues:</b>							
Charges for Services	\$1,000,349	\$1,124,128	\$10,475,296	\$12,244,591	\$11,475,645	\$13,368,719	16.50%
Operating Grants and Contributions	58,699	1,388,772			58,699	1,388,772	2265.92%
Capital grants and Contributions	887,298	231,662			887,298	231,662	-73.89%
<b>General Revenues:</b>							
Property Tax	2,172,994	2,389,945			2,172,994	2,389,945	9.98%
Other Tax	348,775	361,772			348,775	361,772	3.73%
Franchise Tax	173,241	226,439			173,241	226,439	30.71%
Utility Tax	543,939	643,971			543,939	643,971	18.39%
Intergovernmental	632,298	615,007			632,298	615,007	-2.73%
Other	79,821	313,523	70,531	\$253,111.00	150,352	566,634	276.87%
<b>Total Revenues</b>	<b>\$5,897,414</b>	<b>\$7,295,219</b>	<b>\$10,545,827</b>	<b>\$12,497,702</b>	<b>\$16,443,241</b>	<b>\$19,792,921</b>	<b>20.37%</b>
<b>Expenses:</b>							
General Government	\$1,977,611	\$2,193,976			\$1,977,611	\$2,193,976	10.94%
Public Safety	2,227,148	3,202,102			2,227,148	3,202,102	43.78%
Parks and Recreation	494,500	564,972			494,500	564,972	14.25%
Transportation	644,394	772,815			644,394	772,815	19.93%
Physical Environment	629,191	1,004,761			629,191	1,004,761	59.69%
Economic Environment	699,843	82,049			699,843	82,049	-88.28%
Electric, Water, and Sewer			9,249,502	11,742,368	9,249,502	11,742,368	26.95%
Interest on long-term debt	246,730	197,744			246,730	197,744	-19.85%
<b>Total Expenses</b>	<b>\$6,919,417</b>	<b>\$8,018,419</b>	<b>\$9,249,502</b>	<b>\$11,742,368</b>	<b>\$16,168,919</b>	<b>\$ 19,760,787</b>	<b>22.21%</b>
Increase (decrease) in net assets before transfers	(\$1,022,003)	(\$723,200)	\$1,296,325	\$755,334	\$274,322	\$32,134	-88.29%
Transfers	955,329	992,475	(955,329)	(992,475)	0	0	0.00%
Increase (decrease) in net assets	(\$66,674)	\$269,275	\$340,996	(\$237,141)	\$274,322	\$32,134	-88.29%
Net assets - beginning (restated)	\$2,196,027	\$2,105,863	\$8,875,256	\$9,216,252	\$11,071,283	\$11,322,115	2.27%
<b>Net assets - ending</b>	<b>\$2,129,353</b>	<b>\$2,375,138</b>	<b>\$9,216,252</b>	<b>\$8,979,111</b>	<b>\$11,345,605</b>	<b>\$11,354,249</b>	<b>0.1%</b>

**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

**Governmental Activities**

The City's total net assets increased \$32,134 over the previous year with an increase of \$269,275 resulting from governmental activities and a decrease of \$237,141 resulting from business-type activities.

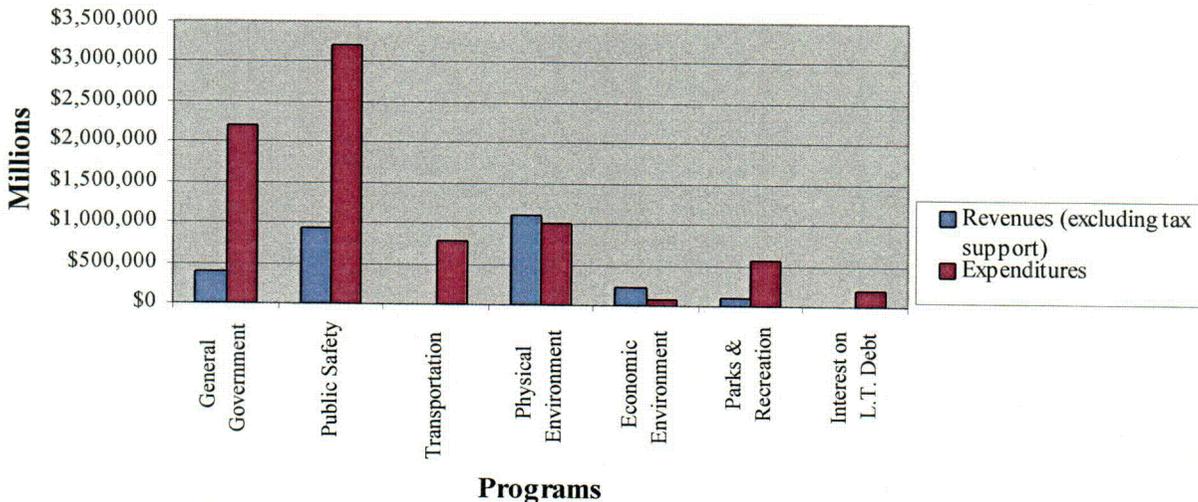
Major changes in revenues were caused by the following:

- Capital Grants and Contributions decreased by 74%. In fiscal year ending September 30, 2004 considerably more grants and private contributions had been awarded to renovate City parks, renovate sub-standard housing, and to finance infrastructure for economic development activities.
- Operating Grants and Contributions increased by 1809%. In fiscal year ending September 30, 2005, the City was awarded several large grants (FEMA and NRCS) related to hurricane recovery.

Major changes in expenses were caused by the following:

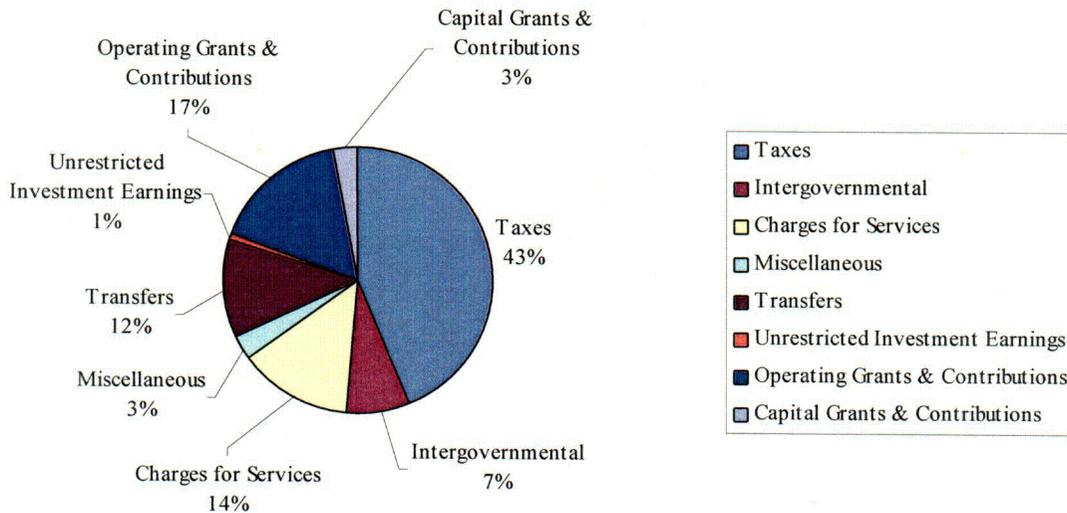
- Public Safety expenses increased by 43%. This increase is due to expenses related to hurricane recovery effort and additional costs related to traffic enforcement.
- Physical Environment increased by 59%. This increase is due to expenses related to the rehabilitation of watershed areas damaged by the 2004 hurricanes.

**Expenses and Program Revenues - Governmental Activities**



**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

**Revenue by Source - Governmental Activities**



**Business-Type Activities**

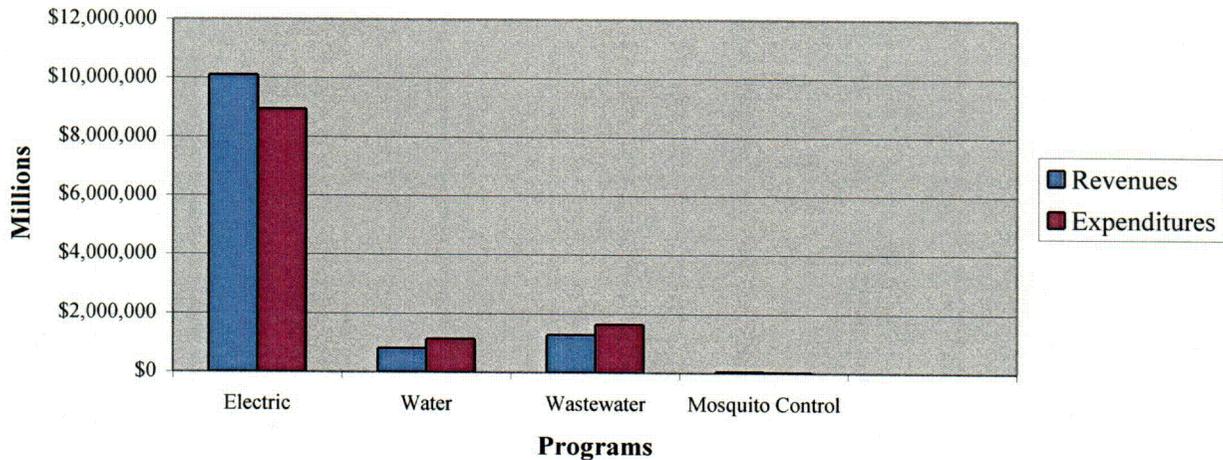
Business-type activities decreased the City's net assets by \$237,141. A key element for this decrease was due to an increase in the expenditures incurred in the Electric, Water, Wastewater, and Mosquito Control utilities brought about by increased cost of wholesale electricity, the replacement of multiple aging vehicles and equipment, and the funding of renewal and replacement projects in accordance with the City's Capital Improvement Program.

- The Electric Utility of the City operates at 7.2/12.47kV. The City purchases power from Gainesville Regional Utilities (GRU) at two different locations. The majority of the customers are supplied from the Alachua No.1 Substation, which is connected to GRU's 138 kV transmission system. The second point of services, identified as the Hague Point of Service, exists as a distribution source supplied by GRU.
- The Water Utility obtains its water supply from the upper portion of the Florida Aquifer. Three wells with depths of approximately 365 feet withdraw water from the Ocala limestone and discharge it into the City's distribution system. The quality of the City's water supply is such that chlorination and fluoridation are the only treatments, which the water requires prior to distribution. The system's wells range in age from 15 to 38 years old.

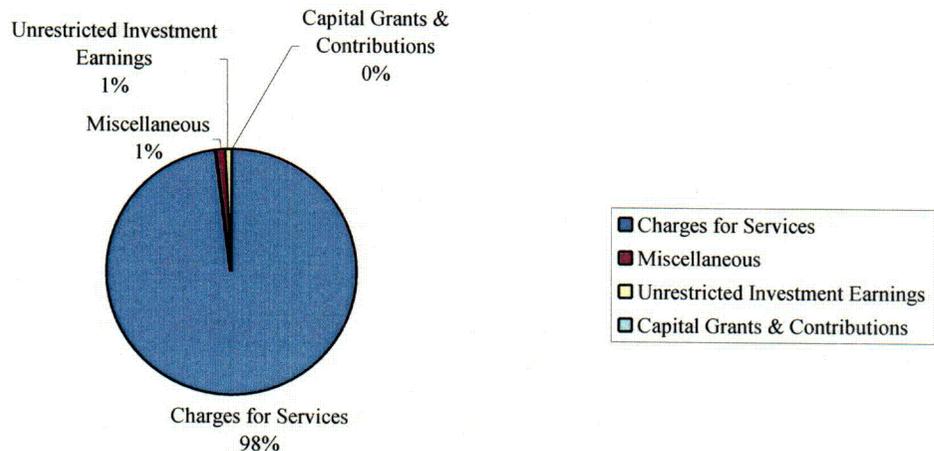
**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

- Wastewater generated through the utility is collected through a gravity sewer system and pumped to the City's wastewater treatment plant. The collected wastewater is treated in an activated sludge treatment facility, which has a current capacity of 600,000 gallons per day. The effluent from the treatment facility is chlorinated and disposed of by spray irrigation.

**Expenses and Program Revenues - Business-Type Activities**



**Program Revenue by Source - Business-Type Activities**



***Fund Financial Analysis***

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

C03

**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

**Governmental Funds**

The primary purpose of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable resources*. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources, available for spending, at the end of the fiscal year.

**CITY OF ALACHUA  
RESERVED AND UNRESERVED FUND BALANCE  
FOR GOVERNMENTAL FUNDS**

	9/30/2004	9/30/2005	Total % Change
Total fund balance	\$1,493,457	\$1,731,351	15.93%
Less reserved fund balance:			
Debt Service	\$48,039	\$144,995	201.83%
Other Purposes	\$3,451	\$175,489	4985.16%
Unreserved fund balance	<u>\$1,441,967</u>	<u>\$1,410,867</u>	-2.16%

As of the end of fiscal year 2005, the City's governmental funds reported combined ending fund balances of \$1.73 million, an increase of \$237,894 in comparison with the prior year. Of the approximately \$1.73 million total fund balance, *unreserved fund balance* is \$1.41 million and is available for spending (depending on fund restrictions) at the City's discretion.

**Major Funds**

The General Fund is the only major governmental fund.

The General Fund is the chief operating fund of the City. The General Fund had an increase in fund balance of \$274,715. The total fund balance was \$1,343,868 of which \$1,337,690 was unreserved. The cash balance at the end of the year was \$827,270. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund revenues. Unreserved fund balance represents 24% of total General Fund operating revenue, while total fund balance also represents 24% of that same amount. The Government Finance Officers Association's Best Practices guidelines calls for an unreserved fund balance level of 5%-15% of General Fund operating revenues.

**Proprietary Funds**

The City's business-type activities in the proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. The Electric, Water, and Wastewater Funds, are reported as major funds.

**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

The various utility system funds are used to account for the operations of the City's electric, water, wastewater, and mosquito control utilities. Each utility operates like a business, where the rates established by the City generally generate sufficient funds to pay the costs of current operations and provide for long-term asset acquisitions. Total assets as of September 30 were \$22.5 million, total liabilities were \$13.6 million, and net assets were \$8.9 million.

**General Fund Budgetary Highlights with Variances**

The differences between the General Fund's original budget balances and final amended budget balances was an increase of \$287,070 and was caused by the below listed amendments:

**Revenues:**

- \$45,434 – Increase in Charges for Services due to receipt of additional planning and zoning fees due to increased development in the City, receipt of additional recreation fees due to an increase in the number of children participating in the Summer Recreation program, and receipt of revenues related to City special events (i.e. July 4th celebration).
- \$241,636 – Increase in Miscellaneous Revenues due to receipt of refund from the City's former retirement fund administrator when the City rejoined the Florida Retirement System, private donations, and COBRA reimbursements.

**Expenditures:**

- \$271,755 – Increase in General Government activities for expenditures related to the July 4th celebration, legal advertising for the Planning division, commissioner salary increases, and increasing the General Fund contingency account.
- \$15,315 – Increase in Culture and Recreation activities related to additional cost associated with bathroom renovations at the recreation center.

**General Fund Actual Results Highlights with Variances**

At September 30, 2005, the City's General Fund experienced a positive variance between its final operating revenue budget and actual operating revenue in the amount of \$187,125. This was due to the following:

- Additional franchise fees and utility taxes collected due to increased electric and water consumption by utility customers, as well as an increase in the City's utility customer base.
- Additional State Revenue Sharing and Half-Cent Sales Tax receipts due to an increase in the City's population.
- Additional Planning and Zoning fees collected due to the increase in the number of development applications received for new subdivisions.

**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

The City's General Fund experienced a positive variance between its final operating expenditure budget and actual operating expenditures in the amount of \$893,249. This was due to the following:

- The positive variance in General Government activities is due to unspent contingency funds, and various vacancies in Planning, Code Enforcement, and Information Technology areas.
- The positive variance in Physical Environment activities is due to lower garbage collection rates from the City's new garbage hauler.
- The positive variance in Capital Outlay activities is due to the delay in start of several drainage projects to next fiscal year.

**Capital Asset and Debt Administration**

The City's capital assets for its governmental and business-type activities as of September 30, 2005 totals \$16.0 million (net of accumulated depreciation) and includes land, buildings, improvements other than buildings, equipment, infrastructure, and construction in progress.

Major capital asset events during the current fiscal year include the purchase of machinery and equipment (vehicles, PCs, transformers, etc.) and construction planning expenses (wastewater treatment expansion).

Additional information on the City's capital assets can be found in Note G beginning on page 43 of this report.

**Long-Term Debt**

At the end of fiscal year 2005, the City had total long-term debt outstanding of \$15.0 million. The City's debt represents bonds or notes secured by specific revenue sources (i.e., revenue bonds/notes).

**CITY OF ALACHUA  
OUTSTANDING DEBT  
GENERAL OBLIGATION, REVENUE BONDS/NOTES, AND LOANS**

	2004	2005	Total % Change
Revenue Bonds	\$12,874,000	\$12,218,000	-5.10%
Revenue Notes	\$475,775	\$412,083	-13.39%
Loans	\$2,167,657	\$2,393,825	10.43%
<b>TOTAL</b>	<b>\$15,517,432</b>	<b>\$15,023,908</b>	<b>-3.18%</b>

The City's outstanding debt decreased by \$493,524 during fiscal year 2005. This decrease was due to scheduled principal and interest payments. Additional information on the City's debt can be found in Note H beginning on page 44 of this report.

**CITY OF ALACHUA, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

**Economic Factors and Next Year's Budgets and Rates**

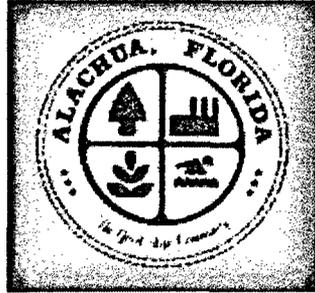
- The unemployment rate for the Gainesville MSA that includes the City of Alachua at September 30, 2005, was 2.7%, same as the previous fiscal year.
- The citywide taxable value of property increased to \$493 million, representing a growth of 13%.
- Population increased approximately 4.8% from the prior year to an estimate of 7,020 at September 30, 2005.

During the current fiscal year, unreserved fund balance in the General Fund increased to \$1.3 million from \$1.2 million. The ad valorem tax rate for the General Fund was the same as the 2005 fiscal year budget and is 5.700 Mills.

**Requests for Information**

This financial report is designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions concerning any of the information provided in this report or need additional financial information, contact the Finance Department, P.O. Box 9, Alachua, Florida 32615. Additional information can be found on our website at [www.cityofalachua.com](http://www.cityofalachua.com).

**BASIC FINANCIAL STATEMENTS**



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CITY OF ALACHUA, FLORIDA  
STATEMENT OF NET ASSETS  
September 30, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,348,846	5,918,373	7,267,219
Accounts receivable, net of allowance	232,714	1,728,339	1,961,053
Internal balances	( 156,028)	156,028	--
Due from other governments	918,774	--	918,774
Restricted assets:			
Cash and cash equivalents	177,928	2,094,590	2,272,518
Investments	--	359,303	359,303
Inventories	--	263,556	263,556
Prepaid expenses	88,868	1,695	90,563
Deferred charges	--	246,966	246,966
Bond issue cost	--	147,265	147,265
Capital assets:			
Land	226,980	2,228,697	2,455,677
Buildings	1,481,347	6,943,544	8,424,891
Improvements other than buildings	1,217,765	2,284,929	3,502,694
Machinery and equipment	1,502,270	11,433,556	12,935,826
Construction in progress	478,631	176,086	654,717
Infrastructure	4,954,246	--	4,954,246
Accumulated depreciation	( 5,549,526)	( 11,346,885)	(16,896,411)
<b>Total assets</b>	<b>\$ 6,922,815</b>	<b>22,636,042</b>	<b>29,558,857</b>
<b>LIABILITIES</b>			
Current liabilities:			
Account payable and accrued expenses	\$ 807,075	1,116,280	1,923,355
Accrued interest payable	42,299	256,495	298,794
Deferred revenue	27,938	--	27,938
Current liabilities payable from restricted assets:			
Accounts payable	2,439	--	2,439
Deferred revenue	--	700,000	700,000
Customer deposits	--	448,417	448,417
Noncurrent liabilities payable from restricted assets:			
Deferred credit - CR-3 decommissioning costs	--	359,303	359,303
Other noncurrent liabilities:			
Due within one year	--	640,000	640,000
Due in more than one year	3,667,926	10,136,436	13,804,362
<b>Total liabilities</b>	<b>4,547,677</b>	<b>13,656,931</b>	<b>18,204,608</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,006,106	1,042,838	2,048,944
Restricted for:			
Debt service	--	930,495	930,495
Capital projects	169,311	--	169,311
Other purposes	6,178	15,678	21,856
Unrestricted	1,193,543	6,990,100	8,183,643
<b>Total net assets</b>	<b>2,375,138</b>	<b>8,979,111</b>	<b>11,354,249</b>
<b>Total liabilities and net assets</b>	<b>\$ 6,922,815</b>	<b>22,636,042</b>	<b>29,558,857</b>

The notes to financial statements are an integral part of this statement.

CITY OF ALACHUA, FLORIDA  
STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Capital
<b>Governmental activities:</b>				
General government	\$ 2,193,976	394,028	--	--
Public safety	3,202,102	126,464	806,910	--
Physical environment	1,004,761	540,857	550,135	--
Transportation	772,815	--	8,455	--
Economic environment	82,049	--	--	211,117
Parks and recreation	564,972	62,779	23,272	20,545
Interest on long-term debt	197,744	--	--	--
<b>Total governmental activities</b>	<b>8,018,419</b>	<b>1,124,128</b>	<b>1,388,772</b>	<b>231,662</b>
<b>Business-type activities:</b>				
Electric	8,946,756	10,105,732	--	--
Water and sewer	2,771,163	2,097,604	--	--
Mosquito control	24,449	41,255	--	--
<b>Total business-type activities</b>	<b>11,742,368</b>	<b>12,244,591</b>	<b>--</b>	<b>--</b>
<b>Total</b>	<b>\$ 19,760,787</b>	<b>13,368,719</b>	<b>1,388,772</b>	<b>231,662</b>

General revenues:  
Ad valorem taxes  
Local option gas tax  
Franchise fee taxes  
Utility service taxes  
Communication service taxes  
State shared revenues  
Unrestricted investment earnings  
Miscellaneous  
Transfers  
Total general revenues and transfers  
Change in net assets  
Net assets - beginning of year (restated)  
Net assets - end of year

Net (Expense) Revenue and  
Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total
( 1,799,948)	--	( 1,799,948)
( 2,268,728)	--	( 2,268,728)
86,231	--	86,231
( 764,360)	--	( 764,360)
129,068	--	129,068
( 458,376)	--	( 458,376)
( 197,744)	--	( 197,744)
<u>( 5,273,857)</u>	<u>--</u>	<u>( 5,273,857)</u>
--	1,158,976	1,158,976
--	( 673,559)	( 673,559)
--	16,806	16,806
--	<u>502,223</u>	<u>502,223</u>
<u>( 5,273,857)</u>	<u>502,223</u>	<u>( 4,771,634)</u>
2,389,945	--	2,389,945
140,829	--	140,829
226,439	--	226,439
643,971	--	643,971
220,943	--	220,943
615,007	--	615,007
61,391	89,647	151,038
252,132	163,464	415,596
992,475	( 992,475)	--
<u>5,543,132</u>	<u>( 739,364)</u>	<u>4,803,768</u>
269,275	( 237,141)	32,134
2,105,863	9,216,252	11,322,115
<u>\$ 2,375,138</u>	<u>8,979,111</u>	<u>11,354,249</u>

CITY OF ALACHUA, FLORIDA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2005

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 827,270	521,576	1,348,846
Accounts receivable	87,527	145,187	232,714
Due from other funds	645,142	-	645,142
Due from other governments	78,837	839,937	918,774
Prepays	88,373	495	88,868
Restricted assets - cash and cash equivalents	6,178	171,750	177,928
<b>TOTAL ASSETS</b>	<b>\$ 1,733,327</b>	<b>1,678,945</b>	<b>3,412,272</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 159,014	568,121	727,135
Accrued expenses	35,565	44,375	79,940
Interest payable	-	42,299	42,299
Deferred revenue	27,938	-	27,938
Due to other funds	166,942	634,228	801,170
Payable from restricted assets:			
Accounts payable	-	2,439	2,439
<b>Total liabilities</b>	<b>389,459</b>	<b>1,291,462</b>	<b>1,680,921</b>
<b>Fund balances:</b>			
<b>Reserved for:</b>			
Debt service	-	144,995	144,995
Capital projects	-	169,311	169,311
Other purposes	6,178	-	6,178
<b>Unreserved, undesignated</b>			
General fund	1,337,690	-	1,337,690
Special revenue funds	-	212,809	212,809
Capital projects funds	-	( 139,632)	( 139,632)
<b>Total fund balances</b>	<b>1,343,868</b>	<b>387,483</b>	<b>1,731,351</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,733,327</b>	<b>1,678,945</b>	<b>3,412,272</b>

The notes to financial statements are an integral part of this statement.

CITY OF ALACHUA, FLORIDA  
 RECONCILIATION OF THE BALANCE SHEET FOR GOVERNMENTAL  
 FUNDS TO THE STATEMENT OF NET ASSETS  
 September 30, 2005

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Fund balance - total governmental funds \$ 1,731,351

Amounts reported for governmental activities in the statement  
 of net assets are different because:

Capital assets used in governmental activities  
 are not financial resources and, therefore,  
 are not reported in the governmental funds.

Capital assets	\$ 9,861,239	
Less: accumulated depreciation	<u>(5,549,526)</u>	4,311,713

Noncurrent liabilities are not due and payable  
 in the current period and, therefore, are not  
 reported in the governmental funds.

1993 City of Arcadia Revenue Bonds	(725,000)	
1995 First National Bank Note	(163,604)	
2000 Sales Tax Revenue Note	(45,259)	
2000 Tax Increment Road Improvement Note	(203,220)	
2001A Section 108 Loan	(2,010,000)	
2004 Caterpillar Loan	(30,202)	
2005 Walmart Bridge Loan	(297,633)	
Compensated absences	<u>(193,008)</u>	<u>(3,667,926)</u>

Net assets of governmental activities \$ 2,375,138

CITY OF ALACHUA, FLORIDA  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended September 30, 2005

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 3,622,127	--	3,622,127
Licenses and permits	303,955	--	303,955
Intergovernmental revenues	623,461	1,415,171	2,038,632
Charges for services	702,875	--	702,875
Fines and forfeitures	126,064	--	126,064
Interest	57,150	4,241	61,391
Miscellaneous	239,526	168,538	408,064
<b>Total revenues</b>	<b>5,675,158</b>	<b>1,587,950</b>	<b>7,263,108</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	2,122,279	2,198	2,124,477
Public safety	2,212,752	780,725	2,993,477
Physical environment	429,025	566,067	995,092
Transportation	494,320	--	494,320
Economic environment	--	78,459	78,459
Parks and recreation	440,902	73,602	514,504
<b>Debt service</b>			
Principal	11,763	178,692	190,455
Interest and fiscal charges	874	196,870	197,744
Capital outlay	263,001	440,302	703,303
<b>Total expenditures</b>	<b>5,974,916</b>	<b>2,316,915</b>	<b>8,291,831</b>
Deficiency of revenues under expenditures	( 299,758)	( 728,965)	( 1,028,723)
<b>Other financing sources (uses)</b>			
Proceeds from note	--	297,633	297,633
Transfers in	925,000	418,002	1,343,002
Transfers out	( 350,527)	--	( 350,527)
<b>Total other financing sources (uses)</b>	<b>574,473</b>	<b>715,635</b>	<b>1,290,108</b>
Net change in fund balances	274,715	( 13,330)	261,385
Fund balances - beginning of the year (restated)	1,069,153	400,813	1,469,966
Fund balances - end of the year	<b>\$ 1,343,868</b>	<b>387,483</b>	<b>1,731,351</b>

The notes to financial statements are an integral part of this statement.

CITY OF ALACHUA, FLORIDA  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND BALANCES OF  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 For The Year Ended September 30, 2005

---

Net change in fund balances - total governmental funds \$ 261,385

Amounts reported in the statement of activities are difference because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital outlay expenditures	\$ 703,303	
Less: current year depreciation	<u>(581,778)</u>	121,525

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 32,111

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases noncurrent liabilities in the statement of net assets. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces noncurrent liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.

Proceeds from Walmart Bridge Loan	(297,633)	
Principal payments on:		
1993 City of Arcadia Bonds	50,000	
1995 First National Bank Note	28,466	
2000 Sales Tax Revenue Note	8,418	
2000 Tax Increment Road Improvement Note	26,808	
2001A Section 108 Loan	65,000	
2004 Caterpillar Loan	<u>11,763</u>	(107,178)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences		<u>(38,568)</u>
--------------------------------	--	-----------------

Change in net assets of governmental activities		<u>\$ 269,275</u>
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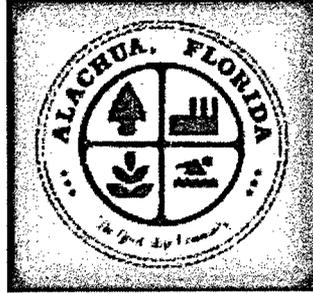
CITY OF ALACHUA, FLORIDA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
September 30, 2005

	Business-Type Activities-Enterprise Funds					
	Major Funds			Nonmajor Fund	Total	Business-Type Activities
	Electric Fund	Water Fund	Wastewater Fund	Mosquito Control Fund	Enterprise Funds	Internal Service Fund
<b>ASSETS</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 4,401,620	454,041	901,027	52,516	5,809,204	109,169
Receivables	1,527,842	73,176	125,090	2,231	1,728,339	-
Prepays	1,695	-	-	-	1,695	-
Due from other funds	-	463	166,942	15,051	182,456	-
Due from other governments	-	-	-	-	-	-
Inventories	227,859	34,538	1,159	-	263,556	-
Deferred charges	246,966	-	-	-	246,966	-
<b>Total current assets</b>	<b>6,405,982</b>	<b>562,218</b>	<b>1,194,218</b>	<b>69,798</b>	<b>8,232,216</b>	<b>109,169</b>
<b>Noncurrent assets:</b>						
<b>Restricted assets:</b>						
Cash and cash equivalents	981,075	124,635	988,880	-	2,094,590	-
Investments	359,303	-	-	-	359,303	-
<b>Total restricted assets</b>	<b>1,340,378</b>	<b>124,635</b>	<b>988,880</b>	<b>-</b>	<b>2,453,893</b>	<b>-</b>
<b>Capital assets:</b>						
Property, plant and equipment	8,360,180	5,225,975	9,245,901	7,200	22,839,256	51,470
Construction in progress	88,602	-	87,484	-	176,086	-
Less accumulated depreciation	( 4,566,165)	( 2,878,508)	( 3,868,918)	( 3,096)	(11,316,687)	( 30,198)
<b>Net capital assets</b>	<b>3,882,617</b>	<b>2,347,467</b>	<b>5,464,467</b>	<b>4,104</b>	<b>11,698,655</b>	<b>21,272</b>
<b>Other assets:</b>						
Bond issue costs	101,272	7,336	38,657	-	147,265	-
<b>TOTAL ASSETS</b>	<b>\$ 11,730,249</b>	<b>3,041,656</b>	<b>7,686,222</b>	<b>73,902</b>	<b>22,532,029</b>	<b>130,441</b>

The notes to financial statements are an integral part of this statement.

CITY OF ALACHUA, FLORIDA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
September 30, 2004

	Business-Type Activities-Enterprise Funds					Business-Type Activities Internal Service Fund
	Major Funds			Nonmajor Fund	Total Enterprise Funds	
	Electric Fund	Water Fund	Wastewater Fund	Mosquito Control Fund		
<b>LIABILITIES AND NET ASSETS</b>						
Current liabilities:						
Accounts payable	\$ 977,351	10,179	54,395	--	1,041,925	1,671
Accrued expenses	64,140	--	2,183	47	66,370	6,314
Due to other funds	9,281	1,702	394	--	11,377	15,051
Accrued interest	139,654	46,682	70,159	--	256,495	--
Payable from restricted assets:						
Deferred revenue	--	--	700,000	--	700,000	--
Customer deposits	341,188	54,792	52,437	--	448,417	--
Current portion of long-term debt	323,492	59,131	257,377	--	640,000	--
Total current liabilities	<u>1,855,106</u>	<u>172,486</u>	<u>1,136,945</u>	<u>47</u>	<u>3,164,584</u>	<u>23,036</u>
Other noncurrent liabilities:						
Payable from restricted assets:						
Deferred credit - CR-3 decommissioning costs	359,303	--	--	--	359,303	--
Compensated absences	31,631	11,967	20,054	--	63,652	35,695
Long-term debt	5,977,343	1,158,990	2,900,756	--	10,037,089	--
Total noncurrent liabilities	<u>6,368,277</u>	<u>1,170,957</u>	<u>2,920,810</u>	<u>--</u>	<u>10,460,044</u>	<u>35,695</u>
<b>TOTAL LIABILITIES</b>	<u>8,223,383</u>	<u>1,343,443</u>	<u>4,057,755</u>	<u>47</u>	<u>13,624,628</u>	<u>58,731</u>
Net assets:						
Investment in capital assets, net of related debt	( 2,418,218)	1,129,346	2,306,334	4,104	1,021,566	21,272
Restricted for:						
Debt service	639,887	69,843	220,765	--	930,495	--
Other purpose	--	--	15,678	--	15,678	--
Unrestricted	5,285,197	499,024	1,085,690	69,751	6,939,662	50,438
Total net assets	<u>3,506,866</u>	<u>1,698,213</u>	<u>3,628,467</u>	<u>73,855</u>	<u>8,907,401</u>	<u>71,710</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 11,730,249</u>	<u>3,041,656</u>	<u>7,686,222</u>	<u>73,902</u>	<u>22,532,029</u>	<u>130,441</u>



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CITY OF ALACHUA, FLORIDA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
Year Ended September 30, 2005

	Business-type Activities-Enterprise Funds					Business-type Activities Internal Service Fund
	Major Funds			Nonmajor Fund	Total	
	Electric Fund	Water Fund	Wastewater Fund	Mosquito Control Fund	Enterprise Funds	
Operating revenues:						
Charges for services	\$ 10,105,732	811,921	1,285,683	41,255	12,244,591	550
Interfund charges	--	--	--	--	--	648,033
<b>Total operating revenues</b>	<b>10,105,732</b>	<b>811,921</b>	<b>1,285,683</b>	<b>41,255</b>	<b>12,244,591</b>	<b>648,583</b>
Operating expenses:						
Electric power expenses:						
Nuclear power	151,137	--	--	--	151,137	--
Purchased power	6,718,176	--	--	--	6,718,176	--
Personal services	388,107	230,618	228,496	11,247	858,468	503,349
Contractual services	56,430	44,700	52,038	--	153,168	42,101
Supplies	44,975	36,802	64,147	11,069	156,993	76,342
Repairs and maintenance	73,346	45,748	68,980	1,084	189,158	2,378
Billing and administration	324,017	162,008	162,008	--	648,033	--
Depreciation	646,336	411,034	735,400	720	1,793,490	9,253
Other expense	220,317	94,975	161,953	329	477,574	25,878
<b>Total operating expenses</b>	<b>8,622,841</b>	<b>1,025,885</b>	<b>1,473,022</b>	<b>24,449</b>	<b>11,146,197</b>	<b>659,301</b>
Operating income (loss)	1,482,891	( 213,964)	( 187,339)	16,806	1,098,394	( 10,718)
Nonoperating revenues (expenses):						
Interest income	73,969	--	15,678	--	89,647	--
Interest and fiscal charges	( 321,889)	( 111,276)	( 162,638)	--	( 595,803)	--
Amortization of bond issue costs	( 6,751)	( 489)	( 2,577)	--	( 9,817)	--
Miscellaneous	100,980	20,163	42,321	--	163,464	20,167
<b>Total nonoperating revenues (expenses)</b>	<b>( 153,691)</b>	<b>( 91,602)</b>	<b>( 107,216)</b>	<b>--</b>	<b>( 352,509)</b>	<b>20,167</b>
Income (loss) before transfers	1,329,200	( 305,566)	( 294,555)	16,806	745,885	9,449
Transfers in	--	--	--	--	--	14,000
Transfers out	( 925,000)	--	( 67,475)	( 14,000)	( 1,006,475)	--
Net income (loss)	404,200	( 305,566)	( 362,030)	2,806	( 260,590)	23,449
Total net assets - beginning of year	3,102,666	2,003,779	3,990,497	71,049	9,167,991	48,261
Total net assets - end of year	<u>\$ 3,506,866</u>	<u>1,698,213</u>	<u>3,628,467</u>	<u>73,855</u>	<u>8,907,401</u>	<u>71,710</u>

The notes to financial statements are an integral part of this statement.

CITY OF ALACHUA, FLORIDA  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUND  
For The Year Ended September 30, 2005

	Business-Type Activities-Enterprise Funds					
	Major Funds			Nonmajor Fund	Total	Business-Type Activities
	Electric Fund	Water Fund	Wastewater Fund	Mosquito Control Fund	Enterprise Funds	Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 9,650,188	811,531	1,286,580	41,276	11,789,575	648,583
Payments to suppliers for goods and services	( 6,886,570)	( 305,273)	( 424,960)	( 12,435)	( 7,629,238)	( 151,638)
Payments to employees for services	( 394,879)	( 230,660)	( 224,066)	( 11,247)	( 860,852)	( 483,769)
Payments to other funds - internal activity	( 324,017)	( 162,008)	( 162,008)	—	( 648,033)	—
Net cash provided by operating activities	<u>2,044,722</u>	<u>113,590</u>	<u>475,546</u>	<u>17,594</u>	<u>2,651,452</u>	<u>13,176</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Miscellaneous	100,980	20,163	42,321	—	163,464	20,167
Transfers in	—	—	—	—	—	14,000
Transfers out	( 925,000)	—	( 67,475)	( 14,000)	( 1,006,475)	—
Net cash provided (used) by noncapital financing activities	<u>( 824,020)</u>	<u>20,163</u>	<u>( 25,154)</u>	<u>( 14,000)</u>	<u>( 843,011)</u>	<u>34,167</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Acquisition and construction of fixed assets	( 398,832)	( 122,969)	( 137,316)	—	( 659,117)	( 10,412)
Proceeds from loan	—	—	5,298	—	5,298	—
Capital contribution	—	—	700,000	—	700,000	—
Bond and loan principal payments	( 307,188)	( 57,131)	( 241,681)	—	( 606,000)	—
Bond and loan interest payments	( 296,961)	( 94,421)	( 155,337)	—	( 546,719)	—
Net cash provided (used) by capital and related financing activities	<u>( 1,002,981)</u>	<u>( 274,521)</u>	<u>170,964</u>	<u>—</u>	<u>( 1,106,538)</u>	<u>( 10,412)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of pooled investments	( 39,599)	—	—	—	( 39,599)	—
Interest on pooled cash and investments	73,969	—	15,678	—	89,647	—
Net cash provided by investing activities	<u>34,370</u>	<u>—</u>	<u>15,678</u>	<u>—</u>	<u>50,048</u>	<u>—</u>
Net increase (decrease) in cash and cash equivalents	252,091	( 140,768)	637,034	3,594	751,951	36,931
Cash and cash equivalents at beginning of year	5,130,604	719,444	1,252,873	48,922	7,151,843	72,238
Cash and cash equivalents at end of year	<u>\$ 5,382,695</u>	<u>578,676</u>	<u>1,889,907</u>	<u>52,516</u>	<u>7,903,794</u>	<u>109,169</u>
Detail of cash at end of year:						
Cash and cash equivalents - current	\$ 4,401,620	454,041	901,027	52,516	5,809,204	109,169
Cash and cash equivalents - restricted	981,075	124,635	988,880	—	2,094,590	—
	<u>\$ 5,382,695</u>	<u>578,676</u>	<u>1,889,907</u>	<u>52,516</u>	<u>7,903,794</u>	<u>109,169</u>

CITY OF ALACHUA, FLORIDA  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUND (CONTINUED)  
For The Year Ended September 30, 2005

	Business-Type Activities-Enterprise Funds					
	Major Funds			Nonmajor Fund	Total	Business-Type Activities
	Electric Fund	Water Fund	Wastewater Fund	Mosquito Control Fund	Enterprise Funds	Internal Service Fund
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>						
Operating income (loss)	\$ 1,482,891	( 213,964)	( 187,339)	16,806	1,098,394	( 10,718)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation expense	646,336	411,034	735,400	720	1,793,490	9,253
(Increase) decrease in accounts receivable	( 274,532)	( 10,176)	( 8,911)	21	( 293,598)	--
(Increase) decrease in due from other funds	--	16,449	--	--	16,449	--
(Increase) decrease in inventories and other current assets	( 13,428)	( 15,281)	( 1,159)	--	( 29,868)	--
(Increase) decrease in deferred costs	( 248,370)	--	--	--	( 248,370)	--
Increase (decrease) in accounts payable and accrued liabilities	413,596	( 55,148)	( 4,187)	47	354,308	( 4,939)
Increase (decrease) in due to other funds	( 22,357)	( 29,068)	( 72,496)	--	( 123,921)	--
Increase (decrease) in deferred revenue	39,599	--	--	--	39,599	--
Increase (decrease) in customer deposits	27,759	9,786	9,808	--	47,353	--
Increase (decrease) in accrued compensated absences	( 6,772)	( 42)	4,430	--	( 2,384)	19,580
	<u>\$ 2,044,722</u>	<u>113,590</u>	<u>475,546</u>	<u>17,594</u>	<u>2,651,452</u>	<u>13,176</u>

**NONCASH INVESTING, CAPITAL, AND  
FINANCING ACTIVITIES**

Amortization of Bond Costs	\$ 6,751	489	2,577	--	9,817	--
Amortization of Discount	3,714	269	1,418	--	5,401	--
Amortization of Loss on Refunding	29,547	6,434	24,756	--	60,737	--
	<u>\$ 40,012</u>	<u>7,192</u>	<u>28,751</u>	<u>--</u>	<u>75,955</u>	<u>--</u>

CITY OF ALACHUA, FLORIDA  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 For The Year Ended September 30, 2005

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	Pension Trust Funds
<b>Additions:</b>	
<b>Contributions:</b>	
Employer	\$ 20,806
Plan members	457
	21,263
<b>Total contributions</b>	21,263
<b>Investment earnings:</b>	3,861
	3,861
<b>Total additions</b>	25,124
<b>Deductions:</b>	
Distributions	1,294,036
Administrative fees	3,264
	1,297,300
<b>Total deductions</b>	1,297,300
Change in net assets	(1,272,176)
<b>Net assets held in trust for pension benefits:</b>	
Net assets - beginning of the year	1,272,176
Net assets - end of the year	\$ --

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The notes to financial statements are an integral part of this statement.

CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Alachua, Florida (City) have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**1. The Financial Reporting Entity**

The City is a political subdivision of the state of Florida, established in 1908 under the legal authority of Chapter 165, Florida Statutes, and is located in Alachua County. The legislative branch of the City is composed of a five-member elected commission. The City Commission is governed by the City Charter and by state and local laws and regulations. The City Commission is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the City Manager, who is appointed by the Commission.

The City's major operations include various utility services – electric, water, and wastewater as well as police protection, road and street maintenance, parks, recreation, and other general government services. The City contracts with Alachua County for the provision of fire service at a fixed cost to the City which is renegotiated annually. The City leases the fire station and equipment to Alachua County at no cost. Sanitation services are provided by a private company, but billed by the City to its customers. The City retains an administrative fee on sanitation services.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the accompanying financial statements include all funds for which the City is financially accountable. The City has also considered all other potential organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for that organization to provide specific benefits to or impose specific financial burdens on the City. Other considerations are whether the organization is legally separate, whether the City holds the corporate powers of the organization, and whether there is fiscal dependency by the organization on the City.

Community Redevelopment Agency

The Community Redevelopment Agency (the Agency) was created by the City Commission in 1982. In evaluating this potential component unit, it was determined that the Agency is not a separate legal entity as it generally cannot transact business in its own name and, therefore, should be included as part of the primary government for reporting purposes. The Agency is blended in the basic financial statements of the City as a nonmajor governmental fund.

Public Finance Authority For Affordable Housing

The Public Finance Authority For Affordable Housing (the Authority) was created by the City Commission in 1992. The Authority is a separate legal entity capable of suing and being sued, and able to purchase property in its own name. By charter, the Authority's Board is composed of the City Commission and the City Commission has oversight over all financial activities. Accordingly, the Authority is a component unit of the City. However, there have been no financial transactions by the Authority during 2005, or since its creation; therefore, no amounts related to the Authority are reported in the accompanying basic financial statements.

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(Continued)

## 2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

## 3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property tax revenues and all other governmental fund revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, such as in grants and similar items, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure, and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. Utility services, investment earnings, franchise fees and utility taxes are recorded as earned, since they are measurable and available.

Property taxes are recognized as revenue at the time an enforceable legal claim is established. This is determined to occur November 1 of each year. The assessment roll is validated July 1 and the millage resolution is approved

CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

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by September 30. The City's property tax becomes a lien on October 1 and the tax is levied by Alachua County each November 1 for real and personal property located in the City. Property taxes are due before April 1 with the maximum discount available if payment is made on or before November 30. If payment remains delinquent, a tax certificate for the full amount of any unpaid taxes is sold no later than June 1. Under this arrangement, there are no property tax receivables at the end of the fiscal year on September 30.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

The *electric fund* accounts for the activities associated with the City's electric utility service.

The *water fund* accounts for the activities associated with the City's water distribution system.

The *wastewater fund* accounts for the activities associated with the City's wastewater treatment plant, wastewater pumping stations, and collection system.

Additionally, the government reports the following fund types:

The *internal service fund* accounts for the administrative services provided to the Electric Fund, Water Fund, and Wastewater Fund.

The two *pension trust funds* have been used to account for the activities of the City's police pension plan and general employees' plan. However, effective October 1, 2004, the City elected to reinstate their membership in the Florida Retirement System. As a result, all previous contributions made to the pension trust funds were either refunded to the City or paid to the Florida Retirement System to purchase years of service for those employees previously enrolled in these plans. These fiduciary funds have been eliminated as of September 30, 2005.

Private-sector and financial reporting standards issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a

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(Continued)

CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

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proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City's enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**4. Assets, Liabilities, and Net Assets or Equity**

**a) Deposits and investments**

The City maintains a cash pool that is available for use by all funds. Each fund's portion of this pool is presented on the statement of net assets as "Cash and cash equivalents." Interest income earned as a result of pooling is distributed monthly to the appropriate funds based on average daily balances. In addition, cash and cash equivalents and investments are separately held by several of the City's funds.

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and highly liquid instruments with original maturities of three months or less from the date of acquisition. Investments are held in the proprietary funds and consist of marketable securities reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales quote at current exchange rates. Investments that do not have an established market are reported at estimated fair value based on market indicators regarded as measures of equity or fixed income performance results.

Florida Statutes require state and local governmental units to deposit monies with financial institutions classified as "Qualified Public Depositories," a multiple financial institution pool whereby groups of securities pledged by the various financial institutions provide common collateral for their deposits of public funds. This pool is provided as additional insurance to the federal depository insurance and allows for additional assessments against the member institutions providing full insurance for public deposits. The City had deposits only with qualifying institutions as of September 30, 2005, or with banks in which depository insurance was sufficient to cover the deposit balance.

**b) Receivable and payables**

Outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of an allowance for uncollectibles.

**c) Inventory**

Inventories relating to governmental activities are recorded as expenditures when purchased. For business-type activities, utility supplies and plant inventory are valued at cost as determined by the average unit cost method. The City's portion of nuclear fuel inventory at the CR-3 nuclear generating facility is recorded at amortized cost.

**d) Restricted assets**

Certain resources are set aside for debt reserves, customer deposits, power plant decommissioning costs, and other purposes. These resources are classified as restricted assets on the balance sheet because they

CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

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are maintained in separate bank accounts and their use is limited by applicable bond covenants, ordinances, or regulations.

**e) Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-40
Nuclear plant and equipment	28-37
Electric distribution plant	25-50
Water plant	10-33
Public domain infrastructure	15-50
Improvements	10-15
Equipment	5-10

**f) Compensated absences**

Accumulated unpaid vacation time, compensatory time, and sick time amounts, including the related direct and incremental salary related payments, are accrued in the enterprise funds and appear as increases in salary expenses in the proprietary financial statements. In the governmental funds, these costs are recognized when payments are made to employees or when the costs mature as a result of employee resignation or retirement. All vacation, compensatory, and sick pay is accrued when incurred in the government-wide financial statements.

**g) Long-term obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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(Continued)

CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

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**h) Fund Equity/Net Assets**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations. All net assets not reported as net assets invested in capital assets, net of related debt and restricted net assets, are reported as unrestricted net assets.

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

**5. Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as applied to governmental units 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 amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

**NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**1. Budgetary Information**

The City's procedures in preparing and adopting the annual budget are as follows:

- The City Manager is responsible for preparing a proposed operating budget for the upcoming year prior to September 30 that includes estimated revenues, proposed expenditures, and other financing sources and uses.
- Public hearings are held to obtain taxpayer comments and suggestions. The budget is enacted through passage of a resolution, which sets spending limits by department.
- The City Manager is authorized to transfer budgeted amounts within any department in any fund, but may not revise total departmental expenditures without the approval of the City Commission.
- Budgets are adopted on a basis consistent with generally accepted accounting principles. Appropriations lapse at the end of the year. Encumbrances are not recorded.

CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

**2. Deficit Fund Equity**

At September 30, 2005, the following funds had deficit balance fund balances.

Fund	Type	Deficit
Public Assistance	Nonmajor Governmental	\$ (116,176)
Cooperative Forestry Assistance	Nonmajor Governmental	(4,375)
Neighborhood Community Center	Nonmajor Governmental	(17,142)
Municipal Complex	Nonmajor Governmental	(111,198)
Natural Resource Conservation Service	Nonmajor Governmental	(11,556)

**NOTE C – RESTATEMENT**

Beginning net assets for the governmental activities and beginning fund balances in the General Fund and Debt Service Fund have been restated to reflect prior period adjustments to properly record the balances for prepaid assets and debt reserves, respectively. Additionally, several restricted revenue sources and capital projects were combined into the General Fund in the prior period, but are presented as separate funds for fiscal year ending September 30, 2005.

	Governmental Activities	General Fund	Debt Service Fund
Net Assets/Fund Balance, October 1, 2004	\$ 2,129,354	1,214,080	48,039
Prior Period Adjustment	(23,491)	(116,413)	92,922
New Funds for 2005			
Donation Fund	--	(5,747)	--
Public Assistance Fund	--	103,432	--
Neighborhood Community Center Fund	--	(34,000)	--
Municipal Complex Fund	--	(92,199)	--
Restated Net Assets/Fund Balance, October 1, 2004	<u>\$ 2,105,863</u>	<u>1,069,153</u>	<u>140,961</u>

**NOTE D – INVESTMENTS**

As of September 30, 2005, the City had the following investments:

Type of Investment	Balance 9/30/05
Florida Municipal Power Agency (FMPA) CR-3 Pooled Investment Account	<u>\$ 359,303</u>

The FMPA account represents a 2.087% interest in an investment pool which invests primarily in commercial paper and U.S. Government obligations with maturities of three years or less. The investment pool is not rated and the securities in the pool are registered in the name of SunTrust, N.A., as trustee for the FMPA CR-3 participants.

(Continued)

CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

**NOTE E -- RESTRICTED ASSETS**

Restricted cash and investments at September 30, 2005, are as follows:

	Governmental Activities	Business-Type Activities
<b>Cash</b>		
Debt Service Reserve	\$ --	930,495
UnSpent State appropriations	--	715,678
Unspent Walmart bridge loan proceeds	171,750	--
Customer Deposits	--	448,417
Police Forfeiture	6,178	--
<b>Total</b>	<b>\$ 177,928</b>	<b>2,094,590</b>
<b>Investments</b>		
CR-3 Decommissioning	\$ --	359,303

The CR-3 Decommissioning Account is required by state law to accumulate funds for the City's share of the decommissioning costs of the CR-3 nuclear power plant. The City's contribution to this account was \$14,800 including interest during 2005. The required cash balance in the decommissioning account is offset by a deferred credit on the balance sheet.

**NOTE F -- INVENTORY**

Inventory related to the City's business-type activities at September 30, 2005, consists of the following:

Business-Type Activities	Balance 9/30/05
Electric utility supplies	\$ 142,852
Water/Wastewater supplies	34,538
Nuclear fuel	61,510
Nuclear plant materials inventory	24,656
<b>Total</b>	<b>\$ 263,556</b>

(Continued)

CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

**NOTE G – CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended September 30, 2005:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 226,980	--	--	226,980
Construction in progress	25,689	452,942	--	478,631
<b>Total capital assets not being depreciated</b>	<b>252,669</b>	<b>452,942</b>	<b>--</b>	<b>705,611</b>
<b>Capital assets, being depreciated:</b>				
Building	1,383,373	97,974	--	1,481,347
Improvements other than buildings	1,193,482	24,283	--	1,217,765
Infrastructure	4,954,246	--	--	4,954,246
Machinery and equipment	1,344,279	160,216	(2,225)	1,502,270
<b>Total capital assets being depreciated</b>	<b>8,875,380</b>	<b>282,473</b>	<b>(2,225)</b>	<b>9,155,628</b>
<b>Less accumulated depreciation for:</b>				
Building	(737,971)	(37,034)	--	(775,005)
Improvements other than buildings	(928,119)	(121,777)	--	(1,049,896)
Infrastructure	(2,237,380)	(122,513)	--	(2,359,893)
Machinery and equipment	(1,066,503)	(300,454)	2,225	(1,364,732)
<b>Total accumulated depreciation</b>	<b>(4,969,973)</b>	<b>(581,778)</b>	<b>2,225</b>	<b>(5,549,526)</b>
<b>Total capital assets, being depreciated, net</b>	<b>3,905,407</b>	<b>(299,305)</b>	<b>--</b>	<b>3,606,102</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 4,158,076</b>	<b>153,637</b>	<b>--</b>	<b>4,311,713</b>
<b>Business-Type Activities</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 2,228,697	--	--	2,228,697
Construction in progress	62,064	125,706	(11,684)	176,086
<b>Total capital assets not being depreciated</b>	<b>2,290,761</b>	<b>125,706</b>	<b>(11,684)</b>	<b>2,404,783</b>
<b>Capital assets, being depreciated:</b>				
Building	6,686,089	257,455	--	6,943,544
Improvements other than buildings	2,228,693	56,236	--	2,284,929
Machinery and equipment	11,191,739	241,817	--	11,433,556
<b>Total capital assets being depreciated</b>	<b>20,106,521</b>	<b>555,508</b>	<b>--</b>	<b>20,662,029</b>
<b>Less accumulated depreciation for:</b>				
Building	(2,856,246)	(167,617)	--	(3,023,863)
Improvements other than buildings	(1,080,613)	(119,954)	--	(1,200,567)
Machinery and equipment	(5,607,282)	(1,515,173)	--	(7,122,455)
<b>Total accumulated depreciation</b>	<b>(9,544,141)</b>	<b>(1,802,744)</b>	<b>--</b>	<b>(11,346,885)</b>
<b>Total capital assets, being depreciated, net</b>	<b>10,562,380</b>	<b>(1,247,236)</b>	<b>--</b>	<b>9,315,144</b>
<b>Proprietary activities capital assets, net</b>	<b>\$ 12,853,141</b>	<b>(1,121,530)</b>	<b>(11,684)</b>	<b>11,719,927</b>

(Continued)

CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions of the governmental activities as follows:

Governmental activities:	
General government	\$ 54,971
Public safety	191,414
Physical environment	9,669
Transportation	274,749
Economic environment	3,590
Parks and recreation	47,385
	<u>\$ 581,778</u>

**NOTE H – LONG-TERM LIABILITIES**

Governmental Activities

The following schedule summarizes the changes in the City's governmental long-term liabilities during the year ended September 30, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>City of Arcadia, Florida, Dedicated Pool Local</i>					
Government Revenue Bonds, Series 1993	\$ 775,000	--	50,000	725,000	50,000
<i>Sales Tax Revenue Note, Series 1995 -</i>					
First National Bank of Alachua	192,070	--	28,466	163,604	30,378
<i>Sales Tax Revenue Note, Series 2000</i>					
First National Bank of Alachua	53,677	--	8,418	45,259	8,849
<i>Tax Increment Road Improvement</i>					
Revenue Note, Series 2000	230,028	--	26,808	203,220	28,697
<i>Section 108 Government Guaranteed</i>					
Certificates, Series HUD 2001A	2,075,000	--	65,000	2,010,000	70,000
Caterpillar Loan, 2004	41,965	--	11,763	30,202	11,654
Walmart Bridge Loan, 2005	--	297,633	--	297,633	--
Compensated Absences	154,440	38,568	--	193,008	--
Totals	<u>\$ 3,522,180</u>	<u>336,201</u>	<u>190,455</u>	<u>3,667,926</u>	<u>199,578</u>

*City of Arcadia, Florida – Dedicated Pool Local Government Revenue Bonds, Series 1993* – On July 1, 1993, the City executed a loan agreement with the City of Arcadia, Florida (the Sponsor), and NationsBank of Florida, N.A. (the Trustee), to borrow \$1,200,000 from the Sponsor's \$45,455,000 Local Government Revenue Bonds, Series 1993, Dedicated Pool. The Sponsor issued the bonds on August 10, 1993, and deposited the proceeds with the Trustee to fund the pool, available to governmental entities for financing and refinancing certain qualified projects. During 1996, the Trustee was changed to Bank of New York.

The City used the proceeds to refinance the balance due on a loan from the City of Gulf Breeze, originally issued to finance street and drainage improvements. The City of Arcadia loan is evidenced by a Governmental Unit Note, which is payable solely from the City's local option gas tax revenues and guaranteed entitlement revenues.

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CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

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**Sales Tax Revenue Note, Series 1995** – On May 24, 1995, the City adopted Resolution R-95-9, authorizing the issuance of a \$400,000 Sales Tax Revenue Note, Series 1995. The note was issued at the par amount of \$393,000, and used to refinance the City's outstanding FLGFA loan, plus pay note issuance and loan redemption costs.

The note is secured by a lien upon the pledge of the City's local government half-cent sales tax. Principal and interest are payable on the first of each month in level monthly installments for fifteen years. Interest accrues at a fixed rate of 5.20% (based on a 360-day year) for the first five years of the note, and is reset on June 1, 2000 and June 1, 2005, to the five-year U.S. Treasury index on those dates. The City may prepay the note in whole or in part, at any time, without penalty.

**Sales Tax Revenue Note, Series 2000** – On April 4, 2000, the City issued a \$85,000 Sales Tax Revenue Note, Series 2000, to finance a capital project.

The note is secured by a lien upon the pledge of the City's local government half-cent sales tax, which is junior and subordinate to the lien and pledge in favor of the City's outstanding Sales Tax Revenue Note, Series 1995. Principal and interest are payable on the first of each month for the ten-year term of the note. Interest accrues at a fixed rate of 6.00%.

**Tax Increment Road Improvement Revenue Note, Series 2000** – On January 8, 2001, the City issued a \$300,000 Tax Increment Road Improvement Revenue Note, Series 2000, to finance improvements and renovations to Main Street within the City's Community Redevelopment District.

The note is secured by the tax increment revenues of the Community Redevelopment District. Principal and interest are payable annually on the first day of February for ten years. Interest accrues at a fixed rate of 6.50% until February 2, 2006, at which time it is reset to the five-year U.S. Treasury index at that date. The City may prepay the note in whole or in part, at any time, without penalty.

**Section 108 Government Guaranteed Participation Certificates, Series HUD 2001A** – On August 2, 2001, the City executed a loan agreement with the U.S. Department of Housing and Urban Development (the Sponsor) to borrow \$2,250,000 from the Sponsor's \$313,756,000 Section 108 Government Guaranteed Participation Certificates, Series HUD 2001A. The Sponsor guarantees timely payment of the notes issued by local governmental agencies. The City used the proceeds of the note to repay the outstanding balances on its Taxable Sales Tax Revenue Note, Series 1999A, and Sales Tax Revenue Note, Series 1999B and finance other costs related to economic development.

The note is secured by the City's local government half-cent sales tax (subordinate to the City's Sales Tax Revenue Note, Series 1995), utility franchise fees and state revenue sharing. Principal is payable annually and interest semiannually for twenty years. Interest accrues at the certificates rates which vary from 3.66% to 6.67% over the life of the note.

**Caterpillar Loan, 2004** – In May 2004, the City agreed to enter into a loan agreement with Caterpillar Financial Services for the amount of \$48,182. The City used these proceeds to purchase a new 2004 Caterpillar Model 416D backhoe to be used by the Streets and Roads Division.

The note is secured by the Caterpillar Model 416D backhoe. This is a four-year note with principal and interest payments due annually with the last payment due in October 2007.

**Walmart Bridge Loan, 2005** – In January 2005, the City agreed to enter into a loan agreement with Walmart for the amount of \$297,633. The City was approved to receive an Economic Development Transportation Fund Grant to construct a roadway upon which Walmart intends to build a distribution center. However, the Grant funds are

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CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

not available until vertical construction has begun on the distribution center. These loan proceeds are being used to bridge the time lag until receipt of the grant funds.

The note is payable by the City within six (6) months from the date upon which Walmart commences vertical construction and the City has received the grant reimbursements. Management expects vertical construction to begin during October 2007.

The following schedule summarizes the principal retirement of governmental long-term debt by fiscal year (excluding compensated absences):

Fiscal Year Ending September 30,	City of Arcadia Loan	1995 Sales Tax Revenue Note	2000 Sales Tax Revenue Note	2000 Tax Increment Note	2001A Section 108 Loan	2004 Caterpillar Loan	2005 Walmart Bridge Loan	Total Principal
2006	\$ 50,000	30,378	8,849	28,697	70,000	11,654	--	199,578
2007	55,000	32,419	9,403	30,588	75,000	12,024	297,633	512,067
2008	55,000	34,580	9,987	32,604	80,000	6,524	--	218,695
2009	55,000	36,920	10,616	34,732	90,000	--	--	227,268
2010	60,000	29,307	6,404	37,041	95,000	--	--	227,752
Thereafter	450,000	--	--	39,558	1,600,000	--	--	2,089,558
<b>Totals</b>	<b>\$725,000</b>	<b>163,604</b>	<b>45,259</b>	<b>203,220</b>	<b>2,010,000</b>	<b>30,202</b>	<b>297,633</b>	<b>3,474,918</b>

**Business-Type Activities**

The following schedule summarizes the changes in the City's business-type long-term liabilities during the year ended September 30, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One year
Utility Acquisition Bonds, Series 1993	\$ 1,015,000	--	40,000	975,000	45,000
Utility Revenue Bond of 1979	514,000	--	26,000	488,000	25,000
State Revolving Fund Loan – State of Florida					
Department of Environmental Protection	50,692	5,298	--	55,990	--
Utilities Refunding Revenue Note, Series 2002A	1,420,000	--	445,000	975,000	475,000
Less deferred loss on refunding	(40,051)	--	(10,013)	(30,038)	--
Utility Refunding Revenue Bonds, Series 2003	9,150,000	--	95,000	9,055,000	95,000
Less deferred discount on refunding	(86,400)	--	(5,400)	(81,000)	--
Less deferred loss on refunding	(811,587)	--	(50,724)	(760,863)	--
Compensated Absences	82,151	17,196	--	99,347	--
<b>Totals</b>	<b>\$11,293,805</b>	<b>22,494</b>	<b>539,863</b>	<b>10,776,436</b>	<b>640,000</b>

**Utility Acquisition Bonds, Series 1993** – On October 18, 1993, the City adopted Resolution R-93-24 authorizing the issuance of \$1,300,000 Utility Acquisition Bonds, Series 1993 to provide the necessary funds for the acquisition of the private water and wastewater systems in the Turkey Creek recreational residential community in the City. The bonds are secured by the gross revenues of the combined electric, water, and wastewater utility

(Continued)

CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

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systems of the City, but are subordinate to the secured interests of the bondholders in the other outstanding revenue bonds of the City.

The bonds were issued without premium or discount and are payable at 7% interest, with interest payable semiannually beginning April 1, 1994, and principal payable annually beginning October 1, 1994.

**Utilities Revenue Bond of 1979** – On August 6, 1979, the City adopted a resolution to issue the Utilities Revenue Bond of 1979. The bond was issued on December 17, 1979, to partially finance the cost of the construction of additions to the utility system.

Net utility revenues and utilities service taxes are pledged as collateral for the revenue bond which has a coupon rate of 5%. The lien on revenues by the 1979 bond is equal to the Utilities Refunding Revenue Bonds of 1986 and 1993.

**State Revolving Fund Loan – State of Florida Department of Environmental Protection** – This loan is to finance preconstruction wastewater control facility costs. The total loan available is \$125,732, of which \$55,990 had been drawn as of September 30, 2005. Repayment commences in June 2007, and is over a term of twenty years bearing a 2.70% interest rate.

**Utilities Refunding Revenue Note, Series 2002A** – On April 2, 2002, the City issued the \$2,235,000 Utilities Refunding Revenue Note, Taxable Series 2002A with an interest rate of 6.35% to refund \$2,220,000 of outstanding Utility Revenue Refunding Bonds, Series 1986 with an average interest rate of 7%.

**Utility Refunding Revenue Bonds, Series 2003** – On August 18, 2003, the City adopted Resolution R-03-31, authorizing the issuance of \$9,180,000 Utility Refunding Revenue Bonds, Series 2003. The bonds were issued at a par amount of \$9,180,000 to provide the funds required to refund the City's outstanding Utility Revenue Bonds, Series 1993 and to pay certain expenses related to the issuance of the Series 2003 bonds.

Gross revenues of the system, plus utilities service taxes are pledged as collateral for the revenue bonds which will rank on a parity with the City's outstanding Utility Revenue Bonds, Series 1979, and Utilities Taxable Refunding Revenue Note, Series 2002A (the "Parity Bonds"), as to lien upon and pledge of the pledged funds.

The Series 2003 Bonds are issued in the aggregate principal amount of \$9,180,000 and dated September 1, 2003. The bonds bear interest rates from 2% to 4.55% and mature on April 1 of the years 2004 through 2020. Interest is payable semi-annually on April 1 and October 1 of each year.

CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

The following schedule summarizes the principal retirement of the business-type debt by fiscal year:

Fiscal Year Ending September 30,	Utility Revenue Bond of 1979	Utility Acquisition Bonds, Series 1993	State Revolving Fund Loan	Utility Refunding Revenue Note Series 2002A	Utilities Refunding Revenue Bonds Series 2003	Totals
2006	\$ 25,000	45,000	--	475,000	95,000	640,000
2007	26,000	45,000	55,990	140,000	460,000	726,990
2008	27,000	50,000	--	360,000	270,000	707,000
2009	29,000	55,000	--	--	555,000	639,000
2010	30,000	55,000	--	--	570,000	655,000
Thereafter	351,000	725,000	--	--	7,105,000	8,181,000
<b>Totals</b>	<b>\$ 488,000</b>	<b>975,000</b>	<b>55,990</b>	<b>975,000</b>	<b>9,055,000</b>	<b>11,548,990</b>

The following schedule summarizes the requirements to pay principal and interest on the obligations of both the City's governmental activities and business-type activities as of September 30, 2005:

Fiscal Year Ending September 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 199,578	187,925	387,503	640,000	510,215	1,150,215
2007	512,067	176,805	688,872	726,990	473,752	1,200,742
2008	218,695	164,880	383,575	707,000	446,438	1,153,438
2009	227,268	152,149	379,417	639,000	409,778	1,048,778
2010	227,752	138,663	366,415	655,000	386,440	1,041,440
2011-2015	1,074,558	517,943	1,592,501	3,700,000	1,508,655	5,208,655
2016-2020	815,000	234,334	1,049,334	4,481,000	617,790	5,098,790
2021-2022	200,000	13,340	213,340	--	--	--
	<b>\$3,474,918</b>	<b>1,586,039</b>	<b>5,060,957</b>	<b>11,548,990</b>	<b>4,353,068</b>	<b>15,902,058</b>

**Defeased Bonds** – At September 30, 2005, the City has outstanding bonds that have been defeased by the purchase of qualifying securities in irrevocable trusts. The scheduled maturities and the interest earnings on the escrowed securities are sufficient to redeem these defeased bonds without further debt service costs to the City. Both defeased bonds and the escrowed securities are, as required by accounting principles generally accepted in the United States of America, omitted from the financial statements of the City.

(Continued)

CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

The following bonds have been defeased by the City and no longer are included in the accompanying financial statements:

	Estimated Balance September 30, 2005
Utility Revenue and Refunding Bonds, Series 1978	\$ 1,085,000
Utility Revenue and Refunding Bonds, Series 1981	2,440,000
Utility Revenue and Refunding Bonds, Series 1981A	160,000
Total	\$ 3,685,000

**Conduit Debt** – The City may assist nongovernmental entities in the obtainment of financing for capital facilities by issuing debt on behalf of the nongovernmental entity. This debt, known as conduit debt, allows the nongovernmental entity to borrow at tax-exempt rates. The nongovernmental entity, not the City, is responsible for repayment of the conduit debt obligation. At September 30, 2005, the following conduit debt is outstanding in the City's name.

Industrial Development Revenue Bonds Series 1995	\$ 1,000,000
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**NOTE I – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The following is a summary of interfund receivables and payables at September 30, 2005:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 633,927
	Electric Fund	9,281
	Water Fund	232
	Wastewater Fund	1,702
Water Fund	Nonmajor Governmental Funds	301
	Wastewater Fund	162
Wastewater Fund	General Fund	166,942
Nonmajor Proprietary Fund	Internal Service Fund	15,051
Total		\$ 827,598

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

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CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

Interfund transfers:

	Transfers In:			Total
	General	Nonmajor Governmental	Internal Service	
Transfers Out:				
General	\$ --	350,527	--	350,527
Electric	925,000	--	--	925,000
Wastewater	--	67,475	--	67,475
Nonmajor Enterprise Fund	--	--	14,000	14,000
<b>Total Transfers Out</b>	<b>\$ 925,000</b>	<b>418,002</b>	<b>14,000</b>	<b>1,357,002</b>

Transfers are normally recurring and are approved by the City Commission during the budget process. The transfer from the Electric Fund to the General Fund is in support of general government operations to the extent monies are available after paying operating expenses and debt service on outstanding bonds. Other transfers are for debt service requirements and for the City's match on grants.

**NOTE J – NET ASSETS – RESTRICTED**

Net assets are reserved within governmental activities and business-type activities as follows:

	Governmental Activities	Business-Type Activities
Debt service	\$ --	930,495
Walmart bridge loan	169,311	--
Police forfeiture	6,178	--
Other purpose	--	15,678
<b>Total</b>	<b>\$ 175,489</b>	<b>946,173</b>

**NOTE K – ELECTRIC POWER AGREEMENTS**

City of Gainesville

The City entered into a wholesale electric service contract with the City of Gainesville, Florida, on January 21, 1987, for the purchase of the majority of the City's electric power requirements beginning January 6, 1988. The City constructed a 138 x 69 - 12.47Y/7.2kV substation to receive the power, which was placed into operation on that date. The substation is located in such a manner that the City has reasonable access to the transmission lines of both the City of Gainesville and Florida Power Corporation. A portion of the substation is owned by the City of Gainesville. The initial term of the contract was five years, with options for additional annual extensions. The contract was renegotiated on October 2, 1992, and extended for an additional fifteen years, beginning on December 31, 1992. Provisions in the contract allow for price adjustments for increases and decreases in the City of Gainesville's fuel and operating costs. Total payments to the City of Gainesville for 2005 were \$6,376,276.

Crystal River Unit #3 Participation Agreement

The City is a participant in an agreement with Florida Power Corporation which was entered into on July 31, 1975. Under terms of the agreement, the City acquired an 0.0779% ownership interest and generation entitlement

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CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

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share in the nuclear steam electric generating unit. Participants are entitled to energy output of the unit based upon their respective generation entitlement share.

Florida Power Corporation has been appointed by the participants to act as their agent and has sole authority to manage, control, maintain, and operate the unit. Operating costs of the unit, in general, are shared in proportion to each generation entitlement share on a monthly basis. Common and external facilities of the generating unit are solely owned by Florida Power Corporation and participants share in the operating and maintenance expenses of such facilities. Nuclear fuel payments and capital acquisition costs are required of participants in advance. Total payments for 2005 were \$152,111.

The City's share of plant decommissioning costs to be paid during the years 2015 through 2022 is being accumulated in an account administered by the FMPA. FMPA has determined the appropriate account balance to be \$359,303 at September 30, 2005. The cash account is offset by a deferred credit on the balance sheet of \$359,303 at September 30, 2005.

St. Lucie No. 2 Power Purchase Agreement

The City has negotiated a long-term agreement with Florida Power and Light Corporation through FMPA to purchase .3044 megawatts of generating capacity and a corresponding amount of energy monthly from the St. Lucie No. 2 nuclear generating plant. The plant became operational in 1984. Total payments for 2005 were \$159,513.

The City has signed certain documents with FMPA relating to the St. Lucie Project that provide that if the agency defaults on certain bond payments, the City would be required to satisfy payment on their share (.431%) of the bonds. The par amount of the outstanding bonds at September 30, 2005, was approximately \$291 million.

**NOTE L – PENSION PLANS**

Effective October 1, 2004, the City reinstated its membership in the Florida Retirement System, a multiple-employer defined benefit public retirement system. Previously, all full-time employees of the City hired prior to January 1, 1996, participated in the Florida Retirement System and all full-time employees hired on January 1, 1996, or later, participated in a retirement system administered by the Florida League of Cities, Inc. The participants in the Florida League of Cities, Inc. retirement plan now participate in the Florida Retirement System.

Florida Retirement System

The Florida Retirement System (the System) was created by the Florida Legislature and is administered by the State of Florida, Department of Administration, Division of Retirement and is a cost-sharing, multiple-employer defined benefit public retirement plan available to governmental units within the state of Florida. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. The report may be obtained by writing to the Florida Retirement System, Division of Retirement, 2639-C North Monroe Street, Tallahassee, Florida 32399-1560, or by calling (850) 488-5706.

The System provides vesting of benefits after six years of creditable service. Members are eligible for normal retirement after they have met one of the following: (1) thirty years of service, regardless of age (twenty-five years if special risk) or (2) age 62 and six years of service (age 55 and six years if special risk).

**CITY OF ALACHUA, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

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Early retirement may be taken any time after completing six years of service; however, there is a 5% benefit reduction for each year prior to normal retirement. Benefits are computed based on age, average final compensation and service credit. Average final compensation is the average of the five highest years of earnings. The System also provides death and disability benefits. Benefits are estimated by Florida Statute and include cost of living adjustments.

The funding methods and the determination of benefits payable are provided in various acts of the Florida Legislature. These acts provide that employers, such as the City, be required to contribute 7.83% of the compensation for regular members, 10.45% for senior management and 18.53% for special risk as of September 30, 2005. The City's contributions to the System for the years ended September 30, 2005, 2004, and 2003, were \$359,136, \$99,524, and \$102,548, respectively.

**NOTE M – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance. The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. Insurance against losses is provided for the following types of risk with the following carriers:

**Florida Municipal Insurance Trust**

- Workers' Compensation and Employer's Liability

**St. Paul Fire and Marine Insurance Company**

- General liability and Automobile Liability
- Real and Personal Property Damage
- Automobile Physical Damage
- Public Employees' Blanket Bond
- Boiler Officials' Liability
- Law Enforcement Officers' Professional Liability and Other Mandated Coverage
- Accidental Death and Dismemberment
- Auxiliary Reserve Policy
- Law Enforcement Officers' Professional Liability

The City's coverage for workers' compensation is under a retrospectively related policy. Premiums are accrued based on the ultimate cost to date of the City's experience.

**REQUIRED SUPPLEMENTARY INFORMATION**

**In accordance with Governmental Accounting Standards Board Statement No. 34, the following information is presented as a required part of the basic financial statements.**



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CITY OF ALACHUA, FLORIDA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
GENERAL FUND  
For The Year Ended September 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Taxes	\$ 3,527,768	3,527,768	3,622,127	94,359
Licenses and permits	280,000	280,000	303,955	23,955
Intergovernmental revenues	537,054	537,054	623,461	86,407
Charges for services	634,455	679,889	702,875	22,986
Fines and forfeitures	130,000	130,000	126,064	( 3,936)
Interest	30,500	30,500	57,150	26,650
Miscellaneous	61,186	302,822	239,526	( 63,296)
<b>Total revenues</b>	<u>5,200,963</u>	<u>5,488,033</u>	<u>5,675,158</u>	<u>187,125</u>
<b>Expenditures</b>				
<b>Current</b>				
General government	2,424,365	2,670,370	2,122,279	548,091
Public safety	2,268,762	2,279,212	2,212,752	66,460
Physical environment	459,021	459,021	429,025	29,996
Transportation	498,728	498,728	494,320	4,408
Parks and recreation	480,722	478,037	440,902	37,135
<b>Debt service</b>				
Principal	--	--	11,763	( 11,763)
Interest and fiscal charges	--	--	874	( 874)
Capital outlay	464,497	482,797	263,001	219,796
<b>Total expenditures</b>	<u>6,596,095</u>	<u>6,868,165</u>	<u>5,974,916</u>	<u>893,249</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>( 1,395,132)</u>	<u>( 1,380,132)</u>	<u>( 299,758)</u>	<u>1,080,374</u>
<b>Other financing sources (uses)</b>				
Transfers in	925,000	925,000	925,000	--
Transfers out	( 265,913)	( 280,913)	( 350,527)	( 69,614)
<b>Total other financing sources (uses)</b>	<u>659,087</u>	<u>644,087</u>	<u>574,473</u>	<u>( 69,614)</u>
<b>Net change in fund balance</b>	<u>( 736,045)</u>	<u>( 736,045)</u>	<u>274,715</u>	<u>1,010,760</u>
<b>Fund balance - beginning of year (restated)</b>	<u>1,069,153</u>	<u>1,069,153</u>	<u>1,069,153</u>	<u>--</u>
<b>Fund balance - end of year</b>	<u>\$ 333,108</u>	<u>333,108</u>	<u>1,343,868</u>	<u>1,010,760</u>

Annual budgets are adopted on a basis consistent with generally accepted accounting principles.



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## COMBINING STATEMENTS

These combining statements provide more detailed information than can be found in the basic financial statements, including information on the individual nonmajor governmental funds, as well as the pension trust funds.

CITY OF ALACHUA, FLORIDA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
September 30, 2005

	Debt Service Fund	Special Revenue Funds	Capital Project Funds	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 184,278	337,298	--	521,576
Accounts receivable		--	145,187	145,187
Due from other governments	--	445,156	394,781	839,937
Prepays	--	495	--	495
Restricted assets - cash and cash equivalents	--	--	171,750	171,750
<b>Total assets</b>	<b>\$ 184,278</b>	<b>782,949</b>	<b>711,718</b>	<b>1,678,945</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ --	174,293	393,828	568,121
Accrued expenses	--	707	43,668	44,375
Interest payable	38,982	3,317	--	42,299
Due to other funds	301	391,823	242,104	634,228
Payable from restricted assets:				
Accounts payable	--	--	2,439	2,439
<b>Total liabilities</b>	<b>39,283</b>	<b>570,140</b>	<b>682,039</b>	<b>1,291,462</b>
<b>Fund balances:</b>				
Reserved for:				
Debt service	144,995	--	--	144,995
Capital projects	--	--	169,311	169,311
Unreserved, undesignated in:				
Special revenue funds	--	212,809	--	212,809
Capital projects	--	--	( 139,632)	( 139,632)
<b>Total fund balances</b>	<b>144,995</b>	<b>212,809</b>	<b>29,679</b>	<b>387,483</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 184,278</b>	<b>782,949</b>	<b>711,718</b>	<b>1,678,945</b>

CITY OF ALACHUA, FLORIDA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
For The Year Ended September 30, 2005

	Debt Service Fund	Special Revenue Funds	Capital Project Funds	Total
<b>Revenues</b>				
Intergovernmental revenues	\$ --	942,133	473,038	1,415,171
Interest	807	3,434	--	4,241
Miscellaneous	--	23,087	145,451	168,538
<b>Total revenues</b>	<b>807</b>	<b>968,654</b>	<b>618,489</b>	<b>1,587,950</b>
<b>Expenditures</b>				
<b>Current:</b>				
General Government	--	1,736	462	2,198
Public safety	--	780,725	--	780,725
Physical environment	--	24,100	541,967	566,067
Economic environment	--	78,459	--	78,459
Parks and recreation	--	9,219	64,383	73,602
<b>Debt Service</b>				
Principal	151,884	26,808	--	178,692
Interest and fiscal charges	178,277	18,593	--	196,870
Capital outlay	--	19,472	420,830	440,302
<b>Total expenditures</b>	<b>330,161</b>	<b>959,112</b>	<b>1,027,642</b>	<b>2,316,915</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>( 329,354)</b>	<b>9,542</b>	<b>( 409,153)</b>	<b>( 728,965)</b>
<b>Other financing sources (uses)</b>				
Proceeds from note	--	--	297,633	297,633
Transfers in	333,388	68,504	16,110	418,002
<b>Total other financing sources (uses)</b>	<b>333,388</b>	<b>68,504</b>	<b>313,743</b>	<b>715,635</b>
<b>Net change in fund balances</b>	<b>4,034</b>	<b>78,046</b>	<b>( 95,410)</b>	<b>( 13,330)</b>
<b>Fund balances - beginning of year (restated)</b>	<b>140,961</b>	<b>134,763</b>	<b>125,089</b>	<b>400,813</b>
<b>Fund balances - end of year</b>	<b>\$ 144,995</b>	<b>212,809</b>	<b>29,679</b>	<b>387,483</b>

CITY OF ALACHUA, FLORIDA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
September 30, 2005

	Community Redevelopment Agency Fund	Donation Fund	State and Community Highway Safety Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ 324,884	12,414	--
Due from other governments	--	--	9,188
Prepays	495	--	--
<b>Total assets</b>	<b>\$ 325,379</b>	<b>12,414</b>	<b>9,188</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 8,162	--	--
Accrued expenses	--	--	707
Interest payable	3,317	--	--
Due to other funds	--	--	1,435
<b>Total liabilities</b>	<b>11,479</b>	<b>--</b>	<b>2,142</b>
<b>Fund balances:</b>			
Unreserved, undesignated	313,900	12,414	7,046
<b>Total fund balances</b>	<b>313,900</b>	<b>12,414</b>	<b>7,046</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 325,379</b>	<b>12,414</b>	<b>9,188</b>

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Public Assistance Fund	Cooperative Forestry Assistance Fund	Total
--	--	337,298
416,243	19,725	445,156
--	--	495
<u>416,243</u>	<u>19,725</u>	<u>782,949</u>
166,131	--	174,293
--	--	707
--	--	3,317
<u>366,288</u>	<u>24,100</u>	<u>391,823</u>
<u>532,419</u>	<u>24,100</u>	<u>570,140</u>
( 116,176)	( 4,375)	212,809
<u>( 116,176)</u>	<u>( 4,375)</u>	<u>212,809</u>
<u>416,243</u>	<u>19,725</u>	<u>782,949</u>

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CITY OF ALACHUA, FLORIDA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
For The Year Ended September 30, 2005

	Community Redevelopment Agency Fund	Donation Fund	State and Community Highway Safety Fund	Public Assistance Fund
<b>Revenues</b>				
Intergovernmental revenues	\$ 143,848	--	48,284	720,822
Interest	3,434	--	--	--
Miscellaneous	--	17,622	--	5,465
<b>Total revenues</b>	<u>147,282</u>	<u>17,622</u>	<u>48,284</u>	<u>726,287</u>
<b>Expenditures</b>				
<b>Current:</b>				
General Government	--	1,736	--	--
Public safety	--	--	39,338	736,178
Physical environment	--	--	--	--
Economic environment	78,459	--	--	--
Parks and recreation	--	9,219	--	--
<b>Debt Service</b>				
Principal	26,808	--	--	--
Interest and fiscal charges	18,593	--	--	--
Capital outlay	--	--	11,900	2,853
<b>Total expenditures</b>	<u>123,860</u>	<u>10,955</u>	<u>51,238</u>	<u>739,031</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>23,422</u>	<u>6,667</u>	<u>( 2,954)</u>	<u>( 12,744)</u>
<b>Other financing sources (uses)</b>				
Transfers in	58,030	--	10,000	--
<b>Total other financing sources (uses)</b>	<u>58,030</u>	<u>--</u>	<u>10,000</u>	<u>--</u>
<b>Net change in fund balances</b>	81,452	6,667	7,046	( 12,744)
<b>Fund balances - beginning of year (restated)</b>	<u>232,448</u>	<u>5,747</u>	<u>--</u>	<u>( 103,432)</u>
<b>Fund balances - end of year</b>	<u>\$ 313,900</u>	<u>12,414</u>	<u>7,046</u>	<u>( 116,176)</u>

<u>State Domestic Preparedness Equipment Support Fund</u>	<u>Cooperative Forestry Assistance Fund</u>	<u>Law Enforcement Block Grant Fund</u>	<u>Total</u>
5,190	19,725	4,264	942,133
--	--	--	3,434
--	--	--	23,087
<u>5,190</u>	<u>19,725</u>	<u>4,264</u>	<u>968,654</u>
--	--	--	1,736
471	--	4,738	780,725
--	24,100	--	24,100
--	--	--	78,459
--	--	--	9,219
--	--	--	26,808
--	--	--	18,593
4,719	--	--	19,472
<u>5,190</u>	<u>24,100</u>	<u>4,738</u>	<u>959,112</u>
--	( 4,375)	( 474)	9,542
--	--	474	68,504
--	--	474	68,504
--	( 4,375)	--	78,046
--	--	--	134,763
<u>--</u>	<u>( 4,375)</u>	<u>--</u>	<u>212,809</u>

CITY OF ALACHUA, FLORIDA  
NONMAJOR CAPITAL PROJECT FUNDS  
COMBINING BALANCE SHEET  
September 30, 2005

	Neighborhood Community Center Fund	Municipal Complex Fund	CDBG - Walmart Distribution Center Fund
<b>ASSETS</b>			
Accounts receivable	\$ 20,545	--	--
Due from other governments	--	--	67,269
Restricted assets - cash and cash equivalents	--	--	--
<b>Total assets</b>	<b>\$ 20,545</b>	<b>--</b>	<b>67,269</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ --	--	814
Accrued expenses	--	--	--
Due to other funds	37,687	111,198	66,191
Payable from restricted assets:			
Accounts payable	--	--	--
<b>Total liabilities</b>	<b>37,687</b>	<b>111,198</b>	<b>67,005</b>
<b>Fund balances:</b>			
Reserved for capital projects	--	--	--
Unreserved, undesignated	( 17,142)	( 111,198)	264
<b>Total fund balances</b>	<b>( 17,142)</b>	<b>( 111,198)</b>	<b>264</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 20,545</b>	<b>--</b>	<b>67,269</b>

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<u>Bridge Loan - Walmart Distribution Center Fund</u>	<u>Natural Resource Conservation Service Fund</u>	<u>Total</u>
--	124,642	145,187
--	327,512	394,781
<u>171,750</u>	<u>--</u>	<u>171,750</u>
<u>171,750</u>	<u>452,154</u>	<u>711,718</u>
--	393,014	393,828
--	43,668	43,668
--	27,028	242,104
<u>2,439</u>	<u>--</u>	<u>2,439</u>
<u>2,439</u>	<u>463,710</u>	<u>682,039</u>
169,311	--	169,311
<u>--</u>	<u>( 11,556)</u>	<u>( 139,632)</u>
<u>169,311</u>	<u>( 11,556)</u>	<u>29,679</u>
<u>171,750</u>	<u>452,154</u>	<u>711,718</u>

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CITY OF ALACHUA, FLORIDA  
NONMAJOR CAPITAL PROJECT FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
For The Year Ended September 30, 2005

	Neighborhood Community Center Fund	Municipal Complex Fund	CDBG - Walmart Distribution Center Fund
<b>Revenues</b>			
Intergovernmental revenues	\$ --	--	67,269
Miscellaneous	20,545	--	264
<b>Total revenues</b>	<b>20,545</b>	<b>--</b>	<b>67,533</b>
<b>Expenditures</b>			
<b>Current:</b>			
General government	--	462	--
Physical environment	--	--	--
Parks and recreation	64,383	--	--
Capital outlay	22,304	202,935	67,269
<b>Total expenditures</b>	<b>86,687</b>	<b>203,397</b>	<b>67,269</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>( 66,142)</b>	<b>( 203,397)</b>	<b>264</b>
<b>Other financing sources (uses)</b>			
Proceeds from note	--	--	--
Transfers in	15,000	--	--
<b>Total other financing sources (uses)</b>	<b>15,000</b>	<b>--</b>	<b>--</b>
<b>Net change in fund balances</b>	<b>( 51,142)</b>	<b>( 203,397)</b>	<b>264</b>
<b>Fund balances - beginning of year (restated)</b>	<b>34,000</b>	<b>92,199</b>	<b>--</b>
<b>Fund balances - end of year</b>	<b>\$ ( 17,142)</b>	<b>( 111,198)</b>	<b>264</b>

<u>Bridge Loan - Walmart Distribution Center Fund</u>	<u>Natural Resource Conservation Service Fund</u>	<u>Hitchcock Grant Fund</u>	<u>Total</u>
--	405,769	--	473,038
--	124,642	--	145,451
<u>--</u>	<u>530,411</u>	<u>--</u>	<u>618,489</u>
--	--	--	462
--	541,967	--	541,967
--	--	--	64,383
128,322	--	--	420,830
<u>128,322</u>	<u>541,967</u>	<u>--</u>	<u>1,027,642</u>
<u>( 128,322)</u>	<u>( 11,556)</u>	<u>--</u>	<u>( 409,153)</u>
297,633	--	--	297,633
--	--	1,110	16,110
<u>297,633</u>	<u>--</u>	<u>1,110</u>	<u>313,743</u>
169,311	( 11,556)	1,110	( 95,410)
--	--	( 1,110)	125,089
<u>169,311</u>	<u>( 11,556)</u>	<u>--</u>	<u>29,679</u>

CITY OF ALACHUA, FLORIDA  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 For The Year Ended September 30, 2005

	General Employees' Pension Trust	Police Officers' Pension Trust	Totals
<b>Additions:</b>			
<b>Contributions:</b>			
Employer	\$ 15,239	5,567	20,806
Plan members	-	457	457
<b>Total contributions</b>	<b>15,239</b>	<b>6,024</b>	<b>21,263</b>
<b>Investment earnings:</b>	<b>2,667</b>	<b>1,194</b>	<b>3,861</b>
<b>Total additions</b>	<b>17,906</b>	<b>7,218</b>	<b>25,124</b>
<b>Deductions:</b>			
Distributions	582,999	711,037	1,294,036
Administrative fees	2,500	764	3,264
<b>Total deductions</b>	<b>585,499</b>	<b>711,801</b>	<b>1,297,300</b>
<b>Change in net assets</b>	<b>(567,593)</b>	<b>(704,583)</b>	<b>(1,272,176)</b>
<b>Net assets held in trust for pension benefits:</b>			
Net assets - beginning of the year	567,593	704,583	1,272,176
Net assets - end of the year	\$ --	--	--

**OTHER INDEPENDENT  
AUDITOR REPORTS**



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Mayor, City Commissioners  
and City Manager  
City of Alachua, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alachua, Florida as of and for the year ended September 30, 2005, and have issued our report thereon dated December 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Alachua, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

**Compliance and Other Matters**

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

We also noted certain additional matters that were reported to management of the City of Alachua in a separate letter dated December 15, 2005.

This report is intended solely for the information and use of the Mayor, City Commissioners, City Manager, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*CPA Associates*

Bradenton, Florida  
December 15, 2005



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Mayor, City Commissioners  
and City Manager  
City of Alachua, Florida

**Compliance**

We have audited the compliance of the City of Alachua, Florida, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2005. The City of Alachua's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Alachua's management. Our responsibility is to express an opinion on the City of Alachua's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Alachua's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Alachua's compliance with those requirements.

In our opinion, the City of Alachua complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

**Internal Control Over Compliance**

The management of the City of Alachua is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Alachua's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purposes of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that

noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, City Commissioners, City Manager, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified users.

*CPA Associates*

Bradenton, Florida  
December 15, 2005

CITY OF ALACHUA, FLORIDA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

<u>Federal Awards</u>	<u>CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>			
Passed through Department of Community Affairs			
Community Development Block Grant - State Program	14.228	05DB-2Q-03-11-02-E 12	\$ 67,269
Community Development Block Grant - Section 108 Loan Guarantee	14.248	010D-SE99-99-15-X01	<u>2,010,000</u>
<b>Total U.S. Department of Housing and Urban Redevelopment</b>			<u><u>2,077,269</u></u>
<b>U.S. Department of Justice</b>			
Passed through Florida Department of Law Enforcement			
Law Enforcement Block Grant Program	16.592	2005-LEBG-ALAC-2-L4-001	<u>4,264</u>
<b>Total U.S. Department of Justice</b>			<u><u>4,264</u></u>
<b>U.S. Department of Transportation</b>			
Passed through Florida Department of Transportation			
State and Community Highway Safety	20.600	FS-05-27-5	<u>48,284</u>
<b>Total U.S. Department of Transportation</b>			<u><u>48,284</u></u>
<b>U.S. Department of Agriculture</b>			
Natural Resources Conservation Service			
Emergency Watershed Protection Program	NA	69-4209-5-1633	405,769
Passed through Florida Department of Agriculture and Consumer Services			
Cooperative Forestry Assistance	10.664	04-01	<u>19,725</u>
<b>Total U.S. Department of Agriculture</b>			<u><u>425,494</u></u>
<b>U.S. Department of Homeland Security</b>			
Passed through Florida Department of Law Enforcement			
State Domestic Preparedness Equipment Support Grant	97.004	05-CJ-L2-03-11-02-042	5,190
Passed through Department of Community Affairs:			
Public Assistance Grant - Hurricane Charley	97.036	05-PA-C%-03-11-02-706	18,435
Public Assistance Grant - Hurricane Frances	97.036	05-PA-G%-03-11-02-024	240,593
Public Assistance Grant - Hurricane Jeanne	97.036	05-PA-E=-03-11-02-701	<u>422,856</u>
<b>Total U.S. Department of Homeland Security</b>			<u><u>687,074</u></u>
<b>Total Federal Awards</b>			<u><u>\$ 3,242,385</u></u>

The accompanying notes are an integral part of this schedule.

**CITY OF ALACHUA, FLORIDA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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**NOTE A – GENERAL**

The accompanying schedule of expenditures of federal awards present the activity of all federal financial assistance programs of the City of Alachua, Florida. The City of Alachua reporting entity is defined in Note A of the City's basic financial statements. All federal financial assistance received directly from federal agencies as well as federal assistance passed through other government agencies is included in these schedules.

**NOTE B – BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note A of the City's basic financial statements.

**NOTE C – LOANS OUTSTANDING**

The City of Alachua, Florida had the following loan balances outstanding at September 30, 2005. These outstanding loan balances are also included in the schedule of expenditures of federal awards.

<u>Federal Program Name</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Section 108 Loan Guarantee	14.248	\$2,010,000

CITY OF ALACHUA, FLORIDA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended September 30, 2005

Part I – Summary of Auditor's Results

**Basic Financial Statement Section**

Type of auditor's report issued:	<u>Unqualified Opinion</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	_____	yes	_____ <u>X</u> _____ no
Reportable condition(s) identified not considered to be material weaknesses?	_____ <u>X</u> _____	yes	_____ no
Noncompliance material to basic financial statements noted?	_____	yes	_____ <u>X</u> _____ no

**Federal Awards Section**

Type of auditor's report issued on compliance for major programs:	<u>Unqualified Opinion</u>		
Internal Control over compliance:			
Material weakness(es) identified?	_____	yes	_____ <u>X</u> _____ no
Reportable condition(s) identified not considered to be material weakness(es)?	_____	yes	_____ <u>X</u> _____ no
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____	yes	_____ <u>X</u> _____ no

**Identification of major programs:**

Natural Resources Conservation Service – Emergency  
 Watershed Program – No CFDA  
 Public Assistance Grant – CFDA 97.036

Dollar threshold used to determine Type A programs:	<u>\$300,000</u>		
Auditee qualified as low-risk auditee?	_____ <u>X</u> _____	yes	_____ no

**CITY OF ALACHUA, FLORIDA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended September 30, 2005

**Part II – Schedule of Basic Financial Statement Findings**

This section identifies the reportable conditions, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the basic financial statements that are required to be reported in accordance with Chapter 5.18 through 5.20 of Government Auditing Standards.

**05-01 Enterprise Funds Capital Assets**

Our review disclosed discrepancies between the City's detailed schedule of capital assets for the enterprise funds and the general ledger. There are no procedures for reconciling detailed capital asset records to the general ledger on a regular basis and the lack of such procedures has led to inaccurate accounting for capital assets. Although adjustments have been posted at year-end to correct discrepancies, management needs to implement procedures to ensure accurate accounting for capital assets.

We recommend the City perform a complete inventory of the enterprise fund capital assets, research historical records, and attempt to reconstruct the capital asset records of the enterprise funds. These records should be reconciled to the general ledger on a timely and ongoing basis.

**05-02 Segregation of Duties**

Our review disclosed an inadequate segregation of duties for the accounts payable function. The accounts payable clerk enters invoices into the accounting system for payment, prints checks, and prepares the mailing of the checks to the respective vendors. The City utilizes blank paper stock for their checks, whereby the check number, bank account number, and all other check information is printed on the checks electronically, including the signature. As a result, unauthorized cash disbursements could be processed without being detected on a timely basis.

We recommend that the City reassign the check printing function to another employee or limit the accounts payable clerk's access to the signatures of authorized signers in order to eliminate any opportunity for unauthorized cash disbursements.

**Part III – Schedule of Federal Award Findings and Questioned Costs**

This section identifies reportable conditions, material weaknesses, and material instances of noncompliance, including known fraud, questioned costs, and abuse related to the audit of federal programs, as required to be reported by Circular A-133 Section .510 (a).

No reportable conditions, material weaknesses, and material instances of noncompliance, including known fraud, questioned costs, and abuse related to the audit of federal projects were identified.

**Part IV – Summary Schedule of Prior Audit Findings**

There were no prior audit findings for federal programs.



## MANAGEMENT LETTER

Honorable Mayor, City Commissioners,  
and City Manager  
City of Alachua, Florida

We have audited the basic financial statements of the City of Alachua, Florida as of and for the fiscal year ended September 30, 2005, and have issued our report thereon dated December 15, 2005, which was unqualified.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, our Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and a Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated December 15, 2005, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the state of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554(1)(h)1.) require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been followed. The status of prior year findings are reported under the heading *Status of Prior Year Audit Recommendations*.

As required by the Rules of the Auditor General (Section 10.554(1)(h)2.), the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Alachua, Florida complied with Section 218.415, Florida Statutes.

The Rules of the Auditor General (Section 10.554(1)(h)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. Matters required to be disclosed and other recommendations are reported under the headings *Status of Prior Year Audit Recommendation* and *Current Year Findings and Recommendations*.

The Rules of the Auditor General (Section 10.554(1)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs and are not clearly inconsequential: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit did not reveal any matters required to be disclosed by Rules of the Auditor General (Section 10.554(1)(h)4.).

Honorable Mayor, City Commissioners,  
and City Manager  
City of Alachua, Florida

The Rules of the Auditor General (Section 10.554(1)(h)5.), also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to financial statements. This information has been disclosed in the notes to the financial statements.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.a.), a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the City of Alachua, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.b.), we determined that the annual financial report for the City of Alachua for the fiscal year ended September 30, 2005, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2005.

As required by the Rules of the Auditor General (Sections 10.554(h)6.c. and 10.556(7)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. No findings were noted in this regard.

This management letter is intended solely for the information of the Mayor, City Commissioners, City Manager, management, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

*CPA Associates*

Bradenton, Florida  
December 15, 2005

## **PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

### **01-06 Pooled Cash Reconciliation**

During prior audits, we noted that the City's pooled cash reconciliation was not being accurately or timely prepared, and that the pooled cash fund did not reconcile to the cash accounts in the individual funds.

**Status - During the current audit, we noted pooled cash reconciliations were being reconciled to the pooled cash account on a timely basis; however, the pooled cash account was not being reconciled to the pooled cash accounts in the individual funds. We assisted management in reconciling pooled cash to the pooled cash accounts in the individual funds, and have made the necessary adjustments. We again recommend and emphasize to management the necessity of reconciling the pooled cash to the pooled cash accounts in the individual funds.**

### **03-02 Capital Asset Software**

During prior audits, we noted that the City was not able to calculate depreciation accurately using the capital asset module of the City's accounting system, and thus was manually calculating depreciation.

**Status - During the current audit, we noted that the City was still not utilizing the capital asset module of the City's accounting system. We strongly recommend that the City obtain training and convert to a computerized system to accumulate and calculate depreciation expense. This will eliminate a significant amount of manual recordkeeping duties, make operations more efficient, and provide more accurate information regarding capital assets.**

## **CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

### **05-01 Enterprise Funds Capital Assets**

Our review disclosed discrepancies between the City's detailed schedule of capital assets for the enterprise funds and the general ledger. There are no procedures for reconciling detailed capital asset records to the general ledger on a regular basis and the lack of such procedures has led to inaccurate accounting for capital assets. Although adjustments have been posted at year-end to correct discrepancies, management needs to implement procedures to ensure accurate accounting for capital assets.

**We recommend the City perform a complete inventory of the enterprise fund capital assets, research historical records, and attempt to reconstruct the capital asset records of the enterprise funds. These records should be reconciled to the general ledger on a timely and ongoing basis.**

### **05-02 Segregation of Duties**

Our review disclosed an inadequate segregation of duties for the accounts payable function. The accounts payable clerk enters invoices into the accounting system for payment, prints checks, and prepares the mailing of the checks to the respective vendors. The City utilizes blank paper stock for their checks, whereby the check number, bank account number, and all other check information is printed on the checks electronically, including the signature. As a result, unauthorized cash disbursements could be processed without being detected on a timely basis.

**We recommend that the City reassign the check printing function to another employee or limit the accounts payable clerk's access to the signatures of authorized signers in order to eliminate any opportunity for unauthorized cash disbursements.**

#### **05-03 Receipt of Goods or Services**

Invoices are not being approved by the department initiating or incurring the cost to evidence that the goods or services were received. Although the Assistant Finance Director is reviewing and approving the expenditure and cash disbursement edits for each check run to make a determination that the cash disbursement is valid and there is supporting documentation to support the cash disbursement, the Assistant Finance Director does not have direct knowledge that the goods or services were received and there is no documented evidence to support they were received.

**We recommend that management establish a means to ensure goods or services purchased were actually received by the department incurring the cost. Review and approval of the related invoice by someone in the respective department is one way of obtaining that documentary evidence.**



**City of Alachua**  
**The Good Life**  
**Community**  
Celebrating a Century  
1905-2005

**Clovis Watson, Jr., MPA**  
*City Manager*

**Jean Calderwood**  
*Mayor*

**Bonnie Burgess**  
*Vice-Mayor*

**James Lewis**  
*Commissioner*

**Orien Hills**  
*Commissioner*

**Gib Coerper**  
*Commissioner*

March 13, 2006

The Honorable William O. Monroe  
State of Florida Auditor General  
Claude Pepper Building, Room 401  
111 West Madison Street  
Tallahassee, FL 32399-1450

RE: Management Letter Responses for 9/30/05 Audit

Dear Mr. Monroe:

After reviewing the Independent Auditor's Management Letter, the City Commission and Staff have implemented the following recommendations in response to the Independent Auditor's comments.

If any further assistance is needed please contact me at (386) 462-1231 between the hours of 8:00 AM and 5:00 PM Monday - Friday.

Sincerely,

Clovis Watson Jr., MPA  
City Manager

15001 NW 140th St.  
Alachua, Florida  
32615

P.O. Box 9  
32616

The City of Alachua has taken action to implement prior and current recommendations as follows:

01-6 Pooled Cash Reconciliation:

Audit Response: Administration has reconciled the pooled cash account monthly on a timely basis since the FY 01 audit findings. However, we were not reconciling the pooled cash account to the pooled cash accounts in the individual funds. The Administration now utilizes a spreadsheet created by CPA Associates to reconcile the pooled cash account to the pooled cash accounts in the individual funds. This is done on a monthly basis.

03-02 Fixed Asset Software:

Audit Response: The Administration will again review the records of the assets entered into the fixed asset module to ensure their accuracy. There will be a large number of assets disposed of during FY 06. When the assets are disposed of correctly in the system, the previously omitted information needed to properly use this module will be entered. Also, various depreciation schedules will be consolidated or removed. It is anticipated that this process will take approximately 4-5 months. The Administration believes that the module will be functioning properly for the upcoming fiscal year.

05-01 Enterprise Funds Capital Assets:

Audit Response: The Administration will again perform a complete inventory of the enterprise funds capital assets and research historical records in order to reconstruct the asset records for the enterprise funds. Reconciliation with the general ledger will be performed monthly to ensure that the records are accurate. The Administration will work with CPA Associates to get this project started and completed.

05-02 Segregation of Duties:

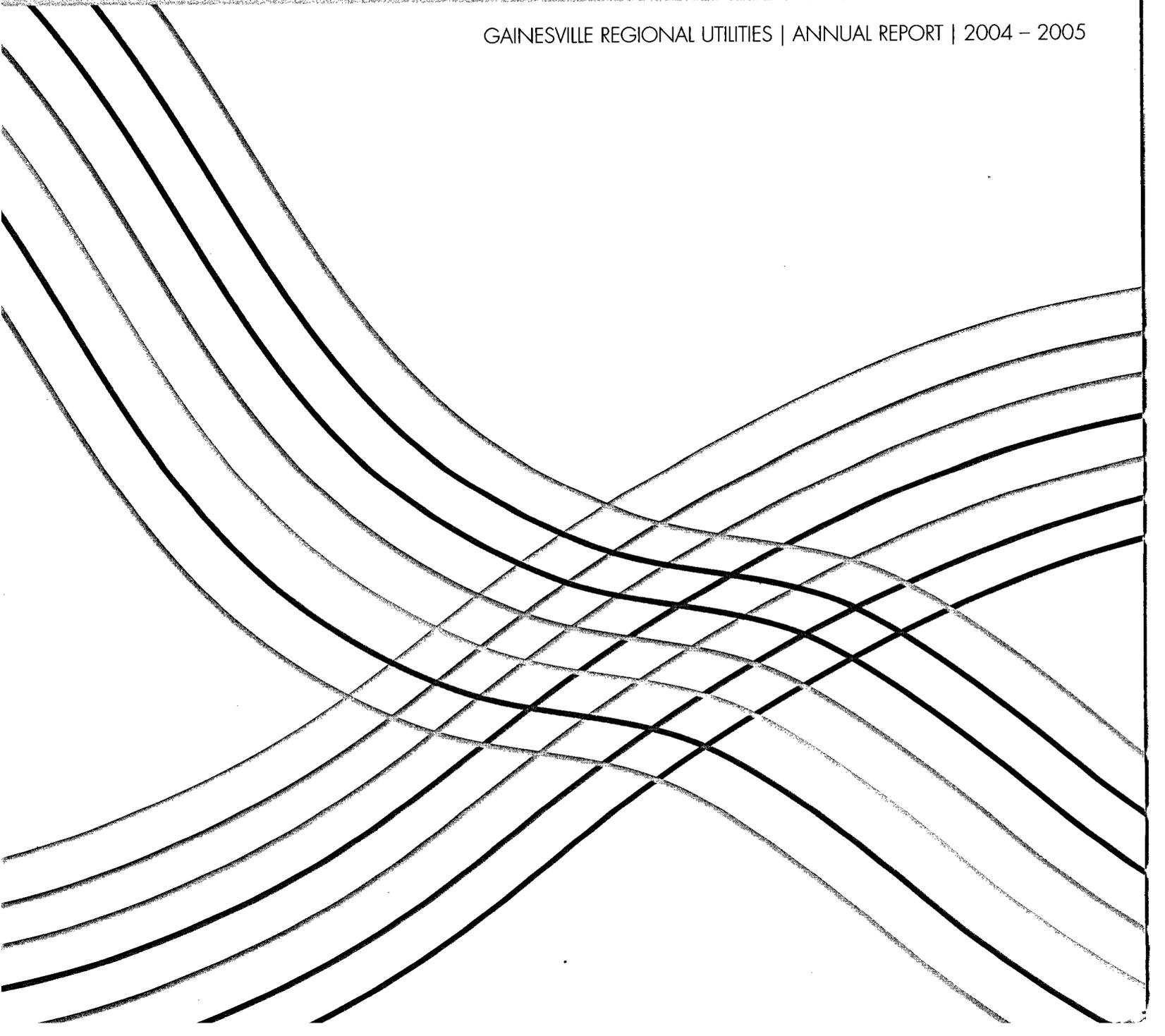
Audit Response: Although there were no unauthorized cash disbursements during the fiscal year, the Administration has reworked the accounts payable process in order to limit the accounts payable clerk's access to the signatures of authorized signers in order to eliminate any opportunity for unauthorized cash disbursements. The accounts payable clerk is no longer responsible for the printing of disbursement checks. The responsibility resides with the Finance Director who does not input invoices for payment or reconcile the City's bank account statements.

05-03 Receipt of Goods or Services:

Audit Response: The Administration currently requires that the appropriate department approve all invoices before they will be processed for payment. For the most part, this occurred during the fiscal year, but there is still need for improvement. The Administration will continue to enforce this requirement for the departments. Also, the Administration will create stamps to be used by each department that will have spaces for a date when goods were received as ordered in quality and quantity and for signatures. Finance staff will not process invoices for payment without the appropriate signatures.

CONNECTIONS

GAINESVILLE REGIONAL UTILITIES | ANNUAL REPORT | 2004 - 2005



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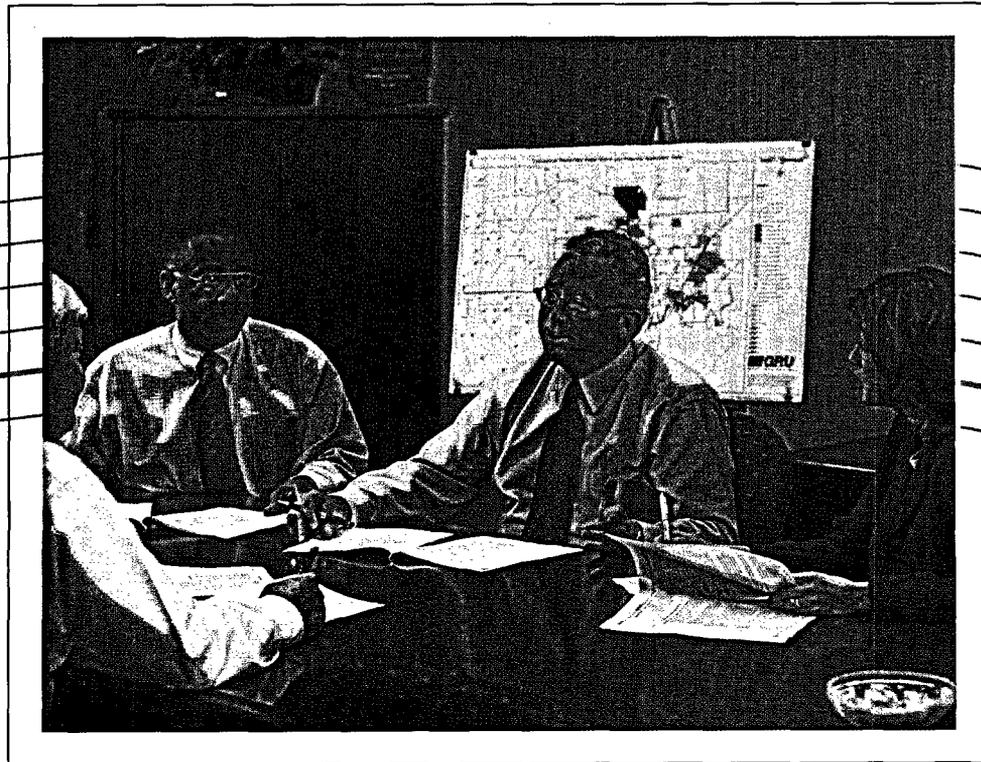
**COPYWRITING**  
Maureen Tartaglione

**PHOTOGRAPHY**  
Media Image Photography, Principal Photography  
Tracy Wilcox, The Gainesville Sun (page 14)  
Allen Chevront (page 15, left)  
Earl Taylor (page 15, right)  
Domino's Pizza, Inc. (page 16)

**PRINTING**  
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# ENERGIZED TEAM FORGES POWERFUL CONNECTIONS

General Manager Michael L. Kurtz meets regularly with his executive team to plan strategies that help keep our rates competitive.

We, like everyone in America, felt the effects of a tumultuous year.

Fortunately, we escaped disasters such as the hurricanes and were privileged to send crews to help those less fortunate. In fact, we gratefully report that we had a good year, during which we further connected ourselves to our community and to our neighbors.

In the pages that follow, we will describe what makes us strong and moves us forward. Our stability is grounded in the quality and number of our relationships. In short, we are connected. We use those connections to get good prices from our vendors, to deliver services that our customers want, and to employ the best technology in producing clean, safe, affordable and efficient electric, natural gas, water, wastewater and telecommunications services.

Perhaps the clearest indicators of our financial stability and success each year are our bond ratings. Both Moody's and Standard and Poor's once again gave us their "Double A" ratings. There are more than 2,000 municipal utilities in the nation, and only 14 share this distinction. We have achieved these designations every year since the late 1980s.

Access to the low interest financing afforded by these ratings has given us the flexibility to make proactive capital improvements, reduce debt and keep rates

competitive for our customers. For example, a bond refinancing this year will save more than \$13 million for our customers over the next 30 years.

Keeping rates affordable was a primary focus last year. We successfully responded to Hurricanes Frances and Jeanne in 2004, but even so, we used what we learned to update our strategy, further mitigating potential financial impact. We have integrated a risk-based strategy into our own planning. This approach enhances stability by shifting resources to targeted areas of need, which will be reassessed annually. For 2006, we've reserved \$56.9 million to cover any unanticipated expenses, such as those triggered by natural disasters. We've seen immediate results in terms of positive feedback from the financial markets.

Being connected to diversified fuels sources for the production of electricity is a distinct advantage, as well. Although natural gas prices sky-rocketed this year, our fuel diversity protected our customers from the extreme prices other utilities were forced to charge. About 65 percent of our electric fuel needs are met with coal. We can also burn cheaper alternatives to natural gas when available, such as fuel oil. For the natural gas we do need, we've offset some of the price impact through long-term secure contracts. And, of course, we have natural gas

available for direct use in the home, where it is still very cost-effective for appliances such as water heaters, stoves and dryers. We have proposed an additional environmentally secure, solid fuel-burning electric generating unit that would help keep rates affordable, and we are retrofitting our current coal-burning unit to perform far better than new federal environmental standards while still providing cost-effective electric generation.

We are proud of the fact that although we had to raise our electric base rates slightly this year, it is the first time we have had to do so in more than a decade. Water and wastewater customers also saw increases, but natural gas rates remained unchanged. A typical residential electric, water and wastewater customer saw an increase of less than \$5 per month.

Another way in which we stay connected with our customers is through a continuous surveying strategy designed to determine what services they want and need. Since 2002, we've contracted with RKS Research and Consulting, a professional public opinion polling group. This year, our customers gave us high ratings for giving them value for their utility dollar.

Our customer rankings compare us favorably with our peer institutions. In fact, our business scores are on par with some of the top ranked utilities in the nation. And our hard-earned reputation, and the high

quality of life in our community, continues to help us attract and retain a superior staff.

This year we added two key members to our executive team. Both are valued for sound but innovative thinking, which is a hallmark of our organization.

In recognition of our renewable energy program, GRU was awarded the Green Power Beacon Award, granted jointly by the U.S. Department of Energy, the U.S. Environmental Protection Agency and the Center for Resource Solutions. In addition, the American Society of Civil Engineers recognized GRUgreen™, our landfill gas-to-energy program as Project of the Year for 2005. Our annual report also won recognition this year, taking the American Public Power Association's first place Award of Excellence, for providing in-depth and accessible data.

In this report, we summarize relationships that provide quality of life services to our customers, connections that reduce costs and enhance comfort, and relationships that provide added value to our community. This past year has been remarkable for GRU, largely because we remain connected.

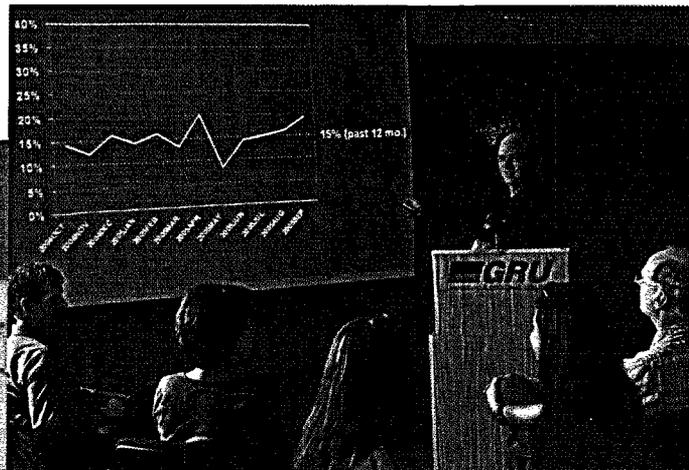


Michael L. Kurtz  
General Manager

## NOTABLE ACCOMPLISHMENTS OF 2005

- Refinanced bonds to save \$13.2 million over the next 30 years
- Received a AA rating and Aa2 rating from Standard and Poor's and Moody's Investors Service, respectively
- Earned the 2005 Green Power Beacon Award for green power marketing excellence
- Earned the 2005 Project of the Year Award for excellence in civil engineering
- Earned the APPA's Award of Excellence for annual reports
- Earned good Value Ratings from residential and commercial customers
- Reached the 56 percent level of electric lines undergrounded
- Attracted top management talent for two key executive positions
- Received the "Tree City USA" designation for the 5th year in a row
- Assisted in generating \$484,200 in grants and donations to help struggling residents, including:
  - \$340,000 federal money awarded through the Central Florida Community Action Agency
  - \$62,000 granted by Alachua County to support ConnectFREE
  - \$68,800 donated by citizens to help pay utility bills for disadvantaged customers
  - \$13,400 raised from the business community to support our Adopt-A-School
- Formed a buying alliance (Colectric) that helped save us more than half a million dollars
- Expanded our broadband product line by selling the first gigabit Ethernet service in Gainesville, capable of transferring the equivalent of 200 full-length feature films per second
- Launched a Rebate Program to encourage conservation and save customers up to 50 percent annually

GRU remains committed to monitoring customer preferences and feedback.





# STRENGTH BUILDS AS SERVICE EXPANDS

## CONNECTED: TO THE GREATEST NUMBER FOR THE GREATEST GOOD

One measure of a well-connected organization is how far it reaches into the community. This year, we extended our services, upgraded our infrastructure and formed new partnerships.

As much as possible, we try to ensure that all members of our community have the basic quality of life services that we offer. We do not turn our backs on those in need, but neither do we place a burden on our available resources.

In addition to providing flexible payment options to keep ratepayers connected during periods of high fuel prices, we facilitate community donations that help low-income families stay connected. In one

particular initiative, ConnectFREE, we connect disadvantaged families to the safe and reliable water supply we produce for our community.

In 2001, we secured a grant to start the ConnectFREE program. Through ConnectFREE, we identified low-income families that had to rely upon private wells as their only source of water. These families were within our service area, but were not in an area that had an established water system infrastructure. They could not afford the fees to pay for the construction themselves. Through this program, City water services have been extended to 18 new families.

EXPANDED  
NETWORK AND  
INFRASTRUCTURE  
INCREASE OUR  
CUSTOMERS'  
QUALITY OF LIFE

OPPOSITE: Safe and renewable drinking water is made accessible to qualifying families in our service area through our ConnectFREE program.

COMMUNITY

COLLABORATION

KEEPS CUSTOMERS

CONNECTED

Another initiative in which we work to meet the needs of our less fortunate customers is the Social Services Summit. We network with representatives from local churches, government agencies and non-profits to connect those providing assistance with those who seek it. Annually, during the summit, we meet with representatives of these organizations and map out the most effective strategy for securing and disseminating aid for the coming year. Through these other efforts such as GRU's Project Share, we help keep low-income customers connected by finding funds to help them pay their bills.

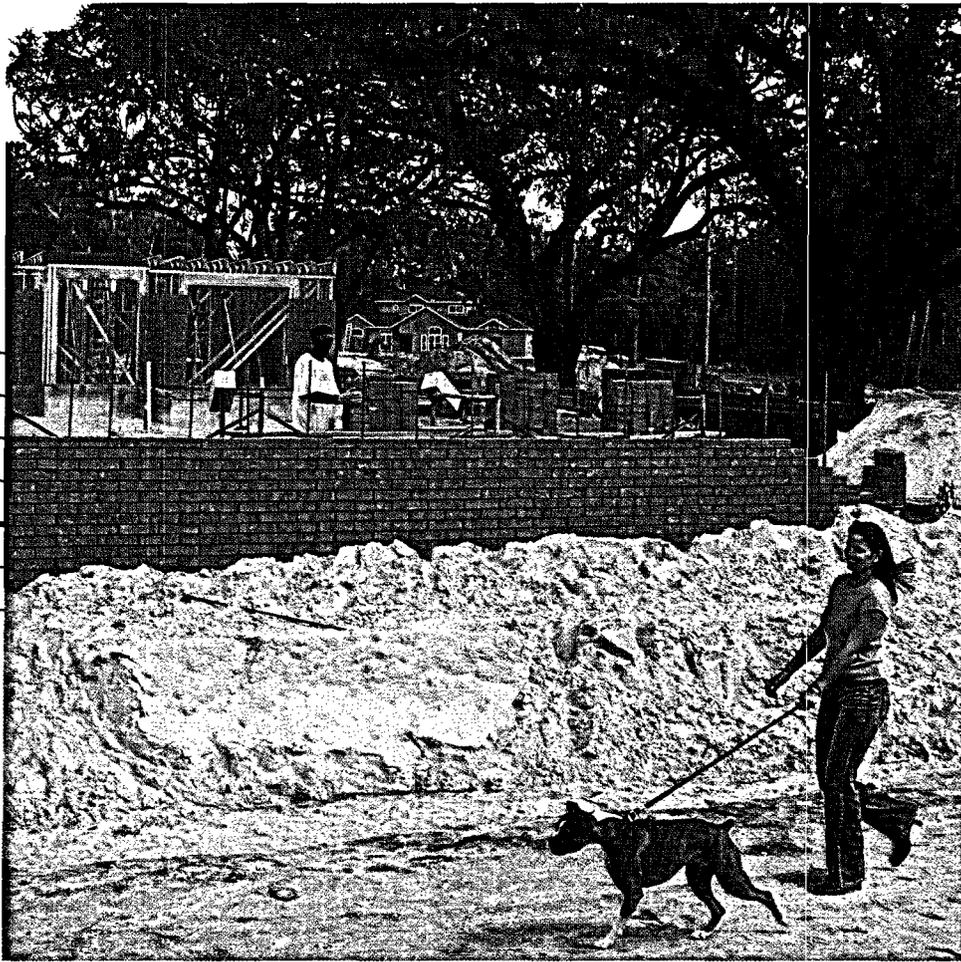
As a result of our collective efforts, 1,350 of our customers received nearly \$340,000 from the Low Income Home Energy Assistance Program in 2005. Through Project Share, our own generous customers kicked in another \$68,800 to help pay utility bills for almost 500 customers who couldn't.

In an effort to help keep all of our customers' bills affordable in the future,

we have proposed the construction of a 220 megawatt solid fuel electric generating unit to be built at our Deerhaven Generating Station. In keeping with our commitment to fuel diversity, the proposed circulating fluidized bed generating unit would burn a combination of fuels, including coal, petroleum coke and biomass (in this case wood waste). Gainesville is situated in the midst of a large southern pine forest, which supports a large silvaculture industry. The biomass from these operations could fuel up to 30 megawatts of power on a continual basis.

We have determined that Gainesville needs this additional power by 2011 to provide additional base load capacity for our growing population. We've participated in numerous community workshops and City Commission meetings to gather public input on how to meet that need in a manner that is consistent with community wishes. The City Commission has prudently undertaken an independent review before committing to the proposed energy supply plan, which will be completed in 2006.

OPPOSITE: Anticipating the future needs of our growing community helps keep rates affordable.



PROACTIVE  
PLANNING WILL  
ENSURE AMPLE  
ENERGY FOR  
OUR COMMUNITY



COOPERATION &  
CONSERVATION  
STRETCH OUR  
CUSTOMERS'  
ENERGY DOLLARS

## CONNECTED: TO THE SMARTEST STRATEGIES FOR THE BEST RETURNS

This fall, we embarked on a conservation program to improve energy efficiency for our customers. We took a close look at a group of homes to determine if those customers could reduce energy costs simply by repairing leaks in their air ducts. To date, we have inspected and repaired ducts as needed in 100 pilot program homes. It's working. Energy efficiency has improved. We will be extending this program to reap an even greater savings in the coming year.

This year, we joined a group of non-competing service providers that combine purchases for equipment and parts. When we negotiate and buy together, we and our Colectric Partners qualify for enormous volume discounts. In the past nine months alone, these bulk-rate contracts have saved us more than half a million dollars. We will save millions more over the next two decades, just by buying together.

Another partnership that continued to maximize the value of our resources this year is The Energy Authority (TEA). We are one of several equity owners of TEA, a nonprofit public utilities corporation that coordinates marketing and distribution of excess electric generating resources for its members. On a 24/7/365 basis, TEA ensures that we either get the best possible price for our excess capacity or are able to purchase power at the lowest price if our available capacity is more expensive than the market. Not only does this enhance our revenue-generating capacity, it minimizes our customers' power costs. It also reduces by thousands of manhours the time it would take us to research and negotiate these contracts.

ENHANCED

EFFICIENCY

REDUCES COST,

EMPOWERS

CUSTOMERS

OPPOSITE: Our conservation analysts identify cost effective ways for our customers to enhance energy efficiency in their homes and businesses.

OPPOSITE: GRU monitors and plays a leading role in setting community resource quality standards.

In an innovative campaign, we enlisted the cooperation of our customers to reduce wastewater spills. Preventing these spills protects public health and safety, as well as the environment. It also reduces system expenditures — cleaning up wastewater spills represents a significant cost to wastewater utilities. Although we have one of the lowest spill rates in the nation, we want to continue to improve. We've employed research conducted by the Environmental Protection Agency to target the largest source of spill-producing blockages: cooking grease. It turns out that something as simple as keeping grease out of kitchen drains can help eliminate the number one cause of spills. Therefore, we created "Think before you put it in the sink," a hands-on, user-friendly campaign to educate customers. Our "Grease Team" distributed to customers nearly 5,000 foil-lined receptacles to help raise awareness and keep the wastewater from overflowing.

We selected a 120-acre tract to construct our new East Gainesville Operations Center as a base for field work on the east side of our service area. Located directly

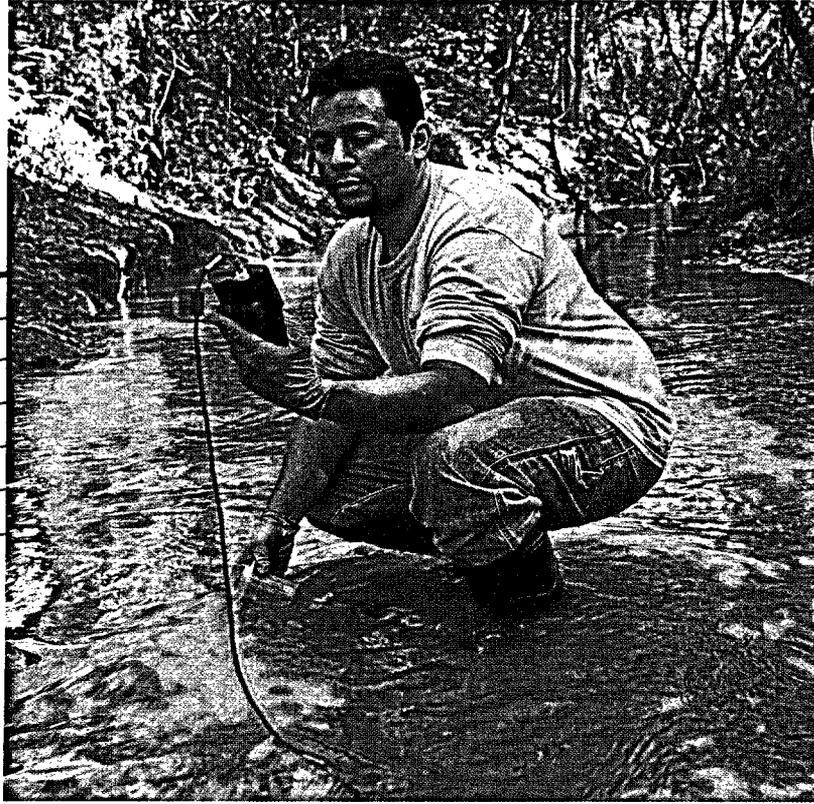
adjacent to major east/west and north/south arteries, it is easily accessible to vehicular traffic. Work flow also will improve as work groups consolidate into shared physical space.

We'll see further savings when we go online with our new Customer Information System (CIS) in January 2007. This software harnesses emerging technology to fully integrate myriad processes. Once it's up and running, our new CIS will simplify customer billing, decrease repair response time and eliminate financial record-keeping duplication.

Finally, we increased our participation in teams working to solve environmental problems. GRU continues to work cooperatively with agencies like the Florida Department of Environmental Regulation. As a principal stakeholder, we provide research support to help determine thresholds like the Total Maximum Daily Load — the level of impurity a waterway can absorb without becoming polluted. Determining those levels is a challenge. Meeting them is another. We have also been instrumental in creating Basin Management Action Plans to address these challenges.



LEFT: Another way to keep grease out of the kitchen sink is by cooking on an environmentally friendly natural gas grill, and then disposing of the hardened grease into a suitable receptacle.



LEADERSHIP  
& EXPERTISE  
CONTRIBUTE  
TO COMMUNITY

ENLISTED AID  
AND SERVICE TO  
OTHERS PROTECTS  
OUR COMMUNITY  
RESOURCES

North Central Florida, our home, is largely unspoiled. One of its greatest natural resources is the Floridan Aquifer, a huge underground body of pristine drinking water — and we plan to keep it that way.

The Cabot-Koppers Superfund site is located only two miles from the 60-acre Murphree well field, from which we pump all of our community's drinking water. Beginning in 1916, wood treatment chemicals that we now know to be hazardous were stored in open unlined pits at the Superfund site. Although the site is now operated with techniques that are not hazardous, the problem remains in the ground. We've assembled a team of world-renowned experts to evaluate the problem, and they determined that contamination from the site is a potential threat to our well field.

Beazer East, Inc. is the company now responsible for the clean-up of the site, and has stated that the threat of contamination

is minimal. Beazer has stated that the chemicals will not reach the aquifer for 100 years or more, and by that time, they would be diluted and harmless. Such a finding, if supported by scientific data, would be good news indeed. Unfortunately, it did not hold up to an independent analysis. Our team of internationally recognized experts concluded that Beazer East, Inc. has severely underestimated the potential threat, which could be much more imminent. With the help of the Environmental Protection Agency and Senator Bill Nelson (D-Fla.), we've pushed for the installation of specialized on-site monitoring wells to provide early warning of contamination. Beazer East, Inc. began installing those wells in August. We will continue to play an active role in monitoring and pressing for full remediation.

In another part of town, we've embarked upon a plan that transforms a different Superfund clean-up site into

Sen. Bill Nelson (D-Fla.) has aided our efforts to speed the clean-up of an environmentally hazardous site.





additional green space for the community. We broke ground in February on "Depot Park." Because the site formerly housed a manufactured gas plant, there were few uses for which it was suitable. Finally, we collaborated with the community to clean and restore the area. When it is complete, we will have dug up and treated any remaining contaminated soil, and landscaped a meditation pond, which will double as an additional water retention pond for downtown.

Our employees also helped keep other communities connected this year. When a 250-pound natural gas line was accidentally severed one weekend in Leesburg, Florida, our employees dropped weekend and vacation plans to immediately assist through Mutual Aid Agreements.

This year, residents fleeing the effects of Hurricane Katrina left gas meters on throughout New Orleans' Ninth Ward. Overburdened local utility workers lacked the manpower to alleviate the situation. For two weeks in September, our Field Services and Gas Measurement employees were stationed in a tent camp near the danger zone. During the day, they methodically canvassed dangerous districts locating and "safing off" gas services to prevent tragedy. In addition to the Field Services crews, Electric, Water and Wastewater employees assisted all along the gulf coast in every way we could serve our neighbors in need due to Katrina and Jeanne. Our employees also assisted in south Florida after Wilma added to the worst storm season in memory.

TOP LEFT: Mayor Pegeen Hanrahan, Public Works Director Teresa Scott and Assistant General Manager for Water and Wastewater David Richardson enjoy the groundbreaking ceremony for Depot Park, a former gas plant site that will become a clean, uncontaminated park and pond.

TOP RIGHT: Our crews, seen here in New Orleans, prepare to locate and cap active gas lines in Katrina's aftermath.



LOCAL BUSINESSES  
& RESIDENTS  
SUPPORT  
TECHNOLOGY  
TO HARNESS  
MORE POWER

## CONNECTED: TO THE HOTTEST INNOVATIONS FOR THE BRIGHTEST FUTURE

**G**RU pioneered a partnership with our customers to bring green energy to our community. Customers voluntarily contribute money each month to support the GRUgreen™ Energy program.

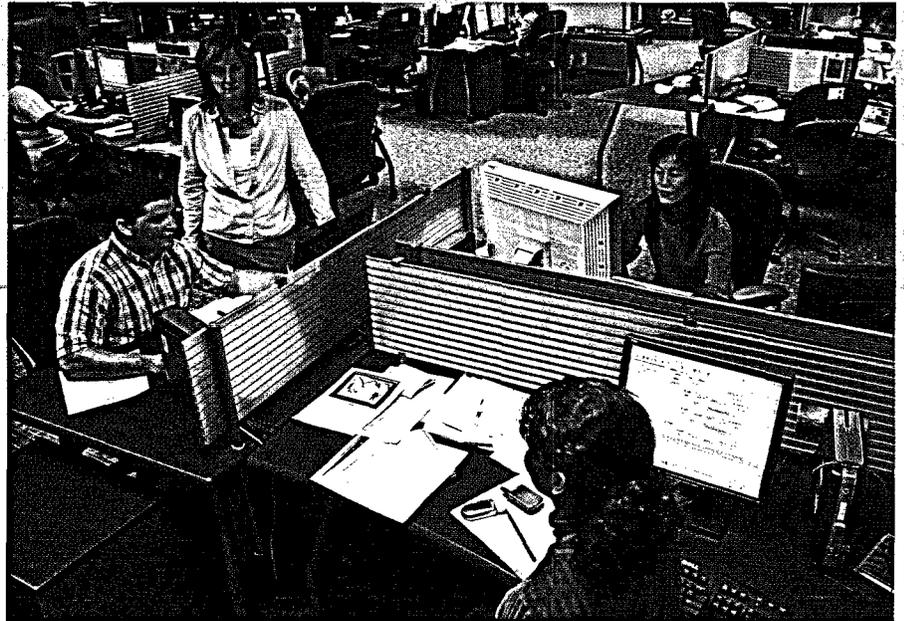
Our community is not situated in a climatic region that can use wind, hydro or geothermal energy, and even solar is better suited for a desert climate than the rain-abundant "sunshine" state. So we tapped into an energy source that was going to waste. Literally. Most municipalities must deal with the issue of methane gas build-up in landfills. Naturally biodegrading organic refuse produces gas. Lots of it. Methane, when released into the atmosphere, contributes to global warming and must be

disposed of under federal guidelines. Generally, operators simply burn the gas to get rid of it.

In our community, we are using that methane gas to generate electricity. We installed three generators at a local closed landfill that produces several megawatts per hour of energy. In this way, a community waste product becomes a community asset. And the community recognizes and supports the effort. Our customers and contributors are supporting nearly 70 percent of the energy being produced. In addition, we have several solar demonstration projects. We are committed to connecting with the fuels of the future.

**OPPOSITE:** Businesses and residents in our community voluntarily donate thousands of dollars to support the collection of green energy. Wehbejammin, Inc., the local Domino's Pizza franchise, has been one of the largest contributors to our GRUgreen™ program.

GRUCom provides communications services that are among the most technologically advanced in the nation.



We are constantly growing in our understanding of the power of new technology to transform and disseminate information. This year we've seen tremendous leaps in how fast and how vast we can transmit information. When it comes to hyperspace, speed matters. We're on it.

We've launched a Gigabit Ethernet service, and thereby accelerated the transmission of information to GRUCom-connected customers. In fact, we've given our customers one of the fastest information tracks in the nation. In our community, data blasts across more than 250 miles of fiber optic track at one thousand megabits per second. That's so fast that even a transmission bloated with the equivalent of 200 full-length feature films hits the receiver in about the time it takes an

average person to hit "send."

Next year will mark the 10th anniversary of GRUCom, our telecommunications arm. Originally premiered to connect GRU facilities with commercial and government entities, it has evolved to serve as a high speed Internet access provider and public safety radio beacon. We also lease out tower space for an additional source of revenue.

The only true limit on our ability to fully capitalize on this community asset is regulatory. In 2005, legislation was proposed for the state of Florida that would have limited the ability of local governments to continue to lead in the deployment of innovative broadband service. We worked with the Florida Municipal Electric Association and other communities to successfully protect the

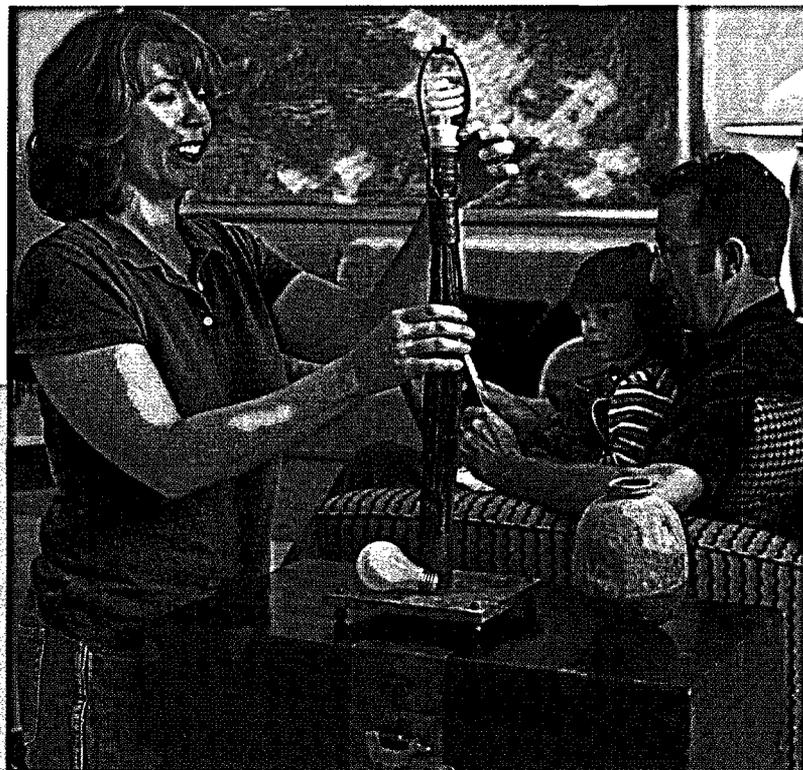
right of municipal utilities to provide telecommunications services. We will continue to monitor legislation and defend the rights of our customers to access superior, cost-effective service.

Our forward-thinking financial strategy also paid off this year when the U.S. Environmental Protection Agency passed new air emissions rules that directly affect many utilities in Florida, which will have to meet the new standards by 2010. We find that we are in great shape to comply. Because we are consistently "Double A" bond-rated, our bond issues have a lower *interest rate* and therefore are highly attractive to investors when we need capital. By 2010 we will have retrofitted our Deerhaven Unit 2 to better meet all state and federal

air emission requirements. We will be advanced beyond the necessary compliance so we can also meet future requirements without additional capital outlay.

Another proactive program is our new Conservation Rebate Program in which we've developed a package of incentives to motivate our customers to conserve. Beginning this year, consumers who install new energy-efficient air conditioners and heaters, or those who employ specified energy-saving upgrades, will see a double benefit: lower bills and money back to offset their costs through our six new electric rebate programs.

Customers see an immediate return when they employ our recommended energy-saving strategies, such as using compact fluorescent lights in their homes.





# CREATIVE CURRICULUM SPARKS NEW GENERATION OF IDEAS

One of our most important and farthest-reaching programs connects us to the future of our community. We work extensively to help educate the next generation of energy users. We play our part in ensuring a safe and aesthetically pleasing environment, with abundant resources in which to raise our children.

We collaborated with our local school board to create the Energy Conservation School Curriculum. Starting in 2003, we began pulling together the best available materials from organizations such as Rebuild America Energy Smart Schools, the Department of Energy and the American Public Power Association. We enlisted the help of our elementary and middle school teachers to design teaching aids about energy production, use and conservation. With their help, we created ways to make learning about energy hands-on and fun, two criteria that enhance life-long retention of information.

Games like "Bingo Save" and "The Pay Me Game" challenge students to evaluate energy use in their homes and community to discover, in terms of real dollars, what their behavior costs. This year, the curriculum materials are being used in a pilot program with nine area schools. Such programs will give our children the tools they need to assume responsibility as stewards of the future.

Our staff works individually and as a team to support the schools throughout the year. During our annual Business Partners Golf Tournament we team up with our business community to raise funds for our adopted school, Williams Elementary. This year alone, we raised \$13,400 for the school, and our employees generously donated time to mentor students.

We've also made a significant contribution in beautifying the world the children will inherit. We've embarked upon a number of projects to place facilities underground. As of October 2005, 56 percent of our electric lines are underground.

In addition, we've completed a major project in cooperation with the City's Public Works Department and the Department of Transportation to transform the streetscape of University Avenue. Undergrounding, black octagonal power poles, reliable aerial cable, new mast-arm traffic signals, colonial-style street lamps, upgraded landscaping and faux brick crosswalks now combine to create a welcoming gateway into the heart of the city.

This year, we've strengthened our relationships at every level, and forged new ones. In doing so, we've multiplied our ability to provide reliable, affordable and clean energy for customers and our community well into the future.

At GRU, we stay connected.

STRENGTHENED  
RELATIONSHIPS  
MULTIPLY OUR  
ABILITY TO  
PROVIDE FOR OUR  
COMMUNITY

OPPOSITE: Students at Talbot Elementary learn conservation and stewardship through the GRU-developed conservation curriculum now being used in nine area schools.

# 2004-2005 STATISTICS

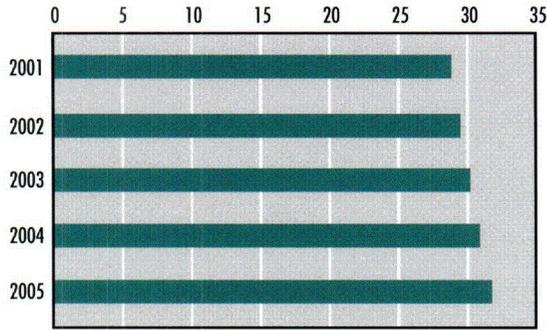
<b>Energy Supply</b>	
Deerhaven Generating Station	
Net Capability .....	422 megawatts (MW)
Kelly Generating Station	
Net Capability .....	177 MW
Share Ownership of Crystal River 3	Net Capability 11 MW
Southwest Landfill .....	1.3 MW
Combined System .....	Net Capability 611 MW
<b>Energy Delivery - Electric System</b>	
Service Area .....	124 sq. miles
Transmission .....	240.4 circuit miles
Distribution	
Overhead (44%) .....	594 circuit miles
Underground (56%) .....	753 circuit miles
Total .....	1,347 circuit miles
Distribution Substations .....	9 (138 kV/12kV)
<b>Energy Delivery - Natural Gas System</b>	
Service Area .....	112 sq. miles
Distribution Mains .....	692 miles
Delivery Points .....	5
<b>Water System</b>	
Walter E. Murphree Water Treatment Plant	
Treatment Capacity .....	54 million gallons/day (MGD), peak day
Storage Capacity .....	19.5 million gallons (MG)
Supply Wells .....	15
Water Service Area .....	118 sq. miles
Distribution Mains .....	1,034 miles
<b>Wastewater System</b>	
Kanapaha Water Reclamation Facility	
Treatment Capacity .....	14.9 MGD, Avg. Annual Daily Flow (AADF)
Main Street Water Reclamation Facility	
Treatment Capacity .....	7.5 MGD, AADF
Combined Treatment Capacity .....	22.4 MGD, AADF
Collection Service Area .....	115 sq. miles
Gravity Mains .....	568 miles
Force Mains .....	127 miles
Lift Stations .....	154
<b>Telecommunications</b>	
Miles of Fiber Optic Cable .....	268 miles
On-net Locations .....	302
Maximum Bandwidth .....	OC-48 (2.5 gigabits/second)

# FISCAL YEAR 2005 HIGHLIGHTS

	2005	2004	% chg
<b>Financial</b>			
Net revenues	76,493,163	82,998,679	-7.8%
Aggregate debt service	24,876,978	26,673,276	-6.7%
Aggregate bond coverage ratio	3.07	3.11	-1.3%
Total debt service coverage ratio	2.16	2.47	-12.6%
Long-term debt	434,982,551	418,696,515	3.9%
Net utility plant	732,360,674	710,009,596	3.1%
Cash and investments			
Rate stabilization and revenue funds	52,419,934	64,481,102	-18.7%
<b>Customers (12 months average)</b>			
Residential electric	77,918	76,435	1.9%
Non-residential electric	9,342	9,203	1.5%
<b>Total electric</b>	<b>87,260</b>	<b>85,638</b>	<b>1.9%</b>
Water	64,692	62,890	2.9%
Wastewater	57,553	55,821	3.1%
Natural gas, Retail	31,704	30,901	2.6%
<b>Sales of energy (gigawatt-hours)</b>			
Residential	875.3	873.6	0.2%
General service/large power	932.0	926.1	0.6%
Lighting	25.0	24.7	1.4%
<b>Total Retail</b>	<b>1,832.3</b>	<b>1,824.4</b>	<b>0.4%</b>
Sales for resale (wholesale)	161.3	143.9	12.1%
<b>Total Native (retail plus wholesale)</b>	<b>1,993.6</b>	<b>1,968.3</b>	<b>1.3%</b>
Interchange	46.4	52.1	-10.9%
<b>Grand Total</b>	<b>2,040.0</b>	<b>2,020.4</b>	<b>1.0%</b>
<b>Sales of water (million gallons)</b>			
	7,696.5	8,401.1	-8.4%
<b>Wastewater billed (million gallons)</b>			
	5,321.9	5,429.4	-2.0%
<b>Natural gas, Retail (million therms)</b>			
	22.4	23.6	-5.3%

# CUSTOMERS & SALES

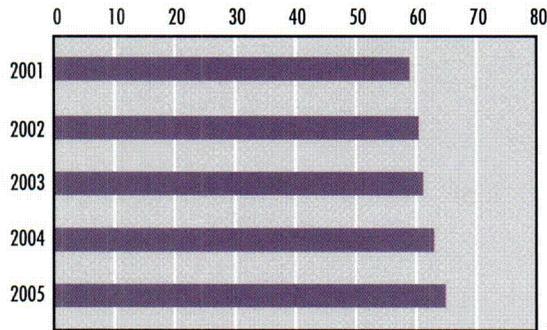
NATURAL GAS CUSTOMERS  
(thousands of customers)



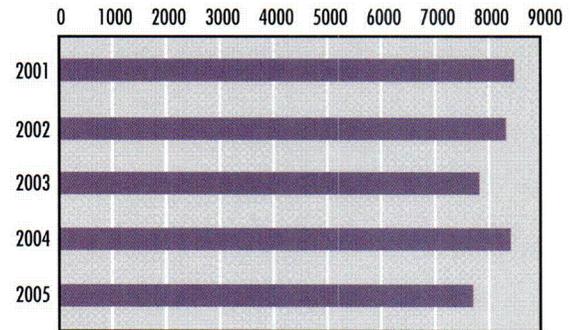
NATURAL GAS SALES  
(millions of therms)



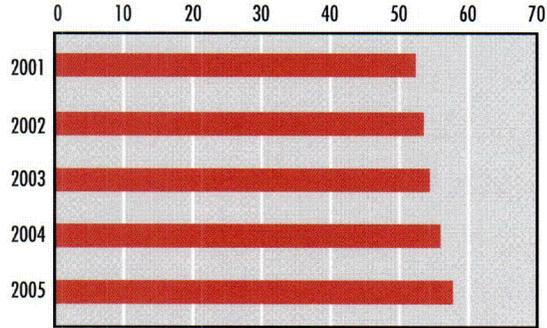
WATER CUSTOMERS  
(thousands of customers)



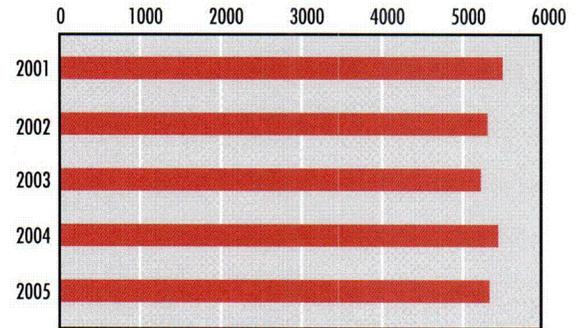
WATER SALES  
(millions of gallons)



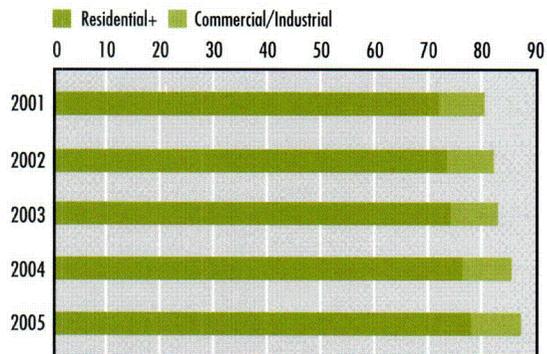
WASTEWATER CUSTOMERS  
(thousands of customers)



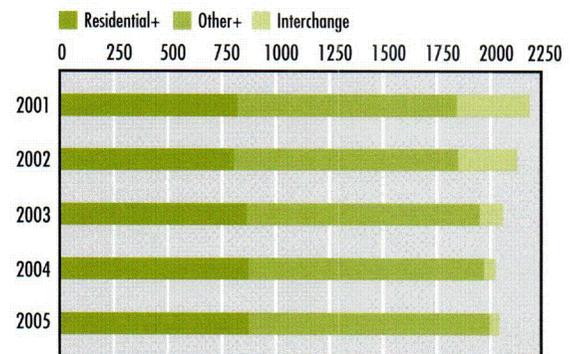
WASTEWATER BILLINGS  
(millions of gallons)



ELECTRIC CUSTOMERS  
(thousands of customers)



ELECTRIC SALES  
(gigawatt hours)



**GAINESVILLE REGIONAL UTILITIES**

**FINANCIAL STATEMENTS**

Years Ended September 30, 2004 and 2005

With Report of Independent Certified Public Accountants

# MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2005 and 2004

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Gainesville, Florida owns and operates a combined utility system (System) doing business as Gainesville Regional Utilities (GRU) which provides five separate utility functions. The utility functions consist of an electric generation, transmission and distribution system (Electric System), water production and distribution system (Water System), a wastewater collection and treatment system (Wastewater System), a natural gas distribution system (Gas System) and a telecommunication system (GRUCom). Each of these systems is accounted for internally as a separate enterprise fund but reported as a combined utility system for external financial reporting purposes.

We offer readers of GRU's financial statements this management discussion and analysis of GRU's financial statements for the fiscal years ended September 30, 2005 and 2004. It should be read in conjunction with the financial statements that follow this section.

### REQUIRED FINANCIAL STATEMENTS

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

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

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

**Notes to Financial Statements.** The notes provide additional information that is essential to fully understanding the data provided in the financial statements. The notes to the financial statements can be found on pages 35-46 of this report.

### FINANCIAL ANALYSIS OF THE COMBINED UTILITY SYSTEM

The Utilities' System net assets decreased by \$1.4 million from 2004 to 2005 and increased \$8.4 million from 2003 to 2004. Table 1 focuses on the net assets.

TABLE 1

#### Combined Utility System Net Assets

(in thousands)

September 30	2005	2004	2003
Current and other assets	\$ 345,937	\$ 367,648	\$ 420,434
Capital assets, net	732,361	710,010	682,740
<b>Total assets</b>	<b>1,078,298</b>	<b>1,077,658</b>	<b>1,103,174</b>
Long-term debt outstanding	434,983	418,697	432,926
Current and other liabilities	291,160	305,382	325,039
<b>Total liabilities</b>	<b>726,143</b>	<b>724,079</b>	<b>757,965</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	297,056	299,671	263,207
Restricted	48,187	48,744	79,487
Unrestricted	6,912	5,164	2,515
<b>Total net assets</b>	<b>\$ 352,155</b>	<b>\$ 353,579</b>	<b>\$ 345,209</b>

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

TABLE 2

#### Combined Utility System Changes in Net Assets

(in thousands)

September 30	2005	2004	2003
Operating revenues	\$ 252,217	\$ 240,755	\$ 225,624
Interest income	4,390	4,156	6,298
Gain/(loss) on sale of investments	(168)	2,720	-
<b>Total revenues</b>	<b>256,439</b>	<b>247,631</b>	<b>231,922</b>
Operating expenses	216,174	198,516	180,972
Interest expense, net	19,445	18,657	20,362
<b>Total expenses</b>	<b>235,619</b>	<b>217,173</b>	<b>201,334</b>
Income before contributions and transfers	20,820	30,458	30,588
Capital contributions, net	5,036	4,922	3,657
Operating transfer to City of Gainesville	(27,280)	(27,010)	(25,915)
<b>Change in net assets</b>	<b>(1,424)</b>	<b>8,370</b>	<b>8,330</b>
Net assets, beginning of year	353,579	345,209	336,879
<b>Net assets, end of year</b>	<b>\$352,155</b>	<b>\$353,579</b>	<b>\$345,209</b>

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets.** GRU's investment in capital assets as of September 30, 2005, amounts to \$732.4 million (net of accumulated depreciation). This investment in capital assets includes land, generation, transmission and distribution systems, buildings and fixed equipment, and furniture, fixtures and equipment. The net increase in the investment in capital assets (net of accumulated depreciation) for the current fiscal year was 3.1%. In fiscal 2004 it increased 4.0%.

The following table summarizes the System's capital assets, net of accumulated depreciation and changes for the years ended September 30, 2005, 2004 and 2003.

**Combined Utilities System Capital Assets (net of accumulated depreciation)**

(in thousands)

September 30	2005	2004	2003
Generation	\$ 173,998	\$ 175,696	\$ 168,365
Transmission, distribution and collection	350,178	349,673	331,446
Treatment	67,919	68,291	48,528
General plant	30,201	32,157	31,152
Plant held for future use	6,054	6,054	6,054
Plant unclassified	5,458	5,178	25,737
Construction work in progress	98,553	72,961	71,458
<b>Total net utility plant</b>	<b>\$732,361</b>	<b>\$710,010</b>	<b>\$682,740</b>

Major capital asset events included the following:

- Water treatment net expansion was \$1.6 million in 2005 and \$2.6 million in 2004 and included \$1.5 million for Murphree Lime Slaker replacement.
- Electric transmission and distribution expansion was \$8.3 million in 2005 and \$9.3 million in 2004 and included \$2.4 for the landfill renewable gas project.
- Fiber optic service expansion was \$504,000 in 2005 and \$6.7 million in 2004.
- Electric production plant increased \$6.4 million in 2005 and \$16.6 million in 2004 and included boiler control upgrades of \$4 million at the Deerhaven Generation Unit in 2004.

The Utility's 2006 capital budget is \$62.1 million and was \$57.8 million in 2005. These projects will be funded from a combination of internal equity and debt.

Additional information on capital assets may be found in Note 3 on page 38 of this report.

**Long-Term Debt.** At September 30, 2005 and September 30, 2004, GRU had total long-term debt outstanding of \$467.4 million and \$452.4 million, respectively, comprised of revenue bonds and other long-term debt.

**Outstanding Debt**

(in thousands)

September 30	2005	2004	2003
Senior Lien revenue bonds	\$ 298,935	\$ 309,035	\$ 318,620
Subordinated revenue bonds	71,600	74,500	77,300
Tax-exempt Commercial Paper	80,591	51,844	53,700
Taxable Commercial Paper	16,231	17,031	17,815
<b>Total</b>	<b>\$467,357</b>	<b>\$452,410</b>	<b>\$467,435</b>

On September 21, 2005, the City entered into an interest rate swap agreement with a November 16, 2005, effective date with Bear Stearns Financial Products, Inc. (BSFP) for an initial notional amount of \$55.1 million amortizing down to zero on October 1, 2026. Under the terms of this swap, the City would pay BSFP 3.20% interest on certain payment dates and, in return, BSFP would pay the City a floating rate based on a specified index.

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

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

On January 30, 2003 the City issued Utilities System Revenue Bonds, Series 2003A and 2003B in the amounts of \$33,000,000 and \$7,625,000 respectively. The 2003A Bonds mature on various dates from October 1, 2015 through October 1, 2024. The 2003B Bonds mature on various dates from October 1, 2004 through October 1, 2013. The 2003A Bonds maturing on or after October 1, 2013 are subject to redemption at the option of the City on or after October 1, 2013 at 100%. The 2003B Bonds maturing are not subject to redemption prior to maturity.

On March 20, 2003, the City entered an interest rate swap agreement with an August 28, 2003 effective date with JP Morgan Chase Bank (JP Morgan) for an initial notional amount of \$121,525,000 amortizing down to zero on October 1, 2013. Under the terms of this swap, the City would pay JP Morgan 3.41% interest on certain payment dates and, in return, JP Morgan would pay the City a floating rate based on a specified index. On August 20, 2003, the City issued Utilities System Revenue Bonds, Series 2003C in the amount of \$115,925,000. The proceeds of these Bonds were used to refund the 1993 Series A and 1993 Series B Bonds outstanding after October 1, 2003 and \$6,235,000 of the 1996A Bonds maturing October 1, 2004 through October 1, 2008 and to pay an amount to terminate this swap agreement with JP Morgan.

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

Additional information on long-term debt can be found in Note 4 on pages 39-42 of this report.

## FINANCIAL HIGHLIGHTS

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

- Operating sales revenue increased \$17.5 million, or approximately 7.9%, and \$15.1 million, or approximately 6.7%, in fiscal 2005 and 2004, respectively. Included in this amount is approximately \$13.0 million and \$8.2 million associated with higher fuel costs incurred in fiscal 2005 and 2004, respectively. These higher fuel costs are passed directly through to our customers as part of a fuel adjustment charge which is recorded as revenue.
- Fiscal 2005 year end fuels payable increased \$8.0 million, or approximately 300%, compared to fiscal 2004 year end. The primary reason for the increase was the significantly higher cost of natural gas in 2005. Additionally, there was a buildup of coal and oil inventories as a safeguard against potential non-availability of gas.
- Net capital contributions from developers increased \$115,000 in fiscal 2005 over fiscal 2004 and increased \$1.3 million in fiscal 2004 over fiscal 2003. The drop in fiscal 2005 was due to a leveling off of housing development in the area versus the increased activity seen in development in fiscal 2004.
- Gross utility plant in service increased \$26.5 million, or 2.6%, and net capital assets increased \$22.4 million, or 3.1%, in fiscal 2005. In fiscal 2004, gross utility plant in service increased \$51.2 million, or 5.2%, and net capital assets increased \$27.3 million, or 4.0%. This is summarized under "Capital Assets," on page 38.
- Long-term debt increased \$14.9 million, or 3.3%, in fiscal 2005 because of the issuance of Commercial Paper Notes totaling \$31.0 million, offset by scheduled debt paydown of principal. Long-term debt decreased \$15.0 million, or 3.2%, in fiscal 2004 because of scheduled debt paydown of principal. See "Long-Term Debt" on page 27, and the detail, on pages 39-42.
- The number of customers for electric, water, wastewater and gas services increased 1.8%, 3.2%, 3.4% and 3.6%, respectively, in fiscal 2005, and 3.3%, 3.1%, 2.9%, and 1.8%, respectively, in fiscal 2004.
- GRU is in the process of remediation efforts at a former manufactured gas plant site. The costs incurred to date total \$2.6 million and GRU estimates that remaining costs of the project will be approximately \$9.1 million. However, to date GRU has recovered \$3.3 million from insurance, including \$450,000 of that total in fiscal 2005. After recognizing collection fees paid, a net recovery of \$2.2 million has been realized which will directly reduce the amount to be recovered through customer billings. GRU has accrued a regulatory asset and liability to account for the cost and cost recovery of the expense, which is being amortized as costs are incurred and customer revenues are received. Further explanation of this activity is presented in note 13, page 45 of this report.
- GRU's service area incurred approximately \$7.4 million of damage to its facilities as a result of two hurricanes in September 2004. Requests for Federal Emergency Management Agency (FEMA) funding have been submitted. The bulk of the \$7.4 million in storm-related expenses were accrued as part of fiscal 2004 activity and reported in current liabilities. No amounts have been accrued for any possible FEMA recoveries as of fiscal year end 2005, as such recoveries have yet to be confirmed by FEMA as being realizable.

- In order to pay the unanticipated costs associated with the hurricanes, GRU used Rate Stabilization funds; however, as FEMA reimbursements are received, those moneys will be deposited back into the Rate Stabilization Fund. It is anticipated that FEMA reimbursements will total approximately \$6.5 million.
- In November 2003, GRU purchased the service facilities and billing rights to 1,144 customer accounts from Clay Electric Cooperative at a cost of \$1.6 million.

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

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

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

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

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

On October 1, 2005, GRU implemented an overall electric system rate increase of 3%. Customer charges for all classes increased by 5%. For Residential and General Service Non-Demand classes, each had a second rate tier increase with no increase to the first tier. General Service Demand and Large Power classes demand charges were also increased.

GRU also increased rates for both the water and wastewater systems by 15%. A further modification of the rate structure was made by the Gainesville City Commission effective October 1, 2005. Fire hydrant charges will be incorporated into base water rates across all classes.

There were no changes in gas rates.

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

To meet increased costs of service, GRU also increased connection fee charges by 3.3% and 9.3%, for the water and wastewater systems, respectively.

GRU currently forecasts the need for new electric supply by about 2011, in order to maintain a 15% reserve margin. In 2002, GRU initiated an Integrated Resource Planning process to investigate options to satisfy its customer demand and supply needs. In early 2005, management proposed to the City Commission a plan that would include construction of a 220 megawatt solid fuel unit capable of generating 30 megawatts from biomass and a blend of coal and up to 50% petroleum coke. The plan would also reduce carbon intensity of the system by 14% while maintaining cost effective and reliable electrical supplies. In August 2005, the City Commission

authorized management to issue a request for proposals to obtain an independent consultant to further examine the plan developed. A consultant was selected in November 2005.

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

## REQUESTS FOR INFORMATION

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

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying balance sheets of Gainesville Regional Utilities (a department of the City of Gainesville, Florida) as of September 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of 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 auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We are not engaged to perform an audit of Gainesville Regional Utilities' internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Gainesville Regional Utilities' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gainesville Regional Utilities as of September 30, 2005 and 2004, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2005 on our consideration of Gainesville Regional Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

*Ernst & Young LLP*

Orlando, Florida  
November 10, 2005

# BALANCE SHEETS

September 30, 2005 and 2004

	2005	2004
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,435,928	\$ 3,100,747
Investments	-	289,231
Accounts receivable, net of allowance for uncollectible accounts of \$1,049,992 in 2005 and \$940,717 in 2004.	36,437,195	32,197,451
Prepaid rent, lease/leaseback	10,686,909	10,686,909
Fuels contracts	4,844,014	3,093,569
Deferred charges	4,784,233	2,904,822
Inventories		
Fuel	9,825,661	7,182,475
Materials and supplies	7,411,188	7,553,569
<b>Total current assets</b>	<b>75,425,128</b>	<b>67,008,773</b>
<b>Restricted assets</b>		
Utility deposits – cash and investments	3,900,543	3,706,280
Debt service – cash and investments	21,974,746	22,421,714
Rate stabilization – cash and investments	50,984,006	61,091,124
Construction Fund – cash and investments	10,566,567	18,205,560
Utility plant improvement fund – cash and investments	29,104,500	29,095,045
Investment in The Energy Authority	2,251,685	1,987,205
Decommissioning reserve – cash and investments	6,181,620	5,648,230
<b>Total restricted assets</b>	<b>124,963,667</b>	<b>142,155,158</b>
Prepaid rent, lease/leaseback	130,024,059	140,710,968
Other noncurrent assets	15,524,360	17,773,706
<b>Capital assets</b>		
Utility plant in service	1,057,056,211	1,031,144,740
Plant unclassified	5,720,667	5,177,664
Less: accumulated depreciation and amortization	435,022,865	405,327,781
<b>Net utility and unclassified plant</b>	<b>627,754,013</b>	<b>630,994,623</b>
Plant held for future use	6,053,926	6,053,926
Construction in progress	98,552,735	72,961,047
<b>Net capital assets</b>	<b>732,360,674</b>	<b>710,009,596</b>
<b>Total assets</b>	<b>\$1,078,297,888</b>	<b>\$1,077,658,201</b>

Continued on next page.

## BALANCE SHEETS

September 30, 2005 and 2004

	2005	2004
<b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Fuel payable	\$ 12,134,923	\$ 4,125,676
Accounts payable and accrued liabilities	2,850,419	9,580,402
Operating lease, lease/leaseback	12,461,916	12,461,916
Deferred credits	6,367,311	1,725,904
Due to other funds	4,755,711	4,121,905
<b>Total current liabilities</b>	<b>38,570,280</b>	<b>32,015,803</b>
<b>Payable from restricted assets</b>		
Utility deposits	4,041,439	3,850,178
Rate stabilization deferred credit	50,984,006	61,091,124
Construction fund accounts payable and accrued liabilities	2,877,580	1,593,056
Debt payable, current portion	16,536,750	16,052,500
Accrued interest payable	8,411,103	8,753,375
<b>Total payable from restricted assets</b>	<b>82,850,878</b>	<b>91,340,233</b>
<b>Long-term debt</b>		
Utilities system revenue bonds	289,550,000	298,935,000
Subordinated utilities system revenue bonds	68,500,000	71,600,000
Commercial paper notes	92,770,500	65,822,250
Unamortized loss on refinancing	(24,647,778)	(27,509,929)
Unamortized bond premium/discount	8,809,829	9,849,194
<b>Total long-term debt</b>	<b>434,982,551</b>	<b>418,696,515</b>
Operating lease – lease/leaseback	151,608,509	164,069,621
Other noncurrent liabilities	18,130,579	17,957,380
<b>Total liabilities</b>	<b>726,142,797</b>	<b>724,079,552</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	297,055,621	299,670,237
Restricted	48,187,290	48,744,149
Unrestricted	6,912,180	5,164,263
<b>Total net assets</b>	<b>352,155,091</b>	<b>353,578,649</b>
<b>Total liabilities and net assets</b>	<b>\$1,078,297,888</b>	<b>\$1,077,658,201</b>

See accompanying notes.

# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

September 30, 2005 and 2004

	2005	2004
<b>Operating revenue</b>		
Sales and service charges	\$ 239,901,044	\$ 222,382,854
Transfers from rate stabilization	3,972,826	11,060,752
Other operating revenue	8,342,803	7,311,535
<b>Total operating revenue</b>	<b>252,216,673</b>	<b>240,755,141</b>
<b>Operating expenses</b>		
Operation and maintenance	152,246,424	137,825,854
Administrative and general	25,372,471	23,938,149
Depreciation and amortization	38,554,797	36,752,375
<b>Total operating expenses</b>	<b>216,173,692</b>	<b>198,516,378</b>
<b>Operating income</b>	<b>36,042,981</b>	<b>42,238,763</b>
<b>Non-operating income (expense)</b>		
Interest income	4,389,747	4,156,003
Interest expense, net of AFUDC	(19,445,194)	(18,656,887)
Gain/(loss) on sale of investments	(167,756)	2,720,587
<b>Total non-operating expense</b>	<b>(15,223,203)</b>	<b>(11,780,297)</b>
<b>Income before contributions and transfers</b>	<b>20,819,778</b>	<b>30,458,466</b>
<b>Capital contributions</b>		
Contributions from developers	5,227,336	5,167,619
Reduction of plant costs recovered through contributions	(191,028)	(245,924)
<b>Net capital contributions</b>	<b>5,036,308</b>	<b>4,921,695</b>
Operating transfer to City of Gainesville General Fund	(27,279,644)	(27,010,442)
<b>Change in net assets</b>	<b>(1,423,558)</b>	<b>8,369,719</b>
<b>Net assets, beginning of year</b>	<b>353,578,649</b>	<b>345,208,930</b>
<b>Net assets, end of year</b>	<b>\$352,155,091</b>	<b>\$353,578,649</b>

See accompanying notes.

## STATEMENTS OF CASH FLOWS

September 30, 2005 and 2004

	2005	2004
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 235,852,561	\$ 219,972,966
Cash payments to suppliers for goods and services	(134,267,782)	(116,969,729)
Cash payments to employees for services	(45,044,540)	(43,109,125)
Cash payments for operating transactions with other funds	(8,604,599)	(8,116,428)
Other operating receipts	10,541,426	14,160,352
<b>Net cash provided by operating activities</b>	<b>58,477,066</b>	<b>65,938,036</b>
<b>Cash flows from noncapital financing activities</b>		
Transfers to other funds	(27,279,644)	(27,010,442)
<b>Net cash used in noncapital financing activities</b>	<b>(27,279,644)</b>	<b>(27,010,442)</b>
<b>Cash flows from capital and related financing activities</b>		
Principal repayments on long-term debt	(16,252,500)	(15,025,250)
Interest paid on long-term debt	(20,826,831)	(18,031,898)
Other receipts	85,131	72,631
Acquisition and construction of fixed assets (including allowance for funds used during construction)	(47,009,854)	(47,791,846)
Proceeds from new debt and commercial paper	31,000,000	-
Cash received for connection charges	3,385,879	2,437,528
<b>Net cash used in capital and related financing activities</b>	<b>(49,618,175)</b>	<b>(78,338,835)</b>
<b>Cash flows from investing activities</b>		
Interest received	3,305,496	2,554,172
Purchase of investments	(245,158,401)	(447,704,385)
Investment in The Energy Authority	(1,161,361)	(114,601)
Distributions from The Energy Authority	896,881	1,342,398
Proceeds from investment maturities	262,172,155	481,017,390
<b>Net cash provided by investing activities</b>	<b>20,054,770</b>	<b>37,094,974</b>
<b>Net change in cash and cash equivalents</b>	<b>1,634,017</b>	<b>(2,316,267)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>30,552,034</b>	<b>32,868,301</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 32,186,051</b>	<b>\$ 30,552,034</b>

Continued on next page.

STATEMENTS OF CASH FLOWS (CONTINUED)

September 30, 2005 and 2004

	2005	2004
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 36,042,981	\$ 42,238,763
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	38,554,797	36,752,375
Operating lease/leaseback revenue	(1,774,203)	(1,774,203)
Increase (decrease) in cash attributable to change in assets and liabilities:		
Receivables	(4,239,744)	(4,969,003)
Prepaid expenses	(1,750,445)	(2,724,359)
Inventories	(2,500,805)	(801,636)
Deferred charges	9,334,615	14,442,559
Accounts payable and accrued liabilities	2,563,788	8,357,808
Due to other funds	633,806	957,560
Utility deposits	191,261	121,383
Other liabilities and deferred credits	(18,578,985)	(26,663,208)
<b>Net cash provided by operating activities</b>	<b>\$58,477,066</b>	<b>\$65,938,039</b>

**Noncash, investing, capital and financing activities**

Utility plant contributed by developers in aid of construction was \$5,036,308 and \$4,921,695 in 2005 and 2004, respectively.

See accompanying notes.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**ORGANIZATION**

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

**BASIS OF ACCOUNTING**

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

Gainesville Regional Utilities reports net assets in the following classifications:

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

**Restricted.** This component of net assets consists of net assets subject to external constraints on their use imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted.** This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**USE OF ESTIMATES**

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

**RECLASSIFICATIONS**

Certain amounts for the prior year have been reclassified to conform with current year presentation.

**INVESTMENTS**

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

**RISK MANAGEMENT/FUTURES AND OPTIONS CONTRACTS**

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

The information below provides a summary of results based on GRU's risk management activity during Fiscal Years 2005 and 2004.

September 30	2005	2004
Deposits	\$5,400,000	\$3,100,000
Gain	\$1,299,700	\$ 773,460

Gains or losses from hedging transactions are applied to GRU's monthly fuel expenses as an offset to fuel cost.

**INVENTORIES**

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

**CAPITAL ASSETS**

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

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

**DEPRECIATION AND NUCLEAR GENERATING PLANT DECOMMISSIONING**

An independent evaluation of GRU's depreciation rates and accumulated reserve was performed by an outside consultant in 2004. The study recommended an update to depreciation rates and allowance reserve balances. Depreciation of utility plant is computed using the straight-line method over estimated service lives ranging from 6 to 50 years. GRU implemented the recommended rates in fiscal 2005. This change adjusted the overall depreciation rate to 3.27% of average depreciable property for 2005. In fiscal 2004, the rate was 3.50%. Depreciation expense includes a provision for decommissioning costs related to the jointly-owned nuclear power plant (see Note 6).

The cost of nuclear fuel, including estimated disposal cost, is amortized to fuel expense based on the quantity of heat produced for the generation of electric energy in relation to the quantity of heat expected to be produced over the life of the nuclear fuel core. These costs are charged to customers through the fuel adjustment clause.

**REVENUE RECOGNITION**

Revenue is recorded as earned. GRU accrues for services rendered but unbilled, which amounted to approximately \$15,891,000 and \$13,400,000 for 2005 and 2004, respectively. Fuel adjustment revenue is recognized based on the actual fuel costs. Amounts charged to customers for fuel are based on estimated costs, which are adjusted for any differences between the actual and estimated costs once actual fuel costs are known. If the amount recovered through billings exceeds actual fuel costs, GRU records deferred fuel as a liability. If the amount recovered through billings is less than the actual fuel costs, GRU records deferred fuel as an asset, for amounts to be collected through future rates. As of September 30, 2005 and 2004, deferred fuel costs were a receivable in 2005 of \$2,394,000 and a liability in 2004 of \$367,000. The deferred fuel balances are reported as part of either current deferred charges or credits on the balance sheets.

**TRANSACTIONS WITH THE CITY OF GAINESVILLE**

As an enterprise fund of the City of Gainesville, transactions occur between GRU and the City's governmental funds throughout the year in the ordinary course of operations. Below is a summary of significant transactions:

**Administrative Services.** GRU is billed monthly for various administrative and insurance services provided by the City's governmental functions.

**Nonmetered and Metered Service Charges.** GRU bills the City's governmental funds on a monthly basis for all nonmetered, metered and other administrative services.

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

**FUNDS IN ACCORDANCE WITH BOND RESOLUTIONS**

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

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

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

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

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

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

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

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

**OPERATING, NON-OPERATING REVENUES**

GRU has defined operating revenue as that revenue which is derived from customer sales or service while non-operating revenues include interest on investments and any gain from the sale of such investments.

**ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)**

An allowance for interest on borrowed funds used during construction of \$306,000 and \$771,000 in 2005 and 2004, respectively, is included in construction in progress and as a reduction of interest expense. These amounts are computed by applying the effective interest rate on the funds borrowed to finance the projects to the monthly balance of projects under construction. The effective interest rate was approximately 3.96%.

**CONTRIBUTIONS IN AID OF CONSTRUCTION**

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

**CASH AND CASH EQUIVALENTS**

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

## UNAMORTIZED LOSS ON REFINANCING

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

## 2. RATES AND REGULATION

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

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2005 and 2004

## 3. CAPITAL ASSETS AND CHANGES IN ACCUMULATED DEPRECIATION

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

	PLANT IN SERVICE						Combined
	Treatment	Generation	Transmission, Distribution and Collection	General	Unclassified	CWIP/Plant held for Future Use	
<b>Balance, October 1, 2004</b>	<b>\$106,485,440</b>	<b>\$353,036,776</b>	<b>\$508,717,127</b>	<b>\$62,905,397</b>	<b>\$5,177,664</b>	<b>\$ 79,014,973</b>	<b>\$1,115,337,377</b>
Capital additions and transfers	3,361,175	8,067,277	16,893,468	2,453,415	31,318,339	57,935,455	120,029,129
Sales, retirements and transfers	815,103	859,327	1,790,622	1,398,813	30,775,336	32,343,766	67,982,967
<b>Balance, September 30, 2005</b>	<b>\$109,031,512</b>	<b>\$360,244,726</b>	<b>\$523,819,973</b>	<b>\$63,959,999</b>	<b>\$5,720,667</b>	<b>\$104,606,662</b>	<b>\$1,167,383,539</b>
<b>Accumulated depreciation, October 1, 2004</b>	<b>\$ 38,194,156</b>	<b>\$177,341,277</b>	<b>\$159,043,942</b>	<b>\$30,748,406</b>	<b>n/a</b>	<b>n/a</b>	<b>\$ 405,327,781</b>
Depreciation expense	3,732,712	9,764,885	16,388,221	4,179,478	263,263	n/a	34,328,559
Retirements/adjustments	815,103	859,327	1,790,622	1,168,423	n/a	n/a	4,633,475
<b>Accumulated depreciation, September 30, 2005</b>	<b>\$ 41,111,765</b>	<b>\$186,246,835</b>	<b>\$173,641,541</b>	<b>\$33,759,461</b>	<b>\$ 263,263</b>	<b>n/a</b>	<b>\$ 435,022,865</b>
Average depreciation rate	3.46%	2.74%	3.17%	6.59%	4.83%	n/a	3.27%

	PLANT IN SERVICE						Combined
	Treatment	Generation	Transmission, Distribution and Collection	General	Unclassified	CWIP/Plant held for Future Use	
<b>Balance, October 1, 2003</b>	<b>\$ 85,372,532</b>	<b>\$336,363,796</b>	<b>\$479,214,863</b>	<b>\$58,422,894</b>	<b>\$25,737,464</b>	<b>\$77,512,387</b>	<b>\$1,062,623,936</b>
Capital additions and transfers	22,505,311	18,280,589	32,840,116	6,690,080	59,756,294	63,108,309	203,180,699
Sales, retirements and transfers	1,392,403	1,607,609	3,337,852	2,207,577	80,316,094	61,605,723	150,467,258
<b>Balance, September 30, 2004</b>	<b>\$106,485,440</b>	<b>\$353,036,776</b>	<b>\$508,717,127</b>	<b>\$62,905,397</b>	<b>\$ 5,177,664</b>	<b>\$79,014,973</b>	<b>\$1,115,337,377</b>
<b>Accumulated depreciation, October 1, 2003</b>	<b>\$ 36,844,915</b>	<b>\$167,998,270</b>	<b>\$147,770,014</b>	<b>\$27,270,893</b>	<b>n/a</b>	<b>n/a</b>	<b>\$ 379,884,092</b>
Depreciation expense	2,741,644	12,254,184	14,611,780	5,757,721	n/a	n/a	35,365,329
Retirements/adjustments	1,392,403	2,911,177	3,337,852	2,280,208	n/a	n/a	9,921,640
<b>Accumulated depreciation, September 30, 2004</b>	<b>\$ 38,194,156</b>	<b>\$177,341,277</b>	<b>\$159,043,942</b>	<b>\$30,748,406</b>	<b>n/a</b>	<b>n/a</b>	<b>\$ 405,327,781</b>
Average depreciation rate	2.86%	3.56%	2.96%	9.49%	n/a	n/a	3.50%

**4. LONG-TERM DEBT**

Long-term debt outstanding at September 30, 2005 and 2004, consisted of the following:

	2005	2004
<b>Utilities System Revenue Bonds</b>		
Series 1983 (1983 Bonds), interest payable semi-annually to October 1, 2014 at a rate of 6.0%	\$ 4,675,000	\$ 4,675,000
1992 Series B (1992 B Bonds), interest payable semi-annually to October 1, 2013 at various rates between 6.5% and 7.5%	24,630,000	24,630,000
1996 Series A (1996 A Bonds), interest payable semi-annually to October 1, 2026 at rates between 5% and 5.75%	120,750,000	123,180,000
2002 Subordinated Series A (2002 Series A), interest at variable rates; 2.75% at September 30, 2005	31,600,000	34,500,000
2002 Subordinated Series B (2002 Series B), interest at variable rates; 2.70% at September 30, 2005	40,000,000	40,000,000
2003 Series A (2003 A Bonds), interest payable semi-annually to October 1, 2024 at rates between 4.625% and 5.25%	33,000,000	33,000,000
2003 Series B (2003 B Bonds), interest payable semi-annually to October 1, 2013 at a 4.4% interest rate (Federally Taxable)	7,000,000	7,625,000
2003 Series C (2003 C Bonds), interest payable semi-annually to October 1, 2013 at rates between 4.0% and 5.0%	108,880,000	115,925,000
<b>Utilities System Commercial Paper Notes</b>		
Series C (C Notes), interest at variable market rates; 2.65% at September 30, 2005	80,591,250	51,843,750
<b>Utilities System Taxable Commercial Paper Notes</b>		
Series D (D Notes), interest at variable market rates; 3.76% at September 30, 2005	16,231,000	17,031,000
	467,357,250	452,409,750
Current portion of long-term debt	(16,536,750)	(16,052,500)
Unamortized loss on refinancing	(24,647,778)	(27,509,929)
Unamortized premium/discount	8,809,829	9,849,194
<b>Total long-term debt</b>	<b>\$434,982,551</b>	<b>\$418,696,515</b>

**4. LONG-TERM DEBT (CONTINUED)**

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

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

The 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. A portion of the bonds maturing from October 1, 2004 through October 1, 2008 (\$6.2 million) were advance-refunded to the maturity dates. The bonds were defeased, in substance, and will be paid from escrowed funds. There were \$5,125,000 in defeased bonds outstanding as of September 30, 2005.

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

The 2003A Utilities System Revenue Bonds mature on various dates from October 1, 2015 through October 1, 2033. The 2003 B Bonds mature on various dates from October 1, 2005 through October 1, 2013. The 2003 A Bonds maturing on or after October 1, 2013 are subject to redemption at the option of the City on or after October 1, 2013 at 100%. The 2003 B Bonds maturing are not subject to redemption prior to maturity.

The 2003C Utilities System Revenue Bonds mature at various dates from October 1, 2004 to October 1, 2013. The 2003C bonds are not subject to redemption prior to maturity.

Utilities System Commercial Paper Notes, Series C Notes (tax-exempt) in a principal amount not to exceed \$85 million may continue to be issued to refinance maturing Series C Notes or provide for other costs. Liquidity support for the Series C Notes is provided under a long-term credit agreement dated as of March 1, 2000 with Bayerische Landesbank Girozentrale. This agreement has been extended to November 30, 2015. The obligation of the bank may be substituted by another bank which meets certain credit standards and which is approved by GRU and the Agent. Under the terms of the agreement, GRU may borrow up to \$85 million with same day availability ending on the termination date, as defined in the agreement. Series C Notes of \$3.2 million and \$2.3 million were redeemed during 2005 and 2004, respectively.

In June 2000, a Utilities System Commercial Paper Note Program, Series D (taxable) was established in a principal amount not to exceed \$25 million. Liquidity support for the Series D Notes is provided under a long-term credit agreement dated June 1, 2000 with SunTrust Bank. This agreement has been extended to July 23, 2008. The obligation of the bank may be substituted by another bank that meets certain credit standards and is approved by GRU. Under the terms of the agreement, GRU may borrow up to \$25 million with same day availability ending on the termination date, as defined in the agreement. Series D Notes of \$833,000 and \$800,000 were redeemed during 2005 and 2004, respectively.

4. LONG-TERM DEBT (CONTINUED)

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

The following table lists the Debt Service requirements (principal and interest) on long-term debt outstanding at September 30, 2005.

Period ending September 30	Principal	Interest	Total Debt Service Requirements <sup>(1)</sup>
2006	\$ 16,536,750	\$ 20,114,722	\$ 36,651,472
2007	17,317,250	19,513,303	36,830,553
2008	22,101,250	18,794,701	40,895,951
2009	25,246,750	17,838,173	43,084,923
2010	26,396,250	16,563,212	42,959,462
2011 - 2015	136,541,250	62,499,789	199,041,039
2016 - 2020	82,520,000	36,666,345	119,186,345
2021 - 2025	54,801,250	21,462,209	76,263,459
2026 - 2030	48,519,500	11,363,383	59,882,883
2031 - 2033	37,377,000	2,941,467	40,318,467
<b>Total</b>	<b>\$467,357,250</b>	<b>\$227,757,304</b>	<b>\$695,114,554</b>

<sup>(1)</sup> Interest rates on variable-rate long-term debt were valued to be equal to 2.75% for the 2002A Series Subordinated Bonds, 2.70% for the 2002B Series Subordinated Bonds, 2.65% for Series C Tax-exempt Commercial Paper and 3.76% for Series D Taxable Commercial Paper. These are the rates in effect as of September 30, 2005.

The table below shows the changes in net long-term debt balances that occurred during the years ended September 30, 2005 and 2004.

	2005	2004
<b>Long-term debt outstanding at beginning of year</b>	<b>\$418,696,515</b>	<b>\$432,926,230</b>
<b>Changes in long-term debt</b>		
Series 2005A TECP issued	31,000,000	-
Fixed rate debt redeemed - Senior Lien and Subordinated	(12,485,000)	(13,000,000)
TECP redeemed during the year	(3,218,750)	(2,252,500)
Taxable CP redeemed	(833,000)	(800,000)
Change in unamortized loss/bond discount	1,822,786	1,822,785
<b>Long-term debt outstanding at end of year</b>	<b>\$434,982,551</b>	<b>\$418,696,515</b>
<b>Current portion of long-term debt</b>	<b>\$ 16,536,750</b>	<b>\$ 16,052,500</b>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2005 and 2004

4. LONG-TERM DEBT (CONTINUED)

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

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

DERIVATIVES

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

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

**Terms, fair values and credit risk.** The terms, fair values and credit ratings of the outstanding swaps as of September 30, 2005, were as follows. The notional amounts of the swaps match the principal amounts of the associated debt.

Associated Bond Issue	2002A	2005C*	2006*
Notional Amounts	\$31,600,000	\$55,135,000	\$53,305,000
Effective Date	7/3/02	11/16/05	7/6/06
Fixed Payer Rate	4.100%	3.200%	3.224%
Variable Receiver Rate	BMA	68% of LIBOR	68% of LIBOR
Fair Value	\$(1,188,333)	\$ (183,289)	n/a
Termination Date	10/1/17	10/1/26	10/1/26
Counterparty Credit Rating	Aa3/A+/AA-	Aaa/AA	Aaa/AA+

\*See "Basis Risk" in Note 4, "Long-Term Debt" and Note 17, "Subsequent Event," for details.

**Fair Value.** All the swap agreements currently have negative fair values as of September 30, 2005. Due to historically low interest rates, our fixed payer rates currently exceed the variable receiver rates. This is anticipated to be a short-term event.

**Swap payments and associated debt.** Assuming interest rates remain the same at September 30, 2005, debt service requirements on the auction rate notes and the interest rate swap would be as follows:

Fiscal Year Ending Sept 30	Auction-Rate Principal	Notes Interest	Interest Rate Swaps, Net	Total
2006	\$ 3,100,000	\$ 789,250	\$ 387,450	\$ 4,276,700
2007	3,200,000	704,000	345,600	4,249,600
2008	3,300,000	616,000	302,400	4,218,400
2009	-	525,250	257,850	783,100
2010	-	525,250	257,850	783,100
2011-2015	5,100,000	2,626,250	1,289,250	9,015,500
2016-2017	16,900,000	704,000	345,600	17,949,600
<b>Total</b>	<b>\$31,600,000</b>	<b>\$6,490,000</b>	<b>\$3,186,000</b>	<b>\$41,276,000</b>

**Credit Risk.** As of September 30, 2005, the fair value of the swap was negative, therefore the City is not subject to credit risk. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the derivative's fair value. To mitigate the potential for credit risk, the City has negotiated additional termination event and collateralization requirements in the event of a ratings downgrade. Failure to deliver the Collateral Agreement to the City as negotiated and detailed in the Schedule to the International Swap and Derivative Agreement (ISDA) for each counterparty would constitute an event of default with respect to that counterparty.

**Basis Risk.** The swaps expose the City to basis risk. The swap effective on July 3, 2002, is exposed to the difference between the weekly BMA index and a 35-day rollover based on current market conditions. As a result, savings may not be realized. As of September 30, 2005, BMA was 2.75% for the week of September 28, 2005, while the last 35-day rollover rate was 2.75%. The swaps for the 2005C Series and the 2006 Series are exposed to basis risk through the potential mismatch of 68% of LIBOR and the BMA rate. As of September 29, 2005, the three-month LIBOR rate was at 4.02% trading at approximately 68.40 of BMA.

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

**5. DEPOSITS AND INVESTMENTS**

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

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

As of September 30, 2005, GRU had the following investments and maturities (amounts are in thousands).

Investment Type	Fair Value	Maturities in Years	
		Less than 1	1-5
Commercial Paper	\$ 21,914	\$ 21,914	\$ -
U.S. Agencies	63,406	12,005	51,401
<b>Total</b>	<b>\$85,320</b>	<b>\$33,919</b>	<b>\$51,401</b>

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

**Credit Risk.** GRU's investment policy and Bond Resolution limits investments in state and local taxable or tax exempt debt, corporate fixed income securities and other corporate indebtedness to investments that are rated by both Moody's and Standard and Poor's in either of their two highest rating categories. As of September 30, 2005, all of GRU's commercial paper investments were rated P-1 or better by Moody's Investors Services and A-1 or better by Standard and Poor's.

**Concentration of Credit Risk.** State law does not limit the amount that may be invested in any one issuer. It does require, however, that investments be diversified to control risk of loss from over concentration of assets. As of September 30, 2005, GRU had more than 5% of the investment portfolio of the following:

Issuer	Percent of Total Investments
Cargill, Inc. – Commercial Paper	6.00%
Charta, LLC. – Commercial Paper	5.49%
Federal Home Loan Bank	37.99%

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

	2005	2004
Restricted assets	\$ 124,963,667	\$ 142,155,158
Current assets:		
Cash and cash equivalents	1,435,928	3,100,747
Investments	-	289,231
<b>Total cash and investments</b>	<b>126,399,595</b>	<b>145,545,136</b>
Less cash and cash equivalents	(32,186,051)	(30,552,034)
Less Investment in TEA	(2,251,685)	(1,987,205)
Less CR3 Decommissioning Reserve	(6,181,620)	(5,648,185)
Less accrued interest receivable and accounts receivable	(460,162)	(692,662)
<b>Total investments</b>	<b>\$ 85,320,077</b>	<b>\$ 106,665,050</b>

**6. JOINTLY-OWNED ELECTRIC PLANT**

GRU-owned resources for supplying electric power and energy requirements include its 1.4079% undivided ownership interest in the Crystal River Unit 3 (CR3) nuclear power plant operated by Progress Energy. GRU's net investment in CR3 at September 30, 2005 and 2004 is approximately \$7,894,000 and \$7,603,000, respectively. CR3 operation and maintenance costs, which represent GRU's part of expenses attributable to operation of CR3, are recorded in accordance with the instructions as set forth in the FERC uniform system of accounts. Payments are made to Progress Energy in accordance with the CR3 participation agreement.

GRU, as a part of this participation agreement, is responsible for its share of future decommissioning costs. Decommissioning costs are funded and expensed annually and are recovered through rates charged to customers. The most recent decommissioning cost estimates provided by Progress Energy in March 2005, estimated GRU's share of total future decommissioning costs to be \$7,744,000. At September 30, 2005, GRU has funded \$6,182,000 of this cost.

**7. RESTRICTED NET ASSETS**

Certain assets are restricted by bond resolution and other external requirements. Following is a summary of the computation of restricted net assets at September 30, 2005 and 2004, and the restricted purposes of the net asset balances:

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2005 and 2004

## 7. RESTRICTED NET ASSETS (CONTINUED)

	2005	2004
<b>Restricted net assets</b>		
Total restricted assets	\$124,963,667	\$142,155,158
Unspent debt proceeds	(10,462,249)	(18,123,276)
Payable from restricted assets	(66,314,128)	(75,287,733)
<b>Restricted net assets</b>	<b>\$48,187,290</b>	<b>\$48,744,149</b>

Net assets are restricted as follows:

	2005	2004
<b>Debt covenants</b>		
Debt service	\$ 10,649,485	\$ 12,013,669
Utility plant improvement	29,104,500	29,095,045
<b>Total restricted pursuant to debt covenants</b>	<b>39,753,985</b>	<b>41,108,714</b>
<b>Other restrictions</b>		
Investment in		
The Energy Authority	2,251,685	1,987,205
Nuclear decommissioning reserve	6,181,620	5,648,230
<b>Total other restrictions</b>	<b>8,433,305</b>	<b>7,635,435</b>
<b>Restricted net assets</b>	<b>\$48,187,290</b>	<b>\$48,744,149</b>

## 8. RETIREMENT PLANS

The City sponsors and administers one defined benefit pension plan and two defined contribution plans (collectively, the Plans) that include GRU and other City employees. The Plans do not make separate measurements of assets and pension benefit obligations for individual units of the City. Such information is presented in the City of Gainesville, Florida, September 30, 2005, Comprehensive Annual Financial Report.

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

The City accounts for and funds the costs of the Employee Plan as they accrue. Such costs are based on contribution rates determined by the most recent actuarial valuation. The total contributions by GRU, including amortization of prior service costs, were \$1,326,000 and \$1,800,000 for the years ended September 30, 2005 and 2004, respectively.

Certain limited employees are eligible to participate in defined contribution plans managed by outside fiscal agents for the City. Under the first plan, the City contributes a percentage of an employee's annual salary and employees contribute a specified percentage. All employees have the option to participate in the second defined contribution plan. The total defined contribution cost for GRU for the years ended September 30, 2005 and 2004, was \$102,000 and \$115,000, 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 perma-

nent full and part-time employees who are eligible for normal, early, or disability retirement are eligible for these benefits. Individual benefits are the same for all employees, but the cost to the City may vary. Contributions by the City to fund these benefits are neither mandated nor guaranteed. The actuarial costs of these plans are determined and funded by the City. 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, 2005 and 2004 was \$1,272,000 and \$1,181,000, respectively.

## 10. DISAGGREGATION OF RECEIVABLES AND PAYABLES

### RECEIVABLES

For the years ended September 30, 2005 and 2004 respectively, net accounts receivable represent 92.5% and 94.0% from customers for billed and unbilled utility services, and 7.5% and 6.0% from other receivables. There are no receivables expected to take longer than one year to collect.

### PAYABLES

As of September 30, 2005 and 2004 respectively, payable balances represent 53.7% and 21.2% related to fuels payable, 5.6% and 40.8% to standard vendor payables, 11.4% and 12.1% to accrued vacation payable, 21.0% and 21.2% to intergovernmental payables and 8.4% and 4.6% to other payables.

## 11. TRANSFERS TO GENERAL FUND

GRU makes transfers to the City's general government based on a formula that ties the transfer directly to the financial performance of the system. The transfer to the general fund may be made only to the extent such moneys are not necessary to pay operating and maintenance expenses and to pay debt service on the outstanding bonds and subordinated debt or to make other necessary transfers under the Bond Resolution. The formula-based fund transfer to the general fund for the years ended September 30, 2005 and 2004 was \$27,279,644 and \$27,010,442, respectively.

## 12. DEFERRED CHARGES

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

The largest deferred charge is for estimated environmental costs of \$9,779,000 and \$10,797,000 at September 30, 2005 and 2004 respectively. See Note 13 for details on the manufactured gas plant remediation portion of this item.

Also included in deferred charges is unamortized bond issuance costs of approximately \$5,752,000 and \$6,286,000, respectively, at September 30, 2005 and 2004. These costs are being amortized straight-line over the life of the bonds, which approximates the effective interest method.

Other significant deferred charges include electric distribution plant acquisition costs of \$3,589,000 and \$3,800,000 for September 30, 2005 and 2004, respectively, which are being amortized over the expected life of the acquired assets. Accrued fuel adjustment was a deferred debit of \$2,394,000 and a deferred credit of \$367,000 at September 30, 2005 and 2004, respectively.

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

### 13. ENVIRONMENTAL LIABILITIES

GRU is subject to numerous federal, state and local environmental regulations. Under the Comprehensive Environmental Response Compensation and Liability Act, commonly known as "Superfund," GRU has been named as a potentially responsible party at one hazardous waste site. 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 operation of the former manufactured gas plant. Based upon GRU's analysis of the cost to clean up these sites, GRU has accrued a liability to reflect the costs associated with the cleanup effort. Fiscal year 2005 and 2004 expenditures which reduce the liability balance were \$297,000 and \$464,000 respectively. In addition, GRU was able to recover a net of \$301,000 and \$1,900,000 through insurance coverage in 2005 and 2004, respectively. When applied against the reserve, it leaves a balance of \$6,931,000 and \$7,528,000 as of September 30, 2005 and 2004, respectively. GRU is recovering the costs of this clean-up through customer charges. A regulatory asset was established as a deferred charge in the accompanying balance sheets to represent the balance of customer charges. Fiscal 2005 and 2004 billings were \$718,000 and \$758,000, respectively. This, plus the affect of the insurance recovery, reduced the deferred asset balance to \$7,529,000 and \$8,547,000 as of September 30, 2005 and 2004, respectively. Although some uncertainties associated with environmental assessment and remediation activities remain, GRU believes that the current provision for such costs is adequate and additional costs, if any, will not have a material adverse effect on GRU's financial position, results of operations or liquidity.

### 14. LEASE/LEASEBACK

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

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

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

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

Amortization of the net benefit was \$1,775,000 in both 2005 and 2004, respectively, and was reported as a component of other operating revenue.

### 15. INVESTMENT IN THE ENERGY AUTHORITY

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

GRU had electric purchases transactions with TEA of \$11,747,684 and \$15,258,036 and sales transactions of \$2,507,996 and \$1,761,596 in fiscal years 2005 and 2004, respectively. TEA's profit on these transactions has been reflected as a reduction to GRU's reported revenue or expense. As of September 30, 2005, GRU's investment in TEA was \$2,251,685 versus \$1,987,205 on September 30, 2004.

GRU provides guarantees to TEA and to TEA's bank to secure letters of credit issued by the bank to cover purchase and sale contracts for electric energy, natural gas and related transmission. In accordance with the membership agreement between GRU and its joint venture members and with the executed guaranties delivered to TEA and to TEA's bank, GRU's aggregate obligation for electric energy marketing transactions entered into by TEA on behalf of its members is \$9,600,000 as of September 30, 2005. GRU's aggregate obligation for TEA's natural gas marketing transactions, under similar agreements and executed guaranties, is \$18,800,000 as of September 30, 2005.

The following is a summary of the unaudited financial information of TEA for the twelve-month periods ended September 30, 2005 and 2004:

	2005	2004
<b>Condensed statement of operations</b>		
Total revenue	\$ 1,274,442,000	\$ 743,556,000
Total cost of sales and expenses	1,140,975,000	564,226,000
<b>Operating income</b>	<b>\$ 133,467,000</b>	<b>\$ 179,330,000</b>
<b>Net revenue</b>	<b>\$ 134,670,000</b>	<b>\$ 96,532,000</b>
<b>Condensed balance sheet</b>		
Assets		
Current assets	\$ 287,510,000	\$ 133,241,000
Noncurrent assets	7,574,000	18,155,000
<b>Total assets</b>	<b>\$ 295,084,000</b>	<b>\$ 151,396,000</b>

Continued on next page.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2005 and 2004

## 15. INVESTMENT IN THE ENERGY AUTHORITY (CONTINUED)

	2005	2004
<b>Liabilities</b>		
Current liabilities	\$ 262,584,000	\$ 110,547,000
Noncurrent liabilities	2,572,000	14,334,000
<b>Total liabilities</b>	<b>265,156,000</b>	<b>124,881,000</b>
Members' capital	29,928,000	26,515,000
<b>Total equity and liabilities</b>	<b>\$295,084,000</b>	<b>\$151,396,000</b>

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

## 16. RISK MANAGEMENT

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

Changes in the claims liability for the last two years are as follows:

Fiscal Year	Beginning Balance	Claims	Payments	Ending Balance
2003-2004	\$2,422,000	\$973,000	\$657,000	\$2,106,000
2004-2005	\$2,106,000	\$903,200	\$903,200	\$2,106,000

## 17. SUBSEQUENT EVENT

In November 2005, the City issued three series of 2005 Utilities System Revenue Bonds. The 2005 A Bonds in the amount of \$196,950,000 were issued to (a) provide funds for the payment of the cost of acquisition and construction of certain improvements to the System and (b) to refund the Series C Commercial Paper Notes. Those Bonds mature at various dates from October 1, 2021 to October 1, 2036. The Bonds are subject to redemption at the option of the City on or after October 1, 2015, in whole or part, at a redemption price of 100%.

The 2005 Series B Bonds - Federally Taxable in the amount of \$61,590,000 were issued to (a) provide funds for the payment of the cost of acquisition and construction of certain improvements to the System and (b) to refund the Series D Commercial Paper Notes. Those Bonds mature at various dates from October 1, 2007 to October 1, 2021. The Bonds are subject to redemption prior to maturity at the option of the City, in whole or in part, at a redemption price so specified.

The 2005 Series C Bonds in the amount of \$55,135,000 were issued to provide funds to refund \$53,190,000 in aggregate principal amount of the 1996 Series A Bonds. Those Bonds were issued as Variable Rate Revenue Bonds which initially bear interest at Daily Rates. Those Bonds mature at various dates through October 1, 2026. The Bonds are subject to mandatory and optional redemption prior to maturity and to option and mandatory tender for purchase. Liquidity support is provided by Sun Trust Bank.

In connection with the 2005 Series C Bonds, the City entered into an interest rate swap agreement with a November effective date with Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP) for an initial notional amount of \$45,000,000 amortizing down to zero on October 1, 2021. Under the terms of this swap, the City would pay GSMMDP the BMA Municipal Sway Index Rate on certain payment dates and, in return, GSMMDP would pay the City 77.14% of one month's LIBOR.

**GAINESVILLE REGIONAL UTILITIES** |  
SUPPLEMENTAL SCHEDULES

# SCHEDULES OF COMBINED NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

September 30, 2005, 2004, 2003, 2002, 2001

	2005	2004	2003	2002	2001
<b>Revenue</b>					
<b>Electric fund</b>					
Sales of electricity	\$ 174,046,209	\$ 159,117,761	\$ 154,865,704	\$ 147,794,301	\$ 159,398,907
Other electric revenue	2,692,565	2,887,861	2,273,293	2,313,536	2,731,147
Transfers from/(to) rate stabilization	(134,672)	6,451,678	(401,377)	(267,583)	(6,311,744)
Interest/Investment income	2,326,225	4,161,700	4,197,325	4,873,647	5,712,572
<b>Total electric fund revenue</b>	<b>178,930,327</b>	<b>172,619,000</b>	<b>160,934,945</b>	<b>154,713,901</b>	<b>161,530,882</b>
<b>Gas fund</b>					
Gas sales	26,044,659	24,500,658	22,926,678	15,913,737	21,638,160
Other gas revenue (expenses)	(25,177)	(19,825)	(29,329)	29,208	(11,333)
Transfers from/(to) rate stabilization	761,130	(1,130,506)	(1,122,811)	(683,493)	(953,843)
Interest/Investment income	429,646	219,627	408,040	313,548	462,527
<b>Total gas fund revenue</b>	<b>27,210,258</b>	<b>23,569,954</b>	<b>22,182,578</b>	<b>15,573,000</b>	<b>21,135,511</b>
<b>Water fund</b>					
Sales of water	13,826,209	13,998,249	12,533,489	13,350,022	12,879,286
Other water revenue	1,549,635	1,156,849	1,451,087	785,894	1,763,409
Transfers from rate stabilization	1,534,938	3,065,791	2,620,711	3,400,560	1,083,493
Interest/Investment income	279,053	328,649	569,102	696,999	1,265,816
<b>Total water fund revenue</b>	<b>17,189,835</b>	<b>18,549,538</b>	<b>17,174,389</b>	<b>18,233,475</b>	<b>16,992,004</b>
<b>Wastewater fund</b>					
Wastewater billing	17,418,564	16,933,546	15,957,966	16,038,915	15,696,526
Other wastewater revenue	2,351,726	1,512,204	2,055,284	1,218,747	2,413,499
Transfers from rate stabilization	1,816,821	3,362,600	3,252,677	5,089,796	1,893,022
Interest/Investment income	555,058	471,352	824,618	1,019,672	1,732,733
<b>Total wastewater fund revenue</b>	<b>22,142,169</b>	<b>22,279,702</b>	<b>22,090,545</b>	<b>23,367,130</b>	<b>21,735,780</b>
<b>GRUCom fund</b>					
Sales to customers	8,565,405	8,081,031	8,009,457	6,943,275	5,150,833
Transfers to rate stabilization	(5,391)	(688,811)	(543,194)	(435,905)	(138,900)
Interest/Investment income	79,455	90,022	31,100	21,187	183,160
<b>Total GRUCom fund revenue</b>	<b>8,639,469</b>	<b>7,482,242</b>	<b>7,497,363</b>	<b>6,528,557</b>	<b>5,195,093</b>
<b>Total revenue</b>	<b>\$254,112,058</b>	<b>\$244,500,436</b>	<b>\$229,879,820</b>	<b>\$218,416,063</b>	<b>\$226,589,270</b>

Continued on next page.

**SCHEDULES OF COMBINED NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION**

September 30, 2005; 2004, 2003, 2002, 2001

	2005	2004	2003	2002	2001
<b>Operation, maintenance and administrative</b>					
<b>Electric fund</b>					
Fuel expense	\$ 89,398,658	\$ 76,259,729	\$ 69,667,757	\$ 60,010,484	\$ 67,450,729
Operation and maintenance	30,539,416	32,132,279	26,532,262	23,739,551	23,256,589
Administrative and general	12,320,230	11,466,706	10,202,723	12,305,262	10,480,361
<b>Total electric fund expense</b>	<b>132,258,304</b>	<b>119,858,714</b>	<b>106,402,742</b>	<b>96,055,297</b>	<b>101,187,679</b>
<b>Gas fund</b>					
Fuel expense	16,881,895	14,593,903	12,950,876	7,926,883	13,658,209
Operation and maintenance	1,388,368	1,166,824	1,184,334	572,690	483,139
Administrative and general	3,107,252	2,919,393	2,775,614	2,871,282	2,829,406
<b>Total gas fund expense</b>	<b>21,377,515</b>	<b>18,680,120</b>	<b>16,910,824</b>	<b>11,370,855</b>	<b>16,970,754</b>
<b>Water fund</b>					
Operation and maintenance	5,497,667	5,235,332	4,784,731	4,361,166	4,693,510
Administrative and general	3,590,193	3,688,337	3,248,742	3,447,597	2,407,524
<b>Total water fund expense</b>	<b>9,087,860</b>	<b>8,923,669</b>	<b>8,033,473</b>	<b>7,808,763</b>	<b>7,101,034</b>
<b>Wastewater fund</b>					
Operation and maintenance	6,174,582	5,842,395	5,778,075	5,167,674	5,441,505
Administrative and general	4,212,466	4,224,198	3,658,970	3,933,172	2,827,428
<b>Total wastewater fund expense</b>	<b>10,387,048</b>	<b>10,066,593</b>	<b>9,437,045</b>	<b>9,100,846</b>	<b>8,268,933</b>
<b>GRUCom fund</b>					
Operation and maintenance	2,365,838	2,321,615	2,618,525	2,377,170	2,033,441
Administrative and general	2,142,330	1,651,046	1,286,735	1,240,869	742,638
<b>Total GRUCom fund expense</b>	<b>4,508,168</b>	<b>3,972,661</b>	<b>3,905,260</b>	<b>3,618,039</b>	<b>2,776,079</b>
<b>Total operation, maintenance and administrative</b>	<b>177,618,895</b>	<b>161,501,757</b>	<b>144,689,344</b>	<b>127,953,800</b>	<b>136,304,479</b>
<b>Net revenue in accordance with bond resolution</b>					
Electric	46,672,023	52,760,286	54,532,203	58,658,604	60,343,203
Gas	5,832,743	4,889,834	5,271,754	4,202,145	4,164,757
Water	8,101,975	9,625,869	9,140,916	10,424,712	9,890,970
Wastewater	11,755,121	12,213,109	12,653,500	14,266,284	13,466,847
GRUCom	4,131,301	3,509,581	3,592,103	2,910,518	2,419,014
<b>Total net revenue in accordance with bond resolution</b>	<b>\$ 76,493,163</b>	<b>\$ 82,998,679</b>	<b>\$ 85,190,476</b>	<b>\$ 90,462,263</b>	<b>\$ 90,284,791</b>
<b>Aggregate bond debt service</b>	<b>\$ 24,876,978</b>	<b>\$ 26,673,276</b>	<b>\$ 25,502,972</b>	<b>\$ 29,312,587</b>	<b>\$ 29,765,188</b>
<b>Aggregate bond debt service coverage ratio</b>	<b>3.07</b>	<b>3.11</b>	<b>3.34</b>	<b>3.09</b>	<b>3.03</b>
<b>Total debt service</b>	<b>\$ 35,476,481</b>	<b>\$ 33,554,604</b>	<b>\$ 33,704,853</b>	<b>\$ 34,097,931</b>	<b>\$ 37,677,047</b>
<b>Total debt service coverage ratio</b>	<b>2.16</b>	<b>2.47</b>	<b>2.53</b>	<b>2.65</b>	<b>2.40</b>

**SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION**

**ELECTRIC UTILITY FUND**

September 30, 2005 and 2004

REVENUE	2005	2004
<b>Sales of electricity</b>		
Residential sales	\$ 47,696,845	\$ 47,256,059
General service and large power	36,866,017	36,653,483
Fuel adjustment	73,264,660	60,251,088
Street and traffic lighting	3,476,840	3,372,439
Utility surcharge	2,856,803	2,810,511
Sales for resale	6,371,563	5,814,701
Interchange sales	3,513,481	2,959,480
<b>Total sales of electricity</b>	<b>174,046,209</b>	<b>159,117,761</b>
<b>Other electric revenue</b>		
Service charges	1,928,241	1,864,268
Pole rentals	550,542	740,535
Miscellaneous	213,782	283,058
<b>Total other electric revenue</b>	<b>2,692,565</b>	<b>2,887,861</b>
Transfers (to) from rate stabilization	(134,672)	6,451,678
Interest income	2,326,225	4,161,700
<b>Total revenue</b>	<b>178,930,327</b>	<b>172,619,000</b>
 <b>OPERATION, MAINTENANCE AND ADMINISTRATIVE EXPENSE</b>		
<b>Operation and maintenance</b>		
Fuel expense		
Retail and purchased power	86,844,092	74,066,795
Interchange	2,554,566	2,192,934
<b>Total fuel expense</b>	<b>89,398,658</b>	<b>76,259,729</b>
Power production	19,503,775	19,675,195
Transmission	916,712	723,008
Distribution	10,118,929	11,734,075
<b>Total operation and maintenance</b>	<b>119,938,074</b>	<b>108,392,007</b>
<b>Administrative and general</b>		
Customer accounts	3,889,275	3,552,746
Administrative and general	8,430,955	7,913,961
<b>Total administrative and general</b>	<b>12,320,230</b>	<b>11,466,707</b>
<b>Total operation, maintenance and administrative expense</b>	<b>132,258,304</b>	<b>119,858,714</b>
<b>Net revenue in accordance with bond resolution</b>		
Retail	45,713,108	51,993,740
Interchange	958,915	766,546
<b>Total net revenue in accordance with bond resolution</b>	<b>\$ 46,672,023</b>	<b>\$ 52,760,286</b>

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

**GAS UTILITY FUND**

September 30, 2005 and 2004

	2005	2004
<b>REVENUE</b>		
<b>Sales of gas</b>		
Residential	\$ 12,701,421	\$ 12,879,972
Interruptible/commercial	13,075,593	11,399,803
Other sales	267,645	220,883
<b>Total sales of gas</b>	<b>26,044,659</b>	<b>24,500,658</b>
<b>Other gas revenue (expense)</b>	<b>(25,177)</b>	<b>(19,825)</b>
Transfers (to) from rate stabilization	761,130	(1,130,506)
Interest income	429,646	219,627
<b>Total revenue</b>	<b>27,210,258</b>	<b>23,569,954</b>
<b>OPERATION, MAINTENANCE AND ADMINISTRATIVE EXPENSE</b>		
<b>Operation and maintenance</b>		
Fuel expense	16,881,895	14,593,903
Operation and maintenance	1,388,368	1,166,824
<b>Total operation and maintenance</b>	<b>18,270,263</b>	<b>15,760,727</b>
<b>Administrative and general</b>		
Customer accounts	2,058,540	1,925,827
Administrative and general	1,048,712	993,566
<b>Total administrative and general</b>	<b>3,107,252</b>	<b>2,919,393</b>
<b>Total operation, maintenance and administrative expense</b>	<b>21,377,515</b>	<b>18,680,120</b>
<b>Total net revenue in accordance with bond resolution</b>	<b>\$ 5,832,743</b>	<b>\$ 4,889,834</b>

# SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

## WATER UTILITY FUND

September 30, 2005 and 2004

	2005	2004
<b>REVENUE</b>		
<b>Sales of water</b>		
General customers	\$ 10,719,360	\$ 11,079,601
University of Florida	765,828	617,004
Fire protection	1,094,539	1,077,233
Generating stations	48,880	42,422
Utility surcharge	1,197,602	1,181,989
<b>Total sales of water</b>	<b>13,826,209</b>	<b>13,998,249</b>
<b>Other water revenue</b>		
Connection charges	1,430,329	1,081,822
Miscellaneous	119,306	75,027
<b>Total other water revenue</b>	<b>1,549,635</b>	<b>1,156,849</b>
Transfers from rate stabilization	1,534,938	3,065,791
Interest income	279,053	328,649
<b>Total revenue</b>	<b>17,189,835</b>	<b>18,549,538</b>
<b>OPERATION, MAINTENANCE AND ADMINISTRATIVE EXPENSE</b>		
<b>Operation and maintenance</b>		
Source of supply	9,657	9,194
Pumping	1,301,027	1,287,963
Water treatment	2,567,984	2,231,437
Transmission and distribution	1,618,999	1,706,738
<b>Total operation and maintenance</b>	<b>5,497,667</b>	<b>5,235,332</b>
<b>Administrative and general</b>		
Customer accounts	1,070,461	1,103,301
Administrative and general	2,519,732	2,585,036
<b>Total administrative and general</b>	<b>3,590,193</b>	<b>3,688,337</b>
<b>Total operation, maintenance and administrative expense</b>	<b>9,087,860</b>	<b>8,923,669</b>
<b>Total net revenue in accordance with bond resolution</b>	<b>\$ 8,101,975</b>	<b>\$ 9,625,869</b>

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

WASTEWATER UTILITY FUND

September 30, 2005 and 2004

REVENUE	2005	2004
<b>Wastewater billings</b>		
Billings	\$ 15,892,998	\$ 15,567,106
Utility surcharge	1,525,566	1,366,440
<b>Total wastewater billings</b>	<b>17,418,564</b>	<b>16,933,546</b>
<b>Other wastewater revenue</b>		
Connection charges	2,146,578	1,355,706
Miscellaneous	205,148	156,498
<b>Total other wastewater revenue</b>	<b>2,351,726</b>	<b>1,512,204</b>
Transfers from rate stabilization	1,816,821	3,362,600
Interest income	555,058	471,352
<b>Total revenue</b>	<b>22,142,169</b>	<b>22,279,702</b>
<b>OPERATION, MAINTENANCE AND ADMINISTRATIVE EXPENSE</b>		
<b>Operation and maintenance</b>		
Collection	1,388,654	1,481,035
Treatment and pumping	4,785,928	4,361,360
<b>Total operation and maintenance</b>	<b>6,174,582</b>	<b>5,842,395</b>
<b>Administrative and general</b>		
Customer accounts	876,059	867,403
Administrative and general	3,336,407	3,356,795
<b>Total administrative and general</b>	<b>4,212,466</b>	<b>4,224,198</b>
<b>Total operation, maintenance and administrative expense</b>	<b>10,387,048</b>	<b>10,066,593</b>
<b>Total net revenue in accordance with bond resolution</b>	<b>\$ 11,755,121</b>	<b>\$ 12,213,109</b>

SCHEDULES OF NET REVENUES IN ACCORDANCE WITH BOND RESOLUTION

GRUCOM UTILITY FUND

September 30, 2005 and 2004

	2005	2004
<b>REVENUE</b>		
Sales to customers	\$ 8,565,405	\$ 8,081,031
Transfers to rate stabilization	(5,391)	(688,811)
Interest income	79,455	90,022
<b>Total revenue</b>	<b>8,639,469</b>	<b>7,482,242</b>
<b>Operation, maintenance and administrative expense</b>		
Operation and maintenance	2,365,838	2,321,615
<b>Total operation and maintenance</b>	<b>2,365,838</b>	<b>2,321,615</b>
<b>Administrative and general</b>		
Customer accounts	421,979	219,836
Administrative and general	1,720,351	1,431,210
<b>Total administrative and general</b>	<b>2,142,330</b>	<b>1,651,046</b>
<b>Total operation, maintenance and administrative expense</b>	<b>4,508,168</b>	<b>3,972,661</b>
<b>Total net revenue in accordance with bond resolution</b>	<b>\$4,131,301</b>	<b>\$3,509,581</b>

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

- Interest income does not include interest earned on construction funds.
- Operation and maintenance expense does not include depreciation, amortization or interest expense.
- Other water and wastewater revenue include fees for connection, installation, and backflow prevention.
- Transfers to the general fund are excluded.
- Revenue from lease/leaseback transaction is excluded (see Note 14, "Lease/Leaseback").

# COMBINING BALANCE SHEET

September 30, 2005 and 2004

Assets	Electric	Gas	Water	Wastewater	GRUCom	Combined
<b>Current assets</b>						
Cash and cash equivalents	\$ 379,249	\$ 238,714	\$ 16,201	\$ 508,049	\$ 293,715	\$ 1,435,928
Accounts receivable, net	28,922,826	2,780,466	1,700,802	2,170,919	862,182	36,437,195
Prepaid rent, LIFO	10,686,909	-	-	-	-	10,686,909
Fuels contracts	2,702,868	2,141,146	-	-	-	4,844,014
Deferred charges	4,121,996	472,688	77,506	96,919	15,124	4,784,233
Inventories						
Fuel	9,825,661	-	-	-	-	9,825,661
Materials and inventories	5,779,582	417,528	601,941	-	612,137	7,411,188
<b>Total current assets</b>	<b>62,419,091</b>	<b>6,050,542</b>	<b>2,396,450</b>	<b>2,775,887</b>	<b>1,783,158</b>	<b>75,425,128</b>
<b>Restricted assets</b>						
Utility deposits, cash and investments	3,900,543	-	-	-	-	3,900,543
Debt service fund, cash and investments	12,946,654	1,215,926	2,774,454	4,251,851	785,861	21,974,746
Rate stabilization, cash and investments	42,217,677	6,126,569	47,029	784,780	1,807,951	50,984,006
Construction fund, cash and investment	3,824,335	2,098,675	1,725,785	1,749,895	1,167,877	10,566,567
Utility plant improvement fund, cash and investments	18,606,827	4,912,447	448,368	2,353,832	2,783,026	29,104,500
Investment in The Energy Authority	2,251,685	-	-	-	-	2,251,685
Decommission reserve, cash and investments	6,181,620	-	-	-	-	6,181,620
<b>Total restricted assets</b>	<b>89,929,341</b>	<b>14,353,617</b>	<b>4,995,636</b>	<b>9,140,358</b>	<b>6,544,715</b>	<b>124,963,667</b>
Prepaid rent, LIFO	130,024,059	-	-	-	-	130,024,059
Other noncurrent assets	8,807,264	4,921,647	800,067	872,063	123,319	15,524,360
<b>Capital assets</b>						
Utility plant in service	646,124,832	43,491,338	143,777,237	192,737,692	30,925,112	1,057,056,211
Plant unclassified	746,645	253,161	2,409,066	1,636,612	675,183	5,720,667
Less: accumulated depreciation and amortization	278,423,610	22,079,249	52,630,709	69,915,555	11,973,742	435,022,865
<b>Net utility and unclassified plant</b>	<b>368,447,867</b>	<b>21,665,250</b>	<b>93,555,594</b>	<b>124,458,749</b>	<b>19,626,553</b>	<b>627,754,013</b>
Plant held for future use	6,053,926	-	-	-	-	6,053,926
Construction in progress	51,771,098	5,486,896	18,476,734	17,206,236	5,611,771	98,552,735
<b>Net capital assets</b>	<b>426,272,891</b>	<b>27,152,146</b>	<b>112,032,328</b>	<b>141,664,985</b>	<b>25,238,324</b>	<b>732,360,674</b>
<b>Total assets</b>	<b>\$717,452,646</b>	<b>\$52,477,952</b>	<b>\$120,224,481</b>	<b>\$154,453,293</b>	<b>\$33,689,516</b>	<b>\$1,078,297,888</b>

Continued on next page.

## COMBINING BALANCE SHEET

September 30, 2005 and 2004

Liabilities and net assets	Electric	Gas	Water	Wastewater	GRUCom	Combined
<b>Current liabilities</b>						
Fuels payable	\$ 10,819,146	\$ 1,315,777	\$ -	\$ -	\$ -	12,134,923
Accounts payable and accrued liabilities	1,467,074	339,628	477,878	489,796	76,043	2,850,419
Operating lease, LLO	12,461,916	-	-	-	-	12,461,916
Deferred charges	5,069,010	1,486,947	(49,926)	(124,628)	(14,092)	6,367,311
Due to other funds	1,032,402	1,258,242	2,053,055	354,228	57,784	4,755,711
<b>Total current liabilities</b>	<b>30,849,548</b>	<b>4,400,594</b>	<b>2,481,007</b>	<b>719,396</b>	<b>119,735</b>	<b>38,570,280</b>
<b>Payable from restricted assets</b>						
Utility deposits	4,041,439	-	-	-	-	4,041,439
Rate stabilization deferred credit	42,217,677	6,126,569	47,029	784,780	1,807,951	50,984,006
Construction fund: accounts payable and accrued liabilities	1,850,678	125,351	468,485	332,819	100,247	2,877,580
Debt payable, current portion	8,321,195	1,214,928	2,112,259	2,920,618	1,967,750	16,536,750
Accrued interest payable	4,615,859	610,908	1,450,323	1,529,422	204,591	8,411,103
<b>Total payable from restricted assets</b>	<b>61,046,848</b>	<b>8,077,756</b>	<b>4,078,096</b>	<b>5,567,639</b>	<b>4,080,539</b>	<b>82,850,878</b>
<b>Long-term debt</b>						
Utilities system revenue bonds	166,164,973	15,487,726	51,350,597	48,196,904	8,349,800	289,550,000
Subordinated utilities system revenue bonds	34,657,950	12,170,880	6,317,750	15,353,420	-	68,500,000
Commercial paper notes	35,883,914	6,167,765	11,603,959	19,084,377	20,030,485	92,770,500
Unamortized loss on refunding	(17,573,721)	(928,673)	(3,069,374)	(3,076,010)	-	(24,647,778)
Unamortized bond prem/disc	6,139,824	68,864	1,343,844	1,210,435	46,862	8,809,829
<b>Total long-term debt</b>	<b>225,272,940</b>	<b>32,966,562</b>	<b>67,546,776</b>	<b>80,769,126</b>	<b>28,427,147</b>	<b>434,982,551</b>
Operating lease, LLO	151,608,509	-	-	-	-	151,608,509
Other noncurrent liabilities	11,174,644	6,242,594	214,799	488,637	9,905	18,130,579
<b>Total liabilities</b>	<b>479,952,489</b>	<b>51,687,506</b>	<b>74,320,678</b>	<b>87,544,798</b>	<b>32,637,326</b>	<b>726,142,797</b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	199,828,517	(4,557,805)	44,969,615	60,680,513	(3,865,219)	297,055,621
Restricted	33,465,200	5,392,114	1,305,339	4,745,623	3,279,014	48,187,290
Unrestricted	4,206,440	(43,863)	(371,151)	1,482,359	1,638,395	6,912,180
<b>Total net assets</b>	<b>237,500,157</b>	<b>790,446</b>	<b>45,903,803</b>	<b>66,908,495</b>	<b>1,052,190</b>	<b>352,155,091</b>
<b>Total liabilities and net assets</b>	<b>\$717,452,646</b>	<b>\$52,477,952</b>	<b>\$120,224,481</b>	<b>\$154,453,293</b>	<b>\$33,689,516</b>	<b>\$1,078,297,888</b>

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

September 30, 2005 and 2004

	Electric	Gas	Water	Wastewater	GRUCom	Combined
<b>Operating revenue</b>						
Sales and service charges	\$ 174,046,207	\$ 26,044,659	\$ 13,826,209	\$ 17,418,564	\$ 8,565,405	\$ 239,901,044
Transfers from/ (to) rate stabilization	(134,672)	761,130	1,534,938	1,816,821	(5,391)	3,972,826
Other operating revenue	4,466,769	(25,178)	1,549,635	2,351,726	(149)	8,342,803
<b>Total operating revenue</b>	<b>178,378,304</b>	<b>26,780,611</b>	<b>16,910,782</b>	<b>21,587,111</b>	<b>8,559,865</b>	<b>252,216,673</b>
<b>Operating expenses</b>						
Operation and maintenance	119,938,074	18,270,263	5,497,667	6,174,582	2,365,838	152,246,424
Administrative and general	12,320,230	3,107,252	3,590,193	4,212,466	2,142,330	25,372,471
Depreciation and amortization	23,495,403	2,117,994	4,369,222	6,265,931	2,306,247	38,554,797
<b>Total operating expenses</b>	<b>155,753,707</b>	<b>23,495,509</b>	<b>13,457,082</b>	<b>16,652,979</b>	<b>6,814,415</b>	<b>216,173,692</b>
<b>Operating income</b>	<b>22,624,597</b>	<b>3,285,102</b>	<b>3,453,700</b>	<b>4,934,132</b>	<b>1,745,450</b>	<b>36,042,981</b>
<b>Non-operating income/ (expense)</b>						
Interest income	2,644,945	481,270	441,151	689,329	133,052	4,389,747
Interest expense	(10,300,422)	(1,562,395)	(2,986,081)	(3,618,333)	(977,963)	(19,445,194)
Loss on sale of investments	(126,695)	(7,517)	(14,008)	(18,998)	(538)	(167,756)
<b>Total non-operating income (expense)</b>	<b>(7,782,172)</b>	<b>(1,088,642)</b>	<b>(2,558,938)</b>	<b>(2,948,002)</b>	<b>(845,449)</b>	<b>(15,223,203)</b>
<b>Income before contributions and transfers</b>	<b>14,842,425</b>	<b>2,196,460</b>	<b>894,762</b>	<b>1,986,130</b>	<b>900,001</b>	<b>20,819,778</b>
<b>Capital contributions</b>						
Contributions from developers	191,028	-	2,048,041	2,988,267	-	5,227,336
Reduction of plant cost recovered from contributions	(191,028)	-	-	-	-	(191,028)
<b>Net capital contributions</b>	<b>-</b>	<b>-</b>	<b>2,048,041</b>	<b>2,988,267</b>	<b>-</b>	<b>5,036,308</b>
Operating transfer to City of Gainesville general fund	(17,680,627)	(1,280,405)	(3,452,311)	(4,560,163)	(306,138)	(27,279,644)
<b>Change in net assets</b>	<b>(2,838,202)</b>	<b>916,055</b>	<b>(509,508)</b>	<b>414,234</b>	<b>593,863</b>	<b>(1,423,558)</b>
<b>Net assets, beginning of year</b>	<b>240,338,359</b>	<b>(125,609)</b>	<b>46,413,311</b>	<b>66,494,261</b>	<b>458,327</b>	<b>353,578,649</b>
<b>Net assets, end of year</b>	<b>\$237,500,157</b>	<b>\$ 790,446</b>	<b>\$45,903,803</b>	<b>\$66,908,495</b>	<b>\$1,052,190</b>	<b>\$352,155,091</b>

**SCHEDULE OF UTILITY PLANT PROPERTIES – COMBINED UTILITY FUND**

September 30, 2005 and 2004

	Balance September 30, 2004	Additions	Sales, Retirements & Transfers	Balance September 30, 2005
<b>PLANT IN SERVICE</b>				
<b>Electric utility fund</b>				
Production plant	\$ 345,711,967	\$ 7,287,542	\$ 859,327	\$ 352,140,182
Nuclear fuel	7,324,809	779,735	-	8,104,544
Transmission and distribution plant	226,663,660	9,989,959	1,684,103	234,969,516
General and common plant	50,416,108	1,510,845	1,016,363	50,910,590
Plant unclassified	1,985,375	18,329,351	19,568,081	746,645
<b>Total electric utility fund</b>	<b>632,101,919</b>	<b>37,897,432</b>	<b>23,127,874</b>	<b>646,871,477</b>
<b>Gas utility fund</b>				
Distribution plant	35,771,254	1,347,808	-	37,119,062
General plant	1,567,273	228,739	74,371	1,721,641
Plant acquisition adjustment	4,650,635	-	-	4,650,635
Plant unclassified	153,456	1,676,252	1,576,547	253,161
<b>Total gas utility fund</b>	<b>42,142,618</b>	<b>3,252,799</b>	<b>1,650,918</b>	<b>43,744,499</b>
<b>Water utility fund</b>				
Supply, pumping and treatment plant	24,796,288	2,020,777	347,962	26,469,103
Transmission and distribution plant	110,326,885	2,484,448	15,442	112,795,891
General plant	4,393,588	282,680	164,025	4,512,243
Plant unclassified	1,261,108	5,935,863	4,787,905	2,409,066
<b>Total water utility fund</b>	<b>140,777,869</b>	<b>10,723,768</b>	<b>5,315,334</b>	<b>146,186,303</b>
<b>Wastewater utility fund</b>				
Pumping and treatment plant	81,689,152	1,340,398	467,141	82,562,409
Collection plant	97,420,599	2,529,627	83,548	99,866,678
Reclaimed water plant	4,172,492	37,163	7,528	4,202,127
General plant	5,843,746	404,945	142,213	6,106,478
Plant unclassified	1,387,654	4,561,091	4,312,133	1,636,612
<b>Total wastewater utility fund</b>	<b>190,513,643</b>	<b>8,873,224</b>	<b>5,012,563</b>	<b>194,374,304</b>
<b>GRUCom utility fund</b>				
Distribution plant	29,711,601	504,464	-	30,216,065
General plant	684,683	26,206	1,842	709,047
Plant unclassified	390,071	815,782	530,670	675,183
<b>Total GRUCom utility fund</b>	<b>30,786,355</b>	<b>1,346,452</b>	<b>532,512</b>	<b>31,600,295</b>
<b>Total plant in service</b>	<b>\$1,036,322,404</b>	<b>\$62,093,675</b>	<b>\$35,639,201</b>	<b>\$1,062,776,878</b>
<b>Plant held for future use, electric</b>	<b>\$ 6,053,926</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,053,926</b>
<b>Construction in progress</b>				
Electric utility fund	\$ 43,323,067	\$ 27,712,852	\$ 19,264,821	\$ 51,771,098
Gas utility fund	3,603,189	3,559,959	1,676,252	5,486,896
Water utility fund	12,481,650	11,979,802	5,984,718	18,476,734
Wastewater utility fund	9,370,965	12,437,465	4,602,194	17,206,236
GRUCom utility fund	4,182,176	2,245,377	815,782	5,611,771
<b>Total construction in progress</b>	<b>\$ 72,961,047</b>	<b>\$57,935,455</b>	<b>\$32,343,767</b>	<b>\$ 98,552,735</b>

# SCHEDULE OF ACCUMULATED DEPRECIATION AND AMORTIZATION – COMBINED UTILITY FUND

September 30, 2005 and 2004

	Balance September 30, 2004	Additions	Sales, Retirements & Transfers	Balance September 30, 2005
<b>Electric utility fund</b>				
Production plant	\$ 170,182,905	\$ 9,380,740	\$ 859,327	\$ 178,704,318
Nuclear fuel	7,158,372	384,145	-	7,542,517
Transmission and distribution plant	62,383,090	7,121,839	1,684,103	67,820,826
General and common plant	21,546,455	3,537,680	885,366	24,198,769
Plant unclassified	-	157,180	-	157,180
<b>Total electric utility fund</b>	<b>261,270,822</b>	<b>20,581,584</b>	<b>3,428,796</b>	<b>278,423,610</b>
<b>Gas utility fund</b>				
Distribution plant	15,372,810	1,062,184	-	16,434,994
General plant	952,690	89,144	57,246	984,588
Plant acquisition adjustment	4,535,251	115,386	-	4,650,637
Plant unclassified	-	9,030	-	9,030
<b>Total gas utility fund</b>	<b>20,860,751</b>	<b>1,275,744</b>	<b>57,246</b>	<b>22,079,249</b>
<b>Water utility fund</b>				
Supply, pumping and treatment plant	10,193,236	818,873	347,962	10,664,147
Transmission and distribution plant	35,467,403	3,057,995	15,442	38,509,956
General plant	3,323,681	221,362	120,580	3,424,463
Plant unclassified	-	32,143	-	32,143
<b>Total water utility fund</b>	<b>48,984,320</b>	<b>4,130,373</b>	<b>483,984</b>	<b>52,630,709</b>
<b>Wastewater utility fund</b>				
Pumping and treatment plant	28,000,920	2,913,839	467,141	30,447,618
Collection plant	31,485,721	2,670,114	83,548	34,072,287
Reclaimed water plant	397,163	150,916	7,528	540,551
General plant	4,640,163	271,219	103,390	4,807,992
Plant unclassified	-	47,107	-	47,107
<b>Total wastewater utility fund</b>	<b>64,523,967</b>	<b>6,053,195</b>	<b>661,607</b>	<b>69,915,555</b>
<b>GRUCom utility fund</b>				
Distribution plant	9,402,503	2,209,787	-	11,612,290
General plant	285,418	60,073	1,842	343,649
Plant unclassified	-	17,803	-	17,803
<b>Total GRUCom utility fund</b>	<b>9,687,921</b>	<b>2,287,663</b>	<b>1,842</b>	<b>11,973,742</b>
<b>Total</b>	<b>\$405,327,781</b>	<b>\$34,328,559</b>	<b>\$4,633,475</b>	<b>\$435,022,865</b>

## OTHER REPORTS – Independent Certified Public Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of Gainesville Regional Utilities (a department of the City of Gainesville, Florida) as of and for the year ended September 30, 2005, and have issued our report thereon dated November 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gainesville Regional Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion in the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over the financial reporting and its operation that we consider to be material weaknesses.

#### Compliance and Other Matters

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

We noted certain matters that we reported to management of Gainesville Regional Utilities in a separate letter dated November 10, 2005.

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

Orlando, Florida  
November 10, 2005

*Ernst & Young LLP*

## GAINESVILLE CITY COMMISSION

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From left to right:

**RICK BRYANT**  
Commissioner

**JACK DONOVAN**  
Commissioner

**WARREN C. NIELSEN**  
Commissioner

**PEGEN HANRAHAN**  
Mayor

**CRAIG LOWE**  
Commissioner

**CHUCK CHESTNUT**  
Commissioner  
Mayor Pro Tem

**ED BRADY**  
Commissioner



## GRU EXECUTIVE STAFF

---

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Utility Finance  
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Water and Wastewater Systems  
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**KATHY E. VIEHE**  
Director  
Marketing and Communications  
(352) 393-1035

**ALBERT E. WHITE**  
Director  
Community Relations  
(352) 393-1297



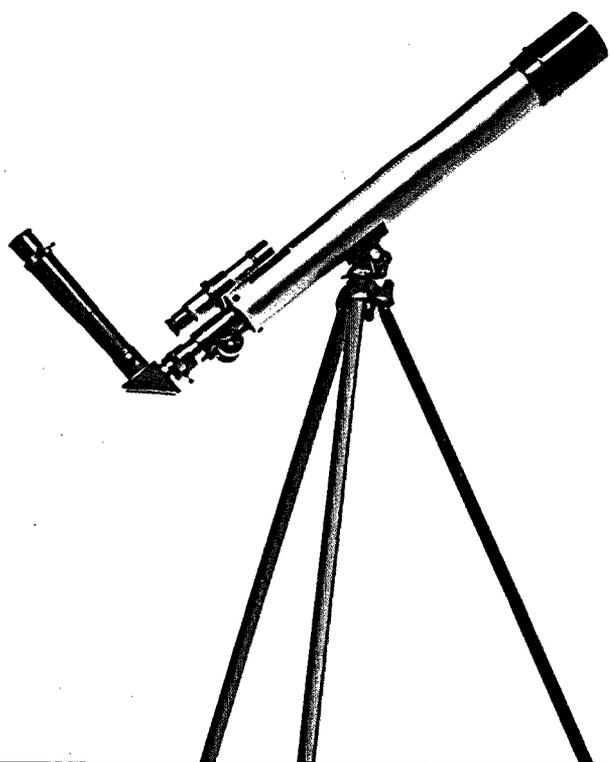
PO Box 147117  
Gainesville, Florida  
32614-7117

(352) 334-3400

[www.gru.com](http://www.gru.com)

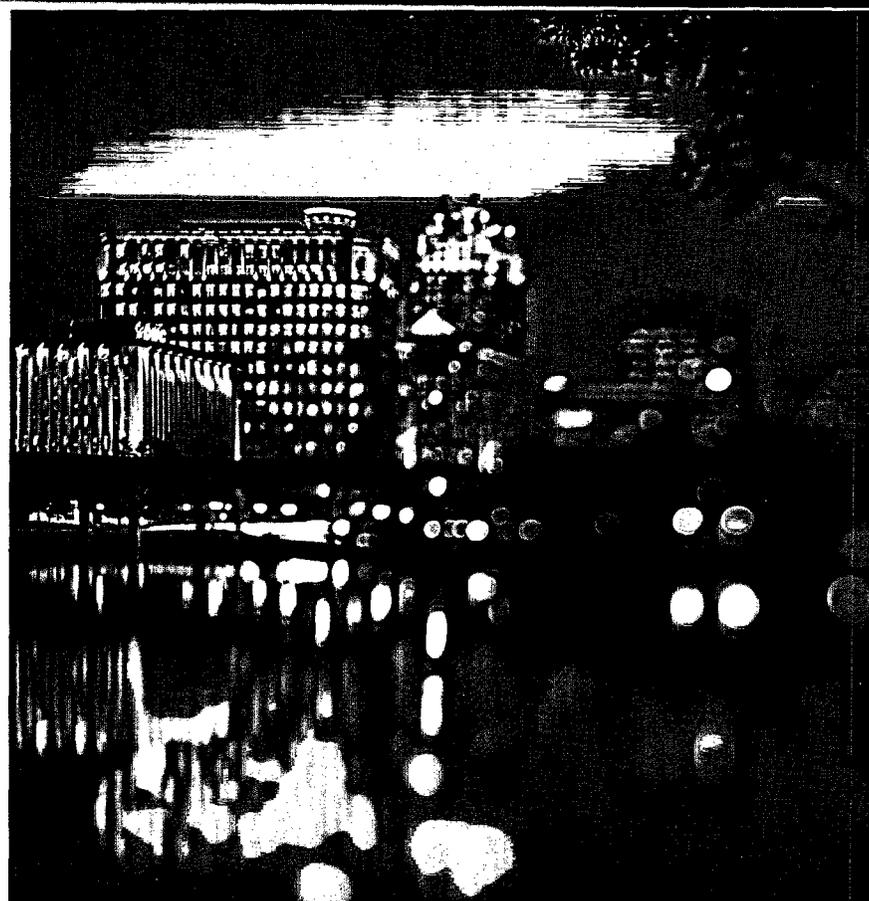
# Vision for the future

Annual Report 2005 | **OUC**   
The Reliable One



# Vision

OJC





OUC will strive for excellence by building upon the character, commitment and teamwork of our employees. OUC will offer a high-quality portfolio of customer-focused utility services, using prudent technological innovation and sound business practices, while maintaining long-term financial stability. OUC will provide leadership in the utility industry and support the Central Florida communities we serve.

Outstanding Performance  
 Unsurpassed Value  
 Customer Commitment

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# Living up to our name now and in the future

## Letter from the General Manager/CEO & Board President

OUC means a lot more than Orlando Utilities Commission. To our customers and stakeholders it means Outstanding performance, Unsurpassed value and Customer commitment. In 2005 we lived up to that tradition of excellence.

**Outstanding performance.** It is not always easy maintaining our position as the most reliable utility in the state of Florida, but we managed to do it again in 2005. In recent comparison data from the Florida Public Service Commission, OUC again topped the state's investor-owned utilities in overall electric reliability and performance.

At the center of this performance is our team of highly motivated employees. Our philosophy is to give our employees the resources, equipment and training necessary to provide superior performance. And they have consistently risen to the occasion year after year. It's no wonder in our recent customer opinion polling that 92% of our customers said we live up to our name, "The *Reliable One*."

**Unsurpassed value.** Superior performance comes at a cost. We realize that value is just as important to our customers and stakeholders as performance.

Maintaining competitive rates and a strong financial position during one of the most volatile fuel markets in recent history was a challenge. We lessened the impact of escalating costs on customers through the use of our stabilization fund; however, we were forced to raise fuel rates late in the year. We also provided additional value to our owners, the citizens of Orlando, by increasing the amount of funds transferred to the City for the year.

Despite all these demands, our rates still remain some of the lowest in the state — providing our customers with the value they have come to expect. In fact, Moody's Investor Service, Standard & Poor's and Fitch Investor Services acknowledged our financial strength when they assigned OUC excellent bond ratings. Moody's reported "the credit rating on OUC's revenue bonds is the highest rated city-owned electric utility in the U.S."

**Customer commitment.** One of the key factors the rating agencies noted was the rapid growth of our service territory and the opportunities for expansion. Orlando is one of the fastest growing cities in the nation — consistently outpacing other cities in new home construction. This surge in development has benefited our two commercial business products — *OUCooling*, our chilled water division, and *OUConvenient Lighting*, our commercial lighting division. Both businesses had outstanding years and are well positioned to meet future customer needs.

Meeting customer needs is a priority at OUC. As the hometown utility provider, our customers expect OUC to provide not only adequate power generation at competitive

rates, but environmental stewardship, as well. To that end, OUC management is focused on developing a long-term generation plan that balances technology, fuel flexibility and environmental stewardship.

With these goals in mind, OUC formally entered a strategic partnership with the Department of Energy and the Southern Company to build a 300 megawatt coal gasification plant at the Stanton Energy Center.

The proposed Integrated Gasification Combined Cycle project allows OUC to efficiently meet base load requirements while demonstrating state-of-the-art environmental technology. The gasifier, which is an add-on to the combined cycle unit, will allow us to switch between natural gas and coal for increased fuel flexibility.

Electric generation is not the only area facing increased customer demands for balancing supply and the environment. The water industry is dealing with a tightening of the Florida potable water supply. As a result, we have joined a consortium of other water utilities in a project that has the potential to produce more than 50 million gallons per day of alternative water supply.

**Planning for the future.** Planning for the future is something that OUC has always done well. In 2005, we took steps to further analyze our business and how to position ourselves to meet future demands through a strategic planning process.

OUC senior management spent months drilling down into every area of the organization to develop our "View of the World." We identified new opportunities and potential threats. We conducted a full evaluation of the way we currently do business and the way we would need to operate to meet the demands of not only the industries in which we operate, but also the communities we serve.

A key component of our strategic planning process was the development of five specific goals for the organization. We call the goals our DREAM for the future. Details of our DREAM are outlined on the following pages of this report.

Most importantly, a good strategic plan needs a mission that every employee can buy into . . . one that is easy to understand . . . one as simple as . . . OUC.

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**Outstanding performance.**

**Unsurpassed value.**

**Customer commitment.**

**It's as simple — and important — as that.**

  
Tommy Boroughs  
Board President

  
Ken Ksionek  
General Manager/CEO



# Performance

## Outstanding



*OUC Lineman Mike Moore competes at the Florida Linemen's Competition in Tallahassee. Each year OUC's linemen compete in numerous training events to keep their skills sharp.*

# Deliver operational excellence for our customers



OUC promises *and* delivers dedicated service and performance. Our results are measured in reliability. So just how reliable are we? See for yourself. For the fourth consecutive year, we ranked best in Florida.

Maintaining our ranking as the most reliable utility in the state is hard work – but we did it again in 2005. In recent data from the Florida Public Service Commission, OUC topped the state's investor-owned utilities in overall electric reliability and performance.

This incredible reliability achievement came after OUC experienced the ferocity of 40 years worth of hurricanes in 50 days. After Hurricanes Charley, Frances and Jeanne damaged OUC's energy delivery system in 2004, the Energy Delivery Business Unit worked tirelessly to restore the system to its pre-storm condition.

Throughout the year, OUC evaluated the electrical system and strengthened it, where possible, to prepare for the future. With more

frequent hurricanes expected in the coming years, planning ahead is critical to the success of OUC's exceptional vision.

Reliability was increased for our customers even more by the completion of two new substations.

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In comparison data, OUC topped the state's investor-owned utilities in overall electric reliability and performance.

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The \$7.5 million Kaley substation was energized on December 5, 2004 and the \$8.5 million Lake Nona substation on March 4, 2005.

For employees in the field, technology is helping make their

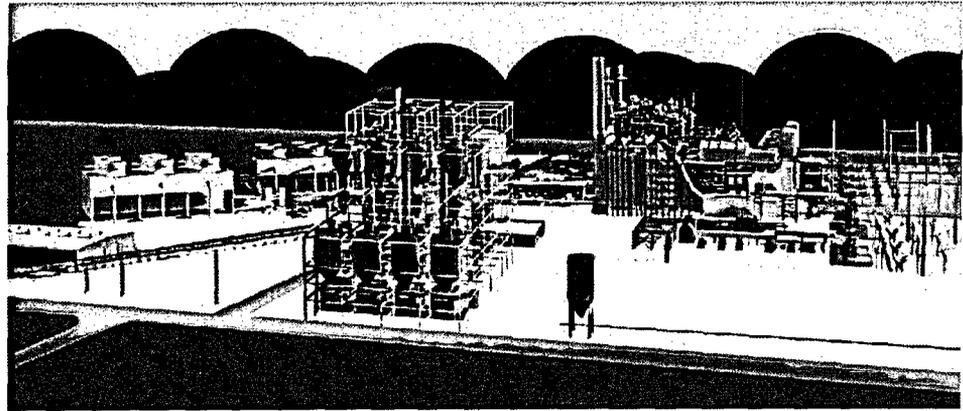
jobs easier. OUC's new mobile dispatching program features laptop computers in all trouble crew trucks. Thanks to this program, details about outages and trouble calls are available at the click of a button. Service dispatchers also can see real-time map displays of where crews are located in the field.

The Energy Delivery Business Unit made internal changes in 2005 with a reorganization that created three new areas, eliminated two and restructured three existing areas with the goal being to create more operational efficiencies.

With an eye toward the future, but with unrelenting focus on the present, OUC worked to ensure our name of "The *Reliable One*" rung true in 2005. ■

# Advanced clean-coal technology comes to OUC

Continued focus on fuel diversity is an essential ingredient to managing costs, protecting the environment.



*This rendering of the Orlando Gasification Project shows that the new facility will be a low-profile addition to the Stanton Energy Center.*

An exciting partnership is bringing the future of clean coal technology to OUC in the form of an innovative plant that already is attracting attention from around the world.

The proposed plant, to be built at the Curtis H. Stanton Energy Center in east Orange County, calls for a \$57 million investment by OUC in the core technology of the Orlando Gasification Project (OGP). The bulk of the plant's expense is covered by a \$235 million grant from the U.S. Department of Energy (DOE) and the rest by Atlanta-based Southern Company, the nation's second-largest power producer.

OUC also will pay for more traditional equipment: about

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This combined-cycle facility gives OUC tremendous ability to provide future rate stability for customers by burning whichever fuel is most economical at the time — coal or natural gas.

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\$13 million for coal cars and \$235 million to build a combined-cycle generating plant, which will be capable of meeting base load demand and can be operated without the gasifier.

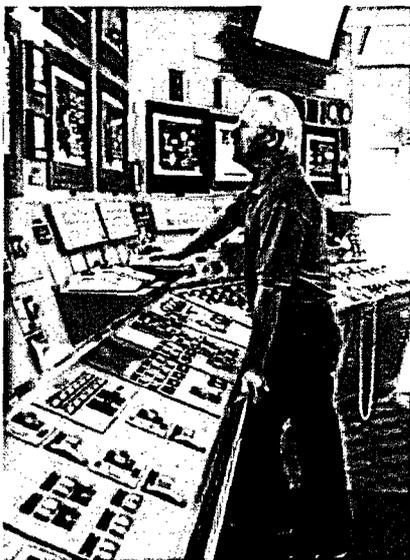
The combined-cycle plant, together with the OGP, will make up an integrated gasification combined-cycle facility. This combined-cycle facility gives OUC tremendous ability to provide future rate

stability for customers by burning whichever fuel is most economical at the time — coal or natural gas.

As Hurricane Katrina showed, just one hurricane or disaster can cripple the availability of a fuel source. At OUC, promoting fuel diversity is a main component of our approach to power generation. Maintaining a mixture of fuel sources helps us better manage any supply disruptions.

By splitting costs with Southern Company — and with the grant from the DOE — OUC's financial risks are limited, while the potential benefits are enormous.

The new plant will generate enough power to light about 30,000 homes and will serve as a global demonstration model for the viability of



*Control Center Operator Denny Denson monitors fuel flow to the boiler on Stanton Energy Center Unit 2.*

air-blown coal-gasification technology.

The OGP will be housed as part of a low-profile facility located between the existing coal-fired units and natural gas-fired combined-cycle unit. Once all permits and approvals have been

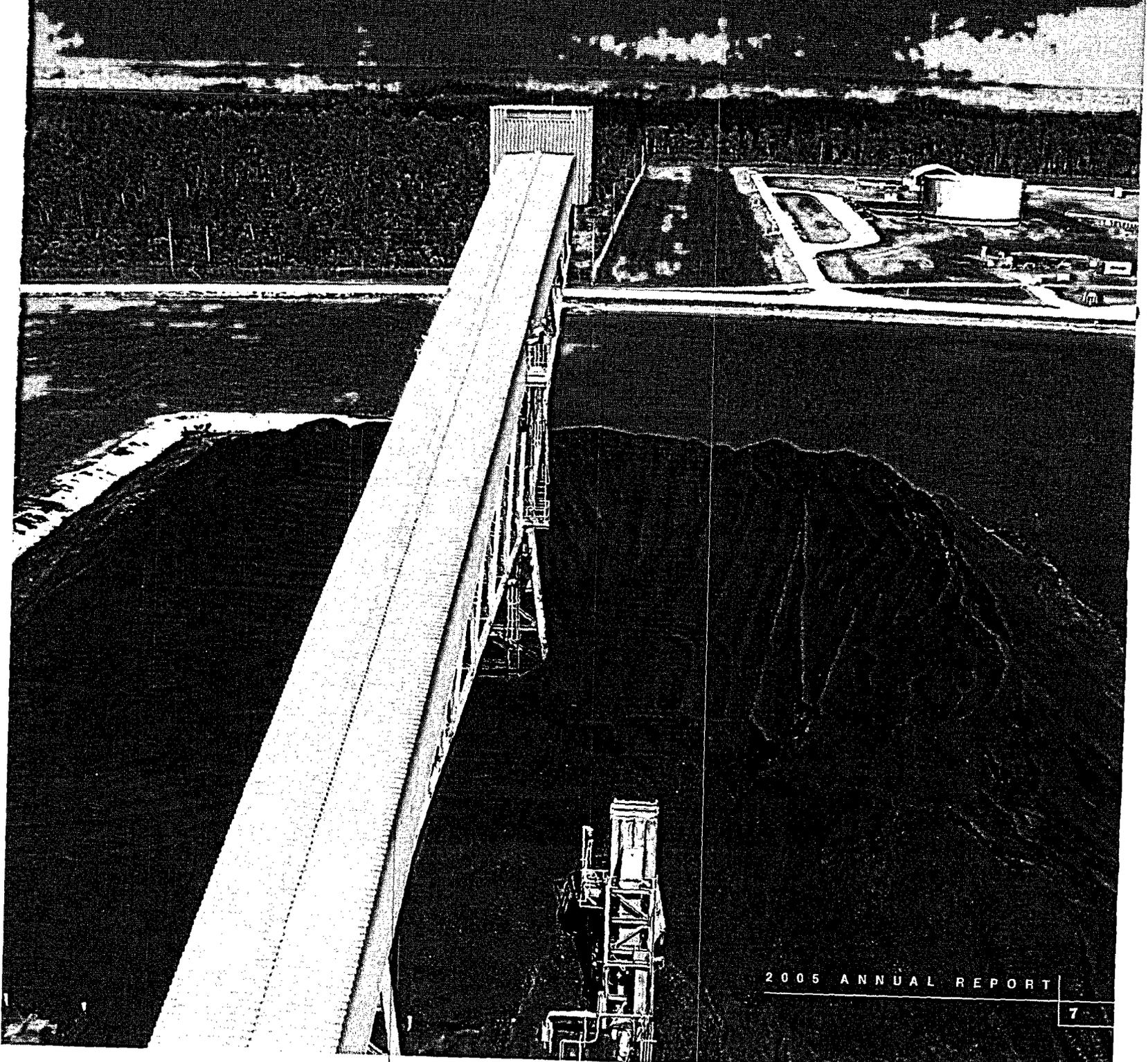
obtained, construction likely would begin in late 2007. Operation of the combined cycle is planned for June 2010, and operation of the OGP is scheduled for January 2011.

The technology is important, because coal

is a key part of the U.S. domestic fuel mix and a critical factor in the country's push to become more energy independent.

Successful deployment of this new coal-gasification technology will serve as an example of how to help alleviate

America's dependence on foreign sources of energy while minimizing any effect on the environment through the use of advanced emission control technologies.



# Water future takes center stage

OUC leads the way in alternative water supply issues while continuing to produce great-tasting drinking water.

After securing a historic 20-year renewal of its consumptive-use permit (CUP) in 2004, OUC spent much of 2005 working with our partners to make progress on the CUP requirements for generating new alternative water supplies.

An agreement with Orange County and the St. Johns River and South Florida Water Management Districts calls for OUC to develop at least five million gallons a day (mgd) of alternative water

OUC is committed to promoting water conservation while also pursuing innovative alternative water supply opportunities that benefit our community.

In October, the OUC Board voted to approve participation in a preliminary design study and environmental information document for the St. Johns River/Taylor Creek River Water Supply Project. The project has the potential to produce more than 50 mgd of treated surface water for the region and reduce demand on the Floridan Aquifer.

OUC is committed to promoting water conservation while also pursuing innovative alternative water supply opportunities that benefit our community.

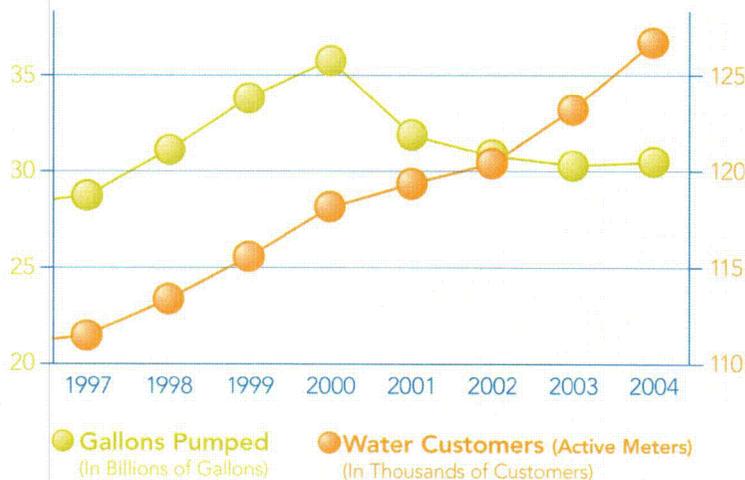
Another study, begun in early 2005 with OUC and the City of Orlando, analyzed all of the options surrounding a possible consolidation of the City and OUC's water operations.

Following months of detailed analysis, the nationally recognized consulting firm of CH2M Hill recommended against a merger of OUC's water service and the City's wastewater service. The study found that OUC's water and the City's wastewater operations were dissimilar. However, both organizations were found to be very efficient and well run.

The minimal potential benefits did not outweigh the considerable challenges and risks of a merger. Indeed, the study found that in the best-case scenario, savings might have reached only one percent of the utilities' combined operating budgets. Mergers generally must offer a minimum of seven to eight percent savings even to be considered.

A high level of cooperation between OUC and the City marked the evaluation process. As recommended by the consultants, the OUC and City of Orlando staff who participated in the study will continue working closely together in the

Water Pumped vs. Active Meters



supply to supplement current and future groundwater withdrawals. The agreement calls for construction of alternative water supply facilities to be completed by 2013.

future to identify opportunities to increase efficiency and reduce costs.

Throughout the year, OUC's water operations continued to produce our signature high-quality, great-tasting tap water proudly dubbed H<sub>2</sub>OUC. The safety of our drinking water is OUC's highest priority, which is why we

were proud that the OUC Water Quality Laboratory continued to receive National Environmental Accreditation Conference Certification. The program is administered through the Florida Department of Health.

OUC's staff performs about 20,000 chemical and bacteriological tests

annually to ensure the quality and safety of OUC's drinking water. In addition to testing, OUC remains vigilant in monitoring and protecting water facilities with multi-level security procedures and intrusion-detection systems.

Thanks to the ozone treatment process at our

eight water treatment plants, the odorous hydrogen sulfide is removed from the water and the amount of chlorine that must be added is reduced. The result is fresh-tasting water with a sparkling appearance.



# Rally a team of exceptional and progressive employees

## OUC employees excel in time of crisis and are quick to lend a helping hand

Though Hurricanes Wilma and Katrina mostly spared Central Florida, OUC worked to assist others in need.

Unlike Central Florida's historic triple-hurricane season of 2004, this year OUC's service territory dodged a direct hurricane strike. Despite that good fortune, Central Florida did not escape the effects of Hurricanes Katrina and Wilma.

Hurricane Katrina crippled the production and delivery of natural gas in the Gulf of Mexico and hampered delivery of gasoline and diesel fuel. OUC joined statewide calls for customers to conserve energy and implemented measures to lower demand and maximize the use of available fuels.

Through the fast response of our employees, OUC maintained the generating capacity to meet the needs of our customers thanks to the fuel diversity OUC uses to produce electricity. However, we also recognized the energy needs around the state and encouraged

OUC assisted power and water restoration efforts in communities that were among the hardest hit by Hurricane Katrina.

voluntary conservation in many ways, including darkening the company sign at the top of OUC's downtown building to visually remind customers to conserve.

OUC assisted power and water restoration efforts in communities that were among the hardest hit by Hurricane Katrina. On September 9, OUC water specialists traveled to Hattiesburg, Mississippi, to assist with drinking water restoration near the Gulf Coast. A few days later, electric crews departed for Gulfport, Mississippi, on September 11 to help their rebuilding efforts.

At home, during the month of September,

OUC employees, retirees and contract workers contributed more than \$23,000 to the American Red Cross and United Way Hurricane Katrina Relief Funds. With a dollar-for-dollar match from OUC, the total relief contributions topped \$46,000.

Almost two months after Hurricane Katrina, OUC was ready when Hurricane Wilma's outer edges blew through our service area October 24.

Less than 24 hours after completing its own Wilma repairs, OUC sent a convoy of crews, trucks and equipment to Key West to assist with power restoration. After finishing restoration work in Key West, the crews headed north to Lake Worth and began working to restore power to the community of 26,000 south of West Palm Beach.

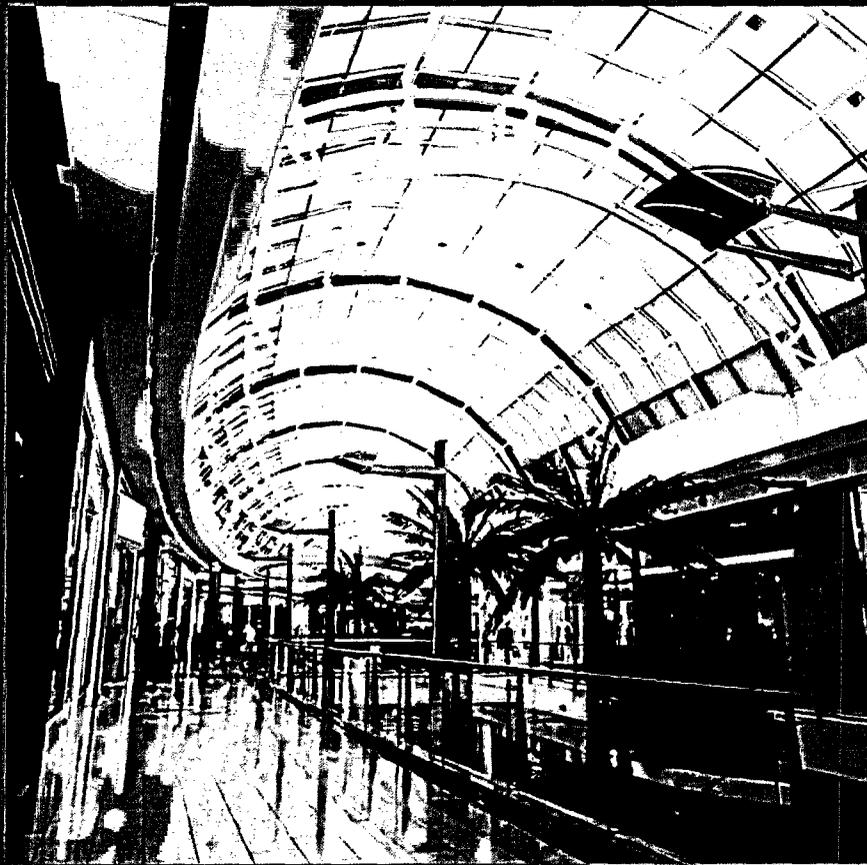


OUC General Manager and CEO Ken Ksionek (right) thanks water employee James Wirtz and the rest of the OUC water crews for volunteering to travel to the Gulf Coast to assist with restoration efforts after Hurricane Katrina.



# Value

# Unsurpassed



*The Mall at Millenia is one of the largest customers of our innovative QUCooling program.*

## Ensure long-term competitiveness



The true value of an organization is measured by more than just dollars and cents. At OUC, we offer insightful business programs, enduring financial strength and a sincere concern for our customers. That's why the value of what OUC offers is unsurpassed.

When customers hear the name "The *Reliable One*," they think of OUC's outstanding record of electric and water service. But being "The *Reliable One*" also describes OUC's approach to the financial side of maintaining the second-largest public utility in the state of Florida.

Whether planning capital project expenditures, refinancing debt or managing assets, OUC's financial team repeatedly has shown that it makes valuable decisions for both the near- and long-term interests of our customers.

In 2005, the bond rating agencies again bestowed some of their highest rankings on OUC – naming us among the best-run companies in America.

Both Standard & Poor's and Fitch gave OUC an AA rating — the

highest grade Fitch gives utilities. Moody's rated OUC Aa1.

Fitch Investors Services called OUC one of its highest rated public power utilities due to our competitively priced rates, and efficient and diversified power supply portfolio.

Because of OUC's strong financial standing, we were in position to help the City of Orlando partially address its budget shortfall this past year. Thanks to our history of sound fiscal decisions, OUC was able to increase our payment to the City for the 2005-2006 fiscal year.

We did so while maintaining our excellent reliability and without

impacting customer rates. OUC's payments are deposited into the City's general fund, which is used to support parks and recreation facilities, public works and police and fire protection.

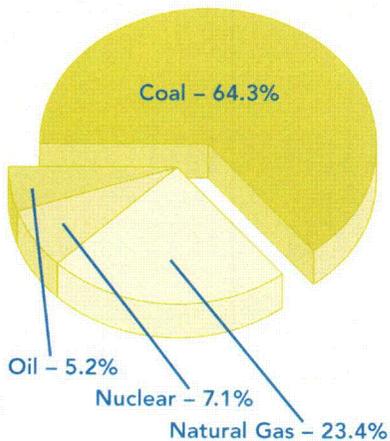
The Environmental Division's excellent financial and operational planning also produced valuable results for OUC in 2005. All of the Stanton Energy Center power plants met their permit limits, and we commissioned the use of storm water from the Orange County landfill as an alternative water source at Stanton. Over the years, OUC's longstanding commitment to the environment has led us to invest more than \$200 million in state-of-the-art environmental protection equipment at Stanton to safeguard the air, water and quality of life in Central Florida.

# The impact of rising fuel prices

The diversity of OUC's fuel supply is a crucial advantage for customers, as is practicing energy conservation.

## OUC's Diverse Fuel Mix

(Figures Based on Generation)



From Central Florida to New England to the West Coast, rising fuel costs strained business and citizen budgets across the country this past year. As prices rose steadily, many utilities were forced to raise fuel charges to compensate for increasing costs.

OUC was no exception, as forecasts show a projected \$79.5 million increase in fuel-related costs for the 2006 calendar year. Thanks in large part to OUC's fuel diversification, we consistently have made smaller and less frequent fuel charge increases than other utilities. As it is for many utilities, the price of fuel is a "pass-through" cost that generates no income for OUC.

Additionally, OUC's mix of resources for generating electricity is a benefit to customers in that we are not as vulnerable to upswings in price in one type of fuel. This fuel diversity is a critical advantage for OUC and our customers.

As prices continue to increase, energy conservation is often the

best way to help defray added costs. OUC already has a tiered conservation rate structure in place to reward customers who use less energy with lower charges per kilowatt hour. OUC emphasizes year-round energy conservation by publicizing conservation tips on our Web site, through bill inserts, customer newsletters,

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OUC's mix of resources for generating electricity is a benefit to customers.

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and radio and television advertising.

We strengthened our program to include presentations at neighborhood meetings and greater community education on this topic. OUC also offers a variety of programs for customers who want to make their homes more energy efficient. Customers can take a free online home energy audit; request a

DVD or video full of conservation information; or request a free in-home survey to identify areas with the greatest potential for energy savings and then apply for rebates through several cost-saving energy-efficiency rebate programs.

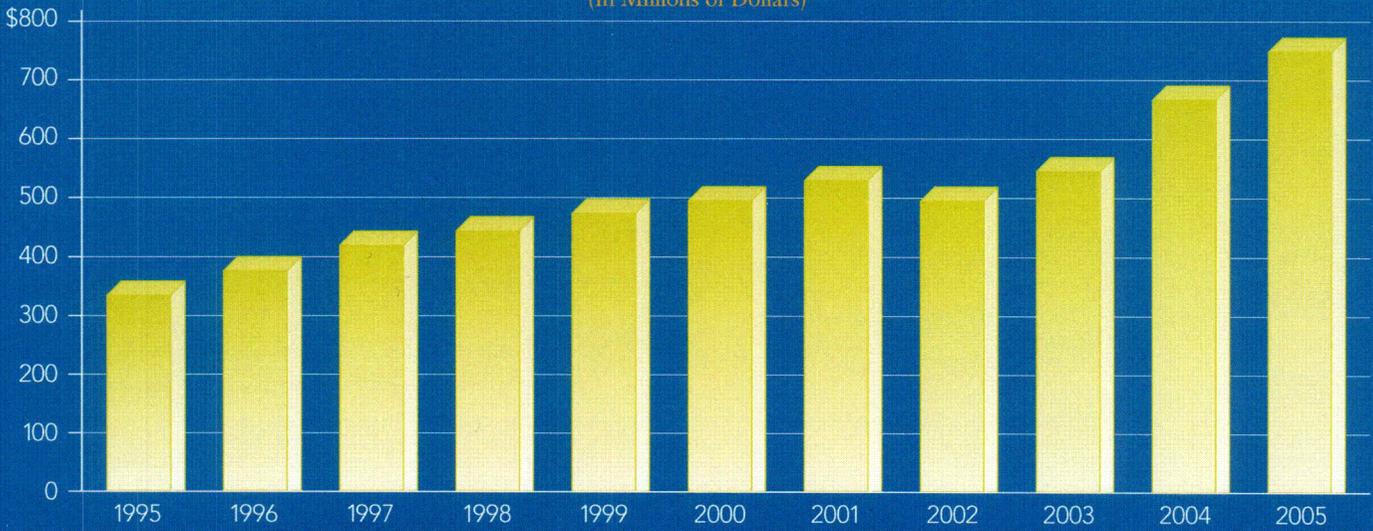
For customers experiencing financial difficulties paying their bills, OUC's Project CARE provides emergency assistance. Since its inception in 1994, Project CARE has raised more than \$800,000 and helped thousands of customers in Orange and Osceola counties.

OUC also is proud to work with 2-1-1 Community Resources, a local gateway to more than 3,800 social programs and services. As a leader in the Central Florida community, OUC knows how valuable these programs are during difficult financial times. Regular announcements about Project CARE are distributed in customer bills, newsletters and online at [www.ouc.com](http://www.ouc.com).

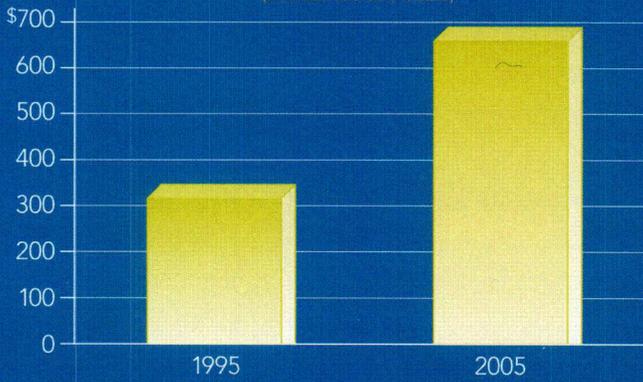


OUC Energy Auditor Sam Welch talks to a customer about conserving energy and water.

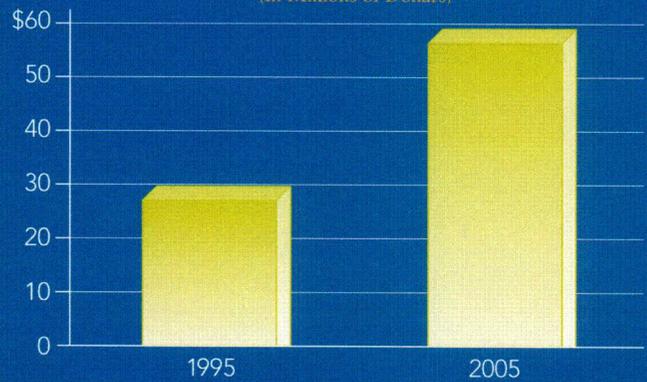
## Total Operating Revenues (In Millions of Dollars)



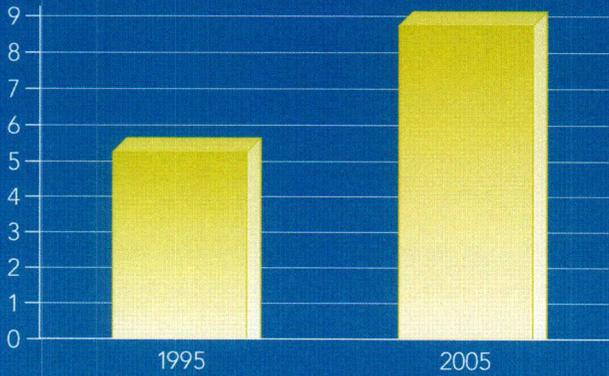
## Total Electric Sales (In Millions of Dollars)



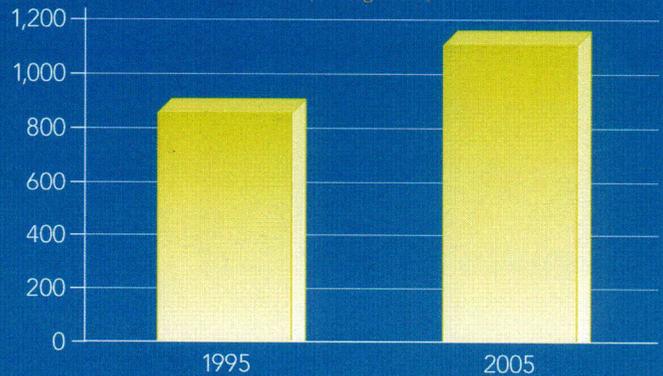
## Total Water Sales (In Millions of Dollars)



## Total MWH Available for Sale (In Millions of MWH)



## Gross Peak Demand Instantaneous (In Megawatts)



COG

# OUCooling heats up in downtown Orlando

Thanks to continued record growth, OUC's innovative chilled-water business expanded operations in downtown Orlando, and elsewhere, this year.



*OUCooling*, our chilled-water division, maintained its rapid growth rate, thanks largely to the expanding customer base in downtown Orlando. Construction in downtown is ongoing — as one new high rise is finished, work begins on the next. For example, the Sanctuary Downtown, a new 18-story, 667,000 square-foot commercial

central chilled water facility. By outsourcing these services to OUC, property owners guarantee the reliability of chilled water.

With *OUCooling*, all of the equipment used to cool water for air-conditioning systems is housed in centralized facilities. There, water is cooled to 37 degrees and piped to participating buildings before returning

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With *OUCooling*, all of the equipment used to cool water for air conditioning systems is housed in centralized facilities.

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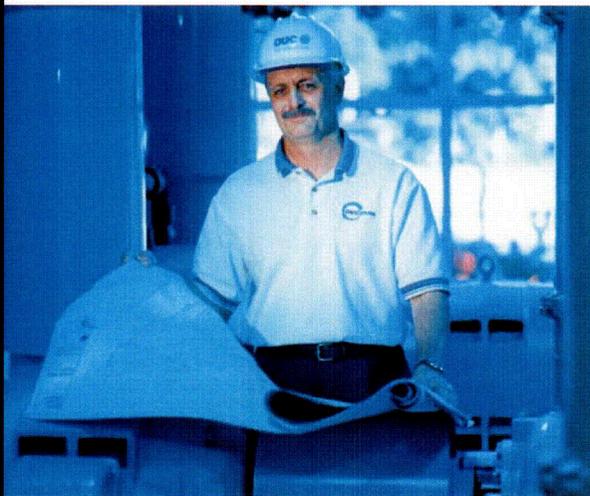
and residential tower, opened its doors to residents in 2005.

*OUCooling* provides the air conditioning needs for residents and substantial cost savings for the developer.

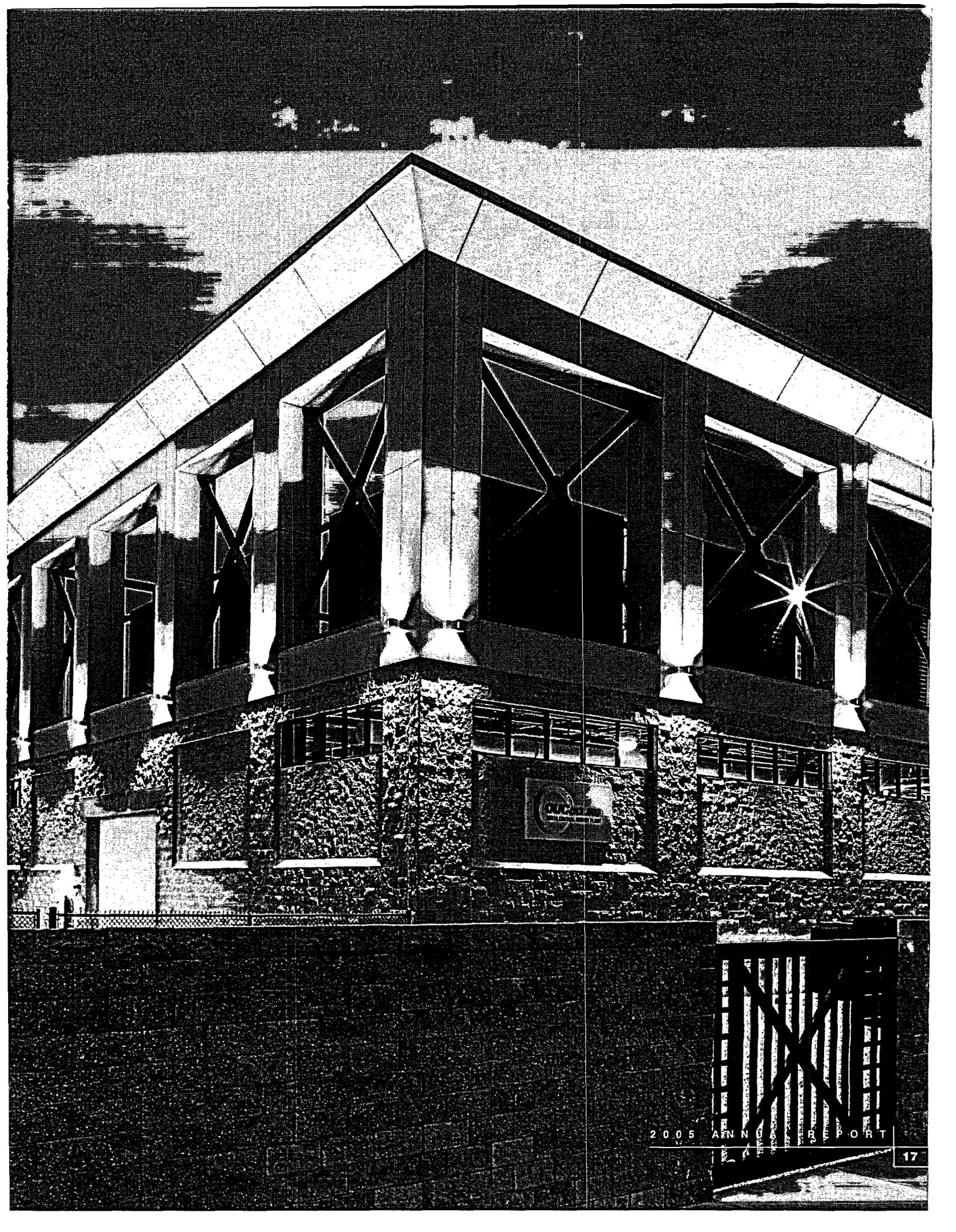
Instead of a condo association billing residents and maintaining its own on-site cooling system, *OUCooling* bills residents for their individual usage and operates the system at a

to the chiller plant at 52 degrees to repeat the cycle.

OUC's new North Central water chiller plant kicked into operation in late 2004. At its future full capacity, the new facility — larger than the first downtown *OUCooling* plant — will supply 12,000 tons of chilled water in its delivery loop and will open up more of downtown to OUC's valuable service.



Keith Rice, Director of OUCooling, stands among pipes that distribute chilled water to OUC's downtown Orlando customers. The innovative business is known throughout Central Florida as a great resource for builders and developers.



# The Central Florida night skyline is brighter than ever

One look is all it takes to see how quickly  
OUConvenient Lighting grew its business during the past year.



In 2005, OUConvenient Lighting sold more than 4,200 new fixtures to customers across Central Florida. The business has been so successful — with more than 9,700 fixtures installed in the past three years and many more scheduled for installation — that it seems like every new Central Florida lighting project is an OUC job.

fixture/pole groupings to produce the desired blend of style and function.

After the record-setting hurricane season of 2004, OUC launched a new business venture aimed at keeping businesses running should an extended power outage occur.

Although OUC is “The *Reliable One*,” we cannot control all of Mother Nature’s forces

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OUConvenient Lighting works with commercial partners to plan, install and maintain customized streetlights.

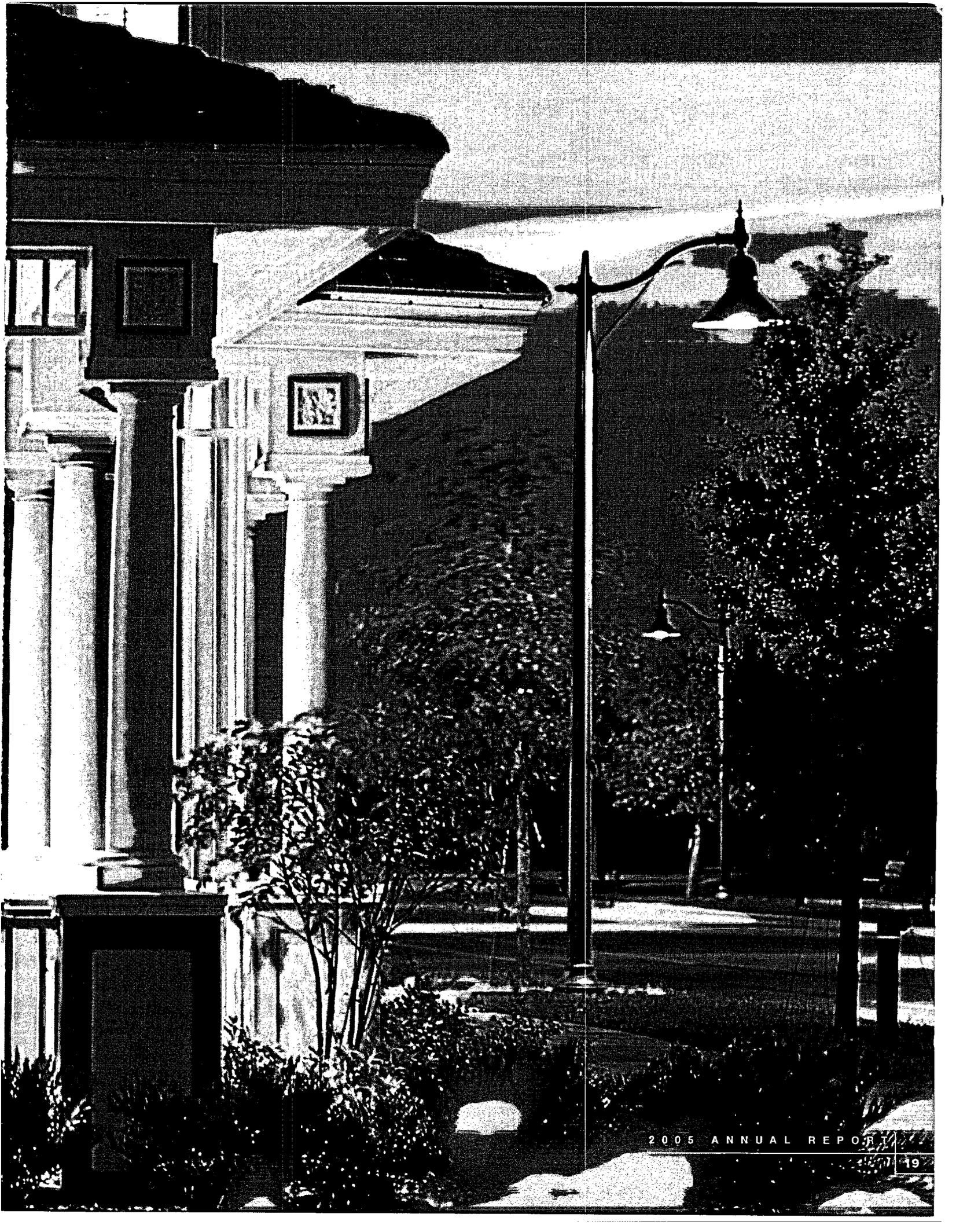
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From new home communities to apartment complexes to industrial park projects, OUConvenient Lighting works with commercial partners to plan, install and maintain streetlights for various types of developments. To ensure solutions that work for individual customers, customized service packages are available that combine dozens of

when it strikes our system. Therefore, we began offering Backup Generation service to customers as an extra protection against unpredictable events. Power-related downtime is inconvenient, and it can cause scheduling problems, lost productivity and revenue, and damage to valuable business reputations.



For developers, choosing OUConvenient Lighting continued to be a cost-effective decision in 2005.



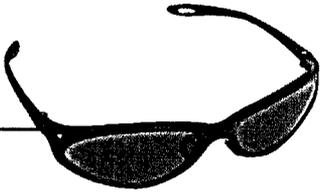
# Commitment

## Customer



*OUC Customer Service Representative Lizvette Melendez offers top-notch service with a smile to customers in St. Cloud.*

## Advance community and industry relationships



At OUC, commitment to our customers is integral to our vision. Here, success is measured in smiles — the brighter, the better. For decades, our helpful and innovative service has generated happy, satisfied customers.

At OUC, building good relationships with our customers is at the heart of what we do. We live up to being “The *Reliable One*” by being a customer-focused utility and providing exceptional services. Whether in person, over the phone or online, making contact with OUC has never been faster or easier.

OUC regularly surveys customers and holds focus groups to measure satisfaction and ensure that we are meeting those high expectations. A 2005 customer opinion survey found that 92 percent of respondents identify us as “The *Reliable One*.”

Customers also responded to changes in how we process outage calls. The quicker response times, especially during busy periods,

resulted in satisfaction jumping 18 percent for first-call resolution.

OUC is planning changes to our automated call response program to improve customers’ ability to get the

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A 2005 customer opinion survey found that 92 percent of respondents identify us as “The *Reliable One*.”

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information they need quickly. New selection menus, easier navigation, the ability to complete certain tasks that currently require a Customer Service Representative and more information options will highlight the system’s new features.

Providing convenient paying options prompted OUC to partner with participating 7-Eleven stores in Orange and Osceola counties. Customers can now pay their bills at Vcom® self-service kiosks. Vcom service offers bi-lingual, 24-hour customer assistance and the ability to conduct multiple transactions at once.

Even easier, customers can pay their bills from anywhere, at anytime, through OUC’s Web site. With our new eCheck payment system, the amount due is deducted directly from a customer’s checking account. This secure payment option represents another way OUC is working to connect with customers in the method most convenient to them. ■

# Community involvement highlights active year

Across Central Florida, OUC has been a community leader . . . from partnering with the University of Central Florida to hosting neighborhood hurricane preparedness meetings.

Throughout the year — in ways big and small — OUC and our employee volunteers have worked to be a positive influence in the lives of our customers.

OUC-sponsored events included the second annual OUC Downtown Orlando Triathlon, the OUC Half Marathon & 5K and the OUC Junior Achievement Bowl-A-Thon. Employees from across OUC participated in these events and numerous others throughout the year, demonstrating a strong commitment to community and family.

As part of our focus on science education, OUC partnered with the Florida Interactive Entertainment Academy at the University of Central Florida. This digital media project is the latest collaboration for OUC and UCF in a long-standing partnership.

This latest OUC-UCF venture took shape in late

2005 when OUC asked students to develop a new character or characters to represent OUC's community and educational outreach programs and to build the character(s) into a 30-second animation. The teams received feedback from OUC's marketing professionals, and one

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OUC worked with the cities of Orlando and St. Cloud to host neighborhood hurricane preparation meetings.

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idea was selected for development into a 30-second Jumbotron animation that will be shown at the Citrus Bowl during home UCF football and bowl games.

OUC has been a major sponsor of UCF athletics and academics for more than 10 years. And in 2005, UCF alumni and OUC Director of Human Resources German Romero was awarded

UCF's Community Service Award.

In another partnership, OUC worked with the cities of Orlando and St. Cloud this spring to host neighborhood meetings throughout our service area to discuss hurricane preparation. In May and June, OUC hosted 18 meetings in Orlando, St. Cloud and Orange County, including one Spanish-only presentation.

Along with presenters from the City of Orlando, the meetings featured information on emergency response, storm water, trees and other safety issues. Local NBC affiliate WESH 2 participated by sending meteorologists to discuss weather patterns and what to expect in the hurricane season.

OUC publicized the meetings in radio, television and print ads, as well as through [www.ouc.com](http://www.ouc.com) and targeted postcard mailings to nearby customers.

## BY THE NUMBERS

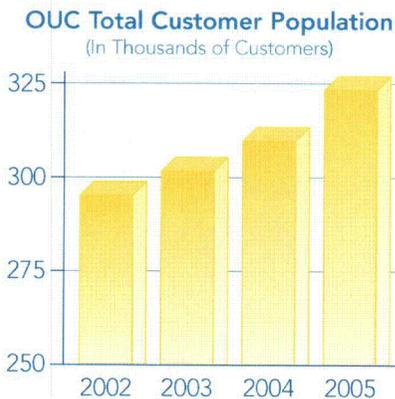
OUC and its employees contributed more than **\$213,700** to various charities and community endeavors in 2005, including more than **\$46,000** to the Hurricane Katrina Relief Funds. Since 1993, OUC employees have donated more than **55,000 hours** to 180 community organizations.



# Manage our business with actionable information

## Important changes **begin for OUC**

New Customer Information System and relocated service center offer examples of how OUC is meeting head on the challenges of the future.



OUC's current Customer Information System (CIS) has been in use for many years and helps us deliver high quality customer service, provide accurate billing services and maintain historical perspectives for each customer.

To keep up with technological advances, a team of employees has been working to ensure a seamless transition to a new, more sophisticated system. The new PeopleSoft Enterprise Revenue Management system (PS/ERM) will provide the framework and necessary functionality — integrated with robust business processes — to improve OUC's ability to truly "know" our customers and best meet their needs.

PS/ERM will provide a comprehensive view of all aspects of a customer account, including

access to demographic information, financial billing information, historical payment trends, services rendered and other important transactional details. Additional features will provide trending analysis, proactive notifications of

**In 2006, OUC will work with an owner's representative, real estate expert and architect to evaluate options for our downtown headquarters:**

special customer events, revenue protection algorithms and more.

Planning for future customer needs and our ability to provide a high level of customer focus is at the forefront as we face the challenges of moving our corporate headquarters and main customer service center.

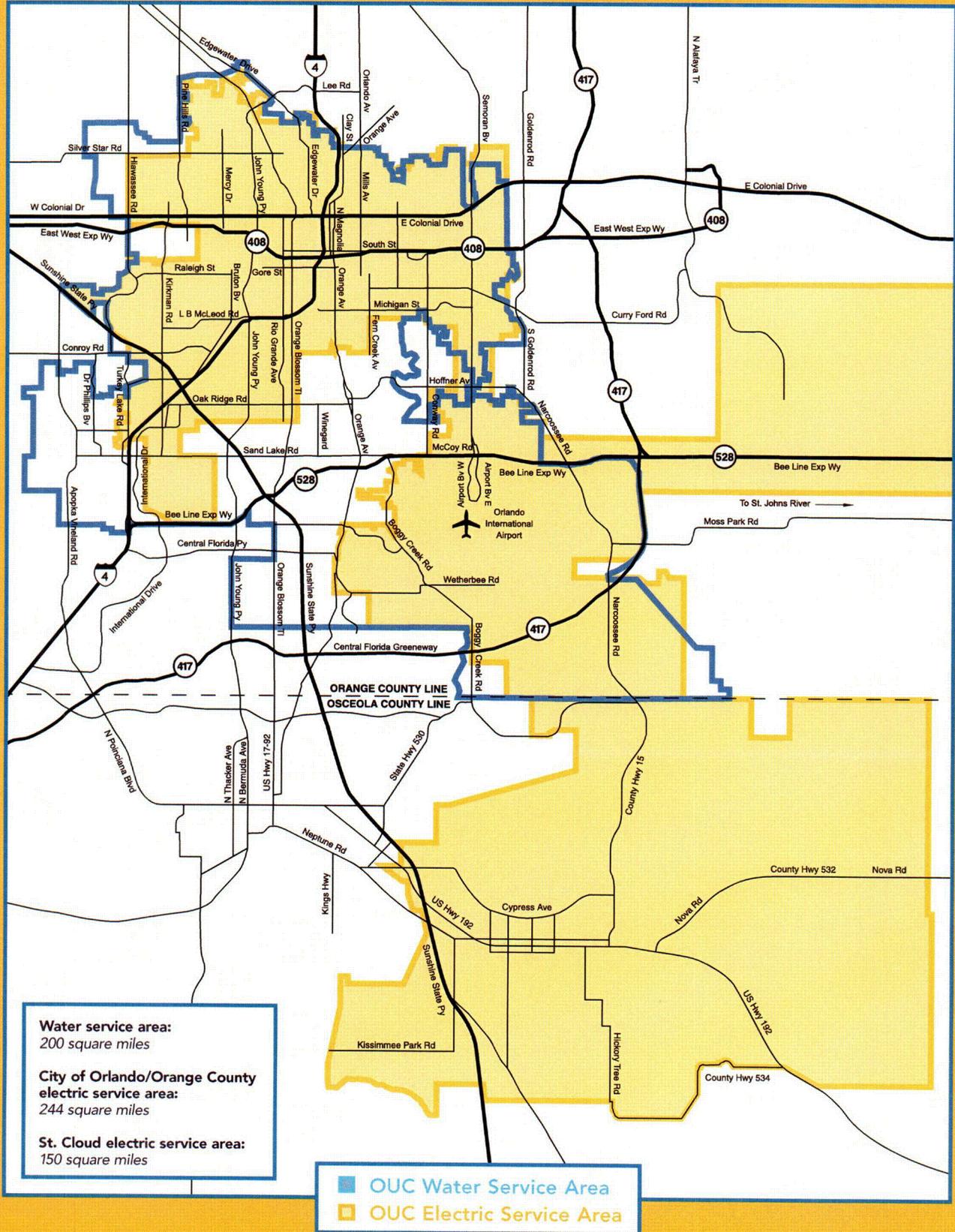
The move is necessitated by the Florida Department of Transportation's (FDOT) plans to build a new high-speed interchange for Interstate 4 and the 408 Expressway on land occupied by OUC's existing Administration Building parking garage. In 2006, OUC will work with an owner's representative, real estate expert and architect to evaluate options for our downtown headquarters: renovate the existing Administration Building with a new parking garage, build a new facility, purchase part of a building with a third party or move into an existing building.

Through embracing change — be it in location or technology — OUC ensures our vision for the future is always on the right track.



The historic OUC Administration Building has been a landmark in downtown Orlando for more than 40 years.

# OUC service territory



# Commissioners

## Charting the course

At OUC, the strength of our local governing board lies in its connections to Central Florida. Known as the Commission, OUC's governing board is comprised of five citizens who live in our service area, have deep roots in the

community and represent the diversity of our customer base.

That means each board member has a strong inherent desire to ensure the enduring success of OUC. Their exceptional vision is what guides them when making

important, well-informed decisions about rates and policies.

All Commissioners, with the exception of the mayor of Orlando (an ex officio member), can serve up to two consecutive four-year terms. They serve without compensation.



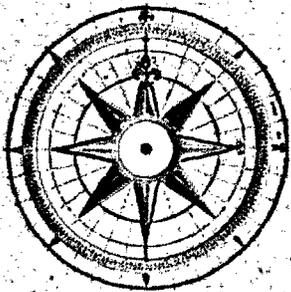
Tommy Boroughs, Esq.  
President



Lonnie C. Bell  
First Vice President



Katie Porta  
Second Vice President



Tico Perez, Esq.  
Immediate Past President



Buddy Dyer  
City of Orlando Mayor/  
Commissioner

# Senior management

OUC's senior management team boasts experts in an array of fields, including engineering, technology, water production, marketing and finance. Having dedicated themselves to OUC's mission of providing affordable and reliable

utility service, our top managers work for the present and plan for the future.

Thanks to their efforts, OUC is poised to begin work on such innovative projects as a first-of-its-kind coal-gasification facility and a

partnership to increase the use of alternative water supply.

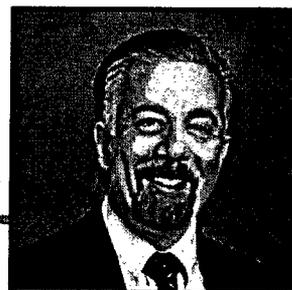
With their experience and combination of talents, the OUC senior management team is perfectly positioned to chart a steady course into the future.



**Ken Ksionek**  
General Manager  
& CEO



**Al Frazier**  
Vice President  
Corporate Services



**Fred Haddad**  
Vice President  
Power Resources  
Business Unit



**Roscann Harrington**  
Vice President  
Marketing, Communications  
& Community Relations



**John Hearn**  
Vice President &  
Chief Financial Officer  
Financial Services



**Byron Knibbs**  
Vice President  
Energy Delivery  
Business Unit



**Greg Rodeghier**  
Vice President  
Information Technology &  
Co-Chief Information Officer



**Doug Spencer**  
Vice President  
OUCustomer Connection



**Thomas Tart**  
Vice President  
& General Counsel



**Tom Washburn**  
Vice President  
Transmission Business Unit  
& Chief Information Officer

# Financial and statistical highlights

	September 30		% Increase (Decrease)
	2005	2004	
<b>Combined Financial Highlights</b> (Dollars in thousands)			
Total operating revenues	\$ 754,260	\$ 673,107	12.1%
Total operating expenses	645,034	574,772	12.2%
Interest and net other income	16,049	25,436	-36.9%
Interest expense	68,551	71,004	-3.5%
Income before contributions	56,724	52,767	7.5%
Dividend payment	34,034	31,660	7.5%
Utility plant, net	1,765,676	1,746,342	1.1%
Total assets	2,547,134	2,545,195	0.1%
Long-term debt, net	1,351,781	1,387,423	-2.6%
Net assets	762,500	725,203	5.1%
Senior bond ratings (1)	AA, Aa1, AA	AA, Aa1, AA	
Debt service coverage:			
Current debt service	2.26	2.24	1.3%

## Electric Financial Highlights

Operating revenues	\$ 700,002	\$ 622,708	12.4%
Fuel and purchased power	373,880	318,558	17.4%
Operating expenses excluding fuel and storm recovery expenses	228,255	199,101	14.6%
Storm recovery expenses	-	5,856	-100.0%

## Water Financial Highlights

Operating revenues	\$ 54,258	\$ 50,399	7.7%
Operating expenses excluding storm recovery expenses	42,899	38,110	12.6%
Storm recovery expenses	-	147	-100.0%

## Electric Statistical Highlights

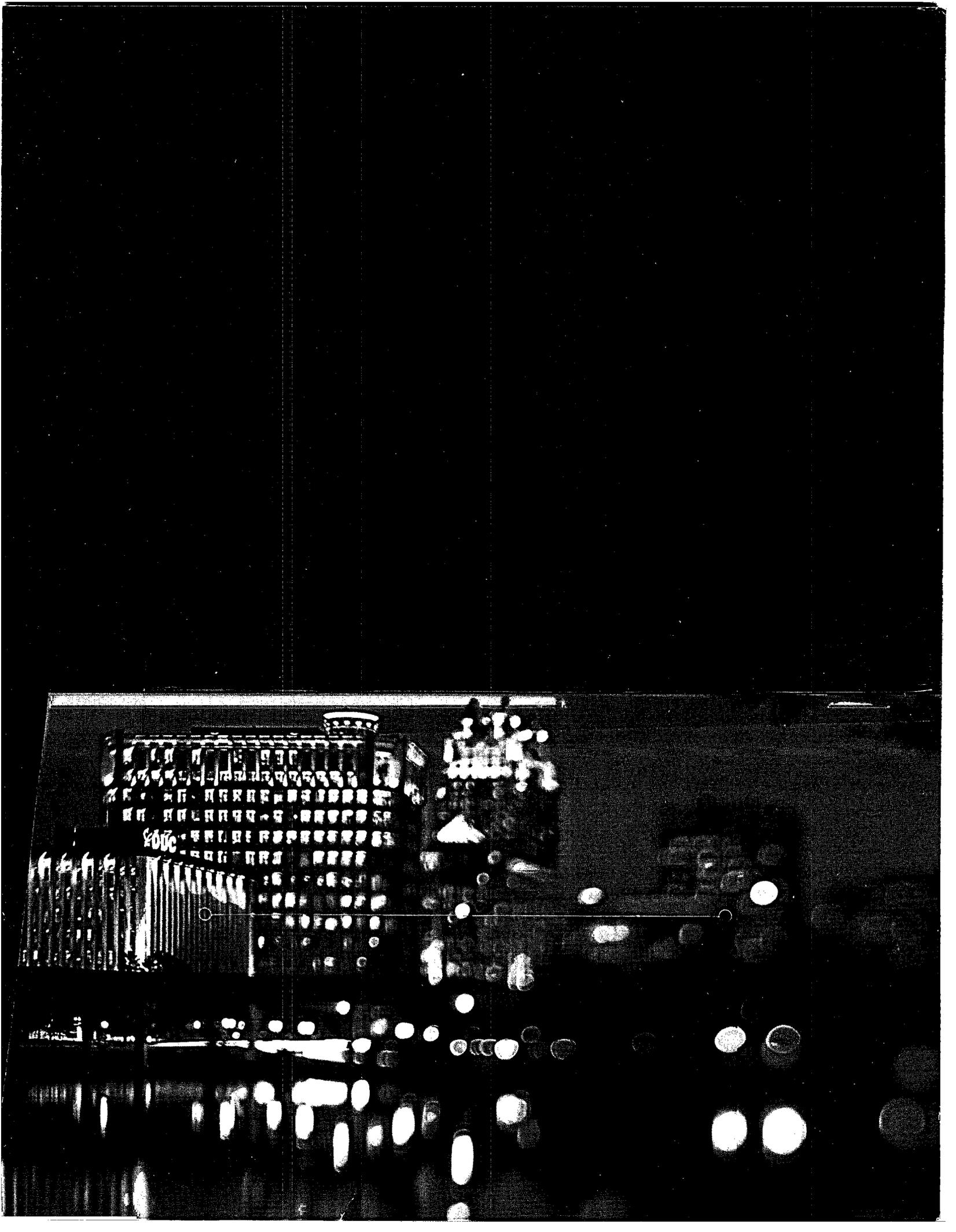
Total sales (MWH)	8,703,050	8,538,879	1.9%
Total retail sales (MWH)	5,350,346	5,162,022	3.6%
Sales for resales (MWH)	3,352,704	3,376,857	-0.7%
Total active services (2)	192,194	183,492	4.7%
Average annual residential use (KWH)	13,058	12,767	2.3%
Average residential revenue per KWH	9.79 ¢	8.99 ¢	8.9%
Heating degree days	501	554	-9.6%
Cooling degree days	3,468	3,416	1.5%
Gross peak demand (MW)	1,141	1,100	3.7%

## Water Statistical Highlights

Total sales (in thousands of gallons)	28,980,351	27,902,339	4.1%
Total active services	130,719	126,712	3.2%
Average annual residential usage (gallons)	140,660	141,199	-0.4%
Average residential revenue per 1000 gallons	\$ 1.87	\$ 1.81	3.6%
Rainfall (inches)	64.20	52.60	22.1%
Peak pumping (million gallons per day)	109	118	-8.1%

1. Bond Rating Agencies: Fitch Investors Service, Inc., Moody's Investors Service and Standard & Poor's, respectively.  
2. Excludes inactive and streetlight services.

For more detailed statistical information, see OUC's Ten-Year Financial & Statistical Information Report.





*The Reliable One*<sup>®</sup>

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