FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

GAINESVILLE REGIONAL UTILITIES
GAINESVILLE, FLORIDA

SEPTEMBER 30, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

Purvis Gray & Company

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, 2016 and 2015, 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 audits 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, 2016 and 2015, 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.

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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)

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 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 pension 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.

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 83 through 95, 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.

To the Honorable Mayor and City Commissioners
Gainesville, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

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, 2016 and 2015, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2017, 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.

Purvis, Gray and Company, LLP

March 6, 2017
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, 2016, 2015, and 2014. 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.

Financial Analysis of Gainesville Regional Utilities

GRU's net position increased $1.9 million and $1.4 million for fiscal years 2016 and 2015, respectively, and decreased $1.7 million for fiscal year 2014. 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

	2016	2015	2014
Current assets	**$128,918**	$126,006	$130,712
Restricted and internally designated assets	**202,918**	240,828	193,442
Noncurrent assets	**130,447**	113,580	90,701
Capital assets, net	**2,144,929**	2,166,088	2,196,231
Deferred outflows of resources	**127,084**	123,985	79,515
Total assets and deferred outflows of resources	**$2,734,296**	$2,770,487	$2,690,601
Current liabilities	**69,957**	72,728	70,894
Payable from restricted assets	**158,745**	55,277	52,029
Long-term debt	**1,873,880**	2,004,375	1,969,083
Noncurrent liabilities	**74,928**	91,287	60,819
Deferred inflows of resources	**79,822**	71,714	64,117
Total liabilities and deferred inflows of resources	**2,257,332**	2,295,381	2,216,942
Net position:			
Net investment in capital assets	**265,323**	288,245	314,615
Restricted	**82,186**	77,427	60,370
Unrestricted	**129,455**	109,434	98,674
Total net position	**476,964**	475,106	473,659
Total liabilities, deferred inflows of resources and net position	**$2,734,296**	$2,770,487	$2,690,601

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

	2016	2015	2014
Operating revenue	**$433,818**	$425,941	$405,895
Interest income	**661**	607	714
Other income, BABs	**18,699**	13,029	5,561
Total revenues	**453,178**	439,577	412,170
Operating expenses	**379,978**	366,437	340,247
Interest expense, net of AFUDC	**37,811**	38,205	37,816
Total expenses	**417,789**	404,642	378,063
Income before contributions, transfer, and extraordinary item	**35,388**	34,935	34,107
Capital contributions, net	**1,464**	1,404	1,525
Transfer to City of Gainesville General Fund	**(34,994)**	(34,892)	(37,317)
Change in net position	**1,858**	1,447	(1,685)
Net position, beginning of year	**475,106**	473,659	475,344
Net position, end of year	**$476,964**	$475,106	$473,659

Financial Highlights

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

- Gross utility plant in service increased $83 million, or 4.7%, in fiscal year 2016. The increase was due primarily to completion of generation, distribution, and control systems facilities. Gross utility plant increased $59 million, or 2.2% in fiscal year 2015 due to the completion of the Paynes Prairie Sheetflow Restoration project, increases in generation facilities, water supply facilities, and transmission and distribution facilities and increased $1 billion, or 62% in fiscal year 2014. 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 decreased $22.2 million, or 2.3%, in fiscal year 2016, due to scheduled principal payments. Long-term debt increased $22.8 million, or 2.4%, in fiscal year 2015, due to the issuance of utility system revenue bonds and commercial paper notes in December 2014. 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.

Financial Highlights *(Concluded)*

- GRU is completing remediation efforts at a former manufactured gas plant site. The costs incurred to date total $28.7 million and GRU estimates that total project costs will be approximately $29.3 million. GRU accrued a regulatory asset and liability to account for the cost and cost recovery of the expense, which is being recognized as customer revenues are received. See Note 14 Commitments and Contingencies for additional information.

- Sales and service charges increased $0.9 million or 0.3%, increased $10.2 million or 2.8%, and increased $41.3 million or 13% in fiscal years 2016, 2015, and 2014, respectively. The increase in sales and service charges in fiscal year 2016 is the result of increases associated with sales, modest base rate increases in the water, wastewater, and gas systems offset by a reduction in the fuel adjustment rates. 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.

- Operating expenses increased $13.5 million or 3.7%, increased $26.2 million or 7.7%, and increased $64.2 million or 23.3% in fiscal years 2016, 2015, and 2014, respectively. The increase in operating expenses in fiscal year 2016 is due to increases in operation, maintenance, and administrative expenses. The increase in operating expenses in fiscal years 2015 and 2014 is due primarily to power purchased from a biomass facility.

- Transfers to rate stabilization were $2.4 million in fiscal year 2016, $7.7 million in fiscal year 2015, and $8.9 million in fiscal year 2014 as a result of revenue increases in each year.

- The number of customers for electric services increased 0.3%, water services increased 0.9%, wastewater services increased 1%, and gas services increased 1% in fiscal year 2016. 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.

- On October 1, 2016, GRU implemented a 3% increase in the revenue requirement for the water system, a 3% increase for the wastewater system, and a 9% 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.

Capital Assets

GRU's investment in capital assets as of September 30, 2016, was $2.1 billion (net of accumulated depreciation and amortization). The decrease in net capital assets for fiscal year 2016 was 1%. In fiscal year 2015, the decrease in net capital assets was 1.4%. The net increase in capital assets for 2014 was 82%, primarily due to a capital lease related to the Gainesville Renewable Energy Center (GREC) biomass plant.

The following table summarizes GRU's capital assets, net of accumulated depreciation and amortization, for the years ended September 30, 2016, 2015, and 2014 (in thousands).

Gainesville Regional Utilities
Capital Assets
(net of accumulated depreciation)

	2016	2015	2014
Generation	**$1,304,581**	$1,338,731	$1,373,668
Transmission, distribution, and collection	**484,350**	481,293	465,826
Treatment	**124,791**	87,378	80,916
General plant	**121,515**	127,090	133,832
Construction work in progress	**109,692**	131,596	141,989
Total net utility plant	**$2,144,929**	$2,166,088	$2,196,231

Major capital asset events during the fiscal years include:

- GRU initially 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, 2016, 2015, and 2014, respectively. See Note 6 Capital Lease for additional information.

- Electric transmission and distribution expansion was $13.5 million in fiscal year 2016, $11.4 million in fiscal year 2015, and $12.1 million in fiscal year 2014. For 2016, $6.3 million was spent on underground system improvements.

- Electric generation capital expenditures were $10 million for fiscal year 2016. These expenditures included $2.7 million for the John R Kelly (JRK) generating station and $7.3 million for the Deerhaven (DH) generating station.

- Water capital expenditures were $7.2 million in fiscal year 2016 with $2.4 million for supply, pumping, and treatment and $4.1 million for transmission and distribution.

- Wastewater capital expenditures were $16.9 million in 2016. This included $8.5 million spent on the Kanapaha Biosolids Dewatering program.

Capital Assets *(Concluded)*

- Gas distribution expansion expenditures were $3.1 million in 2016, $3.8 million in 2015, and $3 million in 2014. This expansion included expenditures of $1.1 million in gas distribution mains, $0.8 million in residential gas services, and $0.7 million in meter change outs.

Additional information may be found in Note 4 Capital Assets.

Long-Term Debt

At September 30, 2016, 2015, and 2014, GRU had total long-term debt outstanding of $1.9 billion, $1.9 billion, and $1.9 billion, respectively, comprised of utilities system revenue bonds, commercial paper notes, and a capital lease (in thousands).

Gainesville Regional Utilities

Outstanding Debt at September 30:

	2016	2015	2014
Utilities system revenue bonds	**$ 889,075**	$ 905,880	$ 885,950
Commercial paper notes	**59,500**	64,900	62,000
Capital lease	**959,679**	977,280	994,108
Total	**$ 1,908,254**	$ 1,948,060	$ 1,942,058

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 2016, GRU reduced utilities system revenue bonds and commercial paper notes by $22.2 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 $959.7 million, $977.3 million, and $994.1 million at September 30, 2016, 2015, and 2014, respectively. See Note 6 Capital Lease for additional information.

Long-Term Debt *(Concluded)*

- 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 P-2 or better, A-2 or better, and F2 or better 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.

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

- 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.

- On March 10, 2016, arbitration was filed by GREC with the American Arbitration Association (AAA) against GRU alleging that GREC did not have to perform a scheduled annual Planned Maintenance outage for April 2016. Prior to the dispute and the arbitration being filed with the AAA, GRU and GREC mutually agreed in writing to an annual Planned Maintenance Outage for twenty-one days, scheduled to take place April 9-29, 2016. GREC unilaterally cancelled the twenty-one day mutually agreed upon annual Planned Maintenance outage. Section 10.4.1(a) of the Power Purchase Agreement (PPA) requires GREC to submit a written annual maintenance plan containing its forecast of planned maintenance for the coming year no later than sixty (60) days prior to the start of each calendar year. Any and all changes to such plan shall be mutually agreeable to GREC and GRU. In April of 2016, GRU withheld $4.1 million in Available Energy invoice payments related to the agreed upon annual Planned Maintenance outage. As of September 30, 2016, GRU has withheld approximately $6.8 million for various commercial disputes related to the PPA. Both GRU and GREC have filed motions for summary judgment on several of the claims, and the briefing schedule on dispositive motions runs through January 24, 2017. For those outstanding claims that are not resolved by summary judgment, the arbitration hearing is scheduled for two weeks in June 2017, in Gainesville, Florida. Management believes that GRU has valid defenses to the claims, and GRU is vigorously defending such action. Due to the uncertainties of arbitration GRU, at this stage, cannot offer an opinion as to likely outcomes of the arbitration or the effect thereof. In the event, however, that this action is determined adversely to GRU, Management believes that such determination will not have a material adverse effect on the financial condition of GRU. See Note 14 Commitments and Contingencies for additional information.

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

- 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.

- On October 26, 2016, the EPA published an update to the Cross-State Air Pollution Rule ("CSAPR"). For three states, including Florida, the EPA is removing them from the CSAPR ozone season NOx trading program because modeling for the Final Rule indicates that these states do not contribute significantly to ozone air quality problems in downwind states. Therefore, GRU will not have to meet any ozone season limits in 2017 and probably 2018.

- In late 2011, the EPA promulgated the Mercury and Air Toxics Standards (MATS) to reduce emissions of toxic air pollutants from power plants which faced several legal challenges including a decision on June 29, 2015, by the U.S. Supreme Court reversing the District of Columbia Circuit Court's decision to uphold the EPA's rule establishing the standards. But since the Supreme Court did not vacate the rule, the MATS rule remained in effect. On April 14, 2016, the Administrator of the EPA signed the final supplemental finding in the MATS rule and concluded it is proper to regulate mercury emissions from power plants. GRU's Deerhaven (DH) Unit #2 is the only generation unit affected by the MATS rule and air quality control systems are currently in place at DH which enables this station to comply with these standards at a known cost for operations and reagents. See Note 14 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.

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, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and investments	**$ 62,635,050**	$ 53,539,963
Accounts receivable, net of allowance for uncollectible accounts of $837,332 and $988,585, respectively	**49,351,371**	47,394,281
Inventories:		
Fuel	**8,162,677**	15,524,239
Materials and supplies	**6,946,095**	7,295,944
Other assets and regulatory assets	**1,822,993**	2,252,039
Total current assets	**128,918,186**	126,006,466
Restricted and internally designated assets:		
Utility deposits – cash and investments	**9,891,380**	9,256,442
Debt service – cash and investments	**41,714,440**	40,816,148
Rate stabilization – cash and investments	**74,262,078**	72,104,746
Construction fund – cash and investments	**18,258,514**	51,108,130
Utility plant improvement fund – cash and investments	**58,792,082**	55,023,201
Decommissioning reserve – cash and investments	**–**	12,518,938
Total restricted and internally designated assets	**202,918,494**	240,827,605
Noncurrent assets:		
Net costs recoverable in future years - regulatory asset	**46,423,923**	30,464,864
Unamortized debt issuance costs - regulatory asset	**5,821,432**	6,166,893
Investment in The Energy Authority	**2,102,681**	2,561,878
Pollution remediation - regulatory asset	**12,826,026**	13,839,247
Other noncurrent assets and regulatory assets	**7,156,828**	6,659,099
Pension regulatory asset	**56,115,877**	53,887,756
Total noncurrent assets	**130,446,767**	113,579,737
Capital assets:		
Utility plant in service	**1,866,654,212**	1,783,670,200
Capital lease	**1,006,808,754**	1,006,808,754
Less: accumulated depreciation and amortization	**(838,225,820)**	(755,986,892)
	2,035,237,146	2,034,492,062
Construction in progress	**109,692,217**	131,596,255
Net capital assets	**2,144,929,363**	2,166,088,317
Total assets	**2,607,212,810**	2,646,502,125
Deferred outflows of resources:		
Unamortized loss on refundings of bonds	**24,766,323**	28,160,367
Accumulated decrease in fair value of hedging derivatives	**81,362,499**	73,650,013
Pension costs	**20,954,810**	22,174,505
Total deferred outflows of resources	**127,083,632**	123,984,885
Total assets and deferred outflows of resources	**$ 2,734,296,442**	$ 2,770,487,010

Continued on next page.

See accompanying notes.

Gainesville Regional Utilities
Statements of Net Position (concluded)
September 30, 2016 and 2015

	2016	2015
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 21,154,977**	$ 14,819,222
Fuels payable	**12,170,813**	10,641,720
Due to other funds of the City	**1,489,944**	4,120,066
Capital lease – current portion	**18,409,781**	17,601,233
Fuel adjustment	**14,831,564**	18,799,724
Other liabilities and regulatory liabilities	**1,899,847**	6,745,982
Total current liabilities	**69,956,926**	72,727,947
Payable from restricted assets:		
Utility deposits	**9,879,734**	9,252,627
Construction fund:		
Accounts payable and accrued liabilities	**9,213,425**	5,013,087
Utilities system revenue bonds – current portion	**107,535,000**	16,805,000
Commercial paper notes – current portion	**13,600,000**	5,400,000
Accrued interest payable	**18,516,765**	18,806,345
Total payable from restricted assets	**158,744,924**	55,277,059
Long-term debt:		
Utilities system revenue bonds	**781,540,000**	889,075,000
Commercial paper notes	**45,900,000**	59,500,000
Capital lease	**941,269,071**	959,678,852
Unamortized bond premium/discount	**17,990,208**	19,078,029
Fair value of derivative instruments	**87,180,294**	77,042,767
Total long-term debt	**1,873,879,573**	2,004,374,648
Noncurrent liabilities:		
Reserve for insurance claims	**3,337,000**	3,337,000
Reserve for decommissioning CR3	**–**	11,621,938
Reserve for environmental liability	**266,000**	266,000
Net pension liability	**71,325,377**	76,062,261
Total noncurrent liabilities	**74,928,377**	91,287,199
Total liabilities	**2,177,509,800**	2,223,666,853
Deferred inflows of resources:		
Rate stabilization	**74,077,388**	71,714,541
Pension costs	**5,745,310**	–
Total deferred inflows of resources	**79,822,698**	71,714,541
Net position		
Net investment in capital assets	**265,322,741**	288,244,860
Restricted	**82,186,093**	77,427,024
Unrestricted	**129,455,110**	109,433,732
Total net position	**476,963,944**	475,105,616
Total liabilities, deferred inflows of resources and net position	**$ 2,734,296,442**	$ 2,770,487,010

See accompanying notes.

Gainesville Regional Utilities
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenue:		
Sales and service charges	**$ 379,830,526**	$ 378,901,113
Transfers to rate stabilization	**(2,362,847)**	(7,703,682)
Amounts to be recovered from future revenue	**33,560,292**	33,560,292
Other operating revenue	**22,789,836**	21,183,478
Total operating revenues	**433,817,807**	425,941,201
Operating expenses:		
Operation and maintenance	**230,128,599**	227,535,288
Administrative and general	**50,506,178**	43,447,535
Depreciation and amortization	**99,343,149**	95,454,204
Total operating expenses	**379,977,926**	366,437,027
Operating income	**53,839,881**	59,504,174
Non-operating income (expense):		
Investment income	**661,066**	606,556
Interest expense, net of AFUDC	**(37,811,533)**	(38,205,243)
Other interest related income, BABs	**5,372,529**	5,345,162
Other income (expense)	**13,326,513**	7,683,990
Total non-operating expense	**(18,451,425)**	(24,569,535)
Income before contributions and transfers	**35,388,456**	34,934,639
Capital contributions:		
Contributions from third parties	**1,659,399**	1,495,813
Reduction of plant costs recovered through contributions	**(194,936)**	(91,553)
Net capital contributions	**1,464,463**	1,404,260
Transfer to City of Gainesville General Fund	**(34,994,591)**	(34,892,425)
Change in net position	**1,858,328**	1,446,474
Net position – beginning of year	**475,105,616**	473,659,142
Net position – end of year	**$ 476,963,944**	$ 475,105,616

See accompanying notes.

Gainesville Regional Utilities
Statements of Cash Flows
For the Years Ended September 30, 2016 and 2015

	2016	2015
Operating activities:		
Cash received from customers	**$ 379,135,491**	$ 378,309,615
Cash payments to suppliers for goods and services	**(202,870,326)**	(192,523,783)
Cash payments to employees for services	**(54,591,582)**	(54,469,560)
Cash payments for operating transactions with other funds	**(6,629,986)**	(6,767,533)
Other operating receipts	**20,426,989**	13,479,796
Net cash provided by operating activities	**135,470,586**	138,028,535
Noncapital financing activities:		
Transfer to City of Gainesville General Fund	**(34,994,591)**	(34,892,425)
Net cash used in noncapital financing activities	**(34,994,591)**	(34,892,425)
Capital and related financing activities:		
Principal repayments and refunding on long-term debt, net	**(22,205,000)**	(21,480,000)
Interest paid on long-term debt	**(38,101,113)**	(37,939,699)
Proceeds from interest rebates, BABs	**5,372,529**	5,345,162
Acquisition and construction of fixed assets (including allowance for funds used during construction)	**(77,099,955)**	(64,402,846)
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	**3,149,084**	7,683,990
Net cash used in capital and related financing activities	**(128,884,455)**	(59,487,098)
Investing activities:		
Interest received	**661,066**	589,783
Purchase of investments	**(390,235,264)**	(387,266,056)
Investments in The Energy Authority	**(6,787,229)**	(4,557,068)
Distributions from The Energy Authority	**7,246,426**	4,696,789
Proceeds from investments	**375,286,264**	348,923,707
Proceeds from CR3 settlement	**10,177,429**	-
Net cash used by investing activities	**(3,651,308)**	(37,612,845)
Net change in cash and cash equivalents	**(32,059,768)**	6,036,167
Cash and cash equivalents, beginning of year	**81,595,541**	75,559,374
Cash and cash equivalents, end of year	**$ 49,535,773**	$ 81,595,541

Continued on next page.
See accompanying notes.

Gainesville Regional Utilities
Statements of Cash Flows (concluded)
For the Years Ended September 30, 2016 and 2015

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 53,839,881**	$ 59,504,174
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**99,343,149**	95,454,204
Net costs to be recovered in future rates	**(15,959,059)**	(16,732,099)
Change in:		
Accounts receivable	**(1,957,090)**	(1,456,953)
Inventories	**7,711,411**	(4,677,172)
Other assets and regulatory assets	**429,046**	74,176
Restricted and internally designated assets	**(11,964,460)**	(6,108,254)
Noncurrent assets	**998,220**	1,969,281
Accounts payable and accrued liabilities	**7,864,848**	(6,819,953)
Due to other funds of the City	**(2,630,122)**	977,567
Fuel adjustment	**(3,968,160)**	2,835,836
Other liabilities and regulatory liabilities	**(1,861,980)**	4,544,991
Utility deposits	**1,262,055**	865,455
Rate stabilization	**2,362,847**	7,597,282
Net cash provided by operating activities	**$ 135,470,586**	$ 138,028,535
Non-cash capital and related financing activities, and investing activities:		
Contribution of capital assets	**$ 1,464,463**	$ 1,404,260
Net costs recoverable in future years	**$ (15,959,059)**	$ (16,732,099)
Change in capital lease liability	**$ (17,601,233)**	$ (16,828,193)
Acquisition of utility plant in service with construction fund payable	**$ 4,200,338**	$ 1,326,553
Change in ineffective portion of hedging derivatives	**$ (693,448)**	$ (660,507)
Change in accumulated decrease in fair value of hedging derivatives - interest rate swaps	**$ (9,444,078)**	$ (21,278,744)
Change in accumulated decrease in fair value of hedging derivatives - fuel options and futures	**$ 1,731,592**	$ (1,622,410)
Change in fair market value of investments	**$ 215,968**	$ 832,532
Change in fair market value of hedging derivatives	**$ 10,137,527**	$ 21,939,252
Other	**$ (2,303,123)**	$ (1,453,466)

See accompanying notes.

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

GRU prepares its financial statements in accordance with GASB Statement No. 62, paragraphs 476-500, *Regulated Operations*, and records various regulatory assets and liabilities. For a government to report under GASB 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.

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 certain 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.

1. Summary of Significant Accounting Policies (continued)

Fiscal Year 2015 GASB Pronouncement Implementations

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, amends the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to governmental employers that account for pensions that are provided through trusts, or equivalent arrangements. GRU adopted the requirements of GASB Statement No.68 in fiscal year 2015. 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 reported under GASB Statement No. 68 is the difference between the total pension liability and the Employees' Pension Plan (Employees' 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.

Pension regulatory asset

GASB Statement No. 68 was effective for financial statement periods beginning after June 15, 2014, with the effects of accounting change applied retroactively by restating the financial statements. The Utility used regulatory accounting, as permitted under GASB Statement No. 62, and recorded a regulatory asset of $46.1 million as of September 30, 2014. The pension regulatory asset was $56.1 million and $53.9 million at September 30, 2016 and 2015, respectively. See Note 15 Retirement Plans for additional information.

1. Summary of Significant Accounting Policies (continued)

Fiscal Year 2015 GASB Pronouncement Implementations (concluded)

Pension regulatory asset (concluded)

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting guidance related to government combinations and disposals of government operations. The term government combinations refer to a variety of transactions and may be mergers, acquisitions or transfers of operations. This standard sets forth definitions of each of these transaction types and prescribes the specific accounting and reporting treatment to be given for each. The Statement also provides accounting and reporting guidance for disposals of government operations that have been sold or transferred. The requirements of this Statement are applied, beginning in fiscal year 2015, to applicable combination and disposal transactions into which the Utility enters. As of September 30, 2016 and 2015, GRU was not a party to any transaction types within the scope of this guidance.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, provides guidance specific to the initial period reflecting the adoption of Statement No. 68 for amounts associated with contributions, if any, made by a contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. A beginning deferred outflow of resources is required for pension contributions made subsequent to the measurement date of the beginning net pension liability. GRU has not reported any contributions subsequent to the measurement date as its measurement date and reporting period are the same.

Fiscal Year 2016 GASB Pronouncement Implementations

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. The adoption of Statement No. 72 resulted in the addition to GRU's financial statement footnotes of new disclosures describing assets and liabilities reported at fair value and the valuation techniques used to determine fair value.

1. Summary of Significant Accounting Policies (continued)

Fiscal Year 2016 GASB Pronouncement Implementations (concluded)

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. Implementation of this guidance did not have any significant impact on GRU's financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, provides guidance for two new recognized categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Implementation of this guidance did not have any significant impact on GRU's financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, was issued to address how certain investment pool transactions are reported in response to anticipated changes in a U.S. Securities and Exchange Commission (SEC) rule that was previously included in GASB literature by reference. As of September 30, 2016 and 2015, GRU was not a party to any transaction types within the scope of this guidance.

Future GASB Pronouncement Implementations

GASB Statement No. 74, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plan,* as they relate to certain other postemployment benefit ("OPEB") plans that are administered through trusts or equivalent arrangements. This Statement requires more extensive note disclosures and other information related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, including the recognition and measurement of liabilities, deferred outflows of resources, deferred inflows of resources and expense. For each qualifying plan providing postemployment benefits other than pensions,

1. Summary of Significant Accounting Policies (continued)

Future GASB Pronouncement Implementations (concluded)

employers are required to report the difference between the actuarial OPEB liability and the related plan's fiduciary net position as the net OPEB liability on the statement of net position. Previously, a liability was recognized only to the extent that contributions made to each plan were exceeded by the actuarially calculated contributions for those plans. Additionally, Statement No. 75 sets forth note disclosure and required supplementary disclosure requirements for defined contribution OPEB. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*, provides financial disclosure requirements for governments that enter into tax abatement agreements. This Statement indicates how disclosures for tax abatements should be organized and what descriptive information, including commitments made by the entity, should be presented. This standard will be adopted in the fiscal year ending January 31, 2018. GRU is not a tax-levying government and is not a party to tax abatement agreements. There is no expected impact on the financial statements.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, clarifies requirements for the application of GASB Statement No. 68 for certain governments whose employees receive pension benefits through multiple-employer plans. As GRU does not provide benefits through the type of plan addressed by this Statement, the guidance is not applicable and will have no impact on the Utility's financial reporting.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* Because GRU does not have component units, GRU is not expected to be a party to the scope of this guidance.

Rates and Regulation

GRU is regulated by the Gainesville City Commission (City Commission) and GRU's rates are established in accordance with the Resolution. Each year during the budget process, and at any other time deemed necessary, the City Commission approves base rate changes and other changes to GRU's system charges as applicable.

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

1. Summary of Significant Accounting Policies (continued)

Funds in Accordance with the Resolution

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

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

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

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

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

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 capital projects, debt service, the purchase/redemption of bonds, repayment of bonds, and operation and maintenance expenses as applicable.

Reclassifications

Certain 2015 amounts have been reclassified to conform to the 2016 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.

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 amortized 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 net costs recoverable in future years. These net costs recoverable in future years represent the amount by which depreciation expense exceeds principal repayment on the capital lease obligation of $15.9 million and $16.7 million for the years ended September 30, 2016 and 2015, respectively.

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. 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. GRU, as a rate-regulated entity and in accordance with guidance found in GASB Statement No. 62, received approval from the City Commission in fiscal year 2014 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. Unamortized debt issuance costs were $5.8 million and $6.2 million for the years ended September 30, 2016 and 2015, 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.

1. Summary of Significant Accounting Policies (continued)

Capital Assets and Depreciation (concluded)

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 3.28% and 3.92% for the periods ending September 30, 2016 and 2015, respectively.

Allowance for Funds Used During Construction (AFUDC)

An allowance for interest on borrowed funds used during construction of $1.1 million and $1.2 million for the years ended September 30, 2016 and 2015, respectively, was 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 4.1% and 4.01% for fiscal years 2016 and 2015, 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

1. Summary of Significant Accounting Policies (continued)

Hedging Derivative Instruments (concluded)
volumes of gas that the utility projects to consume during a given production month. This program is based on feedback and direction from GRU's Risk Oversight Committee, consultation and recommendations from reputable risk management sources, and close monitoring of the market.

Deferred Outflows of Resources

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

Unamortized loss on refunding of bonds

Losses on 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.

Unrealized contributions and losses related to pension

Recognition of deferred outflows of resources related to pension costs totaled $21 million and $22.2 million as of September 30, 2016 and 2015, respectively. See Note 15 Retirement Plan 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 $2.4 million and $7.7 million for the years ended September 30, 2016 and 2015, respectively. These amounts are reflected as increases or decreases in deferred inflows – rate stabilization in the accompanying statements of net position.

1. Summary of Significant Accounting Policies (continued)

Deferred Inflows of Resources (concluded)

Unrealized gains related to pension

Recognition of deferred inflows of resources related to unrealized gains for the pension plan totaled $5.7 million and $0 million as of September 30, 2016 and 2015, respectively.

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 $14.4 million and $14.9 million at September 30, 2016 and 2015, respectively.

1. Summary of Significant Accounting Policies (concluded)

Revenue Recognition (concluded)

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.

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 revenues as that revenue which is derived from customer sales or service charges and recoveries related to future rate collections, and other items. 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 and business type 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 13 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 Deposit 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.

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 at a minimum acceptable level at time of purchase, (AA/Aa3/AA by Standard and Poor's, Moody's Investor Service, and/or Fitch Ratings respectively), and in one of the two highest rating categories of at least one other nationally recognized rating agency.

As of September 30, 2016, GRU had the following investments and maturities (in thousands).

		Maturities in Years		
	Fair Value	**Less than 1**	**1-5**	**Over 5**
Investment type:				
Commercial paper	$ 119,680	$ 119,680	$ -	$ -
Corporate bonds	26,559	3,012	23,547	-
U.S. agencies	61,115	-	55,113	6,002
U.S. bonds	8,664	-	8,664	-
Total	$ 216,018	$ 122,692	$ 87,324	$ 6,002

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

		Maturities in Years		
	Fair Value	**Less than 1**	**1-5**	**Over 5**
Investment type:				
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	-
Total	$ 200,837	$ 113,245	$ 87,592	$ -

2. Deposits and Investments (continued)

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

		2016		2015
Restricted assets	**$**	**202,918**	$	239,931
Internally designated cash		**-**		897
Current assets:				
Cash and investments		**62,635**		53,540
Total cash and investments		**265,553**		294,368
Less cash and cash equivalents		**(49,536)**		(81,596)
Less CR3 decommissioning reserve at FMPA		**-**		(11,622)
Less accrued interest receivable and accounts receivable		**-**		(313)
Total investments	**$**	**216,017**	$	200,837

Interest Rate Risk

GRU's investment policy limits its investments to securities with terms of ten years or less to reduce exposure to rising interest rates, unless investments are matched to meet specific cash flow needs. Additionally, the average portfolio term is not to exceed seven years. GRU's 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 at a minimum acceptable level at time of purchase, (AA/Aa3/AA by Standard and Poor's, Moody's Investor Service, and/or Fitch Ratings respectively), and at least one nationally recognized rating agency in either of its two highest rating categories. As of September 30, 2016 and 2015, all of GRU's corporate holdings were rated Aa2 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, 2016 and 2015, 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.

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

2. Deposits and Investments (concluded)

Concentration of Credit Risk (concluded)

	Percent of Total Investments	
	2016	2015
Issuer:		
Federal Home Loan Mortgage Corporation	**2.32%**	5.73%
New York Life	**5.94%**	6.39%
Federal Farm Credit Bank	**7.88%**	11.79%
Federal National Mortgage Association	**13.25%**	9.46%

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 September 30, 2016: 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 $400,000 and $2.2 million, and purchases from TEA were $20.0 million and $8.2 million for the years ended September 30, 2016 and 2015, respectively.

GRU's equity interest was 5.6% for fiscal years 2016 and 2015, and accounted for using the equity method of accounting. As of September 30, 2016 and 2015, GRU's investment in TEA was $2.1 million and $2.6 million, respectively.

Through a combination of agreements, GRU guaranteed credit received by TEA for $23.1 million and $17 million as of September 30, 2016 and 2015, 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.

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, 2016 and 2015, 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):

		2016		2015
Condensed statement of operations:				
Total revenue	**$**	**1,039,075**	$	1,249,164
Total cost of sales and expense		**(1,008,613)**		(1,207,623)
Operating income		**30,462**		41,541
Nonoperating income (expense)		**10**		13
Change in net position	**$**	**30,472**	$	41,554
Condensed balance sheet:				
Assets:				
Current assets		**128,527**		142,339
Noncurrent assets		**12,282**		12,997
Total assets	**$**	**140,809**	$	155,336
Liabilities:				
Current liabilities		**102,615**		109,098
Noncurrent liabilities		**346**		184
Total liabilities		**102,961**		109,282
Total net position		**37,848**		46,054
Total liabilities and net position	**$**	**140,809**	$	155,336

GRU's accounts receivable due from TEA totaled approximately $288,000 and $150,000 for the years ended September 30, 2016 and 2015, respectively.

4. Capital Assets

A summary of capital assets, changes in accumulated depreciation and amortization, and average depreciation rates for the years ended September 30, 2016 and 2015 follows (in thousands):

	Utility Plant in Service					
	Treatment	Generation	Transmission, Distribution, and Collection	General	Construction Work in Process	Combined
Balance, October 1, 2015	$ 158,327	$ 1,627,112	$ 814,985	$ 190,055	$ 131,596	$ 2,922,075
Additions	42,951	19,529	29,368	3,291	75,105	170,244
Less sales, retirements, and transfers	(570)	(6,262)	(3,498)	(1,825)	(97,009)	(109,164)
Balance, September 30, 2016	$ 200,708	$ 1,640,379	$ 840,855	$ 191,521	$ 109,692	$ 2,983,155
Accumulated depreciation, October 1, 2015	$ 70,949	$ 288,380	$ 333,692	$ 62,966	n/a	$ 755,987
Depreciation expense	5,488	17,771	27,319	8,686	n/a	59,264
Capital lease	-	33,560	-	-	n/a	33,560
Less retirements/ adjustments	(520)	(3,913)	(4,506)	(1,646)	n/a	(10,585)
Accumulated depreciation, September 30, 2016	$ 75,917	$ 335,798	$ 356,505	$ 70,006	n/a	$ 838,226
Capital assets, net	$ 124,791	$ 1,304,581	$ 484,350	$ 121,515	$ 109,692	$ 2,144,929
Average depreciation rate	3.06%	3.14%	3.30%	4.55%	n/a	3.28%

	Utility Plant in Service					
	Treatment	Generation	Transmission, Distribution, and Collection	General	Construction Work in Process	Combined
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	$ 158,327	$ 1,627,112	$ 814,985	$ 190,055	$ 131,596	$ 2,922,075
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	$ 70,949	$ 288,380	$ 333,692	$ 62,966	n/a	$ 755,987
Capital assets, net	$ 87,378	$ 1,338,732	$ 481,293	$ 127,089	$ 131,596	$ 2,166,088
Average depreciation rate	2.61%	4.46%	3.28%	4.54%	n/a	3.92%

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, 2016 and September 30, 2015, including interest earnings, was approximately $0 million and $11.6 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 megawatt 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.

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, 2016 and 2015. The total payments applicable to the lease were $61.2 million for September 30, 2016 and 2015. The payments for fiscal year 2016 and 2015 included $43.6 million and $44.4 million, respectively, for interest expense included in fuel costs. The capital lease will be amortized over the life of the PPA. Amortization of $33.6 million was recorded at September 30, 2016 and 2015.

The following lists the minimum payments due under the PPA as of September 30, 2016 (in thousands):

6. Capital Lease (concluded)

	2016
2017	$ 61,216
2018	61,216
2019	61,216
2020	61,216
2021	61,216
2022-2026	306,081
2027-2031	306,081
2032-2036	306,081
2037-2041	306,081
2042-2044	135,434
Total minimum lease payments	1,665,838
Less: Amounts representing interest	(706,159)
Net minimum lease payments	$ 959,679

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, 2016, 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, 2016 and 2015, 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.

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, 2016 (in thousands):

	Fuel Adjustment	Purchased Gas Adjustment	Total
Revenues	$ 151,804	$ 6,805	$ 158,609
Expenses	(155,825)	(6,752)	(162,577)
To (From) Levelization Fund	$ (4,021)	$ 53	$ (3,968)
Levelization Fund Beginning Balance	$ 16,923	$ 1,877	$ 18,800
To (From) Levelization Fund	(4,021)	53	(3,968)
Levelization Fund Ending Balance	$ 12,902	$ 1,930	$ 14,832

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):

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

8. Long-Term Debt

$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

8. Long-Term Debt (continued)

$196,950,000 Utilities System Revenue Bonds, 2005 Series A – (concluded)
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%, 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, 0.86% at September 30, 2016, 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 Helaba at 0.29% and expires November 24, 2020.

$53,305,000 Utilities System Revenue Bonds, 2006 Series A – Variable interest rates based on market rates, 0.86% at September 30, 2016, 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.

A liquidity facility is provided by Helaba at 0.29% and expires November 24, 2020.

8. Long-Term Debt (continued)

$139,505,000 Utilities System Revenue Bonds, 2007 Series A – Variable interest rates based on market rates, 0.86% at September 30, 2016, 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) – 4.92% - 5.27%, dated February 13, 2008, final maturity October 1, 2020, and were partially refunded as part of the 2012 Series B Utilities System Revenue Bond issuances. 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, 0.85% at September 30, 2016, 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 0.27% and expires July 7, 2017. The full amount of the outstanding bonds of $90 million has been reclassified to utilities system revenue bonds – current portion as of September 30, 2016. The liquidity facility will be renewed or replaced during fiscal year 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.

8. Long-Term Debt (continued)

$156,900,000 Utilities System Revenue Bonds, 2009 Series B – Issuer Subsidy – Build America Bonds (Federally Taxable) – 4.11% - 5.65%, dated September 16, 2009, final maturity October 1, 2039. The 2009 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 2009 Series B 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.

8. Long-Term Debt (continued)

$100,470,000 Utilities System Revenue Bonds, 2012 Series B - Variable interest rates based on market rates, 0.86% at September 30, 2016, 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 Sumitomo Mitsui Banking Corporation (SMBC) at 0.43% and expires on January 12, 2018.

$37,980,000 Utilities System Revenue Bonds, 2014 Series A – 2.50% - 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 – 3.00% - 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. The 2014 Series B Bonds created a net present value savings of $1,700,000, with yearly cash savings ranging from approximately $11,000 to over $600,000.

$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 effective November 30, 2015, with Bank of America, NA at 0.40% and is set to expire November 30, 2018. 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 0.72% at September 30, 2016. Series C Notes of $51,500,000 are outstanding as of September 30, 2016.

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. 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 0.70% at September 30, 2016. Series D Notes of $8,000,000 are outstanding as of September 30, 2016. These taxable notes are subordinated debt. Liquidity support for the Series D Notes is provided under a long-term credit agreement effective August 28, 2014, with State Street Bank and Trust Company at 0.33% and is set to expire August 28, 2017. The full amount of the outstanding notes of $8 million has been reclassified to utilities system revenue bonds – current portion. Management intends to renew or replace the credit agreement in fiscal year 2017.

Debt Service Requirements for Long-Term Debt

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

Year Ending September 30	Principal	Interest	Total Debt Service Requirements
2017	$ 121,135	$ 24,182	$ 145,317
2018	24,020	23,407	47,427
2019	24,885	22,546	47,431
2020	25,935	21,568	47,503
2021	27,055	20,570	47,625
2022–2026	115,125	91,568	206,693
2027–2031	159,495	71,158	230,653
2032–2036	190,495	50,686	241,181
2037–2041	217,985	24,478	242,463
2042-2045	42,445	1,267	43,712
	$ 948,575	$ 351,430	$ 1,300,005

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, 2016. Interest rates on variable-rate long-term debt were valued to be equal to 0.87% for the 2005 Series C Bonds, 0.86% for the 2006 Series A Bonds, 0.86% for the 2007 Series A Bonds, 0.85% for the 2008 Series B Bonds, 0.86% for the 2012 Series B Bonds, 0.72% for the Commercial Paper Notes, Series C, and 0.70% for the Commercial Paper Notes, Series D.

The 2009 Series B and 2010 Series B Bonds receive a federal interest subsidy of 32.6% of the annual interest expense and are assumed to remain at said rate for the duration of the bonds. The subsidy is recorded as non-operating revenue on the Statements of Revenues, Expenses, and Changes in Net Position.

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 July 7, 2017 to November 24, 2020. Each of the SBPA and credit agreement termination dates may be extended. At September 30, 2016, 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, 2016, are August 28, 2017, and November 30, 2018. The credit agreement supporting the tax-exempt Commercial Paper Notes, Series C had no outstanding draws as of September 30, 2016 and 2015. The credit agreement supporting the taxable Commercial Paper Notes, Series D had no outstanding draws as of September 30, 2016 and 2015.

The balance outstanding at September 30, 2016 and 2015, for defeased bonds was $0 million and $201.3 million, respectively.

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2016, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Utilities system revenue bonds	$ 905,880	$ -	$ (16,805)	$ 889,075	$ 107,535
Add: Issuance premiums	19,078	-	(1,087)	17,991	1,087
Total bonds payable	924,958	-	(17,892)	907,066	108,622
Commercial paper	64,900	-	(5,400)	59,500	13,600
Compensated absences	4,831	725	(916)	4,640	916
	$ 994,689	$ 725	$ (24,208)	$ 971,206	$ 123,138

8. Long-Term Debt (concluded)

Changes in Long-Term Liabilities (concluded)

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
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
	$ 962,472	$ 98,666	$ (66,449)	$ 994,689	$ 24,438

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.

Terms, Fair Values, and Counterparty Credit Ratings

The terms, fair values, and counterparty credit ratings of the outstanding swaps as of September 30, 2016, were as follows (in thousands):

9. Hedging Activities (continued)

Terms, Fair Values, and Counterparty Credit Ratings (concluded)

Associated Bond Issue	**2008CP***	**2005B***	**2005C***	**2006A***
Notional amounts	$ 11,500	$ 38,740	$ 35,300	$ 34,160
Effective date	7/3/2002	11/16/2005	11/16/2005	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 – 0.3635%
Fair value	$ (425)	$ (176)	$ (2,797)	$ (3,026)
Termination date	10/1/2017	10/1/2021	10/1/2026	10/1/2026
Counterparty credit rating	Baa1/BBB+/A	Aa2/AA-	Aa3/A+/AA-	Aa2/AA-

Associated Bond Issue		**2008B***	**2008B***	**2007A***
Notional amounts		$ 58,500	$ 31,500	$ 137,240
Effective date		2/13/2008	2/13/2008	3/1/2007
Fixed payer rate		4.229%	4.229%	3.944%
Variable receiver rate		SIFMA	SIFMA	SIFMA
Fair value		$ (21,074)	$ (11,358)	$ (48,324)
Termination date		10/1/2038	10/1/2038	10/1/2036
Counterparty credit rating		Aa3/A+/AA-	Aa3/A+/AA-	Aa2/AA-

* See Basis Risk section below.

Fair Value

All of the swap agreements had a negative fair value as of September 30, 2016. 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, 2016	**Changes in Fair Value**	**Changes in Deferred (Inflow) Outflow**	**Changes in Regulatory (Assets) Liability for Ineffective Instruments**
2008CP	$ (425)	$ 586	$ (586)	$ -
2005B	(176)	(370)	-	370
2005C	(2,797)	(153)	-	153
2006A	(3,026)	(171)	-	171
2008B	(21,074)	(2,063)	2,063	-
2008B	(11,358)	(1,114)	1,114	-
2007A	(48,324)	(6,853)	6,853	-
	$ (87,180)	$ (10,138)	$ 9,444	$ 694

9. Hedging Activities (continued)

Fair Value (concluded)

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 exceeded 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	-
	$ (77,042)	$ (21,939)	$ 21,279	$ 660

Interest Rate Swap Payments

Debt service requirements on the interest rate swaps using interest rates in effect at September 30, 2016, would be as follows (in thousands):

2017	$ 9,157
2018	8,696
2019	8,421
2020	8,188
2021	7,904
2022–2026	35,032
2027–2031	26,686
2032–2036	12,016
2037	522
	$ 116,622

Credit Risk

As of September 30, 2016, although fair value of the interest rate swaps was 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.

9. Hedging Activities (continued)

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, 2016, the one-month LIBOR rate was 0.53%, and SIFMA rate was at 0.84%, which places the SIFMA at approximately 158.19% 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, 2016, the 10-year LIBOR rate was at 1.44%.
- The 2006 Series A Swap is exposed to basis risk through the potential mismatch of 68% of 10-year LIBOR less 0.36% 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.

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.

9. Hedging Activities (concluded)

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, 2016. The ineffective portion related to interest rate swap agreements is recorded as a regulatory asset in the amount of $6 million and $5.3 million as of September 30, 2016 and 2015, respectively.

Fair value changes of $10.1 million and $21.9 million have been recorded for interest rate swap agreements in accumulated decrease in fair value of hedging derivatives at September 30, 2016 and 2015, respectively. There were no realized gains or losses related to interest rate swaps as of September 30, 2016 or 2015.

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 $3.8 million and $2.3 million for September 30, 2016 and 2015, respectively.

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

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

	Fair Value of Cash Flow Hedges at September 30, 2016	Changes in Fair Value	Deferred (Inflows)/ Outflows Resources	Notional Amount (MMBTUs)
Natural gas	$ (181)	$ 2,137	$ (201)	$ 605

	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

10. Fair Value Measurement

GRU records assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which determines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement.

Fair value is defined in Statement No. 72 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 the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

As a basis for considering market participant assumptions in fair value measurements, Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. U.S. Treasury securities are examples of Level 1 inputs.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. U.S. agencies, corporate bonds, and financial hedges are examples of Level 2 inputs.

- Level 3 inputs are unobservable inputs that reflect GRU's own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

Valuation methods of the primary fair value measurements are as follows:

- U.S. Treasury securities are valued using quoted market prices (Level 1 inputs).

- Investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating.

- Commodity derivatives, such as futures, swaps and options, which are ultimately settled using prices at locations quoted through clearinghouses are valued using level 1 inputs.

- Other hedging derivatives, such as swaps settled using prices at locations other than those quoted through clearinghouses and options with strike prices not identically quoted through a clearinghouse, are valued using Level 2 inputs. For these instruments, fair value is based on pricing algorithms using observable market quotes.

10. Fair Value Measurement (continued)

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Utility's assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels. GRU's fair value measurements are performed on a recurring basis. The following table presents fair value balances and their levels within the fair value hierarchy as of September 30, 2016 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Fair value investments				
U.S. Treasuries	$ 8,664	$ -	$ -	$ 8,664
U.S. Agencies:				
Federal Home Loan Mortgage Corp	-	4,953	-	4,953
Federal National Mortgage Assn	-	28,578	-	28,578
Federal Home Loan Bank	-	10,590	-	10,590
Federal Farm Credit Bank	-	16,994	-	16,994
Corporate bonds:				
Massmutual Global Funding	-	5,024	-	5,024
Guardian Life	-	5,549	-	5,549
New York Life	-	12,974	-	12,974
New York Life Global	-	3,012	-	3,012
Total fair value investments	$ 8,664	$ 87,674	$ -	$ 96,338
Liabilities				
Financial instruments				
Ineffective interest rate swaps	$ -	$ (5,999)	$ -	$ (5,999)
Total financial instruments	$ -	$ (5,999)	$ -	$ (5,999)

10. Fair Value Measurement (concluded)

Fair value balances and their levels within the fair value hierarchy as of September 30, 2015, are represented in the following table (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Fair value investments				
U.S. Treasuries	$ 4,531	$ -	$ -	$ 4,531
U.S. Agencies:				
Federal Agricultural Mortgage Corp	-	3,012	-	3,012
Federal Home Loan Mortgage Corp	-	11,504	-	11,504
Federal National Mortgage Assn	-	18,969	-	18,969
Federal Home Loan Bank		9,976	-	9,976
Federal Farm Credit Bank		23,708	-	23,708
Corporate bonds:				
New York Life		12,871	-	12,871
New York Life Global		3,021	-	3,021
Total fair value investments	$ 4,531	$ 83,061	$ -	$ 87,592
Liabilities				
Financial instruments				
Ineffective interest rate swaps	$ -	$ (5,306)	$ -	$ (5,306)
Total financial instruments	$ -	$ (5,306)	$ -	$ (5,306)

11. Restricted Net Position

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

	2016	2015
Restricted net position:		
Debt service	**$ 23,135**	$ 22,205
Utility plant improvement	**58,792**	55,023
Other	**259**	199
Restricted net position	**$ 82,186**	$ 77,427

12. Lease Revenue

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

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

September 30,	Revenue
2017	$ 1,161
2018	1,157
2019	1,072
2020	1,011
2021	923
2022-2026	3,647
2027-2031	2,121
Thereafter	652
	$ 11,746

13. Transfer to City of Gainesville 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.

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.

For the years ended September 30, 2016 and 2015, the transfer was $35 million and $34.9 million, respectively.

14. 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.

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_2 and NO_X 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.

14. Commitments and Contingencies (continued)

Environmental and Other Natural Resource Regulations (concluded)

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_2 and NO_X 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).

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 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_X emissions are regulated by CSAPR through the use of allowances.

14. Commitments and Contingencies (continued)

Air Emissions (continued)

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

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.

On July 28, 2015, the D.C. Circuit ruled that Florida's allowance budget is invalid and remanded CSAPR to EPA. On October 26, 2016 EPA published in the *Federal Register*, at 81 Fed. Reg. 74504, an update to the Cross-State Air Pollution Rule ("CSAPR") to address the 2008 ozone National Ambient Air Quality Standards. For three states (North Carolina, South Carolina, and Florida), EPA is removing the states from the CSAPR ozone season NOX trading program because modeling for the Final Rule indicates that these states do not contribute significantly to ozone air quality problems in downwind states under the 2008 ozone NAAQS. Therefore, GRU will not have to meet any ozone season limits in 2017 and probably 2018.

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

14. Commitments and Contingencies (continued)

Air Emissions (continued)

Mercury and Air Toxics Standards (MATS) (continued)

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_2 and NO_X. On November 25, 2014, the United States Supreme Court accepted certiorari to hear challenges to the mercury admission rules.

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 remained in effect.

On April 14, 2016, the Administrator of the Environmental Protection Agency (EPA) signed the final supplemental finding in the Mercury and Air Toxic Standard (MATS) rule. The new "appropriate and necessary" finding responds to the U.S. Supreme Court decision in Michigan v. EPA, and explains how EPA has taken cost into account in evaluating whether it is appropriate and necessary to regulate coal- and- oil-fired electric utility steam generating units (EGUs) under Section 112 of the Clean Air Act (CAA). EPA still concludes it is proper to regulate mercury emissions from power plants.

On May 6, 2016, EPA filed a brief urging the U.S. Supreme Court to deny a *writ of certiorari* filed by 20 states requesting that the Court review and reverse a decision by the U.S. Court of Appeals for the D.C. Circuit to remand EPA's Mercury and Air Toxics Standards ("MATS") rule to the Agency without vacating the rule. According to EPA's brief, the Supreme Court should deny review of whether the MATS rule should have been vacated while EPA made its "appropriate and necessary" finding because the issue is moot now that EPA has issued the finding. Additionally, EPA argues that the Clean Air Act ("CAA"), not the Administrative Procedure Act, governs whether the MATS rule should have been vacated and the CAA does not mandate vacatur of a rule on

14. Commitments and Contingencies (continued)

Air Emissions (continued)

Mercury and Air Toxics Standards (MATS) (continued)

remand. Rather, the CAA gives a court discretion on whether to vacate a remanded rule based on the circumstances. Finally, EPA asserts that the D.C. Circuit was correct in not vacating the MATS rule on remand because EPA could quickly remedy the legal deficiency and vacating the rule would have been harmful to the public because it would have allowed an increase in emissions of HAPs from EGUs.

Murray Energy became the first party to appeal the final MATS Appropriate and Necessary Finding, filing its petition for review on April 25, 2016, the same day the rule was published in the Federal Register. 81 Fed. Reg. 24,420 (Apr. 25, 2016). All petitions for review of the Finding must be filed in the U.S. Court of Appeals for the District of Columbia Circuit no later than June 24, 2016. As of the deadline, the following petitions for review have been filed in the U.S. Court of Appeals for the District of Columbia Circuit (“D.C. Circuit”):

- *Murray Energy Corp. v. EPA*, No. 16-1127;
- *ARIPPA v. EPA*, No. 16-1175;
- *Michigan v. EPA*, No 16-1204;
- *Oak Grove Management Co. v. EPA*, No. 16-1206;
- *Southern Company Services, Inc. v. EPA*, No. 16-1208; and
- *Utility Air Regulatory Group v. EPA*, No. 16-1210.

The cases have been consolidated under the lead case *Murray Energy Corp. v. EPA*, No. 16-1127.

On October 14, 2016, the U.S. Court of Appeals for the District of Columbia Circuit issued orders establishing the briefing schedule for the challenge related to EPA’s Mercury and Air Toxic Standard ("MATS"). In Murray v. EPA, 16-1127 (D.C. Cir.), industry petitioners challenge EPA’s supplemental determination that it was "appropriate and necessary" to regulate emissions of hazardous air pollutants from electric generating units. The briefing schedules are as follows:

- EPA Brief: January 19, 2017
- Brief(s) of Respondent-Intervenors: February 10, 2017
- Reply brief(s) of State and Industry Petitioners: February 24, 2017
- Deferred Appendix: March 10, 201Briefs of State and Industry Petitioners: November 18, 2016
- Final Briefs: March 24, 2017

14. Commitments and Contingencies (continued)

Air Emissions (concluded)

Mercury and Air Toxics Standards (MATS) (concluded)

So far, since the MATS program became effective on April 16, 2015, GRU's Deerhaven Unit #2 (the only MATS unit) has been able to comply with all requirements.

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.

On September 30, 2015, EPA issued a final rule addressing ELGs for power plants under the Clean Water Act.

The final rule establishes Best Available Technology Economically Achievable ("BAT"), New Source Performance Standards ("NSPS"), Pretreatment Standards for Existing Sources ("PSES"), and Pretreatment Standards for New Sources ("PSNS") that may apply to discharges of six waste streams: flue gas desulfurization ("FGD") wastewater, fly ash transport water, bottom ash transport water, FGMC wastewater, gasification wastewater, and combustion residual leachate.

EPA did not finalize the proposed best management practices ("BMP") for surface impoundments containing coal combustion residuals (e.g., ash ponds and FGD ponds), in order to avoid "unnecessary duplication" with EPA's final rule pertaining to coal combustion residuals, 80 Fed. Reg. 21,302 (April 17, 2015).

On November 3, 2015, the final Effluent Limitation Guidelines for Steam Electric Generating Units was published in the Federal Register. As a result, the final rule is effective on January 4, 2016.

14. 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_2 and NO_X 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_2 and NO_X 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_2 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_2 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.

14. Commitments and Contingencies (continued)

Climate Change

Control of GHGs such as CO_2 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_2, 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_2e, which incorporates the global warming potential for each of the six individual gases that comprise the collective GHG defined in the endangerment finding.

14. Commitments and Contingencies (continued)

Climate Change (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_X, SO_2 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_2e 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_2e 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.

14. Commitments and Contingencies (continued)

Climate Change (concluded)

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, 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.

14. Commitments and Contingencies (continued)

Coal Ash

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

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

Under this option, coal ash would be subject to technical and permitting 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.

14. Commitments and Contingencies (continued)

Coal Ash (concluded)

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.

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

14. Commitments and Contingencies (continued)

Superfund and Remediation Sites (concluded)

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.

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.

14. 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.

14. 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 2016 and 2015, expenditures which reduced the liability balance were approximately $1.0 million and $1.1 million, respectively. The reserve balance at September 30, 2016 and September 30, 2015, was approximately $629,000.

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 2016 and 2015 customer billings were $1.1 million and $1.2 million, respectively. The regulatory asset balance was $14 million and $15 million as of September 30, 2016 and 2015, 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.

GREC

On March 10, 2016, Gainesville Renewable Energy Center, LLC ("GREC"), filed arbitration (American Arbitration Association Case No. 01-16-0000-8157) against the City doing business as the Gainesville Regional Utilities ("GRU"), initially challenging GRU's withholding payment of invoiced amounts pursuant to the long-term power purchase agreement between GRU and GREC ("PPA"). As of January 31, 2017, $7.4 million (including accrued interest) has been withheld by GRU based on disputed amounts actually invoiced by GREC. In addition, GREC has alleged claims in contract and tort that it asserts could result in aggregate damages to GREC of over

14. Commitments and Contingencies (concluded)

GREC (concluded)

$100 million. Likewise, GRU has alleged claims in contract that could result in aggregate damages to GRU of over $100 million. At this stage in the proceedings, neither party has substantiated the dollar value of these additional claims to the tribunal. At this stage in the proceedings, it is not possible for GRU to predict the outcome of these claims. However, GRU is vigorously defending against the GREC Counts in arbitration and believes that (i) some or all of any damages resulting from the GREC Counts constituting tort claims would be subject to sovereign immunity claims processes and statutory caps, (ii) some or all of any damages resulting from the tort claims may be covered by liability insurance of the City, and (iii) regardless of whether GREC is successful on any of the GREC Counts, GRU Management believes that any potential liability of GRU will not have a material adverse effect on the financial conditions of GRU.

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, 2016 and 2015, were $125,000 and $122,000, respectively.

Future minimum rental payments for various operating leases are:

Year ending September 30,	Future Minimum Rental Payments
2017	$ 109,462
2018	103,333
2019	27,066
2020	7,433
2021	7,203
2022-2026	30,250
2027-2031	30,250
2032-2036	30,250
2037-2041	30,250
2042-2046	30,250
2047	6,050
	$ 411,797

15. 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.

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.

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan: (continued)

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.

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.

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan: (continued)

- 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.

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.

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan: (continued)

- 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, the following City employees were covered by the benefit terms:

	2016	2015
Active members	**1,465**	1,450
Retirees members/beneficiaries currently receiving benefits	**1,225**	1,056
Terminated members/beneficiaries entitled to benefits but not yet receiving benefits	**431**	539
Total	**3,121**	3,045

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 rates were 16.88% and 14.92% of covered payroll for the years ended September 2016 and 2015, respectively. This rate was influenced by the issuance of the Taxable Pension Obligation

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan: (concluded)

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 Employees' Plan was measured as of September 30, 2016 and 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2015 and October 1, 2014, for September 30, 2016 and 2015, respectively.

The net pension liability applicable to GRU as an enterprise fund of the City was $71.3 million and $76.1 million at September 30, 2016 and 2015, respectively.

The total pension liability as of September 30, 2016, was determined based on a roll-forward of entry age normal liabilities from the October 1, 2015 actuarial valuation. Below is a summary of the key actuarial assumptions used in the October 1, 2015 actuarial valuation:

Inflation	3.75%
Salary Increases	3.75% to 7.00%
Investment Rate of Return	8.20%, net of pension investment expenses

Mortality Rate:

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table-Dynamic with projection to October 1, 2015.

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.

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Long-term Expected Rate of Return: (concluded)

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%
Intnl 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%
Intnl 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 rates used to measure the total pension liability were 8.20% and 8.30% as of September 30, 2016 and 2016, respectively. 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.

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Discount Rate: (concluded)

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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 10/01/2015	$ 262,553	$ 186,490	$ 76,063
Changes for the year:			
Service cost	4,622	-	4,622
Interest	22,661	-	22,661
Differences between expected an actual experience	669	-	669
Transfer from terminated Disability Plan	-	-	-
Changes to assumptions	2,884	-	2,884
Contributions - employer	-	8,000	(8,000)
Contributions - employee	-	4,716	(4,716)
Net investment income	-	23,255	(23,255)
Benefit payments, including refunds and DROP payouts	(22,106)	(22,106)	-
Administrative expense	-	(397)	397
Net changes	8,730	13,468	(4,738)
Balances at 09/30/2016	$ 271,283	$ 199,958	$ 71,325

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 an 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	$ 262,553	$ 186,490	$ 76,063

15. Retirement Plans (continued)

Defined Benefit 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 8.2% and 8.3% as of September 30, 2016 and 2015, 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 or 1 percentage-point higher than the current rate:

	2016		
Sensitivity for GRU's Portion (in thousands):	1% Decrease (7.2%)	Current Discount Rate (8.2%)	1% Increase (9.2%)
Net pension liability	$ 113,976	$ 71,326	$ 44,307

	2015		
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 and deferred inflows of resources:

For the year ended September 30, 2016 and 2015, GRU recognized pension expense for the Employees' Plan of $8 million and $7 million, respectively. At September 30, 2016 and 2015, the City and GRU reported deferred outflows of resources related to the Employees' Plan from the following sources (in thousands):

	2016 Deferred Outflows of Resources GRU's Portion
Differences between expected and actual experience	$ 1,302
Net difference between projected and actual earnings on pension plan investments	11,087
Changes to assumptions	8,566
Total	$ 20,955

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Pension expense and deferred outflows of resources and deferred inflows of resources: (concluded)

	2016 Deferred Inflows of Resources GRU's Portion
Net difference between projected and actual earnings on pension plan investments	$ 5,745
Total	$ 5,745

	2015 Deferred Outflows of Resources GRU's Portion
Differences between expected and actual experience	$ 908
Net difference between projected and actual earnings on pension plan investments	13,889
Changes to assumptions	7,378
Total	$ 22,175

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

Fiscal Year	GRU
2017	$ 4,763
2018	4,763
2019	4,763
2020	921
Total	$ 15,210

15. Retirement Plans (concluded)

Defined Benefit Plans (concluded)

Disability Plan (terminated during the 2015 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.

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

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

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

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

16. Other Post-employment Benefits Plan

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 $246,000 and $242,000 for fiscal years ended September 30, 2016 and 2015, respectively.

17. 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 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 2016 and 2015 were paid from current year's revenues.

17. Risk Management (concluded)

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

Fiscal Year	Beginning Balance	Claims	Payments	Change in Reserve	Ending Balance
2016	**$ 3,337**	**$ 1,178**	**$ (1,178)**	**$ -**	**$ 3,337**
2015	$ 3,337	$ 1,957	$ (1,957)	$ -	$ 3,337

SUPPLEMENTARY INFORMATION

Gainesville Regional Utilities
Schedules of Combined Net Revenues
in Accordance with Bond Resolution
For the Years Ended September 30, 2016 and 2015

	2016	2015
Revenues:		
Electric system:		
Sales of electricity	**$ 287,808,939**	$ 288,969,402
Other revenues	**14,907,556**	8,133,766
Transfers from (to) rate stabilization	**1,040,147**	(2,254,681)
Interest/Investment income	**1,338,385**	1,105,693
Build America Bonds interest income	**2,975,136**	2,960,079
Total electric system revenues	**308,070,163**	298,914,259
Water system:		
Sales of water	**33,048,658**	30,721,119
Other revenues	**3,062,392**	3,307,878
Transfers to rate stabilization	**(3,264,403)**	(2,434,339)
Interest/Investment income	**137,904**	99,446
Build America Bonds interest income	**833,766**	829,497
Total water system revenues	**33,818,317**	32,523,601
Wastewater system:		
Sales of wastewater	**38,220,254**	36,507,374
Other revenues	**5,111,199**	3,562,876
Transfers to rate stabilization	**(2,117,697)**	(2,900,758)
Interest/Investment income	**191,823**	155,474
Build America Bonds interest income	**940,799**	935,912
Total wastewater system revenues	**42,346,378**	38,260,878
Gas system:		
Sales of gas	**20,316,747**	23,458,123
Other revenues	**1,228,825**	1,439,273
Transfers from (to) rate stabilization	**1,986,508**	(1,552,394)
Interest/Investment income	**170,119**	145,879
Build America Bonds interest income	**622,829**	619,674
Total gas system revenues	**24,325,028**	24,110,555
Telecommunications system:		
Sales of services	**11,684,200**	10,884,837
Other revenues	**1,294**	197,617
Transfers (to) from rate stabilization	**(7,402)**	1,438,490
Interest/Investment income	**66,392**	78,794
Total telecommunications system revenue	**11,744,484**	12,599,738
Total revenues	**$ 420,304,370**	$ 406,409,031

Continued on next page.

Gainesville Regional Utilities
Schedules of Combined Net Revenues
in Accordance with Bond Resolution (concluded)
For the Years Ended September 30, 2016 and 2015

	2016	2015
Operation, maintenance and administrative expenses:		
Electric system:		
Fuel expense	**$ 156,070,106**	$ 157,197,363
Operation and maintenance	**42,020,231**	38,917,185
Administrative and general	**27,200,222**	20,967,375
Total electric system expense	**225,290,559**	217,081,923
Water system:		
Operation and maintenance	**7,985,190**	7,620,989
Administrative and general	**6,841,967**	5,937,611
Total water system expense	**14,827,157**	13,558,600
Wastewater system:		
Operation and maintenance	**10,939,007**	8,643,637
Administrative and general	**6,449,144**	5,690,062
Total wastewater system expense	**17,388,151**	14,333,699
Gas system:		
Fuel expense	**6,751,817**	9,396,610
Operation and maintenance	**2,058,670**	1,352,256
Administrative and general	**5,766,555**	4,569,017
Total gas system expense	**14,577,042**	15,317,883
Telecommunications system:		
Operation and maintenance	**4,301,929**	4,406,907
Administrative and general	**3,120,361**	4,052,956
Total telecommunications system expense	**7,422,290**	8,459,863
Total operation, maintenance, and administrative expenses	**279,505,199**	268,751,968
Net revenue in accordance with bond resolution:		
Electric	**82,780,604**	81,832,336
Water	**18,991,160**	18,965,001
Wastewater	**24,958,227**	23,927,179
Gas	**9,747,986**	8,792,672
Telecommunications	**4,322,194**	4,139,875
Total net revenue in accordance with bond resolution	**$ 140,800,171**	$ 137,657,063
Aggregate bond debt service	**$ 55,821,582**	$ 55,461,104
Aggregate bond debt service coverage ratio	**2.52**	2.48
Total debt service	**$ 62,027,441**	$ 61,638,702
Total debt service coverage ratio	**2.27**	2.23

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution – Electric Utility System
For the Years Ended September 30, 2016 and 2015

	2016	2015
Revenues		
Sales of electricity:		
Residential	**$ 48,414,299**	$ 47,154,370
Non-residential	**60,244,513**	59,867,164
Fuel adjustment	**155,825,143**	157,197,363
Sales for resale	**3,901,063**	5,451,881
Utility surcharge	**3,049,201**	3,058,030
Other electric sales	**16,375,720**	16,240,594
Total sales of electricity	**287,809,939**	288,969,402
Other revenues	**14,907,556**	8,133,766
Transfers from (to) rate stabilization	**1,040,147**	(2,254,681)
Interest Income	**1,338,385**	1,105,693
Build America Bonds interest income	**2,975,136**	2,960,079
Total revenues	**308,071,163**	298,914,259
Operation, maintenance and administrative expenses		
Fuel and purchased power	**155,825,143**	157,197,363
Power production	**27,723,441**	25,947,596
Transmission	**1,735,154**	1,541,525
Interchange	**244,963**	1,694,099
Distribution	**12,561,636**	9,733,965
Customer accounts and sales	**3,855,335**	3,341,914
Administrative and general	**23,344,887**	17,625,461
Total operation, maintenance, and administrative expenses	**225,290,559**	217,081,923
Total net revenues in accordance with bond resolution	**$ 82,780,604**	$ 81,832,336

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution – Water Utility System
For the Years Ended September 30, 2016 and 2015

	2016	2015
Revenues		
Residential	**$ 20,391,611**	$ 18,570,332
Non-residential	**8,385,314**	7,928,002
University of Florida	**1,891,566**	2,033,206
Utility surcharge	**2,380,167**	2,189,579
Total sales of water	**33,048,658**	30,721,119
Other revenues	**3,062,392**	3,307,878
Transfers to rate stabilization	**(3,264,403)**	(2,434,339)
Interest income	**137,904**	99,446
Build America Bonds interest income	**833,766**	829,497
Total revenues	**33,818,317**	32,523,601
Operation, maintenance, and administrative expenses		
Pumping and water treatment	**5,472,920**	5,315,400
Transmission and distribution	**2,512,270**	2,305,589
Customer accounts and sales	**1,469,645**	1,304,831
Administrative and general	**5,372,322**	4,632,780
Total operation, maintenance, and administrative expenses	**14,827,157**	13,558,600
Total net revenues in accordance with bond resolution	**$ 18,991,160**	$ 18,965,001

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Wastewater Utility System
For the Years Ended September 30, 2016 and 2015

	2016	2015
Revenues		
Residential	**$ 26,062,781**	$ 24,923,586
Non-residential	**9,514,192**	8,943,974
Utility surcharge	**2,643,281**	2,528,779
Other wastewater sales	**-**	111,035
Total sales of services	**38,220,254**	36,507,374
Other revenues	**5,111,199**	3,562,876
Transfers to rate stabilization	**(2,117,697)**	(2,900,758)
Interest income	**191,823**	155,474
Build America Bonds interest income	**940,799**	935,912
Total revenues	**42,346,378**	38,260,878
Operation, maintenance, and administrative expenses		
Collection	**3,669,178**	3,299,051
Treatment	**7,269,829**	5,344,586
Customer accounts and sales	**1,172,851**	851,324
Administrative and general	**5,276,293**	4,838,738
Total operation, maintenance, and administrative expenses	**17,388,151**	14,333,699
Total net revenues in accordance with bond resolution	**$ 24,958,227**	$ 23,927,179

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Gas Utility System
For the Years Ended September 30, 2016 and 2015

	2016	2015
Revenues		
Residential	$ 7,142,586	$ 7,420,044
Non-residential	4,753,630	4,421,237
Purchased gas adjustment	6,751,817	9,396,610
Other gas sales	1,668,714	2,220,232
Total sales of gas	20,316,747	23,458,123
Other revenues	1,228,825	1,439,273
Transfers from (to) rate stabilization	1,986,508	(1,552,394)
Interest income	170,119	145,879
Build America Bonds interest income	622,829	619,674
Total revenues	24,325,028	24,110,555
Operation, maintenance, and administrative expenses		
Fuel expense - purchased gas	6,751,817	9,396,610
Operation and maintenance	2,058,670	1,352,256
Customer accounts and sales	2,213,963	2,483,375
Administrative and general	3,552,592	2,085,642
Total operation, maintenance, and administrative expenses	14,577,042	15,317,883
Total net revenues in accordance with bond resolution	$ 9,747,986	$ 8,792,672

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution – Telecommunications System
For the Years Ended September 30, 2016 and 2015

	2016	2015
Revenues		
Telecommunication	$ 4,598,731	$ 4,832,418
Trunking radio	1,733,641	1,772,257
Tower lease	3,179,963	2,244,525
Internet access	2,171,865	2,035,637
Total sales of services	11,684,200	10,884,837
Other revenue	1,294	197,617
Transfers (to) from rate stabilization	(7,402)	1,438,490
Interest income	66,392	78,794
Total revenues	11,744,484	12,599,738
Operation, maintenance, and administrative expenses		
Operation and maintenance	4,301,929	4,406,907
Customer accounts and sales	197,662	253,783
Administrative and general	2,922,699	3,799,173
Total operation, maintenance, and administrative expenses	7,422,290	8,459,863
Total net revenues in accordance with bond resolution	$ 4,322,194	$ 4,139,875

Gainesville Regional Utilities
Notes to Schedules of Net Revenues in Accordance with Bond Resolution
For the Years Ended September 30, 2016 and 2015

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 excluded.
- Utility Plant Improvement Fund cash contributions and withdrawals are excluded.

Gainesville Regional Utilities
Combining Statement of Net Position
September 30, 2016

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Assets						
Current assets:						
Cash and investments	$ 46,253,462	$ –	$ 2,621,310	$ 10,690,767	$ 3,069,511	$ 62,635,050
Accounts receivable, net of allowance for uncollectible accounts	37,279,200	4,298,279	4,271,621	1,520,459	1,981,812	49,351,371
Inventories:						
Fuel	8,162,677	-	-	-	-	8,162,677
Materials and supplies	4,968,730	906,719	-	396,465	674,181	6,946,095
Other assets and regulatory assets	99,637	30,521	39,636	1,643,378	9,821	1,822,993
Total current assets	96,763,706	5,235,519	6,932,567	14,251,069	5,735,325	128,918,186
Restricted and internally designated assets:						
Utility deposits – cash and investments	8,066,522	796,262	592,385	436,211	-	9,891,380
Debt service – cash and investments	27,536,444	3,962,282	5,605,371	2,785,032	1,825,311	41,714,440
Rate stabilization – cash and investments	51,608,386	7,407,768	10,897,518	4,339,664	8,742	74,262,078
Construction fund – cash and investments	9,530,932	658,528	1,175	1,832,816	6,235,063	18,258,514
Utility plant improvement – cash and investments	42,093,872	8,414,607	4,853,180	3,359,291	71,132	58,792,082
Total restricted and internally designated assets	138,836,156	21,239,447	21,949,629	12,753,014	8,140,248	202,918,494
Noncurrent assets:						
Net costs recoverable in future years - regulatory asset	46,423,923	-	-	-	-	46,423,923
Unamortized debt issuance costs - regulatory asset	3,635,450	670,380	817,370	404,529	293,703	5,821,432
Investment in The Energy Authority	1,313,699	-	-	788,982	-	2,102,681
Pollution remediation - regulatory asset	-	-	-	12,826,026	-	12,826,026
Other noncurrent assets and regulatory assets	4,563,425	931,775	1,122,419	373,202	166,007	7,156,828
Pension regulatory asset	32,839,011	6,857,360	8,249,034	4,842,800	3,327,672	56,115,877
Total noncurrent assets	88,775,508	8,459,515	10,188,823	19,235,539	3,787,382	130,446,767
Capital assets:						
Utility plant in service	1,107,010,833	264,030,190	340,615,157	84,396,982	70,601,050	1,866,654,212
Capital lease	1,006,808,754	-	-	-	-	1,006,808,754
Less: accumulated depreciation and amortization	(523,472,764)	(101,993,673)	(137,281,308)	(42,440,343)	(33,037,732)	(838,225,820)
	1,590,346,823	162,036,517	203,333,849	41,956,639	37,563,318	2,035,237,146
Construction in progress	43,675,427	22,755,978	36,059,402	3,780,440	3,420,970	109,692,217
Net capital assets	1,634,022,250	184,792,495	239,393,251	45,737,079	40,984,288	2,144,929,363
Total assets	1,958,397,620	219,726,976	278,464,270	91,976,701	58,647,243	2,607,212,810
Deferred outflows of resources:						
Unamortized loss on refundings of bonds	14,825,906	3,042,118	3,503,502	1,309,395	2,085,402	24,766,323
Accumulated decrease in fair value of hedging derivatives	56,320,283	10,635,328	10,113,142	2,793,991	1,499,755	81,362,499
Pension costs	12,262,755	2,560,678	3,080,357	1,808,400	1,242,620	20,954,810
Total deferred outflows of resources	83,408,944	16,238,124	16,697,001	5,911,786	4,827,777	127,083,632
Total assets and deferred outflows of resources	$ 2,041,806,564	$ 235,965,100	$ 295,161,271	$ 97,888,487	$ 63,475,020	$ 2,734,296,442

Continued on next page.

Gainesville Regional Utilities
Combining Statement of Net Position (concluded)
September 30, 2016

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Liabilities						
Current liabilities:						
Accounts payable and accrued liabilities	$ 15,524,263	$ 2,120,101	$ 2,027,174	$ 928,613	$ 554,826	$ 21,154,977
Fuels payable	11,812,861	-	-	357,952	-	12,170,813
Due to other funds of the City	1,554,102	56,741	(92,531)	(44,851)	16,483	1,489,944
Capital lease – current portion	18,409,781	-	-	-	-	18,409,781
Fuel adjustment	12,902,279	-	-	1,929,285	-	14,831,564
Other liabilities and regulatory liabilities	689,287	284,067	71,419	462,259	392,815	1,899,847
Total current liabilities	60,892,573	2,460,909	2,006,062	3,633,258	964,124	69,956,926
Payable from restricted assets:						
Utility deposits	8,054,877	796,262	592,384	436,211	-	9,879,734
Construction fund:						
accounts payable and accrued liabilities	6,689,886	607,263	1,470,321	225,965	219,990	9,213,425
Utilities system revenue bonds – current portion	79,479,579	12,200,157	12,722,263	706,460	2,426,541	107,535,000
Commercial paper notes – current portion	2,972,480	482,160	1,193,360	952,000	8,000,000	13,600,000
Accrued interest payable	11,091,453	2,481,394	2,931,185	1,369,438	643,295	18,516,765
Total payable from restricted assets	108,288,275	16,567,236	18,909,513	3,690,074	11,289,826	158,744,924
Long-term debt:						
Utilities system revenue bonds	452,639,923	103,277,886	122,690,341	57,014,078	45,917,772	781,540,000
Commercial paper notes	24,361,240	3,951,650	9,783,480	7,803,630	-	45,900,000
Capital lease	941,269,071	-	-	-	-	941,269,071
Unamortized bond premium/discount	11,697,766	1,650,140	3,223,580	966,738	451,984	17,990,208
Fair value of derivative instruments	59,676,345	11,567,103	11,235,561	3,132,950	1,568,335	87,180,294
Total long-term debt	1,489,644,345	120,446,779	146,932,962	68,917,396	47,938,091	1,873,879,573
Noncurrent liabilities:						
Reserve for insurance claims	1,999,960	598,326	546,333	187,085	5,296	3,337,000
Reserve for environmental liability	-	-	-	266,000	-	266,000
Net pension liability	41,739,611	8,715,961	10,484,830	6,155,380	4,229,595	71,325,377
Total noncurrent liabilities	43,739,571	9,314,287	11,031,163	6,608,465	4,234,891	74,928,377
Total liabilities	1,702,564,764	148,789,211	178,879,700	82,849,193	64,426,932	2,177,509,800
Deferred inflows of resources:						
Rate stabilization	51,477,018	7,392,784	10,872,832	4,327,352	7,402	74,077,388
Unrealized gains related to pension	3,362,155	702,077	844,561	495,820	340,697	5,745,310
Total deferred inflows of resources	54,839,173	8,094,861	11,717,393	4,823,172	348,099	79,822,698
Net position:						
Net investment in capital assets	120,859,362	66,323,885	91,814,583	(5,963,555)	(7,711,534)	265,322,741
Restricted	58,681,876	9,910,479	7,552,053	4,787,197	1,254,488	82,186,093
Unrestricted	104,861,389	2,846,664	5,197,542	11,392,480	5,157,035	129,455,110
Total net position	284,402,627	79,081,028	104,564,178	10,216,122	(1,300,011)	476,963,944
Total liabilities, deferred inflows of resources and net position	$ 2,041,806,564	$ 235,965,100	$ 295,161,271	$ 97,888,487	$ 63,475,020	$ 2,734,296,442

Gainesville Regional Utilities
Combining Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2016

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Operating revenue:						
Sales and service charges	$ 276,623,151	$ 33,048,659	$ 38,181,350	$ 20,293,166	$ 11,684,200	$ 379,830,526
Transfers from (to) rate stabilization	1,040,147	(3,264,403)	(2,117,697)	1,986,508	(7,402)	(2,362,847)
Amounts to be recovered from future revenue	33,560,292	-	-	-	-	33,560,292
Other operating revenue	13,675,292	3,026,049	4,874,687	1,213,808	-	22,789,836
Total operating revenues	324,898,882	32,810,305	40,938,340	23,493,482	11,676,798	433,817,807
Operating expenses:						
Operation and maintenance	198,091,986	7,985,190	10,939,007	8,810,487	4,301,929	230,128,599
Administrative and general	27,200,222	6,841,967	6,449,144	6,894,485	3,120,360	50,506,178
Depreciation and amortization	74,817,160	8,093,355	9,746,961	3,403,011	3,282,662	99,343,149
Total operating expenses	300,109,368	22,920,512	27,135,112	19,107,983	10,704,951	379,977,926
Operating income	24,789,514	9,889,793	13,803,228	4,385,499	971,847	53,839,881
Non-operating income (expense):						
Interest income (expense)	63,594	142,444	228,127	109,899	117,002	661,066
Interest expense, net of AFUDC	(22,676,000)	(5,223,520)	(5,271,739)	(2,868,309)	(1,771,965)	(37,811,533)
Other interest related income, BABs	2,975,135	833,766	940,799	622,829	-	5,372,529
Other income	12,491,184	36,342	723,308	38,926	36,753	13,326,513
Total non-operating expense	(7,146,087)	(4,210,968)	(3,379,505)	(2,096,655)	(1,618,210)	(18,451,425)
Income before capital contributions and transfers	17,643,427	5,678,825	10,423,723	2,288,844	(646,363)	35,388,456
Capital contributions:						
Contributions from third parties	194,936	676,636	787,827	-	-	1,659,399
Reduction of plant cost recovered through contributions	(194,936)	-	-	-	-	(194,936)
Net capital contributions	-	676,636	787,827	-	-	1,464,463
Transfer to City of Gainesville General Fund	(19,421,998)	(5,677,873)	(7,497,591)	(2,397,129)	-	(34,994,591)
Change in net position	(1,778,571)	677,588	3,713,959	(108,285)	(646,363)	1,858,328
Net position – beginning of year	286,181,198	78,403,440	100,850,219	10,324,407	(653,648)	475,105,616
Net position – end of year	$ 284,402,627	$ 79,081,028	$ 104,564,178	$ 10,216,122	$ (1,300,011)	$ 476,963,944

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

	Balance September 30, 2015	Additions	Sales, Retirements, and Transfers	Balance September 30, 2016
Plant in service				
Electric utility system:				
Production plant	$ 1,627,112,409	$ 19,528,649	$ 6,262,447	$ 1,640,378,611
Transmission and distribution plant	346,992,533	9,683,714	2,440,106	354,236,141
General and common plant	118,903,048	1,582,814	1,281,027	119,204,835
Total electric utility system	2,093,007,990	30,795,177	9,983,580	2,113,819,587
Water utility system:				
Supply, pumping, and treatment plant	57,172,299	15,145,834	569,960	71,748,173
Transmission and distribution plant	161,742,026	8,220,599	420,798	169,541,827
General plant	22,560,409	278,619	98,838	22,740,190
Total water utility system	241,474,734	23,645,052	1,089,596	264,030,190
Wastewater utility system:				
Pumping and treatment plant	101,154,860	27,805,178	–	128,960,038
Collection plant	151,813,500	3,919,636	22,504	155,710,632
Reclaimed water plant	27,030,889	914,399	232,247	27,713,041
General plant	27,432,261	1,104,990	305,805	28,231,446
Total wastewater utility system	307,431,510	33,744,203	560,556	340,615,157
Gas utility system:				
Distribution plant	65,077,168	5,195,844	40,892	70,232,120
General plant	9,317,621	252,612	56,007	9,514,226
Plant acquisition adjustment	4,650,636	–	–	4,650,636
Total gas utility system	79,045,425	5,448,456	96,899	84,396,982
GRUCom utility system:				
Distribution plant	57,677,386	1,434,505	341,113	58,770,778
General plant	11,841,909	71,962	83,599	11,830,272
Total GRUCom utility system	69,519,295	1,506,467	424,712	70,601,050
Total plant in service	$ 2,790,478,954	$ 95,139,355	$ 12,155,343	$ 2,873,462,966
Construction in progress				
Electric utility system	$ 32,901,685	$ 43,084,533	$ 32,310,792	$ 43,675,426
Water utility system	38,818,437	7,830,059	23,892,518	22,755,978
Wastewater utility system	51,941,664	17,867,232	33,749,494	36,059,402
Gas utility system	6,799,524	2,447,002	5,466,085	3,780,441
GRUCom utility system	1,134,945	3,875,779	1,589,754	3,420,970
Total construction in progress	$ 131,596,255	$ 75,104,605	$ 97,008,643	$ 109,692,217

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

	Balance September 30, 2015	Additions	Sales, Retirements, and Transfers	Balance September 30, 2016
Electric utility system:				
Production plant	$ 288,380,806	$ 51,331,029	$ 3,913,038	$ 335,798,797
Transmission and distribution plant	126,160,190	12,557,732	3,680,318	135,037,604
General and common plant	48,027,390	5,799,006	1,190,033	52,636,363
Total electric utility system	462,568,386	69,687,767	8,783,389	523,472,764
Water utility system:				
Supply, pumping, and treatment plant	17,653,416	2,586,690	567,191	19,672,915
Transmission and distribution plant	73,499,870	4,438,152	318,512	77,619,510
General plant	4,122,566	660,877	82,195	4,701,248
Total water utility system	95,275,852	7,685,719	967,898	101,993,673
Wastewater utility system:				
Pumping and treatment plant	53,296,050	2,900,952	(47,429)	56,244,431
Collection plant	66,176,508	4,386,467	(106,964)	70,669,939
Reclaimed water plant	2,438,001	793,910	213,684	3,018,227
General plant	6,302,673	1,306,409	260,371	7,348,711
Total wastewater utility system	128,213,232	9,387,738	319,662	137,281,308
Gas utility system:				
Distribution plant	31,983,026	2,797,610	12,425	34,768,211
General plant	2,573,549	478,417	30,471	3,021,495
Plant acquisition adjustment	4,650,637	-	-	4,650,637
Total gas utility system	39,207,212	3,276,027	42,896	42,440,343
GRUCom utility system:				
Distribution plant	28,782,931	2,345,461	387,699	30,740,693
General plant	1,939,279	441,432	83,672	2,297,039
Total GRUCom utility system	30,722,210	2,786,893	471,371	33,037,732
Total depreciation and amortization	$ 755,986,892	$ 92,824,144	$ 10,585,216	$ 838,225,820

OTHER REPORT

Purvis Gray & Company

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, 2016, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements and have issued our report thereon dated March 6, 2017.

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.

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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.

Purvis, Gray and Company, LLP
March 6, 2017
Gainesville, Florida