

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
GAINESVILLE REGIONAL UTILITIES  
GAINESVILLE, FLORIDA  
SEPTEMBER 30, 2015 AND 2014**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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GAINESVILLE, FLORIDA**

**SEPTEMBER 30, 2015 AND 2014**

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## **INDEPENDENT AUDITORS' REPORT**

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Commissioners  
Gainesville, Florida

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

We have audited the accompanying financial statements of Gainesville Regional Utilities (the Utility) of the City of Gainesville, Florida (the City), as of and for the years ended September 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

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

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

### **Auditors' Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility of the City, as of September 30, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Certified Public Accountants**

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

To the Honorable Mayor and City Commissioners  
Gainesville, Florida

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

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Utility and do not purport to, and do not present fairly the financial position of the City, as of September 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Change in Accounting Principle**

As discussed in Note 1 to the financial statements, the Utility adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement requires employers participating in a defined benefit pension plan to report the net pension liability and other pension related deferred inflows and outflows related to the plan. In connection with implementation of this statement, the Utility recorded a net pension liability and regulatory asset of \$46,050,475 as of September 30, 2014. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the schedule of changes in net position liability and related ratios, schedule of employer contributions, and schedule of investment returns that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. The Utility omitted these schedules as they are included in the City's comprehensive annual financial report. Our opinion on the basic financial statements is not affected by this missing information.

To the Honorable Mayor and City Commissioners  
Gainesville, Florida

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

**Other Matters (Concluded)**

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The schedules of net revenues in accordance with bond resolution, combining statements of net position and changes in net position, and schedules of utility plant properties and accumulated depreciation and amortization on pages 73 through 85, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2016, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.



February 24, 2016  
Gainesville, Florida

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

## Management's Discussion and Analysis

Gainesville Regional Utilities (GRU or the Utility) is a combined municipal utility operating electric, water, wastewater, natural gas, and telecommunications (GRUCom) systems. GRU is a utility enterprise of the City of Gainesville, Florida (City) and is reported as an enterprise fund in the Comprehensive Annual Financial Report of the City.

We offer readers of GRU's financial statements this management's discussion and analysis of the financial activities of GRU for the fiscal years ended September 30, 2015, 2014, and 2013. It should be read in conjunction with the financial statements that follow this section.

### **Required Financial Statements**

#### **Statement of Net Position**

This statement includes all of GRU's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

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

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

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

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

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

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

## Management's Discussion and Analysis (continued)

### Financial Analysis of Gainesville Regional Utilities

GRU's net position increased \$1.4 million for fiscal year 2015, and decreased \$1.7 million and \$14.1 million for fiscal years 2014 and 2013, respectively. The Condensed Statements of Net Position and Condensed Statements of Revenues, Expenses and Changes in Net Position follow (in thousands).

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

	<b>2015</b>	Restated 2014	2013
Current assets	<b>\$ 126,006</b>	\$ 130,712	\$ 123,615
Restricted and internally designated assets	<b>240,828</b>	193,442	224,285
Noncurrent assets	<b>113,580</b>	90,701	30,717
Capital assets, net	<b>2,166,088</b>	2,196,231	1,206,124
Deferred outflows of resources	<b>123,985</b>	79,515	72,163
Total assets and deferred outflows of resources	<b><u>\$2,770,487</u></b>	<u>\$2,690,601</u>	<u>\$1,656,904</u>
Current liabilities	<b>72,728</b>	70,894	46,283
Payable from restricted assets	<b>55,277</b>	52,029	153,254
Long-term debt	<b>2,004,375</b>	1,969,083	912,606
Noncurrent liabilities	<b>91,287</b>	60,819	14,168
Deferred inflows of resources	<b>71,714</b>	64,117	55,249
Total liabilities and deferred inflows of resources	<b><u>2,295,381</u></b>	<u>2,216,942</u>	<u>1,181,560</u>
Net position:			
Net investment in capital assets	<b>288,245</b>	314,615	314,308
Restricted	<b>77,427</b>	60,370	75,535
Unrestricted	<b>109,434</b>	98,674	85,501
Total net position	<b><u>475,106</u></b>	<u>473,659</u>	<u>475,344</u>
Total liabilities, deferred inflows of resources and net position	<b><u>\$2,770,487</u></b>	<u>\$2,690,601</u>	<u>\$1,656,904</u>

## Management's Discussion and Analysis (continued)

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

	<b>2015</b>	Restated 2014	2013
Operating revenue	<b>\$ 425,941</b>	\$ 405,895	\$ 349,075
Interest income	<b>607</b>	714	2,118
Other income, BABs	<b>13,029</b>	5,561	6,471
Total revenues	<b>439,577</b>	412,170	357,664
Operating expenses	<b>366,437</b>	340,247	276,065
Interest expense, net of AFUDC	<b>38,205</b>	37,816	41,029
Total expenses	<b>404,642</b>	378,063	317,094
Income before contributions, transfer, and extraordinary item	<b>34,935</b>	34,107	40,570
Capital contributions, net	<b>1,404</b>	1,525	639
Transfer to City of Gainesville General Fund	<b>(34,892)</b>	(37,317)	(36,656)
Extraordinary item: impairment loss on Crystal River 3	<b>-</b>	-	(18,678)
Change in net position	<b>1,447</b>	(1,685)	(14,125)
Net position, beginning of year, restated	<b>473,659</b>	475,344	489,469
Net position, end of year, restated	<b>\$ 475,106</b>	\$ 473,659	\$ 475,344

### Financial Highlights

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

- Gross utility plant in service increased \$59 million, or 2.2%, in fiscal year 2015. The increase was due primarily to the completion of the Paynes Prairie Sheetflow Restoration project, increases in generation facilities, water supply facilities, and transmission and distribution facilities. Gross utility plant increased \$1 billion, or 62% in fiscal year 2014 due to a capital lease related to power purchased from a biomass facility and increased \$13.3 million, or 0.8% in fiscal year 2013. See Capital Assets within this Management's Discussion and Analysis section, Note 4 Capital Assets, and Note 6 Capital Lease for additional information.
- Long-term debt increased \$22.8 million, or 2.4%, in fiscal year 2015, primarily due to the issuance of utility system revenue bonds and commercial paper notes in December 2014. Long-term debt increased \$1.1 billion, or 116%, in fiscal year 2014, due to a capital lease obligation related to the GREC biomass plant. See Long-Term Debt within this Management's Discussion and Analysis section, Note 6 Capital Lease, and Note 8 Long-Term Debt for additional information.

## Management's Discussion and Analysis (continued)

- GRU is completing remediation efforts at a former manufactured gas plant site. The costs incurred to date total \$28.4 million and GRU estimates that total project costs will be approximately \$29 million. GRU accrued a regulatory asset and liability to account for the cost and cost recovery of the expense, which is being amortized as costs are incurred and customer revenues are received. See Note 13 Commitments and Contingencies for additional information.
- Sales and service charges increased \$10.2 million or 2.8%, increased \$41.3 million or 13%, and decreased \$1.8 million or 0.5% in fiscal years 2015, 2014, and 2013, respectively. The increase in sales and service charges in fiscal years 2015 and 2014 is the result of base rate and fuel adjustment increases implemented in October 2014 and 2013. The decrease in sales revenue in fiscal year 2013 is the result of lower consumption offset by rate increases implemented in October 2012.
- Operating expenses increased \$26.2 million or 7.7%, increased \$64.2 million or 23.3%, and increased \$13.1 million or 5% in fiscal years 2015, 2014, and 2013, respectively. The increase in operating expenses is due primarily to power purchased from a biomass facility in fiscal years 2015 and 2014.
- Transfers to rate stabilization were \$7.7 million and \$8.9 million in fiscal years 2015 and 2014 as a result of revenue increases. Transfers from rate stabilization were \$4.1 million in fiscal year 2013 due to increased operating expenses.
- The number of customers for electric services increased 0.8%, water services increased 0.9%, wastewater services increased 1%, and gas services increased 1.1% in fiscal year 2015. The number of customers for electric services increased 0.9%, water and wastewater services increased 0.6%, and gas services increased 0.9% in fiscal year 2014. The number of customers for electric services increased 0.5%, water and wastewater services increased 0.7%, and gas services increased 0.6% in fiscal year 2013.
- On October 1, 2015, GRU implemented a 3.75% increase in the revenue requirement for the water system, a 4.85% increase for the wastewater system, and a 4.75% increase for the gas system. The electric system experienced no increase or decrease in the revenue requirement, primarily due to reductions in operating expenses through increased efficiency and management of assets. To meet increased costs of service, GRU increased residential water connection fees by approximately 3% and residential wastewater connection fees by approximately 3%.

### **Capital Assets**

GRU's investment in capital assets as of September 30, 2015 was \$2.2 billion (net of accumulated depreciation and amortization). The decrease in net capital assets for fiscal year 2015 was 1.4%. In fiscal year 2014, the increase in net capital assets was 82%, primarily due to a capital lease related to the Gainesville Renewable Energy Center (GREC) biomass plant. The net increase in capital assets for 2013 was 0.5%.

## Management's Discussion and Analysis (continued)

The following table summarizes GRU's capital assets, net of accumulated depreciation and amortization, for the years ended September 30, 2015, 2014, and 2013 (in thousands).

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

	2015	2014	2013
Generation	<b>\$ 1,338,731</b>	\$ 1,373,668	\$ 399,160
Transmission, distribution and collection	<b>481,293</b>	465,826	467,754
Treatment	<b>87,378</b>	80,916	85,036
General plant	<b>127,090</b>	133,832	132,310
Construction work in progress	<b>131,596</b>	141,989	121,864
Total net utility plant	<b><u>\$ 2,166,088</u></b>	<u>\$ 2,196,231</u>	<u>\$ 1,206,124</u>

Major capital asset events during the fiscal years include:

- GRU recorded a capital lease asset during fiscal year 2014 when GREC began commercial operations in December 2013. The capital lease asset was recorded at \$1 billion at September 30, 2015 and 2014, and \$0 at September 30, 2013, respectively. See Note 6 Capital Lease for additional information.
- Electric transmission and distribution expansion was \$11.4 million in fiscal year 2015, \$12.1 million in fiscal year 2014 and \$15.1 million in fiscal year 2013. For 2015, \$3.6 million was spent on underground system improvements.
- Electric generation capital expenditures were \$14.3 million for fiscal year 2015. These expenditures included \$2.6 million for the John R Kelly (JRK) generating station and \$8 million for the Deerhaven (DH) generating station.
- Water capital expenditures were \$8.3 million in fiscal year 2015 with \$6.6 million for supply, pumping and treatment and \$1.5 million for transmission and distribution.
- Wastewater capital expenditures were \$29.1 million primarily due to the completion of the Paynes Prairie Sheetflow Restoration project. This project created the Sweetwater Wetlands Park now open to the public.
- Gas distribution expansion expenditures were \$3.8 million in 2015, \$3 million in 2014 and \$3.6 million in 2013. This expansion included expenditures of \$1.3 million in gas distribution mains, \$1 million in residential gas services, and \$0.5 million in meter change outs.

Additional information may be found in Note 4 Capital Assets.

## Management's Discussion and Analysis (continued)

### Long-Term Debt

At September 30, 2015, 2014, and 2013, GRU had total long-term debt outstanding of \$1.9 billion, \$1.9 billion, and \$975 million, respectively, comprised of utilities system revenue bonds, commercial paper notes, and a capital lease (in thousands).

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

	2015	2014	2013
Utilities system revenue bonds	\$ 905,880	\$ 885,950	\$ 912,795
Commercial paper notes	64,900	62,000	62,000
Capital lease	977,280	994,108	-
<b>Total</b>	<b>\$ 1,948,060</b>	<b>\$ 1,942,058</b>	<b>\$ 974,795</b>

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

- In December 2014, the City issued two series of 2014 Utilities System Revenue Bonds. The 2014 Series A Bonds in the amount of \$38 million were issued to provide funds for the payment of the cost and acquisition and construction of certain improvements to the System.
- Also in December 2014, the 2014 Series B Bonds in the amount of \$31 million were issued to provide funds to refund a portion of the 2005 Series A Bonds and a portion of the 2008 Series A Bonds.
- During fiscal year 2015, GRU reduced utilities system revenue bonds and commercial paper notes by \$21.5 million through scheduled principal payments.
- As a result of the start of commercial operation of the GREC biomass plant in December 2013, GRU recorded a capital lease liability of \$977.3 million, \$994.1 million and \$0 at September 30, 2015, 2014 and 2013, respectively. See Note 6 Capital Lease for additional information.
- The Utility has ratings of Aa2, AA-, and AA- with Moody's Investors Service, Standard & Poor's, and Fitch Ratings, respectively, for utility system revenue bonds. The Utility has ratings of VMIG 1, A-1, and F1+ with Moody's Investors Service, Standard & Poor's, and Fitch Ratings, respectively, for commercial paper notes. In November 2015, Standard & Poor's lowered its ratings on long-term debt from AA to AA- citing GRU's commitment to making fixed payments to GREC.

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

## Management's Discussion and Analysis (concluded)

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

- The primary factors currently affecting the utility industry include environmental regulations, restructuring of the wholesale energy markets, the formation of independent bulk power transmission systems, the formation of an Electric Reliability Organization (ERO) under Federal Energy Regulatory Commission jurisdiction, and the increasing strategic and price differences among various types of fuels. No state or federal legislation is pending or proposed at this time for retail competition in Florida.
- Utilities, and particularly electric utilities, are subject to increasing federal, state, and local statutory and regulatory requirements with respect to the siting and licensing of facilities, safety and security, air and water quality, land use, and other environmental factors.
- As of January 1, 2015, the Environmental Protection Agency's (EPA) Cross State Air Pollution Rule (CSAPR) is in effect but only for the ozone season (May to September) in Florida. The EPA promulgated the Mercury and Air Toxics Standards (MATS) to reduce emissions of toxic air pollutants from power plants. Facilities are currently in place at DH, which enables this station to comply with these standards at a known cost for operations and reagents. Results of the 2014 operational testing of the new air quality control systems at DH Unit 2 showed that performance targets were achieved and compliance is assumed. See Note 13 Commitments and Contingencies for additional information.
- Legislation and regulation at the federal level has been proposed to mandate the use of renewable energy and to constrain the emission of greenhouse gases. GRU's institution of a solar feed-in-tariff and contract to purchase power from a 100 megawatt biomass fueled power plant will hedge against these uncertainties.
- GRU's long-term energy supply strategy is to encourage maximum cost effective energy conservation, renewable energy in combination with GRU owned generation, and purchased power while managing potential regulatory requirements. Based on the most recent forecasts, GRU has adequate reserves of generating capacity to meet forecasted loads plus a reserve margin through 2022. This forecast incorporates new population forecasts and changed economic circumstances.
- GRU management, with the approval of the City Commission, entered into a long-term contract to obtain dependable capacity, energy, and environmental attributes from GREC's 100 megawatt biomass fueled power plant. The facility is located on a portion of land leased from GRU's Deerhaven power plant site and is owned by a third party. The plant became commercially operable in December 2013. By diversifying GRU's fuel mix, the plant is expected to provide a long term hedge against volatile fossil fuel costs. See Note 6 Capital Lease for additional information.

### Requests for Information

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

## **FINANCIAL STATEMENTS**

Gainesville Regional Utilities  
Statements of Net Position  
September 30, 2015 and 2014

	2015	Restated 2014
<b>Assets</b>		
Current assets:		
Cash and investments	\$ 53,539,963	\$ 64,756,240
Accounts receivable, net of allowance for uncollectible accounts of \$988,585 and \$1,561,364, respectively	47,394,281	45,937,328
Inventories:		
Fuel	15,524,239	11,336,733
Materials and supplies	7,295,944	6,806,278
Other assets and regulatory assets	2,252,039	1,876,215
Total current assets	126,006,466	130,712,794
Restricted and internally designated assets:		
Utility deposits – cash and investments	9,256,442	8,322,368
Debt service – cash and investments	40,816,148	39,682,742
Rate stabilization – cash and investments	72,104,746	64,030,121
Construction – cash and investments	51,108,130	29,034,046
Utility plant improvement – cash and investments	55,023,201	39,313,780
Decommissioning reserve – cash and investments	12,518,938	13,058,443
Total restricted and internally designated assets	240,827,605	193,441,500
Noncurrent assets:		
Net costs recoverable in future years - regulatory asset	30,464,864	13,732,765
Unamortized debt issuance costs - regulatory asset	6,166,893	6,214,914
Investment in The Energy Authority	2,561,878	2,701,599
Pollution remediation - regulatory asset	13,839,247	15,808,529
Other noncurrent assets and regulatory assets	6,659,099	6,192,539
Pension costs - regulatory asset	53,887,756	46,050,475
Total noncurrent assets	113,579,737	90,700,821
Capital assets:		
Utility plant in service	1,783,670,200	1,724,649,795
Capital lease	1,006,808,754	1,006,808,754
Less: accumulated depreciation and amortization	(755,986,892)	(677,216,550)
	2,034,492,062	2,054,241,999
Construction in progress	131,596,255	141,988,911
Net capital assets	2,166,088,317	2,196,230,910
Total assets	2,646,502,125	2,611,086,025
<b>Deferred outflows of resources:</b>		
Unamortized loss on refundings of bonds	28,160,367	28,765,946
Accumulated decrease in fair value of hedging derivatives	73,650,013	50,748,859
Pension costs	22,174,505	-
Total deferred outflows of resources	123,984,885	79,514,805
<b>Total assets and deferred outflows of resources</b>	<b>\$ 2,770,487,010</b>	<b>\$ 2,690,600,830</b>

Continued on next page.  
See accompanying notes.

Gainesville Regional Utilities  
Statements of Net Position (concluded)  
September 30, 2015 and 2014

	2015	Restated 2014
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 14,819,222	\$ 20,851,891
Fuels payable	10,641,720	11,429,004
Due to other funds of the City	4,120,066	3,142,499
Capital lease – current portion	17,601,233	16,828,193
Fuel adjustment	18,799,724	15,963,888
Other liabilities and regulatory liabilities	6,745,982	2,678,019
Total current liabilities	72,727,947	70,893,494
Payable from restricted assets:		
Utility deposits	9,252,627	8,321,246
Construction accounts payable and accrued liabilities	5,013,087	3,686,534
Debt payable – current portion	22,205,000	21,480,000
Accrued interest payable	18,806,345	18,540,801
Total payable from restricted assets	55,277,059	52,028,581
Long-term debt:		
Utilities system revenue bonds	889,075,000	869,570,000
Commercial paper notes	59,500,000	56,900,000
Capital lease	959,678,852	977,280,085
Unamortized bond premium/discount	19,078,029	10,229,836
Fair value of derivative instruments	77,042,767	55,103,515
Total long-term debt	2,004,374,648	1,969,083,436
Noncurrent liabilities:		
Reserve for insurance claims	3,337,000	3,337,000
Reserve for decommissioning CR3	11,621,938	11,264,443
Reserve for environmental liability	266,000	167,000
Net pension liability	76,062,261	46,050,475
Total noncurrent liabilities	91,287,199	60,818,918
Total liabilities	2,223,666,853	2,152,824,429
<b>Deferred inflows of resources:</b>		
Rate stabilization	71,714,541	64,117,259
Total deferred inflows of resources	71,714,541	64,117,259
<b>Net position</b>		
Net investment in capital assets	288,244,860	314,614,783
Restricted	77,427,024	60,369,705
Unrestricted	109,433,732	98,674,654
Total net position	475,105,616	473,659,142
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 2,770,487,010</b>	<b>\$ 2,690,600,830</b>

See accompanying notes.

**Gainesville Regional Utilities**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended September 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
Operating revenue:		
Sales and service charges	<b>\$ 378,901,113</b>	\$ 368,655,555
Transfers from (to) rate stabilization	<b>(7,703,682)</b>	(8,867,764)
Amounts to be recovered from future revenue	<b>33,560,292</b>	26,433,241
Other operating revenue	<b>21,183,478</b>	19,673,582
Total operating revenues	<b>425,941,201</b>	405,894,614
Operating expenses:		
Operation and maintenance	<b>227,535,288</b>	213,305,250
Administrative and general	<b>43,447,535</b>	42,492,252
Depreciation and amortization	<b>95,454,204</b>	84,449,419
Total operating expenses	<b>366,437,027</b>	340,246,921
Operating income	<b>59,504,174</b>	65,647,693
Non-operating income (expense):		
Interest income	<b>606,556</b>	714,408
Interest expense, net of AFUDC	<b>(38,205,243)</b>	(37,815,529)
Other interest related income, BABs	<b>5,345,162</b>	5,350,928
Other income	<b>7,683,990</b>	209,772
Total non-operating expense	<b>(24,569,535)</b>	(31,540,421)
Income before capital contributions and transfer	<b>34,934,639</b>	34,107,272
Capital contributions:		
Contributions from third parties	<b>1,495,813</b>	3,324,503
Reduction of plant costs recovered through contributions	<b>(91,553)</b>	(1,800,000)
Net capital contributions	<b>1,404,260</b>	1,524,503
Transfer to City of Gainesville General Fund	<b>(34,892,425)</b>	(37,316,841)
Change in net position	<b>1,446,474</b>	(1,685,066)
Net position – beginning of year	<b>473,659,142</b>	475,344,208
Net position – end of year	<b>\$ 475,105,616</b>	\$ 473,659,142

*See accompanying notes.*

Gainesville Regional Utilities  
Statements of Cash Flows  
For the Years Ended September 30, 2015 and 2014

	2015	2014
Operating activities:		
Cash received from customers	\$ 378,309,615	\$ 369,172,437
Cash payments to suppliers for goods and services	(192,523,783)	(156,891,922)
Cash payments to employees for services	(54,469,560)	(55,973,131)
Cash payments for operating transactions with other funds	(6,767,533)	(10,517,970)
Other operating receipts	13,479,796	7,696,733
Net cash provided by operating activities	138,028,535	153,486,147
Noncapital financing activities:		
Transfer to City of Gainesville General Fund	(34,892,425)	(37,316,841)
Net cash used in noncapital financing activities	(34,892,425)	(37,316,841)
Capital and related financing activities:		
Principal repayments and refunding on long-term debt, net	(21,480,000)	(26,845,000)
Interest paid on long-term debt	(37,939,699)	(38,589,064)
Proceeds from interest rebates, BABs	5,345,162	5,350,928
Acquisition and construction of fixed assets (including allowance for funds used during construction)	(64,402,846)	(56,990,480)
Proceeds from new debt and commercial paper	51,306,295	-
Cash payment for defeasance of bonds	(22,681,138)	-
Cash receipt for defeasance of bonds	22,681,138	-
Other income	7,683,990	209,774
Net cash used in capital and related financing activities	(59,487,098)	(116,863,842)
Investing activities:		
Interest received	589,783	706,251
Purchase of investments	(387,266,056)	(295,386,535)
Investments in The Energy Authority	(4,557,068)	(5,845,309)
Distributions from The Energy Authority	4,696,789	5,403,728
Proceeds from investments	348,923,707	325,999,310
Net cash provided (used) by investing activities	(37,612,845)	30,877,445
Net change in cash and cash equivalents	6,036,167	30,182,909
Cash and cash equivalents, beginning of year	75,559,374	45,376,465
Cash and cash equivalents, end of year	\$ 81,595,541	\$ 75,559,374

*Continued on next page.  
See accompanying notes.*

Gainesville Regional Utilities  
Statements of Cash Flows (concluded)  
For the Years Ended September 30, 2015 and 2014

	2015	2014
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 59,504,174	\$ 65,647,693
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	95,454,204	84,449,419
Net costs to be recovered in future rates	(16,732,099)	(13,732,765)
Change in:		
Accounts receivable	(1,456,953)	518,004
Inventories	(4,677,172)	3,043,202
Other assets and regulatory assets	74,176	(711,437)
Restricted and internally designated assets	(6,108,254)	(3,109,085)
Noncurrent assets	1,969,281	879,007
Accounts payable and accrued liabilities	(6,819,953)	12,665,268
Due to other funds of the City	977,567	171,036
Fuel adjustment	2,835,836	(5,442,608)
Other liabilities and regulatory liabilities	4,544,991	241,771
Utility deposits	865,455	(1,122)
Rate stabilization	7,597,282	8,867,764
Net cash provided by operating activities	\$ 138,028,535	\$ 153,486,147
Non-cash capital and related financing activities, and investing activities:		
Net costs recoverable in future years - regulatory asset	\$ (16,732,099)	\$ (13,732,765)
Acquisition of utility plant in service under capital lease	\$ -	\$ (1,006,808,754)
Change in utility plant in service under long term capital lease obligation	\$ (16,828,193)	\$ 994,108,278
Change in construction in progress acquired with construction fund payable	\$ 1,326,553	\$ (5,093,605)
Change in utility plant in service	\$ -	\$ (4,999,956)
Change in ineffective portion of hedging derivatives	\$ (660,507)	\$ (838,440)
Change in hedging derivatives - interest rate swaps	\$ (21,278,744)	\$ (10,515,189)
Change in hedging derivatives - fuel options and futures	\$ (1,622,410)	\$ (114,952)
Change in fair value of investments	\$ 832,532	\$ 235,808
Change in fair value of hedging derivatives	\$ 21,939,252	\$ 11,353,627
Other	\$ (1,453,466)	\$ 150,326

See accompanying notes.

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

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**1. Summary of Significant Accounting Policies**

**Organization**

Gainesville Regional Utilities (GRU or the Utility) is a combined municipal utility operating electric, water, wastewater, natural gas, and telecommunications (GRUCom) systems. GRU is a utility enterprise of the City of Gainesville, Florida (City) and is reported as an enterprise fund in the Comprehensive Annual Financial Report of the City. That report may be obtained by writing to City of Gainesville, Budget & Finance Department, P.O. Box 490, Gainesville, Florida 32627 or by calling (352) 334-5054.

**System of Accounts and Basis of Accounting**

GRU is required to follow the provisions in the Amended and Restated Utilities System Revenue Bond Resolution (Resolution) adopted by the City on January 30, 2003. GRU's electric accounts are maintained substantially in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC), as required by the Resolution, and in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting, including the application of regulatory accounting as described in Governmental Accounting Standards Board (GASB) Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The Resolution specifies the flow of funds from revenues and the requirements for the use of certain restricted and unrestricted assets. Under the Resolution, rates are designed to cover operation and maintenance expenses, rate stabilization, debt service requirements, utility plant improvement fund contributions and for any other lawful purpose. The flow of funds excludes depreciation expense and other noncash revenue and 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 prepares its financial statements in accordance with GASB Statement No. 62, *paragraphs 476-500, Regulated Operations*, and records various regulatory assets and liabilities. For a government to report under GASB Statement No. 62, its rates must be designed to recover its costs of providing services, and the utility must be able to collect those rates from customers. If it were determined, whether due to regulatory action or competition, that these standards no longer applied, GRU could be required to expense its regulatory assets and liabilities. Management believes that GRU currently meets the criteria for continued application of GASB Statement No. 62, but will continue to evaluate significant changes in the regulatory and competitive environment to assess continuing applicability of the criteria.

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

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

In fiscal year 2014, with the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, GRU adopted the use of regulatory accounting to account for debt issuance costs. Prior to fiscal year 2014, GRU had historically reported debt issuance costs as assets and amortized them over the life of the related debt. Under GASB Statement No. 65, debt issuance costs no longer meet the definition of an asset, nor do they meet the definition of a deferred outflow of resources; therefore, they must be expensed in the period incurred. GRU, as a rate-regulated entity and in accordance with GASB Statement No. 62, received approval from the Gainesville City Commission (City Commission) to establish a regulatory asset for the debt issuance costs that would otherwise have been expensed upon implementation of GASB Statement No. 65. This regulatory accounting treatment results in the amortization of these costs over the life of the related debt.

In fiscal year 2015, GRU implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This statement provides guidance for the measurement and recognition of a net pension liability and pension expense, and includes instruction for balances to be recognized as deferred outflows of resources and deferred inflows of resources, as applicable. The impact for GRU is as follows:

*Net pension liability*

The net pension liability at September 30, 2015 reported under GASB Statement No. 68 is the difference between the total pension liability and the Employees' Pension Plan (Employees' Plan) fiduciary net position and the Employees' Disability Pension Plan. The net pension liability at September 30, 2014 under GASB Statement No. 68 is the difference between the total pension liability and the Employees' Plan fiduciary net position combined with the Employees' Disability Pension Plan fiduciary net position.

*Deferred outflows of resources and deferred inflows of resources*

GASB Statement No. 68 requires recognition of deferred outflows and deferred inflows of resources associated with the difference between expected and actual earnings on Plan investments, to be amortized to pension expense over a closed five-year period. Also to be recognized as deferred outflows and deferred inflows of resources are differences between expected and actual experience with regard to economic or demographic factors in the measurement of total pension liability, to be amortized to pension expense over a closed period equal to the average of the expected remaining service lives of all employees receiving pension benefits. Employer contributions to the pension trust made between the net pension liability measurement date and the employer's fiscal year end are recognized as deferred outflows of resources, to be included in pension expense in the subsequent fiscal year.

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

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

GASB Statement No. 68 is effective for financial statement periods beginning after June 15, 2014, with the effects of accounting change to be applied retroactively by restating the financial statements. GRU applied regulatory accounting, as permitted under GASB Statement No. 62 and recorded a regulatory asset as of September 30, 2014, in the amount of \$46 million to account for the net effect of required prior period restatements. GRU implemented GASB Statement No. 68 in fiscal year 2015 and, accordingly, has restated amounts within the financial statements for the period ended September 30, 2014, as follows (in thousands):

	<u>As Originally Reported</u>	<u>Restated</u>	<u>Effect of Change</u>
<b>Statement of Net Position</b>			
Noncurrent assets			
Pension regulatory asset	-	46,050	46,050
Noncurrent liabilities			
Other noncurrent liabilities - net pension obligation	-	(46,050)	(46,050)
Net position	-	-	-

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. Statement No. 72 requires that investments should generally be measured at fair value, with certain investments, such as short-term money market instruments, being specifically excluded from the requirement. Disclosures required by the standard include a description of the inputs and methods used to measure fair value. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements and will implement in fiscal year 2016.

**Rates and Regulation**

GRU is regulated by the City Commission and GRU's rates are established in accordance with the Resolution. The Resolution requires that rates are set to recover operation and maintenance expenses, rate stabilization, debt service, utility plant improvement fund contributions, and for any other lawful purpose such as the general fund transfer to the City.

Each year during the budget process, and at any other time deemed necessary, the City Commission approves base rate and fuel adjustment changes and other changes to GRU's system charges. GRU's cost of fuel and purchased power for the electric and natural gas systems is passed directly through to its customers through the Fuel and Purchased Gas Adjustments. See Note 7 Fuel and Purchased Gas Adjustment Levelization for additional information.

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

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

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

**Funds in Accordance with the Resolution**

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

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

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

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

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

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

The Utility Plant Improvement Fund accounts for funds used to pay for certain capital projects or debt service, the purchase/redemption of bonds, repayment of bonds, and operation and maintenance expenses as necessary.

**Reclassifications**

Certain 2014 amounts have been reclassified to conform to the 2015 presentation.

**Statement of Cash Flows**

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

**Fuel Inventories**

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

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

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

**Materials and Supplies Inventories**

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

**Investments**

Investments in U.S. Treasury and government agencies are reported at fair value, as determined by quoted market prices or independent pricing sources. Investments in commercial paper are recorded at cost, which approximates fair value. More information is provided in Note 2 Deposits and Investments.

**Costs Recoverable in Future Years**

The Power Purchase Agreement (PPA) with the Gainesville Renewable Energy Center (GREC) is recorded as a capital lease. Activity related to this lease generates a non-cash flow related to depreciation expense which is recorded as costs recoverable in future years. These net deferred costs recoverable in future years represent the amount by which depreciation expense exceeds principal repayment on the capital lease obligation of \$16.7 million and \$13.7 million for the years ended September 30, 2015 and 2014, respectively.

**Debt Issuance Costs**

Historically, GRU accounted for debt issuance costs as assets. Pursuant to GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, GRU was required for fiscal year 2014 to adopt the provisions of this statement to ensure compliance with required accounting standards and expense these types of costs. Rather, GRU elected to follow GASB Statement No. 62, paragraphs 476-500, Regulated Operations, and recorded debt issuance costs as regulatory assets of \$6.2 million for the years ended September 30, 2015 and 2014, respectively.

**Capital Assets and Depreciation**

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

Depreciation of capital assets is computed using the straight-line method over the estimated lives of the assets ranging from 6 to 50 years. The overall depreciation rate was 3.92% and 3.62% for the periods ending September 30, 2015 and 2014, respectively.

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

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

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

An allowance for interest on borrowed funds used during construction of \$1.2 million and \$757,000 for the years ended September 30, 2015 and 2014, 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 4.01% and 4.07% for fiscal years 2015 and 2014, respectively.

**Contributions in Aid of Construction**

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

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

**Hedging Derivative Instruments**

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

GRU conducts a risk management program with the intent of reducing the impact of fuel price increases 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.

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

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

**Deferred Outflows of Resources**

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

*Unamortized Loss on Refunding of Bonds*

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

*Accumulated Decrease in Fair Value of Hedging Derivatives*

GRU has two types of hedging instruments, interest rate swap agreements and natural gas hedges. Each is associated with an item that is eligible to be hedged. For effective hedging transactions, hedge accounting is applied and fair market value changes are recorded on the statement of net position as either a deferred inflow of resources or a deferred outflow of resources until such time that the transaction ends.

*Pension Costs*

Recognition of deferred outflows of resources related to pension costs totaled \$22.2 million as of September 30, 2015. See Note 14 Retirement Plans for additional information.

**Deferred Inflows of Resources**

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

*Rate Stabilization*

GRU designs its rates to recover costs of providing services. In order to stabilize future rate increases or decreases, GRU determines a rate stabilization amount to be charged or credited to revenues on an annual basis. There were rate stabilization additions of \$7.7 million and \$8.9 million for the years ended September 30, 2015 and 2014, respectively. These amounts are reflected as increases or decreases in deferred inflows – rate stabilization in the accompanying statements of net position.

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

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

**Net Position**

GRU classifies net position into three components as follows:

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

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

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

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

**Use of Estimates**

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

**Revenue Recognition**

Revenue is recognized when earned. GRU accrues for services rendered but unbilled, which totaled approximately \$14.9 million and \$14.1 million at September 30, 2015 and 2014, respectively.

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

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

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**1. Summary of Significant Accounting Policies (concluded)**

**Pledged Revenues**

Under the terms of the Resolution relating to the sale of the Utilities System Revenue Bonds, payment of principal and interest is secured by an irrevocable lien on GRU's net revenue (exclusive of any funds that may be established pursuant to the Resolution for certain other specified purposes), including any investments and income thereof. The Utilities System Revenue Bonds have a first lien and the Commercial Paper Series C and D Notes have a second lien. The Resolution contains certain restrictions and commitments, including GRU's covenant to establish and maintain rates and other charges to produce revenue sufficient to pay operation and maintenance expenses, amounts required for deposit in the debt service fund, and amounts required for deposit in the utility plant improvement fund.

**Operating, Non-operating Revenues**

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

**Transactions with the City**

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

Below is a summary of significant transactions:

- Administrative services – GRU provides payment for various administrative and insurance services provided by the City's governmental functions.
- Nonmetered and metered service charges – GRU receives payment from the City for all nonmetered and metered service changes.
- Operating transfer to the General Fund – GRU makes payments to the City's General Fund from operating revenues. See Note 12 Transfer to General Fund for additional information.

**2. Deposits and Investments**

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

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

**2. Deposits and Investments (continued)**

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

As of September 30, 2015, GRU had the following investments and maturities (in thousands).

	Fair Value	Maturities in Years	
		Less than 1	1-5
<b>Investment type:</b>			
Commercial paper	\$ 113,245	\$ 113,245	\$ -
Corporate bonds	15,892	-	15,892
U.S. agencies	67,169	-	67,169
U.S. bonds	4,531	-	4,531
<b>Total</b>	<b>\$ 200,837</b>	<b>\$ 113,245</b>	<b>\$ 87,592</b>

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

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

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

**2. Deposits and Investments (continued)**

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

	2015	2014
Restricted assets	\$ 239,931	\$ 191,647
Internally designated cash	897	1,794
Current assets:		
Cash and investments	53,540	64,756
Total cash and investments	294,368	258,197
Less cash and cash equivalents	(81,596)	(75,559)
Less CR3 decommissioning reserve at FMPA	(11,622)	(11,264)
Less accrued interest receivable and accounts receivable	(313)	(357)
Total investments	\$ 200,837	\$ 171,017

**Interest Rate Risk**

GRU's investment policy limits its investments to securities with terms of 10 years or less to reduce exposure to rising interest rates, unless investments are matched to meet specific cash flow needs. Additionally, the average portfolio term is not to exceed seven years. GRU's Resolution further limits investments of the Utility Plant Improvement Fund and Rate Stabilization Fund to no more than five years.

**Credit Risk**

GRU's investment policy and Resolution limits investments in state and local taxable or tax-exempt debt, corporate fixed income securities and other corporate indebtedness to investments that are rated by a nationally recognized rating agency in its highest rating category, and at least one other nationally recognized rating agency in either of its two highest rating categories. As of September 30, 2015 and 2014, all of GRU's corporate holdings were rated Aa1 or better by Moody's Investor Service and/or AA+ or better by Standard and Poor's and/or AA+ or better by Fitch. As of September 30, 2015 and 2014, all of GRU's commercial paper investments were rated P-2 or better by Moody's Investor Service and/or A-2 or better by Standard and Poor's and/or F2 or better by Fitch.

**Concentration of Credit Risk**

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

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

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**2. Deposits and Investments (concluded)**

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

Issuer:	Percent of Total Investments	
	2015	2014
Federal Home Loan Bank	<b>4.98%</b>	11.02%
Federal Home Loan Mortgage Corporation	<b>5.73%</b>	13.68%
Federal National Mortgage Association	<b>9.46%</b>	15.14%
Federal Farm Credit Bank	<b>11.79%</b>	13.21%

**3. Investment in The Energy Authority**

GRU has an equity investment in The Energy Authority (TEA), a power marketing corporation comprised of eight municipal utilities as of December 31, 2015: MEAG Power, JEA (Florida), South Carolina Public Service Authority, Nebraska Public Power District, GRU, City Utilities of Springfield (Missouri), Public Utility District No. 1 of Cowlitz County (Washington), and American Municipal Power, Inc. (Ohio). TEA provides energy products and resource management services to equity members and non-members and allocates transaction savings and operating expenses to equity members pursuant to Settlement Procedures under the Operating Agreement.

In the Statement of Revenues, Expenses, and Changes in Net Position, GRU's sales to and purchases from TEA are recorded in sales and service charges and operations and maintenance expenses, respectively. Sales to TEA were \$2.2 million and \$1.6 million, and purchases from TEA were \$8.2 million and \$13.2 million for the years ended September 30, 2015 and 2014, respectively.

GRU's equity interest was 5.6% for fiscal years 2015 and 2014, and accounted for using the equity method of accounting. As of September 30, 2015 and 2014, GRU's investment in TEA was \$2.6 million and \$2.7 million, respectively.

Through a combination of agreements, GRU guaranteed credit received by TEA for \$17 million and \$13.3 million as of September 30, 2015 and 2014, respectively. TEA evaluates its credit needs periodically and requests equity members to adjust their guarantees accordingly. The guarantee agreements are intended to provide credit support for TEA when entering into transactions on behalf of equity members. Such guarantees are within the scope of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, and would require the equity members to make payments to TEA's counterparties if TEA failed to deliver energy, capacity or natural gas as required by contract, or if TEA failed to make payment for the purchases of such commodities. If guarantee payments are required, GRU has rights with other equity members that such payments be apportioned based on certain criteria.

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**3. Investment in The Energy Authority (concluded)**

The guarantees generally have indefinite terms, however, GRU can terminate its guarantee obligations by providing notice to counterparties and others, as required by the agreements. Such terminations would not pertain to any transactions TEA entered into prior to notice being given. As of September 30, 2015 and 2014, GRU had not recorded a liability related to these guarantees.

The table below contains unaudited condensed financial information for TEA for the nine months ended September 30 (in thousands):

	<u>2015</u>	<u>2014</u>
Condensed statement of operations:		
Total revenue	\$ 1,249,164	\$ 1,414,052
Total cost of sales and expense	(1,207,623)	(1,329,433)
Operating income	41,541	84,619
Nonoperating income (expense)	13	(26)
Change in net position	<u>\$ 41,554</u>	<u>\$ 84,593</u>
Condensed balance sheet:		
Assets:		
Current assets	\$ 142,339	\$ 148,981
Noncurrent assets	12,997	15,497
Total assets	<u>\$ 155,336</u>	<u>\$ 164,478</u>
Liabilities:		
Current liabilities	\$ 109,098	\$ 116,005
Noncurrent liabilities	184	22
Total liabilities	<u>\$ 109,282</u>	<u>\$ 116,027</u>
Total net position	46,054	48,451
Total liabilities and net position	<u>\$ 155,336</u>	<u>\$ 164,478</u>

GRU's accounts receivable due from TEA totaled approximately \$150,000 and \$90,000 for the years ended September 30, 2015 and 2014, respectively.

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**4. Capital Assets**

A summary of capital assets, changes in accumulated depreciation and amortization, and average depreciation rates for the years ended September 30, 2015 and 2014 follows (in thousands):

	Plant in Service				CWIP/Plant Held for Future Use	Combined
	Treatment	Generation	Transmission, Distribution and Collection	General		
Balance, October 1, 2014	\$ 147,927	\$ 1,619,112	\$ 774,902	\$ 189,517	\$ 141,989	\$ 2,873,447
Additions	10,608	14,273	42,322	2,149	61,350	130,702
Less sales, retirements and transfers	(208)	(6,273)	(2,239)	(1,611)	(71,743)	(82,074)
Balance, September 30, 2015	<u>\$ 158,327</u>	<u>\$ 1,627,112</u>	<u>\$ 814,985</u>	<u>\$ 190,055</u>	<u>\$ 131,596</u>	<u>\$ 2,922,075</u>
Accumulated depreciation, October 1, 2014	\$ 67,011	\$ 245,444	\$ 309,075	\$ 55,686	n/a	\$ 677,216
Depreciation expense	3,991	16,327	26,105	8,614	n/a	55,037
Capital lease	-	33,560	-	-	n/a	33,560
Less retirements/ adjustments	(53)	(6,951)	(1,488)	(1,334)	n/a	(9,826)
Accumulated depreciation, September 30, 2015	<u>\$ 70,949</u>	<u>\$ 288,380</u>	<u>\$ 333,692</u>	<u>\$ 62,966</u>	<u>n/a</u>	<u>\$ 755,987</u>
Capital assets, net	<u>\$ 87,378</u>	<u>\$ 1,338,732</u>	<u>\$ 481,293</u>	<u>\$ 127,089</u>	<u>\$ 131,596</u>	<u>\$ 2,166,088</u>
Average depreciation rate	<u>2.61%</u>	<u>4.46%</u>	<u>3.28%</u>	<u>4.54%</u>	<u>n/a</u>	<u>3.92%</u>

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

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**5. Jointly Owned Electric Plant**

GRU entered into a Participation Agreement in 1977 with Florida Power Corporation (FPC) which became Progress Energy, to purchase a 1.4079% undivided ownership interest, approximately 12.7 megawatts (MW) in Progress Energy's 860-MW nuclear powered electric generating plant called Crystal River Unit No. 3 (CR3). In July 2012, Progress Energy merged with and became a wholly owned subsidiary of Duke Energy. GRU does not exercise significant influence or control over the operating or financial policies of Duke Energy.

The Nuclear Regulatory Commission (NRC) requires utilities owning nuclear powered electric generating plants to provide financial assurance that funds would be sufficient and available when needed to pay the future decommissioning costs. In accordance with the NRC requirements, GRU established a decommissioning trust fund. GRU's carrying balance in this decommissioning trust fund at September 30, 2015 and September 30, 2014, including interest earnings, was approximately \$11.6 million and \$11.3 million, respectively.

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

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

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

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**5. Jointly Owned Electric Plant (concluded)**

GRU, along with other CR3 minority owners, designated FMPA as its agent in negotiations with Duke Energy on various matters related to the retirement of CR3. FMPA negotiated a settlement with Duke Energy on behalf of itself and the other minority owners. The CR3 Settlement, Release, and Acquisition Agreement (settlement agreement) was approved by the City Commission on May 30, 2014 and agreed to and executed by all parties on September 26, 2014. The settlement agreement sets forth the terms and conditions and documents necessary to transfer all of the City's ownership interest in CR3 to Duke Energy along with the decommissioning trust funds. In return, the minority owners would receive certain cash settlements and Duke Energy would agree to be responsible for all costs and liabilities relating to CR3 including costs of decommissioning. CR3 operation and maintenance costs, which represents GRU's share of the expenses attributable to the operation of CR3, were discontinued as of October 1, 2013, and are no longer obligated to be paid in the future per the settlement agreement. The settlement agreement was approved by the NRC on May 29, 2015. GRU received a cash settlement in the amount of \$10.2 million and transferred the \$11.6 million decommissioning trust fund balance to Duke Energy at closing of the settlement agreement on October 30, 2015.

**6. Capital Lease**

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

The PPA has been accounted for as a long-term capital lease for a term of 30 years with a capital lease asset and liability recorded. The capital lease asset was recorded at \$1 billion at September 30, 2015 and 2014. The total payments applicable to the lease were \$61.2 million and \$48.2 million for September 30, 2015 and 2014, respectively. The payments for fiscal year 2015 and 2014 included \$44.4 million and \$35.5 million, respectively, for interest expense included in fuel costs. The capital lease asset will be amortized over the life of the PPA. Amortization of \$33.6 million and \$26.4 million was recorded at September 30, 2015 and 2014, respectively.

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**6. Capital Lease (concluded)**

The following lists the minimum payments due under the PPA as of September 30, 2015 (in thousands):

	<b>2015</b>
2016	\$ 61,216
2017	61,216
2018	61,216
2019	61,216
2020	61,216
2021-2025	306,081
2026-2030	306,081
2031-2035	306,081
2036-2040	306,081
2041-2044	196,650
Total minimum lease payments	1,727,054
Less: Amounts representing interest	(749,774)
Net minimum lease payments	\$ 977,280

If at any time GRU's senior unsecured debt rating is rated below a Standard & Poor's rating of A- or a Moody's rating of A3 (such rating levels to be equitably adjusted if either rating agency were in the future to change its rating standards), GRU is required to pay or provide to GREC a security deposit equal to \$40 million as security for GRU's performance of its obligations under the PPA. If required, such security shall be in the form of cash deposited in either an interest bearing escrow account mutually acceptable to GREC and GRU, an unconditional and irrevocable direct pay letter of credit in form and substance reasonably satisfactory to GREC, or a performance bond in form and substance reasonably satisfactory to GREC. As of September 30, 2015, GRU's credit ratings were in compliance with the performance security requirements.

A land lease was executed on September 28, 2009 between GRU and GREC for the land on which the biomass plant is located. The payment per year is \$100 for a term of 47 years on the condition that GREC provide dependable energy to GRU. If a condition occurs in which GREC does not provide dependable energy to GRU, the payment will be adjusted to the fair market value of the land at that time. Rental income of \$100 was received for the years ended September 30, 2015 and 2014, respectively.

**7. Fuel and Purchased Gas Adjustment Levelization**

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

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**7. Fuel and Purchased Gas Adjustment Levelization (concluded)**

The following table represents total revenues and expenses associated with the fuel and purchased gas adjustment and the subsequent impact on the fuel and purchased gas levelization balance as of September 30, 2015 (in thousands):

	<b>Fuel Adjustment</b>	<b>Purchased Gas Adjustment</b>	<b>Total</b>
Revenues	\$ 158,822	\$ 10,607	\$ 169,429
Expenses	(157,197)	(9,396)	(166,593)
To (From) Levelization Fund	<u>\$ 1,625</u>	<u>\$ 1,211</u>	<u>\$ 2,836</u>
Levelization Fund Beginning Balance	\$ 15,298	\$ 666	\$ 15,964
To (From) Levelization Fund	<u>1,625</u>	<u>1,211</u>	<u>2,836</u>
Levelization Fund Ending Balance	<u>\$ 16,923</u>	<u>\$ 1,877</u>	<u>\$ 18,800</u>

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

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

**8. Long-Term Debt**

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

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

**\$196,950,000 Utilities System Revenue Bonds, 2005 Series A** – 4.75% - 5.0%, dated November 16, 2005, mature on various dates through October 1, 2036, and were partially refunded as part of the 2012 Series A Utilities System Revenue Bond issuance. The 2005 Series A Bonds are subject to redemption at the option of the City on and after October 1, 2015 as a whole or in part at any time, at a redemption price of 100% of the principal amount, plus accrued interest to the date of redemption. The 2005 Series A Bonds were issued to pay a portion of the cost of acquisition and construction of certain improvements to the City's utilities system and to refund the City's Utilities System Commercial Paper Notes, Series C. In March 2007, the 2007 Series A Bonds (\$139,505,000) were issued to advance-refund to the maturity dates a portion of the bonds maturing from October 1, 2030 to October 1, 2036. The proceeds related to the refunded bonds were deposited into an escrow account to refund the bonds on October 1, 2015 at 100% of par. In December 2014, the 2014 Series B Bonds (\$30,970,000) were issued to advance-refund \$12,725,000 for portions of bonds maturing from October 1, 2029, October 1, 2030, and October 1, 2036. The proceeds of the refunded bonds were deposited into an escrow account to refund the bonds on October 1, 2015.

**\$61,590,000 Utilities System Revenue Bonds, 2005 Series B (Federally Taxable)** – 5.14%-5.31%, dated November 16, 2005, final maturity October 1, 2021. The 2005 Series B Bonds are subject to redemption at the option of the City, in whole or in part, on any date, at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2005 Series B Bonds were issued to pay a portion of the cost of acquisition and construction of certain improvements to the City's utilities system and to refund the City's Utilities System Commercial Paper Notes, Series D originally issued in June 2000.

**\$55,135,000 Utilities System Revenue Bonds, 2005 Series C** – Variable interest rates based on market rates, 0.01% at September 30, 2015, dated November 16, 2005, final maturity October 1, 2026. The 2005 Series C Bonds are subject to redemption at the option of the City at a redemption price of 100% of the principal amount, plus accrued interest to the date of redemption. The 2005 Series C Bonds were issued to refund a portion of the City's Utilities System Revenue Bonds, 1996 Series A. A liquidity facility is provided by Union Bank at 0.40% and expires December 21, 2015. See Note 17 Subsequent Events for additional information.

**\$53,305,000 Utilities System Revenue Bonds, 2006 Series A** – Variable interest rates based on market rates, 0.01% at September 30, 2015, dated July 6, 2006, final maturity October 1, 2026. The 2006 Series A Bonds are subject to redemption at the option of the City, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption. The 2006 Series A Bonds were issued to pay a portion of the cost of acquisition and construction of certain improvements to the City's utilities system and to refund a portion of the City's Utilities System Revenue Bonds, 1996 Series A. The 2006 Series A Bonds created a net present value savings of over \$6,200,000, with yearly cash savings ranging from approximately \$371,000 to over \$890,000.

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

A liquidity facility is provided by Union Bank at 0.40% and expires December 21, 2015. See Note 17 Subsequent Events for additional information.

**\$139,505,000 Utilities System Revenue Bonds, 2007 Series A** – Variable interest rates based on market rates, 0.02% at September 30, 2015, dated July 6, 2006, final maturity October 1, 2036. The 2007 Series A Bonds are subject to redemption at the option of the City, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption. The 2007 Series A Bonds were issued to refund a portion of the City's Utilities System Revenue Bonds, 2003 Series A and a portion of the City's Utilities System Revenue Bonds, 2005 Series A. The 2007 Series A Bonds created a net present value savings of over \$8,500,000, with yearly cash savings ranging from \$100,000 to \$500,000. A liquidity facility is provided by State Street Bank and Trust at 0.39% and expires March 1, 2018.

**\$105,000,000 Utilities System Revenue Bonds, 2008 Series A (Federally Taxable)** – 4.82% - 5.27%, dated February 13, 2008, final maturity October 1, 2020. The 2008 Series A Bonds are subject to redemption prior to maturity at the election of the City in whole or in part, at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2008 Series A Bonds were issued to pay costs of acquisition and construction of the City's utilities system. In December 2014, the 2014 Series B Bonds (\$30,970,000) were issued to redeem \$19,915,000 for portions of bonds maturing from October 1, 2015 thru October 1, 2020.

**\$90,000,000 Utilities System Revenue Bonds, 2008 Series B** – Variable interest rates based on market rates, 0.01% at September 30, 2015, dated February 13, 2008, final maturity October 1, 2038. The 2008 Series B Bonds are subject to redemption prior to maturity at the election of the City in whole or in part, at a redemption price of 100% of the principal amount plus accrued interest to the date of redemption. The 2008 Series B Bonds were issued to pay costs of acquisition and construction of the City's utilities system. A liquidity facility is provided by Bank of Montreal at 0.275% and expires July 7, 2017.

**\$24,190,000 Utilities System Revenue Bonds, 2009 Series A (Federally Taxable)** – 3.59%, dated September 16, 2009, final maturity October 1, 2015. The 2009 Series A Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2009 Series A Bonds were issued to pay costs of acquisition and construction of the City's utilities system.

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

**\$156,900,000 Utilities System Revenue Bonds, 2009 Series B – Issuer Subsidy – Build America Bonds (Federally Taxable)** – 3.59% - 5.65%, dated September 16, 2009, final maturity October 1, 2039. The 2009 Series A Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2009 Series A Bonds were issued to pay costs of acquisition and construction of the City's utilities system.

**\$12,930,000 Utilities System Revenue Bonds, 2010 Series A (Federally Taxable)** – 5.87%, dated November 1, 2010, final maturity October 1, 2030. The 2010 Series A Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2010 Series A Bonds were issued to (a) pay costs of acquisition and construction of the City's utilities system, (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series A Bonds, and (c) to pay the costs of issuance of the Taxable 2010 Series A Bonds.

**\$132,445,000 Utilities System Revenue Bonds, 2010 Series B – Issuer Subsidy – Build America Bonds (Federally Taxable)** – 6.02%, dated November 1, 2010, final maturity October 1, 2040. The 2010 Series B Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2010 Series B Bonds were issued to (a) pay costs of acquisition and construction of the City's utilities system, (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series B Bonds, and (c) to pay the costs of issuance of the Taxable 2010 Series B Bonds.

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

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

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

**\$100,470,000 Utilities System Revenue Bonds, 2012 Series B** - Variable interest rates based on market rates, 0.03% at September 30, 2014, dated August 1, 2012, final maturity October 1, 2042. The 2012 Series B Bonds were issued to (a) refund \$31,560,000 in aggregate principal amount of the 2005 Series B Bonds, (b) provide funds to refund \$17,570,000 in aggregate principal amount of the 2005 Series C Bonds, (c) provide funds to refund \$25,930,000 in aggregate principal amount of the 2006 Series A Bonds, (d) provide funds to refund \$14,405,000 in aggregate principal amount of the 2008 Series A Bonds, and (e) pay costs of issuance of the 2012 Series B Bonds. These bonds mature at various dates through October 1, 2042. The 2012 Series B Bonds are subject to redemption prior to maturity, at a redemption price so specified. A liquidity facility is provided by SMBC at 0.33% and expires on January 12, 2018.

**\$37,980,000 Utilities System Revenue Bonds, 2014 Series A** – 2.00% - 5.00%, dated December 19, 2014 with final maturity October 1, 2044. The 2014 Series A Bonds were issued to (a) provide funds for the payment of the cost and acquisition and construction of certain improvements to the System, and (b) pay costs of issuance of the 2014 Series A Bonds. These bonds mature at various dates beginning October 1, 2015, and from October 1, 2021 to October 1, 2034, October 1, 2039, and October 1, 2044. The bonds maturing prior to October 1, 2024 are not subject to redemption prior to maturity. The bonds maturing on and after October 1, 2025 are subject to redemption prior to maturity at the option of GRU on and after October 1, 2024, as whole or in part at any time, at a redemption price plus interest so specified.

**\$30,970,000 Utilities System Revenue Bonds, 2014 Series B** – 2.00% - 5.00%, dated December 19, 2014 with final maturity October 1, 2036. The 2014 Series B Bonds were issued to (a) provide funds to refund \$12,725,000 in aggregate principal amount of a portion of the 2005 Series A Bonds; (b) provide funds to refund \$19,915,000 in aggregate principal amount of a portion of the 2008 Series A Bonds; and (c) pay costs of issuance of the 2014 Series B Bonds. These bonds mature at various dates beginning October 1, 2015 through October 1, 2020, from October 1, 2029 to October 1, 2030, and October 1, 2036. The bonds maturing prior to October 1, 2024 are not subject to redemption prior to maturity. The bonds maturing on and after October 1, 2025 are subject to redemption prior to maturity at the option of GRU on and after October 1, 2024, as whole or in part at any time, at a redemption price plus interest so specified.

**\$85,000,000 Utilities System Commercial Paper Notes, Series C Notes** - These tax-exempt notes are subordinated debt and may continue to be issued to refinance maturing Series C Notes or provide for other costs. Liquidity support for the Series C Notes is provided under a long-term credit agreement dated as of March 1, 2000 with Bayerische Landesbank Gironzentrale. This agreement has been extended to November 30, 2015. See Note 17 Subsequent Events for additional information. The obligation of the bank may be substituted by another bank that meets certain credit standards and which is approved by the Utility and the Agent. Under terms of the agreement, the Utility may borrow up to \$85,000,000 with same day availability ending on the termination date, as defined in the agreement. Interest is at a variable market rate which was 0.09% at September 30, 2015. Series C Notes of \$56,900,000 are outstanding as of September 30, 2015.

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

**\$25,000,000 Utilities System Commercial Paper Notes, Series D Notes** - In June 2000, a Utilities System Commercial Paper Note Program, Series D (taxable) was established in a principal amount not to exceed \$25,000,000. These taxable notes are subordinated debt. Liquidity support for the Series D Notes is provided under a letter of credit agreement effective August 28, 2014, with State Street Bank and Trust Company. The termination date of the credit agreement is August 28, 2017. On December 16, 2014, GRU issued \$8,000,000 of Series D Notes to provide funds for the cost of acquisition and construction of certain improvements to the telecommunications system. Interest is at a variable market rate of 0.21% at September 30, 2015. Series D Notes of \$8,000,000 are outstanding as of September 30, 2015.

**Debt Service Requirements for Long-Term Debt**

Annual debt service requirements to maturity for long-term debt are as follows (in thousands):

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service Requirements</u>
2016	\$ 22,205	\$ 22,227	\$ 44,432
2017	23,135	21,544	44,679
2018	24,020	20,814	44,834
2019	24,885	20,003	44,888
2020	25,935	19,073	45,008
2021–2025	137,970	83,801	221,771
2026–2030	178,695	65,616	244,311
2031–2035	214,040	47,886	261,926
2036–2040	227,355	28,810	256,165
2041–2045	92,540	2,370	94,910
	<u>\$ 970,780</u>	<u>\$ 332,144</u>	<u>\$ 1,302,924</u>

See Note 9 Hedging Activities for additional debt service requirements for interest rate swaps.

The interest rates used in this table are per GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which requires the rate used in the calculations be that in effect as of September 30, 2015. Interest rates on variable-rate long-term debt were valued to be equal to 0.01% for the 2005 Series C Bonds, 0.01% for the 2006 Series A Bonds, 0.02% for the 2007 Series A Bonds, 0.01% for the 2008 Series B Bonds, 0.02% for the 2012 Series B Bonds, 0.09% for the Commercial Paper Notes, Series C, and 0.01% for the Commercial Paper Notes, Series D.

The 2009 Series B and 2010 Series B Bonds receive a federal interest subsidy of 32.4% of the annual interest expense and is assumed to remain at said rate for the duration of the bonds. The subsidy is recorded as non-operating income on the Statements of Revenues, Expenses, and Changes in Net Position.

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

For GRU's utilities system variable rate demand obligations (VRDO), support is provided in connection with tenders for purchase with various liquidity providers pursuant to standby bond purchase agreements (SBPA) or credit agreements relating to that series of obligation. The purchase price of the obligations tendered or deemed tendered for purchase is payable solely from the proceeds of the remarketing thereof and moneys drawn under the applicable SBPA or credit agreement. The current stated termination dates of the SBPA and credit agreements range from November 30, 2015 to March 1, 2018. See Note 17 Subsequent Events for additional information. Each of the SBPA and credit agreement termination dates may be extended. At September 30, 2015, there were no outstanding draws under the SBPA.

GRU has entered into revolving credit agreements with commercial banks to provide liquidity support for its commercial paper notes. If funds 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, 2015, are November 30, 2015 and August 28, 2017. The credit agreement supporting the tax-exempt Commercial Paper Notes, Series C had no outstanding draws as of September 30, 2015 and 2014. The credit agreement supporting the taxable Commercial Paper Notes, Series D had no outstanding draws as of September 30, 2015 and 2014. See Note 17 Subsequent Events for additional information.

The balance outstanding at September 30, 2015 and 2014 for defeased bonds was \$201.3 million and \$183.8 million, respectively.

**Changes in Long-Term Liabilities**

Long-term liabilities activity for the year ended September 30, 2015, was as follows (in thousands):

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Utilities system revenue bonds	\$ 885,950	\$ 68,950	\$ (49,020)	\$ 905,880	\$ 16,805
Add: Issuance premiums	10,230	20,032	(11,184)	19,078	1,088
Total bonds payable	896,180	88,982	(60,204)	924,958	17,893
Commercial paper	62,000	8,000	(5,100)	64,900	5,400
Compensated absences	4,292	1,684	(1,145)	4,831	1,145
	<u>\$ 962,472</u>	<u>\$ 98,666</u>	<u>\$ (66,449)</u>	<u>\$ 994,689</u>	<u>\$ 24,438</u>

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**8. Long-Term Debt (concluded)**

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

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

**Interest Rate Swaps**

GRU is a party to certain interest rate swap agreements. GRU applies hedge accounting where applicable. See Note 9 Hedging Activities for additional information.

**9. Hedging Activities**

**Interest Rate Hedges**

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

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**9. Hedging Activities (continued)**

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

The terms, fair values and counterparty credit ratings of the outstanding swaps as of September 30, 2015, were as follows (in thousands):

<b>Associated Bond Issue</b>	<b>2008CP*</b>	<b>2005B*</b>	<b>2005C*</b>	<b>2006A*</b>
Notional amounts	\$ 16,900	\$ 45,000	\$ 39,765	\$ 38,485
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	\$ (1,011)	\$ 194	\$ (2,644)	\$ (2,855)
Termination date	10/1/2017	10/1/2021	10/1/2026	10/1/2026
Counterparty credit rating	Baa1/A-/A	Aa2/AAA	Aa3/A+/AA-	Aa2/AAA

<b>Associated Bond Issue</b>	<b>2008B*</b>	<b>2008B*</b>	<b>2007A*</b>
Notional amounts	\$ 58,500	\$ 31,500	\$ 137,565
Effective date	2/13/2008	2/1/2005	3/1/2007
Fixed payer rate	4.229%	4.229%	3.944%
Variable receiver rate	SIFMA	SIFMA	SIFMA
Fair value	\$ (19,012)	\$ (10,243)	\$ (41,471)
Termination date	10/1/2038	10/1/2038	10/1/2036
Counterparty credit rating	Aa3/A+/AA-	Aa3/A+/AA-	Aa2/AAA

\* See Basis Risk section below.

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**9. Hedging Activities (continued)**

**Fair Value**

Excluding the basis swap, six of the swap agreements had a negative fair value as of September 30, 2015. Due to the low interest rate environment, as compared to the period when the swaps were entered into, the fixed payer rates currently exceed the variable receiver rates (in thousands):

	Fair Value of Interest Rate Swaps at September 30, 2015	Changes in Fair Value	Changes in Deferred (Inflow) Outflow	Changes in Regulatory (Assets) Liability for Ineffective Instruments
2008CP	\$ (1,011)	\$ 639	\$ (639)	\$ -
2005B	194	118	-	(118)
2005C	(2,644)	(371)	-	371
2006A	(2,855)	(407)	-	407
2008B	(19,012)	(5,242)	5,242	-
2008B	(10,243)	(2,827)	2,827	-
2007A	(41,471)	(13,849)	13,849	-
	<u>\$ (77,042)</u>	<u>\$ (21,939)</u>	<u>\$ 21,279</u>	<u>\$ 660</u>

Excluding the basis swap, six of the swap agreements had a negative fair value as of September 30, 2014. Due to the low interest rate environment, as compared to the period when the swaps were entered into, the fixed payer rates exceeded the variable receiver rates (in thousands):

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

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**9. Hedging Activities (continued)**

**Interest Rate Swap Payments**

Debt service requirements on the interest rate swaps using interest rates in effect at September 30, 2015, would be as follows (in thousands):

	<u>Swap Interest</u>
2016	\$ 10,918
2017	10,509
2018	10,086
2019	9,899
2020	9,747
2021–2025	44,875
2026–2030	35,567
2031–2035	19,366
2036–2040	1,938
	<u>\$ 152,905</u>

**Credit Risk**

As of September 30, 2015, although fair value of six of the swaps were negative, GRU is not subject to credit risk. To mitigate the potential for credit risk, GRU has negotiated additional termination event and collateralization requirements in the event of a ratings downgrade. Failure to deliver the Collateral Agreement to GRU as negotiated and detailed in the Schedule to the International Swaps and Derivative Agreements (ISDA) master agreement for each counterparty would constitute an event of default with respect to that counterparty.

**Basis Risk**

The swaps expose the City to basis risk:

- The 2005 Series B Swap is exposed to basis risk through the potential mismatch of 77.14% of one-month LIBOR and the SIFMA rate. As a result, savings may not be realized. As of September 30, 2015, the one month LIBOR rate was 0.193%, and SIFMA rate was at 0.02%, which places the SIFMA at approximately 10.36% of one month LIBOR at that date.
- The 2005 Series C Swap is exposed to basis risk through the potential mismatch of 60.36% of 10-year LIBOR and the variable 31-day rollover rate. As a result, savings may not be realized. As of September 30, 2015, the 10-year LIBOR rate was at 2.01%.
- The 2006 Series A 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.
- The 2007 Series A and the 2008 Series B Swaps are exposed to the difference between SIFMA and the variable 31-day rollover rate.
- The Commercial Paper Series C Notes Swap (formerly the 2002 Series A Swap) is exposed to the difference between the weekly SIFMA index and CP maturity rate of less than 90 days based on current market conditions. As a result, savings may not be realized.

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**9. Hedging Activities (continued)**

**Termination Risk**

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

**Interest Rate Risk**

This risk is associated with the changes in interest rates that will adversely affect the fair values of GRU's swaps and derivatives. GRU mitigates this risk by actively reviewing and negotiating its swap agreements.

**Rollover Risk**

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

**Market Access Risk**

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

**Effectiveness**

Of the interest rate swap agreements, four have been determined to be effective, while three have been deemed ineffective as of September 30, 2015 and 2014. The ineffective portion related to interest rate swap agreements is recorded as a regulatory asset in the amount of \$5.3 million and \$4.6 million as of September 30, 2015 and 2014, respectively.

Fair value changes of \$71.7 million and \$50.4 million have been recorded for interest rate swap agreements in accumulated decrease in fair value of hedging derivatives at September 30, 2015 and 2014, respectively. There were no realized gains or losses related to interest rate swaps as of September 30, 2015 or 2014.

**Fuel Hedges**

GRU utilizes commodity price swap contracts to hedge the effects of fluctuations in the prices for natural gas. These transactions meet the requirements of GASB Statement No. 53. Realized losses related to gas hedging positions were recorded as an addition of fuel costs of \$2.3 million and \$1.1 million for September 30, 2015 and 2014, respectively.

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**9. Hedging Activities (concluded)**

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

The information below provides a summary of results (in thousands):

	Fair Value of Cash Flow Hedges at September 30, 2015	Changes in Fair Value	Deferred (Inflows)/ Outflows Resources	Notional Amount (MMBTUs)										
Natural gas	\$ (2,318)	\$ (2,692)	\$ (2,063)	2,550										
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;"></th> <th style="text-align: center; border-bottom: 1px solid black;">Fair Value of Cash Flow Hedges at September 30, 2014</th> <th style="text-align: center; border-bottom: 1px solid black;">Changes in Fair Value</th> <th style="text-align: center; border-bottom: 1px solid black;">Deferred (Inflows)/ Outflows Resources</th> <th style="text-align: center; border-bottom: 1px solid black;">Notional Amount (MMBTUs)</th> </tr> </thead> <tbody> <tr> <td>Natural gas</td> <td style="text-align: right; border-bottom: 3px double black;">\$ 374</td> <td style="text-align: right; border-bottom: 3px double black;">\$ 346</td> <td style="text-align: right; border-bottom: 3px double black;">\$ (415)</td> <td style="text-align: right; border-bottom: 3px double black;">4,130</td> </tr> </tbody> </table>						Fair Value of Cash Flow Hedges at September 30, 2014	Changes in Fair Value	Deferred (Inflows)/ Outflows Resources	Notional Amount (MMBTUs)	Natural gas	\$ 374	\$ 346	\$ (415)	4,130
	Fair Value of Cash Flow Hedges at September 30, 2014	Changes in Fair Value	Deferred (Inflows)/ Outflows Resources	Notional Amount (MMBTUs)										
Natural gas	\$ 374	\$ 346	\$ (415)	4,130										

**10. Restricted Net Position**

Certain assets are restricted by the Resolution and other external requirements as follows (in thousands):

	2015	2014
Restricted net position		
Debt service	\$ 22,205	\$ 21,056
Utility plant improvement	55,023	39,314
Other	199	-
Restricted net position	\$ 77,427	\$ 60,370

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**11. Lease Revenue**

GRU leases generators, land, and communication tower antenna space, among other items.

Future minimum rental revenue for various operating leases are (in thousands):

<b>Year ending September 30:</b>	<b>Future Minimum Rental Revenue</b>
2016	\$ 1,692
2017	1,219
2018	1,214
2019	1,114
2020	1,045
2021-2025	4,040
2026-2030	2,517
2031-2035	1,056
	\$ 13,897

**12. Transfer to General Fund**

GRU transfers monies monthly to the City's General Fund that are historically based on a pre-defined formula that predominantly tied the transfer directly to the utility's revenue generation. The transfer to the General Fund may be made only to the extent such monies are not necessary to pay operating and maintenance expenses and to pay debt service on the outstanding bonds and subordinated debt or to make other necessary transfers under the Resolution.

The formula-based fund transfer to the General Fund was suspended for the four-year period from fiscal year 2011 to fiscal year 2014. For each year in that period, a jointly negotiated amount was transferred which was adjusted subsequent to each year by comparing the negotiated amount transferred to the amount which would have been transferred under the prior formula. Any amounts in excess of \$500,000 over or under the formula based transfer amount were shared equally. If the negotiated amount was within \$500,000 of the prior formula-based amount, no adjustment was made. For the years ended September 30, 2015 and 2014, the transfer was \$34.9 million and \$37.3 million, respectively.

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**12. Transfer to General Fund (concluded)**

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

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

**13. Commitments and Contingencies**

**General**

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

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

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

**Environmental and Other Natural Resource Regulations**

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

Increasing concerns about climate change and the effects of greenhouse gases (GHG) on the environment have resulted in EPA finalizing on August 3, 2015 carbon regulations for existing power plants. Since the final rules for existing units were recently issued by the EPA, an in-depth analysis has not yet been completed. Therefore, management is unable to predict what impact such regulations will have on GRU.

**Air Emissions**

**The Clean Air Act**

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

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

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

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

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

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

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

**The Clean Air Transport Rule**

On August 2, 2010, the EPA published in the Federal Register a proposed Clean Air Transport Rule (Transport Rule) to reduce the interstate transport of fine particulate matter and ozone. Under Section 110(a)(2)(D)(i)(I) of the Clean Air Act, states are required to prohibit emissions that contribute significantly to nonattainment in, or interfere with maintenance by, any other state with respect to any primary or secondary National Ambient Air Quality Standards (NAAQS). In the proposed Transport Rule, the EPA asserts that emissions of SO<sub>2</sub> and NO<sub>x</sub> in 32 eastern states contribute significantly to nonattainment or interfere with maintenance of NAAQS in one or more downwind states, more specifically with respect to the annual PM<sub>2.5</sub> NAAQS, the 24-hour average PM<sub>2.5</sub> NAAQS, and the ozone NAAQS. The proposed Transport Rule contained one preferred remedy option and two alternate schemes. The EPA's preferred option proposed to establish a cap-and-trade program with certain variance provisions and limited interstate trading. The proposed Transport Rule has been superseded by the Cross-State Air Pollution Rule (CSAPR).

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

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

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

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

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

On July 28, 2015, the D.C. Circuit ruled that Florida's allowance budget is invalid and remanded CSAPR to EPA. While the Court ruled that Florida's CSAPR budget is invalid, it remains in place on remand to EPA. It is currently unclear what EPA's timeline for further action is (the Court did not mandate a schedule) and whether EPA will propose to remove Florida from CSAPR, or seek to maintain some CSAPR-related obligations for Florida. It seems unlikely that EPA would be able to justify a continuing budget for Florida given: 1) the D.C. Circuit's ruling, which found it a "simple" conclusion that Florida's budget was invalid based on the record evidence that "the downwind locations to which . . . [Florida was] linked would comply with their NAAQS in 2014 even with no good neighbor obligation"; and 2) that EPA's Notice of Data Availability (NODA) proposes that Florida would have no good neighbor obligations under the 2008 Ozone NAAQS, which has the same form of standard as the 1997 Ozone NAAQS addressed by CSAPR, but is more stringent, 0.075 ppm versus 0.08 ppm. Finally, Petitions for Review of EPA's two "Errors Rule" cases seeking additional allowances for Florida remain outstanding. Motions to govern future proceedings, in those cases, were due Aug. 27 (30 days from the D.C. Circuit's ruling on the underlying CSAPR challenges).

Since CSAPR is still in effect, Florida only has to comply for Ozone Season NO<sub>x</sub>, therefore only the following deadlines apply to GRU's operations:

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

**Mercury and Air Toxics Standards (MATS)**

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

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

On June 29, 2015, the U.S. Supreme Court issued a 5-to-4 decision reversing the D.C. Circuit's decision to uphold EPA's rule establishing mercury and air toxics standards (MATS) for electric generating units. The case is *Michigan, et al. v. EPA, et al.*, No. 14-46. The Court granted review on a single issue: "Whether the Environmental Protection Agency unreasonably refused to consider costs in determining whether it is appropriate to regulate hazardous air pollutants emitted by electric utilities." Writing for the majority, Justice Scalia held that EPA "strayed far beyond" the "bounds of reasonable interpretation" when the Agency interpreted the Clean Air Act to mean that it "could ignore costs when deciding to regulate power plants." The Court remanded the case to the D.C. Circuit for further proceedings consistent with the Court's opinion. On August 10, 2015, EPA stated in a motion filed with the U.S. Court of Appeals for the District of Columbia Circuit ("D.C. Circuit") that the Agency plans to revise its "appropriate and necessary" determination for the Mercury and Air Toxics Standards ("MATS") by the spring of 2016, prior to the extended MATS compliance deadline of April 15, 2016. EPA also stated that it intends to request that the D.C. Circuit remand the rule without vacatur while EPA works on this revision. Since the Court did not vacate the rule, the MATS rule is still in effect.

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

**Effluent Limitation Guidelines**

In November 2010, the EPA agreed to propose the power plant Effluent Limitation Guidelines (ELGs) for coal-fired steam electric plants by July 23, 2012, and finalize the guidelines in May 2014. The ELGs were last revised in 1982. The EPA is considering more stringent limits for new metals and parameters for individual wastewater streams generated by steam electric power plants, with emphasis on coal-fired power plants. The EPA will evaluate the technologies and costs to remove those metals and identify the Best Available Technology (BAT) to affect their control in coal-fired power plant effluent. After a number of delays in issuing the proposed ELG rule, EPA issued a draft rule on June 7, 2013 and accepted comments on the rule until September 20, 2013. On April 7, 2014, EPA signed a settlement agreement with environmental groups that commits the Agency to take final action by September 30, 2015 on EPA's proposed rule addressing effluent limitation guidelines for power plants under the Clean Water Act. GRU will evaluate the potential impact of the rule when it becomes final.

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

**Regional Haze**

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

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

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

**Internal Combustion Engine MACT**

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

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

**Climate Change**

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

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

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

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

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

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

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

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

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

On June 25, 2013, President Obama issued a Presidential Memorandum directing the EPA to work expeditiously to complete GHG standards for the power sector. The agency is using its authority under section 111(d) of the Clean Air Act to issue emission guidelines, to address GHG emissions from existing power plants. The Presidential Memorandum specifically directed EPA to build on state leadership, provide flexibility and take advantage of a wide range of energy sources and technologies towards building a cleaner power sector. The Presidential Memorandum directed EPA to issue proposed GHG standards, regulations or guidelines, as appropriate, for existing power plants by no later than June 1, 2014, and issue final standards, regulations or guidelines, as appropriate, by no later than June 1, 2015. In addition, the Presidential Memorandum directed EPA to include in the guidelines addressing existing power plants a requirement that states submit to EPA the implementation plans required under section 111(d) of the Clean Air Act and its implementing regulations by no later than June 30, 2016, subject to states being able to request more time to submit complete implementation plans and the EPA being able to allow states until June 30, 2017 or June 30, 2018, as appropriate, to submit additional information completing the submitted plan no later than June 30, 2016.

Accordingly, on June 2, 2014, EPA released a proposed rule, the Clean Power Plan Rule, that would limit and reduce carbon dioxide emissions from certain fossil fuel power plants, including existing plants. Finally, on August 3, 2015, EPA released the final version of the Clean Power Plan. Initially, it appears that the reductions for Florida have been relaxed somewhat. Due to the size and complexity of the rule, GRU has not determined the impact on operations at this time but is working closely with the trade associations it is a member of (FCG, Class of '85, APPA, and FMEA) to determine the impact.

**Coal Ash**

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

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

Under the first proposed regulatory option, the EPA would list coal ash destined for disposal in landfills or surface impoundments as special wastes subject to regulation under Subtitle C of RCRA. Subtitle C regulations set forth the EPA's hazardous waste regulatory program, which regulate the generation, handling, transport and disposal of wastes. The proposed rule would create a new category of waste under Subtitle C, so that coal ash would not be classified as a hazardous waste, but would be subject to many of the regulatory requirements applicable to such wastes. Under this option, coal ash would be subject to technical and permitting requirements from the point of generation to final disposal. Generators, transporters, and treatment, storage and disposal facilities would be subject to federal requirements and permits. The EPA is considering imposing disposal facility requirements such as liners, groundwater monitoring, fugitive dust controls, financial assurance, corrective action, closure of units, and post-closure care. This first option also proposes requirements for dam safety and stability for surface impoundments, land disposal restrictions, treatment standards for coal ash, and a prohibition on the disposal of treated coal ash below the natural water table. The first option would not apply to certain beneficial reuses of coal ash.

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

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

On December 19, 2014, EPA released a final rule pertaining to coal combustion residuals ("CCR"), commonly known as coal ash. The final rule treats CCR as nonhazardous material under Subtitle D of the Resource Conservation and Recovery Act ("RCRA"), and not as hazardous waste under Subtitle C. GRU is currently performing a "gap" analysis to determine what different or additional facilities and/or monitoring will be required to comply with this new rule.

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

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

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

**Storage Tanks**

GRU is required to demonstrate financial responsibility for the costs of corrective actions and compensation of third-parties for bodily injury and property damage arising from releases of petroleum products and hazardous substances from certain underground and above-ground storage tank systems. GRU has eleven fuel oil storage tanks. The South Energy Center has two underground distillate (No. 2) oil tanks, the JRK Station has four above-ground distillate oil tanks and two above-ground No. 6 oil tanks (currently not in service), and DH has one above-ground distillate and two above-ground No. 6 oil tanks (one currently not in service). All of the GRU's fuel storage tanks have secondary containment and/or interstitial monitoring and the Utility is insured for the requisite amounts.

**Superfund and Remediation Sites**

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

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

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

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

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

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

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

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

**Water Use Restrictions**

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

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

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

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

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

**Manufactured Gas Plant**

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

Based upon GRU's analysis of the cost to clean up this site, GRU has accrued a liability to reflect the costs associated with the cleanup effort. During fiscal years 2015 and 2014, expenditures which reduced the liability balance were approximately \$1.1 million and \$900,000, respectively. In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, the reserve was decreased \$121,000 due to new project estimates and probabilities, bringing the reserve balance at September 30, 2015, to approximately \$629,000 compared to \$750,000 at September 30, 2014.

GRU is recovering the costs of this cleanup through customer charges. A regulatory asset was established for the recovery of remediation costs from customers. Fiscal 2015 and 2014 customer billings were \$1.2 million and \$1.1 million, respectively. The regulatory asset balance was \$15 million and \$16.6 million as of September 30, 2015 and 2014, respectively.

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

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**13. Commitments and Contingencies (concluded)**

**Operating Leases**

GRU leases various equipment, facilities and property under operating leases that are cancelable only under certain circumstances. Rental costs under operating leases for the years ended September 30, 2015 and 2014 were \$122,000 and \$144,000, respectively.

Future minimum rental payments for various operating leases are:

<b>Year ending September 30:</b>	<b>Future Minimum Rental Payments</b>
2016	\$ 121,979
2017	104,040
2018	101,950
2019	25,683
2020	6,050
2021-2025	30,250
2026-2030	30,250
2031-2035	30,250
2036-2040	30,250
2041-2045	30,250
2046-2050	12,100
	\$ 523,052

**14. Retirement Plans**

The City sponsors and administers the Employees' Pension Plan (Employees' Plan) and the Employees' Disability Plan (Disability Plan). The Disability Plan, a single-employer disability plan, was terminated during Fiscal Year 2015.

**Defined Benefit Plans**

*Employees' Plan:*

The Employees' Plan is a contributory defined benefit single-employer pension plan that covers all permanent employees of the City, including GRU, except certain personnel who elected to participate in the Defined Contribution Plan and who were grandfathered into that plan. Benefits and refunds of the defined benefit pension plan are recognized when due and payable in accordance with the terms of the plan. The costs of administering the plan, like other plan costs, are captured within the plan itself and financed through contribution and investment income, as appropriate.

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**14. Retirement Plans (continued)**

The City of Gainesville issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Plan. That report may be obtained by writing to City of Gainesville, Budget & Finance Department, P.O. Box 490, Gainesville, Florida 32627 or by calling (352) 334-5054.

The Employees' Plan provides retirement, disability and death benefits. In prior years, disability benefits were provided through a separate plan which was terminated during fiscal year 2015. Existing and future pension assets and pension liabilities were transferred to the Employees' Plan in April 2015.

Retirement benefits for employees are calculated as a fixed percent (often referred to as "the multiplier") of the employee's final average earnings (FAE) times the employee's years of service. The fixed percentage and final average earnings vary depending on the date of hire as follows:

Date of Hire	Fixed percent of FAE (multiplier)	Final Average Earnings
On or before 10/01/2007	2.0%	Highest 36 consecutive months
10/02/2007 – 10/01/2012	2.0%	Highest 48 consecutive months
On or after 10/02/2012	1.8%	Highest 60 consecutive months

For service earned prior to 10/01/2012, the lesser number of unused sick leave or personal critical leave bank credits earned on or before 09/30/2012 or the unused sick leave or personal critical leave bank credits available at the time of retirement may be credited towards the employee's years of service for that calculation. For service earned on or after 10/01/2012, no additional months of service will be credited for unused sick leave or personal critical leave bank credits.

Retirement eligibility is also tiered based on date of hire as follows:

Employees are eligible for normal retirement:

- If the date of hire occurred on or before 10/02/2007, after accruing 20 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 65 while still employed.
- If the date of hire was between 10/02/2007 and 10/01/2012, after accruing 25 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 65 while still employed.
- If the date of hire was on or after 10/02/2012, after accruing 30 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 65 while still employed.

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**14. Retirement Plans (continued)**

Employees are eligible for early retirement:

- If the date of hire occurred on or before 10/01/2012, after accruing 15 years of pension service credit and reaching age 55 while still employed.
- If the date of hire was on or after 10/02/2012, after accruing 20 years of pension service credit and reaching age 60 while still employed.
- Under the early retirement option, the benefit is reduced by 5/12ths of one percent for each month (5% for each year) by which the retirement date is less than the date the employee would reach age 65.
- Employees receive a deferred vested benefit if they are terminated after accruing five years of pension service credit but prior to eligibility for regular retirement. Those employees will be eligible to receive a benefit starting at age 65.

A 2% cost of living adjustment (COLA) is applied to retirement benefits each October 1st if the retiree has reached eligibility for COLA prior to that date. Eligibility for COLA is determined as follows:

- If the retiree had at least 20 years of credited service prior to 10/01/2012 and had at least 20 years but less than 25 years of credited service upon retirement, COLA begins after reaching age 62.
- If the retiree had at least 20 years of credited service prior to 10/01/2012 and had at least 25 years of credited service upon retirement, COLA begins after reaching age 60.
- If the retiree was hired on or before 10/01/2012 and had less than 20 years of credited service on or before 10/01/2012 and 25 years or more of credited service upon retirement, COLA begins after reaching age 65.
- If the retiree was hired after 10/01/2012 and had 30 years or more of credited service upon retirement, COLA begins after age 65.

Employees hired on or before 10/01/2012 are eligible to participate in the deferred retirement option plan (DROP) when they have completed 27 years of credited service and are still employed by the City. Such employees retire from the Employees' Plan but continue to work for the City. The retirement benefit is calculated as if the employee had terminated employment and is paid to a DROP account held within the pension plan until the employee actually leaves the employment of the City. While in DROP, these payments earn a guaranteed rate of annual interest, compounded monthly. For employees who entered DROP on or before 10/01/2012, DROP balances earn 6% annual interest. For employees who entered DROP on or after 10/02/2012, DROP balances earn 2.25% annual interest. Employees may continue in the DROP for a maximum of 5 years or until reaching 35 years of service, whichever occurs earlier. Upon actual separation from employment, the monthly retirement benefits begin being paid directly to the retiree and the retiree must take their DROP balance plus interest as a lump-sum cash disbursement, roll into a retirement account or choose a combination of the two options.

Gainesville Regional Utilities  
Notes to Financial Statements  
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**14. Retirement Plans (continued)**

Death benefits are paid as follows:

- If an active member retires after reaching normal retirement eligibility and had selected a tentative benefit option, benefit payments will be made to the beneficiary in accordance with the option selected.
- If an active member who is married dies after reaching normal retirement eligibility and did not previously select a tentative benefit option, the plan assumes the employee retired the day prior to death and elected the Joint & Survivor option naming their spouse as their beneficiary.
- If an active member who is not married dies after reaching normal retirement eligibility and did not previously select a tentative benefit option, or if an active member dies prior to reaching normal retirement eligibility, or if a non-active member with a deferred vested benefit dies before age 65, the death benefit is a refund of the member's contributions without interest to the beneficiary on record.
- Continuation of retirement benefits after the death of a retiree receiving benefits is contingent on the payment option selected upon retirement. If the retiree has chosen a life annuity and dies prior to receiving benefits greater than the retiree's contributions to the plan, a lump sum equal to the difference is paid to the beneficiary on record.

Disability benefits are paid to eligible regular employees of the City who become totally and permanently unable to perform substantial work for pay within a 50-mile radius of the home or city hall, whichever is greater, and who is wholly and continuously unable to perform any and every essential duty of employment, with or without a reasonable accommodation, or of a position to which the employee may be assigned. The basic disability benefit is equal to the greater of the employee's years of service credit times 2% with a minimum 42% for in line of duty disability and a minimum 25% for other than in line of duty disability, times the employee's final average earnings as would be otherwise calculated under the plan. The benefit is reduced by any disability benefit percent up to a maximum of 50% multiplied by the monthly Social Security primary insurance amount to which the employee would be initially entitled to as a disabled worker, regardless of application status. The disability benefit is limited to the lesser of \$3,750 per month or an amount equal to the maximum benefit percent, less reductions above and the initially determined wage replacement benefit made under workers' compensation laws.

At September 30, 2015, the following City employees were covered by the benefit terms:

Active employees	1,450
Inactive employees:	
Retirees and beneficiaries currently receiving benefits	1,056
DROP retirees currently receiving benefits	92
Disabled currently receiving benefits	42
Vested terminated members entitled to future benefits	301
Limited members entitled to future benefits	96
Pending refunds	8
Total	3,045

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

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**14. Retirement Plans (continued)**

The contribution requirements of plan members and the City are established and may be amended by City Ordinance approved by the City Commission. The City is required to contribute at an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City contributes the difference between the actuarially determined rate and the contribution rate of employees. Plan members are required to contribute 5% of their annual covered salary. The rate for fiscal year 2015 was 14.92% of covered payroll. This rate was influenced by the issuance of the Taxable Pension Obligation Bonds, Series 2003A. The proceeds from this issue were utilized to retire the unfunded actuarial accrued liability at that time in the Employees' Plan. Differences between the required contribution and actual contribution are due to actual payroll experiences varying from the estimated total payroll used in the generation of the actuarially required contribution rate. Administrative costs are financed through investment earnings.

The net pension liability related to the Employee's Plan was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The components of the net pension liability for the City at September 30, 2015 were as follows (in thousands):

Components of Net Pension Liability	
Total pension liability	\$ 470,947
Plan fiduciary net position	(334,604)
City's net pension liability	\$ 136,343
Plan fiduciary net position as a percentage of the total pension liability	71.05%

The net pension liability applicable to GRU as an enterprise fund of the City was \$76.1 million at September 30, 2015.

The total pension liability as of September 30, 2015 was determined based on a roll-forward of entry age normal liabilities from the October 1, 2014 actuarial valuation to the pension plan's fiscal year end of September 30, 2015, using the following actuarial assumptions applied to all periods included in the measurement.

Actuarial Assumptions	
Inflation	3.75%
Salary Increases	7.00% to 3.75%
Investment Rate of Return	8.30%, net of pension investment expense:

Gainesville Regional Utilities  
Notes to Financial Statements  
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**14. Retirement Plans (continued)**

*Mortality Rate:*

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table-Dynamic with projection to valuation year.

*Long-term Expected Rate of Return:*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation are summarized in the following table:

Development of Long Term Discount Rate for General Employees' Pension Plan

	Inflation	Real Risk Free Return	Risk Premium	Total Expected Return	Policy Allocation	Policy Return
Domestic Equity	3.00%	2.00%	4.50%	9.50%	50.00%	4.75%
Intl Equity	3.00%	2.00%	5.50%	10.50%	30.00%	3.15%
Domestic Bonds	3.00%	2.00%	0.50%	5.50%	2.00%	0.11%
Intl Bonds	3.00%	2.00%	1.50%	6.50%	0.00%	0.00%
Real Estate	3.00%	2.00%	2.50%	7.50%	16.00%	1.20%
Alternatives	3.00%	2.00%	3.50%	7.50%	0.00%	0.00%
US Treasuries	3.00%	0.00%	0.00%	3.00%	0.00%	0.00%
Cash	3.00%	-2.00%	0.00%	1.00%	2.00%	0.02%
Total					100.00%	9.23%

*Discount Rate:*

The discount rate used to measure the total pension liability was 8.30%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the actuarially determined contribution rates less the member contributions. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

**14. Retirement Plans (continued)**

Changes in the Net Pension Liability for the City (in thousands):

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 10/01/2014	\$ 436,068	\$ 347,481	\$ 88,587
Changes for the year:			
Service cost	7,154	-	7,154
Interest	35,741	-	35,741
Differences between expected and actual experience	1,955	-	1,955
Transfer from terminated Disability Plan	2,456	2,320	136
Changes to assumptions	15,880	-	15,880
Contributions - employer	-	11,747	(11,747)
Contributions - employee	-	4,429	(4,429)
Net investment income	-	(2,486)	2,486
Benefit payments, including refunds and DROP payouts	(28,306)	(28,306)	-
Administrative expense	-	(581)	581
Net changes	34,880	(12,877)	47,757
Balances at 09/30/2015	<u>\$ 470,948</u>	<u>\$ 334,604</u>	<u>\$ 136,344</u>

Changes in the Net Pension Liability for GRU (in thousands):

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 10/01/2014	\$ 243,108	\$ 193,720	\$ 49,388
Changes for the year:			
Service cost	3,988	-	3,988
Interest	19,926	-	19,926
Differences between expected and actual experience	1,090	-	1,090
Transfer from terminated Disability Plan	1,369	1,294	75
Changes to assumptions	8,853	-	8,853
Contributions - employer	-	6,549	(6,549)
Contributions - employee	-	2,418	(2,418)
Net investment income	-	(1,386)	1,386
Benefit payments, including refunds and DROP payouts	(15,781)	(15,781)	-
Administrative expense	-	(324)	324
Net changes	19,445	(7,230)	26,675
Balances at 09/30/2015	<u>\$ 262,553</u>	<u>\$ 186,490</u>	<u>\$ 76,063</u>

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

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**14. Retirement Plans (continued)**

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

The following presents the net pension liability, calculated using the discount rate of 8.3%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7.3%) or 1 percentage-point higher (9.3%) than the current rate:

Sensitivity at the City Level (in thousands):	1% Decrease (7.3%)	Current Discount Rate (8.3%)	1% Increase (9.3%)
Net pension liability	\$ 186,587	\$ 136,343	\$ 93,316

  

Sensitivity for GRU's Portion (in thousands):	1% Decrease (7.3%)	Current Discount Rate (8.3%)	1% Increase (9.3%)
Net pension liability	\$ 104,022	\$ 76,062	\$ 52,024

*Pension plan fiduciary net position.*

Detailed information about the pension plan's fiduciary net position is available in the separately issued Employees' Plan financial report.

*Pension expense and deferred outflows of resources.*

For the year ended September 30, 2015, GRU recognized pension expense for the Employees' Plan of \$7 million. At September 30, 2015, the City and GRU reported deferred outflows of resources related to the Employees' Plan from the following sources (in thousands):

	Deferred Outflows of Resources City Level	Deferred Outflows of Resources GRU's Portion
Differences between expected and actual experience	\$ 1,629	\$ 908
Net difference between projected and actual earnings on pension plan investments	24,912	13,889
Changes to assumptions	13,234	7,378
Total	<u>\$ 39,775</u>	<u>\$ 22,175</u>

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

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**14. Retirement Plans (concluded)**

Amounts reported as deferred outflows of resources related to the Employees' Plan will be recognized in pension expense as follows (in thousands):

Fiscal Year	City	GRU
2016	\$ 9,201	\$ 5,129
2017	9,201	5,129
2018	9,201	5,129
2019	9,201	5,129
2020	2,973	1,659
TOTAL	\$ 39,777	\$ 22,175

*Disability Plan (terminated during the fiscal year):*

The Disability Plan was a contributory defined benefit single-employer plan that covered all permanent employees of the City, except police officers and firefighters whose disability plan is incorporated in the Consolidated Plan. The Disability Plan was terminated during the 2015 fiscal year. The net pension liability and related pension assets in an amount which covered the liability were transferred into the Employees' Plan. Assets representing the overfunded portion were disbursed to the City and GRU. GRU's disbursement totaled \$3.7 million.

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

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

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

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

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**15. Other Post-employment Benefits Plan (concluded)**

The State of Florida prohibits the City from separately rating retirees and active employees. The City therefore charges both groups an equal, blended rate premium. Although both groups are charged the same blended rate premium, GAAP requires actuarial costs to be calculated using age adjusted premiums approximating claim costs for retirees separate from active employees.

The use of age adjusted premiums results in the addition of an implicit rate subsidy into the actuarial accrued liability. However, the City has elected to contribute to the RHCP at a rate that is based on an actuarial valuation prepared using the blended rate premium that is actually charged to the RHCP.

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

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

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

The cost of providing post-employment benefits to GRU retirees was \$242,000 and \$238,000 for fiscal years ended September 30, 2015 and 2014, respectively.

**16. Risk Management**

GRU is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters and insures against these losses. GRU purchases plant and machinery insurance from a commercial carrier. There have been no significant reductions in insurance coverage from the prior year, and settlements have not exceeded

Gainesville Regional Utilities  
Notes to Financial Statements  
September 30, 2015 and 2014

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**16. Risk Management (concluded)**

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 2015 and 2014 were paid from current year's revenues.

Changes in the insurance reserve as of September 30 (in thousands):

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims</u>	<u>Payments</u>	<u>Change in Reserve</u>	<u>Ending Balance</u>
2015	\$ 3,337	\$ 1,957	\$ (1,957)	-	\$ 3,337
2014	3,337	1,725	(1,725)	-	3,337

**17. Subsequent Events**

**Crystal River Unit No. 3 Settlement Agreement**

GRU entered into the CR3 Settlement, Release, and Acquisition agreement (settlement agreement), effective September 26, 2014. As a joint minority owner in CR3, this agreement releases GRU from future operating, maintenance, capital, and decommissioning liabilities and expenses. After regulatory approval of the amended agreement to the nuclear license, the joint owners executed and transferred their ownership interests through additional settlement related documents which are listed as separate exhibits in the settlement agreement. See Note 5 Jointly Owned Electric Plant for additional information.

**Liquidity Facilities**

The credit facility with Bayerische Landesbank Girozentrale for the Utilities System Commercial Paper Notes, Series C expired on November 30, 2015 and was replaced with a Bank of America, NA credit facility. The substitution occurred on November 30, 2015 and the Bank of America, NA credit facility has a termination date of November 30, 2018.

Two credit facilities with Union Bank, for the Utilities System Revenue Bonds 2005 Series C and 2006 Series A, expired on December 31, 2015 and were replaced with Landesbank Hessen-Thüringen Girozentrale (Helaba) credit facilities. The substitutions occurred on December 14, 2015 and the Helaba credit facilities both have a termination date of December 31, 2016.

## **SUPPLEMENTARY INFORMATION**

Gainesville Regional Utilities  
Schedules of Combined Net Revenues  
in Accordance with Bond Resolution  
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenues:		
Electric system:		
Sales of electricity	\$ 288,969,402	\$ 268,734,036
Other revenues	8,133,766	14,025,798
Transfers from (to) rate stabilization	(2,254,681)	(6,360,338)
Interest/investment income	1,105,693	1,119,075
Build America Bonds interest income	2,960,079	2,963,272
Total electric system revenues	<u>298,914,259</u>	<u>280,481,843</u>
Water system:		
Sales of water	30,721,119	29,609,803
Other revenues	3,307,878	1,816,135
Transfers from (to) rate stabilization	(2,434,339)	(540,423)
Interest/investment income	99,446	110,427
Build America Bonds interest income	829,497	830,392
Total water system revenues	<u>32,523,601</u>	<u>31,826,334</u>
Wastewater system:		
Sales of wastewater	36,507,374	35,229,675
Other revenues	3,562,876	1,834,281
Transfers from (to) rate stabilization	(2,900,758)	(2,084,441)
Interest/investment income	155,474	135,779
Build America Bonds interest income	935,912	936,922
Total wastewater system revenues	<u>38,260,878</u>	<u>36,052,216</u>
Gas system:		
Sales of gas	23,458,123	23,388,418
Other revenues	1,439,273	957,304
Transfers from (to) rate stabilization	(1,552,394)	687,466
Interest/investment income	145,879	147,506
Build America Bonds interest income	619,674	620,342
Total gas system revenues	<u>24,110,555</u>	<u>25,801,036</u>
Telecommunications system:		
Sales of services	10,884,837	11,170,987
Other revenues	197,617	-
Transfers from (to) rate stabilization	1,438,490	(570,028)
Interest/investment income	78,794	92,996
Total telecommunications system revenue	<u>12,599,738</u>	<u>10,693,955</u>
Total revenues	<u>\$ 406,409,031</u>	<u>\$ 384,855,384</u>

Continued on next page.

Gainesville Regional Utilities  
Schedules of Combined Net Revenues  
in Accordance with Bond Resolution (concluded)  
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operation, maintenance and administrative expenses:		
Electric system:		
Fuel expense	\$ 157,197,363	\$ 141,631,915
Operation and maintenance	38,917,185	39,203,407
Administrative and general	20,967,375	22,670,262
Total electric system expense	<u>217,081,923</u>	<u>203,505,584</u>
Water system:		
Operation and maintenance	7,620,989	8,099,553
Administrative and general	5,937,611	5,221,215
Total water system expense	<u>13,558,600</u>	<u>13,320,768</u>
Wastewater system:		
Operation and maintenance	8,643,637	8,451,783
Administrative and general	5,690,062	5,516,221
Total wastewater system expense	<u>14,333,699</u>	<u>13,968,004</u>
Gas system:		
Fuel expense	9,396,610	10,550,428
Operation and maintenance	1,352,256	1,337,779
Administrative and general	4,569,017	4,838,073
Total gas system expense	<u>15,317,883</u>	<u>16,726,280</u>
Telecommunications system:		
Operation and maintenance	4,406,907	4,029,783
Administrative and general	4,052,956	2,462,436
Total telecommunications system expense	<u>8,459,863</u>	<u>6,492,219</u>
Total operation, maintenance and administrative expenses	<u>268,751,968</u>	<u>254,012,855</u>
Net revenue in accordance with bond resolution:		
Electric	81,832,336	76,976,259
Water	18,965,001	18,505,566
Wastewater	23,927,179	22,084,212
Gas	8,792,672	9,074,756
Telecommunications	4,139,875	4,201,736
Total net revenue in accordance with bond resolution	<u>\$ 137,657,063</u>	<u>\$ 130,842,529</u>
Aggregate bond debt service	<u>\$ 55,461,104</u>	<u>\$ 54,860,040</u>
Aggregate bond debt service coverage ratio	<u>2.48</u>	<u>2.39</u>
Total debt service	<u>\$ 61,638,702</u>	<u>\$ 60,042,322</u>
Total debt service coverage ratio	<u>2.23</u>	<u>2.18</u>

Gainesville Regional Utilities  
Schedules of Net Revenues in Accordance with Bond Resolution –  
Electric Utility System  
For the Years Ended September 30, 2015 and 2014

	2015	2014
Revenues		
Sales of electricity:		
Residential	\$ 47,154,370	\$ 50,326,159
Non-residential	59,867,164	63,284,868
Fuel adjustment	157,197,363	141,631,915
Interchange sales	2,558,187	2,238,158
Utility surcharge	3,058,030	3,281,036
Other electric sales	19,134,288	18,444,900
Total sales of electricity	<u>288,969,402</u>	<u>279,207,036</u>
Other revenues	8,133,766	3,552,798
Transfers from (to) rate stabilization	(2,254,681)	(6,360,338)
Interest income	1,105,693	1,119,075
Build America Bonds interest income	2,960,079	2,963,272
Total revenues	<u>298,914,259</u>	<u>280,481,843</u>
Operation, maintenance and administrative expenses		
Fuel and purchased power	157,197,363	141,631,915
Power production	25,947,596	26,165,583
Transmission	1,541,525	1,674,663
Interchange	1,694,099	1,565,355
Distribution	9,733,965	9,766,386
Customer accounts and sales	3,341,914	3,489,670
Administrative and general	17,625,461	19,212,012
Total operation, maintenance and administrative expenses	<u>217,081,923</u>	<u>203,505,584</u>
Total net revenues in accordance with bond resolution	<u>\$ 81,832,336</u>	<u>\$ 76,976,259</u>

Gainesville Regional Utilities  
Schedules of Net Revenues in Accordance with Bond Resolution –  
Water Utility System  
For the Years Ended September 30, 2015 and 2014

	2015	2014
Revenues		
Sales of water:		
Residential	\$ 18,570,332	\$ 17,792,640
Non-residential	7,928,002	7,729,470
University of Florida	2,033,206	1,894,159
Utility surcharge	2,189,579	2,193,534
Total sales of water	30,721,119	29,609,803
Other revenues	3,307,878	1,816,135
Transfers from (to) rate stabilization	(2,434,339)	(540,423)
Interest income	99,446	110,427
Build America Bonds interest income	829,497	830,392
Total revenues	32,523,601	31,826,334
Operation, maintenance and administrative expenses		
Pumping and water treatment	5,315,400	5,473,444
Transmission and distribution	2,305,589	2,626,109
Customer accounts and sales	1,304,831	1,289,339
Administrative and general	4,632,780	3,931,876
Total operation, maintenance and administrative expenses	13,558,600	13,320,768
Total net revenues in accordance with bond resolution	\$ 18,965,001	\$ 18,505,566

Gainesville Regional Utilities  
Schedules of Net Revenues in Accordance with Bond Resolution –  
Wastewater Utility System  
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenues		
Sales of services:		
Residential	\$ 24,923,586	\$ 23,831,343
Non-residential	8,943,974	8,521,967
Utility surcharge	2,528,779	2,581,458
Other wastewater sales	111,035	294,907
Total sales of services	<u>36,507,374</u>	<u>35,229,675</u>
Other revenues	3,562,876	1,834,281
Transfers from (to) rate stabilization	(2,900,758)	(2,084,441)
Interest income	155,474	135,779
Build America Bonds interest income	935,912	936,922
Total revenues	<u>38,260,878</u>	<u>36,052,216</u>
Operation, maintenance and administrative expenses		
Collection	3,299,051	3,278,600
Treatment	5,344,586	5,173,183
Customer accounts and sales	851,324	906,474
Administrative and general	4,838,738	4,609,747
Total operation, maintenance and administrative expenses	<u>14,333,699</u>	<u>13,968,004</u>
Total net revenues in accordance with bond resolution	<u>\$ 23,927,179</u>	<u>\$ 22,084,212</u>

Gainesville Regional Utilities  
Schedules of Net Revenues in Accordance with Bond Resolution –  
Gas Utility System  
For the Years Ended September 30, 2015 and 2014

	2015	2014
Revenues		
Sales of gas:		
Residential	\$ 7,420,044	\$ 6,935,407
Non-residential	4,421,237	4,282,709
Purchased gas adjustment	9,396,610	10,550,428
Other gas sales	2,220,232	1,619,874
Total sales of gas	23,458,123	23,388,418
Other revenues	1,439,273	957,304
Transfers from (to) rate stabilization	(1,552,394)	687,466
Interest income	145,879	147,506
Build America Bonds interest income	619,674	620,342
Total revenues	24,110,555	25,801,036
Operation, maintenance and administrative expenses		
Fuel expense - purchased gas	9,396,610	10,550,428
Operation and maintenance	1,352,256	1,337,779
Customer accounts and sales	2,483,375	2,197,580
Administrative and general	2,085,642	2,640,493
Total operation, maintenance and administrative expenses	15,317,883	16,726,280
Total net revenues in accordance with bond resolution	\$ 8,792,672	\$ 9,074,756

Gainesville Regional Utilities  
Schedules of Net Revenues in Accordance with Bond Resolution –  
Telecommunications System  
For the Years Ended September 30, 2015 and 2014

	2015	2014
Revenues		
Sales of services:		
Telecommunication	\$ 4,832,418	\$ 5,154,169
Trunking radio	1,772,257	1,831,502
Tower lease	2,244,525	2,248,849
Internet access	2,035,637	1,936,467
Total sales of services	10,884,837	11,170,987
Other revenue	197,617	-
Transfers from (to) rate stabilization	1,438,490	(570,028)
Interest income	78,794	92,996
Total revenues	12,599,738	10,693,955
Operation, maintenance and administrative expenses		
Operation and maintenance	4,406,907	4,029,783
Customer accounts and sales	253,783	372,958
Administrative and general	3,799,173	2,089,478
Total operation, maintenance and administrative expenses	8,459,863	6,492,219
Total net revenues in accordance with bond resolution	\$ 4,139,875	\$ 4,201,736

**Gainesville Regional Utilities**  
**Notes to Schedules of Net Revenues in Accordance with Bond Resolution**  
**For the Years Ended September 30, 2015 and 2014**

The Schedules of Net Revenues in Accordance with Bond Resolution differ from the Statements of Revenues, Expenses, and Changes in Net Position as follows:

- Operation and maintenance expenses do not include depreciation or amortization expense
- Contributions in aid of construction are excluded
- Operating transfer to the City's General Fund is excluded
- Debt service is included
- Utility Plant Improvement Fund cash contributions and withdrawals are included
- Other noncash items are excluded

**Gainesville Regional Utilities**  
**Combining Statement of Net Position**  
**September 30, 2015**

	<b>Electric</b>	<b>Water</b>	<b>Wastewater</b>	<b>Gas</b>	<b>GRUCom</b>	<b>Combined</b>
<b>Assets</b>						
Current assets:						
Cash and investments	\$ 37,209,718	\$ 847,738	\$ 2,398,811	\$ 10,446,500	\$ 2,637,196	\$ 53,539,963
Accounts receivable, net	36,015,771	3,399,072	5,745,881	719,994	1,513,563	47,394,281
Inventories:						
Fuel	15,524,239	-	-	-	-	15,524,239
Materials and supplies	5,160,861	924,457	-	407,151	803,475	7,295,944
Other assets and regulatory assets	622,309	20,151	44,417	1,279,589	285,573	2,252,039
<b>Total current assets</b>	<b>94,532,898</b>	<b>5,191,418</b>	<b>8,189,109</b>	<b>12,853,234</b>	<b>5,239,807</b>	<b>126,006,466</b>
Restricted and internally designated assets:						
Utility deposits – cash and investments	7,492,651	757,773	604,290	401,728	-	9,256,442
Debt service – cash and investments	26,485,160	3,318,428	5,074,325	2,183,340	3,754,895	40,816,148
Rate stabilization – cash and investments	52,833,883	4,161,234	8,775,183	6,334,446	-	72,104,746
Construction – cash and investments	27,438,808	4,809,420	6,735,087	2,385,003	9,739,812	51,108,130
Utility plant improvement – cash and investments	40,684,982	4,560,054	6,047,720	3,730,445	-	55,023,201
Decommissioning reserve – cash and investments	12,518,938	-	-	-	-	12,518,938
<b>Total restricted and internally designated assets</b>	<b>167,454,422</b>	<b>17,606,909</b>	<b>27,236,605</b>	<b>15,034,962</b>	<b>13,494,707</b>	<b>240,827,605</b>
Noncurrent assets:						
Net costs recoverable in future years - regulatory asset	30,464,864	-	-	-	-	30,464,864
Unamortized debt issuance costs - regulatory asset	3,861,073	704,533	858,884	424,445	317,958	6,166,893
Investment in The Energy Authority	1,722,378	-	-	839,500	-	2,561,878
Pollution remediation - regulatory asset	-	-	-	13,839,247	-	13,839,247
Other noncurrent assets and regulatory assets	4,358,944	879,994	1,060,687	352,587	6,887	6,659,099
Pension costs - regulatory asset	33,654,520	6,622,177	7,243,038	3,908,000	2,460,021	53,887,756
<b>Total noncurrent assets</b>	<b>74,061,779</b>	<b>8,206,704</b>	<b>9,162,609</b>	<b>19,363,779</b>	<b>2,784,866</b>	<b>113,579,737</b>
Capital assets:						
Utility plant in service	1,086,199,236	241,474,734	307,431,510	79,045,425	69,519,295	1,783,670,200
Capital lease	1,006,808,754	-	-	-	-	1,006,808,754
Less: accumulated depreciation and amortization	(462,568,386)	(95,275,852)	(128,213,232)	(39,207,212)	(30,722,210)	(755,986,892)
	1,630,439,604	146,198,882	179,218,278	39,838,213	38,797,085	2,034,492,062
Construction in progress	32,901,685	38,818,437	51,941,664	6,799,524	1,134,945	131,596,255
<b>Net capital assets</b>	<b>1,663,341,289</b>	<b>185,017,319</b>	<b>231,159,942</b>	<b>46,637,737</b>	<b>39,932,030</b>	<b>2,166,088,317</b>
<b>Total assets</b>	<b>1,999,390,388</b>	<b>216,022,350</b>	<b>275,748,265</b>	<b>93,889,712</b>	<b>61,451,410</b>	<b>2,646,502,125</b>
<b>Deferred outflows of resources:</b>						
Unamortized loss on refundings of bonds	17,086,876	3,315,513	3,802,470	1,420,442	2,535,066	28,160,367
Accumulated decrease in fair value of hedging derivatives	51,807,291	8,880,965	8,478,607	3,210,229	1,272,921	73,650,013
Pension costs	13,848,644	2,724,988	2,980,469	1,608,120	1,012,284	22,174,505
<b>Total deferred outflows of resources</b>	<b>82,742,811</b>	<b>14,921,466</b>	<b>15,261,546</b>	<b>6,238,791</b>	<b>4,820,271</b>	<b>123,984,885</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 2,082,133,199</b>	<b>\$ 230,943,816</b>	<b>\$ 291,009,811</b>	<b>\$ 100,128,503</b>	<b>\$ 66,271,681</b>	<b>\$ 2,770,487,010</b>

Continued on next page.

**Gainesville Regional Utilities**  
**Combining Statement of Net Position (concluded)**  
**September 30, 2015**

	<b>Electric</b>	<b>Water</b>	<b>Wastewater</b>	<b>Gas</b>	<b>GRUCom</b>	<b>Combined</b>
<b>Liabilities</b>						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 10,047,747	\$ 1,499,067	\$ 2,001,343	\$ 731,230	\$ 539,835	\$ 14,819,222
Fuels payable	10,602,169	-	-	39,551	-	10,641,720
Due to other funds of the City	3,575,782	(41,749)	372,542	215,118	(1,627)	4,120,066
Capital lease – current portion	17,601,233	-	-	-	-	17,601,233
Fuel adjustment	16,923,455	-	-	1,876,269	-	18,799,724
Other liabilities and regulatory liabilities	2,489,793	885,569	1,668,268	1,280,452	421,900	6,745,982
<b>Total current liabilities</b>	<b>61,240,179</b>	<b>2,342,887</b>	<b>4,042,153</b>	<b>4,142,620</b>	<b>960,108</b>	<b>72,727,947</b>
Payable from restricted assets:						
Utility deposits	7,488,836	757,773	604,290	401,728	-	9,252,627
Construction accounts payable and accrued liabilities	2,223,033	484,608	2,003,603	242,039	59,804	5,013,087
Debt payable – current portion	15,554,111	676,678	1,414,065	1,080,471	3,479,675	22,205,000
Accrued interest payable	11,056,311	2,496,941	2,945,486	1,382,770	924,837	18,806,345
<b>Total payable from restricted assets</b>	<b>36,322,291</b>	<b>4,416,000</b>	<b>6,967,444</b>	<b>3,107,008</b>	<b>4,464,316</b>	<b>55,277,059</b>
Long-term debt:						
Utilities system revenue bonds	531,580,128	115,740,353	135,689,668	57,720,538	48,344,313	889,075,000
Commercial paper notes	27,333,720	4,433,810	10,976,840	8,755,630	8,000,000	59,500,000
Capital lease	959,678,852	-	-	-	-	959,678,852
Unamortized bond premium/discount	12,372,499	1,772,495	3,419,217	1,032,208	481,610	19,078,029
Fair value of derivative instruments	53,782,106	9,760,959	9,539,294	2,763,027	1,197,381	77,042,767
<b>Total long-term debt</b>	<b>1,584,747,305</b>	<b>131,707,617</b>	<b>159,625,019</b>	<b>70,271,403</b>	<b>58,023,304</b>	<b>2,004,374,648</b>
Noncurrent liabilities:						
Reserve for insurance claims	1,999,960	598,326	546,333	187,085	5,296	3,337,000
Reserve for decommissioning CR3	11,621,938	-	-	-	-	11,621,938
Reserve for environmental liability	-	-	-	266,000	-	266,000
Net pension liability	47,503,164	9,347,165	10,223,507	5,516,120	3,472,305	76,062,261
<b>Total noncurrent liabilities</b>	<b>61,125,062</b>	<b>9,945,491</b>	<b>10,769,840</b>	<b>5,969,205</b>	<b>3,477,601</b>	<b>91,287,199</b>
<b>Total liabilities</b>	<b>1,743,434,837</b>	<b>148,411,995</b>	<b>181,404,456</b>	<b>83,490,236</b>	<b>66,925,329</b>	<b>2,223,666,853</b>
<b>Deferred inflows of resources:</b>						
Rate stabilization	52,517,164	4,128,381	8,755,135	6,313,861	-	71,714,541
<b>Total deferred inflows of resources</b>	<b>52,517,164</b>	<b>4,128,381</b>	<b>8,755,135</b>	<b>6,313,861</b>	<b>-</b>	<b>71,714,541</b>
<b>Net position:</b>						
Net investment in capital assets	141,523,397	70,034,308	88,194,106	(3,348,457)	(8,158,494)	288,244,860
Restricted	56,434,365	5,414,394	8,196,607	4,551,600	2,830,058	77,427,024
Unrestricted	88,223,436	2,954,738	4,459,507	9,121,263	4,674,788	109,433,732
<b>Total net position</b>	<b>286,181,198</b>	<b>78,403,440</b>	<b>100,850,220</b>	<b>10,324,406</b>	<b>(653,648)</b>	<b>475,105,616</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 2,082,133,199</b>	<b>\$ 230,943,816</b>	<b>\$ 291,009,811</b>	<b>\$ 100,128,503</b>	<b>\$ 66,271,681</b>	<b>\$ 2,770,487,010</b>

**Gainesville Regional Utilities**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**Year Ended September 30, 2015**

	<b>Electric</b>	<b>Water</b>	<b>Wastewater</b>	<b>Gas</b>	<b>GRUCom</b>	<b>Combined</b>
<b>Operating revenue:</b>						
Sales and service charges	\$ 277,077,555	\$ 30,856,995	\$ 36,645,179	\$ 23,381,234	\$ 10,940,150	\$ 378,901,113
Transfers from (to) rate stabilization	(2,254,681)	(2,434,339)	(2,900,758)	(1,552,394)	1,438,490	(7,703,682)
Amounts to be recovered from future revenue	33,560,292	-	-	-	-	33,560,292
Other operating revenue	14,807,465	2,298,836	2,824,220	1,252,957	-	21,183,478
<b>Total operating revenues</b>	<b>323,190,631</b>	<b>30,721,492</b>	<b>36,568,641</b>	<b>23,081,797</b>	<b>12,378,640</b>	<b>425,941,201</b>
<b>Operating expenses:</b>						
Operation and maintenance	196,114,889	7,620,989	8,643,636	10,748,867	4,406,907	227,535,288
Administrative and general	21,302,813	6,073,488	5,690,063	6,272,308	4,108,863	43,447,535
Depreciation and amortization	73,404,769	7,208,690	8,384,331	3,174,477	3,281,937	95,454,204
<b>Total operating expenses</b>	<b>290,822,471</b>	<b>20,903,167</b>	<b>22,718,030</b>	<b>20,195,652</b>	<b>11,797,707</b>	<b>366,437,027</b>
<b>Operating income</b>	<b>32,368,160</b>	<b>9,818,325</b>	<b>13,850,611</b>	<b>2,886,145</b>	<b>580,933</b>	<b>59,504,174</b>
<b>Non-operating income (expense):</b>						
Interest income	110,666	109,384	213,889	63,383	109,234	606,556
Interest expense, net of AFUDC	(23,073,135)	(5,111,273)	(5,166,949)	(2,907,510)	(1,946,376)	(38,205,243)
Other interest related income, BABs	2,960,079	829,497	935,912	619,674	-	5,345,162
Other income	5,554,993	1,009,043	600,852	321,485	197,617	7,683,990
<b>Total non-operating expense</b>	<b>(14,447,397)</b>	<b>(3,163,349)</b>	<b>(3,416,296)</b>	<b>(1,902,968)</b>	<b>(1,639,525)</b>	<b>(24,569,535)</b>
<b>Income before capital contributions and transfer</b>	<b>17,920,763</b>	<b>6,654,976</b>	<b>10,434,315</b>	<b>983,177</b>	<b>(1,058,592)</b>	<b>34,934,639</b>
<b>Capital contributions:</b>						
Contributions from third parties	91,553	734,601	669,659	-	-	1,495,813
Reduction of plant cost recovered through contributions	(91,553)	-	-	-	-	(91,553)
<b>Net capital contributions</b>	<b>-</b>	<b>734,601</b>	<b>669,659</b>	<b>-</b>	<b>-</b>	<b>1,404,260</b>
<b>Transfer to City of Gainesville</b>						
General Fund	(19,495,302)	(5,626,440)	(7,365,545)	(2,405,138)	-	(34,892,425)
<b>Change in net position</b>	<b>(1,574,539)</b>	<b>1,763,137</b>	<b>3,738,429</b>	<b>(1,421,961)</b>	<b>(1,058,592)</b>	<b>1,446,474</b>
<b>Net position – beginning of year</b>	<b>287,755,737</b>	<b>76,640,303</b>	<b>97,111,791</b>	<b>11,746,367</b>	<b>404,944</b>	<b>473,659,142</b>
<b>Net position – end of year</b>	<b>\$ 286,181,198</b>	<b>\$ 78,403,440</b>	<b>\$ 100,850,220</b>	<b>\$ 10,324,406</b>	<b>\$ (653,648)</b>	<b>\$ 475,105,616</b>

**Gainesville Regional Utilities**  
**Schedule of Utility Plant Properties – Combined Utility System**

	<b>Balance September 30, 2014</b>	<b>Additions</b>	<b>Sales, Retirements, and Transfers</b>	<b>Balance September 30, 2015</b>
<b>Plant in service</b>				
Electric utility system:				
Production plant	\$ 1,619,112,423	\$ 14,273,098	\$ 6,273,112	\$ 1,627,112,409
Transmission and distribution plant	337,465,845	11,402,830	1,876,142	346,992,533
General and common plant	119,052,710	1,326,098	1,475,760	118,903,048
Total electric utility system	<u>2,075,630,978</u>	<u>27,002,026</u>	<u>9,625,014</u>	<u>2,093,007,990</u>
Water utility system:				
Supply, pumping and treatment plant	50,589,032	6,633,834	50,567	57,172,299
Transmission and distribution plant	160,287,378	1,488,442	33,794	161,742,026
General plant	22,429,175	141,268	10,034	22,560,409
Total water utility system	<u>233,305,585</u>	<u>8,263,544</u>	<u>94,395</u>	<u>241,474,734</u>
Wastewater utility system:				
Pumping and treatment plant	97,338,505	3,973,660	157,305	101,154,860
Collection plant	150,667,496	1,287,632	141,628	151,813,500
Reclaimed water plant	3,583,295	23,447,594	-	27,030,889
General plant	27,138,573	389,974	96,286	27,432,261
Total wastewater utility system	<u>278,727,869</u>	<u>29,098,860</u>	<u>395,219</u>	<u>307,431,510</u>
Gas utility system:				
Distribution plant	61,292,152	3,802,306	17,290	65,077,168
General plant	9,155,364	190,688	28,431	9,317,621
Plant acquisition adjustment	4,650,636	-	-	4,650,636
Total gas utility system	<u>75,098,152</u>	<u>3,992,994</u>	<u>45,721</u>	<u>79,045,425</u>
GRUCom utility system:				
Distribution plant	56,954,673	893,337	170,624	57,677,386
General plant	11,741,292	100,790	173	11,841,909
Total GRUCom utility system	<u>68,695,965</u>	<u>994,127</u>	<u>170,797</u>	<u>69,519,295</u>
Total plant in service	<u>\$ 2,731,458,549</u>	<u>\$ 69,351,551</u>	<u>\$ 10,331,146</u>	<u>\$ 2,790,478,954</u>
<b>Construction in progress</b>				
Electric utility system	\$ 35,308,113	\$ 26,810,564	\$ 29,216,992	\$ 32,901,685
Water utility system	38,867,891	8,237,091	8,286,545	38,818,437
Wastewater utility system	58,510,721	22,529,803	29,098,860	51,941,664
Gas utility system	7,178,682	3,766,367	4,145,525	6,799,524
GRUCom utility system	2,123,504	6,202	994,761	1,134,945
Total construction in progress	<u>\$ 141,988,911</u>	<u>\$ 61,350,027</u>	<u>\$ 71,742,683</u>	<u>\$ 131,596,255</u>

**Gainesville Regional Utilities**  
**Schedule of Accumulated Depreciation and Amortization –**  
**Combined Utility System**

	<b>Balance September 30, 2014</b>	<b>Additions</b>	<b>Sales, Retirements, and Transfers</b>	<b>Balance September 30, 2015</b>
<b>Electric utility system:</b>				
Production plant	\$ 245,444,469	\$ 49,887,026	\$ 6,950,689	\$ 288,380,806
Transmission and distribution plant	115,202,413	12,253,836	1,296,059	126,160,190
General and common plant	43,445,805	5,805,881	1,224,296	48,027,390
<b>Total electric utility system</b>	<b>404,092,687</b>	<b>67,946,743</b>	<b>9,471,044</b>	<b>462,568,386</b>
<b>Water utility system:</b>				
Supply, pumping and treatment plant	15,802,194	1,814,170	(37,052)	17,653,416
Transmission and distribution plant	69,091,462	4,341,122	(67,286)	73,499,870
General plant	3,477,338	648,236	3,008	4,122,566
<b>Total water utility system</b>	<b>88,370,994</b>	<b>6,803,528</b>	<b>(101,330)</b>	<b>95,275,852</b>
<b>Wastewater utility system:</b>				
Pumping and treatment plant	51,208,995	2,177,215	90,160	53,296,050
Collection plant	61,848,351	4,339,078	10,921	66,176,508
Reclaimed water plant	2,190,897	238,661	(8,443)	2,438,001
General plant	5,130,619	1,255,337	83,283	6,302,673
<b>Total wastewater utility system</b>	<b>120,378,862</b>	<b>8,010,291</b>	<b>175,921</b>	<b>128,213,232</b>
<b>Gas utility system:</b>				
Distribution plant	29,533,214	2,577,222	127,410	31,983,026
General plant	2,125,426	471,777	23,654	2,573,549
Plant acquisition adjustment	4,650,637	-	-	4,650,637
<b>Total gas utility system</b>	<b>36,309,277</b>	<b>3,048,999</b>	<b>151,064</b>	<b>39,207,212</b>
<b>GRUCom utility system:</b>				
Distribution plant	26,558,230	2,354,617	129,916	28,782,931
General plant	1,506,500	432,668	(111)	1,939,279
<b>Total GRUCom utility system</b>	<b>28,064,730</b>	<b>2,787,285</b>	<b>129,805</b>	<b>30,722,210</b>
<b>Total depreciation and amortization</b>	<b>\$ 677,216,550</b>	<b>\$ 88,596,846</b>	<b>\$ 9,826,504</b>	<b>\$ 755,986,892</b>

## **OTHER REPORT**

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

To the Honorable Mayor and City Commissioners  
Gainesville, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Gainesville Regional Utilities (the Utility) of the City of Gainesville, Florida (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements and have issued our report thereon dated February 24, 2016.

**Internal Control over Financial Reporting**

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

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

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

**Certified Public Accountants**

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

To the Honorable Mayor and City Commissioners  
Gainesville, Florida

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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



February 24, 2016  
Gainesville, Florida