

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
GAINESVILLE REGIONAL UTILITIES  
GAINESVILLE, FLORIDA  
SEPTEMBER 30, 2014 AND 2013**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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GAINESVILLE, FLORIDA**

**SEPTEMBER 30, 2014 AND 2013**

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Commissioners  
Gainesville, Florida

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

We have audited the accompanying financial statements of Gainesville Regional Utilities (the Utility) of the City of Gainesville, Florida (the City), as of and for the year ended September 30, 2014, and the related notes to the 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

### **Certified Public Accountants**

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To the Honorable Mayor and City Commissioners  
Gainesville, Florida

**INDEPENDENT AUDITORS' REPORT**  
**(Continued)**

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility of the City, as of September 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Utility and do not purport to, and do not present fairly the financial position of the City, as of September 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Prior Period Financial Statements**

The financial statements of the Utility as of September 30, 2013, were audited by other auditors whose report dated February 20, 2014, expressed an unmodified opinion on those statements. As discussed in Note 18 to the financial statements, the Utility has restated its 2013 financial statements during the current year to correct various balance sheet accounts as well as revenues, and expenses. The other auditors reported on the 2013 financial statements before restatement.

As part of our audit of the 2014 financial statements, we also audited adjustments described in Note 18 that were applied to restate the 2013 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2013 financial statements of the Utility other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 financial statements as a whole.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

To the Honorable Mayor and City Commissioners  
Gainesville, Florida

**INDEPENDENT AUDITORS' REPORT**  
**(Concluded)**

***Other Matters (Concluded)***

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The 2014 schedules of net revenues in accordance with bond resolution, combining statements, and schedules of utility plant properties and accumulated depreciation and amortization on pages 66 through 79, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 of America. In our opinion, such information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The 2010 through 2013 schedules of net revenues in accordance with bond resolution on pages 66 through 74 were subjected to the auditing procedures applied in the 2010 through 2013 audits of the basic financial statements by other auditors, whose reports on such information stated that it was fairly stated in all material respects in relation to the 2010 through 2013 financial statements as a whole. As part of the supplementary information that was subjected to procedures described in the preceding paragraph, we also included the adjustments described in Note 18 to the financial statements that were applied to restate the 2013 supplementary information. In our opinion, such adjustments to the 2013 supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole. We were not engaged to audit, review or apply any procedures to the 2013 supplementary information other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 supplementary information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2015, on our consideration of the Utility's 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 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 the Utility's internal control over financial reporting and compliance.



February 17, 2015  
Gainesville, Florida

## Management's Discussion and Analysis

Gainesville Regional Utilities (GRU or the Utility) is a combined municipal utility system operating electric, water, wastewater, natural gas, and telecommunications (GRUCom) systems. GRU is a utility enterprise of the City of Gainesville, Florida (City) and is reported as an enterprise fund in the annual financial report of the City. GRU is required to follow the provisions in the Amended and Restated Utilities System Revenue Bond Resolution (Resolution) adopted by the City on January 30, 2003.

We offer readers of GRU's financial statements this management discussion and analysis of the financial activities of GRU for the fiscal years ended September 30, 2014, 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 includes all of GRU's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

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

The current and prior year revenues and expenses are reported in this statement along with the resulting change in net position. This statement measures the success of the combined Utility's operations over the past year.

#### **Statement of Cash Flows**

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

#### **Notes to Financial Statements**

The notes provide additional information that is essential to fully understand the information provided in the financial statements.

## Management's Discussion and Analysis (continued)

### Financial Analysis of Gainesville Regional Utilities

GRU's net position decreased by \$1.7 million and \$14.1 million and increased \$16.8 million for fiscal years 2014, 2013, and 2012, respectively. The following condensed statements of net position provide additional information:

#### Gainesville Regional Utilities Condensed Statements of Net Position

	<b>2014</b>	As Restated 2013	As Restated 2012
(Thousands)			
Current assets	<b>\$ 130,712</b>	\$ 123,615	\$ 116,872
Restricted and internally designated assets	<b>193,442</b>	224,285	279,378
Noncurrent assets	<b>44,650</b>	30,717	37,777
Capital assets, net	<b>2,196,231</b>	1,206,124	1,202,101
Deferred outflows of resources	<b>79,515</b>	72,163	76,433
Total assets and deferred outflows of resources	<b><u>2,644,550</u></b>	<u>1,656,904</u>	<u>1,712,561</u>
Current liabilities	<b>70,894</b>	46,283	45,609
Payable from restricted assets	<b>52,029</b>	153,254	126,763
Long-term debt	<b>1,969,083</b>	912,606	1,034,229
Noncurrent liabilities	<b>14,768</b>	14,168	15,505
Deferred inflows of resources	<b>64,117</b>	55,249	986
Total liabilities and deferred inflows of resources	<b><u>2,170,891</u></b>	<u>1,181,560</u>	<u>1,223,092</u>
Net position:			
Net investment in capital assets	<b>298,056</b>	297,292	321,371
Restricted	<b>60,370</b>	75,536	84,513
Unrestricted	<b>115,233</b>	102,516	83,585
Total net position	<b><u>\$ 473,659</u></b>	<u>\$ 475,344</u>	<u>\$ 489,469</u>

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)

### Gainesville Regional Utilities Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<b>September 30</b>		
<b>2014</b>	As Restated 2013	As Restated 2012	
(Thousands)			
Operating revenue	<b>\$ 405,895</b>	\$ 349,075	\$ 348,858
Interest income	<b>714</b>	2,118	3,184
Other income, BABs	<b>5,561</b>	6,471	5,766
Total revenues	<b>412,170</b>	357,664	357,808
Operating expenses	<b>340,247</b>	276,065	262,998
Interest expense, net of AFUDC	<b>37,816</b>	41,029	43,454
Total expenses	<b>378,063</b>	317,094	306,452
Income before contributions, transfer, and extraordinary item	<b>34,107</b>	40,570	51,356
Capital contributions, net	<b>1,525</b>	639	1,428
Operating transfer to City of Gainesville General Fund	<b>(37,317)</b>	(36,656)	(36,005)
Extraordinary item: impairment loss on Crystal River 3	<b>-</b>	(18,678)	-
Change in net position	<b>(1,685)</b>	(14,125)	16,779
Net position, beginning of year, restated	<b>475,344</b>	489,469	472,690
Net position, end of year, restated	<b>\$ 473,659</b>	\$ 475,344	489,469

### Financial Highlights

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

- Gross utility plant in service increased \$1 billion, or 62%, in fiscal year 2014. The primary factor in the increase was due to a capital lease related to the Gainesville Renewable Energy Center (GREC) biomass plant. Gross utility plant increased \$13.3 million, or 0.8% in fiscal year 2013 and increased \$194.2 million, or 13.1% in fiscal year 2012. See Capital Assets within this Management's Discussion and Analysis section, Note 4 Capital Assets, and Note 6 Capital Lease for additional information.
- Long-term debt increased \$1.1 billion, or 116%, in fiscal year 2014, primarily due to a capital lease obligation related to the GREC biomass plant. Long-term debt decreased \$113.4 million, or 11.9%, in fiscal year 2013, due to scheduled principal payments and temporary reclassification of the \$90 million 2008 Series B Bonds from long-term debt to debt payable – current portion due to the expiration of the liquidity facility. See Long-Term Debt within this Management's Discussion and Analysis section, Note 6 Capital Lease, and Note 8 Long-Term Debt for additional information.



## Management's Discussion and Analysis (continued)

- GRU is completing remediation efforts at a former manufactured gas plant site. The costs incurred to date total \$28.1 million and GRU estimates that total project costs will be approximately \$28.9 million. GRU 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. See Note 13 Commitments and Contingencies for additional information.
- Sales and service charges increased \$41.3 million, or approximately 13%, decreased \$1.8 million, or approximately 0.5%, and decreased \$23.5 million or approximately 6.7% in fiscal years 2014, 2013, and 2012, respectively. The increase in sales and service charges in fiscal year 2014 is the result of rate increases implemented in October 2013 and fuel adjustment activity. The decrease in sales revenue in fiscal year 2013 is the result of lower consumption offset by rate increases implemented in October 2012. The decrease in sales revenue in fiscal year 2012 is the result of lower consumption offset by rate increases implemented in October 2011.
- Transfers to rate stabilization were \$8.9 million in fiscal year 2014 as a result of rate increases. Transfers from rate stabilization were \$4.1 million and \$4.5 million in fiscal years 2013 and 2012, respectively, due to increased operating expenses.
- Amounts to be recovered from future revenue increased \$26.4 million in fiscal year 2014 due to the start of commercial operation of the GREC biomass plant in December 2013. This revenue is offset by depreciation expense of \$26.4 million. See Note 6 Capital Lease for additional information.
- In 2013, GRU's investment in the Crystal River 3 nuclear power plant was written off in response to the announcement in February 2013 by Duke Energy that they had determined the plant was not operable and would be permanently closed. See Note 5 Jointly Owned Electric Plant for additional information.
- On October 1, 2014, GRU implemented a 3.75% increase in the revenue requirement for the water system, a 4.85% increase for the wastewater system, and a 4.25% increase for the gas system. The electric system experienced an 8.5% decrease in the revenue requirement, primarily due to reductions in operating expenses through increased efficiency and management of assets. To meet increased costs of service, GRU increased residential water connection fees by approximately 3% and residential wastewater connection fees by approximately 3%.
- The number of customers for electric services increased 0.9%, water services increased 0.6%, wastewater services increased 0.8%, and gas services increased 0.9% in fiscal year 2014. 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.

## Management's Discussion and Analysis (continued)

### Capital Assets

GRU's investment in capital assets as of September 30, 2014 was \$2.2 billion (net of accumulated depreciation and amortization). The increase in net capital assets for fiscal year 2014 was 82%, primarily due to a capital lease related to the GREC biomass plant. In fiscal years 2013 and 2012, the increase in net capital assets was 0.5% and 2.6%, respectively.

The following table summarizes GRU's capital assets, net of accumulated depreciation and amortization, for the years ended September 30, 2014, 2013, and 2012.

#### Gainesville Regional Utilities Capital Assets (net of accumulated depreciation)

	2014	2013	2012
	(Thousands)		
Generation	<b>\$ 1,373,668</b>	\$ 399,160	\$ 403,654
Transmission, distribution and collection	<b>465,826</b>	467,754	451,981
Treatment	<b>80,916</b>	85,036	73,241
General plant	<b>133,832</b>	132,310	134,926
Construction work in progress	<b>141,989</b>	121,864	138,299
Total net utility plant	<b><u>\$ 2,196,231</u></b>	<u>\$ 1,206,124</u>	<u>\$ 1,202,101</u>

Major capital asset events during the fiscal year include:

- GRU recorded a capital lease asset during fiscal year 2014 when GREC began commercial operations in December 2013. The capital lease asset was recorded at \$1 billion and \$0 at September 30, 2014 and 2013, respectively. See Note 6 Capital Lease for additional information.
- Electric transmission and distribution expansion was \$12.1 million in fiscal year 2014, \$15.1 million in fiscal year 2013, and \$15.8 million in fiscal year 2012. For 2014, \$2.8 million was spent on underground system improvements.
- Energy Supply capital included expenditures of \$9.6 million for both the John R Kelly (JRK) and Deerhaven (DH) plants in fiscal year 2014. These expenditures included \$626,000 for the DH Unit 2 Pulverizer Main Gear Box project and \$456,000 on the JRK Cooling Tower Improvements project.

## Management's Discussion and Analysis (continued)

- Telecommunications fiber cable and electronics expansion was \$2.1 million in 2014, which included \$1.7 million in fiber and related infrastructure installation and \$376,000 in electronics upgrades.
- Gas distribution expansion was \$3 million in 2014 compared to \$3.6 million in 2013. This included \$1.1 million in gas distribution mains, \$905,000 in residential gas services, and \$467,000 in meter change outs.
- The Utility's 2015 capital budget is \$104.2 million and was \$77.2 million in 2014. These projects will be funded from a combination of internal equity and debt.

Additional information may be found in Note 4 Capital Assets.

### Long-Term Debt

At September 30, 2014, 2013, and 2012, GRU had total long-term debt outstanding of \$1.9 billion, \$975 million, and \$1.0 billion, respectively, comprised of utilities system revenue bonds, commercial paper notes, and a capital lease.

### Gainesville Regional Utilities Outstanding Debt at September 30:

	2014	2013	2012
	(Thousands)		
Utilities system revenue bonds	\$ 885,950	\$ 912,795	\$ 944,695
Commercial paper notes	62,000	62,000	62,000
Capital lease	994,108	-	-
<b>Total</b>	<b>\$ 1,942,058</b>	<b>\$ 974,795</b>	<b>\$ 1,006,695</b>

Major long-term debt events during the fiscal year include:

- During fiscal year 2014, GRU reduced utilities system revenue bonds by \$26.8 million through scheduled principal payments.
- As a result of the start of commercial operation of the GREC biomass plant in December 2013, GRU recorded a capital lease liability of \$1.0 billion and \$0 for fiscal years 2014 and 2013, respectively. The capital lease liability was \$994.1 million and \$0 at September 30, 2014 and 2013, respectively. See Note 6 Capital Lease for additional information.
- The Utility has ratings of Aa2, AA, and AA- with Moody's Investors Services, Standard & Poor's, and Fitch Ratings, respectively, for utility system revenue bonds. The Utility has ratings of VMIG 1, A-1, and F1+ with Moody's Investors Services, Standard & Poor's, and Fitch Ratings, respectively, for commercial paper notes.

## Management's Discussion and Analysis (continued)

- In August, 2012, the City issued two series of 2012 Utilities System Revenue Bonds. The 2012 Series A Bonds in the amount of \$81.86 million were issued to (a) provide funds to refund \$1,605,000 in aggregate principal amount of the 2003 Series A Bonds, (b) to provide funds to refund \$78,690,000 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 \$100,470,000 were issued (a) to provide funds to refund \$31,560,000 in aggregate principal amount of the 2005 Series B Bonds, (b) to provide funds to refund \$17,570,000 in aggregate principal amount of the 2005 Series C Bonds, (c) to provide funds to refund \$25,930,000 in aggregate principal amount of the 2006 Series A Bonds, (d) to provide funds to refund \$14,405,000 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.

Additional information may be found in Note 8 Long-Term Debt.

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

- The primary factors currently affecting the utility industry include environmental regulations, restructuring of the wholesale energy markets, the formation of independent bulk power transmission systems, the formation of an Electric Reliability Organization (ERO) under FERC jurisdiction, and the increasing strategic and price differences among various types of fuels. No state or federal legislation is pending or proposed at this time for retail competition in Florida.
- 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.
- As of January 1, 2015, the Environmental Protection Agency's (EPA) Cross State Air Pollution Rule (CSAPR) is in effect but only for the ozone season (May to September) in Florida. The EPA promulgated the Mercury and Air Toxics Standards (MATS) to reduce emissions of toxic air pollutants from power plants. Facilities are currently in place at DH, which enables this station to comply with these standards at a known cost for operations and reagents. Results of the 2014 operational testing of the new air quality control systems at DH Unit 2 showed that performance targets were achieved and compliance is assumed. See Note 13 Commitments and Contingencies for additional information.

## Management's Discussion and Analysis (continued)

- Legislation and regulation at the 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 megawatt biomass fueled power plant will hedge against these uncertainties.
- GRU's long-term energy supply strategy is to encourage maximum cost effective energy conservation, renewable energy in combination with GRU owned generation, and purchased power while managing potential regulatory requirements. Based on the most recent forecasts, GRU has adequate reserves of generating capacity to meet forecasted loads plus a reserve margin through 2022. This forecast incorporates new population forecasts and changed economic circumstances.
- GRU management, with the approval of the City Commission, entered into a long-term contract to obtain dependable capacity, energy, and environmental attributes from GREC's 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. By diversifying GRU's fuel mix, the plant is expected to provide a long term hedge against volatile fossil fuel costs. See Note 6 Capital Lease for additional information.

### **Requests for Information**

This financial report is designed to provide a general overview of GRU'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 147118, Station A-105, Gainesville, Florida 32614-7118.

Gainesville Regional Utilities  
Statements of Net Position  
September 30, 2014 and 2013

	2014	As Restated 2013
<b>Assets</b>		
Current assets:		
Cash and investments	\$ 64,756,240	\$ 54,808,471
Accounts receivable, net of allowance for uncollectible accounts of \$1,561,364 for 2014 and \$603,883 for 2013	45,937,328	46,455,332
Inventories:		
Fuel	11,336,733	14,128,559
Materials and supplies	6,806,278	7,057,654
Other assets and regulatory assets	1,876,215	1,164,778
Total current assets	130,712,794	123,614,794
Restricted and internally designated assets:		
Utility deposits – cash and investments	8,322,368	8,314,035
Debt service – cash and investments	39,682,742	45,852,407
Rate stabilization – cash and investments	64,030,121	55,004,118
Construction fund – cash and investments	29,034,046	53,604,849
Utility plant improvement fund – cash and investments	39,313,780	49,243,689
Decommissioning reserve – cash and investments	13,058,443	12,266,072
Total restricted and internally designated assets	193,441,500	224,285,170
Noncurrent assets:		
Net costs recoverable in future years - regulatory asset	13,732,765	–
Unamortized debt issuance costs - regulatory asset	6,214,914	6,611,397
Investment in The Energy Authority	2,701,599	2,260,018
Pollution remediation - regulatory asset	15,808,529	16,265,410
Other noncurrent assets and regulatory assets	6,192,539	5,579,725
Total noncurrent assets	44,650,346	30,716,550
Capital assets:		
Utility plant in service	1,724,649,795	1,687,784,363
Capital lease	1,006,808,754	–
Less: accumulated depreciation and amortization	(677,216,550)	(603,523,959)
	2,054,241,999	1,084,260,404
Construction in progress	141,988,911	121,863,863
Net capital assets	2,196,230,910	1,206,124,267
Total assets	2,565,035,550	1,584,740,781
Deferred outflows of resources:		
Unamortized loss on refundings of bonds	28,765,946	32,044,138
Accumulated decrease in fair value of hedging derivatives	50,748,859	40,118,718
Total deferred outflows of resources	79,514,805	72,162,856
<b>Total assets and deferred outflows of resources</b>	<b>\$ 2,644,550,355</b>	<b>\$ 1,656,903,637</b>

Continued on next page.  
See accompanying notes.

Gainesville Regional Utilities  
Statements of Net Position (concluded)  
September 30, 2014 and 2013

	<b>2014</b>	<b>As Restated 2013</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 20,851,891	\$ 14,521,262
Fuels payable	11,429,004	5,094,366
Due to other funds of the City	3,142,499	3,186,969
Capital lease – current portion	16,828,193	-
Fuel adjustment	15,963,888	21,406,496
Other liabilities and regulatory liabilities	2,678,019	2,073,799
Total current liabilities	<u>70,893,494</u>	<u>46,282,892</u>
Payable from restricted assets:		
Utility deposits	8,321,246	8,314,035
Construction fund:		
Accounts payable and accrued liabilities	3,686,534	8,780,139
Debt payable – current portion	21,480,000	116,845,000
Accrued interest payable	18,540,801	19,314,336
Total payable from restricted assets	<u>52,028,581</u>	<u>153,253,510</u>
Long-term debt:		
Utilities system revenue bonds	869,570,000	795,950,000
Commercial paper notes	56,900,000	62,000,000
Capital lease	977,280,085	-
Unamortized bond premium/discount	10,229,836	10,905,772
Fair value of derivative instruments	55,103,515	43,749,888
Total long-term debt	<u>1,969,083,436</u>	<u>912,605,660</u>
Noncurrent liabilities:		
Reserve for insurance claims	3,337,000	3,337,000
Reserve for decommissioning CR3	11,264,443	10,830,872
Reserve for environmental liability	167,000	-
Total noncurrent liabilities	<u>14,768,443</u>	<u>14,167,872</u>
Total liabilities	<u>2,106,773,954</u>	<u>1,126,309,934</u>
Deferred inflows of resources:		
Rate stabilization	64,117,259	55,249,495
Total deferred inflows of resources	<u>64,117,259</u>	<u>55,249,495</u>
<b>Net position</b>		
Net investment in capital assets	298,056,254	297,292,342
Restricted	60,369,705	75,536,383
Unrestricted	115,233,183	102,515,483
Total net position	<u>473,659,142</u>	<u>475,344,208</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<u>\$ 2,644,550,355</u>	<u>\$ 1,656,903,637</u>

See accompanying notes.

Gainesville Regional Utilities

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended September 30, 2014 and 2013

	2014	As Restated 2013
Operating revenue:		
Sales and service charges	\$ 368,655,555	\$ 327,343,435
Transfers (to) from rate stabilization	(8,867,764)	4,105,178
Amounts to be recovered from future revenue	26,433,241	-
Other operating revenue	19,673,582	17,626,765
Total operating revenues	<u>405,894,614</u>	<u>349,075,378</u>
Operating expenses:		
Operation and maintenance	213,305,250	168,354,943
Administrative and general	42,492,252	47,243,495
Depreciation and amortization	84,449,419	60,467,206
Total operating expenses	<u>340,246,921</u>	<u>276,065,644</u>
Operating income	<u>65,647,693</u>	73,009,734
Non-operating income (expense):		
Interest income	714,408	2,117,935
Interest expense, net of AFUDC	(37,815,529)	(41,028,880)
Other interest related income, BABs	5,350,928	5,515,262
Other income	209,772	955,797
Total non-operating expense	<u>(31,540,421)</u>	<u>(32,439,886)</u>
Income before contributions, transfer, and extraordinary item	<u>34,107,272</u>	40,569,848
Capital contributions:		
Contributions from third parties	3,324,503	639,381
Reduction of plant costs recovered through contributions	(1,800,000)	-
Net capital contributions	<u>1,524,503</u>	<u>639,381</u>
Transfer to City of Gainesville General Fund	<u>(37,316,841)</u>	<u>(36,656,458)</u>
Extraordinary item: impairment loss on Crystal River 3	-	(18,678,128)
Change in net position	<u>(1,685,066)</u>	<u>(14,125,357)</u>
Net position – beginning of year, as previously reported	475,344,208	489,944,209
Restatement	-	(474,644)
Net position – beginning of year, restated	<u>475,344,208</u>	<u>489,469,565</u>
Net position – end of year, restated	<u>\$ 473,659,142</u>	<u>\$ 475,344,208</u>

See accompanying notes.



Gainesville Regional Utilities

Statements of Cash Flows

For the Years Ended September 30, 2014 and 2013

	<b>2014</b>	As Restated <b>2013</b>
Operating activities:		
Cash received from customers	\$ 369,172,437	\$ 324,989,068
Cash payments to suppliers for goods and services	(156,891,922)	(136,193,206)
Cash payments to employees for services	(55,973,131)	(56,158,951)
Cash payments for operating transactions with other funds	(10,517,970)	(11,186,776)
Other operating receipts	7,696,733	8,606,257
Net cash provided by operating activities	<u>153,486,147</u>	<u>130,056,392</u>
Noncapital financing activities:		
Transfer to City of Gainesville General Fund	(37,316,841)	(36,656,458)
Net cash used in noncapital financing activities	<u>(37,316,841)</u>	<u>(36,656,458)</u>
Capital and related financing activities:		
Principal repayments and refunding on long-term debt net	(26,845,000)	(31,899,998)
Interest paid on long-term debt	(38,589,064)	(40,041,086)
Other receipts	-	279,060
Proceeds from interest rebates, BABs	5,350,928	5,515,262
Acquisition and construction of fixed assets (including allowance for funds used during construction)	(56,990,480)	(75,874,644)
Other income	209,774	955,797
Net cash used in capital and related financing activities	<u>(116,863,842)</u>	<u>(141,065,609)</u>
Investing activities:		
Interest received	706,251	2,049,613
Purchase of investments	(295,386,535)	(485,020,581)
Investments in The Energy Authority	(5,845,309)	(1,756,622)
Distributions from The Energy Authority	5,403,728	2,223,773
Proceeds from investments	325,999,310	521,913,983
Net cash provided by investing activities	<u>30,877,445</u>	<u>39,410,166</u>
Net change in cash and cash equivalents	<b>30,182,909</b>	<b>(8,255,509)</b>
Cash and cash equivalents, beginning of year, restated	<b>45,376,465</b>	<b>53,631,974</b>
Cash and cash equivalents, end of year, restated	<u><b>\$ 75,559,374</b></u>	<u><b>\$ 45,376,465</b></u>

*Continued on next page.  
See accompanying notes.*

Gainesville Regional Utilities  
Statements of Cash Flows (concluded)  
For the Years Ended September 30, 2014 and 2013

	2014	As Restated 2013
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 65,647,693	\$ 73,009,734
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	84,449,419	60,467,206
Net costs to be recovered in future rates	(13,732,765)	-
Change in:		
Accounts receivable	518,004	(2,354,367)
Inventories	3,043,202	12,104,273
Other assets and regulatory assets	(711,437)	2,550,019
Restricted and internally designated assets	(3,109,085)	(13,125,686)
Noncurrent assets	879,007	2,246,888
Accounts payable and accrued liabilities	12,665,268	(900,009)
Due to other funds of the City	171,036	(1,506,908)
Fuel adjustment	(5,442,608)	5,171,923
Other liabilities and regulatory liabilities	241,771	(1,089,442)
Utility deposits	(1,122)	-
Rate stabilization	8,867,764	(6,517,239)
Net cash provided by operating activities	<u>\$ 153,486,147</u>	<u>\$ 130,056,392</u>
Non-cash capital and related financing activities, and investing activities:		
Net costs recoverable in future years	<u>\$ (13,732,765)</u>	<u>\$ -</u>
Acquisition of utility plant in service under capital lease	<u>\$ (1,006,808,754)</u>	<u>\$ -</u>
Acquisition of utility plant in service under long term capital lease obligation	<u>\$ 994,108,278</u>	<u>\$ -</u>
Change in construction in progress acquired with construction fund payable	<u>\$ (5,093,605)</u>	<u>\$ 2,077,427</u>
Change in utility plant in service	<u>\$ (4,999,956)</u>	<u>\$ (1,961,151)</u>
Change in ineffective portion of hedging derivatives	<u>\$ (838,440)</u>	<u>\$ 5,156,961</u>
Change in hedging derivatives - interest rate swaps	<u>\$ (10,515,189)</u>	<u>\$ 36,490,149</u>
Change in hedging derivatives - fuel options and futures	<u>\$ (114,952)</u>	<u>\$ (1,161,430)</u>
Change in fair value of investments	<u>\$ 235,808</u>	<u>\$ (1,818,404)</u>
Change in fair value of derivatives	<u>\$ 11,353,627</u>	<u>\$ (41,647,108)</u>
Extraordinary item	<u>\$ -</u>	<u>\$ 18,678,128</u>
Other	<u>\$ 150,326</u>	<u>\$ (2,203,471)</u>

See accompanying notes.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### 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) systems. GRU is a utility enterprise of the City of Gainesville, Florida (City) and is reported as an enterprise fund in the annual financial report of the City. GRU is required to follow the provisions in the Amended and Restated Utilities System Revenue Bond Resolution (Resolution) adopted by the City on January 30, 2003.

#### System of Accounts and Basis of Accounting

GRU's electric accounts are maintained substantially in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC), as required by the Resolution, and in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting, including the application of regulatory accounting as described in Governmental Accounting Standards Board (GASB) Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

GRU prepares its financial statements in accordance with GASB Statement 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 expense its regulatory assets and liabilities. Management believes that GRU currently meets the criteria for continued application of GASB Statement No. 62, but will continue to evaluate significant changes in the regulatory and competitive environment to assess continuing applicability of the criteria.

The Resolution specifies the flow of funds from revenues and the requirements for the use of certain restricted and unrestricted assets. Under the Resolution, rates are designed to cover operating and maintenance expense, rate stabilization, 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.

In March 2012, the GASB issued Statement No. 65 - *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GRU implemented this standard effective October 1, 2013.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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

In June 2012, the GASB issued Statement No. 68 - *Accounting and Financial Reporting for Pensions*, effective for GRU's fiscal year beginning October 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the City to its employees. This Statement requires recognition of a liability equal to the net pension liability, to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position for defined benefit pension plans. A pension expense is required to be recognized for the amount of contributions to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts and a change in the pension liability is required to be recognized for the difference between amounts recognized in expense and amounts paid by the employer for defined contribution pension plans.

These effects, once determined, will be recorded in GRU's financial statements for GRU's portion of the City's liability. GRU will be implementing GASB Statement No. 68 for the fiscal year ending September 30, 2015, and the financial statements for GRU for the year ended September 30, 2014 will be restated.

### **Rates and Regulation**

GRU is regulated by the City Commission of the City of Gainesville, Florida. GRU's rates are established in accordance with the Resolution. The Resolution requires that 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 to the City.

Each year during the budget process, and at any other time deemed necessary, the City Commission approves rate changes and other changes to GRU's system charges. GRU's cost of fuel and purchased power for the electric and natural gas systems is passed directly through to its customers through the Fuel and Purchased Gas Adjustments.

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

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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

#### **Funds in Accordance with the Resolution**

Certain restricted funds of GRU are administered in accordance with the Resolution:

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

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

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

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

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

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.

#### **Reclassifications**

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

#### **Statement of Cash Flows**

For purposes of the Statement of Cash Flows, cash and cash equivalents are defined as all liquid investments with an original maturity of three months or less.

#### **Fuel Inventories**

Fuel stocks, which are stated using the last-in, first-out (LIFO) method, are recorded as inventory when purchased. The cost of fuel used for electric generation is charged to expense as consumed.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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

#### Materials and Supplies Inventories

Inventories are stated at cost using the weighted average unit cost method when purchased and then expensed or capitalized to utility plant in service, as appropriate. Obsolete and unusable materials and supplies are expensed.

#### 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 2 Deposits and Investments.

#### Costs Recoverable in Future Years

The Power Purchase Agreement (PPA) with the Gainesville Renewable Energy Center (GREC) is recorded as a capital lease. Activity related to this lease generates a non-cash flow related to depreciation expense which is recorded as costs recoverable in future years. These net deferred costs recoverable in future years represent the amount by which depreciation exceeds principal repayment on the capital lease obligation of \$13.7 million and \$0 for the periods ending September 30, 2014 and 2013, respectively.

#### Debt Issuance Costs

Historically, GRU accounted for debt issuance costs as assets. Pursuant to GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, GRU was required for fiscal year 2014 to adopt the provisions of this statement to ensure compliance with required accounting standards and expense these types of costs. Rather, GRU elected to follow GASB Statement No. 62, paragraphs 476-500, Regulated Operations, and recorded debt issuance costs as regulatory assets as of September 30, 2014 and 2013.

#### Capital Assets and Depreciation

Capital assets are recorded at cost and include utility plant and general plant assets. The costs of capital assets include material, labor, vehicle and equipment usage, related overhead items, capitalized interest, and certain administrative and general expenses. Maintenance and replacements of minor items are charged to operating expenses. When units of depreciable property are retired, the original cost and removal cost, less salvage, are charged to accumulated depreciation. Associated cost of removal net of salvage is charged to accumulated depreciation as incurred. GRU has a capitalization threshold of \$2,500 for general plant assets and no capitalization threshold for utility plant.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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

Depreciation of capital assets is computed using the straight-line method over estimated service lives ranging from 6 to 50 years. The overall depreciation rate was 3.14% and 3.12% in fiscal years 2014 and 2013, respectively. Depreciation expense includes a provision for decommissioning costs related to the jointly-owned nuclear power plant. See Note 5 Jointly Owned Power Plant for additional information.

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. See Note 17 Extraordinary Item for a discussion of the Crystal River Unit No. 3 (CR3) retirement, which included write-off of nuclear fuel rods.

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

An allowance for interest on borrowed funds used during construction of \$757,000 and \$161,000 in 2014 and 2013, 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 4.07% and 4.08% for fiscal years 2014 and 2013, respectively.

### **Contributions in Aid of Construction**

GRU recognizes capital contributions to the electric and gas systems as revenues which are subsequently expensed in the same period for capital contributions that will not be recovered in rates in accordance with GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

GRU recognizes capital contributions to the water, wastewater, and GRUCom systems as revenues in the period received. Depreciation on these assets is recorded on a straight-line basis over the lives of the assets.

### **Hedging Derivative Instruments**

GRU records fuel and financial related derivative instruments in accordance with GASB Statement No. 53, *Accounting and Reporting for Financial and Derivative Instrument*. All effective derivative instruments are included in the Statements of Net Position as either an asset or liability measured at fair market value. All ineffective derivative instruments are recorded as a regulatory asset. Changes in the fair value of the hedging derivative instruments during the year are recorded as either deferred outflows or deferred inflows and are recognized in the period in which the derivative is settled. The settlement of fuel and financial related hedging derivative instruments are included as a part of fuel costs and interest expense, respectively, in the Statements of Revenues, Expenses, and Changes in Net Position.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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

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.

#### **Deferred Outflows of Resources**

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

##### *Unamortized Loss on Refunding of Bonds*

Losses on advance refunding of previous bonds have been deferred. These amounts are being amortized over the life of the old debt or the life of the new debt, whichever is shorter.

##### *Accumulated Decrease in Fair Value of Hedging Derivatives*

GRU has two types of hedging instruments, interest rate swap agreements and natural gas hedges. Each has been associated with an item that is eligible to be hedged. 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.

#### **Deferred Inflows of Resources**

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

##### *Rate Stabilization*

GRU designs its service rates to recover costs, as defined above, of providing services. In order to minimize possible future rate increases, each year GRU determines a rate stabilization amount to be charged or credited to revenues. There were rate stabilization additions of \$8.9 million for the year ended September 30, 2014, and withdrawals of \$4.1 million for the year ended September 30, 2013. These amounts are reflected as increases or decreases in deferred inflows – rate stabilization in the accompanying statements of net position. Rate stabilization budgeted deferrals or withdrawals are approved by the City Commission through the budget approval process.



# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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

#### **Net Position**

GRU classifies net position into three components as follows:

Net investment in capital assets – consists of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – consists of non-capital assets that must be used for a particular purpose as specified by creditors, contributors, grantors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – consists of assets that do not meet the definition of net investment in capital assets or restricted net position.

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.

#### **Use of Estimates**

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

#### **Revenue Recognition**

Revenue is recognized when earned. GRU accrues for services rendered but unbilled, which amounted to approximately \$16.1 million and \$15.6 million at September 30, 2014 and 2013, respectively.

Fuel and purchased gas adjustment levelization revenue is recognized as expenses are incurred. Amounts charged to customers for fuel are based on estimated costs. The amount charged in the fuel adjustment is adjusted and approved by the City Commission as deemed necessary. If the amount recovered through billings exceeds actual fuel expenses, GRU records the excess billings as a liability. If the amount recovered through billings is less than actual fuel expenses, GRU records the excess fuel expense as a reduction of the liability or as an asset. See Note 7 Fuel and Purchased Gas Adjustment Levelization for additional information.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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

#### Pledged Revenues

Under the terms of the Resolution relating to the sale of the Utilities System Revenue Bonds, payment of 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 Resolution for certain other specified purposes), including any investments and income thereof. The Utilities System Revenue Bonds have a first lien and the Commercial Paper Series C and D Notes have a second lien. The 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 in the utility plant improvement fund.

#### Operating, Non-operating Revenues

GRU defines operating revenue as that revenue which is derived from customer sales or service charges and recoveries related to future rate collections, while non-operating revenues include interest on investments, gains and losses on sales of assets, and other items. Substantially all of GRU's operating revenues are pledged to the repayment of utility system revenue bonds.

#### Transactions with the City

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

Below is a summary of significant transactions:

- Administrative services – GRU is billed monthly for various administrative and insurance services provided by the City's governmental functions.
- Nonmetered and metered service charges – GRU bills the City's funds on a monthly basis for all nonmetered, metered and other administrative services.
- Operating transfer to General Fund – GRU budgets an annual transfer to the General Fund based on City Commission approval. See Note 12 Transfers to General Fund for additional information.

### 2. Deposits and Investments

The institutions in which GRU's monies were deposited were certified as Qualified Public Depositories under the *Florida Public Deposit Act*. Therefore, GRU's total bank balances on deposit are entirely insured or collateralized by the Federal Depository Insurance Corporation and the Bureau of Collateral Securities, Division of Treasury, State Department of Insurance. As required by the Resolution, the depository is restricted to be a bank, savings and loan association or trust company of the United States, or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$10 million.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

### 2. Deposits and Investments (continued)

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

As of September 30, 2014, GRU had the following investments and maturities (amounts are in thousands).

	Fair Value	Maturities in Years	
		Less than 1	1-5
<b>Investment type:</b>			
Commercial paper	\$ 63,408	\$ 63,408	\$ -
Corporate bonds	13,705	-	13,705
U.S. agencies	90,407	4,069	86,338
U.S. bonds	3,497	2,019	1,478
<b>Total</b>	<b>\$ 171,017</b>	<b>\$ 69,496</b>	<b>\$ 101,521</b>

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
<b>Investment type:</b>			
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
<b>Total</b>	<b>\$ 222,467</b>	<b>\$ 128,387</b>	<b>\$ 94,080</b>

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

### 2. Deposits and Investments (continued)

Cash and investments are comprised of the following at September 30 (amounts are in thousands):

	<u>2014</u>	<u>2013</u>
Restricted assets	\$ 191,647	\$ 222,850
Internally designated cash	1,794	1,435
Current assets:		
Cash and investments	64,756	54,808
Total cash and investments	<u>258,197</u>	<u>279,093</u>
Less cash and cash equivalents	(75,559)	(45,376)
Less CR3 decommissioning reserve at FMPA	(11,264)	(10,831)
Less accrued interest receivable and accounts receivable	(357)	(419)
Total investments	<u>\$ 171,017</u>	<u>\$ 222,467</u>

#### 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 Resolution further limits investments of the Utility Plant Improvement Fund and Rate Stabilization Fund to no more than five years.

#### Credit Risk

GRU's investment policy and 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, 2014 and 2013, all of GRU's corporate holdings were rated Aa1 or better by Moody's Investor Services and/or AA+ or better by Standard and Poor's and/or AA+ or better by Fitch. As of September 30, 2014 and 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.

#### 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

September 30, 2014 and 2013

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### 2. Deposits and Investments (continued)

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

Issuer:	Percent of Total Investments	
	2014	2013
Federal Home Loan Bank	11.02%	6.19%
Federal Home Loan Mortgage Corporation	13.68%	10.01%
Federal National Mortgage Association	15.14%	12.92%
Federal Farm Credit Bank	13.21%	9.38%

### 3. Investment in The Energy Authority

GRU has an equity investment in The Energy Authority (TEA), a power marketing corporation comprised of eight municipal utilities as of December 31, 2014: MEAG Power, JEA (Florida), South Carolina Public Service Authority, Nebraska Public Power District, GRU, City Utilities of Springfield (Missouri), Public Utility District No. 1 of Cowlitz County (Washington), and American Municipal Power, Inc. (Ohio). TEA provides energy products and resource management services to equity members and non-members and allocates transaction savings and operating expenses to equity members pursuant to Settlement Procedures under the Operating Agreement.

In the Statement of Revenues, Expenses, and Changes in Net Position, GRU's sales to and purchases from TEA are recorded in sales and service charges and operations and maintenance, respectively. For the years ended September 30, 2014 and 2013, sales to TEA totaled \$1.6 million and \$300,000, and purchases from TEA totaled \$13.2 million and \$24.0 million, respectively.

GRU's equity interest was 5.6% and 6.7% for fiscal years 2014 and 2013, respectively, and accounted for this investment using equity accounting. As of September 30, 2014 and 2013, GRU's investment in TEA was \$2.7 million and \$2.3 million, respectively.

Through a combination of agreements, GRU guarantees credit received by TEA up to \$13.3 million and \$22.6 million as of September 30, 2014 and 2013, respectively. TEA evaluates its credit needs periodically and requests equity members to adjust their guarantees accordingly. The guarantee agreements are intended to provide credit support for TEA when entering into transactions on behalf of equity members. Such guarantees are within the scope of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, and would require the equity members to make payments to TEA's counterparties if TEA failed to deliver energy, capacity or natural gas as required by contract, or if TEA failed to make payment for the purchases of such commodities. If guarantee payments are required, GRU has rights with other equity members that such payments be apportioned based on certain criteria.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

### 3. Investment in The Energy Authority (continued)

The guarantees generally have indefinite terms, however, GRU can terminate its guarantee obligations by providing notice to counterparties and others, as required by the agreements. Such terminations would not pertain to any transactions TEA entered into prior to notice being given. As of September 30, 2014 and 2013, GRU had not recorded a liability related to these guarantees.

TEA's accounting records are maintained in conformity with the pronouncements of the GASB.

The table below contains unaudited condensed financial information for TEA for the periods ended September 30:

	<b>2014</b>	2013
	(Thousands)	
Condensed statement of operations:		
Total revenue	\$ 1,752,124	\$ 1,277,031
Total cost of sales and expense	<b>(1,647,387)</b>	(1,189,576)
Operating income	<b>104,737</b>	87,455
Nonoperating income (expense)	<b>(40)</b>	35
Change in net position	<b>\$ 104,697</b>	\$ 87,490
Condensed balance sheet:		
Assets:		
Current assets	\$ 148,981	\$ 129,456
Other assets	<b>15,497</b>	16,023
Total assets	<b>\$ 164,478</b>	\$ 145,479
Liabilities:		
Current liabilities	\$ 116,005	\$ 111,788
Noncurrent liabilities	<b>22</b>	-
Total liabilities	<b>\$ 116,027</b>	\$ 111,788
Total net position	<b>48,451</b>	33,691
<b>Total liabilities and net position</b>	<b>\$ 164,478</b>	\$ 145,479

As of September 30, 2014 and 2013, GRU's accounts receivable due from TEA totaled \$90,000 and \$20,000, respectively.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

### 4. Capital Assets

A summary of capital assets, changes in accumulated depreciation and amortization, and average depreciation rate for the year ended September 30, 2014, follows (amounts are in thousands):

	Plant in Service				CWIP/Plant Held for Future Use	Combined
	Treatment	Generation	Transmission, Distribution and Collection	General		
<b>Balance, October 1, 2013</b>	\$ 147,927	\$ 603,572	\$755,872	\$180,413	\$ 121,864	\$ 1,809,648
Additions	-	10,888	21,870	10,409	65,654	108,821
Capital lease	-	1,006,809	-	-	-	1,006,809
Less sales, retirements and transfers	-	(2,157)	(2,840)	(1,305)	(45,529)	(51,831)
<b>Balance, September 30, 2014</b>	<b>\$ 147,927</b>	<b>\$ 1,619,112</b>	<b>\$774,902</b>	<b>\$189,517</b>	<b>\$ 141,989</b>	<b>\$ 2,873,447</b>
<b>Accumulated depreciation, October 1, 2013</b>	\$ 62,891	\$ 204,412	\$288,118	\$ 48,103	n/a	\$ 603,524
Depreciation expense	3,950	15,574	25,587	8,440	n/a	53,551
Capital lease	-	26,433	-	-	n/a	26,433
Less retirements/ adjustments	170	(975)	(4,630)	(857)	n/a	(6,292)
<b>Accumulated depreciation, September 30, 2014</b>	<b>\$ 67,011</b>	<b>\$ 245,444</b>	<b>\$309,075</b>	<b>\$ 55,686</b>	<b>n/a</b>	<b>\$ 677,216</b>
<b>Capital assets, net</b>	<b>\$ 80,916</b>	<b>\$ 1,373,668</b>	<b>\$465,827</b>	<b>\$133,831</b>	<b>\$ 141,989</b>	<b>\$ 2,196,231</b>
<b>Average depreciation rate</b>	<b>2.67%</b>	<b>3.78%</b>	<b>3.34%</b>	<b>4.56%</b>	<b>n/a</b>	<b>3.62%</b>

A summary of capital assets, changes in accumulated depreciation and amortization, and average depreciation rate for the year ended September 30, 2013, follows (amounts are in thousands):

	Plant in Service				CWIP/Plant Held for Future Use	Combined
	Treatment	Generation	Transmission, Distribution and Collection	General		
<b>Balance, October 1, 2012</b>	\$ 136,536	\$ 633,070	\$727,494	\$177,393	\$ 136,781	\$ 1,811,274
Additions	24,143	29,345	45,426	5,948	89,945	194,807
Less sales, retirements and transfers	(12,752)	(58,843)	(17,048)	(2,928)	(104,862)	(196,433)
<b>Balance, September 30, 2013</b>	<b>\$ 147,927</b>	<b>\$ 603,572</b>	<b>\$755,872</b>	<b>\$180,413</b>	<b>\$ 121,864</b>	<b>\$ 1,809,648</b>
<b>Accumulated depreciation, October 1, 2012</b>	\$ 63,294	\$ 229,416	\$275,514	\$ 42,468	n/a	\$ 610,692
Depreciation expense	3,855	15,544	24,877	8,130	n/a	52,406
Less retirements/ adjustments	(4,258)	(40,548)	(12,273)	(2,495)	n/a	(59,574)
<b>Accumulated depreciation, September 30, 2013</b>	<b>\$ 62,891</b>	<b>\$ 204,412</b>	<b>\$288,118</b>	<b>\$ 48,103</b>	<b>n/a</b>	<b>\$ 603,524</b>
<b>Capital assets, net</b>	<b>\$ 85,036</b>	<b>\$ 399,160</b>	<b>\$467,754</b>	<b>\$132,310</b>	<b>\$ 121,864</b>	<b>\$ 1,206,124</b>
<b>Average depreciation rate</b>	<b>2.71%</b>	<b>2.51%</b>	<b>3.35%</b>	<b>4.54%</b>	<b>n/a</b>	<b>3.12%</b>

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### **5. Jointly Owned Electric Plant**

GRU entered into a Participation Agreement in 1977 with Florida Power Corporation (FPC) which became Progress Energy, to purchase a 1.4079% undivided ownership interest, approximately 12.7 megawatt (MW) in Progress Energy's 860-MW nuclear powered electric generating plant called Crystal River Unit No. 3. In July 2012, Progress Energy merged with and became a wholly owned subsidiary of Duke Energy. GRU does not exercise significant influence or control over the operating or financial policies of Duke Energy.

The Nuclear Regulatory Commission (NRC) requires utilities owning nuclear powered electric generating plants to provide financial assurance that funds would be sufficient and available when needed to pay the future decommissioning costs. In accordance with the NRC requirements, GRU established a decommissioning trust. GRU's carrying balance in this decommissioning trust fund at September 30, 2014 and September 30, 2013, including interest earnings, was approximately \$11.3 million and \$10.8 million, respectively.

GRU and Florida Municipal Power Agency (FMPA) entered into an agreement whereby the FMPA would act as agent for GRU and CR3 minority owner participants to coordinate the administration of the decommissioning trust funds. Contributions to this trust fund are not available to the City for any other purpose except for the decommissioning of CR3. Contributions were based on independent studies, which took into account the anticipated future decommissioning costs and anticipated investment returns. Future contribution amounts were based on updated cost estimates and trust fund earnings.

In September 2009, CR3 began an outage for normal refueling and maintenance as well as an uprate project to increase generating capability and to replace two steam generators. During preparations to replace steam generators, workers discovered a delamination (or separation) within the concrete at the periphery of the containment building. After reviewing all options to repair the unit, Duke Energy announced in February 2013 its intention to retire the CR3 nuclear power plant. Duke Energy expects that the current decommissioning fund balances are sufficient to decommission the plant (including future investment growth of the funds).

During 2013, Duke Energy provided GRU with insurance proceeds of \$3.5 million from Duke Energy's settlement with its insurance provider Nuclear Electric Insurance, LTD (NEIL). GRU determined \$2.9 million of these insurance proceeds were settlement for damages related to the plant and reduced its net investment in CR3 by these amounts. The remaining \$600,000 of the \$3.5 million insurance proceeds received in 2013 was a result of entitlement from GRU participation as a wholesale purchaser of nuclear energy as part of a five year Power Purchase Agreement for 50 MW with Progress Energy/Duke Energy, ending December 31, 2013. The remaining net investment of \$17.9 million in the CR3 plant and \$787,000 of nuclear fuel inventory was written off as an extraordinary item as of September 30, 2013.



# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### **5. Jointly Owned Electric Plant (continued)**

GRU, along with other CR3 minority owners, has designated FMPA as its agent in negotiations with Duke Energy on various matters related to the retirement of CR3. FMPA has negotiated a settlement with Duke Energy on behalf of itself and the other minority owners. The CR3 Settlement, Release, and Acquisition Agreement (settlement agreement) was agreed to and executed by all parties on September 26, 2014. The settlement agreement sets forth the terms and conditions and documents necessary to transfer all of the City's ownership interest in CR3 to Duke Energy, pending regulatory approval from the NRC. One of the provisions of the settlement agreement would require the minority owners to transfer their ownership interests in CR3 back to Duke Energy along with their decommissioning trust funds. In return, the minority owners would receive certain cash settlements and Duke Energy would agree to be responsible for all costs and liabilities relating to CR3 including costs of decommissioning. CR3 operation and maintenance costs, which represents GRU's share of the expenses attributable to the operation of CR3, were discontinued as of October 1, 2013, and are no longer obligated to be paid in the future per the settlement agreement. It is anticipated that final NRC approval will be obtained by the end of calendar year 2015. GRU's cash settlement is expected to be approximately \$10 million.

### **6. Capital Lease**

GRU executed a PPA with the Gainesville Renewable Energy Center (GREC). The plant, a 100 megawatt biomass-fired power production facility located in Alachua County, Florida, utilizes woody biomass comprised of urban wood waste, forest wood waste and mill residue. The nature of these are further limited by Forest Sustainability Standards that are included as part of the PPA. The PPA requires that GREC provide available energy, delivered energy and environmental attributes exclusively to GRU and began commercial operations on December 17, 2013. GRU is required to pay for all available energy from the plant at fixed prices, adjusted for liquidated damages and other penalties. GRU is also required to pay a variable operations and maintenance charge for all delivered energy, a fuel charge for all delivered energy, a shutdown charge as applicable and ad valorem taxes paid by GREC.

The PPA has been accounted for as a long-term capital lease for a term of 30 years with a capital lease asset and liability recorded. The capital lease asset was recorded at \$1,006,808,754 and \$0 at September 30, 2014 and 2013, respectively. The total payments applicable to the lease were \$48.2 million and \$0 million for September 30, 2014 and 2013, respectively. The payments for fiscal year 2014 included \$35.5 million for interest expense included in fuel costs. The capital lease asset will be amortized over the life of the PPA. Amortization of \$26,433,241 and \$0 was recorded at September 30, 2014 and 2013, respectively.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

### 6. Capital Lease (continued)

The following lists the minimum payments due under the PPA as of September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
	(Thousands)	
2015	\$ 61,216	\$ -
2016	61,216	-
2017	61,216	-
2018	61,216	-
2019	61,216	-
2020-2024	306,081	-
2025-2029	306,081	-
2030-2034	306,081	-
2035-2039	306,081	-
2040-2044	257,866	-
<b>Total minimum lease payments</b>	<u>1,788,270</u>	-
<b>Less: Amounts representing interest</b>	<u>(794,162)</u>	-
<b>Net minimum lease payments</b>	<u>\$ 994,108</u>	<u>\$ -</u>

If at any time GRU's senior unsecured debt rating is rated below a Standard & Poor's rating of A- or a Moody's rating of A3 (such rating levels to be equitably adjusted if either rating agency were in the future to change its rating standards), GRU is required to pay or provide to GREC a security deposit equal to \$40 million as security for GRU's performance of its obligations under the PPA. If required, such security shall be in the form of cash deposited in either an interest bearing escrow account mutually acceptable to GREC and GRU, an unconditional and irrevocable direct pay letter of credit in form and substance reasonably satisfactory to GREC, or a performance bond in form and substance reasonably satisfactory to GREC. As of September 30, 2014, GRU's credit ratings were in compliance with the performance security requirements.

A land lease was executed on September 28, 2009 between GRU and GREC for the land on which the biomass plant is located. The payment per year is \$100 for a term of 47 years on the condition that GREC provide dependable energy to GRU. If a condition occurs in which GREC does not provide dependable energy to GRU, the payment will be adjusted to the fair market value of the land at that time. Rental income of \$100 was received at September 30, 2014.

### 7. Fuel and Purchased Gas Adjustment Levelization

Electric and natural gas customers are billed a monthly fuel and purchased gas adjustment charge based on a number of factors including fuel and fuel related costs. GRU establishes this fuel and purchased gas adjustment charge based on ordinances approved by the City Commission. A fuel and purchased gas adjustment levelization fund is utilized to stabilize the monthly impact of the fuel and purchased gas adjustment charge included in customer billings.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

### 7. Fuel and Purchased Gas Adjustment Levelization (continued)

The following table represents total revenues and expenses associated with the fuel and purchased gas adjustment and the subsequent impact on the fuel and purchased gas levelization balance as of September 30, 2014:

	<b>Fuel Adjustment</b>	<b>Purchased Gas Adjustment</b>	<b>Total</b>
		(Thousands)	
Revenues	\$ 136,495	\$ 10,245	\$ 146,740
Expenses	(141,632)	(10,550)	(152,182)
To (From) Levelization Fund	<u>\$ (5,137)</u>	<u>\$ (305)</u>	<u>\$ (5,442)</u>
Levelization Fund Beginning Balance	\$ 20,435	\$ 971	\$ 21,406
To (From) Levelization Fund	(5,137)	(305)	(5,442)
Levelization Fund Ending Balance	<u>\$ 15,298</u>	<u>\$ 666</u>	<u>\$ 15,964</u>

The following table represents total revenues and expenses associated with the fuel and purchased gas adjustment and the subsequent impact on the fuel and purchased gas levelization balance as of September 30, 2013:

	<b>Fuel Adjustment</b>	<b>Purchased Gas Adjustment</b>	<b>Total</b>
		(Thousands)	
Revenues	\$ 102,743	\$ 9,077	\$ 111,820
Expenses	(97,496)	(9,152)	(106,648)
To (From) Levelization Fund	<u>\$ 5,247</u>	<u>\$ (75)</u>	<u>\$ 5,172</u>
Levelization Fund Beginning Balance	\$ 15,189	\$ 1,045	\$ 16,234
To (From) Levelization Fund	5,246	(74)	5,172
Levelization Fund Ending Balance	<u>\$ 20,435</u>	<u>\$ 971</u>	<u>\$ 21,406</u>

### 8. Long-Term Debt

**\$186,000,000 Utilities System Revenue Bonds, Series 1983** - 6.0%, dated August 1, 1983, final maturity October 1, 2014; payable solely from and secured by an irrevocable lien of GRU's net revenues. Interest is payable on April 1 and October 1. Principal is payable on October 1. The bonds are subject to redemption at the option of the City as a whole or in part on any interest payment date, at a redemption price of 100% plus accrued interest to the date of redemption.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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

**\$134,920,000 Utilities System Revenue Bonds, 1992 Series B** - 6.5%, dated March 1, 1992, final maturity October 1, 2013. The 1992 Series B Bonds mature at various dates through October 1, 2013. Those bonds maturing on or after October 1, 2004 to October 1, 2007, amounting to \$14.3 million were redeemed at the option of the City on October 1, 2002.

**\$7,625,000 Utilities System Revenue Bonds, 2003 Series B (Federally Taxable)** – 4.4%, dated January 30, 2003, final maturity October 1, 2013. The 2003 Series B Bonds are not subject to redemption prior to maturity.

**\$115,925,000 Utilities System Revenue Bonds, 2003 Series C** – 5.0%, dated August 20, 2003, final maturity October 1, 2013. The 2003 Series C Bonds are not subject to redemption prior to maturity.

**\$196,950,000 Utilities System Revenue Bonds, 2005 Series A** – 4.75% - 5.0%, dated November 16, 2005, mature on various dates through October 1, 2036, and were partially refunded as part of the 2012 Series A Utilities System Revenue Bond issuance. The 2005 Series A 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 2005 Series A Bonds were issued to pay a portion of the cost of acquisition and construction of certain improvements to the City's electric, natural gas, water, wastewater, and telecommunications systems and to refund the City's Utilities System Commercial Paper Notes, Series C. In March 2007, the 2007 Series A Bonds (\$139,505,000) were issued to advance-refund to the maturity dates a portion of the bonds maturing from October 1, 2030 to October 1, 2036. The proceeds related to the refunded bonds were deposited into an escrow account to refund the bonds on October 1, 2015 at 100% of par.

**\$61,590,000 Utilities System Revenue Bonds, 2005 Series B (Federally Taxable)** – 5.14%-5.31%, dated November 16, 2005, final maturity October 1, 2021. The 2005 Series B Bonds are subject to redemption at the option of the City, in whole or in part, on any date, at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or 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 2005 Series B Bonds were issued to pay a portion of the cost of acquisition and construction of certain improvements to the City's electric, natural gas, water, wastewater, and telecommunications systems and to refund the City's Utilities System Commercial Paper Notes, Series D.

**\$55,135,000 Utilities System Revenue Bonds, 2005 Series C** – Variable interest rates based on market rates, 0.03% at September 30, 2014, dated November 16, 2005, final maturity October 1, 2026. The 2005 Series C Bonds are subject to redemption at the option of the City at a redemption price of 100% of the principal amount, plus accrued interest to the date of redemption. The 2005 Series C Bonds were issued to refund a portion of the City's Utilities System Revenue Bonds, 1996 Series A and created a net present value savings of over \$6,700,000, with yearly cash savings ranging from approximately \$370,000 to over \$1,085,000.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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

**\$53,305,000 Utilities System Revenue Bonds, 2006 Series A** – Variable interest rates based on market rates, 0.02% at September 30, 2014, dated July 6, 2006, final maturity October 1, 2026. The 2006 Series A Bonds are subject to redemption at the option of the City, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption. The 2006 Series A Bonds were issued to pay a portion of the cost of acquisition and construction of certain improvements to the City's electric, natural gas, water, wastewater, and telecommunications systems and to refund a portion of the City's Utilities System Revenue Bonds, 1996 Series A. The 2006 Series A Bonds created a net present value savings of over \$6,200,000, with yearly cash savings ranging from approximately \$371,000 to over \$890,000.

**\$139,505,000 Utilities System Revenue Bonds, 2007 Series A** – Variable interest rates based on market rates, 0.05% at September 30, 2014, dated July 6, 2006, final maturity October 1, 2036. The 2007 Series A Bonds are subject to redemption at the option of the City, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption. The 2007 Series A Bonds were issued to refund a portion of the City's Utilities System Revenue Bonds, 2003 Series A and a portion of the City's Utilities System Revenue Bonds, 2005 Series A. The 2007 Series A Bonds created a net present value savings of over \$8,500,000, with yearly cash savings ranging from \$100,000 to \$500,000.

**\$105,000,000 Utilities System Revenue Bonds, 2008 Series A (Federally Taxable)** – 4.49% - 5.27%, dated February 13, 2008, final maturity October 1, 2020. The 2008 Series A Bonds are subject to redemption prior to maturity at the election of the City in whole or in part, at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or 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 2008 Series A Bonds were issued to pay costs of acquisition and construction of the City's utilities system.

**\$90,000,000 Utilities System Revenue Bonds, 2008 Series B** – Variable interest rates based on market rates, 0.03% at September 30, 2014, dated February 13, 2008, final maturity October 1, 2038. The 2008 Series B 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 date of redemption. The 2008 Series B Bonds were issued to pay costs of acquisition and construction of the City's utilities system.

**\$24,190,000 Utilities System Revenue Bonds, 2009 Series A (Federally Taxable)** – 3.44% - 3.59%, dated September 16, 2009, final maturity October 1, 2015. The 2009 Series A Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or 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 2009 Series A Bonds were issued to pay costs of acquisition and construction of the City's utilities system.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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

**\$156,900,000 Utilities System Revenue Bonds, 2009 Series B – Issuer Subsidy – Build America Bonds (Federally Taxable)** – 3.59% - 5.65%, dated September 16, 2009, final maturity October 1, 2039. The 2009 Series A Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or 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 2009 Series A Bonds were issued to pay costs of acquisition and construction of the City's utilities system.

**\$12,930,000 Utilities System Revenue Bonds, 2010 Series A (Federally Taxable)** – 5.87%, dated November 1, 2010, final maturity October 1, 2030. The 2010 Series A Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or 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 2010 Series A Bonds were issued to (a) pay costs of acquisition and construction of the City's utilities system, (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series A Bonds, and (c) to pay the costs of issuance of the Taxable 2010 Series A Bonds.

**\$132,445,000 Utilities System Revenue Bonds, 2010 Series B – Issuer Subsidy – Build America Bonds (Federally Taxable)** – 6.02%, dated November 1, 2010, final maturity October 1, 2040. The 2010 Series B Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or 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 2010 Series B Bonds were issued to (a) pay costs of acquisition and construction of the City's utilities system, (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series B Bonds, and (c) to pay the costs of issuance of the Taxable 2010 Series B Bonds.

**\$16,365,000 Utilities System Revenue Bonds, 2010 Series C** – 5.00% - 5.25%, dated November 1, 2010, final maturity October 1, 2034. The 2010 Series C Bonds are subject to redemption prior to maturity at the election of the City at a redemption price so specified. The 2010 Series C Bonds were issued to (a) refund \$5,860,000 in aggregate principal amount of the 2003 Series A Bonds, and (b) to provide funds to refund \$10,505,000 in aggregate principal amount of the 2008 Series A Bonds.

**\$81,860,000 Utilities System Revenue Bonds, 2012 Series A** – 2.50% - 5.00% dated August 1, 2012 final maturity October 1, 2028. The 2012 Series A Bonds were issued to (a) provide funds to refund \$1,605,000 in aggregate principal amount of the 2003 Series A Bonds, (b) to provide funds to refund \$78,690,000 in aggregate principal amount of the 2005 Series A Bonds, and (c) to pay cost of issuance of the 2012 Series A Bonds. These bonds mature at various dates from October 1, 2021 to October 1, 2028. Those bonds maturing on and after October 1, 2023 are subject to redemption prior to maturity, at a redemption price so specified.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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

**\$100,470,000 Utilities System Revenue Bonds, 2012 Series B** - Variable interest rates based on market rates, 0.03% at September 30, 2014, dated August 1, 2012, final maturity October 1, 2042. The 2012 Series B Bonds were issued to (a) refund \$31,560,000 in aggregate principal amount of the 2005 Series B Bonds, (b) provide funds to refund \$17,570,000 in aggregate principal amount of the 2005 Series C Bonds, (c) provide funds to refund \$25,930,000 in aggregate principal amount of the 2006 Series A Bonds, (d) provide funds to refund \$14,405,000 in aggregate principal amount of the 2008 Series A Bonds, and (e) pay costs of issuance of the 2012 Series B Bonds. These bonds mature at various dates through October 1, 2042. The 2012 Series B Bonds are subject to redemption prior to maturity, at a redemption price so specified.

**\$85,000,000 Utilities System Commercial Paper Notes, Series C Notes** - These tax-exempt notes 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 Gironzentrale. 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 which is approved by the Utility and the Agent. Under terms of the agreement, the Utility may borrow up to \$85,000,000 with same day availability ending on the termination date, as defined in the agreement. Interest is at a variable market rate which was 0.17% at September 30, 2014. Series C Notes of \$62,000,000 are outstanding as of September 30, 2014.

**\$25,000,000 Utilities System Commercial Paper Notes, Series D Notes** - In June 2000, a Utilities System Commercial Paper Note Program, Series D (taxable) was established in a principal amount not to exceed \$25,000,000. Liquidity support for the Series D Notes was provided by SunTrust Bank until it was replaced in August 2014. Liquidity support for the Series D Notes is provided under a letter of credit agreement effective August 28, 2014, with State Street Bank and Trust Company. The termination date of the credit agreement is August 28, 2017. There were no Series D Notes outstanding as of September 30, 2014 and 2013.

### Debt Service Requirements for Long-Term Debt

Annual debt service requirements to maturity for long-term debt are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u> <u>(Thousands)</u>	<u>Total Debt Service Requirements</u>
2015	\$ 21,480	\$ 21,456	\$ 42,936
2016	22,320	20,708	43,028
2017	23,170	19,968	43,138
2018	24,095	19,199	43,294
2019	25,070	18,367	43,437
2020–2024	130,150	79,126	209,276
2025–2029	156,935	62,471	219,406
2030–2034	204,500	44,891	249,391
2035–2039	212,980	29,691	242,671
2040–2044	127,250	3,370	130,620
	<u>\$ 947,950</u>	<u>\$ 319,247</u>	<u>\$ 1,267,197</u>

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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

The interest rates used in this table are per GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which requires the rate used in the calculations be that in effect as of September 30, 2014. Interest rates on variable-rate long-term debt were valued to be equal to 0.03% for the 2005 Series C Bonds, 0.02% for the 2006 Series A Bonds, 0.05% for the 2007 Series A Bonds, 0.03% for the 2008 Series B Bonds, 0.03% for the 2012 Series B Bonds, and 0.17% for the 2008 Commercial Paper Notes, Series C.

Interest expense for the 2009 Series B and 2010 Series B Bonds have been shown net of the federal interest subsidy, which is equal to 32.5% of the annual interest expense and is assumed to remain at said rate for the duration of the bonds. The subsidy is recorded as non-operating revenue on the Statements of Revenues, Expenses, and Changes in Net Position.

For the Electric, Water, Sewer, Gas, and Telecommunication System variable rate demand obligations (VRDO), support is provided in connection with tenders for purchase with various liquidity providers pursuant to standby bond purchase agreements (SBPA) or credit agreements 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 or credit agreement. The current stated termination dates of the SBPA and credit agreements range from December 31, 2014, to December 21, 2015. Each of the SBPA and credit agreement termination dates may be extended. At September 30, 2014, there were no outstanding draws under the SBPA. There are no outstanding draws on the Taxable Commercial Paper Notes, Series D, which are supported by a credit agreement that expires on August 28, 2017.

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 term of the credit agreement, GRU is entitled to make a borrowing under the credit agreement. The termination dates of the credit agreements as of September 30, 2014, are August 28, 2017 and November 30, 2015. The credit agreement termination dates may be extended. The credit agreement supporting the tax-exempt Commercial Paper Notes, Series C (which expires November 30, 2015) had no outstanding draws as of September 30, 2014 and 2013. The credit agreement supporting the taxable Commercial Paper Notes, Series D (which expires on August 28, 2017) had no outstanding draws as of September 30, 2014 and 2013.

The balance outstanding at September 30, 2014 and 2013 for defeased bonds was \$183.8 million and \$216.8 million, respectively.



# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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

#### Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
	(Thousands)				
Utilities system revenue bonds	\$ 912,795	\$ -	\$ (26,845)	\$ 885,950	\$ 16,380
Add: Issuance premiums	10,931	-	(701)	10,230	701
Less deferred amounts:					
For issuance discounts	(25)	-	25	-	-
Total bonds payable	923,701	-	(27,521)	896,180	17,081
Commercial paper	62,000	-	-	62,000	5,100
Compensated absences	4,064	1,408	(1,180)	4,292	1,180
	<u>\$ 989,765</u>	<u>\$ 1,408</u>	<u>\$ (28,701)</u>	<u>\$ 962,472</u>	<u>\$ 23,361</u>

Long-term liabilities activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
	(Thousands)				
Utilities system revenue bonds	\$ 944,695	\$ -	\$ (31,900)	\$ 912,795	\$ 116,845
Add: Issuance premiums	11,632	-	(701)	10,931	701
Less deferred amounts:					
For issuance discounts	73	-	(48)	25	25
Total bonds payable	956,400	-	(32,649)	923,751	117,571
Commercial paper	62,000	-	-	62,000	-
Compensated absences	3,810	2,032	(1,778)	4,064	1,778
	<u>\$ 1,022,210</u>	<u>\$ 2,032</u>	<u>\$ (34,427)</u>	<u>\$ 989,815</u>	<u>\$ 119,349</u>

#### Interest Rate Swaps

GRU is a party to certain interest rate swap agreements. GRU applies hedge accounting where applicable.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

### 9. Hedging Activities

#### Interest Rate Hedges

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.

#### Terms, Fair Values and Counterparty Credit Ratings

The terms, fair values and counterparty credit ratings of the outstanding swaps as of September 30, 2014, were as follows:

<b>Associated Bond Issue</b>	<b>2008CP*</b>	<b>2005B*</b>	<b>2005C*</b>	<b>2006A*</b>
	(Thousands)			
Notional amounts	\$ 22,000	\$ 45,000	\$ 42,525	\$ 41,145
Effective date	7/3/2002	11/16/2005	6/1/2008	7/6/2006
Fixed payer rate	4.100%	SIFMA	3.200%	3.224%
				68% of 10 YR
Variable receiver rate	SIFMA	77.14% of 1 MO LIBOR	60.36% of 10 YR LIBOR	LIBOR - 0.365%
Fair value	\$ (1,649)	\$ 76	\$ (2,273)	\$ (2,448)
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>
	(Thousands)		
Notional amounts	\$ 58,500	\$ 31,500	\$ 137,875
Effective date	2/13/2008	2/13/2008	3/1/2007
Fixed payer rate	4.229%	4.229%	3.944%
Variable receiver rate	SIFMA	SIFMA	SIFMA
Fair value	\$ (13,770)	\$ (7,417)	\$ (27,622)
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 section below.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

### 9. Hedging Activities (continued)

#### Fair Value

Excluding the basis swap, six of the swap agreements had a negative fair value as of September 30, 2014. Due to the low interest rate environment, as compared to the period when the swaps were entered into, the 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.

	Fair Value of Interest Rate Swaps at September 30, 2014	Changes in Fair Value	Changes in Deferred (Inflow) Outflow	Changes in Regulatory (Assets)/ Liability for Ineffective Instruments
(Thousands)				
2008CP	\$ (1,649)	\$ 795	\$ (788)	\$ (7)
2005B	76	144	-	(144)
2005C	(2,273)	(471)	-	471
2006A	(2,448)	(518)	-	518
2008B	(13,770)	(2,559)	2,559	-
2008B	(7,417)	(1,381)	1,381	-
2007A	(27,622)	(7,364)	7,364	-
	<u>\$ (55,103)</u>	<u>\$ (11,354)</u>	<u>\$ 10,516</u>	<u>\$ 838</u>

All seven of the swap agreements had 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, the fixed payer rates exceeded the variable receiver rates. These swaps were based on a different variable receiver rate, which was partially responsible for the difference in performance.

	Fair Value of Interest Rate Swaps at September 30, 2013	Changes in Fair Value	Changes in Deferred (Inflow) Outflow	Changes in Regulatory (Assets)/ Liability for Ineffective Instruments
(Thousands)				
2008CP	\$ (2,445)	\$ 844	\$ (847)	\$ 3
2005B	(67)	146	-	(146)
2005C	(1,803)	2,400	-	(2,400)
2006A	(1,930)	2,614	-	(2,614)
2008B	(11,211)	8,879	(8,879)	-
2008B	(6,036)	4,785	(4,785)	-
2007A	(20,258)	21,979	(21,979)	-
	<u>\$ (43,750)</u>	<u>\$ 41,647</u>	<u>\$ (36,490)</u>	<u>\$ (5,157)</u>

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

### 9. Hedging Activities (continued)

#### Swap Payments and Associated Debt

Debt service requirements on the interest rate swaps using interest rates in effect at September 30, 2014, would be as follows:

	Variable Rate		Fixed Rate		Net Swap	Total
	Principal	Interest	Principal	Interest	Interest	
	(Thousands)					
2015	\$ 5,410	\$ 205	\$ 485	\$ 1,307	\$ 11,135	\$ 18,542
2016	6,425	195	3,320	1,209	10,757	21,906
2017	6,620	185	3,495	1,031	10,369	21,700
2018	6,915	175	3,680	841	9,965	21,576
2019	6,505	174	3,875	640	9,800	20,994
2020–2024	43,270	836	10,115	681	46,103	101,005
2025–2029	63,585	733	-	-	37,362	101,680
2030–2034	123,890	378	-	-	23,695	147,963
2035–2039	73,930	56	-	-	4,081	78,067
2040–2044	-	-	-	-	-	-
	<u>\$ 336,550</u>	<u>\$ 2,937</u>	<u>\$ 24,970</u>	<u>\$ 5,709</u>	<u>\$ 163,267</u>	<u>\$ 533,433</u>

#### Credit Risk

As of September 30, 2014, the fair value of six of the swaps were negative, therefore GRU is not subject to credit risk. To mitigate the potential for credit risk, GRU has negotiated additional termination event and collateralization requirements in the event of a ratings downgrade. Failure to deliver the Collateral Agreement to GRU as negotiated and detailed in the Schedule to the International Swaps and Derivative Agreements (ISDA) master agreement for each counterparty would constitute an event of default with respect to that counterparty.

#### Basis Risk

The swaps expose the City to basis risk:

- The 2005 Series B Swap is exposed to basis risk through the potential mismatch of 77.14% of one-month LIBOR and the SIFMA rate. As a result, savings may not be realized. As of September 30, 2014, the one month LIBOR rate was 0.1565%, which places the SIFMA at approximately 25.56% of one month LIBOR at that date.
- The 2005 Series C 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 2006 Series A Swap is exposed to basis risk through the potential mismatch of 68% of 10-year LIBOR less .365% and the variable 31-day rollover rate. As a result, savings may not be realized. As of September 30, 2014, the 10-year LIBOR rate was at 2.635%.
- The 2007 Series A and the 2008 Series B Swaps are exposed to the difference between SIFMA and the variable 31-day rollover rate.
- The 2008 Commercial Paper Series C Notes Swap (formerly the 2002 Series A 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, 2014, the SIFMA rate was 0.04%.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### **9. Hedging Activities (continued)**

#### **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, an event of default, or 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 mitigates this risk by actively reviewing and negotiating its swap agreements.

#### **Rollover Risk**

GRU is exposed to this risk when its interest rate swap agreements mature or terminate prior to the maturity of the hedged debt. When the counterparty to the interest rate swap agreements 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, AA from Standard and Poor's, and AA- from Fitch. Currently GRU has not encountered any credit market barriers.

#### **Effectiveness**

Of the interest rate swap agreements, three have been determined to be effective, while four have been deemed ineffective as of September 30, 2014 and 2013. The ineffective portion related to interest rate swap agreements is recorded as a regulatory asset for \$4.6 million and \$3.8 million as of September 30, 2014 and 2013, respectively.

Fair value changes of \$50.4 million and \$39.9 million have been recorded for interest rate swap agreements in accumulated decrease in fair value of hedging derivatives at September 30, 2014 and 2013, respectively. There were no realized gains or losses related to interest rate swaps as of September 30, 2014 or 2013.

#### **Fuel Hedges**

GRU utilizes commodity price swap contracts to hedge the effects of fluctuations in the prices for natural gas. These transactions meet the requirements of GASB Statement No. 53. Realized gains and losses related to gas hedging positions were recorded as a reduction of fuel costs of \$1.1 million for September 30, 2014 and an addition to fuel costs of \$700,000 for September 30, 2013. Fair value changes have been recorded of \$300,000 and \$200,000 for natural gas hedging agreements in accumulated decrease in fair value of hedging derivatives at

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

### 9. Hedging Activities (continued)

September 30, 2014 and 2013, respectively. Unrealized gains and losses related to gas hedging agreements are deferred in a regulatory account and recognized in earnings as fuel costs are incurred. All fuel hedges have been determined to be effective.

The information below provides a summary of results based on GRU's risk management activity for fiscal years 2014 and 2013 (in thousands).

	Fair Value of Cash Flow Hedges at September 30, 2014	Changes in Fair Value	Deferred (Inflows)/ Outflows Resources	Notional Amount (MMBTU's)
Natural gas	\$ 374	\$ 346	\$ (415)	4,130

	Fair Value of Cash Flow Hedges at September 30, 2013	Changes in Fair Value	Deferred (Inflows)/ Outflows Resources	Notional Amount (MMBTU's)
Natural gas	\$ 28	\$ (1,014)	\$ (176)	1,230

### 10. Restricted Net Position

Certain assets are restricted by the Resolution and other external requirements. Following is a summary of the computation of restricted net position at September 30 and the composition of restricted net position:

	<u>2014</u>	<u>2013</u>
	(Thousands)	
<b>Restricted net position:</b>		
Total restricted assets	\$ 191,647	\$ 222,850
Unspent debt proceeds	(29,034)	(53,605)
Payable from restricted assets	(102,243)	(93,709)
<b>Restricted net position</b>	<u>\$ 60,370</u>	<u>\$ 75,536</u>

Composition of restricted net position:

	<u>2014</u>	<u>2013</u>
	(Thousands)	
<b>Debt covenants:</b>		
Debt service	\$ 21,056	\$ 26,292
Utility plant improvement	39,314	49,244
Total restricted pursuant to debt covenants	<u>60,370</u>	<u>75,536</u>
<b>Restricted net position</b>	<u>\$ 60,370</u>	<u>\$ 75,536</u>

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### 11. Lease Revenue

GRU leases communication tower antenna space to various wireless communications service providers on eleven communications towers and two water towers throughout our service territory. Two of the five transmitter sites for the countywide public safety radio system are also located on these communications towers. GRU also receives payments annually in advance for land leased to GREC for the biomass power plant site.

Future minimum rental revenue for various operating leases are:

<u>Year ending September 30:</u>	<u>Future Minimum Rental Revenue</u>
2015	\$ 1,234,180
2016	1,161,073
2017	1,115,886
2018	1,115,886
2019	1,042,542
2020-2024	3,936,412
2025-2029	1,912,174
2030-2034	508,871
2035-2039	500
2040-2044	500
2045-2049	500
2050-2054	500
2055-2059	200
	<u>\$ 12,029,224</u>

### 12. Transfer to General Fund

GRU transfers monies monthly to the City's General Fund that are historically based on a pre-defined formula that predominantly tied the transfer directly to the utility's revenue generation. The transfer to the General Fund may be made only to the extent such monies 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 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 which was adjusted subsequent to each year by comparing the negotiated amount transferred to the amount which 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, 2014 and 2013, the transfer was \$37.3 million and \$36.7 million, respectively.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### **12. Transfer to General Fund (Continued)**

Effective for fiscal year 2015, the City Commission approved a change to the transfer formula. This new transfer formula will contain the following components:

- A new base equal to the fiscal year 2014 General Fund Transfer level that would have been produced under the formula methodology that was in place from fiscal years 2001 through 2010
- Growth of the base by 1.5% per year for fiscal years 2016 through 2019
- Reduction of this amount by an amount equal to the property tax revenue that would accrue to the City of Gainesville related to the GREC Biomass Facility
- In addition to the components above, a further one-time reduction of \$250,000 for fiscal year 2015 only

### **13. Commitments and Contingencies**

#### **General**

The primary factors currently affecting the utility industry include environmental regulations, restructuring of the wholesale energy markets, the formation of independent bulk power transmission systems, the formation of an Electric Reliability Organization (ERO) under FERC jurisdiction, and the increasing strategic and price differences among various types of fuels. No state or federal legislation is pending or proposed at this time for retail competition in Florida.

The emerging role of municipalities as telecommunications providers pursuant to the 1996 Federal Telecommunications Act has resulted in a number of state-level legislative initiatives across the nation to curtail this activity. In Florida, this issue culminated in the passage, in 2005, of legislation codified in Section 350.81, Florida Statutes (Section 350.81) that defined the conditions under which municipalities are allowed to provide retail telecommunications services. Although GRU has special status as a grandfathered entity under this legislation, the provision of certain additional retail telecommunications services by the Utility would implicate certain of the requirements of Section 350.81. Management does not expect that any required compliance with the requirements of Section 350.81 would have a material adverse effect on the operations or financial condition of GRUCom.



# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### **13. Commitments and Contingencies (continued)**

#### **Environmental and Other Natural Resource Regulations**

GRU and its operations are subject to federal, state and local environmental regulations which include, among other things, control of emissions of particulates, SO<sub>2</sub> and NO<sub>x</sub> into the air; discharges of pollutants, including heat, into surface or ground water; the disposal of wastes and reuse of products generated by wastewater treatment and combustion processes; management of hazardous materials; and the nature of waste materials discharged into the wastewater system's collection facilities. Environmental regulations generally are becoming more numerous and more stringent and, as a result, may substantially increase the costs of the Utility's services by requiring changes in the operation of existing facilities as well as changes in the location, design, construction and operation of new facilities (including both facilities that are owned and operated by GRU as well as facilities that are owned and operated by others (including, particularly, GREC), from which the Utility purchases output, services, commodities and other materials). There is no assurance that the facilities in operation, under construction or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations. Compliance with applicable regulations could result in increases in the costs of construction and/or operation of affected facilities, including associated costs such as transmission and transportation, as well as limitations on the operation of such facilities. Failure to comply with regulatory requirements could result in reduced operating levels or the complete shutdown of those facilities not in compliance as well as the imposition of civil and criminal penalties.

Increasing concerns about climate change and the effects of greenhouse gases (GHG) on the environment have resulted in EPA proposing on June 2, 2014 carbon regulations for existing power plants. Because of how recently the proposed rules for existing units were issued by the EPA, they could change significantly before becoming final. Therefore, management is unable to predict what impact such regulations will have on GRU.

#### **Air Emissions**

##### **The Clean Air Act**

The Clean Air Act regulates emissions of air pollutants, establishes national air quality standards for major pollutants, and requires permitting of both new and existing sources of air pollution. Among the provisions of the Clean Air Act that affect GRU's operations are (1) the acid rain program, which requires nationwide reductions of SO<sub>2</sub> and NO<sub>x</sub> from existing and new fossil-fueled electric generating plants, (2) provisions related to toxic or hazardous pollutants, (3) requirements to address regional haze, and (4) requirements to address effects on ambient air quality standards from transport of fine particulate matter and ozone (Clean Air Interstate Rule, Clean Air Transport Rule, Cross State Air Pollution Rule).

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### **13. Commitments and Contingencies (continued)**

The Clean Air Act also requires persons constructing new major air pollution sources or implementing significant modifications to existing air pollution sources to obtain a permit prior to such construction or modifications. Significant modifications include operational changes that increase the emissions expected from an air pollution source above specified thresholds. In order to obtain a permit for these purposes, the owner or operator of the affected facility must undergo a new source review, which requires the identification and implementation of Best Available Control Technology (BACT) for all regulated air pollutants and an analysis of the ambient air quality impacts of a facility. In 2009, the EPA announced plans to actively pursue new source review enforcement actions against electric utilities for making such changes to their coal-fired power plants without completing new source review. Under Section 114 of the Clean Air Act, the EPA has the authority to request from any person who owns or operates an emission source, information and records about operation, maintenance, emissions, and other data relating to such source for the purpose of developing regulatory programs, determining if a violation occurred (such as the failure to undergo new source review), or carrying out other statutory responsibilities.

#### **The Clean Air Interstate Rule (CAIR)**

In March 2005, the EPA issued CAIR, which requires reductions of overall NO<sub>x</sub> and SO<sub>2</sub> emissions. CAIR is a two-phase cap and trade program under which utilities have several options for complying with the emissions cap, including installation of emission controls, purchasing allowances or switching fuels. GRU's DH and JRK Station are subject to CAIR. Significant capital and operating and maintenance expenditures have been incurred to meet the 2009 and 2010 CAIR compliance dates for Phase I of the NO<sub>x</sub> and SO<sub>2</sub> emission caps, respectively. GRU installed an SCR, a dry circulating scrubber system, and a fabric filter system at DH 2, all of which went on-line May 1, 2009.

On July 11, 2008, a three judge panel of the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court) in *North Carolina v. Environmental Protection Agency*, 531 F.3d 896 (*North Carolina v. EPA*), unanimously vacated CAIR. On December 23, 2008, the D.C. Circuit Court remanded the CAIR case to the EPA to revise CAIR consistent with its July 11, 2008 decision in *North Carolina v. EPA*. In a subsequent decision in response to petitions for rehearing, however, the court in December 2008 decided to remand CAIR to the EPA without vacating it. This had the effect of reinstating CAIR, including the trading programs, until the EPA issued a new rule consistent with the court's decision.

#### **The Clean Air Transport Rule**

On August 2, 2010, the EPA published in the Federal Register a proposed Clean Air Transport Rule (Transport Rule) to reduce the interstate transport of fine particulate matter and ozone. Under Section 110(a)(2)(D)(i)(I) of the Clean Air Act, states are required to prohibit emissions that contribute significantly to nonattainment in, or interfere with maintenance by, any other state with respect to any primary or secondary National Ambient Air Quality Standards (NAAQS). In

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### 13. Commitments and Contingencies (continued)

the proposed Transport Rule, the EPA asserts that emissions of SO<sub>2</sub> and NO<sub>x</sub> in 32 eastern states contribute significantly to nonattainment or interfere with maintenance of NAAQS in one or more downwind states, more specifically with respect to the annual PM<sub>2.5</sub> NAAQS, the 24-hour average PM<sub>2.5</sub> NAAQS, and the ozone NAAQS. The proposed Transport Rule contained one preferred remedy option and two alternate schemes. The EPA's preferred option proposed to establish a cap-and-trade program with certain variance provisions and limited interstate trading. The proposed Transport Rule has been superseded by the Cross-State Air Pollution Rule (CSAPR).

#### The Cross-State Air Pollution Rule (CSAPR)

On July 6, 2011, the EPA released its final Cross-State Air Pollution Rule. This rule is the final version of the Transport Rule and replaces CAIR. In Florida, only ozone season NO<sub>x</sub> emissions are regulated by CSAPR through the use of allowances. Using historical generation figures to project future emissions, Management believes that GRU will have sufficient ozone season NO<sub>x</sub> allowances to operate into the foreseeable future.

Various states, local governments, and other stakeholders challenged CSAPR and, on August 21, 2012, a three-judge panel of the D.C. Circuit Court, by a 2-1 vote, held that the EPA had exceeded its statutory authority in issuing CSAPR and vacated CSAPR along with certain related federal implementation plans. As part of its holding, the D.C. Circuit Court panel held that the EPA should continue to administer the original CAIR program until the EPA promulgates a valid replacement.

On October 5, 2012, the EPA filed a petition for rehearing *en banc* with the D.C. Circuit Court requesting that the full court reconsider the August 21, 2012 decision. That request was denied. On Friday, March 29, 2013, the Department of Justice and several environmental groups filed Petitions for *certiorari*, asking the Supreme Court to accept the case and overturn CSAPR. The Supreme Court granted *certiorari* on June 24, 2013. On April 29, 2014, the Supreme Court reversed part of the D.C. Circuit Court's decision, upholding parts of the CSAPR program, and remanded other issues back to the D.C. Circuit Court for further proceedings. The D.C. Circuit Court set a deadline of July 3, 2014, for the parties to brief on how they would like to proceed with the remaining issues and lawsuits. On June 26, 2014, the EPA filed a Motion with the D.C. Circuit Court to lift the stay of the CSAPR. EPA has indicated that, at this time, CAIR remains in place and that no immediate action by the states or affected sources is expected. EPA is reviewing the Supreme Court's decision and is evaluating next steps, including how to address compliance deadlines that passed during the ongoing litigation and stay. On October 23, 2014, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit) granted EPA's request that the court lift the stay of the Cross State Air Pollution Rule. While the court did not specifically address EPA's request that the court extend CSAPR's compliance deadlines by three years, GRU believes that, by granting EPA's motion, the court granted EPA's request. Since Florida only has to comply for Ozone Season NO<sub>x</sub>, only the following deadlines apply to GRU's operations:

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### 13. Commitments and Contingencies (continued)

- May 1, 2015: Phase 1 begins for ozone-season NO<sub>x</sub> trading program. Existing units must begin monitoring and reporting NO<sub>x</sub> emissions.
- December 1, 2015 (and each Dec. 1 thereafter): Date by which sources must demonstrate compliance with ozone-season NO<sub>x</sub> trading program (i.e., allowance transfer deadline).
- May 1, 2017: Phase 2 (2017 and beyond) begins for ozone-season NO<sub>x</sub> trading program. Assurance provisions in effect.

### Mercury and Air Toxics Standards (MATS)

On December 16, 2011, the EPA promulgated a rule to reduce emissions of toxic air pollutants from power plants. Specifically, these mercury and air toxics standards or MATS for power plants will reduce emissions from new and existing coal- and oil-fired electric utility steam generating units (EGUs). The EPA also signed revisions to the new source performance standards for fossil fuel-fired EGUs. Such revisions revised the standards that new coal- and oil-fired power plants must meet for particulate matter, SO<sub>2</sub> and NO<sub>x</sub>. On November 25, 2014, the United States Supreme Court accepted certiorari to hear challenges to the mercury admission rules.

A review of existing emissions data confirms GRU's compliance with all of the new standards without the installation of additional pollution control equipment.

### Effluent Limitation Guidelines

In November 2010, the EPA agreed to propose the power plant Effluent Limitation Guidelines (ELGs) for coal-fired steam electric plants by July 23, 2012, and finalize the guidelines in May 2014. The ELGs were last revised in 1982. The EPA is considering more stringent limits for new metals and parameters for individual wastewater streams generated by steam electric power plants, with emphasis on coal-fired power plants. The EPA will evaluate the technologies and costs to remove those metals and identify the Best Available Technology (BAT) to affect their control in coal-fired power plant effluent. After a number of delays in issuing the proposed ELG rule, EPA issued a draft rule on June 7, 2013 and accepted comments on the rule until September 20, 2013. The agency is under a consent decree to take final action by May 22, 2014. Under the proposed approach, new requirements for existing power plants would be phased in between 2017 and 2022 and would leverage flexibilities as necessary. The City continues to evaluate the potential impact of the rule on the Utility.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### **13. Commitments and Contingencies (continued)**

#### **Regional Haze**

On June 15, 2005, the EPA issued the Clean Air Visibility Rule, amending its 1999 regional haze rule, which had established timelines for states to improve visibility in national parks and wilderness areas throughout the United States. Under the amended rule, certain types of older sources may be required to install best available retrofit technology (BART). Some of the effects of the amended rule could be requirements for newer and cleaner technologies and additional controls for particulate matter, SO<sub>2</sub> and NO<sub>x</sub> emissions from utility sources. The states were to develop their regional haze implementation plans by December 2007, identifying the facilities that will have to reduce emissions and then set emissions limits for those facilities. However, states have not met that schedule and on January 15, 2009, the EPA published a notice finding that 37 states, the District of Columbia and the Virgin Islands failed to submit all or a portion of their regional haze implementation plans. The EPA's notice initiates a two-year period during which each jurisdiction must submit a haze implementation plan or become subject to a Federal Implementation Plan issued by the EPA that would set the basic program requirements. GRU has installed additional emission control equipment at DH 2 to reduce SO<sub>2</sub> and NO<sub>x</sub> emissions that potentially contribute to regional haze.

Recently, emissions modeling was completed for DH 1 to determine its impact on visibility in the Class I areas within 300 km of the unit. Results of this modeling confirmed that DH 1 had impacts on the applicable Class I areas below the 0.5 deciview threshold and therefore is exempt from the BART program associated with the regional haze program.

The reasonable further progress (RFP) section of Florida's regional haze state implementation plan, which has been approved by EPA, applies to DH 2. GRU has voluntarily requested a cap on SO<sub>2</sub> emissions, which provides DH 2 with an exemption from the RFP section. A draft permit from the FDEP was issued on June 1, 2012 approving GRU's requested cap on SO<sub>2</sub> emissions, and the final permit was issued on June 26, 2012.

#### **Internal Combustion Engine MACT**

On August 20, 2010, the EPA published a final rule for the National Emissions Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engines, which covers existing stationary spark ignition reciprocating internal combustion engines located at major sources of hazardous air pollutant emissions such as power plant sites. This final rule, which became effective on October 19, 2010, requires the reduction of emissions of hazardous air pollutants from covered engines. Several of GRU's reciprocating engines are covered by this new rule and all are in full compliance.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### 13. Commitments and Contingencies (continued)

#### Climate Change

Control of GHGs such as CO<sub>2</sub> is receiving a great deal of attention within the United States. On April 2, 2007, the United States Supreme Court issued a decision in *Massachusetts v. Environmental Protection Agency*, 549 U.S. 497, holding that GHG emissions are air pollutants under the Clean Air Act requiring the EPA to determine whether GHGs pose a threat to health and welfare. On December 15, 2009, the EPA published the final rule for the endangerment finding under the Clean Air Act. In the finding, the EPA declared that the six identified GHGs – CO<sub>2</sub>, methane, nitrous oxide, hydro-fluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause or contribute to global warming, and that the effects of climate change endanger public health and welfare by increasing the likelihood of severe weather events and the other related consequences of climate change (the Endangerment Finding). The issuance of the Endangerment Finding triggered the statutory requirement that the EPA regulate emissions of GHGs as air pollutants from motor vehicles. Such regulations were finalized on April 1, 2010, when the EPA and the United States Department of Transportation issued a joint final rule imposing GHG emission standards on light-duty vehicles (cars and light trucks) (Tailpipe Rule). That regulation took effect on January 2, 2011.

On March 29, 2010, the EPA affirmed its position that air pollutant emissions that are actually controlled by regulation under the Clean Air Act under any program must be taken into account when considering permits issued under other programs, such as the PSD permit program (Timing Rule). A PSD permit is required before commencement of construction of new major stationary sources or major modifications of such sources. As a result of this determination, the effect of the new motor vehicle rule is to require the analysis of emissions and control options with respect to GHG emissions from new and modified major stationary sources as of January 2, 2011, which is the date the new motor vehicle rule took effect. Permitting requirements for GHGs include, but are not limited to, the application of BACT for GHG emissions, and monitoring, reporting and recordkeeping for GHGs.

On May 13, 2010, the EPA issued a final rule for determining the applicability of the PSD program to GHG emissions from major sources. The rule, known as the Tailoring Rule, establishes criteria for identifying facilities required to obtain PSD permits and the emissions thresholds at which permitting and other regulatory requirements apply. The applicability threshold levels established by this rule include both a mass-based calculation and a metric known as the carbon dioxide equivalent, or CO<sub>2</sub>e, which incorporates the global warming potential for each of the six individual gases that comprise the collective GHG defined in the endangerment finding.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### 13. Commitments and Contingencies (continued)

As of January 2, 2011, sources that are subject to PSD and/or Title V permits due to their non-GHG emissions (such as fossil fuel based electric generating facilities for their NO<sub>x</sub>, SO<sub>2</sub> and other emissions) will have to address GHG emissions in new permit applications or renewals. Construction or modification of major sources will become subject to PSD requirements for their GHG emissions if the construction or modification results in a net increase in the overall mass of GHG emissions exceeding 75,000 tons per year on a CO<sub>2</sub>e basis. New and modified major sources required to obtain a PSD permit would be required to conduct a BACT review for their GHG emissions. With respect to Title V requirements, as of January 2, 2011, sources that are required to have Title V permits for non-GHG pollutants will be required to address GHGs as part of their Title V permitting. The 75,000 tons per year CO<sub>2</sub>e applicability threshold does not apply, so when any source applies for, renews, or revises a Title V permit, the Clean Air Act requirements for monitoring, recordkeeping and reporting will be included. On June 26, 2012, the United States Court of Appeals for the D.C. Circuit Court upheld the Endangerment Finding and the Tailpipe Rule and found that the petitioners did not have standing to challenge the Timing and Tailoring Rules. The court dismissed all petitions for review of the Timing and Tailoring Rules for lack of jurisdiction and denied the petitions for review of the Endangerment Finding and the Tailpipe Rule.

On October 15, 2013, following a December 2012 denial of rehearing en banc, the United States Supreme Court granted six of nine petitions for certiorari, agreeing to review the single issue of whether the EPA acted within its authority under the Clean Air Act when it determined that its regulation of GHG emissions from motor vehicles triggered permitting requirements for stationary sources that emit GHGs (*Utility Air Regulatory Group v. Environmental Protection Agency*, Case No. 12-1146). Petitioners filed briefs in support of their petitions in December 2013. They argued that EPA's automatic trigger interpretation was impermissible because EPA could have avoided the results by interpreting the PSD provisions as applying only to certain pollutants that do not include GHGs, or by reading section 166 of the Clean Air Act as the only mechanism for adding pollutants to the PSD program. In addition, petitioners argued that EPA's tailored regulation of greenhouse gases under the PSD program would be an unconstitutional delegation of authority because the Clean Air Act provides no intelligible principle for such an exercise of discretionary power. They also requested that the Supreme Court revisit *Massachusetts v. EPA* and possibly overrule it if it requires coverage of greenhouse gases under the PSD program.

Respondents, EPA, and several other states filed response briefs on January 21, 2014. Respondents argued that EPA's position that GHG emissions are automatically covered by the PSD program as a result of their regulation under other parts of the Clean Air Act is consistent with the statute and EPA's longstanding interpretation of the statute. Respondents asserted, moreover, that EPA's interpretation is consistent with the Supreme Court's decisions in *Massachusetts v. EPA* that GHGs are air pollutants under the Clean Air Act and its decision in *AEP v. Connecticut*, that the Clean Air Act displaces federal common law with respect to greenhouse gas emissions from stationary sources.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### **13. Commitments and Contingencies (continued)**

The Supreme Court heard oral arguments on February 24, 2014. On June 23, 2014, the Supreme Court issued its opinion in the case, holding that EPA's automatic trigger interpretation in the Tailoring Rule that triggered certain permitting requirements for stationary sources based solely on GHG emissions was invalid. The Court also held, however, that regulation of GHG emissions under PSD permits and Title V for facilities constituting major sources for other pollutants under the Clean Air Act, including most electric generating facilities, is permissible. GRU does not expect that the result of this case will provide relief from the Tailoring Rule for any of its planned or existing facilities. However, this decision is not likely to forestall all further legal challenges to EPA regulation of greenhouse gas emissions from stationary sources. For example, as discussed further below, EPA proposed new source performance standards limiting GHG emissions from fossil fuel-fired electric utility generating units that will likely see challenges of its own.

On October 30, 2009, the EPA published the final rule for mandatory monitoring and annual reporting of GHG emissions from various categories of facilities including fossil fuel suppliers, industrial gas suppliers, direct GHG emitters (such as electric generating facilities and industrial processes), and manufacturers of heavy-duty and off-road vehicles and engines. This rule does not require controls or limits on emissions, but requires data collection beginning January 1, 2010. GRU's costs of compliance with these new regulations are not fully known at this time. The requirements for monitoring, reporting and record keeping with respect to GHG emissions from existing units should not have a material adverse effect, based on the Utility's understanding of the rules at this time. The Utility timely submitted its 2010 and 2011 annual reports of GHG emissions. GRU cannot currently predict how GHG emissions issues will arise in connection with pending or future permit proceedings or whether litigation based on climate change issues will adversely affect the Utility's construction and development plans.

On March 27, 2012, the EPA proposed a rule entitled Carbon Pollution Standard for New Power Plants. The proposed rule would apply only to new fossil fuel-fired EGUs. For purposes of this rule, fossil fuel-fired EGUs include fossil fuel-fired boilers, integrated gasification combined cycle units and stationary combined cycle turbine units that generate electricity for sale and are larger than 25 MW. This rule has no immediate effect on GRU's facilities or on the GREC biomass facility.

On June 25, 2013, President Obama issued a Presidential Memorandum directing the EPA to work expeditiously to complete GHG standards for the power sector. The agency is using its authority under section 111(d) of the Clean Air Act to issue emission guidelines, to address GHG emissions from existing power plants. The Presidential Memorandum specifically directed EPA to build on state leadership, provide flexibility and take advantage of a wide range of energy sources and technologies towards building a cleaner power sector. The Presidential Memorandum directed EPA to issue proposed GHG standards, regulations or guidelines, as appropriate, for existing power plants by no later than June 1, 2014, and issue final standards,



# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### 13. Commitments and Contingencies (continued)

regulations or guidelines, as appropriate, by no later than June 1, 2015. In addition, the Presidential Memorandum directed EPA to include in the guidelines addressing existing power plants a requirement that states submit to EPA the implementation plans required under section 111(d) of the Clean Air Act and its implementing regulations by no later than June 30, 2016, subject to states being able to request more time to submit complete implementation plans and the EPA being able to allow states until June 30, 2017 or June 30, 2018, as appropriate, to submit additional information completing the submitted plan no later than June 30, 2016.

Accordingly, on June 2, 2014, EPA released a proposed rule, the Clean Power Plan Rule, that would limit and reduce carbon dioxide emissions from certain fossil fuel power plants, including existing plants. The proposed rule includes target emissions rates for each of the 50 states that are designed to reduce carbon dioxide emissions by 30% of 2005 levels by 2030. While EPA based its determination on emissions reductions by evaluating technical feasibility costs, size of reductions and technology and by developing building blocks through which reductions can be most easily achieved, including (i) energy efficiency through retrofits at individual facilities, (ii) switching dispatch from coal to less carbon intensive natural gas combined cycle units, (iii) investments in renewable energy and nuclear and (iv) increasing energy efficiency in homes and businesses, the proposed rule provides states with flexibility in designing their plans to meet those emissions, as long as the emission reductions are enforceable, quantifiable and verifiable. EPA anticipates finalizing the rule not sooner than June 2015, and plans to provide states with one to three years after that to develop the plans. While it is unclear what form EPA's rule will take if and when finalized, this rule could have a material effect on the GRU's operations and costs. It is also unclear what effect, if any, the Supreme Court's recent decision in *Utility Air Regulatory Group v. Environmental Protection Agency* will have on the proposed Clean Power Plan Rule. GRU is currently analyzing the proposed rule and the Supreme Court's recent decision, and is continuing to follow this and related activities very closely.

#### Coal Ash

On May 4, 2010, the EPA released the text of a proposed rule describing two possible regulatory options it is considering under the Resource Conservation and Recovery Act (RCRA) for the disposal of coal ash generated from the combustion of coal by electric utilities and independent power producers. Under either option, the EPA would regulate the construction of impoundments and landfills, and seek to ensure both the physical and environmental integrity of disposal facilities.

Under the first proposed regulatory option, the EPA would list coal ash destined for disposal in landfills or surface impoundments as special wastes subject to regulation under Subtitle C of RCRA. Subtitle C regulations set forth the EPA's hazardous waste regulatory program, which regulate the generation, handling, transport and disposal of wastes. The proposed rule would create a new category of waste under Subtitle C, so that coal ash would not be classified as a hazardous waste, but would be subject to many of the regulatory requirements applicable to such wastes. Under this option, coal ash would be subject to technical and permitting

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### **13. Commitments and Contingencies (continued)**

requirements from the point of generation to final disposal. Generators, transporters, and treatment, storage and disposal facilities would be subject to federal requirements and permits. The EPA is considering imposing disposal facility requirements such as liners, groundwater monitoring, fugitive dust controls, financial assurance, corrective action, closure of units, and post-closure care. This first option also proposes requirements for dam safety and stability for surface impoundments, land disposal restrictions, treatment standards for coal ash, and a prohibition on the disposal of treated coal ash below the natural water table. The first option would not apply to certain beneficial reuses of coal ash.

Under the second proposed regulatory option, the EPA would regulate the disposal of coal ash under Subtitle D of RCRA, the regulatory program for non-hazardous solid wastes. Under this option, the EPA is considering issuing national minimum criteria to ensure the safe disposal of coal ash, which would subject disposal units to location standards, composite liner requirements, groundwater monitoring and corrective action standards for releases, closure and post-closure care requirements, and requirements to address the stability of surface impoundments. Existing surface impoundments would not have to close or install composite liners and could continue to operate for their useful life. The second option would not regulate the generation, storage, or treatment of coal ash prior to disposal, and no federal permits would be required.

The proposed rule also states that the EPA is considering listing coal ash as a hazardous substance under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA, which is commonly known as Superfund), and includes proposals for alternative methods to adjust the statutory reportable quantity for coal ash. The extension of CERCLA to coal ash could significantly increase the Utility's liability for cleanup of past and future coal ash disposal.

On January 29, 2014, the EPA agreed to finalize the first-ever federal regulations for the disposal of coal ash by December 19, 2014, according to a settlement in a lawsuit brought by environmental and public health groups and a Native American tribe. The EPA Administrator, Gina McCarthy, signed the Disposal of Coal Combustion Residuals from Electric Utilities final rule on December 19, 2014, and it was submitted for publication in the Federal Register. The rule is effective six months after publication in the Federal Register. The rule establishes technical requirements for coal combustion residuals landfills and surface impoundments under Subtitle D of the RCRA. GRU is unable to determine the effects of this rule at this time.

In August of 2012, the Process Water Ponds at DH, which receive some fly and bottom ash, were inspected by a contractor at the request of the EPA. This effort was part of a federal initiative to inspect coal combustion residual (CCR) impoundments following a dike failure at a Tennessee Valley Authority facility in 2008. A final report was issued on June 2, 2014. The report includes a specific condition rating for the CCR management units and recommendations and actions that the contractor for the EPA recommended be undertaken to ensure the stability of the CCR impoundments located at DH. GRU submitted to the EPA a work scope response to the recommendations which was accepted by the Agency on October 29, 2014.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### **13. Commitments and Contingencies (continued)**

Additionally, numerous monitoring wells, in place since initial construction, provide assurance of the containment, or structural stability of the ponds. The results of routine groundwater sampling are submitted to the FDEP. Fly ash from the coal combustion process is typically transported from the site for beneficial commercial uses. Currently, beneficial use of flue gas scrubber by-product is limited; therefore, the majority is deposited in the onsite landfill. GRU adheres to a best management practices plan for ash and by-product handling deposited in the onsite landfill.

#### **Storage Tanks**

GRU is required to demonstrate financial responsibility for the costs of corrective actions and compensation of third-parties for bodily injury and property damage arising from releases of petroleum products and hazardous substances from certain underground and above-ground storage tank systems. GRU has eleven fuel oil storage tanks. The South Energy Center has two underground distillate (No. 2) oil tanks, the JRK Station has four above-ground distillate oil tanks and two above-ground No. 6 oil tanks, and DH has one above-ground distillate and two above-ground No. 6 oil tanks. All of the GRU's fuel storage tanks have secondary containment and/or interstitial monitoring and the Utility is insured for the requisite amounts.

#### **Nuclear Decommissioning**

The NRC has promulgated regulations mandating the establishment of funded reserves to assure financial capability for the eventual decommissioning of licensed nuclear facilities. GRU and several other municipal utilities have entered into an agreement with FMPA wherein FMPA has engaged a fiduciary to act as trustee of the reserve to fund the participants' share of decommissioning CR3. The external fund is accruing from revenues in amounts currently estimated to be sufficient to pay for decommissioning costs. However, actual decommissioning costs may vary due to changes in the assumed dates of decommissioning, NRC funding requirements, regulatory requirements, costs of labor and equipment or other assumptions used in determining the estimates. See Note 5 Jointly Owned Electric Plant for additional information.

#### **Superfund and Remediation Sites**

CERCLA, as well as parallel state statutes, require cleanup of sites from which there has been a release or threatened release of hazardous substances and authorizes the EPA to take any necessary response action at Superfund sites, including ordering a potentially responsible party (PRP) liable for the release to take or pay for such actions. PRPs are broadly defined under CERCLA to include past and present owners and operators of, as well as generators of wastes sent to, a site. GRU is a PRP at the Bill Johns Waste Oil Site in Jacksonville, Florida under these statutes. GRU's liability at this site was incurred through the improper management of waste oils by operators providing services under contract to the Utility. GRU is no more than a de minimis party at this site and has already resolved its liability with the EPA and is currently working with the State to resolve State liability issues.

# Gainesville Regional Utilities

## Notes to Financial Statements

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### 13. Commitments and Contingencies (continued)

GRU also was a PRP at the following sites: Rose Chemical in Holden, Missouri; Peak Oil in Tampa, Florida; PCB Treatment, Inc. in Kansas City, Missouri; Osage Metals in Kansas City, Missouri; and Mowbray Engineering in Greenville, Alabama. GRU's liability for these sites has been resolved through settlements reached with the EPA and, in the case of Rose Chemical, the Rose Chemical Steering Committee.

Management is not aware of any actions by private third-parties which have been brought or are imminent against the parties that contributed wastes to any of the sites described above. The extent of any potential third-party liability cannot be predicted at this time.

Several site investigations have been completed at the JRK Station, most recently in 2011. According to previous assessments, the horizontal extent of soils impacted with No. 6 fuel oil extends from the northern containment wall of the above-ground storage tanks (ASTs) to the wastewater filter beds and from the old plant building to Sweetwater Branch Creek. The results of the most recent soil assessment document the presence of benzo(a)pyrene in one soil sample at a concentration greater than its default commercial/industrial direct exposure based soil cleanup target levels (SCTLs). Four of the soil samples contained benzo(a)pyrene equivalents at concentrations greater than its default commercial/industrial direct exposure based SCTLs. In addition, two of the soil samples contained total recoverable petroleum hydrocarbons (TRPH) at concentrations greater than its default commercial/industrial direct exposure based SCTLs.

In the Site-Wide Monitoring Report dated March 24, 2011, measurable free product was detected in four wells. An inspection in April 2013 showed that groundwater contains four of the polynuclear aromatic hydrocarbons (PAHs) (benzo(a)anthracene, benzo(a)pyrene, benzo(b)fluoranthene, and dibenzo(a,h)anthracene) at concentrations greater than their groundwater cleanup target levels (GCTLs). With the exception of benzo(a)pyrene, the concentration of the remainder of these parameters did not exceed their Natural Attenuation Default Concentrations. The groundwater quality data reported in the 2011 Site-Wide Groundwater Monitoring Report documents that groundwater quality meets applicable GCTLs at the locations sampled. It is likely that groundwater quality impacts exist in the area where residual number 6 Fuel Oil is present as a non-aqueous phase liquid.

In August 2013, the Utility submitted a no further action proposal to the FDEP requesting that the site be granted a no further action status based on an evaluation of the soil and groundwater data with respect to site conditions and operations. GRU is currently responding to comments raised by the FDEP.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### **13. Commitments and Contingencies (continued)**

#### **Water Use Restrictions**

Pursuant to Florida law, a water management district in Florida may mandate restrictions on water use for non-essential purposes when it determines such restrictions are necessary. The restrictions may either be temporary or permanent. The St. Johns River Water Management District (SJRWMD) has mandated permanent district-wide restrictions on residential and commercial landscape irrigation. The restrictions limit irrigation to no more than two days per week during Daylight Savings Time, and one day per week during Eastern Standard Time. The restrictions apply to centralized potable water as provided by the Utility as well as private wells. All irrigation between the hours of 10:00 a.m. and 4:00 p.m. is prohibited.

In addition, in April 2010, the County adopted, and the City subsequently opted into, an Irrigation Ordinance that codified the above-referenced water restrictions which promote and encourage water conservation. County personnel enforce this ordinance, which further assists in reducing water use and thereby extending the Utility's water supply.

The SJRWMD and the Suwannee River Water Management District (SRWMD) each have promulgated regulations referred to as Year-Round Water Conservation Measures, for the purpose of increasing long-term water use efficiency through regulatory means. In addition, the SJRWMD and the SRWMD each have promulgated regulations referred to as a Water Shortage Plan, for the purpose of allocating and conserving the water resource during periods of water shortage and maintaining a uniform approach towards water use restrictions. Each Water Shortage Plan sets forth the framework for imposing restrictions on water use for non-essential purposes when deemed necessary by the applicable water management district. On August 7, 2012, in order to assist the SJRWMD and the SRWMD in the implementation and enforcement of such Water Conservation Measures and such Water Shortage Plans, the Board of County Commissioners of Alachua County enacted an ordinance creating year-round water conservation measures and water shortage regulations (County Water Use Ordinance), thereby making such Water Conservation Measures and such Water Shortage Plans applicable to the unincorporated areas of the County. On December 20, 2012, the City Commission adopted a resolution to opt into the County's year round water conservation measures and water shortage regulations ordinances in order to give the Alachua County Environmental Protection Department the authority to enforce water shortage orders and water shortage emergencies within the City.

GRU cannot predict what effects these factors will have on the business, operations, and financial condition of the Utility, but the effects could be significant.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### 13. Commitments and Contingencies (continued)

#### Manufactured Gas Plant

Gainesville's natural gas system originally distributed blue water gas, which was produced in town by gasification of coal using distillate oil. Although manufactured gas was replaced by pipeline gas in the mid-1950's, coal residuals and spilt fuel contaminated soils at and adjacent to the manufactured gas plant (MGP) site. When the natural gas system was purchased, GRU assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former MGP. GRU has pursued recovery for the MGP from past insurance policies and, to date, has recovered \$2.2 million from such policies. Site investigations on properties affected by MGP residuals have been completed and the Utility has completed limited removal actions. GRU has received final approval of its proposed overall Remedial Action Plan which will entail the excavation and landfilling of impacted soils at a specially designed facility. This plan was implemented pursuant to a Brownfield Site Rehabilitation Agreement with the State. Following remediation, the property will be redeveloped by the City as a park that will have stormwater ponds, nature trails, and recreational space, all of which were considered in the remediation plan's design. The duration of the groundwater monitoring program will be for the duration of the permit, and that timeframe is open to the results of what the sampling data shows.

Based upon GRU's analysis of the cost to clean up this site, GRU has accrued a liability to reflect the costs associated with the cleanup effort. During fiscal years 2014 and 2013, expenditures which reduced the liability balance were approximately \$900,000 and \$600,000, respectively. In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, the reserve was increased \$100,000 due to new project estimates and probabilities, bringing the reserve balance at September 30, 2014, to approximately \$800,000 compared to \$700,000 at September 30, 2013.

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 recovery of remediation costs from customers. Fiscal 2014 and 2013 billings were \$1.1 million and \$1.0 million, respectively. The regulatory asset balance was \$16.6 million and \$17.3 million as of September 30, 2014 and 2013, 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 an adverse material effect on GRU's financial position, results of operations, or liquidity.

#### Operating Leases

GRU leases various equipment, facilities and property under operating leases that are cancelable only under certain circumstances. Rental costs under operating leases for the years ended September 30, 2014 and 2013 were \$800,000 and \$600,000, respectively.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### 13. Commitments and Contingencies (continued)

Future minimum rental payments for various operating leases are:

<b>Year ending September 30:</b>	<b>Future Minimum Rental Payments</b>
2015	\$ 60,174
2016	58,796
2017	47,085
2018	47,085
2019	9,794
2020-2024	30,250
2025-2029	30,250
2030-2034	30,250
2035-2039	30,250
2040-2044	30,250
2045-2049	12,100
	<u>\$ 386,284</u>

### 14. Retirement Plans

The Employees' Plan is a contributory defined benefit pension plan that covers all permanent employees of GRU and the City, except certain personnel who elected to participate in the Defined Contribution Plan and who were grandfathered into that plan. The Employees' Plan provides retirement and death benefits to plan members and beneficiaries. The pension plan's basis of accounting is accrual; the policy is to recognize costs of the plan under accrual. Benefits and refunds of the defined benefit pension plan are recognized when due and payable in accordance with the terms of the plan. The costs of administering the plan, like other plan costs, are captured within the plan itself and financed through contribution and investment income, as appropriate. This plan and any amendments were adopted through a City Ordinance by the Commission of the City of Gainesville. In October 2002, the Board of Trustees approved allowing participants to buy back City years of service at its actuarial valuation. The City of Gainesville issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Plan. That report may be obtained by writing to City of Gainesville, Finance Department, P.O. Box 490, Gainesville, Florida 32627 or by calling (352) 334-5054.

Total contributions by GRU to the Employees' Plan were \$7.0 million and \$6.2 million for the years ended September 30, 2014, and 2013, respectively.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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

The Defined Contribution Pension Plan was open to certain existing professional and managerial employees and is managed by outside fiscal agents for the City. It is no longer available to newly hired professional and managerial employees. The plan is qualified under the provisions of Section 401A of the Internal Revenue Code. Assets of the Defined Contribution Plan are self-directed, and investment results are reported to employees quarterly. The Defined Contribution Pension Plan cost for GRU was \$82,000 and \$100,000 for the years ended September 30, 2014 and 2013, respectively.

### **15. Other Post-employment Benefits Plan**

By ordinance enacted by the City Commission, the City has established the Retiree Health Care Plan (RHCP), providing for the payment of a portion of the health care insurance premiums for eligible retired employees. The RHCP is a single-employer defined benefit healthcare plan administered by the City which provides medical insurance benefits to eligible retirees and their beneficiaries. The City of Gainesville issues a publicly available financial report that includes financial statements and required supplementary information for the RHCP. That report may be obtained by writing to City of Gainesville, Finance Department, P.O. Box 490, Gainesville, Florida 32627 or by calling (352) 334-5054.

RHCP members receiving benefits contribute a percentage of the monthly insurance premium. Based on this plan, the RHCP pays up to 50% of the individual premium for each insured according to the age/service formula factor of the retiree. Spouses and other dependents are eligible for coverage, but the employee is responsible for the entire cost, there is no direct RHCP subsidy. The employee contributes the premium cost each month, less the RHCP subsidy calculated as a percentage of the individual premium.

The State of Florida prohibits the City from separately rating retirees and active employees. The City therefore charges both groups an equal, blended rate premium. Although both groups are charged the same blended rate premium, GAAP requires actuarial costs to be calculated using age adjusted premiums approximating claim costs for retirees separate from active employees. The use of age adjusted premiums results in the addition of an implicit rate subsidy into the actuarial accrued liability. However, the City has elected to contribute to the RHCP at a rate that is based on an actuarial valuation prepared using the blended rate premium that is actually charged to the RHCP.

In July 2005, the City issued \$35,210,000 Taxable Other Post Employment Benefit (OPEB) bonds to retire the unfunded actuarial accrued liability then existing in the RHCP Trust Fund. This allowed the City to reduce its contribution rate. The City's actual regular contribution was less than the annual required contribution calculated using the age-adjusted premiums instead of the blended rate premiums. The difference between the annual required calculation and the City's actual regular contribution was due to two factors. The first is the amortization of the negative net OPEB obligation created in fiscal year 2005 by the issuance of the OPEB bonds.



# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### 15. Other Post-employment Benefits Plan (continued)

The other factor is that the City has elected to contribute based on the blended rate premium instead of the age-adjusted premium, described above as the implicit rate subsidy.

In September 2008, the City approved Ordinance 0-08-52, terminating the existing program and trust and creating a new program and trust, effective January 1, 2009. This action changed the benefits provided to retirees, such that the City will contribute towards the premium of those who retire after August 31, 2008 under a formula that provides ten dollars per year of credited service, adjusted for age at first access of the benefit. Current retirees receive a similar benefit, however the age adjustment is modified to be set at the date the retiree first accesses the benefit or January 1, 2009, whichever is later. For current retirees that are 65 or older as of January 1, 2009, the City's contribution towards the premium will be the greater of the amount calculated under this method or the amount provided under the existing Ordinance. The City's contribution towards the premium will be adjusted annually at the rate of 50% of the annual percentage change in the individual premium compared to the prior year.

The cost of providing post-employment benefits to GRU retirees was \$238,000 and \$251,000 for fiscal years ended September 30, 2014 and 2013, respectively.

### 16. Risk Management

GRU is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters and insures against these losses. GRU purchases plant and machinery insurance from a commercial carrier. There have been no significant reductions in insurance coverage from that in the prior year, and settlements have not exceeded insurance coverage for the past three fiscal years. The City is self-insured for workers' compensation, auto liability, and general liability but carries excess workers' compensation coverage. These risks are accounted for under the City'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 2014 and 2013 were paid from current year's revenues.

Changes in the insurance reserve as of September 30:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims</u>	<u>Payments</u>	<u>Change in Reserve</u>	<u>Ending Balance</u>
		(Thousands)			
2014	\$ 3,337	\$ 1,725	\$ (1,725)	- \$	3,337
2013	\$ 3,337	\$ 1,487	\$ (1,487)	- \$	3,337

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

### 17. Extraordinary Item

As described in Note 5 Jointly Owned Electric Plant, GRU owns a 1.4079% interest in the CR3 nuclear power plant operated by Duke Energy. The plant has been offline since late 2009 due to damages to the periphery of the containment wall which caused the concrete to delaminate. These damages occurred while an opening in the structure was being created 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.

In February 2013, Duke Energy announced that it will be retiring the CR3 plant. The decision came after a comprehensive analysis of the CR3 containment structure. Because the plant is permanently shut down and will not generate any additional power, GRU has written off the full amount of the investment in the plant and the related nuclear fuel inventory of \$18.7 million as an extraordinary item as of September 30, 2013.

GRU has entered into the CR3 Settlement, Release, and Acquisition agreement (settlement agreement), effective September 26, 2014. As a joint minority owner in CR3, this agreement releases GRU from future operating, maintenance, capital, and decommissioning liabilities and expenses. Pending regulatory approval of the amended agreement to the nuclear license, the joint owners will execute and transfer their ownership interests through additional settlement related documents which are listed as separate exhibits in the settlement agreement.

### 18. Restatement

The prior period adjustments resulted from corrections of statement of net position accounts to actual balances and corrections of various revenues and expenses. Beginning and ending net positions were restated as shown below.

Restatement of beginning net position per system as of October 1, 2012:

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Gas</u>	<u>GRUCom</u>	<u>Total</u>
	(Thousands)					
Net Position, beginning of year, as previously reported	\$ 309,004	\$ 73,478	\$ 93,385	\$ 13,293	\$ 784	\$ 489,944
Restatement	2,707	232	(728)	(2,021)	(664)	(474)
Net position, beginning of year, as restated	<u>\$ 311,711</u>	<u>\$ 73,710</u>	<u>\$ 92,657</u>	<u>\$ 11,272</u>	<u>\$ 120</u>	<u>\$ 489,470</u>

Restatement of ending net position per system as of September 30, 2013:

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Gas</u>	<u>GRUCom</u>	<u>Total</u>
	(Thousands)					
Net Position, end of year, as previously reported	\$ 294,400	\$ 75,419	\$ 94,825	\$ 11,351	\$ 1,346	\$ 477,341
Restatement	(1,324)	(168)	(282)	(211)	(12)	(1,997)
Net position, end of year, as restated	<u>\$ 293,076</u>	<u>\$ 75,251</u>	<u>\$ 94,543</u>	<u>\$ 11,140</u>	<u>\$ 1,334</u>	<u>\$ 475,344</u>

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2014 and 2013

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### **19. Subsequent Events**

#### **Commercial Paper Issuance**

On December 16, 2014, GRU issued \$8 million of Utilities System Commercial Paper Notes, Series D (Federally Taxable) to provide funds for the cost of acquisition and construction of certain improvements to the GRUCom system. Following this issuance, the availability of the Series D Notes was reduced to \$17 million from \$25 million available as of September 30, 2014. Liquidity support for the Series D Notes is provided by State Street Bank and Trust Company under an agreement effective August 28, 2014, which extends through August 28, 2017.

#### **Bond Issuance**

On December 19, 2014, GRU issued two series of 2014 Utilities System Revenue Bonds. The 2014 Series A Bonds in the amount of \$37,980,000 were issued to (a) provide funds for the payment of the cost of acquisition and construction of certain improvements to the System, and (b) pay costs of issuance of the 2014 Series A Bonds. These bonds mature at various dates beginning October 1, 2015, from October 1, 2021 to October 1, 2034, October 1, 2039, and October 1, 2044. The bonds maturing prior to October 1, 2024 are not subject to redemption prior to maturity. The bonds maturing after October 1, 2025 are subject to redemption prior to maturity at the option of GRU on and after October 1, 2024, as whole or in part at any time, at a redemption price plus interest so specified.

The 2014 Series B Bonds in the amount of \$30,970,000 were issued to (a) provide funds to refund \$12,725,000 in aggregate principal amount of a portion of the 2005 Series A Bonds; (b) provide funds to refund \$20.0 million in aggregate principal amount of a portion of the 2008 Series A Bonds; and (c) pay costs of issuance of the 2014 Series B Bonds. These bonds mature at various dates from October 1, 2015 through October 1, 2020, from October 1, 2029 to October 1, 2030, and October 1, 2036. The bonds maturing prior to October 1, 2024 are not subject to redemption prior to maturity. The bonds maturing after October 1, 2025 are subject to redemption prior to maturity at the option of GRU on and after October 1, 2024, as whole or in part at any time, at a redemption price plus interest so specified.

#### **Subsequent Liquidity Facility**

The December 31, 2014 expiration of the 2012 Series B Standby Bond Purchase Agreement (SBPA) with J.P. Morgan Chase Bank NA was extended by 60 days to February 28, 2015. On January 15, 2015, GRU closed on the substitution of this facility with a facility from Sumitomo Mitsui Banking Corporation (SMBC), with an effective date of February 2, 2015. The 2012 Series B Bonds will bear interest on a weekly mode under SMBC, whereas under the J.P. Morgan Chase Bank NA facility it bore interest on a daily mode.

## **SUPPLEMENTARY INFORMATION**

Gainesville Regional Utilities  
Schedules of Combined Net Revenues  
in Accordance with Bond Resolution

	September 30				
	2014	As Restated 2013	2012	2011	2010
<b>Revenue</b>					
Electric system:					
Sales of electricity	<b>\$ 268,734,036</b>	\$ 229,034,482	\$ 230,805,656	\$ 250,057,293	\$ 262,530,880
Other electric revenue	<b>14,025,798</b>	13,258,747	12,853,882	13,521,707	14,445,686
Transfers (to) from rate stabilization	<b>(6,360,338)</b>	3,239,216	1,068,547	(3,017,205)	(7,692,907)
Interest/investment income	<b>1,119,075</b>	823,796	1,233,211	1,404,284	1,183,493
Other interest related income, BABs	<b>2,963,272</b>	3,054,278	3,193,181	2,998,763	1,883,128
Total electric system revenue	<b>280,481,843</b>	249,410,519	249,154,477	264,964,842	272,350,280
Water system:					
Sales of water	<b>29,609,803</b>	29,516,632	29,872,976	29,846,372	25,705,213
Other water revenue	<b>1,816,135</b>	1,928,655	1,824,302	1,893,964	1,390,204
Transfers (to) from rate stabilization	<b>(540,423)</b>	(16,683)	(655,733)	(373,250)	2,289,274
Interest/investment income	<b>110,427</b>	82,988	150,488	167,351	587,446
Other interest related income, BABs	<b>830,392</b>	855,895	894,819	826,087	427,129
Total water system revenue	<b>31,826,334</b>	32,367,487	32,086,852	32,360,524	30,399,266
Wastewater system:					
Wastewater billing	<b>35,229,675</b>	35,282,111	34,476,880	32,258,966	30,640,750
Other wastewater revenue	<b>1,834,281</b>	2,363,676	1,080,063	1,057,091	918,285
Transfers (to) from rate stabilization	<b>(2,084,441)</b>	(1,093,328)	(379,508)	1,100,815	1,879,876
Interest/investment income	<b>135,779</b>	148,579	246,283	284,526	283,945
Other interest related income, BABs	<b>936,922</b>	965,695	1,009,614	911,114	334,064
Total wastewater system revenue	<b>36,052,216</b>	37,666,733	36,433,332	35,612,512	34,056,920
Gas system:					
Gas sales	<b>23,388,418</b>	21,849,892	21,633,032	27,153,898	27,403,504
Other gas revenue	<b>957,304</b>	994,970	954,219	1,089,778	1,087,924
Transfers (to) from rate stabilization	<b>687,466</b>	586,194	1,475,567	820,268	(1,549,020)
Interest/investment income	<b>147,506</b>	170,191	251,631	275,191	528,859
Other interest related income, BABs	<b>620,342</b>	639,394	668,472	626,795	387,115
Total gas system revenue	<b>25,801,036</b>	24,240,641	24,982,921	29,965,930	27,858,382
GRUCom system:					
Sales to customers	<b>11,170,987</b>	10,662,766	10,892,510	11,889,016	11,304,326
Other GRUCom revenue	<b>-</b>	36,669	-	-	-
Transfers (to) from rate stabilization	<b>(570,028)</b>	1,389,779	2,955,113	1,172,482	105,407
Interest/investment income	<b>92,996</b>	116,316	175,443	201,875	265,178
Total GRUCom system revenue	<b>10,693,955</b>	12,205,530	14,023,066	13,263,373	11,674,911
Total revenues	<b>\$ 384,855,384</b>	\$ 355,890,910	\$ 356,680,648	\$ 376,167,181	\$ 376,339,759

Continued on next page.

Gainesville Regional Utilities  
Schedules of Combined Net Revenues  
in Accordance with Bond Resolution (concluded)

	September 30				
	2014	As Restated 2013	2012	2011	2010
<b>Operation, maintenance and administrative</b>					
Electric system:					
Fuel expense	<b>\$ 141,631,915</b>	\$ 97,483,578	\$ 100,219,350	\$ 112,075,262	\$ 129,092,299
Operation and maintenance	<b>39,203,407</b>	41,981,612	39,301,044	39,041,379	38,312,780
Administrative and general	<b>22,670,262</b>	28,058,746	21,049,516	21,484,263	16,770,146
Total electric system expense	<b>203,505,584</b>	167,523,936	160,569,910	172,600,904	184,175,225
Water system:					
Operation and maintenance	<b>8,099,553</b>	7,409,847	7,475,797	7,410,001	7,385,629
Administrative and general	<b>5,221,215</b>	5,722,037	5,138,472	4,980,853	5,104,686
Total water system expense	<b>13,320,768</b>	13,131,884	12,614,269	12,390,854	12,490,315
Wastewater system:					
Operation and maintenance	<b>8,451,783</b>	7,725,182	7,242,859	7,230,689	6,690,918
Administrative and general	<b>5,516,221</b>	5,858,426	5,506,621	6,331,392	5,960,940
Total wastewater system expense	<b>13,968,004</b>	13,583,608	12,749,480	13,562,081	12,651,858
Gas system:					
Fuel expense	<b>10,550,428</b>	9,081,246	9,950,085	13,800,865	14,632,694
Operation and maintenance	<b>2,193,723</b>	1,343,080	1,362,351	1,259,693	1,381,945
Administrative and general	<b>3,982,129</b>	4,354,339	3,968,444	3,698,336	3,643,805
Total gas system expense	<b>16,726,280</b>	14,778,665	15,280,880	18,758,894	19,658,444
GRUCom system:					
Operation and maintenance	<b>4,029,783</b>	3,354,789	3,614,797	3,333,664	3,423,128
Administrative and general	<b>2,462,436</b>	2,018,847	2,301,433	1,973,765	1,952,831
Total GRUCom system expense	<b>6,492,219</b>	5,373,636	5,916,230	5,307,429	5,375,959
Total operation, maintenance and administrative	<b>254,012,855</b>	214,391,729	207,130,769	222,620,162	234,351,801
<b>Net revenue in accordance with bond resolution</b>					
Electric	<b>76,976,259</b>	81,886,583	88,584,567	92,363,938	88,175,055
Water	<b>18,505,566</b>	19,235,603	19,472,583	19,969,670	17,908,951
Wastewater	<b>22,084,212</b>	24,083,125	23,683,852	22,050,431	21,405,062
Gas	<b>9,074,756</b>	9,461,976	9,702,041	11,207,036	8,199,938
GRUCom	<b>4,201,736</b>	6,831,894	8,106,836	7,955,944	6,298,952
Total net revenue in accordance with bond resolution	<b>\$ 130,842,529</b>	\$ 141,499,181	\$ 149,549,879	\$ 153,547,019	\$ 141,987,958
Aggregate bond debt service	<b>\$ 54,860,040</b>	\$ 56,101,372	\$ 63,755,940	\$ 64,007,046	\$ 62,168,819
Aggregate bond debt service coverage ratio	<b>2.39</b>	2.52	2.35	2.40	2.28
Total debt service	<b>\$ 60,042,322</b>	\$ 67,889,965	\$ 69,793,875	\$ 70,268,626	\$ 73,332,609
Total debt service coverage ratio	<b>2.18</b>	2.08	2.14	2.19	1.94

Gainesville Regional Utilities

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

For the Years Ended September 30, 2014 and 2013

	<b>2014</b>	As Restated 2013
<b>Revenue</b>		
Sales of electricity:		
Residential	<b>\$ 50,326,159</b>	\$ 52,468,357
Non-residential	<b>63,284,868</b>	67,097,363
Fuel adjustment	<b>141,631,915</b>	97,698,395
Street, traffic and rental lighting	<b>5,310,884</b>	5,218,333
Utility surcharge	<b>3,281,036</b>	3,413,251
Sales for resale	<b>2,661,016</b>	2,884,390
Interchange sales	<b>2,238,158</b>	254,393
Total sales of electricity	<b>268,734,036</b>	229,034,482
Other electric revenue:		
Service charges	<b>1,304,302</b>	708,716
Pole rentals	<b>673,400</b>	664,974
South Energy Center	<b>10,473,000</b>	10,207,458
Miscellaneous	<b>1,575,096</b>	1,677,599
Total other electric revenue	<b>14,025,798</b>	13,258,747
Transfers (to) from rate stabilization	<b>(6,360,338)</b>	3,239,216
Interest income	<b>1,119,075</b>	823,796
Other interest related income, BABs	<b>2,963,272</b>	3,054,278
Total revenue	<b>280,481,843</b>	249,410,519
<b>Operation, maintenance and administrative expense</b>		
Operation and maintenance:		
Fuel expense:		
Retail and purchased power	<b>139,792,682</b>	95,798,291
Fuel related operating expense	<b>1,839,233</b>	1,685,287
Total fuel expense	<b>141,631,915</b>	97,483,578
Power production	<b>26,197,003</b>	30,777,194
Transmission	<b>1,674,663</b>	1,687,529
Interchange	<b>1,565,355</b>	131,600
Distribution	<b>9,766,386</b>	9,385,289
Total operation and maintenance	<b>39,203,407</b>	41,981,612

*Continued on next page.*

Gainesville Regional Utilities  
Schedules of Net Revenues in Accordance with Bond Resolution –  
Electric Utility System (continued)

For the Years Ended September 30, 2014 and 2013

	<b>2014</b>	As Restated 2013
Administrative and general:		
Customer accounts	<b>\$ 3,489,670</b>	\$ 5,195,465
Administrative and general	<b>19,180,592</b>	22,863,281
Total administrative and general	<b>22,670,262</b>	28,058,746
Total operation, maintenance and administrative expense	<b>203,505,584</b>	167,523,936
 <b>Net revenue in accordance with bond resolution</b>		
Retail	<b>76,303,456</b>	81,763,790
Interchange	<b>672,803</b>	122,793
Total net revenue in accordance with bond resolution	<b>\$ 76,976,259</b>	\$ 81,886,583



Gainesville Regional Utilities  
Schedules of Net Revenues in Accordance with Bond Resolution –  
Water Utility System

For the Years Ended September 30, 2014 and 2013

	2014	As Restated 2013
<b>Revenue</b>		
Sales of water:		
Residential	\$ 17,792,640	\$ 17,683,223
Non-residential	7,729,470	7,841,547
University of Florida	1,894,159	1,785,218
Utility surcharge	2,193,534	2,206,644
Total sales of water	29,609,803	29,516,632
Other water revenue:		
Connection charges	829,643	736,410
Miscellaneous	986,492	1,192,245
Total other water revenue	1,816,135	1,928,655
Transfers (to) from rate stabilization	(540,423)	(16,683)
Interest income	110,427	82,988
Other interest related income, BABs	830,392	855,895
Total revenue	31,826,334	32,367,487
<b>Operation, maintenance and administrative expense</b>		
Operation and maintenance:		
Pumping	2,238,644	2,037,456
Water treatment	3,234,800	3,160,817
Transmission and distribution	2,626,109	2,211,574
Total operation and maintenance	8,099,553	7,409,847
Administrative and general:		
Customer accounts	1,289,339	1,315,265
Administrative and general	3,931,876	4,406,772
Total administrative and general	5,221,215	5,722,037
Total operation, maintenance and administrative expense	13,320,768	13,131,884
Total net revenue in accordance with bond resolution	\$ 18,505,566	\$ 19,235,603

Gainesville Regional Utilities  
Schedules of Net Revenues in Accordance with Bond Resolution –  
Wastewater Utility System

For the Years Ended September 30, 2014 and 2013

	2014	As Restated 2013
<b>Revenue</b>		
Wastewater billings:		
Residential	\$ 23,831,343	\$ 24,237,429
Non-residential	8,521,967	8,170,597
Reclaimed water	294,907	311,237
Utility surcharge	2,581,458	2,562,848
Total wastewater billings	35,229,675	35,282,111
Other wastewater revenue:		
Connection charges	1,766,330	2,298,878
Miscellaneous	67,951	64,798
Total other wastewater revenue	1,834,281	2,363,676
Transfers (to) from rate stabilization	(2,084,441)	(1,093,328)
Interest income	135,779	148,579
Other interest related income, BABs	936,922	965,695
Total revenue	36,052,216	37,666,733
<b>Operation, maintenance and administrative expense</b>		
Operation and maintenance:		
Collection	3,278,600	2,986,032
Treatment and pumping	5,173,183	4,739,150
Total operation and maintenance	8,451,783	7,725,182
Administrative and general:		
Customer accounts	906,474	925,481
Administrative and general	4,609,747	4,932,945
Total administrative and general	5,516,221	5,858,426
Total operation, maintenance and administrative expense	13,968,004	13,583,608
Total net revenue in accordance with bond resolution	\$ 22,084,212	\$ 24,083,125

Gainesville Regional Utilities  
Schedules of Net Revenues in Accordance with Bond Resolution –  
Gas Utility System

For the Years Ended September 30, 2014 and 2013

	<b>2014</b>	As Restated <b>2013</b>
<b>Revenue</b>		
Sales of gas:		
Residential	\$ 6,935,407	\$ 6,791,448
Non-residential	4,282,709	4,190,496
Purchased gas adjustment	10,550,428	9,399,108
Other sales	1,619,874	1,468,840
Total sales of gas	23,388,418	21,849,892
Other gas revenue	957,304	994,970
Transfers (to) from rate stabilization	687,466	586,194
Interest income	147,506	170,191
Other interest related income, BABs	620,342	639,394
Total revenue	25,801,036	24,240,641
<b>Operation, maintenance and administrative expense</b>		
Operation and maintenance:		
Fuel expense	10,550,428	9,081,246
Operation and maintenance	1,337,779	1,343,080
Total operation and maintenance	11,888,207	10,424,326
Administrative and general:		
Customer accounts	2,197,580	2,501,524
Administrative and general	2,640,493	1,852,815
Total administrative and general	4,838,073	4,354,339
Total operation, maintenance and administrative expense	16,726,280	14,778,665
Total net revenue in accordance with bond resolution	\$ 9,074,756	\$ 9,461,976

Gainesville Regional Utilities  
Schedules of Net Revenues in Accordance with Bond Resolution –  
GRUCom Utility System

For the Years Ended September 30, 2014 and 2013

	<b>2014</b>	As Restated 2013
<b>Revenue</b>		
Sales to customers:		
Telecommunications services	<b>\$ 5,154,169</b>	\$ 5,423,069
Internet services	<b>1,936,467</b>	1,676,116
Public safety trunking radio	<b>1,831,502</b>	1,842,845
Tower space and colocation leasing	<b>2,248,849</b>	1,720,736
Total sales to customers	<b>11,170,987</b>	10,662,766
Transfers (to) from rate stabilization	<b>(570,028)</b>	1,389,779
Interest income	<b>92,996</b>	116,316
Other revenue	-	36,669
Total revenue	<b>10,693,955</b>	12,205,530
 <b>Operation, maintenance and administrative expense</b>		
Operation and maintenance	<b>4,029,783</b>	3,354,789
Total operation and maintenance	<b>4,029,783</b>	3,354,789
Administrative and general:		
Customer accounts	<b>372,958</b>	213,295
Administrative and general	<b>2,089,478</b>	1,805,552
Total administrative and general	<b>2,462,436</b>	2,018,847
Total operation, maintenance and administrative expense	<b>6,492,219</b>	5,373,636
Total net revenue in accordance with bond resolution	<b>\$ 4,201,736</b>	\$ 6,831,894

## Gainesville Regional Utilities

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

For the Years Ended September 30, 2014 and 2013

The Schedules of Net Revenues in Accordance with Bond Resolution differ from the Statements of Revenues, Expenses, and Changes in Net Position prepared utilizing generally accepted accounting principles as follows:

- Operation and maintenance expense does not include depreciation or amortization expense
- Contributions in aid of construction are excluded
- Operating transfer to the City's General Fund is excluded
- Debt service of principal and interest are excluded
- Extraordinary items are excluded
- Other noncash items are excluded

**Gainesville Regional Utilities**  
**Combining Statement of Net Position**  
**September 30, 2014**

	Electric	Water	Wastewater	Gas	GRUCom	Combined
<b>Assets</b>						
Current assets:						
Cash and investments	\$ 51,244,191	\$ 752,071	\$ 630,231	\$ 9,223,668	\$ 2,906,079	\$ 64,756,240
Accounts receivable, net	35,993,516	3,538,330	3,581,978	1,714,375	1,109,129	45,937,328
Inventories:						
Fuel	11,336,733	-	-	-	-	11,336,733
Materials and supplies	5,039,386	874,964	-	404,370	487,558	6,806,278
Other current and regulatory assets	782,535	-	-	1,093,680	-	1,876,215
<b>Total current assets</b>	<b>104,396,361</b>	<b>5,165,365</b>	<b>4,212,209</b>	<b>12,436,093</b>	<b>4,502,766</b>	<b>130,712,794</b>
Restricted and internally designated assets:						
Utility deposits – cash and investments	6,649,248	703,173	591,440	378,507	-	8,322,368
Debt service fund – cash and investments	27,184,877	3,176,819	4,609,087	1,958,577	2,753,382	39,682,742
Rate stabilization – cash and investments	50,289,182	1,712,517	5,835,398	4,750,909	1,442,115	64,030,121
Construction Fund – cash and investments	12,295,895	5,164,474	6,943,106	2,763,147	1,867,424	29,034,046
Utility plant improvement fund – cash and investments	25,937,647	3,472,481	6,999,267	1,825,581	1,078,804	39,313,780
Decommission reserve – cash and investments	13,058,443	-	-	-	-	13,058,443
<b>Total restricted and internally designated assets</b>	<b>135,415,292</b>	<b>14,229,464</b>	<b>24,978,298</b>	<b>11,676,721</b>	<b>7,141,725</b>	<b>193,441,500</b>
Noncurrent assets:						
Net costs recoverable in future years - regulatory asset	13,732,765	-	-	-	-	13,732,765
Unamortized debt issuance costs - regulatory asset	3,872,671	738,059	819,083	430,624	354,477	6,214,914
Investment in The Energy Authority	1,899,342	-	-	802,257	-	2,701,599
Pollution remediation - regulatory asset	-	-	-	15,808,529	-	15,808,529
Other noncurrent assets and regulatory assets	4,180,189	754,145	908,722	299,101	50,382	6,192,539
<b>Total noncurrent assets</b>	<b>23,684,967</b>	<b>1,492,204</b>	<b>1,727,805</b>	<b>17,340,511</b>	<b>404,859</b>	<b>44,650,346</b>
Capital assets:						
Utility plant in service	1,068,822,224	233,305,585	278,727,869	75,098,152	68,695,965	1,724,649,795
Capital lease	1,006,808,754	-	-	-	-	1,006,808,754
Less: accumulated depreciation and amortization	(404,092,687)	(88,370,994)	(120,378,862)	(36,309,277)	(28,064,730)	(677,216,550)
	1,671,538,291	144,934,591	158,349,007	38,788,875	40,631,235	2,054,241,999
Construction in progress	35,308,113	38,867,891	58,510,721	7,178,682	2,123,504	141,988,911
<b>Net capital assets</b>	<b>1,706,846,404</b>	<b>183,802,482</b>	<b>216,859,728</b>	<b>45,967,557</b>	<b>42,754,739</b>	<b>2,196,230,910</b>
<b>Total assets</b>	<b>1,970,343,024</b>	<b>204,689,515</b>	<b>247,778,040</b>	<b>87,420,882</b>	<b>54,804,089</b>	<b>2,565,035,550</b>
Deferred outflows of resources:						
Unamortized loss on refundings of bonds	16,737,837	3,593,017	4,107,080	1,533,720	2,794,292	28,765,946
Accumulated decrease in fair value of hedging derivatives	38,271,067	5,080,616	4,839,290	1,743,351	814,535	50,748,859
<b>Total deferred outflows of resources</b>	<b>55,008,904</b>	<b>8,673,633</b>	<b>8,946,370</b>	<b>3,277,071</b>	<b>3,608,827</b>	<b>79,514,805</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 2,025,351,928</b>	<b>\$ 213,363,148</b>	<b>\$ 256,724,410</b>	<b>\$ 90,697,953</b>	<b>\$ 58,412,916</b>	<b>\$ 2,644,550,355</b>

Continued on next page.

**Gainesville Regional Utilities**  
**Combining Statement of Net Position (concluded)**  
**September 30, 2014**

	Electric	Water	Wastewater	Gas	GRUCom	Combined
<b>Liabilities and net position</b>						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 15,820,240	\$ 1,478,645	\$ 2,269,646	\$ 812,168	\$ 471,192	\$ 20,851,891
Fuels payable	11,145,958	-	-	283,046	-	11,429,004
Due to other funds of the City	4,792,553	520,759	(1,900,593)	54,942	(325,162)	3,142,499
Capital lease – current portion	16,828,193	-	-	-	-	16,828,193
Fuel adjustment	15,298,395	-	-	665,493	-	15,963,888
Other liabilities and regulatory liabilities	1,986,922	(32,027)	4,943	724,660	(6,479)	2,678,019
<b>Total current liabilities</b>	<b>65,872,261</b>	<b>1,967,377</b>	<b>373,996</b>	<b>2,540,309</b>	<b>139,551</b>	<b>70,893,494</b>
Payable from restricted assets:						
Utility deposits	6,648,126	703,173	591,440	378,507	-	8,321,246
Construction fund:						
Accounts payable and accrued liabilities	1,495,357	398,717	1,664,555	92,582	35,323	3,686,534
Debt payable – current portion	16,547,830	525,420	1,153,045	886,795	2,366,910	21,480,000
Accrued interest payable	10,958,657	2,499,853	2,763,403	1,369,245	949,643	18,540,801
<b>Total payable from restricted assets</b>	<b>35,649,970</b>	<b>4,127,163</b>	<b>6,172,443</b>	<b>2,727,129</b>	<b>3,351,876</b>	<b>52,028,581</b>
Long-term debt:						
Utilities system revenue bonds	518,530,445	116,003,769	126,868,244	56,258,359	51,909,183	869,570,000
Commercial paper notes	30,200,040	4,898,750	12,127,580	9,673,630	-	56,900,000
Capital lease	977,280,085	-	-	-	-	977,280,085
Unamortized bond premium/discount	5,719,062	1,597,373	1,919,100	721,942	272,359	10,229,836
Fair value of derivative instruments	40,817,442	5,836,045	5,750,546	1,914,665	784,817	55,103,515
<b>Total long-term debt</b>	<b>1,572,547,074</b>	<b>128,335,937</b>	<b>146,665,470</b>	<b>68,568,596</b>	<b>52,966,359</b>	<b>1,969,083,436</b>
Noncurrent liabilities:						
Reserve for insurance claims	1,999,960	598,326	546,333	187,085	5,296	3,337,000
Reserve for decommissioning CR3	11,264,443	-	-	-	-	11,264,443
Reserve for environmental liability	-	-	-	167,000	-	167,000
<b>Total noncurrent liabilities</b>	<b>13,264,403</b>	<b>598,326</b>	<b>546,333</b>	<b>354,085</b>	<b>5,296</b>	<b>14,768,443</b>
<b>Total liabilities</b>	<b>1,687,333,708</b>	<b>135,028,803</b>	<b>153,758,242</b>	<b>74,190,119</b>	<b>56,463,082</b>	<b>2,106,773,954</b>
Deferred inflows of resources:						
Rate stabilization	50,262,483	1,694,042	5,854,377	4,761,467	1,544,890	64,117,259
<b>Total deferred inflows of resources</b>	<b>50,262,483</b>	<b>1,694,042</b>	<b>5,854,377</b>	<b>4,761,467</b>	<b>1,544,890</b>	<b>64,117,259</b>
Net position:						
Net investment in capital assets	169,279,124	69,135,944	84,177,390	(17,368,884)	(7,167,320)	298,056,254
Restricted	42,191,688	4,167,922	8,825,972	2,404,355	2,779,768	60,369,705
Unrestricted	76,284,925	3,336,437	4,108,429	26,710,896	4,792,496	115,233,183
<b>Total net position</b>	<b>287,755,737</b>	<b>76,640,303</b>	<b>97,111,791</b>	<b>11,746,367</b>	<b>404,944</b>	<b>473,659,142</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 2,025,351,928</b>	<b>\$ 213,363,148</b>	<b>\$ 256,724,410</b>	<b>\$ 90,697,953</b>	<b>\$ 58,412,916</b>	<b>\$ 2,644,550,355</b>

**Gainesville Regional Utilities**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**Year Ended September 30, 2014**

	<b>Electric</b>	<b>Water</b>	<b>Wastewater</b>	<b>Gas</b>	<b>GRUCom</b>	<b>Combined</b>
<b>Operating revenue:</b>						
Sales and service charges	\$ 268,774,902	\$ 29,768,654	\$ 35,579,952	\$ 23,274,242	\$ 11,257,805	\$ 368,655,555
Transfers (to) from rate stabilization	(6,360,338)	(540,423)	(2,084,441)	687,466	(570,028)	(8,867,764)
Amounts to be recovered from future revenue	26,433,241	-	-	-	-	26,433,241
Other operating revenue	14,959,109	1,816,135	1,709,655	1,188,683	-	19,673,582
<b>Total operating revenues</b>	<b>303,806,914</b>	<b>31,044,366</b>	<b>35,205,166</b>	<b>25,150,391</b>	<b>10,687,777</b>	<b>405,894,614</b>
<b>Operating expenses:</b>						
Operation and maintenance	180,835,926	8,099,552	8,451,783	11,888,207	4,029,782	213,305,250
Administrative and general	23,865,675	5,380,067	5,741,872	4,955,275	2,549,363	42,492,252
Depreciation and amortization	63,131,852	6,859,388	8,205,064	3,013,100	3,240,015	84,449,419
<b>Total operating expenses</b>	<b>267,833,453</b>	<b>20,339,007</b>	<b>22,398,719</b>	<b>19,856,582</b>	<b>9,819,160</b>	<b>340,246,921</b>
<b>Operating income</b>	<b>35,973,461</b>	<b>10,705,359</b>	<b>12,806,447</b>	<b>5,293,809</b>	<b>868,617</b>	<b>65,647,693</b>
<b>Non-operating income (expense):</b>						
Interest income	221,249	127,602	174,623	87,398	103,536	714,408
Interest expense, net of AFUDC	(22,786,903)	(5,077,303)	(5,209,123)	(2,841,288)	(1,900,912)	(37,815,529)
Other interest related income, BABs	2,963,272	830,392	936,922	620,342	-	5,350,928
Other income	209,772	-	-	-	-	209,772
<b>Total non-operating expense</b>	<b>(19,392,610)</b>	<b>(4,119,309)</b>	<b>(4,097,578)</b>	<b>(2,133,548)</b>	<b>(1,797,376)</b>	<b>(31,540,421)</b>
<b>Income before contributions and transfer</b>	<b>16,580,851</b>	<b>6,586,050</b>	<b>8,708,869</b>	<b>3,160,261</b>	<b>(928,759)</b>	<b>34,107,272</b>
<b>Capital contributions:</b>						
Contributions from third parties	1,800,000	856,037	668,466	-	-	3,324,503
Reduction of plant cost recovered from contributions	(1,800,000)	-	-	-	-	(1,800,000)
<b>Net capital contributions</b>	<b>-</b>	<b>856,037</b>	<b>668,466</b>	<b>-</b>	<b>-</b>	<b>1,524,503</b>
<b>Transfer to City of Gainesville</b>						
General Fund	(21,901,562)	(6,052,476)	(6,808,849)	(2,553,954)	-	(37,316,841)
<b>Change in net position</b>	<b>(5,320,711)</b>	<b>1,389,611</b>	<b>2,568,486</b>	<b>606,307</b>	<b>(928,759)</b>	<b>(1,685,066)</b>
<b>Net position – beginning of year, restated</b>	<b>293,076,448</b>	<b>75,250,692</b>	<b>94,543,305</b>	<b>11,140,060</b>	<b>1,333,703</b>	<b>475,344,208</b>
<b>Net position – end of year, restated</b>	<b>\$ 287,755,737</b>	<b>\$ 76,640,303</b>	<b>\$ 97,111,791</b>	<b>\$ 11,746,367</b>	<b>\$ 404,944</b>	<b>\$ 473,659,142</b>



Gainesville Regional Utilities

Schedule of Utility Plant Properties – Combined Utility System

September 30, 2014

	Balance September 30, 2013	Additions	Sales, Retirements, and Transfers	Balance September 30, 2014
<b>Plant in service</b>				
Electric utility system:				
Production plant	\$ 603,572,171	\$ 1,017,696,812	\$ 2,156,560	\$ 1,619,112,423
Transmission and distribution plant	328,361,840	10,702,921	1,598,916	337,465,845
General and common plant	114,646,733	5,282,894	876,917	119,052,710
Total electric utility system	<u>1,046,580,744</u>	<u>1,033,682,627</u>	<u>4,632,393</u>	<u>2,075,630,978</u>
Water utility system:				
Supply, pumping and treatment plant	50,589,032	–	–	50,589,032
Transmission and distribution plant	158,642,230	1,776,222	131,074	160,287,378
General plant	21,058,739	1,503,918	133,482	22,429,175
Total water utility system	<u>230,290,001</u>	<u>3,280,140</u>	<u>264,556</u>	<u>233,305,585</u>
Wastewater utility system:				
Pumping and treatment plant	97,338,505	–	–	97,338,505
Collection plant	149,903,013	765,129	646	150,667,496
Reclaimed water plant	3,583,295	–	–	3,583,295
General plant	24,956,019	2,307,300	124,746	27,138,573
Total wastewater utility system	<u>275,780,832</u>	<u>3,072,429</u>	<u>125,392</u>	<u>278,727,869</u>
Gas utility system:				
Distribution plant	58,628,919	2,730,431	67,198	61,292,152
General plant	8,256,858	976,893	78,387	9,155,364
Plant acquisition adjustment	4,650,636	–	–	4,650,636
Total gas utility system	<u>71,536,413</u>	<u>3,707,324</u>	<u>145,585</u>	<u>75,098,152</u>
GRUCom utility system:				
Distribution plant	52,101,957	5,894,921	1,042,205	56,954,673
General plant	11,494,416	338,471	91,595	11,741,292
Total GRUCom utility system	<u>63,596,373</u>	<u>6,233,392</u>	<u>1,133,800</u>	<u>68,695,965</u>
Total plant in service	<u>\$ 1,687,784,363</u>	<u>\$ 1,049,975,912</u>	<u>\$ 6,301,726</u>	<u>\$ 2,731,458,549</u>
<b>Construction in progress</b>				
Electric utility system	\$ 36,782,757	\$ 27,420,344	\$ 28,894,988	\$ 35,308,113
Water utility system	31,705,638	10,746,726	3,584,473	38,867,891
Wastewater utility system	41,324,867	20,258,283	3,072,429	58,510,721
Gas utility system	6,877,438	4,027,339	3,726,095	7,178,682
GRUCom utility system	5,173,163	3,201,708	6,251,367	2,123,504
Total construction in progress	<u>\$ 121,863,863</u>	<u>\$ 65,654,400</u>	<u>\$ 45,529,352</u>	<u>\$ 141,988,911</u>

Gainesville Regional Utilities  
Schedule of Accumulated Depreciation and Amortization –  
Combined Utility System  
September 30, 2014

	Balance September 30, 2013	Additions	Sales, Retirements, and Transfers	Balance September 30, 2014
Electric utility system:				
Production plant	\$ 204,412,388	\$ 42,007,693	\$ 975,612	\$ 245,444,469
Transmission and distribution plant	106,548,579	11,931,514	3,277,680	115,202,413
General and common plant	38,166,569	5,750,811	471,575	43,445,805
Total electric utility system	<u>349,127,536</u>	<u>59,690,018</u>	<u>4,724,867</u>	<u>404,092,687</u>
Water utility system:				
Supply, pumping and treatment plant	14,110,552	1,581,265	(110,377)	15,802,194
Transmission and distribution plant	65,161,169	4,313,834	383,541	69,091,462
General plant	2,988,284	611,524	122,470	3,477,338
Total water utility system	<u>82,260,005</u>	<u>6,506,623</u>	<u>395,634</u>	<u>88,370,994</u>
Wastewater utility system:				
Pumping and treatment plant	48,780,362	2,369,057	(59,576)	51,208,995
Collection plant	57,416,576	4,313,757	(118,018)	61,848,351
Reclaimed water plant	1,989,069	188,940	(12,888)	2,190,897
General plant	4,060,186	1,181,675	111,242	5,130,619
Total wastewater utility system	<u>112,246,193</u>	<u>8,053,429</u>	<u>(79,240)</u>	<u>120,378,862</u>
Gas utility system:				
Distribution plant	27,112,829	2,462,801	42,416	29,533,214
General plant	1,709,350	477,992	61,916	2,125,426
Plant acquisition adjustment	4,650,637	-	-	4,650,637
Total gas utility system	<u>33,472,816</u>	<u>2,940,793</u>	<u>104,332</u>	<u>36,309,277</u>
GRUCom utility system:				
Distribution plant	25,239,221	2,376,207	1,057,198	26,558,230
General plant	1,178,188	418,025	89,713	1,506,500
Total GRUCom utility system	<u>26,417,409</u>	<u>2,794,232</u>	<u>1,146,911</u>	<u>28,064,730</u>
Total	<u>\$ 603,523,959</u>	<u>\$ 79,985,095</u>	<u>\$ 6,292,504</u>	<u>\$ 677,216,550</u>

## **OTHER REPORT**

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

To the Honorable Mayor and City Commissioners  
Gainesville, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Gainesville Regional Utilities (the Utility) of the City of Gainesville, Florida (the City), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements and have issued our report thereon dated February 17, 2015.

**Internal Control Over Financial Reporting**

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

**Certified Public Accountants**

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To the Honorable Mayor and City Commissioners  
Gainesville, Florida

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Utility's financial statements are free from 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 results of that testing, and not to provide an opinion on the effectiveness of the Utility'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 Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Purvis, Gray and Company, LLP*

February 17, 2015  
Gainesville, Florida