

FINANCIAL STATEMENTS

Gainesville Regional Utilities  
Years Ended September 30, 2012 and 2011  
With Report of Independent Certified Public Accountants

Ernst & Young LLP



# Gainesville Regional Utilities

## Financial Statements

Years Ended September 30, 2012 and 2011

### Contents

Report of Independent Certified Public Accountants .....	1
Management’s Discussion and Analysis .....	3
Financial Statements	
Balance Sheets .....	13
Statements of Revenues, Expenses, and Changes in Position .....	15
Statements of Cash Flows .....	16
Notes to Financial Statements.....	18
Supplemental Schedules	
Schedules of Combined Net Revenues in Accordance with Bond Resolution.....	54
Schedules of Net Revenues in Accordance with Bond Resolution –	
Electric Utility Fund .....	56
Water Utility Fund .....	58
Wastewater Utility Fund.....	59
Gas Utility Fund.....	60
GRUCom Utility Fund .....	61
Notes to Schedules of Net Revenues in Accordance with Bond Resolution.....	62
Combining Balance Sheet.....	63
Combining Statement of Revenues, Expenses, and Changes in Net Position .....	65
Schedule of Utility Plant Properties – Combined Utility Fund .....	66
Schedule of Accumulated Depreciation and Amortization – Combined Utility Fund .....	67
Other Report	
Independent Certified Public Accountants’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	68

## Report of Independent Certified Public Accountants

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

We have audited the accompanying balance sheets of Gainesville Regional Utilities (a department of the City of Gainesville, Florida) as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of Gainesville Regional Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

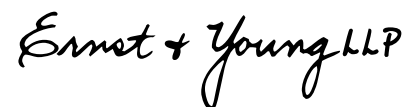
As discussed in Note 1, the financial statements present only Gainesville Regional Utilities (the Combined Utility Fund of the City of Gainesville, Florida) and are not intended to present fairly the financial position of the City of Gainesville, Florida, or the changes in its financial position and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

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

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

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

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

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

February 27, 2013

## Management's Discussion and Analysis

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

We offer readers of GRU's financial statements this management discussion and analysis of GRU's financial statements for the fiscal years ended September 30, 2012 and 2011. It should be read in conjunction with the financial statements that follow this section.

### **Required Financial Statements**

**Balance Sheet.** This statement includes all of GRU's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. It also provides the basis for computing rate of return, evaluating the capital structure of the System and assessing the liquidity and financial flexibility of GRU. Over time, increases or decreases in net position may serve as a useful indicator whether the financial position of GRU is improving or deteriorating.

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

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

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

## Management's Discussion and Analysis (continued)

### Financial Analysis of the Combined Utility System

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

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

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

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

Management's Discussion and Analysis (continued)

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

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

**Capital Asset and Debt Administration**

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

## Management's Discussion and Analysis (continued)

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

### Combined Utility System Capital Assets (Net of Accumulated Depreciation)

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

Major capital asset events included the following:

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



## Management's Discussion and Analysis (continued)

value. In 2012, GRU sold 14 of the 15 remaining parcels for \$0.8 million. Proceeds from the sale were recorded to miscellaneous revenue.

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

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

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

### Outstanding Debt at September 30

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

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

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

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

## Management's Discussion and Analysis (continued)

issued to: (a) provide funds for the payment of the cost of acquisition and construction of certain improvements to the System; (b) provide for the payment of certain capitalized interest on the Taxable 2010 Series B Bonds; and (c) pay the costs of issuance of the Taxable 2010 Series B Bonds. The 2010 Series C Bonds in the amount of \$16.4 million were issued to (a) provide funds to refund \$5.9 million in aggregate principal amount of the 2003 Series A Bonds and (b) provide funds to refund \$10.5 million in aggregate principal amount of the 2008 Series A Bonds.

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

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

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

- Operating sales and service revenue decreased \$23.5 million, or approximately 6.7%, and decreased \$2.0 million, or approximately 0.5%, in fiscal 2012 and 2011, respectively. The decrease in sales revenue in fiscal 2012 is the result of lower consumption offset by rate increases implemented in October 2011, along with a decrease in fuel costs of approximately \$15.6 million. Fuel costs are passed directly through to our customers, as part of a fuel adjustment charge, which is recorded as revenue. The decrease in sales and service revenue in fiscal 2011 is the result of lower consumption offset by rate increases implemented in October 2010, along with a decrease in fuel costs of approximately \$12.3 million.
- Net capital contributions from developers decreased in fiscal 2012 over fiscal 2011 by \$3.1 million and increased in fiscal 2011 over fiscal 2010 by \$2.1 million. Although residential new development has remained steady, there was a spike in development of churches, schools, and commercial offices during fiscal 2011, which has now returned to prior-year levels.
- Year-end fuels payable decreased \$2.4 million, or approximately 30.9%, in fiscal 2012 and increased \$3.1 million, or approximately 68.6%, in fiscal 2011. The decrease at the end of fiscal 2012 is a result of timing of coal invoices at year-end.
- Gross utility plant in service increased \$194.2 million, or 13.1%, and net capital assets increased \$30.5 million, or 2.6% in fiscal 2012. In fiscal 2011, gross utility plant in service increased \$41.7 million, or 2.9%, and net capital assets increased \$83.0 million, or 7.6%. This is summarized under "Capital Assets."

## Management's Discussion and Analysis (continued)

- Long-term debt decreased \$28.5 million, or 2.9%, in fiscal 2012, due to the issuance of new debt in August 2012, offset by refunding of 2003A Series bonds, partial refunding of 2005A, 2005B, and 2006C Series bonds, 2006A and 2008A Series bonds and scheduled payoff of principal. Long-term debt increased \$108.9 million, or 12.5%, in fiscal 2011, due to the issuance of new debt in November 2010, offset by refunding and scheduled payoff of principal. See "Long-Term Debt" within this Management's Discussion and Analysis and Note 4 to the financial statements for details.
- The number of customers for electric services increased 0.2%, water and wastewater services increased 0.5% and 0.6%, respectively, and gas services increased 0.2% in fiscal 2012. The number of customers for electric services decreased 0.2%, while water and wastewater services increased 0.2% and 0.3%, respectively, in fiscal 2011. There was no change in the number of customers for gas services.
- GRU is in the process of remediation efforts at a former manufactured gas plant site. The costs incurred to date total \$26.7 million, and GRU estimates that total project costs will be approximately \$28.5 million. However, to date GRU has recovered \$3.3 million from insurance. After recognizing collection fees paid, a net recovery of \$2.2 million has been realized, which will directly reduce the amount to be recovered through customer billings. GRU has accrued a regulatory asset and liability to account for the cost and cost recovery of the expense, which is being amortized as costs are incurred and customer revenues are received. Further explanation of this activity is presented in Note 13.
- GRU's service territory incurred approximately \$1.1 million of damage to its facilities as a result of Tropical Storm Fay in September 2008. Requests for Federal Emergency Management Agency (FEMA) funding were submitted and a receivable of \$1 million, or 87.5%, of expenses was recorded in fiscal year 2008. An additional \$0.1 million in expenses were incurred during the first quarter of fiscal 2009. In March 2012, GRU received the final reimbursement of \$1 million from FEMA.

## Management's Discussion and Analysis (continued)

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

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

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

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

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

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

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

## Management's Discussion and Analysis (continued)

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

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

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

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

## Management's Discussion and Analysis (continued)

### **Requests for Information**

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

# Gainesville Regional Utilities

## Balance Sheets

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

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

See accompanying notes.



## Gainesville Regional Utilities

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

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

*See accompanying notes.*

# Gainesville Regional Utilities

## Statements of Cash Flows

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

# Gainesville Regional Utilities

## Statements of Cash Flows (continued)

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

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

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

*See accompanying notes.*

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2012

### 1. Summary of Significant Accounting Policies

#### Organization

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

#### Basis of Accounting

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

GRU reports net position in the following classifications:

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

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

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

### Net Position Flow Assumption

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

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

### Use of Estimates

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

### Investments

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

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

#### Risk Management/Futures and Options Contracts

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

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

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

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

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

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

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

### Inventories

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

### Capital Assets

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

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

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

#### Depreciation and Nuclear Generating Plant Decommissioning

Depreciation of utility plant is computed using the straight-line method over estimated service lives ranging from 10 to 80 years. The overall depreciation rate was 3.12% in fiscal 2012 and 3.14% in fiscal 2011. Depreciation expense includes a provision for decommissioning costs related to the jointly owned nuclear power plant (see Note 6).

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

#### Revenue Recognition

Revenue is recorded as earned. GRU accrues for services rendered but unbilled, which amounted to approximately \$15.4 million and \$16.2 million 2012 and 2011, respectively. Fuel adjustment revenue is recognized based on the actual fuel costs. Amounts charged to customers for fuel are based on estimated costs, which are adjusted for any differences between the actual and estimated costs once actual fuel costs are known. If the amount recovered through billings exceeds actual fuel costs, GRU records deferred fuel as a liability. If the amount recovered through billings is less than the actual fuel costs, GRU records deferred fuel as an asset, for amounts to be collected through future rates. As of September 30, 2012 and 2011, deferred fuel costs were a liability of \$15.2 million and \$9.1 million, respectively. The deferred fuel balances are reported as part of current deferred charges on the accompanying balance sheets.

#### Transactions With the City

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

- Administrative Services – GRU is billed monthly for various administrative and insurance services provided by the City's governmental functions. In 2012 and 2011, GRU paid \$1.8 million each year for joint services.



# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

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

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

### Funds in Accordance With Bond Resolutions

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

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

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

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

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

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

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

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

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

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

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

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

An allowance for interest on borrowed funds used during construction of \$0.4 million and \$1.4 million in 2012 and 2011, respectively, is included in construction-in-progress and as a reduction of interest expense. These amounts are computed by applying the effective interest rate on the funds borrowed to finance the projects to the monthly balance of projects under construction. The effective interest rate was approximately 4.08% and 3.09% for fiscal years 2012 and 2011, respectively.

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

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

### **Cash and Cash Equivalents**

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

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

#### Unamortized Loss on Refinancing

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

#### New Accounting Standards

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

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

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

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position*. This statement is intended to provide guidance for reporting deferred outflows of resources, deferred inflow of resources, and net position in a statement of financial position and related disclosures. This adoption of this statement requires GRU to modify the balance sheets and replace the statements of revenues, expenses, and changes in net assets with a statement of revenues, expenses, and changes in net position. While there is no material impact to GRU's financial position, the presentation of the

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

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

statements is modified to report deferred inflows and outflows of resources as separate items, not included in total assets and total liabilities. This statement is effective for periods beginning after December 15, 2011; however, GRU opted to early-implement this statement in fiscal 2011.

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

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

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

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

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

#### Reclassifications

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

### 2. Rates and Regulation

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

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

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

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

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 3. Capital Assets and Changes in Accumulated Depreciation

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

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

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 4. Long-Term Debt

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

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

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

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

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

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

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



## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

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

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

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

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

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

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

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

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

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

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

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

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

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

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

The following table lists the Debt Service requirements (principal and interest) on long-term debt outstanding at September 30, 2012:

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

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

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

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

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

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

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

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

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

### **Derivatives**

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

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

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

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

Gainesville Regional Utilities

Notes to Financial Statements (continued)

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

*Terms, Fair Values, and Credit Risk*

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

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

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

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

<b>Associated Bond Issue</b>	<b>2008CP*</b>	<b>2005B*</b>	<b>2005C*</b>	<b>2006A*</b>
Notional amounts	\$ 22,000,000	\$ 45,000,000	\$ 55,135,000	\$ 53,305,000
Effective date	7/3/2002	11/16/2005	11/1/2006	7/6/2006
Fixed payer rate	4.100%	SIFMA	3.200%	3.224%
Variable receiver rate	SIFMA	77.14% of 1 MO LIBOR	60.36% of 10 YR LIBOR	68% of 10 YR LIBOR -0.365%
Fair value	\$ (3,502,745)	\$ (753,558)	\$ (3,970,369)	\$ (4,269,396)
Termination date	10/1/2017	10/1/2021	10/1/2026	10/1/2026
Counterparty credit rating	Baa1/A/A+	Aa1/AAA	Aa1/AA-/AA-	Aa1/AAA
<b>Associated Bond Issue</b>	<b>2008B*</b>	<b>2008B*</b>	<b>2007A*</b>	
Notional amounts	\$ 58,500,000	\$ 31,500,000	\$ 139,505,000	
Effective date	2/1/2008	2/1/2008	3/1/2007	
Fixed payer rate	4.229%	4.229%	3.944%	
Variable receiver rate	SIFMA	SIFMA	SIFMA	
Fair value	\$ (17,305,693)	\$ (9,322,086)	\$ (35,811,752)	
Termination date	10/1/2038	10/1/2038	10/1/2036	
Counterparty credit rating	Aa1/AA-/AA-	Aa1/AA-/AA-	Aa1/AAA	



Gainesville Regional Utilities

Notes to Financial Statements (continued)

4. Long-Term Debt (continued)

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

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

*Fair Value*

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

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

Assuming interest rates remain the same at September 30, 2012, debt service requirements on the interest rate swaps would be as follows:

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

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

##### *Credit Risk*

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

##### *Basis Risk*

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

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

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

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

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

#### *Termination Risk*

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

#### *Interest Rate Risk*

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

#### *Rollover Risk*

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

##### *Market Access Risk*

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

#### 5. Deposits and Investments

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

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

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

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 5. Deposits and Investments (continued)

#### Interest Rate Risk

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

#### Credit Risk

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

#### Concentration of Credit Risk

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

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

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

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

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

#### 6. Jointly Owned Electric Plant

GRU-owned resources for supplying electric power and energy requirements include its 1.4079% undivided ownership interest in Crystal River Unit 3 (CR3) nuclear power plant operated by Progress Energy Florida (PEF), a subsidiary of Duke Energy. GRU's net investment in CR3 at September 30, 2012 and 2011, is approximately \$19.5 million and \$17.6 million, respectively. CR3 operation and maintenance costs, which represent GRU's part of expenses attributable to operation of CR3, are recorded in accordance with the instructions as set forth in the FERC uniform system of accounts. Payments are made to PEF in accordance with the CR3 participation agreement.

GRU, as a part of this participation agreement, is responsible for its share of future decommissioning costs. Decommissioning costs are funded and expensed annually and are recovered through rates charged to customers. The most recent decommissioning cost estimates provided by PEF in September 2006, estimated GRU's share of the total projected decommissioning funding requirements to be \$7.7 million of which \$5.2 million has already been deposited. This \$7.7 million is expected, with reinvestment and interest earnings, to reach \$24.7 million in total, which will be used in 2041 to pay for the projected costs of decommissioning the plant. The market value of the funds on deposit as of September 30, 2012, is \$10.3 million. See Note 17, "Subsequent Events," for further information.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 7. Restricted Net Position

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

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

Assets are restricted as follows:

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

#### 8. Retirement Plans

The City sponsors and administers one defined benefit pension plan and two defined contribution plans (collectively, the Plans) that include GRU and other City employees. The Plans do not make separate measurements of assets and pension benefit obligations for individual units of the City. Such information is presented in the City of Gainesville, Florida, September 30, 2012, Comprehensive Annual Financial Report.

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

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

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

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

In addition to providing pension benefits, the City provides certain health care insurance benefits for retired employees of the City and GRU. The City also permits retirees to participate in the life insurance program. Most permanent full and part-time employees who are eligible for normal, early, or disability retirement are eligible for these benefits. Individual benefits are the same for all employees, but the cost to the City may vary. Contributions by the City to fund these benefits are neither mandated nor guaranteed. The actuarial costs of these plans are determined and funded by the City. A portion of this funding comes from bonds issued by the City to cover post-employment benefits. GRU contributes 0.5% of payroll to fund the remaining portion. The cost of providing these benefits to GRU retirees were \$0.2 million for each of the fiscal years ended September 30, 2012 and 2011.

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

##### **Receivables**

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



## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

##### **Payables**

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

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

GRU makes transfers to the City's general government based on a pre-defined formula that predominantly ties the transfer directly to the financial performance of the system. The transfer to the general fund may be made only to the extent such moneys are not necessary to pay operating and maintenance expenses and to pay debt service on the outstanding bonds and subordinated debt or to make other necessary transfers under the Bond Resolution. The formula-based fund transfer to the general fund for the years ended September 30, 2012 and 2011, was \$36.0 million and \$35.2 million, respectively.

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

##### **Deferred Charges**

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

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

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

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

##### Deferred Credits

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

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

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

#### 13. Environmental Liabilities

GRU is subject to numerous federal, state, and local environmental regulations. Under the Comprehensive Environmental Response Compensation and Liability Act, commonly known as "Superfund," GRU has been named as a potentially responsible party at several hazardous waste sites; however, GRU does not anticipate any more than "de minimus" liability at any of these sites. In January 1990, GRU purchased the natural gas distribution assets of a company and pursuant to the related purchase agreement, assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former manufactured gas plant. Based upon GRU's analysis of the cost to clean up these sites, GRU has accrued a liability to reflect the costs associated with the cleanup effort. During fiscal year 2012 and 2011, expenditures that reduced the liability balance were \$3.1 million and \$9.2 million, respectively. In accordance with GASB No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, the reserve was reduced \$0.2 million due to new project estimates and probabilities, bringing the reserve balance at September 30, 2012, to \$2.6 million as compared to \$5.9 million at September 30, 2011.

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

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

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

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

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

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

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

GRU provides guarantees to TEA and to TEA's bank to secure letters of credit issued by the bank to cover purchase and sale contracts for electric energy, natural gas, and related transmission. In accordance with the membership agreement between GRU and its joint venture

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

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

members and with the executed guaranties delivered to TEA and to TEA's bank, GRU's aggregate obligation for electric energy marketing transactions entered into by TEA on behalf of its members was \$9.6 million and \$9.6 million as of September 30, 2012 and 2011. GRU's aggregate obligation for TEA's natural gas marketing transactions, under similar agreements and executed guaranties, was \$13.7 million and \$30.5 million as of September 30, 2012 and 2011, respectively.

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

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

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

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 15. Risk Management

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

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

<b>Fiscal Year</b>	<b>Beginning Balance</b>	<b>Claims</b>	<b>Payments</b>	<b>Ending Balance</b>
2010–2011	\$ 3,337,000	\$ 1,241,943	\$ 1,241,943	\$ 3,337,000
2011–2012	<b>\$ 3,337,000</b>	<b>\$ 1,175,634</b>	<b>\$ 1,175,634</b>	<b>\$ 3,337,000</b>

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 16. Noncurrent Liabilities

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

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

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

#### 17. Subsequent Events (unaudited)

##### Subsequent Liquidity Facility

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

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **17. Subsequent Events (unaudited) (continued)**

##### **Crystal River 3**

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

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

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

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

# Supplemental Schedules



# Gainesville Regional Utilities

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

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

# Gainesville Regional Utilities

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

	September 30				
	2012	2011	2010	2009	2008
<b>Operation, maintenance, and administrative</b>					
Electric fund:					
Fuel expense	\$ 100,219,350	\$ 112,075,262	\$ 129,092,299	\$ 131,849,819	\$ 127,233,223
Operation and maintenance	39,301,044	39,041,379	38,312,780	38,244,824	36,753,083
Administrative and general	21,049,516	21,484,263	16,770,146	18,273,573	20,654,480
Total electric fund expense	<u>160,569,910</u>	<u>172,600,904</u>	<u>184,175,225</u>	<u>188,368,216</u>	<u>184,640,786</u>
Water fund:					
Operation and maintenance	7,475,797	7,410,001	7,385,629	8,042,992	7,074,992
Administrative and general	5,138,472	4,980,853	5,104,686	4,547,293	5,120,270
Total water fund expense	<u>12,614,269</u>	<u>12,390,854</u>	<u>12,490,315</u>	<u>12,590,285</u>	<u>12,195,262</u>
Wastewater fund:					
Operation and maintenance	7,242,859	7,230,689	6,690,918	6,734,970	7,273,610
Administrative and general	5,506,621	6,331,392	5,960,940	5,939,526	5,773,158
Total wastewater fund expense	<u>12,749,480</u>	<u>13,562,081</u>	<u>12,651,858</u>	<u>12,674,496</u>	<u>13,046,768</u>
Gas fund:					
Fuel expense	9,950,085	13,800,865	14,632,694	15,458,942	20,107,903
Operation and maintenance	1,362,351	1,259,693	1,381,945	1,652,911	1,606,831
Administrative and general	3,968,444	3,698,336	3,643,805	2,033,561	4,504,748
Total gas fund expense	<u>15,280,880</u>	<u>18,758,894</u>	<u>19,658,444</u>	<u>19,145,414</u>	<u>26,219,482</u>
GRUCom fund:					
Operation and maintenance	3,614,797	3,333,664	3,423,128	2,761,702	2,632,075
Administrative and general	2,301,433	1,973,765	1,952,831	2,104,484	2,349,715
Total GRUCom fund expense	<u>5,916,230</u>	<u>5,307,429</u>	<u>5,375,959</u>	<u>4,866,186</u>	<u>4,981,790</u>
Total operation, maintenance, and administrative	<u>207,130,769</u>	<u>222,620,162</u>	<u>234,351,801</u>	<u>237,644,597</u>	<u>241,084,088</u>
<b>Net revenue in accordance with bond resolution</b>					
Electric	88,584,567	92,363,938	88,175,055	78,427,597	67,218,609
Water	19,472,583	19,969,670	17,908,951	15,909,858	14,930,197
Wastewater	23,683,852	22,050,431	21,405,062	19,792,456	18,750,521
Gas	9,702,041	11,207,036	8,199,938	7,056,545	6,182,824
GRUCom	8,106,836	7,955,944	6,298,952	4,754,320	4,449,324
Total net revenue in accordance with bond resolution	<u>\$ 149,549,879</u>	<u>\$ 153,547,019</u>	<u>\$ 141,987,958</u>	<u>\$ 125,940,776</u>	<u>\$ 111,531,475</u>
Aggregate bond debt service	<u>\$ 63,755,940</u>	<u>\$ 64,007,046</u>	<u>\$ 62,168,819</u>	<u>\$ 51,062,280</u>	<u>\$ 47,127,033</u>
Aggregate bond debt service coverage ratio	<u>2.35</u>	<u>2.40</u>	<u>2.28</u>	<u>2.47</u>	<u>2.37</u>
Total debt service	<u>\$ 69,793,875</u>	<u>\$ 70,268,626</u>	<u>\$ 73,332,609</u>	<u>\$ 61,390,337</u>	<u>\$ 52,626,846</u>
Total debt service coverage ratio	<u>2.14</u>	<u>2.19</u>	<u>1.94</u>	<u>2.05</u>	<u>2.12</u>

## Gainesville Regional Utilities

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

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenue</b>		
Sales of electricity:		
Residential sales	\$ 52,431,384	\$ 58,319,720
General service and large power	65,947,347	66,034,575
Fuel adjustment	99,838,993	110,015,494
Street and traffic lighting	5,358,632	5,412,467
Utility surcharge	3,447,327	3,711,839
Sales for resale	4,137,619	4,306,071
Interchange sales	(355,646)	2,257,127
Total sales of electricity	230,805,656	250,057,293
Other electric revenue:		
Service charges	948,868	1,228,124
Pole rentals	644,342	618,960
Miscellaneous	11,260,672	11,674,623
Total other electric revenue	12,853,882	13,521,707
Transfers from (to) rate stabilization	1,068,547	(3,017,205)
Interest income	1,233,211	1,404,284
Other interest-related income, BABs	3,193,181	2,998,763
Total revenue	249,154,477	264,964,842
<b>Operation, maintenance, and administrative expense</b>		
Operation and maintenance:		
Fuel expense:		
Retail and purchased power	97,243,613	107,988,432
Fuel-related operating expense	2,638,041	2,027,061
Interchange	337,696	2,059,769
Total fuel expense	100,219,350	112,075,262
Power production	27,161,341	27,256,591
Transmission	2,343,115	1,135,379
Distribution	9,796,588	10,649,409
Total operation and maintenance	139,520,394	151,116,641

Gainesville Regional Utilities

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

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
Administrative and general:		
Customer accounts	\$ 5,829,976	\$ 8,234,957
Administrative and general	<u>15,219,540</u>	13,249,306
Total administrative and general	<u>21,049,516</u>	21,484,263
Total operation, maintenance, and administrative expense	<u>160,569,910</u>	172,600,904
<b>Net revenue in accordance with bond resolution</b>		
Retail	89,277,909	92,166,580
Interchange	<u>(693,342)</u>	197,358
Total net revenue in accordance with bond resolution	<u>\$ 88,584,567</u>	<u>\$ 92,363,938</u>

## Gainesville Regional Utilities

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

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenue</b>		
Sales of water:		
General customers	\$ 25,842,351	\$ 26,075,820
University of Florida	1,804,734	1,417,683
Utility surcharge	2,225,891	2,352,869
Total sales of water	29,872,976	29,846,372
Other water revenue:		
Connection charges	844,890	769,370
Miscellaneous	979,412	1,124,594
Total other water revenue	1,824,302	1,893,964
Transfers to rate stabilization	(655,733)	(373,250)
Interest income	150,488	167,351
Other interest-related income, BABs	894,819	826,087
Total revenue	32,086,852	32,360,524
<b>Operation, maintenance, and administrative expense</b>		
Operation and maintenance:		
Pumping	2,031,000	2,127,130
Water treatment	3,232,184	3,273,391
Transmission and distribution	2,212,613	2,009,480
Total operation and maintenance	7,475,797	7,410,001
Administrative and general:		
Customer accounts	1,023,028	1,137,715
Administrative and general	4,115,444	3,843,138
Total administrative and general	5,138,472	4,980,853
Total operation, maintenance and administrative expense	12,614,269	12,390,854
Total net revenue in accordance with bond resolution	\$ 19,472,583	\$ 19,969,670

## Gainesville Regional Utilities

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

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenue</b>		
Wastewater billings:		
Billings	\$ 32,034,244	\$ 29,899,690
Utility surcharge	2,442,636	2,359,276
Total wastewater billings	34,476,880	32,258,966
Other wastewater revenue:		
Connection charges	1,240,713	1,055,110
Miscellaneous	(160,650)	1,981
Total other wastewater revenue	1,080,063	1,057,091
Transfers (to) from rate stabilization	(379,508)	1,100,815
Interest income	246,283	284,526
Other interest-related income, BABs	1,009,614	911,114
Total revenue	36,433,332	35,612,512
<b>Operation, maintenance, and administrative expense</b>		
Operation and maintenance:		
Collection	2,395,872	2,282,302
Treatment and pumping	4,846,987	4,948,387
Total operation and maintenance	7,242,859	7,230,689
Administrative and general:		
Customer accounts	1,028,312	1,343,721
Administrative and general	4,478,309	4,987,671
Total administrative and general	5,506,621	6,331,392
Total operation, maintenance, and administrative expense	12,749,480	13,562,081
Total net revenue in accordance with bond resolution	\$ 23,683,852	\$ 22,050,431

## Gainesville Regional Utilities

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

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenue</b>		
Sales of gas:		
Residential	\$ 9,952,951	\$ 13,189,609
Interruptible/commercial	9,115,092	10,996,772
Other sales	2,564,989	2,967,517
Total sales of gas	21,633,032	27,153,898
Other gas revenue	954,219	1,089,778
Transfers from rate stabilization	1,475,567	820,268
Interest income	251,631	275,191
Other interest-related income, BABs	668,472	626,795
Total revenue	24,982,921	29,965,930
<b>Operation, maintenance, and administrative expense</b>		
Operation and maintenance:		
Fuel expense	9,950,085	13,800,865
Operation and maintenance	1,362,351	1,259,693
Total operation and maintenance	11,312,436	15,060,558
Administrative and general:		
Customer accounts	2,151,119	2,027,744
Administrative and general	1,817,325	1,670,592
Total administrative and general	3,968,444	3,698,336
Total operation, maintenance, and administrative expense	15,280,880	18,758,894
Total net revenue in accordance with bond resolution	\$ 9,702,041	\$ 11,207,036

## Gainesville Regional Utilities

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

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenue</b>		
Sales to customers	<b>\$ 10,892,510</b>	\$ 11,889,016
Transfers from rate stabilization	<b>2,955,113</b>	1,172,482
Interest income	<b>175,443</b>	201,875
Total revenue	<b>14,023,066</b>	13,263,373
 <b>Operation, maintenance, and administrative expense</b>		
Operation and maintenance	<b>3,614,797</b>	3,333,664
Total operation and maintenance	<b>3,614,797</b>	3,333,664
 Administrative and general:		
Customer accounts	<b>244,832</b>	354,050
Administrative and general	<b>2,056,601</b>	1,619,715
Total administrative and general	<b>2,301,433</b>	1,973,765
Total operation, maintenance, and administrative expense	<b>5,916,230</b>	5,307,429
Total net revenue in accordance with bond resolution	<b>\$ 8,106,836</b>	\$ 7,955,944



## Gainesville Regional Utilities

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

September 30, 2012

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

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

# Gainesville Regional Utilities

## Combining Balance Sheet

September 30, 2012

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

# Gainesville Regional Utilities

## Combining Balance Sheet (continued)

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

# Gainesville Regional Utilities

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

Year Ended September 30, 2012

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

# Gainesville Regional Utilities

## Schedule of Utility Plant Properties – Combined Utility Fund

September 30, 2012

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

## Gainesville Regional Utilities

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

September 30, 2012

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

# Other Report

Report of Independent Certified Public Accountants on Internal Control Over  
Financial Reporting and on Compliance  
and Other Matters Based on an Audit of the Financial Statements  
Performed in Accordance With *Government Auditing Standards*

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

We have audited the financial statements of Gainesville Regional Utilities (a department of the City of Gainesville, Florida) as of and for the year ended September 30, 2012, and have issued our report thereon dated February 27, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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

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



## Compliance and Other Matters

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

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

*Ernst + Young LLP*

February 27, 2013

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