

FINANCIAL STATEMENTS AND  
SUPPLEMENTAL SCHEDULES

Gainesville Regional Utilities  
Years Ended September 30, 2013 and 2012  
With Report of Independent Certified Public Accountants

Ernst & Young LLP



Building a better  
working world

# Gainesville Regional Utilities

## Financial Statements and Supplemental Schedules

Years Ended September 30, 2013 and 2012

### Contents

Report of Independent Certified Public Accountants .....	1
Management’s Discussion and Analysis .....	3
Financial Statements	
Statements of Net Position.....	13
Statements of Revenues, Expenses, and Changes in Net Position .....	15
Statements of Cash Flows.....	16
Notes to Financial Statements.....	18
Supplemental Schedules	
Schedules of Combined Net Revenues in Accordance with Bond Resolution.....	56
Schedules of Net Revenues in Accordance with Bond Resolution –	
Electric Utility Fund .....	58
Water Utility Fund .....	60
Wastewater Utility Fund.....	61
Gas Utility Fund.....	62
GRUCom Utility Fund .....	63
Notes to Schedules of Net Revenues in Accordance with Bond Resolution.....	64
Combining Statement of Net Position .....	65
Combining Statement of Revenues, Expenses, and Changes in Net Position .....	67
Schedule of Utility Plant Properties – Combined Utility Fund .....	68
Schedule of Accumulated Depreciation and Amortization – Combined Utility Fund .....	69
Other Report	
Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	70



Ernst & Young LLP  
Suite 1700  
390 North Orange Avenue  
Orlando, FL 32801-1671

Tel: +1 407 872 6600  
Fax: +1 407 872 6626  
ey.com

## Report of Independent Certified Public Accountants

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Gainesville Regional Utilities (a department of the city of Gainesville, Florida), as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Gainesville Regional Utilities' basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gainesville Regional Utilities at September 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

### ***Basis of Presentation***

As discussed in Note 1 to the financial statements, the financial statements of Gainesville Regional Utilities (the Combined Utility Fund of the City of Gainesville, Florida) are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and each major fund of the

City of Gainesville that is attributable to the transactions of Gainesville Regional Utilities. They do not purport to, and do not, present fairly the financial position of the City of Gainesville, Florida at September 30, 2013 or 2012, and the changes in its financial position or its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

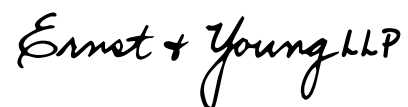
### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Gainesville Regional Utilities' basic financial statements. The accompanying supplementary information included in the supplemental schedules, as 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 supplementary information included in the supplemental schedules, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the accompanying supplementary information included in the supplemental schedules, as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we also have issued our report dated February 20, 2014 on our consideration of the Gainesville Regional Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gainesville Regional Utilities' internal control over financial reporting and compliance.



February 20, 2014

## Management's Discussion and Analysis

The City of Gainesville, Florida (the City) 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, a transmission and distribution system (Electric System), a 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, 2013 and 2012. It should be read in conjunction with the financial statements that follow this section.

### Required Financial Statements

**Statement of Net Position.** This statement, previously titled Balance Sheet, 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 Position.** All of the current year's revenues and expenses are accounted for in this statement. This statement measures the success of the combined utility system's operations over the past year.

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

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

## Management's Discussion and Analysis (continued)

### Financial Analysis of the Combined Utility System

The Combined Utility System net position decreased by \$12.1 million from fiscal year 2012 to fiscal year 2013, and increased \$17.3 million from fiscal year 2011 to fiscal year 2012. Table 1 below focuses on the net position.

**Table 1**  
**Combined Utility System Net Position**

	2013	September 30 2012	2011
	<i>(In Thousands)</i>		
Current assets	\$ 120,775	\$ 117,347	\$ 103,231
Other assets	255,734	317,155	373,375
Capital assets, net	1,207,643	1,202,101	1,171,601
Deferred outflow of resources	39,943	76,433	68,674
Total assets and deferred outflows	1,624,095	1,713,036	1,716,881
Long-term debt outstanding	835,480	948,832	977,326
Current liabilities	41,596	45,609	39,304
Other liabilities	225,426	142,268	152,625
Fair value of derivative instruments	43,750	85,397	74,936
Deferred inflows of resources	28	986	–
Total liabilities and deferred inflows	1,146,280	1,223,092	1,244,191
Net position:			
Net investment in capital assets	299,974	321,371	309,898
Restricted	87,802	84,513	84,472
Unrestricted	90,039	84,060	78,320
Total net position	\$ 477,815	\$ 489,944	\$ 472,690

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

Management's Discussion and Analysis (continued)

**Table 2**  
**Combined Utility System Changes in Net Position**

	<b>2013</b>	<b>September 30</b>	<b>2011</b>
		<b>2012</b>	
	<i>(In Thousands)</i>		
Operating revenues	\$ 348,776	\$ 348,858	\$ 368,471
Interest income	2,118	3,184	3,884
Other income, BABs	5,515	5,766	5,363
Total revenues	<b>356,409</b>	357,808	377,718
Operating expenses	<b>273,601</b>	262,523	272,392
Interest expense, net of AFUDC	<b>41,029</b>	43,454	42,860
Total expenses	<b>314,630</b>	305,977	315,252
Income before contributions and transfers	<b>41,779</b>	51,831	62,466
Capital contributions, net	<b>639</b>	1,428	4,556
Operating transfer to City of Gainesville	<b>(36,656)</b>	(36,005)	(35,233)
Extraordinary item	<b>(17,891)</b>	—	—
Change in net position	<b>(12,129)</b>	17,254	31,789
Net position, beginning of year	<b>489,944</b>	472,690	440,901
Net position, end of year	<b>\$ 477,815</b>	\$ 489,944	\$ 472,690

**Capital Asset and Debt Administration**

**Capital Assets.** GRU's investment in capital assets as of September 30, 2013, amounts to \$1.21 billion (net of accumulated depreciation). This investment in capital assets includes land, generation, transmission and distribution systems, buildings and fixed equipment, and furniture, fixtures and equipment. The net increase in the investment in capital assets (net of accumulated depreciation) for the fiscal years 2013 and 2012 was 0.05% and 2.6%, respectively.

## Management's Discussion and Analysis (continued)

The following table summarizes the System's capital assets, net of accumulated depreciation and changes for the years ended September 30, 2013, 2012, and 2011.

### Combined Utility System Capital Assets (Net of accumulated depreciation)

	<b>September 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<i>(In Thousands)</i>		
Generation	<b>\$ 399,160</b>	\$ 403,654	\$ 345,953
Transmission, distribution, and collection	<b>467,754</b>	451,981	415,865
Treatment	<b>85,037</b>	73,241	54,678
General plant	<b>132,310</b>	134,926	59,996
Construction work in progress	<b>123,382</b>	138,299	295,109
Total net utility plant	<b><u>\$ 1,207,643</u></b>	<u>\$ 1,202,101</u>	<u>\$ 1,171,601</u>

Major capital asset events included the following:

- Electric transmission and distribution expansion was \$15.1 million in fiscal year 2013 and \$15.8 million in fiscal year 2012. For fiscal year 2013, \$4.2 million pertained to underground system improvements.
- Energy Supply capital included an expenditure of \$6.0 million and \$10.3 million for the JR Kelly and Deerhaven plants, respectively, in fiscal year 2013. These expenditures included \$1.7 million for the Deerhaven 2 (DH2) High Temperature Reheater project and \$0.7 million on the DH2 Catalyst replacements. Approximately \$1.2 million was spent to expand the Chilled Water piping in the Innovation Square District.
- Telecommunication fiber cable and electronics expansion was \$4.1 million in fiscal year 2013, which included \$3.4 million in fiber and related infrastructure installation and \$0.7 million in electronics upgrades, compared to \$2.2 million in fiscal year 2012.
- Gas distribution plant was expanded \$3.6 million in fiscal year 2013 compared to \$3.5 million in fiscal year 2012. This included \$1.6 million in gas distribution mains, \$1.1 million in residential gas services, and \$0.5 million in meter change outs.
- In fiscal year 2013, GRU's capital share in the Crystal River Unit 3 (CR3) nuclear power plant was impaired and written off in the amount of \$20.7 million, net of \$2.8 million from insurance proceeds. This was in response to the announcement in February 2013 by Progress Energy Florida, a subsidiary of Duke Energy, that the plant would not be operable and would be permanently closed.



## Management's Discussion and Analysis (continued)

The Utility's fiscal year 2014 capital budget is \$77.2 million and was \$95.2 million in fiscal year 2013. These projects will be funded from a combination of internal equity and debt.

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

**Long-Term Debt.** At September 30, 2013 and 2012, GRU had total long-term debt outstanding of \$975 million and \$1.01 billion, respectively, comprised of revenue bonds and other long-term debt. There were no bond issuances in fiscal year 2013.

### Outstanding Debt

	<b>2013</b>	<b>September 30 2012</b>	<b>2011</b>
	<i>(In Thousands)</i>		
Senior lien revenue bonds	<b>\$ 912,795</b>	\$ 944,695	\$ 963,180
Commercial paper	<b>62,000</b>	62,000	62,000
<b>Total</b>	<b>\$ 974,795</b>	<b>\$ 1,006,695</b>	<b>\$ 1,025,180</b>

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

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

## Management's Discussion and Analysis (continued)

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

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

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

- Operating sales revenue decreased \$1.8 million, or 0.5%, and decreased \$23.5 million, or 6.7%, in fiscal year 2013 and 2012, respectively. The decrease in sales revenue in fiscal year 2013 is the result of lower consumption offset by rate increases implemented in October 2012, along with a decrease in the Seminole sales contract. The decrease in sales revenue in fiscal year 2012 is the result of lower consumption offset by rate increases implemented in October 2011, along with a decrease in fuel costs of approximately \$15.6 million. Fuel costs are passed directly through to our customers, as part of a fuel adjustment charge, which is recorded as revenue.
- Net capital contributions from developers decreased in fiscal year 2013 over fiscal year 2012 by \$0.8 million and decreased in fiscal year 2012 over fiscal year 2011 by \$3.1 million. Although residential new development has remained steady, there was a spike in development of churches, school and commercial offices during fiscal year 2011, which has now returned to prior year levels.
- Year-end fuels payable decreased \$0.5 million, or 8.7%, in fiscal year 2013 and decreased \$2.4 million, or 30.9%, in fiscal year 2012. The decrease in fiscal year 2012 is a result of timing of coal invoices at year-end.
- Gross utility plant in service increased \$13.3 million, or 0.8%, and net capital assets increased \$5.5 million, or 0.5%, in fiscal year 2013. The primary factor in the slow growth in fiscal year 2013 as compared to prior years was a one-time write-off of capital assets associated with the CR3 power plant (see Note 17 for details). In fiscal year 2012, gross utility plant in service increased \$194.2 million, or 13.1%, and net capital assets increased \$30.5 million, or 2.6%, as compared to fiscal year 2011. This is summarized under "Capital Assets" within this Management's Discussion and Analysis and Note 3 of this report.
- Long-term debt decreased \$113.4 million, or 11.9%, in fiscal year 2013 due to the scheduled paydown of principal and reclassification of the 2008B Series bonds of \$90 million to short-term debt due to the expiration of the liquidity facility. Long-term debt decreased \$28.5 million, or 2.9%, in fiscal year 2012 due to the issuance of new debt in August 2012, offset by refunding of 2003A, partial refunding of 2005A, B, and C

## Management's Discussion and Analysis (continued)

series, 2006A and 2008A series, and scheduled paydown of principal and reclassification of the 2008B Series bonds from current debt to long-term debt. See "Long-Term Debt" within this Management's Discussion and Analysis and Note 4 of this report for details.

- The number of customers for electric services increased 0.5%, water and wastewater services increased 0.7%, and gas services increased 0.6% in fiscal year 2013. The number of customers for electric services increased 0.2%, water and wastewater services increased 0.5% and 0.6%, respectively, and gas services increased 0.2% in fiscal year 2012.
- GRU is in the process of remediation efforts at a former manufactured gas plant site. The costs incurred to date total \$27.3 million, and GRU estimates that total project costs will be approximately \$28.0 million. However, to date GRU has recovered \$3.3 million from insurance. After recognizing collection fees paid, a net recovery of \$2.2 million has been realized, which will directly reduce the amount to be recovered through customer billings. GRU has accrued a regulatory asset and liability to account for the cost and cost recovery of the expense, which is being amortized as costs are incurred and customer revenues are received. Further explanation of this activity is presented in Note 13.
- GRU's service territory incurred approximately \$1.1 million of damage to its facilities as a result of Tropical Storm Fay in September 2008. The \$1.1 million in storm-related expenses was accrued as fiscal 2008 activity and reported in current liabilities. Requests for Federal Emergency Management Agency (FEMA) funding were submitted. A receivable of \$1 million, or 87.5%, of expenses was recorded in fiscal year 2008. In March 2012, GRU received the final reimbursement of \$1 million from FEMA.

## Management's Discussion and Analysis (continued)

### **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. Other significant issues include declining consumption, the impact of non-dispatch renewable generation such as solar and wind, and the emergence of other forms of distributed generation.

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.

EPA's Cross State Air Pollution Rule has been stayed pending litigation, which has resulted in reinstatement of the Clean Air Interstate Rule (CAIR). Facilities are currently in place at the Deerhaven and JR Kelly generating stations, which will enable them to comply with these rules at a known cost for operations and reagents. EPA has promulgated the Mercury Air Toxics Rule (MATS). Results of the 2009 operational testing of the new air quality control systems at DH2 showed that performance targets were exceeded.

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

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

On October 1, 2013, GRU implemented a 3.85% increase in the revenue requirement for the water system, a 5.25% increase for the wastewater system, and a 0.85% increase in rates for the gas system. The electric system experienced a 5.6% decrease in the revenue requirement mainly due to electric debt refinancing. To meet increased costs of service, GRU increased residential water connection fees by 2.65% and residential wastewater connection fees by 2.65%.

## Management's Discussion and Analysis (continued)

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

GRU's long-term energy supply strategy is to encourage the maximum cost effective energy conservation and renewable energy in combination with GRU owned generation and economic purchased power while managing potential regulatory requirements. Based on the most recent forecasts, which include the effects of aggressive conservation programs, GRU has adequate reserves of generating capacity to meet forecasted loads plus a reserve margin beyond 2022. This forecast incorporates additional peaking capacity, new population forecasts, and changed economic circumstances.

Additions to the traditional generation capacity include 22.0 megawatts of distributed generation (4.0 MW combined heat and power and 18.0 MW renewable). GRU implemented the first Solar Feed-In-Tariff (FIT) in the United States in 2009, under which solar developers own and install solar systems that feed directly to GRU's grid. The utility purchases the power under a 20-year contract and retains all of the renewable energy credits accrued by the system. The program added up to 4 MW of new solar each year. GRU's FIT program has been a resounding success, receiving national attention and growing the renewable resource side of GRU's supply portfolio. Management bases its forecast of future energy needs upon the population forecast for Gainesville produced annually by the Bureau of Economic and Business Research at the University of Florida.

GRU management, with the approval of the City Commission, has entered into a long-term contract to secure the output from a 100 megawatt biomass fueled power plant. The facility is located on a portion of land leased from GRU's Deerhaven power plant site and is owned by a third party. The plant became commercially operable in December 2013 (see Note 18 for detail). The project is expected to provide a long-term hedge against volatile fossil fuel costs and potential federal and state renewable energy requirements and/or carbon regulations.

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

## Management's Discussion and Analysis (continued)

### **Currently Known Facts or Conditions That May Have a Significant Effect on GRU's Financial Condition or Results of Operations (continued)**

#### **Requests for Information**

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

# Gainesville Regional Utilities

## Statements of Net Position

	September 30	
	2013	2012
<b>Assets</b>		
Current assets:		
Cash and investments	\$ 50,725,104	\$ 32,464,543
Accounts receivable, net of allowance for uncollectible accounts of \$603,883 in 2013 and \$702,743 in 2012	43,404,074	44,100,965
Fuels contracts	3,017,599	3,759,467
Deferred charges	809,137	2,944,549
Inventories:		
Fuel	14,180,029	24,019,055
Materials and supplies	8,639,226	10,058,407
Total current assets	120,775,169	117,346,986
Restricted and internally designated assets:		
Utility deposits – cash and investments	8,314,035	8,067,395
Debt service – cash and investments	45,852,407	52,496,078
Rate stabilization – cash and investments	56,154,695	62,735,370
Construction fund – cash and investments	53,604,848	106,704,641
Utility plant improvement fund – cash and investments	49,243,689	39,096,417
Decommissioning reserve – cash and investments	12,266,072	10,278,134
Total restricted and internally designated assets	225,435,746	279,378,035
Noncurrent assets	30,298,392	37,776,588
Capital assets:		
Utility plant in service	1,687,784,363	1,674,493,431
Less: accumulated depreciation and amortization	603,523,959	610,691,631
	1,084,260,404	1,063,801,800
Construction in progress	123,382,240	138,299,160
Net capital assets	1,207,642,644	1,202,100,960
Total assets	1,584,151,951	1,636,602,569
<b>Deferred outflows of resources</b>		
Accumulated decrease in fair value of hedging derivatives	39,943,039	76,433,187
<b>Total assets and deferred outflows of resources</b>	<b>\$ 1,624,094,990</b>	<b>\$ 1,713,035,756</b>

# Gainesville Regional Utilities

## Statements of Net Position (continued)

	September 30	
	2013	2012
<b>Liabilities</b>		
Current liabilities:		
Fuel payable	\$ 4,853,992	\$ 5,317,975
Accounts payable and accrued liabilities	14,482,444	15,197,662
Deferred credits	19,073,075	20,399,041
Due to other funds of the City	3,186,969	4,693,877
Total current liabilities	41,596,480	45,608,555
Payable from restricted assets:		
Utility deposits	8,314,035	8,067,395
Rate stabilization deferred credit	56,400,072	61,766,734
Construction fund:		
Accounts payable and accrued liabilities	8,948,756	6,702,712
Debt payable – current portion	116,845,000	31,900,000
Accrued interest payable	19,314,336	18,326,542
Total payable from restricted assets	209,822,199	126,763,383
Long-term debt:		
Utilities system revenue bonds	795,950,000	912,794,998
Commercial paper notes	62,000,000	62,000,000
Unamortized loss on refinancing	(33,375,982)	(38,625,322)
Unamortized bond premium/discount	10,905,772	12,662,026
Fair value of derivative instruments	43,749,888	85,396,996
Total long-term debt	879,229,678	1,034,228,698
Other noncurrent liabilities	15,603,072	15,505,161
Total liabilities	1,146,251,429	1,222,105,797
<b>Deferred inflows of resources</b>		
Accumulated increase in fair value of hedging derivatives	28,380	985,750
<b>Net position</b>		
Net investment in capital assets	299,973,946	321,371,187
Restricted	87,802,455	84,512,723
Unrestricted	90,038,780	84,060,299
Total net position	477,815,181	489,944,209
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 1,624,094,990</b>	<b>\$ 1,713,035,756</b>

See accompanying notes.



## Gainesville Regional Utilities

### Statements of Revenues, Expenses, and Changes in Net Position

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
Operating revenue:		
Sales and service charges	\$ 325,905,629	\$ 327,681,055
Transfers from rate stabilization	5,366,661	4,463,986
Other operating revenue	17,503,963	16,712,465
Total operating revenue	348,776,253	348,857,506
Operating expenses:		
Operation and maintenance	168,406,263	169,176,110
Administrative and general	46,059,743	37,964,486
Depreciation and amortization	59,135,363	55,382,057
Total operating expenses	273,601,369	262,522,653
Operating income	75,174,884	86,334,853
Non-operating income (expense):		
Interest income	2,117,935	3,184,630
Interest expense, net of AFUDC	(41,028,880)	(43,454,408)
Other interest related income, BABs	5,515,262	5,766,086
Total non-operating expense	(33,395,683)	(34,503,692)
Income before contributions, transfers, and extraordinary item	41,779,201	51,831,161
Capital contributions:		
Contributions from developers	639,381	1,484,423
Reduction of plant costs recovered through contributions	–	(56,450)
Net capital contributions	639,381	1,427,973
Operating transfer to City of Gainesville General Fund	(36,656,458)	(36,004,958)
Extraordinary item: impairment loss on Crystal River Unit 3	(17,891,152)	–
Change in net position	(12,129,028)	17,254,176
Net position – beginning of year	489,944,209	472,690,033
Net position – end of year	\$ 477,815,181	\$ 489,944,209

*See accompanying notes.*

# Gainesville Regional Utilities

## Statements of Cash Flows

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities</b>		
Cash received from customers	\$ 326,849,160	\$ 331,041,790
Cash payments to suppliers for goods and services	(139,123,670)	(157,513,660)
Cash payments to employees for services	(56,158,951)	(56,469,098)
Cash payments for operating transactions with other funds	(11,186,776)	(10,206,225)
Other operating receipts	22,870,624	21,176,451
Net cash provided by operating activities	143,250,387	128,029,258
<b>Noncapital financing activities</b>		
Transfers to other funds	(36,656,458)	(36,004,958)
Net cash used in noncapital financing activities	(36,656,458)	(36,004,958)
<b>Capital and related financing activities</b>		
Principal repayments and refunding on long-term debt, net	(26,650,658)	(218,077,831)
Interest paid on long-term debt	(41,796,529)	(36,354,756)
Other receipts	279,060	98,274
Proceeds from interest rebate, BABs	5,515,262	5,766,086
Acquisition and construction of fixed assets (including allowance for funds used during construction)	(82,847,259)	(72,079,688)
Proceeds from new debt and commercial paper	-	182,330,000
Cash received for connection charges	3,078,803	2,085,602
Net cash used in capital and related financing activities	(142,421,321)	(136,232,313)
<b>Investing activities</b>		
Interest received	1,177,215	1,887,173
Purchase of investments	(502,902,581)	(653,895,910)
Investment in The Energy Authority	(1,756,622)	(1,437,151)
Distributions from The Energy Authority	2,223,773	1,711,166
Proceeds from investment maturities	525,897,307	732,236,975
Net cash provided by investing activities	24,639,092	80,502,253
Net change in cash and cash equivalents	(11,188,300)	36,294,240
Cash and cash equivalents, beginning of year	53,631,974	17,337,734
Cash and cash equivalents, end of year	\$ 42,443,674	\$ 53,631,974

## Gainesville Regional Utilities

### Statements of Cash Flows (continued)

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	<b>\$ 75,174,884</b>	\$ 86,334,853
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	<b>59,135,363</b>	55,382,047
Increase (decrease) in cash attributable to change in assets and liabilities:		
Receivables	<b>696,891</b>	2,285,991
Prepaid expenses	<b>741,868</b>	(1,867,449)
Inventories	<b>11,258,207</b>	(14,743,993)
Deferred charges	<b>889,952</b>	848,726
Accounts payable and accrued liabilities	<b>1,066,843</b>	(1,031,103)
Due to other funds	<b>(1,506,908)</b>	(88,340)
Utility deposits	<b>246,640</b>	1,074,744
Other liabilities and deferred credits	<b>(4,453,353)</b>	(166,218)
Net cash provided by operating activities	<b><u>\$ 143,250,387</u></b>	<b><u>\$ 128,029,258</u></b>

**Non-cash investing, capital, and financing activities**

Utility plant contributed by developers in aid of construction of \$639,382 and \$1,427,973 in 2013 and 2012, respectively

Impairment loss on Crystal River 3 of \$17,891,152 and \$0 in 2013 and 2012, respectively

*See accompanying notes.*

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2013

### 1. Summary of Significant Accounting Policies

#### Organization

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

#### Basis of Accounting

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

GRU reports net position in the following classifications:

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

- Restricted – This component of net position consists of assets subject to external constraints on their use imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net position consists of assets that do not meet the definition of “restricted” or “net investment in capital assets.”

### Net Position Flow Assumption

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

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

### Use of Estimates

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

### Investments

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Risk Management/Futures and Options Contracts

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

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

In accordance with GASB No. 62, paragraphs 476-500, *Regulated Operations*, GRU defers recognition of fair value change for the ineffective portion of certain derivative instruments. GRU currently has two types of hedging instruments, interest rate swap agreements and commodity futures contracts. Each has been associated with an item that is eligible to be hedged. Of the interest rate swap agreements, three have been determined to be effective, while four have been deemed ineffective. Of the commodity futures contracts, all have been determined to be effective.

At September 30, 2013, deferred outflows of \$39.9 million have been recorded for interest rate swap agreements in accumulated decrease in fair value of hedging derivatives and deferred inflows of \$28,000 have been recorded for gas hedging agreements in accumulated increase in fair value of hedging derivatives. As of September 30, 2012, deferred outflows of \$76.4 million have been recorded for interest rate swap agreements in accumulated decrease in fair value of hedging derivatives and deferred inflows of \$1.0 million have been recorded for gas hedging agreements in accumulated increase in fair value of hedging derivatives on the accompanying statements of net position.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

The information below provides a summary of results based on GRU's risk management activity during fiscal years 2013 and 2012 (in thousands, except MMBTU's).

	<b>Fair Value of Cash Flow Hedges at September 30, 2013</b>	<b>Changes in Fair Value</b>	<b>Deferred Inflows of Resources</b>	<b>Notional Amount (MMBTU's)</b>
Natural gas	\$ 3,018	\$ (741)	\$ (28)	1,230

	<b>Fair Value of Cash Flow Hedges at September 30, 2012</b>	<b>Changes in Fair Value</b>	<b>Deferred Inflows of Resources</b>	<b>Notional Amount (MMBTU's)</b>
Natural gas	\$ 3,759	\$ (1,867)	\$ (985)	3,920

During fiscal years 2013 and 2012, GRU recognized losses of \$0.7 million and \$1.8 million, respectively, as it relates to the gas hedging agreements. During fiscal years 2013 and 2012, GRU recognized a gain of \$5.2 million and a loss of \$8.4 million, respectively, as it relates to the ineffective portion of the interest rate swap agreements. Realized gains and losses related to hedging positions are deferred under the rate-setting policy.

#### **Inventories**

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

#### **Capital Assets**

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### **1. Summary of Significant Accounting Policies (continued)**

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

#### **Depreciation and Nuclear Generating Plant Decommissioning**

Depreciation of utility plant is computed using the straight-line method over estimated service lives ranging from 10 to 80 years. The overall depreciation rate was 3.12% in fiscal years 2013 and 2012, respectively. 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. See Note 17 for discussion of the Crystal River Unit 3 (CR3) impairment, which included write-off of the fuel rods.

#### **Revenue Recognition**

Revenue is recorded as earned. GRU accrues for services rendered but unbilled, which amounted to approximately \$15.6 million and \$15.4 million in fiscal years 2013 and 2012, 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, 2013 and 2012, deferred fuel costs were a liability of \$17.5 million and \$15.2 million, respectively. The deferred fuel balances are reported as part of current deferred credits on the accompanying statements of net position.



# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Transactions With the City

As an enterprise fund of the City, transactions occur between GRU and the City's governmental funds throughout the year in the ordinary course of operations.

Below is a summary of significant transactions:

- Administrative Services – GRU is billed monthly for various administrative and insurance services provided by the City's governmental functions. In fiscal years 2013 and 2012, GRU paid \$2.0 million and \$1.9 million, respectively, for joint services.
- Nonmetered and Metered Service Charges – GRU bills the City's governmental funds on a monthly basis for all nonmetered, metered and other administrative services. In fiscal years 2013 and 2012, GRU billed the City \$5.5 million and \$5.3 million, respectively, for these services.
- Transfers to the General Fund – GRU budgets an annual transfer to the General Fund based on a City Commission approved formula-based amount. For details, see Note 11.

#### Funds in Accordance With Bond Resolutions

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

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

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

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### **1. Summary of Significant Accounting Policies (continued)**

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

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

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

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

### **Operating, Non-operating Revenues**

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

### **Allowance for Funds Used During Construction (AFUDC)**

An allowance for interest on borrowed funds used during construction of \$0.2 million and \$0.4 million in fiscal years 2013 and 2012, respectively, is included in construction in progress and as a reduction of interest expense. These amounts are computed by applying the effective interest rate on the funds borrowed to finance the projects to the monthly balance of projects under construction. The effective interest rate was approximately 4.08% for fiscal years 2013 and 2012.

### **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.

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Cash and Cash Equivalents

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

#### Unamortized Loss on Refinancing

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

#### New Accounting Standards

In 2012, GASB issued Statement No. 65, *Reporting Items Previously Recognized as Assets and Liabilities*, GASB issued Statement No. 67, *Financial Reporting for Pension Plans — an amendment of GASB Statement No. 25* and Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment to GASB Statement No. 27*. Management is currently evaluating the impact of Standards No. 65, 67, and 68 on the presentation of GRU's financial position. Statement No. 65 and No. 67 will be implemented in fiscal year 2014 as required by GASB. Statement No. 68 will be implemented in fiscal year 2015 as required by GASB.

### 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 and purchased power 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. Revenue amounts over- or under-collected are either accrued or deferred at year-end.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **2. Rates and Regulation (continued)**

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

GRU prepares its financial statements in accordance with GASB No. 62, paragraphs 476-500, Regulated Operations, and records various regulatory assets and liabilities. For a government to report under GASB No. 62, its rates must be designed to recover its costs of providing services, and the Utility must be able to collect those rates from customers. If it were determined, whether due to competition or regulatory action, that these standards no longer applied, GRU could be required to write off its regulatory assets and liabilities.

Management believes that GRU currently meets the criteria for continued application of GASB No. 62, but will continue to evaluate significant changes in the regulatory and competitive environment to assess continuing applicability of the criteria.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 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	CWIP/Plant Held for Future Use	
Balance, October 1, 2012	\$ 136,535,736	\$ 633,069,983	\$ 727,494,443	\$ 177,393,269	\$ 138,299,160	\$ 1,812,792,591
Capital additions and transfers	24,143,580	29,345,420	45,425,521	5,947,566	89,945,167	194,807,254
Less: sales, retirements, and transfers	12,751,779	58,843,231	17,048,074	2,928,071	104,862,087	196,433,242
Balance, September 30, 2013	<u>\$ 147,927,537</u>	<u>\$ 603,572,172</u>	<u>\$ 755,871,890</u>	<u>\$ 180,412,764</u>	<u>\$ 123,382,240</u>	<u>\$ 1,811,166,603</u>
Accumulated depreciation, October 1, 2012	\$ 63,293,866	\$ 229,416,390	\$ 275,513,860	\$ 42,467,515	\$ –	\$ 610,691,631
Depreciation expense	3,855,252	15,544,200	24,876,864	8,129,944	–	52,406,260
Less: retirements/ adjustments	4,258,204	40,548,202	12,272,645	2,494,881	–	59,573,932
Accumulated depreciation, September 30, 2013	<u>\$ 62,890,914</u>	<u>\$ 204,412,388</u>	<u>\$ 288,118,079</u>	<u>\$ 48,102,578</u>	<u>\$ –</u>	<u>\$ 603,523,959</u>
Average depreciation rate	<u>2.71%</u>	<u>2.51%</u>	<u>3.35%</u>	<u>4.54%</u>	<u>–</u>	<u>3.12%</u>

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 4. Long-Term Debt

Long-term debt outstanding at September 30, 2013 and 2012, consisted of the following:

	September 30	
	2013	2012
Utilities System Revenue Bonds		
Series 1983 (1983 Bonds) – interest payable semi-annually to October 1, 2014, at a rate of 6.00%	\$ 4,675,000	\$ 4,675,000
1992 Series B (1992B Bonds) – interest payable semi-annually to October 1, 2013, at a rate of 6.50%	4,800,000	9,299,998
2003 Series B (2003B Bonds) – interest payable semi-annually to October 1, 2013, at a rate of 4.40%	920,000	1,800,000
2003 Series C (2003C Bonds) – interest payable semi-annually to October 1, 2013, at a rate of 5.00%	15,765,000	30,780,000
2005 Series A (2005A Bonds) – interest payable semi-annually to October 1, 2036, at rates between 4.75% and 5.00%	13,130,000	13,130,000
2005 Series B (2005B Bonds) – interest payable semi-annually to October 1, 2021, at rates between 5.14% and 5.31% (Federally Taxable)	25,430,000	25,865,000
2005 Series C (2005C Bonds) – interest payable semi-annually to October 1, 2026, interest at variable market rates; 0.07% at September 30, 2013	28,265,000	31,465,000
2006 Series A (2006A Bonds) – interest payable semi-annually to October 1, 2026, interest at variable market rates; 0.06% at September 30, 2013	18,410,000	21,500,000
2007 Series A (2007A Bonds) – interest payable semi-annually to October 1, 2036, interest at variable market rates; 0.07% at September 30, 2013	138,175,000	138,465,000
2008 Series A (2008A Bonds) – interest payable semi-annually to October 1, 2020, at rates between 4.19% and 5.27% (Federally Taxable)	59,905,000	60,340,000
2008 Series B (2008B Bonds) – interest payable semi-annually to October 1, 2038, interest at variable market rates; 0.07% at September 30, 2013	90,000,000	90,000,000
2009 Series A (2009A Bonds) – interest payable semi-annually to October 1, 2015, at rates between 3.37% and 3.59% (Federally Taxable)	12,350,000	16,405,000
2009 Series B (2009B Bonds) – interest payable semi-annually to October 1, 2039, at rates between 3.59% and 5.65% (Federally Taxable)	156,900,000	156,900,000
2010 Series A (2010A Bonds) – interest payable semi-annually to October 1, 2030, at a rate of 5.87% (Federally Taxable)	12,930,000	12,930,000
2010 Series B (2010B Bonds) – interest payable semi-annually to October 1, 2040, at a rate of 6.02% (Federally Taxable)	132,445,000	132,445,000
2010 Series C (2010C Bonds) – interest payable semi-annually to October 1, 2034, at rates between 5.00% and 5.25%	16,365,000	16,365,000
2012 Series A (2012A Bonds) – interest payable semi-annually to October 1, 2028, at rates between 2.50% and 5.00%	81,860,000	81,860,000
2012 Series B (2012B Bonds) – interest payable semi-annually to October 1, 2042, at variable market rates; 0.06% at September 30, 2013	100,470,000	100,470,000
Utilities System Commercial Paper Notes, Series C (Series C Notes), interest at variable market rate; 0.18% at September 30, 2013 (Federally Taxable)	62,000,000	62,000,000
	<b>974,795,000</b>	1,006,694,998
Current portion of long-term debt	(116,845,000)	(31,900,000)
Unamortized loss on refinancing	(33,375,982)	(38,625,322)
Unamortized premium/discount	10,905,772	12,662,026
Total long-term debt	<b>\$ 835,479,790</b>	<b>\$ 948,831,702</b>

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **4. Long-Term Debt (continued)**

For the Electric, Water, Sewer, Gas, and Telecommunication System variable rate demand obligations (VRDO) appearing in the above schedule of outstanding indebtedness support is provided in connection with tenders for purchase with various liquidity providers pursuant to standby bond purchase agreements (SBPA) relating to that series of obligation. The purchase price of the obligations tendered or deemed tendered for purchase is payable solely from the proceeds of the remarketing thereof and moneys drawn under the applicable SBPA. The current stated termination dates of the SBPAs range from March 1, 2014 to December 21, 2015. Each of the SBPA termination dates may be extended. At September 30, 2013, there were no outstanding draws under the SBPAs. The 2007A Bonds are supported by a SBPA that expires on March 1, 2014 which was extended to March 1, 2018 (see Note 18, for further information). The 2008B Bonds which are supported by SBPAs that expire on May 9, 2014, have been reclassified to short-term debt in accordance with GASB Interpretation No. 1.

For the commercial paper notes appearing in the above schedule of outstanding indebtedness, to provide liquidity support, GRU has entered into revolving credit agreements with commercial banks. If moneys are not available to pay the principal of any maturing commercial paper notes during the terms of the credit agreements, GRU is entitled to make a borrowing under the credit agreements. The termination dates of the credit agreements as of September 30, 2013, are September 11, 2014 and November 30, 2015. The credit agreement termination dates may be extended. Taxable Commercial Paper Notes, Series C had outstanding draws of \$62 million as of September 30, 2013 and 2012 which are supported by a SBPA that expires on November 30, 2015. Taxable Commercial Paper Notes, Series D had no outstanding draws as of September 30, 2013 and 2012, and are supported by a SBPA that expires on September 11, 2014. As of September 30, 2013, there were no outstanding draws under the credit agreements.

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

On April 9, 1992, the City issued Utilities System Revenue Bonds, Series 1992B. The 1992B Bonds mature on October 1, 2013.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **4. Long-Term Debt (continued)**

On February 20, 2003, the City issued the 2003A, and 2003B and 2003C Utilities System Revenue Bonds. The 2003A Bonds were issued in the amount of \$33 million and previously matured on various dates through October 1, 2023. The 2003B and 2003C Bonds were issued in the amount of \$7.6 million and \$115.9 million, respectively and mature on October 1, 2013. The 2003A Bonds were fully refunded as part of the 2012A Utilities System Revenue Bonds issuance. However, due to current or advanced refunding from prior years, the amount of principal outstanding is \$33 million on the 2003A Bonds. The 2003B and 2003C Bonds are not subject to redemption prior to maturity.

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

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



## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **4. Long-Term Debt (continued)**

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

On February 13, 2008, the City issued the Utilities System Revenue Bonds, 2008A in the amount of \$105 million and 2008B in the amount of \$90 million. The 2008A Bonds mature on various dates through October 1, 2020. The 2008B Bonds mature on various dates from October 22, 2022 to October 1, 2038. The 2008A Bonds and the 2008B Bonds were issued to pay costs of acquisition and construction of the City's utilities system. The 2008A Bonds are subject to redemption prior to maturity at the election of the City, in whole or in part, at a redemption price of 100% of the principal amount plus accrued interest to the redemption date. The 2008B Bonds are subject to redemption prior to maturity at the election of the City, in whole or in part, at a redemption price of 100% of the principal amount plus accrued interest to the redemption date.

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

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **4. Long-Term Debt (continued)**

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

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

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

The 2012B Bonds in the amount of \$100.5 million were issued to (a) provide funds to refund \$31.6 million in aggregate principal amount of the 2005B Bonds, (b) provide funds to refund \$17.6 million in aggregate principal amount of the 2005C Bonds, (c) provide funds to refund \$25.9 million in aggregate principal amount of the 2006A Bonds, (d) provide funds to refund \$14.4 million in aggregate principal amount of the 2008A Bonds, and (e) pay costs of issuance of the 2012B Bonds. Those bonds mature at various dates through October 1, 2042. The 2012B Bonds are subject to redemption prior to maturity at a redemption price so specified.

The balance outstanding at September 30, 2013 and 2012, for defeased bonds was \$216.8 million.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **4. Long-Term Debt (continued)**

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 that meets certain credit standards and that is approved by GRU and the agent. Under the terms of the agreement, GRU may borrow up to \$85 million with same day availability ending on the termination date, as defined in the agreement. There were \$62 million of Series C Notes outstanding as of September 30, 2013 and 2012.

In June 2000, a Utilities System Commercial Paper Note Program, Series D (taxable) (Series D Notes) was established in a principal amount not to exceed \$25 million. Liquidity support for the Series D Notes was provided under a long-term credit agreement dated June 1, 2000, with SunTrust Bank, which was extended through September 11, 2014. There were no Series D Notes outstanding as of September 30, 2013 and 2012.

GRU's current portion of long-term debt was increased by \$90 million at September 30, 2013, due to the expiration of liquidity facilities for the 2008B Bonds during the 2014 fiscal year. GRU plans to renew or extend the facility prior to its expiration on May 9, 2014.

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.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 4. Long-Term Debt (continued)

The following table lists the Debt Service requirements (principal and interest) on long-term debt outstanding at September 30, 2013:

Period ending September 30:	Principal	Interest	Total Debt Service Requirements <sup>(1) (2)</sup>
2014	\$ 116,845,000	\$ 23,392,328	\$ 140,237,328
2015	21,480,000	22,282,262	43,762,262
2016	22,320,000	21,533,278	43,853,278
2017	23,170,000	20,788,192	43,958,192
2018	24,095,000	20,008,630	44,103,630
2019–2023	127,780,000	86,845,173	214,625,173
2024–2028	113,475,000	69,484,739	182,959,739
2029–2033	175,725,000	51,041,920	226,766,920
2034–2038	183,210,000	36,129,061	219,339,061
2039–2043	166,695,000	7,896,410	174,591,410
	<u>\$ 974,795,000</u>	<u>\$ 359,401,993</u>	<u>\$ 1,334,196,993</u>

<sup>(1)</sup> Interest rates on variable-rate long-term debt were valued to be equal to 0.07% for the 2005C Bonds, 0.06% for the 2006A Bonds, 0.07% for the 2007A Bonds, 0.07% for the 2008B Bonds, 0.06% for the 2012B Bonds, and 0.18% for the 2008 TECP. These are the rates in effect as of September 30, 2013.

<sup>(2)</sup> Interest expense for the 2009B Bonds and the 2010B Bonds have been shown net of the federal interest subsidy, which is equal to 27.80% of the annual interest expense for the duration of the bonds. The subsidy is recorded as non-operating income on the accompanying statements of revenue, expense, and changes in net position.

The interest rates used in this table are per GASB No. 38, which requires the rate used in the calculations be that in effect as of September 30, 2013.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 4. Long-Term Debt (continued)

The table below shows the changes in net long-term debt balances that occurred during the years ended September 30, 2013 and 2012.

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
Long-term debt outstanding at beginning of year	<b>\$ 948,831,701</b>	\$ 977,326,176
Changes in long-term debt:		
Series 2012A issued	–	81,860,000
Series 2012B issued	–	100,470,000
Fixed rate debt redeemed – Senior Lien and Subordinated	<b>(26,845,000)</b>	(31,900,000)
Series 2003A refunded	–	(1,605,000)
Series 2005A refunded	–	(78,690,000)
Series 2005B refunded	–	(31,560,000)
Series 2005C refunded	–	(17,570,000)
Series 2006A refunded	–	(25,930,000)
Series 2008A refunded	–	(14,405,000)
Reclassification of 2008B Bonds to current	<b>(90,000,000)</b>	–
Change in unamortized loss/bond discount	<b>3,493,089</b>	(9,164,474)
Long-term debt outstanding at end of year	<b><u>\$ 835,479,790</u></b>	<u>\$ 948,831,702</u>
Current portion of long-term debt	<b><u>\$ 116,845,000</u></b>	<u>\$ 31,900,000</u>

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

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 4. Long-Term Debt (continued)

#### Derivatives

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

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

#### *Objective of the Interest Rate Swap*

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 4. Long-Term Debt (continued)

##### *Terms, Fair Values and Credit Risk*

The terms, fair values and credit ratings of the outstanding swaps as of September 30, 2013, were as follows. The notional amounts of the swaps match the principal amounts of the associated debt.

<b>Associated Bond Issue</b>	<b>2008CP*</b>	<b>2005B*</b>	<b>2005C*</b>	<b>2006A*</b>
Notional amounts	\$22,000,000	\$45,000,000	\$55,135,000	\$53,305,000
Effective date	7/3/2002	11/16/2005	11/1/2006	7/6/2006
Fixed payer rate	4.100%	SIFMA	3.200%	3.224%
		77.14% of	60.36% of	68% of 10 YR
Variable receiver rate	SIFMA	1 MO LIBOR	10 YR LIBOR	LIBOR -0.365%
Fair value	\$(2,444,807)	\$(67,170)	\$(1,802,537)	\$(1,930,087)
Termination date	10/1/2017	10/1/2021	10/1/2026	10/1/2026
Counterparty credit rating	Baa2/A-/A	Aa2/AAA	Aa3/A+/A+	Aa2/AAA
<b>Associated Bond Issue</b>		<b>2008B*</b>	<b>2008B*</b>	<b>2007A*</b>
Notional amounts		\$58,500,000	\$31,500,000	\$139,505,000
Effective date		2/1/2008	2/1/2008	3/1/2007
Fixed payer rate		4.229%	4.229%	3.944%
Variable receiver rate		SIFMA	SIFMA	SIFMA
Fair value		\$(11,210,825)	\$(6,036,001)	\$(20,258,460)
Termination date		10/1/2038	10/1/2038	10/1/2036
Counterparty credit rating		Aa3/A+/A+	Aa3/A+/A+	Aa2/AAA

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 4. Long-Term Debt (continued)

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

<b>Associated Bond Issue</b>	<b>2008CP*</b>	<b>2005B*</b>	<b>2005C*</b>	<b>2006A*</b>
Notional amounts	\$22,000,000	\$45,000,000	\$55,135,000	\$53,305,000
Effective date	7/3/2002	11/16/2005	11/1/2006	7/6/2006
Fixed payer rate	4.100%	SIFMA	3.200%	3.224%
Variable receiver rate	SIFMA	77.14% of 1 MO LIBOR	60.36% of 10 YR LIBOR	68% of 10 YR LIBOR -0.365%
Fair value	\$(3,288,930)	\$(213,690)	\$(4,202,114)	\$(4,543,753)
Termination date	10/1/2017	10/1/2021	10/1/2026	10/1/2026
Counterparty credit rating	Baa2/A-/A	Aa2/AAA	Aa3/A+/A+	Aa2/AAA
<b>Associated Bond Issue</b>		<b>2008B*</b>	<b>2008B*</b>	<b>2007A*</b>
Notional amounts		\$58,500,000	\$31,500,000	\$139,505,000
Effective date		2/1/2008	2/1/2008	3/1/2007
Fixed payer rate		4.229%	4.229%	3.944%
Variable receiver rate		SIFMA	SIFMA	SIFMA
Fair value		\$(20,089,489)	\$(10,821,202)	\$(42,237,818)
Termination date		10/1/2038	10/1/2038	10/1/2036
Counterparty credit rating		Aa3/A+/A+	Aa3/A+/A+	Aa2/AAA

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



Gainesville Regional Utilities

Notes to Financial Statements (continued)

4. Long-Term Debt (continued)

	Fair Value of Interest Rate Swaps at September 30, 2013	Changes in Fair Value	Changes in Deferred (Inflow) Outflow	Changes in Regulatory (Asset) Liability for Ineffective Instruments
2008CP	\$ (2,444,807)	\$ 844,123	\$ (846,926)	\$ 2,803
2005B	(67,170)	146,521	-	(146,521)
2005C	(1,802,537)	2,399,577	-	(2,399,577)
2006A	(1,930,087)	2,613,665	-	(2,613,665)
2008B	(11,210,826)	8,878,664	(8,878,664)	-
2008B	(6,036,001)	4,785,201	(4,785,201)	-
2007A	(20,258,460)	21,979,358	(21,979,358)	-
	<u>\$ (43,749,888)</u>	<u>\$ 41,647,109</u>	<u>\$ (36,490,149)</u>	<u>\$ (5,156,960)</u>

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 4. Long-Term Debt (continued)

##### *Fair Value*

All seven of the swap agreements currently have a negative fair value as of September 30, 2013. Due to the low interest rate environment, as compared to the period when the swaps were entered into, our fixed payer rates currently exceed the variable receiver rates. These swaps are based on a different variable receiver rate, which is partially responsible for the difference in performance.

##### *Swap Payments and Associated Debt*

Assuming interest rates remain the same at September 30, 2013, debt service requirements on the interest rate swaps would be as follows:

Fiscal Year Ending September 30	Variable Rate		Fixed Rate		Net Swap Interest	Total
	Principal	Interest	Principal	Interest		
2014	\$ 90,300,000	\$ 302,049	\$ 460,000	\$ 1,331,261	\$ 11,296,411	\$ 103,689,721
2015	5,410,000	229,656	485,000	1,306,974	7,248,859	14,680,489
2016	6,425,000	219,468	3,320,000	1,209,186	6,879,959	18,053,613
2017	6,620,000	208,673	3,495,000	1,031,069	6,501,173	17,855,915
2018	6,915,000	197,340	3,680,000	840,573	6,108,078	17,740,991
2019–2023	39,180,000	927,050	13,990,000	1,321,128	28,079,480	83,497,658
2024–2028	27,070,000	812,650	–	–	24,595,467	52,478,117
2029–2033	88,080,000	516,588	–	–	18,800,522	107,397,110
2034–2038	66,850,000	93,104	–	–	3,857,729	70,800,833
Total	<u>\$ 336,850,000</u>	<u>\$ 3,506,578</u>	<u>\$ 25,430,000</u>	<u>\$ 7,040,191</u>	<u>\$ 113,367,678</u>	<u>\$ 486,194,447</u>

The interest rates used in this table are those in effect as of September 30, 2013.

##### *Credit Risk*

As of September 30, 2013, the fair value of all of the swaps were negative, therefore the City is not subject to credit risk. To mitigate the potential for credit risk, the City has negotiated additional termination event and collateralization requirements in the event of a ratings downgrade. Failure to deliver the Collateral Agreement to the City as negotiated and detailed in the Schedule to the International Swap and Derivative Agreement (ISDA) for each counter party would constitute an event of default with respect to that counterparty.

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### **4. Long-Term Debt (continued)**

#### *Basis Risk*

The swaps expose the City to basis risk. The 2008C swap (formerly the 2002A swap) is exposed to the difference between the weekly SIFMA index and CP maturity rate of less than 90 days based on current market conditions. As a result, savings may not be realized. As of September 30, 2013, the SIFMA rate was 0.07%.

The 2005B swap is exposed to basis risk through the potential mismatch of 77.14% of 1-month LIBOR and the SIFMA rate. As a result, savings may not be realized. As of September 30, 2013, the 1-month LIBOR rate was at 0.17885%, which places the SIFMA at approximately 39.13% of 1-month LIBOR on that date.

The 2005C swap is exposed to basis risk through the potential mismatch of 60.36% of 10-year LIBOR and the variable 31-day rollover rate. As a result, savings may not be realized.

The 2006A swap is exposed to basis risk through the potential mismatch of 68% of 10-year LIBOR less 0.365% and the variable 31-day rollover rate. As a result, savings may not be realized. As of September 30, 2013, the 10-year LIBOR rate was 2.788%.

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

#### *Termination Risk*

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

#### *Interest Rate Risk*

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### **4. Long-Term Debt (continued)**

#### *Rollover Risk*

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

#### *Market Access Risk*

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

### **5. Deposits and Investments**

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

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 5. Deposits and Investments (continued)

As of September 30, 2013, GRU had the following investments and maturities (amounts are in thousands).

	Fair Value	Maturities in Years	
		Less than 1	1-5
Investment type:			
Commercial paper	\$ 119,041	\$ 119,041	\$ -
Corporate bonds	9,155	1,740	7,415
U.S. agencies	85,651	2,527	83,124
U.S. bonds	8,620	5,079	3,541
Total	\$ 222,467	\$ 128,387	\$ 94,080

### Interest Rate Risk

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

### Credit Risk

GRU's investment policy and Bond Resolution limits investments in state and local taxable or tax-exempt debt, corporate fixed income securities and other corporate indebtedness to investments that are rated by a nationally recognized rating agency in its highest rating category, and at least one other nationally recognized rating agency in either of its two highest rating categories. As of September 30, 2013, all of GRU's commercial paper investments were rated P-2 or better by Moody's Investor Services and/or A-2 or better by Standard and Poor's and/or F1 or better by Fitch Ratings.

### 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.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 5. Deposits and Investments (continued)

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

	<b>Percent of Total Investments</b>	
	<b>2013</b>	<b>2012</b>
Issuer:		
Federal Home Loan Bank	<b>6.19%</b>	0.40%
Federal Home Loan Mortgage Corporation	<b>10.01</b>	n/a
Federal National Mortgage Association	<b>12.92</b>	21.46
Federal Farm Credit Bank	<b>9.38</b>	1.70

Cash and investments are contained in the following statement of net position accounts as of September 30:

	<b>2013</b>	<b>2012</b>
Restricted assets	<b>\$ 225,435,746</b>	\$ 279,378,035
Current assets:		
Cash and investments	<b>50,725,104</b>	32,464,543
Total cash and investments	<b>276,160,850</b>	311,842,578
Less cash and cash equivalents	<b>(42,443,674)</b>	(53,631,974)
Less CR3 decommissioning reserve at FMPA	<b>(10,830,872)</b>	(10,278,134)
Less accrued interest receivable and accounts receivable	<b>(419,012)</b>	(283,658)
Total investments	<b>\$ 222,467,292</b>	\$ 247,648,812

#### 6. Jointly-Owned Electric Plant

GRU-owned resources for supplying electric power and energy requirements included its 1.4079% undivided ownership interest in CR3, a nuclear power plant operated by Progress Energy Florida (PEF), a subsidiary of Duke Energy. Effective February 2013, Duke Energy announced the closing of the CR3 as a result of discovering multiple delaminations within the core. As a result, GRU's net investment in CR3 of approximately \$20.7 million, net of insurance proceeds of \$2.8 million, was impaired and written off as an extraordinary item during fiscal year 2013.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **6. Jointly-Owned Electric Plant (continued)**

CR3 operation and maintenance costs, which represent GRU's part of expenses attributable to operation of CR3, are recorded in accordance with the instructions as set forth in the FERC uniform system of accounts. Payments are made to PEF in accordance with the CR3 participation agreement.

GRU, as a part of this participation agreement, is responsible for its share of future decommissioning costs. Decommissioning costs are funded and expensed annually and are recovered through rates charged to customers. The most recent decommissioning cost estimates provided by PEF in September 2006, estimated GRU's share of the total projected decommissioning funding requirements to be \$7.7 million, of which \$5.2 million has already been deposited. The market value of the funds on deposit as of September 30, 2013, is \$12.3 million.

As discussed in Note 17, the CR3 plant was permanently closed during fiscal year 2013. Potential costs to GRU for the decommissioning of CR3 will be determined by negotiations and settlement with PEF. GRU management currently believes that the existing decommissioning reserve is sufficient to cover the projected costs of decommissioning the plant.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 7. Restricted Net Position

Certain assets are restricted by bond resolution and other external requirements. Following is a summary of the computation of restricted net position at September 30, 2013 and 2012, and the restricted purposes of the asset balances:

	<b>2013</b>	<b>2012</b>
Restricted net position:		
Total restricted assets	\$ 225,435,746	\$ 279,378,035
Unspent debt proceeds	(53,604,848)	(106,704,641)
Payable from restricted assets	(84,028,443)	(88,160,671)
Restricted net position	\$ 87,802,455	\$ 84,512,723

Assets are restricted as follows:

	<b>2013</b>	<b>2012</b>
Debt covenants:		
Debt service	\$ 26,292,694	\$ 35,138,172
Utility plant improvement	49,243,689	39,096,417
Total restricted pursuant to debt covenants	75,536,383	74,234,589
Other restrictions:		
Nuclear decommissioning reserve	12,266,072	10,278,134
Restricted net position	\$ 87,802,455	\$ 84,512,723

#### 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, 2013, 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.



## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **8. Retirement Plans (continued)**

The City accounts for and funds the costs of the Employees Plan as they accrue. Such costs are based on contribution rates determined by the most recent actuarial valuation. The total contributions by GRU, including amortization of prior service costs, were \$6.2 million and \$5.4 million for the years ended September 30, 2013 and 2012, 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 the employee contributes a specified percentage. All employees have the option to participate in the second defined contribution plan. The total defined contribution cost for GRU was \$0.1 million for each of the years ended September 30, 2013 and 2012.

#### **9. Postretirement Benefits**

In addition to providing pension benefits, the City provides certain health care insurance benefits for retired employees of the City and GRU. The City also permits retirees to participate in the life insurance program. Most permanent full and part-time employees, who are eligible for normal, early, or disability retirement, are eligible for these benefits. Individual benefits are the same for all employees, but the cost to the City may vary. Contributions by the City to fund these benefits are neither mandated nor guaranteed. The actuarial costs of these plans are determined and funded by the City. A portion of this funding comes from bonds issued by the City to cover post-employment benefits. GRU contributes 0.44% of payroll to fund the remaining portion. The cost of providing these benefits to GRU retirees was \$0.2 million for the fiscal years ended September 30, 2013 and 2012.

#### **10. Disaggregation of Receivables and Payables**

##### **Receivables**

For the years ended as of September 30, 2013 and 2012, net accounts receivable represent 99.7% and 98.9%, respectively, from customers for billed and unbilled utility services, and 0.3% and 1.1%, respectively, from other receivables. There are no receivables expected to take longer than one year to collect.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **10. Disaggregation of Receivables and Payables (continued)**

##### **Payables**

As of September 30, 2013 and 2012, payable balances represent 15.4% and 16.7%, respectively, related to fuels payable, 45.1% and 42.7%, respectively, related to standard vendor payables, 22.1% and 19.2%, respectively, related to accrued wages and vacation payable, 10.1% and 14.7%, respectively, related to intergovernmental payables, and 7.3% and 6.7%, respectively, related to other payables.

#### **11. Transfers to General Fund**

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

The formula-based fund transfer to the general fund was suspended for the four year period from fiscal year 2011 to fiscal year 2014. For each year in that period, a jointly negotiated amount was transferred and adjusted subsequent to each year by comparing the negotiated amount transferred to the amount that would have been transferred under the prior formula. Any amounts in excess of \$500,000 over or under the formula based transfer amount are shared equally. If the negotiated amount is within \$500,000 of the prior formula-based amount, no adjustment is made. For the years ended September 30, 2013 and 2012, the transfer was \$36.7 million and \$36.0 million, respectively.

#### **12. Deferred Charges and Deferred Credits**

##### **Deferred Charges**

Deferred charges are presented on the accompanying statements of net position under current assets and other noncurrent assets.

Unamortized bond issuance costs of approximately \$6.6 million and \$7.3 million at September 30, 2013 and 2012, respectively, are included in deferred charges. These costs are being amortized straight-line over the lives of the bonds, which approximates the effective interest method.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **12. Deferred Charges and Deferred Credits (continued)**

Electric distribution plant acquisition costs of \$1.9 million and \$2.1 million at September 30, 2013 and 2012, respectively, are being amortized over the expected lives of the acquired assets. Of these amounts, \$0.2 million is recorded in deferred charges at September 30, 2013 and 2012, with the remaining portion included in noncurrent assets.

The fair value of ineffective interest rate swaps of \$3.8 million and \$9.0 million at September 30, 2013 and 2012, respectively, are recorded as regulatory assets and included in noncurrent assets.

#### **Deferred Credits**

Deferred credits are presented on the statements of net position under current liabilities and other noncurrent liabilities.

The current portion of the environmental liability is \$0.7 million as of September 30, 2013 and 2012, and is recorded as a current liability in the accompanying statements of net position. The long term portion of the environmental liability is \$1.9 million as of September 30, 2012, and is recorded as a noncurrent liability in the accompanying statements of net position. There was no long term portion of the environmental reserve liability as September 30, 2013. See Note 13 for details on the manufactured gas plant remediation portion of this item.

Accrued electric fuel adjustment was a deferred credit of \$17.5 million and \$15.2 million at September 30, 2013 and 2012, respectively. See Note 1, "Revenue Recognition," for details on GRU's policy regarding fuel adjustment.

#### **13. Environmental Liabilities**

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **13. Environmental Liabilities (continued)**

to reflect the costs associated with the cleanup effort. During fiscal years 2013 and 2012, expenditures that reduced the liability balance were \$0.6 million and \$3.1 million, respectively. In accordance with GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, the reserve was reduced \$1.3 million due to new project estimates and probabilities, bringing the reserve balance at September 30, 2013, to \$0.7 million compared to \$2.6 million at September 30, 2012.

GRU is recovering the costs of this cleanup through customer charges. A regulatory asset was established as a deferred charge in the accompanying statements of net position to represent the balance of customer charges. Fiscal year 2013 and 2012 billings were \$1.0 million and \$0.9 million, respectively. This reduced the deferred asset balance to \$17.3 million and \$19.7 million as of September 30, 2013 and 2012, respectively.

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

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

#### **14. Investment in the Energy Authority**

In May 2000, GRU became an equity member of The Energy Authority (TEA), a power marketing joint venture. In May 2002, TEA began trading natural gas on behalf of GRU. As of September 30, 2005, this joint venture was comprised of six municipal utilities across the nation, all of which are participating in the electric marketing and five of which participate in the gas program. GRU's ownership interest was 6.7% in the venture, and it accounted for this investment using equity accounting. GRU has reflected the capital contribution as an investment in TEA. The investment balance has been adjusted for GRU's subsequent share of TEA's net income or loss. In calculating GRU's share of net income or loss, profit on transactions between GRU and TEA have been eliminated. Such transactions primarily relate to purchases and sales of electricity between GRU and TEA.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **14. Investment in the Energy Authority (continued)**

GRU had electric purchases transactions with TEA of \$24.0 million and \$25.2 million and sales transactions of \$0.3 million and \$0.4 million in fiscal years 2013 and 2012, respectively. TEA's profit on these transactions has been reflected as a reduction to GRU's reported revenue or expense.

As of September 30, 2013, GRU's investment in TEA was \$2.3 million as compared to \$2.7 million on September 30, 2012.

GRU provides guarantees to TEA and to TEA's banks to secure letters of credit issued by the banks 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 banks, GRU's aggregate obligation for electric energy marketing transactions entered into by TEA on behalf of its members was \$9.6 million as of September 30, 2013 and 2012. GRU's aggregate obligation for TEA's natural gas marketing transactions, under similar agreements and executed guaranties, was \$13.0 million and \$13.7 million as of September 30, 2013 and 2012, respectively.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 14. Investment in the Energy Authority (continued)

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

	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
<b>Condensed statements of operations</b>		
Total revenue	\$ 1,277,031	\$ 1,203,021
Total cost of sales and expense	<b>1,157,266</b>	1,118,804
Operating income	<b>\$ 119,765</b>	\$ 84,217
Net revenue	<b>\$ 87,490</b>	\$ 84,397
<b>Condensed statements of net position</b>		
Assets:		
Current assets	\$ 129,456	\$ 146,749
Noncurrent assets	<b>16,023</b>	17,675
Total assets	<b>\$ 145,479</b>	\$ 164,424
Liabilities:		
Current liabilities	\$ 111,788	\$ 118,566
Total liabilities	<b>111,788</b>	118,566
Members' capital	<b>33,691</b>	45,858
Total equity and liabilities	<b>\$ 145,479</b>	\$ 164,424

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 15. Risk Management

GRU is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters and insures against these losses. GRU purchases plant and machinery insurance from a commercial carrier. There have been no significant reductions in insurance coverage from that in the prior year, and settlements have not exceeded insurance coverage for the past three fiscal years. The City is self-insured for workers' compensation, auto liability, and general liability but carries excess workers' compensation coverage. These risks are accounted for under the City's General Insurance Fund.

GRU reimburses the City for premiums and claims paid on its behalf, recording the appropriate expense. However, GRU does maintain its own insurance reserve for the self-insured portion. An actuarial study completed during fiscal year 2008 resulted in an increase to a balance of \$3.3 million. The present value calculation assumes a rate of return of 4.5% with a confidence level of 75%. This reserve is recorded as a fully amortized deferred credit. All claims for fiscal years 2013 and 2012 were paid from current year's revenues.

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

Fiscal Year	Beginning Balance	Claims	Payments	Increase to Reserve	Ending Balance
2012–2013	\$ 3,337,000	\$ 1,487,246	\$ 1,487,246	\$ –	\$ 3,337,000
2011–2012	\$ 3,337,000	\$ 1,175,634	\$ 1,175,634	\$ –	\$ 3,337,000

#### 16. Noncurrent Liabilities

Long-term liability activity for the years ended September 30, 2013 and 2012, were as follows (in thousands):

	2012	Additions	Reductions	2013	Amounts Due w/in One Year
<b>Other Noncurrent Liabilities</b>					
Reserve for insurance claims	\$ 3,337	\$ 1,487	\$ (1,487)	\$ 3,337	\$ –
Reserve for decommissioning CR3	10,278	1,988	–	12,266	–
Reserve for environmental	1,890	–	(1,890)	–	–
Total	\$ 15,505	\$ 3,475	\$ (3,337)	\$ 15,603	\$ –

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 16. Noncurrent Liabilities (continued)

	2011	Additions	Reductions	2012	Amounts Due w/in One Year
<b>Other Noncurrent Liabilities</b>					
Reserve for insurance claims	\$ 3,337	\$ 1,176	\$ (1,176)	\$ 3,337	\$ –
Reserve for decommissioning CR3	10,083	195	–	10,278	–
Reserve for environmental	5,186	–	(3,296)	1,890	–
<b>Total</b>	<b>\$ 18,606</b>	<b>\$ 1,371</b>	<b>\$ (4,472)</b>	<b>\$ 15,505</b>	<b>\$ –</b>

#### 17. Extraordinary Item

As stated in Note 6, GRU owns a 1.4079% interest in the CR3 nuclear power plant operated by PEF. CR3 has been offline since late 2009 due to damages to the periphery of the containment wall causing delaminated concrete. These damages occurred while PEF was creating an opening in the structure to remove and replace the steam generators inside. The unit was already shut down for refueling and maintenance at the time of the incident and has remained shut down since that time.

During fiscal year 2013, PEF announced that it retired the CR3. The decision came after a comprehensive analysis of the CR3 containment structure. PEF is working to develop a comprehensive decommissioning plan, which will determine the resources needed as well as other elements of the decommissioning.

The plant is permanently shut down and will not generate any additional power. As a result, GRU has written off the full amount of the investment in CR3 as an impairment loss during fiscal year 2013, which is presented as an extraordinary item in the accompanying statements of revenues, expenses, and changes in net position.

#### 18. Subsequent Events

##### Subsequent Liquidity Facility

On February 11, 2014, GRU has obtained an extension for the liquidity facility for the 2007A Bonds. The renewal of the liquidity facility is the first amendment to the SBPA between GRU and State Street Bank and Trust Company. The original SBPA that was set to expire on March 1, 2014 was extended to March 1, 2018.



## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **18. Subsequent Events (continued)**

##### **Power Purchase Agreement**

On April 29, 2009, GRU and Gainesville Renewable Energy Center, LLC (GREC) entered into a Purchase Power Agreement for the Supply of Dependable Capacity, Energy and Environmental Attributes from a Biomass-Fired Power Production Facility (the PPA). The PPA includes provisions for a period of time prior to the Commercial Operation Date (COD) of the Biomass Plant, as well as additional provisions for the thirty-year period beginning on the COD.

The PPA requires GREC to build, operate and maintain a 100 MW (net) biomass-fired power production facility and to sell 100% of the power generated to GRU. Prior to the COD, the only financial responsibility that GRU had in relation to the PPA was to purchase any test power generated at the variable operations and maintenance (O&M) rates plus fuel charges. GRU did not incur any non-fuel energy (fixed) payments during the period prior to the COD. GRU incurred expense of \$1.5 million in fiscal year 2013 for the purchase of test power.

The COD occurred on December 17, 2013. Beginning on that date, GRU began to purchase the generated power at the full contract rate, which included a non-fuel energy charge (fixed per MWh of available energy), a fixed O&M charge (per MWh of available energy), a variable O&M charge (per MWh of delivered energy), a fuel charge (based on a base fuel charge plus fuel price adjuster, applied to MWh of delivered energy), any shutdown charges incurred, and ad valorem taxes incurred and paid by GREC. In the event that the Biomass Plant is unable to generate power, no payments shall be due from GRU to GREC under the PPA.

The payments due from GRU to GREC under the PPA, assuming 102.5MW with 90% targeted availability and 90% capacity factor, are estimated to be approximately \$102.5 million per year, of which \$63.9 million is fixed, \$31.4 million is variable, and \$7.2 million is property tax. The capacity factor has been 73% since the COD.

# Supplemental Schedules

# Gainesville Regional Utilities

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

	September 30				
	2013	2012	2011	2010	2009
<b>Revenue</b>					
Electric fund:					
Sales of electricity	\$ 228,822,572	\$ 230,805,656	\$ 250,057,293	\$ 262,530,880	\$ 249,761,763
Other electric revenue	12,294,392	12,853,882	13,521,707	14,445,686	3,270,339
Transfers from (to) rate stabilization	4,307,324	1,068,547	(3,017,205)	(7,692,907)	11,054,541
Interest/investment income	998,489	1,233,211	1,404,284	1,183,493	2,709,170
Other interest related income, BABs	3,054,278	3,193,181	2,998,763	1,883,128	-
<b>Total electric fund revenue</b>	<b>249,477,055</b>	<b>249,154,477</b>	<b>264,964,842</b>	<b>272,350,280</b>	<b>266,795,813</b>
Water fund:					
Sales of water	29,516,632	29,872,976	29,846,372	25,705,213	25,712,256
Other water revenue	1,895,964	1,824,302	1,893,964	1,390,204	1,443,155
Transfers from (to) rate stabilization	(48,449)	(655,733)	(373,250)	2,289,274	997,637
Interest/investment income	147,002	150,488	167,351	587,446	347,095
Other interest related income, BABs	855,895	894,819	826,087	427,129	-
<b>Total water fund revenue</b>	<b>32,367,044</b>	<b>32,086,852</b>	<b>32,360,524</b>	<b>30,399,266</b>	<b>28,500,143</b>
Wastewater fund:					
Wastewater billing	35,307,820	34,476,880	32,258,966	30,640,750	31,976,105
Other wastewater revenue	2,306,856	1,080,063	1,057,091	918,285	831,350
Transfers from (to) rate stabilization	(1,128,383)	(379,508)	1,100,815	1,879,876	(901,588)
Interest/investment income	209,112	246,283	284,526	283,945	561,085
Other interest related income, BABs	965,695	1,009,614	911,114	334,064	-
<b>Total wastewater fund revenue</b>	<b>37,661,100</b>	<b>36,433,332</b>	<b>35,612,512</b>	<b>34,056,920</b>	<b>32,466,952</b>
Gas fund:					
Gas sales	21,849,892	21,633,032	27,153,898	27,403,504	28,923,505
Other gas revenue (expenses)	975,366	954,219	1,089,778	1,087,924	859
Transfers from (to) rate stabilization	579,954	1,475,567	820,268	(1,549,020)	(3,208,386)
Interest/investment income	191,445	251,631	275,191	528,859	485,981
Other interest related income, BABs	639,394	668,472	626,795	387,115	-
<b>Total gas fund revenue</b>	<b>24,236,051</b>	<b>24,982,921</b>	<b>29,965,930</b>	<b>27,858,382</b>	<b>26,201,959</b>
GRUCom fund:					
Sales to customers	10,408,713	10,892,510	11,889,016	11,304,326	10,162,231
Other GRUCom revenue	31,385	-	-	-	-
Transfers from (to) rate stabilization	1,656,215	2,955,113	1,172,482	105,407	(958,870)
Interest/investment income	126,223	175,443	201,875	265,178	417,145
<b>Total GRUCom fund revenue</b>	<b>12,222,536</b>	<b>14,023,066</b>	<b>13,263,373</b>	<b>11,674,911</b>	<b>9,620,506</b>
<b>Total revenue</b>	<b>\$ 355,963,786</b>	<b>\$ 356,680,648</b>	<b>\$ 376,167,181</b>	<b>\$ 376,339,759</b>	<b>\$ 363,585,373</b>

# Gainesville Regional Utilities

## Schedules of Combined Net Revenues in Accordance with Bond Resolution (continued)

	September 30				
	2013	2012	2011	2010	2009
<b>Operation, maintenance, and administrative</b>					
Electric fund:					
Fuel expense	\$ 97,627,084	\$ 100,219,350	\$ 112,075,262	\$ 129,092,299	\$ 131,849,819
Operation and maintenance	41,865,034	39,301,044	39,041,379	38,312,780	38,244,824
Administrative and general	28,101,470	21,049,516	21,484,263	16,770,146	18,273,573
Total electric fund expense	<u>167,593,588</u>	<u>160,569,910</u>	<u>172,600,904</u>	<u>184,175,225</u>	<u>188,368,216</u>
Water fund:					
Operation and maintenance	7,409,848	7,475,797	7,410,001	7,385,629	8,042,992
Administrative and general	5,722,036	5,138,472	4,980,853	5,104,686	4,547,293
Total water fund expense	<u>13,131,884</u>	<u>12,614,269</u>	<u>12,390,854</u>	<u>12,490,315</u>	<u>12,590,285</u>
Wastewater fund:					
Operation and maintenance	7,725,182	7,242,859	7,230,689	6,690,918	6,734,970
Administrative and general	5,858,426	5,506,621	6,331,392	5,960,940	5,939,526
Total wastewater fund expense	<u>13,583,608</u>	<u>12,749,480</u>	<u>13,562,081</u>	<u>12,651,858</u>	<u>12,674,496</u>
Gas fund:					
Fuel expense	9,152,510	9,950,085	13,800,865	14,632,694	15,458,942
Operation and maintenance	1,271,816	1,362,351	1,259,693	1,381,945	1,652,911
Administrative and general	4,354,340	3,968,444	3,698,336	3,643,805	2,033,561
Total gas fund expense	<u>14,778,666</u>	<u>15,280,880</u>	<u>18,758,894</u>	<u>19,658,444</u>	<u>19,145,414</u>
GRUCom fund:					
Operation and maintenance	3,354,789	3,614,797	3,333,664	3,423,128	2,761,702
Administrative and general	2,023,471	2,301,433	1,973,765	1,952,831	2,104,484
Total GRUCom fund expense	<u>5,378,260</u>	<u>5,916,230</u>	<u>5,307,429</u>	<u>5,375,959</u>	<u>4,866,186</u>
Total operation, maintenance, and administrative	<u>214,466,006</u>	<u>207,130,769</u>	<u>222,620,162</u>	<u>234,351,801</u>	<u>237,644,597</u>
<b>Net revenue in accordance with bond resolution</b>					
Electric	81,883,467	88,584,567	92,363,938	88,175,055	78,427,597
Water	19,235,160	19,472,583	19,969,670	17,908,951	15,909,858
Wastewater	24,077,492	23,683,852	22,050,431	21,405,062	19,792,456
Gas	9,457,385	9,702,041	11,207,036	8,199,938	7,056,545
GRUCom	6,844,276	8,106,836	7,955,944	6,298,952	4,754,320
Total net revenue in accordance with bond resolution	<u>\$ 141,497,780</u>	<u>\$ 149,549,879</u>	<u>\$ 153,547,019</u>	<u>\$ 141,987,958</u>	<u>\$ 125,940,776</u>
Aggregate bond debt service	<u>\$ 56,101,372</u>	<u>\$ 63,755,940</u>	<u>\$ 64,007,046</u>	<u>\$ 62,168,819</u>	<u>\$ 51,062,280</u>
Aggregate bond debt service coverage ratio	<u>2.52</u>	<u>2.35</u>	<u>2.40</u>	<u>2.28</u>	<u>2.47</u>
Total debt service	<u>\$ 67,889,965</u>	<u>\$ 69,793,875</u>	<u>\$ 70,268,626</u>	<u>\$ 73,332,609</u>	<u>\$ 61,390,337</u>
Total debt service coverage ratio	<u>2.08</u>	<u>2.14</u>	<u>2.19</u>	<u>1.94</u>	<u>2.05</u>

## Gainesville Regional Utilities

### Schedules of Net Revenues in Accordance with Bond Resolution – Electric Utility Fund

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenue</b>		
Sales of electricity:		
Residential sales	<b>\$ 52,458,264</b>	\$ 52,431,384
Non-residential sales	<b>67,097,363</b>	65,947,347
Fuel adjustment	<b>97,496,578</b>	99,838,993
Street, traffic, and rental lighting	<b>5,218,333</b>	5,358,632
Utility surcharge	<b>3,413,251</b>	3,447,327
Sales for resale	<b>2,884,390</b>	4,137,619
Interchange sales	<b>254,393</b>	(355,646)
Total sales of electricity	<b>228,822,572</b>	230,805,656
Other electric revenue:		
Service charges	<b>708,716</b>	948,868
Pole rentals	<b>664,974</b>	644,342
South Energy Center	<b>10,694,531</b>	10,397,403
Miscellaneous	<b>226,171</b>	863,269
Total other electric revenue	<b>12,294,392</b>	12,853,882
Transfers from (to) rate stabilization	<b>4,307,324</b>	1,068,547
Interest income	<b>998,489</b>	1,233,211
Other interest related income, BABs	<b>3,054,278</b>	3,193,181
Total revenue	<b>249,477,055</b>	249,154,477
<b>Operation, maintenance, and administrative expense</b>		
Operation and maintenance:		
Fuel expense:		
Retail and purchased power	<b>95,810,197</b>	97,243,613
Fuel related operating expense	<b>1,685,287</b>	2,638,041
Interchange	<b>131,600</b>	337,696
Total fuel expense	<b>97,627,084</b>	100,219,350
Power production	<b>30,792,216</b>	27,161,341
Transmission	<b>1,687,529</b>	2,343,115
Distribution	<b>9,385,289</b>	9,796,588
Total operation and maintenance	<b>139,492,118</b>	139,520,394

Gainesville Regional Utilities

Schedules of Net Revenues in Accordance with Bond Resolution –  
Electric Utility Fund (continued)

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
Administrative and general:		
Customer accounts	\$ 5,195,465	\$ 5,829,976
Administrative and general	<u>22,906,005</u>	15,219,540
Total administrative and general	<u>28,101,470</u>	21,049,516
Total operation, maintenance, and administrative expense	<u>167,593,588</u>	160,569,910
<b>Net revenue in accordance with bond resolution</b>		
Retail	81,760,674	89,277,909
Interchange	<u>122,793</u>	(693,342)
Total net revenue in accordance with bond resolution	<u><u>\$ 81,883,467</u></u>	<u>\$ 88,584,567</u>

## Gainesville Regional Utilities

### Schedules of Net Revenues in Accordance with Bond Resolution – Water Utility Fund

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenue</b>		
Sales of water:		
General customers – residential	<b>\$ 17,683,223</b>	\$ 17,714,508
General customers – non-residential	<b>7,841,547</b>	8,127,843
University of Florida	<b>1,785,218</b>	1,804,734
Utility surcharge	<b>2,206,644</b>	2,225,891
Total sales of water	<b>29,516,632</b>	29,872,976
Other water revenue:		
Connection charges	<b>736,410</b>	844,890
Miscellaneous	<b>1,159,554</b>	979,412
Total other water revenue	<b>1,895,964</b>	1,824,302
Transfers from (to) rate stabilization	<b>(48,449)</b>	(655,733)
Interest income	<b>147,002</b>	150,488
Other interest related income, BABs	<b>855,895</b>	894,819
Total revenue	<b>32,367,044</b>	32,086,852
<b>Operation, maintenance, and administrative expense</b>		
Operation and maintenance:		
Pumping	<b>2,037,457</b>	2,031,000
Water treatment	<b>3,160,817</b>	3,232,184
Transmission and distribution	<b>2,211,574</b>	2,212,613
Total operation and maintenance	<b>7,409,848</b>	7,475,797
Administrative and general:		
Customer accounts	<b>1,315,265</b>	1,023,028
Administrative and general	<b>4,406,771</b>	4,115,444
Total administrative and general	<b>5,722,036</b>	5,138,472
Total operation, maintenance, and administrative expense	<b>13,131,884</b>	12,614,269
Total net revenue in accordance with bond resolution	<b>\$ 19,235,160</b>	\$ 19,472,583

## Gainesville Regional Utilities

### Schedules of Net Revenues in Accordance with Bond Resolution – Wastewater Utility Fund

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenue</b>		
Wastewater billings:		
Residential billings	<b>\$ 24,263,778</b>	\$ 23,723,737
Non-residential billings	<b>8,170,597</b>	7,880,721
Reclaimed water billings	<b>311,237</b>	429,786
Utility surcharge	<b>2,562,208</b>	2,442,636
Total wastewater billings	<b>35,307,820</b>	34,476,880
Other wastewater revenue:		
Connection charges	<b>2,316,043</b>	1,240,713
Miscellaneous	<b>(9,187)</b>	(160,650)
Total other wastewater revenue	<b>2,306,856</b>	1,080,063
Transfers from (to) rate stabilization	<b>(1,128,383)</b>	(379,508)
Interest income	<b>209,112</b>	246,283
Other interest related income, BABs	<b>965,695</b>	1,009,614
Total revenue	<b>37,661,100</b>	36,433,332
<b>Operation, maintenance, and administrative expense</b>		
Operation and maintenance:		
Collection	<b>2,986,032</b>	2,395,872
Treatment and pumping	<b>4,739,150</b>	4,846,987
Total operation and maintenance	<b>7,725,182</b>	7,242,859
Administrative and general:		
Customer accounts	<b>925,481</b>	1,028,312
Administrative and general	<b>4,932,945</b>	4,478,309
Total administrative and general	<b>5,858,426</b>	5,506,621
Total operation, maintenance, and administrative expense	<b>13,583,608</b>	12,749,480
Total net revenue in accordance with bond resolution	<b>\$ 24,077,492</b>	\$ 23,683,852



## Gainesville Regional Utilities

### Schedules of Net Revenues in Accordance with Bond Resolution – Gas Utility Fund

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenue</b>		
Sales of gas:		
Residential	\$ 6,791,447	\$ 6,374,469
Non-residential	4,190,496	4,007,341
Purchased gas adjustment	9,152,510	9,950,085
Other sales	1,715,439	1,301,137
Total sales of gas	21,849,892	21,633,032
Other gas revenue	975,366	954,219
Transfers from (to) rate stabilization	579,954	1,475,567
Interest income	191,445	251,631
Other interest related income, BABs	639,394	668,472
Total revenue	24,236,051	24,982,921
<b>Operation, maintenance, and administrative expense</b>		
Operation and maintenance:		
Fuel expense	9,152,510	9,950,085
Operation and maintenance	1,271,816	1,362,351
Total operation and maintenance	10,424,326	11,312,436
Administrative and general:		
Customer accounts	2,501,525	2,151,119
Administrative and general	1,852,815	1,817,325
Total administrative and general	4,354,340	3,968,444
Total operation, maintenance, and administrative expense	14,778,666	15,280,880
Total net revenue in accordance with bond resolution	\$ 9,457,385	\$ 9,702,041

## Gainesville Regional Utilities

### Schedules of Net Revenues in Accordance with Bond Resolution – GRUCom Utility Fund

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenue</b>		
Sales to customers:		
Telecommunications services	\$ 5,169,016	\$ 5,516,088
Internet services	1,676,116	1,649,115
Public safety trunking radio	1,842,845	1,923,531
Tower space and colocation leasing	1,720,736	1,803,776
Total sales to customers	10,408,713	10,892,510
Transfers from (to) rate stabilization	1,656,215	2,955,113
Interest income	126,223	175,443
Other miscellaneous revenue	31,385	–
Total revenue	12,222,536	14,023,066
 <b>Operation, maintenance, and administrative expense</b>		
Operation and maintenance	3,354,789	3,614,797
Total operation and maintenance	3,354,789	3,614,797
Administrative and general:		
Customer accounts	213,295	244,832
Administrative and general	1,810,176	2,056,601
Total administrative and general	2,023,471	2,301,433
Total operation, maintenance, and administrative expense	5,378,260	5,916,230
Total net revenue in accordance with bond resolution	\$ 6,844,276	\$ 8,106,836

## Gainesville Regional Utilities

### Notes to Schedules of Net Revenues in Accordance with Bond Resolution

For the Years Ended September 30, 2013 and 2012

“Net revenue in accordance with bond resolution” differs from “Change in Net Position,” 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.
- Special items are excluded.

**Gainesville Regional Utilities**  
**Combining Statement of Net Position**

September 30, 2013

	Electric	Water	Wastewater	Gas	GRUCom	Combined
<b>Assets</b>						
Current assets:						
Cash and investments	\$ 40,157,313	\$ 308,527	\$ (39,597)	\$ 7,668,536	\$ 2,630,325	\$ 50,725,104
Accounts receivable, net	33,485,823	3,582,023	4,086,503	1,069,185	1,180,540	43,404,074
Fuel contracts	1,595,103	-	-	1,422,496	-	3,017,599
Deferred charges	(2,796,053)	10,792	14,389	3,575,513	4,496	809,137
Inventories:						
Fuel	14,180,029	-	-	-	-	14,180,029
Materials and inventories	6,683,598	737,935	-	480,548	737,145	8,639,226
<b>Total current assets</b>	<b>93,305,813</b>	<b>4,639,277</b>	<b>4,061,295</b>	<b>14,216,278</b>	<b>4,552,506</b>	<b>120,775,169</b>
Restricted and internally designated assets:						
Utility deposits – cash and investments	6,686,541	654,861	589,201	383,432	-	8,314,035
Debt service – cash and investments	27,101,543	5,230,282	7,174,149	2,621,049	3,725,384	45,852,407
Rate stabilization – cash and investments	45,143,890	1,205,505	3,795,913	5,425,091	584,296	56,154,695
Construction fund – cash and investments	17,777,931	7,234,283	18,668,062	4,627,414	5,297,158	53,604,848
Utility plant improvement fund – cash and investments	35,720,226	5,149,148	5,627,723	1,418,540	1,328,052	49,243,689
Decommission reserve – cash and investments	12,266,072	-	-	-	-	12,266,072
<b>Total restricted and internally designated assets</b>	<b>144,696,203</b>	<b>19,474,079</b>	<b>35,855,048</b>	<b>14,475,526</b>	<b>10,934,890</b>	<b>225,435,746</b>
Noncurrent assets	10,314,569	1,368,579	1,577,277	16,515,568	522,399	30,298,392
Capital assets:						
Utility plant in service	1,046,580,744	230,290,001	275,780,832	71,536,413	63,596,373	1,687,784,363
Less: accumulated depreciation and amortization	349,127,536	82,260,005	112,246,193	33,472,816	26,417,409	603,523,959
	697,453,208	148,029,996	163,534,639	38,063,597	37,178,964	1,084,260,404
Construction in progress	37,381,689	31,705,638	41,324,867	6,877,438	6,092,608	123,382,240
<b>Net capital assets</b>	<b>734,834,897</b>	<b>179,735,634</b>	<b>204,859,506</b>	<b>44,941,035</b>	<b>43,271,572</b>	<b>1,207,642,644</b>
<b>Total assets</b>	<b>983,151,482</b>	<b>205,217,569</b>	<b>246,353,126</b>	<b>90,148,407</b>	<b>59,281,367</b>	<b>1,584,151,951</b>
Deferred outflows of resources:						
Accumulated decrease in fair value hedging derivatives	32,289,304	3,074,914	2,878,517	1,129,512	570,792	39,943,039
<b>Total assets and deferred outflows of resources</b>	<b>\$ 1,015,440,786</b>	<b>\$ 208,292,483</b>	<b>\$ 249,231,643</b>	<b>\$ 91,277,919</b>	<b>\$ 59,852,159</b>	<b>\$ 1,624,094,990</b>

# Gainesville Regional Utilities

## Combining Statement of Net Position (continued)

September 30, 2013

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Gas</u>	<u>GRUCom</u>	<u>Combined</u>
<b>Liabilities and net position</b>						
Current liabilities:						
Fuels payable	\$ 2,695,743	\$ —	\$ —	\$ 2,158,249	\$ —	\$ 4,853,992
Accounts payable and accrued liabilities	11,595,607	1,033,545	857,237	510,793	485,262	14,482,444
Deferred credits	20,443,174	(3,825)	115,018	(1,442,134)	(39,158)	19,073,075
Due to other funds of the City	4,208,634	699,895	(2,002,127)	256,488	24,079	3,186,969
<b>Total current liabilities</b>	<b>38,943,158</b>	<b>1,729,615</b>	<b>(1,029,872)</b>	<b>1,483,396</b>	<b>470,183</b>	<b>41,596,480</b>
Payable from restricted assets:						
Utility deposits	6,686,541	654,861	589,201	383,432	—	8,314,035
Rate stabilization deferred credit	45,246,099	1,185,385	3,804,990	5,455,173	708,425	56,400,072
Construction fund:						
Accounts payable and accrued liabilities	5,135,832	914,259	2,038,281	439,818	420,566	8,948,756
Debt payable – current portion	82,637,643	13,849,766	15,588,784	1,493,758	3,275,049	116,845,000
Accrued interest payable	11,399,377	2,590,537	2,891,802	1,422,345	1,010,275	19,314,336
<b>Total payable from restricted assets</b>	<b>151,105,492</b>	<b>19,194,808</b>	<b>24,913,058</b>	<b>9,194,526</b>	<b>5,414,315</b>	<b>209,822,199</b>
Long-term debt:						
Utilities system revenue bonds	465,206,601	104,985,710	115,202,439	56,279,157	54,276,093	795,950,000
Commercial paper notes	32,907,630	5,337,350	13,214,900	10,540,120	—	62,000,000
Unamortized loss on refunding	(19,291,909)	(4,117,935)	(4,820,624)	(1,933,384)	(3,212,130)	(33,375,982)
Unamortized bond premium/discount	6,083,773	1,705,195	2,052,456	773,221	291,127	10,905,772
Fair value of derivative instruments	34,511,635	3,672,034	3,600,139	1,369,132	596,948	43,749,888
<b>Total long-term debt</b>	<b>519,417,730</b>	<b>111,582,354</b>	<b>129,249,310</b>	<b>67,028,246</b>	<b>51,952,038</b>	<b>879,229,678</b>
Noncurrent liabilities	14,266,031	598,326	546,334	187,085	5,296	15,603,072
<b>Total liabilities</b>	<b>723,732,411</b>	<b>133,105,103</b>	<b>153,678,830</b>	<b>77,893,253</b>	<b>57,841,832</b>	<b>1,146,251,429</b>
Deferred inflows of resources:						
Accumulated increase in fair value of hedging derivatives	15,002	—	—	13,378	—	28,380
Net position:						
Net investment in capital assets	179,933,258	64,295,572	80,251,332	(18,024,241)	(6,481,975)	299,973,946
Restricted	63,586,255	7,809,013	9,900,993	2,587,162	3,919,032	87,802,455
Unrestricted	48,173,860	3,082,795	5,400,488	28,808,367	4,573,270	90,038,780
<b>Total net position</b>	<b>291,693,373</b>	<b>75,187,380</b>	<b>95,552,813</b>	<b>13,371,288</b>	<b>2,010,327</b>	<b>477,815,181</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 1,015,440,786</b>	<b>\$ 208,292,483</b>	<b>\$ 249,231,643</b>	<b>\$ 91,277,919</b>	<b>\$ 59,852,159</b>	<b>\$ 1,624,094,990</b>

# Gainesville Regional Utilities

## Combining Statement of Revenues, Expenses, and Changes in Net Position

Year Ended September 30, 2013

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Operating revenue:						
Sales and service charges	\$ 228,822,572	\$ 29,516,632	\$ 35,307,820	\$ 21,849,892	\$ 10,408,713	\$ 325,905,629
Transfers from (to) rate stabilization	4,307,324	(48,449)	(1,128,383)	579,954	1,656,215	5,366,661
Other operating revenue	12,294,392	1,895,964	2,306,856	975,366	31,385	17,503,963
Total operating revenue	245,424,288	31,364,147	36,486,293	23,405,212	12,096,313	348,776,253
Operating expenses:						
Operation and maintenance	139,492,118	7,409,848	7,725,182	10,424,326	3,354,789	168,406,263
Administrative and general	28,101,470	5,722,036	5,858,426	4,354,340	2,023,471	46,059,743
Depreciation and amortization	37,106,429	6,703,508	8,260,359	3,857,094	3,207,973	59,135,363
Total operating expenses	204,700,017	19,835,392	21,843,967	18,635,760	8,586,233	273,601,369
Operating income	40,724,271	11,528,755	14,642,326	4,769,452	3,510,080	75,174,884
Non-operating income (expense):						
Interest income	1,198,689	200,759	330,778	228,333	159,376	2,117,935
Interest expense, net of AFUDC	(24,262,615)	(5,480,582)	(6,211,419)	(3,019,364)	(2,054,900)	(41,028,880)
Other interest related income, BABs	3,054,278	855,895	965,695	639,394	-	5,515,262
Total non-operating expense	(20,009,648)	(4,423,928)	(4,914,946)	(2,151,637)	(1,895,524)	(33,395,683)
Income before contributions, transfers, and extraordinary item	20,714,623	7,104,827	9,727,380	2,617,815	1,614,556	41,779,201
Capital contributions:						
Contributions from developers	-	428,736	210,645	-	-	639,381
Net capital contributions	-	428,736	210,645	-	-	639,381
Operating transfer to City of Gainesville General Fund	(20,134,035)	(5,824,749)	(7,770,189)	(2,539,681)	(387,804)	(36,656,458)
Change in net position before extraordinary items	580,588	1,708,814	2,167,836	78,134	1,226,752	5,762,124
Extraordinary item: impairment loss on Crystal River Unit 3	(17,891,152)	-	-	-	-	(17,891,152)
Change in net position	(17,310,564)	1,708,814	2,167,836	78,134	1,226,752	(12,129,028)
Net position – beginning of year	309,003,937	73,478,566	93,384,977	13,293,154	783,575	489,944,209
Net position – end of year	\$ 291,693,373	\$ 75,187,380	\$ 95,552,813	\$ 13,371,288	\$ 2,010,327	\$ 477,815,181

# Gainesville Regional Utilities

## Schedule of Utility Plant Properties – Combined Utility Fund

September 30, 2013

	Balance September 30, 2012	Additions	Sales, Retirements, and Transfers	Balance September 30, 2013
<b>Plant in service</b>				
Electric utility fund:				
Production plant	\$ 630,211,943	\$ 29,345,420	\$ 55,985,192	\$ 603,572,171
Nuclear fuel	2,858,039	-	2,858,039	-
Transmission and distribution plant	309,503,590	23,976,291	5,118,041	328,361,840
General and common plant	113,283,723	3,610,887	2,247,877	114,646,733
Total electric utility fund	<u>1,055,857,295</u>	<u>56,932,598</u>	<u>66,209,149</u>	<u>1,046,580,744</u>
Water utility fund:				
Supply, pumping, and treatment plant	44,668,636	16,698,382	10,777,986	50,589,032
Transmission and distribution plant	158,572,557	5,001,370	4,931,698	158,642,229
General plant	20,703,919	556,216	201,395	21,058,740
Total water utility fund	<u>223,945,112</u>	<u>22,255,968</u>	<u>15,911,079</u>	<u>230,290,001</u>
Wastewater utility fund:				
Pumping and treatment plant	91,867,100	7,445,198	1,973,793	97,338,505
Collection plant	146,297,811	4,375,313	770,111	149,903,013
Reclaimed water plant	8,416,015	134,284	4,967,004	3,583,295
General plant	24,177,971	905,177	127,129	24,956,019
Total wastewater utility fund	<u>270,758,897</u>	<u>12,859,972</u>	<u>7,838,037</u>	<u>275,780,832</u>
Gas utility fund:				
Distribution plant	54,270,603	4,590,809	232,491	58,628,921
General plant	7,970,465	515,052	228,660	8,256,857
Plant acquisition adjustment	4,650,635	-	-	4,650,635
Total gas utility fund	<u>66,891,703</u>	<u>5,105,861</u>	<u>461,151</u>	<u>71,536,413</u>
GRUCom utility fund:				
Distribution plant	45,783,232	7,347,454	1,028,729	52,101,957
General plant	11,257,192	360,234	123,010	11,494,416
Total GRUCom utility fund	<u>57,040,424</u>	<u>7,707,688</u>	<u>1,151,739</u>	<u>63,596,373</u>
Total plant in service	<u>\$ 1,674,493,431</u>	<u>\$ 104,862,087</u>	<u>\$ 91,571,155</u>	<u>\$ 1,687,784,363</u>
<b>Construction in progress</b>				
Electric utility fund	\$ 60,214,738	\$ 34,099,549	\$ 56,932,598	\$ 37,381,689
Water utility fund	32,327,971	21,633,635	22,255,968	31,705,638
Wastewater utility fund	27,888,393	26,296,446	12,859,972	41,324,867
Gas utility fund	8,587,640	3,395,659	5,105,861	6,877,438
GRUCom utility fund	9,280,418	4,519,878	7,707,688	6,092,608
Total construction in progress	<u>\$ 138,299,160</u>	<u>\$ 89,945,167</u>	<u>\$ 104,862,087</u>	<u>\$ 123,382,240</u>

## Gainesville Regional Utilities

### Schedule of Accumulated Depreciation and Amortization – Combined Utility Fund

September 30, 2013

	Balance September 30, 2012	Additions	Sales, Retirements, and Transfers	Balance September 30, 2013
<b>Electric utility fund:</b>				
Production plant	\$ 227,322,323	\$ 15,544,200	\$ 38,454,135	\$ 204,412,388
Nuclear fuel	2,094,067	–	2,094,067	–
Transmission and distribution plant	102,650,298	11,469,533	7,571,252	106,548,579
General and common plant	34,446,161	5,610,724	1,890,316	38,166,569
<b>Total electric utility fund</b>	<b>366,512,849</b>	<b>32,624,457</b>	<b>50,009,770</b>	<b>349,127,536</b>
<b>Water utility fund:</b>				
Supply, pumping, and treatment plant	15,558,479	1,436,449	2,884,376	14,110,552
Transmission and distribution plant	63,155,957	4,242,152	2,236,940	65,161,169
General plant	2,603,383	568,045	183,144	2,988,284
<b>Total water utility fund</b>	<b>81,317,819</b>	<b>6,246,646</b>	<b>5,304,460</b>	<b>82,260,005</b>
<b>Wastewater utility fund:</b>				
Pumping and treatment plant	47,735,387	2,418,803	1,373,828	48,780,362
Collection plant	53,633,687	4,248,912	466,023	57,416,576
Reclaimed water plant	2,319,419	186,887	517,237	1,989,069
General plant	3,047,556	1,111,368	98,738	4,060,186
<b>Total wastewater utility fund</b>	<b>106,736,049</b>	<b>7,965,970</b>	<b>2,455,826</b>	<b>112,246,193</b>
<b>Gas utility fund:</b>				
Distribution plant	25,232,601	2,370,282	490,054	27,112,829
General plant	1,481,688	439,035	211,373	1,709,350
Plant acquisition adjustment	4,650,637	–	–	4,650,637
<b>Total gas utility fund</b>	<b>31,364,926</b>	<b>2,809,317</b>	<b>701,427</b>	<b>33,472,816</b>
<b>GRUCom utility fund:</b>				
Distribution plant	23,871,261	2,359,098	991,138	25,239,221
General plant	888,727	400,772	111,311	1,178,188
<b>Total GRUCom utility fund</b>	<b>24,759,988</b>	<b>2,759,870</b>	<b>1,102,449</b>	<b>26,417,409</b>
<b>Total</b>	<b>\$ 610,691,631</b>	<b>\$ 52,406,260</b>	<b>\$ 59,573,932</b>	<b>\$ 603,523,959</b>



# Other Report



Ernst & Young LLP  
Suite 1700  
390 North Orange Avenue  
Orlando, FL 32801-1671

Tel: +1 407 872 6600  
Fax: +1 407 872 6626  
ey.com

## Report of Independent Certified Public Accountants 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, FL

We have audited, 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, the financial statements of Gainesville Regional Utilities (a department of the City of Gainesville, Florida), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Gainesville Regional Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gainesville Regional Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Gainesville Regional Utilities' internal control.

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

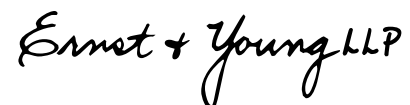
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist, that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



*Ernst & Young LLP*

February 20, 2014

**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

© 2013 Ernst & Young LLP.  
All Rights Reserved.

**[ey.com](http://ey.com)**

