

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

GAINESVILLE REGIONAL UTILITIES
GAINESVILLE, FLORIDA

SEPTEMBER 30, 2018 AND 2017**

**FINANCIAL STATEMENTS
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GAINESVILLE, FLORIDA**

SEPTEMBER 30, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Commissioners
Gainesville Regional Utilities
Gainesville, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Gainesville Regional Utilities, enterprise fund of the City of Gainesville, Florida, as of and for the years ended September 30, 2018 and 2017, 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 audits 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 auditors' 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 over financial reporting relevant to Gainesville Regional Utilities' 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 Gainesville Regional Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gainesville Regional Utilities as of September 30, 2018 and 2017, and the respective 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.

Emphasis of Matters

As discussed in Note 1, the financial statements present only Gainesville Regional Utilities enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Gainesville, FL, as of September 30, 2018 and 2017 and the respective changes in financial position, or cash flows thereof for the years 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.

As discussed in Note 1, Gainesville Regional Utilities adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment benefits Other Than Pension* effective October 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 required by GASB Statement No. 68 and the schedule of changes in net OPEB liability and related ratios, schedule of employer contributions, and schedule of investment returns required by GASB Statement No. 75 that accounting principles generally accepted in the United State of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operating, economic, or historical context. Gainesville Regional Utilities omitted these schedules as they are included in the City's comprehensive annual financial report. Our opinion on the financial statements is not affected by this missing information.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated February 27, 2019 on our consideration of the Gainesville Regional Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gainesville Regional Utilities' internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
February 27, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Gainesville Regional Utilities

Management's Discussion and Analysis

September 30, 2018 and 2017

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, 2018, 2017, and 2016. 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.

Gainesville Regional Utilities

Management's Discussion and Analysis (continued)

September 30, 2018 and 2017

Financial Analysis of Gainesville Regional Utilities

GRU's net position decreased \$17.4 million, increased \$1.1 million, and decreased \$435,000 for fiscal years 2018, 2017 and 2016, respectively. The Condensed Statements of Net Position and Condensed Statements of Revenues, Expenses, and Changes in Net Position follow (in thousands):

Gainesville Regional Utilities Condensed Statements of Net Position

| | 2018 | Restated 2017 | Restated 2016 |
|---|---------------------|---------------------|---------------------|
| Current assets | \$ 119,656 | \$ 124,885 | \$ 114,087 |
| Restricted assets | 175,965 | 159,000 | 202,918 |
| Noncurrent assets | 104,868 | 161,318 | 132,746 |
| Capital assets, net | 1,926,452 | 2,082,742 | 2,103,349 |
| Deferred outflows of resources | 71,928 | 106,924 | 127,084 |
| Total assets and deferred outflows of resources | \$ 2,398,869 | \$ 2,634,869 | \$ 2,680,184 |
| Current liabilities | \$ 27,444 | \$ 60,733 | \$ 55,125 |
| Payable from restricted assets | 74,773 | 61,564 | 158,745 |
| Long-term debt | 1,721,979 | 1,906,520 | 1,873,880 |
| Noncurrent liabilities | 76,832 | 88,850 | 77,227 |
| Deferred inflows of resources | 78,722 | 80,706 | 79,823 |
| Total liabilities and deferred inflows of resources | 1,979,750 | 2,198,373 | 2,244,800 |
| Net position: | | | |
| Net investment in capital assets | 270,950 | 226,493 | 223,743 |
| Restricted | 43,709 | 60,230 | 82,186 |
| Unrestricted | 104,460 | 149,773 | 129,455 |
| Total net position | 419,119 | 436,496 | 435,384 |
| Total liabilities, deferred inflows of resources and net position | \$ 2,398,869 | \$ 2,634,869 | \$ 2,680,184 |

Please see Independent Auditors' Report.

Gainesville Regional Utilities
Management's Discussion and Analysis (continued)
September 30, 2018 and 2017

Financial Analysis of Gainesville Regional Utilities (Concluded)

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

| | 2018 | Restated 2017 | Restated 2016 |
|---|-------------------|-------------------|-------------------|
| Operating revenue | \$ 402,554 | \$ 460,541 | \$ 433,818 |
| Interest income | 2,986 | 2,799 | 2,139 |
| Other income, BABs | 5,259 | 5,308 | 5,373 |
| Other income (expense) | (6,016) | (2,882) | 11,848 |
| Total revenues | <u>404,783</u> | 465,766 | 453,178 |
| Operating expenses | 328,936 | 396,702 | 379,620 |
| Interest expense, net of AFUDC | 58,035 | 39,715 | 40,463 |
| Total expenses | <u>386,971</u> | 436,417 | 420,083 |
| Income before capital contributions and transfers | 17,812 | 29,349 | 33,095 |
| Capital contributions, net | 1,190 | 7,577 | 1,464 |
| Transfer to City of Gainesville General Fund | (36,379) | (35,814) | (34,994) |
| Change in net position | <u>(17,377)</u> | 1,112 | (435) |
| Net position, beginning of year, restated | 436,496 | 435,384 | 435,819 |
| Net position, end of year, restated | <u>\$ 419,119</u> | <u>\$ 436,496</u> | <u>\$ 435,384</u> |

Financial Highlights

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

- Gross utility plant in service increased \$799.8 million, or 40.1% in fiscal year 2018 due primarily to the purchase of the Deerhaven Renewable Generating Station (DHR), as well as other items placed into service. Gross utility plant increased \$128 million, or 6.9% in fiscal year 2017, and \$83 million, or 4.7% in fiscal year 2016. See Capital Assets within this Management's Discussion and Analysis section, Note 4 Capital Assets, and Note 5 Capital Lease for additional information.

Please see Independent Auditors' Report.

Gainesville Regional Utilities

Management's Discussion and Analysis (continued)

September 30, 2018 and 2017

Financial Highlights (*Continued*)

- Long-term debt increased \$696.9 million, or 75%, in fiscal year 2018, due to the issuance of \$680.9 million of utilities system revenue bonds to fund the purchase of DHR and \$40 million of tax-exempt commercial paper notes, offset by scheduled principal payments. Long-term debt decreased \$18.1 million, or 1.6%, in fiscal year 2017, due to the issuance of \$5 million of new debt offset by scheduled principal payments. Long-term debt decreased \$22.2 million, or 2.3%, in fiscal year 2016, due to scheduled principal payments. See Long-Term Debt within this Management's Discussion and Analysis section, Note 5 Capital Lease, and Note 7 Long-Term Debt for additional information.
- GRU is completing remediation efforts at a former manufactured gas plant site. The costs incurred to date total \$29.3 million and GRU estimates that total project costs will be approximately \$29.9 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 13 Commitments and Contingencies for additional information.
- Sales and service charges decreased \$18 million or 4.5%, increased \$10.4 million or 2.7%, and increased \$900,000 or 0.3% in fiscal years 2018, 2017, and 2016, respectively. The decrease in sales and service charges in fiscal year 2018 is due to a reduction in the electric fuel adjustment rate, partially offset by an increase in electric base rates, as well as an increase in gas sales and service charges. The increase in sales and service charges in fiscal years 2017 and 2016 is the result of increases associated with sales and modest base rate increases in the water, wastewater, and gas systems offset by a reduction in the fuel adjustment rates for gas.
- Operating expenses decreased \$67.8 million or 17.1%, increased \$17.1 million or 4.5%, and increased \$13.7 million or 3.7% in fiscal years 2018, 2017, and 2016, respectively. The decrease in operating expenses in fiscal year 2018 is due to the purchase of DHR and concurrent termination of the Power Purchase Agreement (PPA) with Gainesville Renewable Energy Center (GREC). In addition, GRU has experienced more efficient operational results than what was required under the PPA, thereby decreasing the overall cost of operating the biomass plant. The increase in operating expenses in fiscal year 2017 is due to increases in operation and maintenance expenses resulting from changes in operational work plans from capital work, as well as power purchased from GREC under the PPA.
- Transfers from rate stabilization were \$3.8 million and \$11.7 million in fiscal years 2018 and 2017, respectively. \$2.4 million was transferred to rate stabilization in fiscal year 2016.

Please see Independent Auditors' Report.

Gainesville Regional Utilities

Management's Discussion and Analysis (continued)

September 30, 2018 and 2017

Financial Highlights (Concluded)

- The number of customers for electric services increased 2%, water services increased 0.8%, wastewater services increased 1.4%, and gas services increased 1.3% in fiscal year 2018. The number of customers for electric services increased 1.6%, water services increased 0.8%, wastewater services increased 1.3%, and gas services increased 1.3% in fiscal year 2017. 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.
- On October 1, 2018, GRU implemented a 2% increase in the revenue requirement for the electric system. There were no increases or decreases in the revenue requirements in any of the other systems. On October 1, 2017, GRU implemented a 2% increase in the revenue requirement for the electric system. There were no increases or decreases in the revenue requirements in any of the other systems. 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.

Capital Assets

GRU's investment in capital assets as of September 30, 2018, was \$1.9 billion (net of accumulated depreciation and amortization). The decrease in net capital assets for fiscal year 2018 was 7.5%. In fiscal year 2017, the decrease in net capital assets was 1%. The decrease in net capital assets for 2016 was 1.1%,

The following table summarizes GRU's capital assets, net of accumulated depreciation and amortization, for the years ended September 30, 2018, 2017, and 2016 (in thousands):

Gainesville Regional Utilities Capital Assets (net of accumulated depreciation)

| | 2018 | 2017 | 2016 |
|--|---------------------|---------------------|---------------------|
| Generation | \$ 1,100,191 | \$ 1,253,723 | \$ 1,279,183 |
| Transmission, distribution, and collection | 489,324 | 492,338 | 448,086 |
| Treatment | 119,081 | 125,998 | 119,355 |
| General plant | 117,760 | 118,585 | 116,844 |
| Construction work in progress | 100,096 | 92,098 | 139,881 |
| Total net utility plant | <u>\$ 1,926,452</u> | <u>\$ 2,082,742</u> | <u>\$ 2,103,349</u> |

Please see Independent Auditors' Report.

Gainesville Regional Utilities
Management's Discussion and Analysis (continued)
September 30, 2018 and 2017

Capital Assets (Concluded)

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. In November 2017, GRU purchased DHR and concurrently terminated the PPA with GREC. As a result, the capital lease asset was recorded at \$0 at September 30, 2018. The capital lease asset was recorded at \$1 billion at September 30, 2017, and 2016. See Note 5 Capital Lease for additional information.
- Electric transmission and distribution expansion was \$17.2 million in fiscal year 2018, \$12.7 million in fiscal year 2017, and \$13.5 million in fiscal year 2016. For 2018, approximately \$3.1 million was spent on underground system improvements.
- Electric generation capital expenditures were \$760.7 million for fiscal year 2018. These expenditures included \$745.1 million for DHR, \$7.7 million for the Deerhaven Generating Station (DH) and \$3.5 million for the John R Kelly Generating Station (JRK).
- Water capital expenditures were \$12.7 million in fiscal year 2018 with \$7.6 million for supply, pumping, and treatment facilities and \$4.6 million for transmission and distribution.
- Wastewater capital expenditures were \$18.2 million in 2018. This included \$4.6 million spent on treatment plant improvements and \$13.6 million in collection improvements.
- Gas distribution expansion expenditures were \$3.7 million in fiscal year 2018, \$3 million in fiscal year 2017 and \$3.1 million in fiscal year 2016. This expansion included expenditures of \$63,000 in gas distribution mains and \$339,000 in residential gas services.
- Expenditures for telecommunication fiber and electronics expansion were \$6.2 million in fiscal year 2018 which included fiber and related infrastructure installation and electronics upgrades.

Additional information may be found in Note 4 Capital Assets.

Gainesville Regional Utilities

Management's Discussion and Analysis (continued)

September 30, 2018 and 2017

Long-Term Debt

At September 30, 2018, 2017, and 2016, GRU had total long-term debt outstanding of \$1.6 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:

| | 2018 | 2017 | 2016 |
|--------------------------------|----------------------------|----------------------------|----------------------------|
| Utilities system revenue bonds | \$ 1,534,340 | \$ 871,540 | \$ 889,075 |
| Commercial paper notes | 93,000 | 58,900 | 59,500 |
| Capital lease | - | 941,269 | 959,679 |
| Total | <u>\$ 1,627,340</u> | <u>\$ 1,871,709</u> | <u>\$ 1,908,254</u> |

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

- On October 1, 2018, GRU reduced utilities system revenue bonds and commercial paper notes by \$24 million through scheduled principal payments.
- In November 2017, GRU issued three series of 2017 Utilities System Revenue Bonds. The 2017 Series A Bonds in the amount of \$415.9 million, 2017 Series B Bonds in the amount of \$150 million, and 2017 Series C Bonds in the amount of \$115 million were issued to fund the purchase of DHR.
- During fiscal year 2018, GRU issued \$40 million in tax exempt commercial paper to support the 2018 capital improvement program for the Utility, as well as extending this line of credit with Bank of America to \$125 million.
- During fiscal year 2018, GRU obtained a \$25 million rolling three-year line of credit with Sun Trust Bank.
- As a result of the start of commercial operation of the GREC biomass plant in December 2013, and the purchase of DHR in November 2017 and concurrent termination of the PPA with GREC, GRU recorded a capital lease liability of \$0, \$941.3 million, and \$959.7 million at September 30, 2018, 2017, and 2016, respectively. See Note 5 Capital Lease for additional information.

Please see Independent Auditors' Report.

Gainesville Regional Utilities

Management's Discussion and Analysis (continued)

September 30, 2018 and 2017

Long-Term Debt (Concluded)

- The Utility has ratings of AA-, Aa3, and AA- with Standard and Poor's, Moody's Investor Service, and Fitch Ratings, respectively, for utility system revenue bonds. The Utility has ratings of P-1, A-1+, and F1+ with Moody's Investors Service, Standard & Poor's, and Fitch Ratings, respectively, for commercial paper notes. In September 2017, Moody's Investors Service adjusted GRU's long term rating to Aa3 from Aa2 due to a revised approach to their rating methodology.

Additional information may be found in Note 7 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 102.5 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, 2017, GRU had withheld approximately \$8.5 million for various commercial disputes related to the PPA. GRU entered into a Memorandum of Understanding with GREC on April 24, 2017, to explore the possible purchase of the biomass plant, the cancellation of the PPA and the resolution of the arbitration case. On September 12, 2017, GRU and GREC executed the Asset Purchase Agreement (APA) which defined the purchase of the biomass plant, the termination of the PPA and the resolution of the arbitration case. Closing occurred on November 7, 2017. Since GRU purchased DHR, it has experienced significant economical and operational efficiencies. The plant has been successfully integrated into GRU's generation fleet. See Note 5 Capital Lease and Note 13 Commitments and Contingencies for additional information.

Please see Independent Auditors' Report.

Gainesville Regional Utilities

Management's Discussion and Analysis (continued)

September 30, 2018 and 2017

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, Operating, Planning and Critical Infrastructure Protection Standards promulgated by NERC 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.
- GRU and its operations are subject to 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.
- 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 purchase of a 102.5 megawatt biomass fueled power plant will hedge against these uncertainties.
- GRU's long-term energy supply strategy is to provide safe, reliable, cost effective power, while meeting regulatory requirements. GRU has a diverse portfolio of generation including renewable energy. Based on the most recent forecasts, GRU has adequate reserves of generating capacity to meet forecasted loads plus maintaining the regulatory required reserve margin through 2022. This forecast incorporates new population forecasts and changed economic circumstances.
- On February 21, 2019, the City Commission approved a supplemental utilities system revenue bond resolution authorizing the issuance of the 2019 Series A and B bonds. See Note 17, Subsequent Events, for additional information.

Requests for Information

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

Please see Independent Auditors' Report.

FINANCIAL STATEMENTS

Gainesville Regional Utilities
Statements of Net Position
September 30, 2018 and 2017

| | 2018 | Restated 2017 |
|--|-------------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and investments | \$ 26,793,426 | \$ 50,505,882 |
| Accounts receivable, net of allowance for uncollectible accounts of \$800,551 and \$711,612, respectively | 59,977,348 | 52,423,319 |
| Inventories: | | |
| Fuel | 16,077,741 | 7,697,011 |
| Materials and supplies | 12,370,614 | 7,754,117 |
| Fuel adjustment | 2,376,941 | 4,729,317 |
| Other assets and regulatory assets | 2,059,993 | 1,775,927 |
| Total current assets | <u>119,656,063</u> | <u>124,885,573</u> |
| Restricted assets: | | |
| Utility deposits - cash and investments | 9,078,180 | 9,998,718 |
| Debt service - cash and investments | 59,269,274 | 42,322,319 |
| Rate stabilization - cash and investments | 57,703,806 | 62,431,906 |
| Construction fund - cash and investments | 35,197,090 | 8,828,762 |
| Utility plant improvement fund - cash and investments | 14,716,405 | 35,418,075 |
| Total restricted assets | <u>175,964,755</u> | <u>158,999,780</u> |
| Noncurrent assets: | | |
| Net costs recoverable in future years - regulatory asset | - | 61,574,434 |
| Unamortized debt issuance costs - regulatory asset | 9,056,235 | 5,821,241 |
| Investment in The Energy Authority | 2,257,296 | 2,093,983 |
| Pollution remediation - regulatory asset | 10,782,332 | 12,133,159 |
| Other noncurrent assets and regulatory assets | 8,650,252 | 6,553,490 |
| Pension regulatory asset | 74,122,351 | 73,141,512 |
| Total noncurrent assets | <u>104,868,466</u> | <u>161,317,819</u> |
| Capital assets: | | |
| Utility plant in service | 2,794,579,603 | 1,994,737,580 |
| Capital lease | - | 1,006,808,754 |
| Less: accumulated depreciation and amortization | (968,224,349) | (1,010,902,213) |
| | <u>1,826,355,254</u> | <u>1,990,644,121</u> |
| Construction in progress | 100,096,678 | 92,098,075 |
| Net capital assets | <u>1,926,451,932</u> | <u>2,082,742,196</u> |
| Total assets | <u>2,326,941,216</u> | <u>2,527,945,368</u> |
| Deferred outflows of resources | | |
| Unamortized loss on refundings of bonds | 17,975,551 | 21,372,280 |
| Accumulated decrease in fair value of hedging derivatives | 36,890,504 | 57,652,361 |
| Pension costs | 17,061,446 | 27,899,197 |
| Total deferred outflows of resources | <u>71,927,501</u> | <u>106,923,838</u> |
| Total assets and deferred outflows of resources | <u>\$ 2,398,868,717</u> | <u>\$ 2,634,869,206</u> |

Continued on next page.

See accompanying notes.

Gainesville Regional Utilities
Statements of Net Position (concluded)
September 30, 2018 and 2017

| | 2018 | Restated 2017 |
|--|--------------------------------|--------------------------------|
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 21,380,541 | \$ 29,457,057 |
| Fuels payable | 4,769,484 | 13,305,897 |
| Due to other funds | 450,832 | (873,583) |
| Capital lease – current portion | – | 19,255,473 |
| Other liabilities and regulatory liabilities | 843,012 | (411,519) |
| Total current liabilities | <u>27,443,869</u> | <u>60,733,325</u> |
| Payable from restricted assets: | | |
| Utility deposits | 9,078,180 | 9,532,684 |
| Accounts payable and accrued liabilities | 8,342,554 | 9,971,787 |
| Utilities system revenue bonds – current portion | 27,885,000 | 18,120,000 |
| Commercial paper notes – current portion | – | 5,900,000 |
| Accrued interest payable | 29,455,293 | 18,039,204 |
| Other liabilities and regulatory liabilities | 11,596 | – |
| Total payable from restricted assets | <u>74,772,623</u> | <u>61,563,675</u> |
| Long-term debt: | | |
| Utilities system revenue bonds | 1,506,455,000 | 853,420,000 |
| Commercial paper notes | 93,000,000 | 53,000,000 |
| Capital lease | – | 922,013,598 |
| Unamortized bond premium/discount | 83,758,385 | 16,902,387 |
| Fair value of derivative instruments | 38,765,287 | 61,184,080 |
| Total long-term debt | <u>1,721,978,672</u> | <u>1,906,520,065</u> |
| Noncurrent liabilities: | | |
| Reserve for insurance claims | 3,337,000 | 3,337,000 |
| Reserve for environmental liability | 519,000 | 665,000 |
| Net pension liability | 71,178,444 | 82,704,362 |
| Other noncurrent liabilities and regulatory liabilities | 1,797,744 | 2,144,020 |
| Total noncurrent liabilities | <u>76,832,188</u> | <u>88,850,382</u> |
| Total liabilities | <u>1,901,027,352</u> | <u>2,117,667,447</u> |
| Deferred inflows of resources | | |
| Rate stabilization | 58,529,252 | 62,369,039 |
| Pension costs | 20,005,353 | 18,336,347 |
| Other deferred inflows | 187,818 | – |
| Total deferred inflows of resources | <u>78,722,423</u> | <u>80,705,386</u> |
| Net position | | |
| Net investment in capital assets | 270,950,422 | 226,493,152 |
| Restricted | 44,519,655 | 60,230,091 |
| Unrestricted | 103,648,865 | 149,773,130 |
| Total net position | <u>419,118,942</u> | <u>436,496,373</u> |
| Total liabilities, deferred inflows of resources and net position | <u><u>\$ 2,398,868,717</u></u> | <u><u>\$ 2,634,869,206</u></u> |

See accompanying notes.

Gainesville Regional Utilities
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2018 and 2017

| | 2018 | 2017 |
|--|-----------------------|----------------|
| Operating revenue: | | |
| Sales and service charges | \$ 383,202,896 | \$ 401,190,960 |
| Transfers from (to) rate stabilization | 3,839,787 | 11,708,349 |
| Amounts to be recovered from future revenue | 3,449,252 | 33,560,292 |
| Other operating revenue | 12,062,184 | 14,081,125 |
| Total operating revenues | 402,554,119 | 460,540,726 |
| Operating expenses: | | |
| Operation and maintenance | 210,340,751 | 250,632,067 |
| Administrative and general | 24,515,688 | 40,667,600 |
| Depreciation and amortization | 94,080,133 | 105,402,712 |
| Total operating expenses | 328,936,572 | 396,702,379 |
| Operating income | 73,617,547 | 63,838,347 |
| Non-operating income (expense): | | |
| Interest income | 2,986,003 | 2,798,693 |
| Interest expense, net of AFUDC | (58,034,716) | (39,714,579) |
| Other interest related income, BABs | 5,259,227 | 5,308,201 |
| Other expense | (6,016,654) | (2,881,653) |
| Total non-operating expense | (55,806,140) | (34,489,338) |
| Income before capital contributions and transfer | 17,811,407 | 29,349,009 |
| Capital contributions: | | |
| Contributions from third parties | 1,313,407 | 7,636,082 |
| Reduction of plant costs recovered through contributions | (123,165) | (58,390) |
| Net capital contributions | 1,190,242 | 7,577,692 |
| Transfer to City of Gainesville General Fund | (36,379,080) | (35,814,010) |
| Change in net position | (17,377,431) | 1,112,691 |
| Net position – beginning of year, restated | 436,496,373 | 435,383,682 |
| Net position – end of year, restated | \$ 419,118,942 | \$ 436,496,373 |

See accompanying notes.

Gainesville Regional Utilities
Statements of Cash Flows
For the Years Ended September 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| Operating activities: | | |
| Cash received from customers | \$ 374,273,824 | \$ 397,879,291 |
| Cash payments to suppliers for goods and services | (197,798,403) | (262,733,577) |
| Cash payments to employees for services | (57,472,298) | (56,733,264) |
| Cash payments for operating transactions with other funds | (9,644,733) | (7,383,825) |
| Other operating receipts | 15,901,971 | 28,321,636 |
| Net cash provided by operating activities | <u>125,260,361</u> | <u>99,350,261</u> |
| Noncapital financing activities: | | |
| Transfer to City of Gainesville General Fund | (36,379,080) | (35,814,010) |
| Net cash used in noncapital financing activities | <u>(36,379,080)</u> | <u>(35,814,010)</u> |
| Capital and related financing activities: | | |
| Principal repayments and refunding on long-term debt, net | (24,020,000) | (23,135,000) |
| Interest paid on long-term debt | (46,618,627) | (40,192,140) |
| Proceeds from interest rebates, BABs | 5,259,227 | 5,308,201 |
| Acquisition and construction of fixed assets (including allowance for funds used during construction) | (822,636,979) | (69,689,834) |
| Proceeds from new debt and commercial paper | 794,125,458 | 5,000,000 |
| Other income | (2,646,033) | 3,151,706 |
| Net cash used in capital and related financing activities | <u>(96,536,954)</u> | <u>(119,557,067)</u> |
| Investing activities: | | |
| Interest received | 2,986,003 | 1,314,281 |
| Purchase of investments | (255,616,354) | (285,349,954) |
| Investments in The Energy Authority | (7,495,899) | (6,075,313) |
| Distributions from The Energy Authority | 7,332,586 | 6,084,011 |
| Proceeds from investments | 251,189,527 | 327,003,774 |
| Net cash (used) provided by investing activities | <u>(1,604,137)</u> | <u>42,976,799</u> |
| Net change in cash and cash equivalents | (9,259,810) | (13,044,016) |
| Cash and cash equivalents, beginning of year | 36,491,757 | 49,535,773 |
| Cash and cash equivalents, end of year | <u>\$ 27,231,947</u> | <u>\$ 36,491,757</u> |

Continued on next page.
See accompanying notes.

Gainesville Regional Utilities
Statements of Cash Flows (concluded)
For the Years Ended September 30, 2018 and 2017

| | 2018 | 2017 |
|--|------------------|-----------------|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 73,617,547 | \$ 63,838,347 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 94,080,133 | 105,402,712 |
| Net costs recoverable in future years | (3,449,252) | (15,150,511) |
| Change in: | | |
| Accounts receivable | (7,554,029) | (3,071,948) |
| Inventories | (12,997,227) | (342,356) |
| Other assets and regulatory assets | 58,087 | (166,934) |
| Noncurrent assets | 1,285,303 | 101,488 |
| Payables and accrued liabilities | (16,612,929) | 9,437,164 |
| Due to other funds of the City | 1,324,415 | (2,363,527) |
| Fuel adjustment | 2,352,376 | (19,560,881) |
| Payable from restricted assets | (1,629,233) | (26,624,013) |
| Other liabilities and regulatory liabilities | - | (201,210) |
| Utility deposits | (1,375,043) | (239,721) |
| Rate stabilization | (3,839,787) | (11,708,349) |
| Net cash provided by operating activities | \$ 125,260,361 | \$ 99,350,261 |
| Non-cash capital and related financing activities, and investing activities: | | |
| Contribution of capital assets | \$ 1,190,242 | \$ 7,577,692 |
| Net costs recoverable in future years | \$ 61,574,434 | \$ (15,150,511) |
| Change in capital lease liability | \$ (941,269,071) | \$ (18,409,781) |
| Change in utility plant in service | \$ (44,262,837) | \$ 758,362 |
| Change in ineffective portion of hedging derivatives | \$ 1,587,824 | \$ 2,536,638 |
| Change in accumulated decrease in fair value of hedging derivatives - interest rate swaps | \$ 20,830,970 | \$ 23,459,575 |
| Change in accumulated decrease in fair value of hedging derivatives - fuel options and futures | \$ (69,113) | \$ 250,563 |
| Change in fair market value of investments | \$ (2,004,408) | \$ (1,179,432) |
| Change in fair market value of hedging derivatives | \$ (22,418,793) | \$ (25,996,214) |
| Other | \$ (1,551,681) | \$ 273,653 |

See accompanying notes.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

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 Second Amended and Restated Utilities System Revenue Bond Resolution (Resolution) adopted by the City on September 21, 2017. 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

Current GASB Pronouncement Implementations

Postemployment Benefits Other Than Pensions (OPEB)

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*, relating to 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. The impact for GRU is as follows:

Net OPEB liability

For each qualifying plan providing postemployment benefits other than pensions, 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.

Deferred outflows of resources and deferred inflows of resources

GASB Statement No. 75 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 OPEB 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 OPEB liability and changes of assumptions about future economic or demographic changes or other inputs, to be amortized to OPEB expense over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB benefits through the OPEB plan. Employer contributions to the OPEB trust made between the net OPEB liability measurement date and the employer's fiscal year end are recognized as deferred outflows of resources, to be included in OPEB expense in the subsequent fiscal year.

GASB Statement No. 75 is effective for financial statement periods beginning after June 15, 2017, with the effects of accounting change to be applied retroactively by restating the financial statements. GRU applied regulatory accounting, as permitted under GASB Statement No. 62 and recorded a regulatory asset as of September 30, 2017, in the amount of \$1.6 million to account for the net effect of required prior period restatements. GRU implemented GASB Statement No.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

Current GASB Pronouncement Implementations (concluded)

Postemployment Benefits Other Than Pensions (OPEB) (concluded)

75 in fiscal year 2018 and, accordingly, has restated amounts within the financial statements for the period ended September 30, 2017, as follows (in thousands):

| | <u>As Originally Reported</u> | <u>Restated</u> | <u>Effect of Change</u> |
|---|-----------------------------------|-----------------|-----------------------------|
| Statement of Net Position | | | |
| Noncurrent assets | | | |
| OPEB regulatory asset | \$ - | \$ 1,552 | \$ 1,552 |
| Noncurrent liabilities | | | |
| Other noncurrent liabilities - net OPEB liability | - | (1,552) | (1,552) |
| Net position | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. Benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. See Note 15 Other Post Employment Benefits Plan for additional information.

Future GASB Pronouncement Implementations

GASB Statement No. 83, *Certain Asset Retirement Obligations* - This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

GASB Statement No. 84, *Fiduciary Activities* - The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

Future GASB Pronouncement Implementations (continued)

GASB Statement 87, *Leases* - The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

GASB Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* - The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

GASB Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* - The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

Future GASB Pronouncement Implementations (concluded)

GASB Statement 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61* - The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

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.

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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

Funds in Accordance with the Resolution (concluded)

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 2017 amounts have been reclassified to conform to the 2018 presentation.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, cash and cash equivalents are considered to be cash on hand and demand deposits.

Fuel Inventories

Fuel stocks in the electric system, which are stated using the weighted average unit cost method, are recorded as inventory when purchased. The cost of fuel used for electric generation is charged to expense as consumed.

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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

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 \$1.5 million and \$15.2 million for the years ended September 30, 2018 and 2017, respectively. See Note 5 Capital Lease for additional information.

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 replacement of minor items are charged to operations and maintenance expenses. When units of depreciable property are retired, the original cost less salvage value is charged to accumulated depreciation if there is outstanding debt that originally constructed or purchased that asset. If there is no longer outstanding debt, the net book value less salvage value is recorded as a gain or loss in the income statement. Removal cost of the old asset is added to the cost of constructing the new asset and amortized over the life of that asset. Cost of removal of an asset that is not replaced with a new asset is recorded as a gain or loss in the income statement. GRU has a capitalization threshold of \$2,500 for general plant assets and no capitalization threshold for utility plant.

Depreciation of capital assets is computed using the straight-line method over the estimated lives of the assets ranging from 2 to 86 years. The overall depreciation rate was 3.24% and 3.6% for the periods ending September 30, 2018 and 2017, respectively.

Allowance for Funds Used During Construction (AFUDC)

An allowance for interest on borrowed funds used during construction of \$1.7 million and \$1.5 million for the years ended September 30, 2018 and 2017, 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 3.8% and 4.1% for fiscal years 2018 and 2017, respectively.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

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 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 is included as a part of fuel costs and interest expense, respectively, in the Statements of Revenues, Expenses, and Changes in Net Position.

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

Long-Term Debt

Long-term debt and other obligations are reported as liabilities. Bond premiums and discounts are amortized over the life of the bonds using the effective interest rate method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year end for premiums and discounts is shown as an increase or decrease in the liability section of the balance sheet. The balance at year end for the loss on refunding is shown as a deferred outflow of resources in the statement of net position. See Note 7 Long Term Debt for additional information.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

Net Pension Liability

A net pension liability is recorded in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value except for money market investments and participating interest-earning investment contracts with a maturity at the time of purchase of one year or less, which are reported at cost. See Note 14 Retirement Plans for additional information.

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 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 Employees' Plan

Recognition of deferred outflows of resources related to pension costs totaled \$17.1 million and \$27.9 million as of September 30, 2018 and 2017, respectively. See Note 14 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

Deferred Inflows of Resources (concluded)

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 transfers of \$3.8 million from and transfers of \$11.7 million from for the years ended September 30, 2018 and 2017, respectively. These amounts are reflected as increases or decreases in deferred inflows of resources – rate stabilization in the accompanying statements of net position.

Unrealized gains related to Employees' Plan

Recognition of deferred inflows of resources related to unrealized gains for the pension plan totaled \$20 million and \$18.3 million as of September 30, 2018 and 2017, respectively. See Note 14 Retirement Plan for additional information.

Other deferred inflows:

Recognition of deferred inflows of resources related to unrealized gains for the OPEB plan were \$188,000 and \$0 as of September 30, 2018 and 2017, respectively. See Note 15 Other Post-Employment Benefits Plan for additional information.

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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

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 \$16.4 million and \$13.8 million at September 30, 2018 and 2017, respectively.

Fuel and purchased gas adjustment levelization revenue is recognized as expenses are incurred. Amounts charged to customers for fuel are based on estimated costs. The amount charged in the fuel adjustment is adjusted and approved by the General Manager of the Utility 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 6 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies (concluded)

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 charges.
- Operating transfer to the General Fund – GRU makes payments to the City's General Fund from operating revenues. See Note 12 Transfer to City of Gainesville 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

2. Deposits and Investments (continued)

As of September 30, 2018, GRU had the following investments and maturities (in thousands):

| | Fair Value | Maturities in Years | | |
|-------------------------|-------------------|---------------------|------------------|-------------|
| | | Less than 1 | 1-5 | Over 5 |
| Investment type: | | | | |
| Commercial paper | \$ 89,247 | \$ 89,247 | \$ - | \$ - |
| Corporate bonds | 23,222 | 6,185 | 17,037 | - |
| U.S. agencies | 53,322 | - | 53,322 | - |
| U.S. treasuries | 9,735 | - | 9,735 | - |
| Total | \$ 175,526 | \$ 95,432 | \$ 80,094 | \$ - |

As of September 30, 2017, GRU had the following investments and maturities (in thousands):

| | Fair Value | Maturities in Years | | |
|-------------------------|-------------------|---------------------|------------------|-------------|
| | | Less than 1 | 1-5 | Over 5 |
| Investment type: | | | | |
| Commercial paper | \$ 74,682 | \$ 74,682 | \$ - | \$ - |
| Corporate bonds | 28,214 | 4,525 | 23,689 | - |
| U.S. agencies | 61,620 | 15,973 | 45,647 | - |
| U.S. treasuries | 8,498 | 1,498 | 7,000 | - |
| Total | \$ 173,014 | \$ 96,678 | \$ 76,336 | \$ - |

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

| | 2018 | 2017 |
|--------------------------------|-------------------|-------------------|
| Restricted assets | \$ 175,965 | \$ 159,000 |
| Current assets: | | |
| Cash and investments | 26,793 | 50,506 |
| Total cash and investments | 202,758 | 209,506 |
| Less cash and cash equivalents | (27,232) | (36,492) |
| Total investments | \$ 175,526 | \$ 173,014 |

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

2. Deposits and Investments (continued)

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. The investment policy states 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, 2018 and 2017, 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, with the exception of Guardian Life for which there was no ratings as of September 30, 2018. As of September 30, 2018, all of GRU's commercial paper investments were rated P-2 or better by Moody's Investor Service and/or A-1 or better by Standard and Poor's and/or F2 or better by Fitch, with the exception of Angelsea Funding & Chesham Finance for which there was no Fitch rating as of September 30, 2018. As of September 30, 2017, 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. As of September 30, 2018, and 2017 GRU's FFCB, FHLMC, and FNMA were rated Aaa by Moody's Investor Service and AA+ by Standard and Poor's and AAA by Fitch. As of September 30, 2018, and 2017 GRU's FHLB were rated Aaa by Moody's Investor Service and AA+ by Standard and Poor's and AA+ or NR by Fitch.

Concentration of Credit Risk

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

2. Deposits and Investments (concluded)

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

| | Percent of Total Investments | |
|--|-------------------------------------|-------------|
| | 2018 | 2017 |
| Insuer: | | |
| Federal Home Loan Mortgage Corporation | 9.75% | 7.89% |
| New York Life | 7.44% | 10.25% |
| Federal Farm Credit Bank | 5.15% | 5.93% |
| Federal National Mortgage Association | 5.77% | 8.39% |
| Federal Home Loan Bank | 9.72% | 13.62% |

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, 2018: MEAG Power, JEA (Florida), South Carolina Public Service Authority, Nebraska Public Power District, GRU, City Utilities of Springfield (Missouri), Public Utility District No. 1 of Cowlitz County (Washington), and American Municipal Power, Inc. (Ohio). TEA provides energy products and resource management services to equity members and non-members and allocates transaction savings and operating expenses to equity members pursuant to Settlement Procedures under the Operating Agreement.

In the Statement of Revenues, Expenses, and Changes in Net Position, GRU's sales to and purchases from TEA are recorded in sales and service charges and operations and maintenance expenses, respectively. Sales to TEA were \$2.5 million and \$871,000 and purchases from TEA were \$7.8 million and \$24.8 million for the years ended September 30, 2018 and 2017, respectively.

GRU's equity interest was 5.6% for fiscal years 2018 and 2017, and accounted for using the equity method of accounting. As of September 30, 2018 and 2017, GRU's investment in TEA was \$2.3 million and \$2.1 million, respectively.

Through a combination of agreements, GRU guaranteed credit received by TEA for \$21.7 million and \$19.5 million as of September 30, 2018 and 2017, respectively. TEA evaluates its credit needs periodically and requests equity members to adjust their guarantees accordingly. The guarantee agreements are intended to provide credit support for TEA when entering into transactions on behalf of equity members. Such guarantees are within the scope of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, and would require the equity members to make payments to TEA's counterparties if TEA failed to deliver energy, capacity, or natural gas as required by contract, or if TEA failed to make payment for the purchases of such commodities. If guarantee payments are required, GRU has rights with other equity members that such payments be apportioned based on certain criteria.

Gainesville Regional Utilities
Notes to Financial Statements
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3. Investment in The Energy Authority (concluded)

The guarantees generally have indefinite terms; however, GRU can terminate its guarantee obligations by providing notice to counterparties and others, as required by the agreements. Such terminations would not pertain to any transactions TEA entered into prior to notice being given. As of September 30, 2018 and 2017, GRU had not recorded a liability related to these guarantees.

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

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|--------------------|--------------------|
| Condensed statement of operations: | | |
| Total revenue | \$ 1,334,738 | \$ 1,153,933 |
| Total cost of sales and expense | <u>(1,252,868)</u> | <u>(1,092,748)</u> |
| Operating income | 81,870 | 61,185 |
| Nonoperating income (expense) | <u>105</u> | <u>38</u> |
| Change in net position | 81,975 | 61,223 |
| Net position, beginning of period | 36,417 | 37,570 |
| Capital contributions | 6 | 59 |
| Member distributions | <u>(77,767)</u> | <u>(61,160)</u> |
| Net position, end of period | <u>\$ 40,631</u> | <u>\$ 37,692</u> |
| Condensed balance sheet: | | |
| Assets: | | |
| Current assets | \$ 165,904 | \$ 177,777 |
| Noncurrent assets | <u>21,510</u> | <u>15,622</u> |
| Total assets | <u>187,414</u> | <u>193,399</u> |
| Liabilities: | | |
| Current liabilities | 146,768 | 155,313 |
| Noncurrent liabilities | <u>15</u> | <u>394</u> |
| Total liabilities | 146,783 | 155,707 |
| Total net position | <u>40,631</u> | <u>37,692</u> |
| Total liabilities and net position | <u>\$ 187,414</u> | <u>\$ 193,399</u> |

GRU's accounts receivable due from TEA totaled approximately \$483,000 and \$521,000 for the years ended September 30, 2018 and 2017, respectively.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

4. Capital Assets

A summary of capital assets, changes in accumulated depreciation and amortization, and average depreciation rates for the years ended September 30, 2018 and 2017 follows (in thousands):

| | Utility Plant in Service | | | | | |
|---|--------------------------|---------------------|--|-------------------|-----------------------------|---------------------|
| | Treatment | Generation | Transmission, Distribution, and Collection | General | Construction in Progress | Combined |
| Balance, October 1, 2017 | \$ 214,647 | \$ 1,665,683 | \$ 912,953 | \$ 208,263 | \$ 92,098 | \$ 3,093,644 |
| Additions | 60 | 775,648 | 33,247 | 4,962 | 822,637 | 1,636,554 |
| Capital lease | - | - | - | - | - | - |
| Less sales, retirements, and transfers | - | (1,015,916) | (5,902) | 935 | (814,638) | (1,835,521) |
| Balance, September 30, 2018 | <u>\$ 214,707</u> | <u>\$ 1,425,415</u> | <u>\$ 940,298</u> | <u>\$ 214,160</u> | <u>\$ 100,097</u> | <u>\$ 2,894,677</u> |
| Accumulated depreciation, October 1, 2017 | \$ 88,650 | \$ 411,960 | \$ 420,615 | \$ 89,677 | n/a | \$ 1,010,902 |
| Depreciation expense | 7,588 | 42,345 | 30,902 | 9,654 | n/a | 90,489 |
| Capital lease | - | 3,449 | - | - | n/a | 3,449 |
| Less retirements/ adjustments | (611) | (132,530) | (543) | (2,931) | n/a | (136,615) |
| Accumulated depreciation, September 30, 2018 | <u>\$ 95,627</u> | <u>\$ 325,224</u> | <u>\$ 450,974</u> | <u>\$ 96,400</u> | <u>n/a</u> | <u>\$ 968,225</u> |
| Net capital assets | <u>\$ 119,080</u> | <u>\$ 1,100,191</u> | <u>\$ 489,324</u> | <u>\$ 117,760</u> | <u>\$ 100,097</u> | <u>\$ 1,926,452</u> |
| Average depreciation rate | <u>3.53%</u> | <u>2.96%</u> | <u>3.33%</u> | <u>4.57%</u> | <u>n/a</u> | <u>3.24%</u> |

| | Utility Plant in Service | | | | | |
|---|--------------------------|---------------------|--|-------------------|-----------------------------|---------------------|
| | Treatment | Generation | Transmission, Distribution, and Collection | General | Construction in Progress | Combined |
| Balance, October 1, 2016 | \$ 200,708 | \$ 1,640,379 | \$ 840,855 | \$ 191,521 | \$ 139,881 | \$ 3,013,344 |
| Additions | 13,939 | 26,422 | 75,960 | 17,670 | 86,751 | 220,742 |
| Capital lease | - | - | - | - | - | - |
| Less sales, retirements, and transfers | - | (1,118) | (3,862) | (928) | (134,534) | (140,442) |
| Balance, September 30, 2017 | <u>\$ 214,647</u> | <u>\$ 1,665,683</u> | <u>\$ 912,953</u> | <u>\$ 208,263</u> | <u>\$ 92,098</u> | <u>\$ 3,093,644</u> |
| Accumulated depreciation, October 1, 2016 | \$ 81,353 | \$ 361,196 | \$ 392,770 | \$ 74,676 | n/a | \$ 909,995 |
| Depreciation expense | 7,297 | 18,134 | 30,340 | 15,877 | n/a | 71,648 |
| Capital lease | - | 33,560 | - | - | n/a | 33,560 |
| Less retirements/ adjustments | - | (931) | (2,494) | (876) | n/a | (4,301) |
| Accumulated depreciation, September 30, 2017 | <u>\$ 88,650</u> | <u>\$ 411,959</u> | <u>\$ 420,616</u> | <u>\$ 89,677</u> | <u>n/a</u> | <u>\$ 1,010,902</u> |
| Net capital assets | <u>\$ 125,997</u> | <u>\$ 1,253,724</u> | <u>\$ 492,337</u> | <u>\$ 118,586</u> | <u>\$ 92,098</u> | <u>\$ 2,082,742</u> |
| Average depreciation rate | <u>3.51%</u> | <u>3.14%</u> | <u>3.49%</u> | <u>7.94%</u> | <u>n/a</u> | <u>3.60%</u> |

Gainesville Regional Utilities
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5. Capital Lease

GRU executed a PPA with the Gainesville Renewable Energy Center (GREC) in 2009. The plant, a 102.5 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 was 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 \$0 at September 30, 2018 and \$1 billion at September 30, 2017. The total payments applicable to the lease were \$6.3 million and \$61.2 million for September 30, 2018 and 2017. The payments for fiscal year 2018 and 2017 included \$4.4 million and \$42.8 million, respectively, for interest expense included in fuel costs. The capital lease was being amortized over the life of the PPA. Amortization of \$3.4 million and \$33.6 million was recorded at September 30, 2018 and 2017.

On November 7, 2017, GRU issued the 2017 Utility System Revenue Bonds, Series A, B, and C to purchase the GREC biomass fueled generating power plant for \$750 million pursuant to the Asset Purchase Agreement (APA) executed on September 12, 2017. With the purchase of the biomass fueled generation power plant and the termination of the Purchase Power Agreement, the arbitration case between the City of Gainesville and GREC LLC was resolved and dismissed with prejudice (per the terms of the APA).

Due to the termination of the PPA, there were no minimum payments due as of September 30, 2018.

If at any time GRU's senior unsecured debt rating 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 was 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 would 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, 2017, GRU's credit ratings were in compliance with the performance security requirements. Upon the termination of the PPA, this is no longer applicable for 2018.

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 was \$100 for a term of 47 years on the condition that GREC provide dependable energy to GRU. If a condition occurred in which

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

5. Capital Lease (concluded)

GREC did not provide dependable energy to GRU, the payment would be adjusted to the fair value of the land at that time. Rental income was not received for the year ended 2018 due to the purchase of the biomass plant and \$100 was received for the year ended September 30, 2017.

6. 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.

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, 2018 (in thousands):

| | Fuel Adjustment | Purchased Gas Adjustment | Total |
|-------------------------------------|----------------------------|---|-------------------|
| Revenues | \$ 102,559 | \$ 6,916 | \$ 109,475 |
| Expenses | (99,281) | (7,842) | (107,123) |
| To (From) Levelization Fund | <u>\$ 3,278</u> | <u>\$ (926)</u> | <u>\$ 2,352</u> |
| Levelization Fund Beginning Balance | \$ (5,588) | \$ 859 | \$ (4,729) |
| To (From) Levelization Fund | <u>3,278</u> | <u>(926)</u> | <u>2,352</u> |
| Levelization Fund Ending Balance | <u>\$ (2,310)</u> | <u>\$ (67)</u> | <u>\$ (2,377)</u> |

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

6. 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, 2017 (in thousands):

| | Fuel Adjustment | Purchased Gas Adjustment | Total |
|-------------------------------------|--------------------|--------------------------------|--------------------|
| Revenues | \$ 144,000 | \$ 5,955 | \$ 149,955 |
| Expenses | (162,490) | (7,025) | (169,515) |
| To (From) Levelization Fund | <u>\$ (18,490)</u> | <u>\$ (1,070)</u> | <u>\$ (19,560)</u> |
| Levelization Fund Beginning Balance | \$ 12,902 | \$ 1,929 | \$ 14,831 |
| To (From) Levelization Fund | (18,490) | (1,070) | (19,560) |
| Levelization Fund Ending Balance | <u>\$ (5,588)</u> | <u>\$ 859</u> | <u>\$ (4,729)</u> |

7. Long-Term Debt

\$196,950,000 Utilities System Revenue Bonds, 2005 Series A – 4.75% -- 5.00%, dated November 16, 2005, mature on various dates through October 1, 2036, and were partially refunded as part of the 2012 Series A Utilities System Revenue Bond issuance. The 2005 Series A Bonds are subject to redemption at the option of the City on and after October 1, 2015, as a whole or in part at any time, at a redemption price of 100% of the principal amount, plus accrued interest to the date of redemption. The 2005 Series A Bonds were issued to pay a portion of the cost of acquisition and construction of certain improvements to the City’s utilities system and to refund the City’s Utilities System Commercial Paper Notes, Series C. In March 2007, the 2007 Series A Bonds (\$139,505,000) were issued to advance-refund to the maturity dates a portion of the bonds maturing from October 1, 2030 to October 1, 2036. The proceeds related to the refunded bonds were deposited into an escrow account to refund the bonds on October 1, 2015, at 100% of par. In August 2012, the 2012 Series A Bonds (\$81,860,000) were issued to refund \$78,690,000 of bonds maturing from October 1, 2021 thru October 1, 2028. 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.

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

7. Long-Term Debt (continued)

and to refund the City's Utilities System Commercial Paper Notes, Series D originally issued in June 2000. In August 2012, the 2012 Series B Bonds (\$100,470,000) were issued to partially refund \$31,560,000 of bonds maturing from October 1, 2015 and October 1, 2021.

\$55,135,000 Utilities System Revenue Bonds, 2005 Series C – Variable interest rates based on market rates, 1.67% at September 30, 2018, 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. In August 2012, the 2012 Series B Bonds (\$100,470,000) were issued to partially refund \$17,570,000 of bonds maturing from October 1, 2013 thru October 1, 2017.

\$53,305,000 Utilities System Revenue Bonds, 2006 Series A – Variable interest rates based on market rates, 1.67% at September 30, 2018, 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. In August 2012, the 2012 Series B Bonds (\$100,470,000) were issued to partially refund \$25,930,000 of bonds maturing from October 1, 2013 thru October 1, 2020. A liquidity facility is provided by Helaba at 0.29% and expires November 24, 2020.

\$139,505,000 Utilities System Revenue Bonds, 2007 Series A – Variable interest rates based on market rates, 1.57% at September 30, 2018, 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 0.46% and expires April 1, 2021.

\$105,000,000 Utilities System Revenue Bonds, 2008 Series A (Federally Taxable) – 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

Gainesville Regional Utilities
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7. Long-Term Debt (continued)

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 August 2012, the 2012 Series B Bonds (\$100,470,000) were issued to partially refund \$14,405,000 of bonds maturing from October 1, 2014 thru October 1, 2017. 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 through October 1, 2020.

\$90,000,000 Utilities System Revenue Bonds, 2008 Series B – Variable interest rates based on market rates, 1.58% at September 30, 2018, 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 Barclay's at 0.29% and expires June 29, 2020.

\$156,900,000 Utilities System Revenue Bonds, 2009 Series B – Issuer Subsidy – Build America Bonds (Federally Taxable) – 4.60% – 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

7. Long-Term Debt (continued)

\$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 2, 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.

\$100,470,000 Utilities System Revenue Bonds, 2012 Series B – Variable interest rates based on market rates, 1.59% at September 30, 2018, dated August 2, 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 Citibank at 0.33% and expires on June 29, 2020.

\$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.

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7. Long-Term Debt (continued)

\$30,970,000 Utilities System Revenue Bonds, 2014 Series B – 3.13% – 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.

\$415,920,000 Utilities System Revenue Bonds, 2017 Series A – 4.00% – 5.00%, dated November 7, 2017 with final maturity on October 1, 2040. The 2017 Series A Bonds were issued concurrently with 2017 Series B and Series C bonds to (a) finance a portion of the costs of acquisition of the GREC Biomass Plant and (b) pay cost of issuance. These bonds mature at various dates beginning October 1, 2018 and ending October 1, 2040. The 2017 Series A Bonds were issued at a premium of \$73,205,458 as serial bonds with the first optional call date of October 1, 2027. These bonds are subject to redemption prior to maturity.

\$150,000,000 Utilities System Revenue Bonds, 2017 Series B – Variable interest rates based on market rates, 2.22% at September 30, 2018, dated November 7, 2017, final maturity October 1, 2044, and issued concurrently with 2017 Series A and 2017 Series C Bonds to (a) finance a portion of the costs of acquisition of the GREC Biomass Plant and (b) paying cost of issuance. These bonds are direct placement bonds and the sale was awarded to Wells Fargo Bank, N.A. with the following terms: (a) GRU pays variable rate at 70% of 1 Month Libor times MRF (margin rate factor) (b) bank fee of .35%, calculated on the basis of 360 days (c) contract termination date of November 7, 2020. These bonds mature at various dates beginning October 1, 2040 with final maturity date of October 1, 2044.

\$115,000,000 Utilities System Revenue Bonds, 2017 Series C – Variable interest rates based on market rates, 2.30% at September 30, 2018, dated November 7, 2017, final maturity October 1, 2047, and issued concurrently with 2017 Series A and 2017 Series B Bonds to (a) finance a portion of the costs of acquisition of the GREC Biomass Plan and (b) pay cost of issuance. These bonds are direct placement bonds and the sale was awarded to Bank of America, N.A. with the following terms: (a) GRU pays variable rate at 70% of 1 Month Libor times MRF (margin rate factor) (b) bank fee of .41%, calculated on the basis of 360 days (c) contract termination date of November 7, 2020. These bonds mature at various dates beginning October 1, 2044 with final maturity date of October 1, 2047.

Gainesville Regional Utilities
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7. Long-Term Debt (continued)

\$125,000,000 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. On May 17, 2018, the City Commission approved the Fourth Amendment of the Second Supplemental Subordinated Utilities System Revenue Bond Resolution authorizing the issuance of additional Series C Commercial Paper. GRU issued \$40,000,000 in Series C Commercial Paper Notes on July 19, 2018. The Commercial Paper proceeds are to partially fund the 2018 capital improvement program for the System. 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 0.45% and was set to expire November 30, 2018 but has been extended to November 30, 2021. 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 \$125,000,000 with same day availability ending on the termination date, as defined in the agreement. Interest is at a variable market rate which was 1.69% at September 30, 2018. Series C Notes of \$85 million are outstanding as of September 30, 2018.

\$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 2.24% at September 30, 2018. Series D Notes of \$8 million are outstanding as of September 30, 2018. 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 0.42% and expires August 28, 2020.

\$25,000,000 Utilities System Variable Rate Subordinated Utilities System Revenue Bond, 2018 Series A – On May 17, 2018, City Commission authorized a revolving line of credit on parity with commercial paper notes to finance from time to time tax exempt projects for the capital improvement plan for the electric system. The award of sale of purchase of the 2018 Series A Bond went to STI Institutional & Government, Inc. (SunTrust Bank), terms set forth in the purchase contract in the principal amount not to exceed \$25,000,000. The contract of purchase is effective on August 3, 2018 and expires August 3, 2021. The interest rate is 81% of 1M Libor plus 1.85% calculated on the basis of a 360 day year. The unused fee (liquidity fee) is .25%. As of September 30, 2018, there was \$0 outstanding.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

7. Long-Term Debt (continued)

Debt Service Requirements for Long-Term Debt

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

| <u>Year Ending September 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Debt Service Requirements</u> |
|-------------------------------------|---------------------|-------------------|--|
| 2019 | \$ 27,885 | \$ 52,536 | \$ 80,421 |
| 2020 | 30,935 | 52,091 | 83,026 |
| 2021 | 39,635 | 51,034 | 90,669 |
| 2022 | 39,965 | 49,600 | 89,565 |
| 2023 | 41,760 | 48,062 | 89,822 |
| 2024-2028 | 240,600 | 215,652 | 456,252 |
| 2029-2033 | 308,200 | 166,446 | 474,646 |
| 2034-2038 | 341,350 | 112,050 | 453,400 |
| 2039-2043 | 345,505 | 48,329 | 393,834 |
| 2044-2048 | 205,930 | 13,842 | 219,772 |
| 2049 | 5,575 | 47 | 5,622 |
| | <u>\$ 1,627,340</u> | <u>\$ 809,689</u> | <u>\$ 2,437,029</u> |

See Note 8 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, 2018. Interest rates on variable-rate long-term debt were valued to be equal to 1.67% for the 2005 Series C Bonds, 1.67% for the 2006 Series A Bonds, 1.57% for the 2007 Series A Bonds, 1.58% for the 2008 Series B Bonds, 1.59% for the 2012 Series B Bonds, 2.22% for the 2017 Series B Bonds, 2.30% for the 2017 Series C Bonds, 1.69% for the Commercial Paper Notes, Series C, and 2.24% for the Commercial Paper Notes, Series D.

The 2009 Series B and 2010 Series B Bonds receive a federal interest subsidy of 32.7% 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.

GRU's revenues net of specified operating expenses are pledged as security of the above Utilities System Revenue Bonds and Commercial Paper Notes. For fiscal years 2018 and 2017, principal and interest paid were \$90.1 million and \$62.6 million, respectively. For fiscal years 2018 and 2017, total pledged revenues were \$403.5 million and \$422.5 million, respectively. As of September 30, 2018, annual principal and interest payments are expected to require 20% of pledged revenues on average.

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Notes to Financial Statements
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7. Long-Term Debt (continued)

Debt Service Requirements for Long-Term Debt (concluded)

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 June 29, 2020 to November 30, 2021. Each of the SBPA and credit agreement termination dates may be extended. At September 30, 2018, there were no outstanding draws under the SBPA. Available credits including interest, under each VRDO are as follows: \$26.5 million for 2005 Series C, \$18.6 million for 2006 Series A, \$138.2 million for 2007 Series A, \$90.1 million for 2008 Series B, and \$101.7 million for 2012 Series B.

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, 2018, are November 30, 2021 and August 28, 2020. The credit agreement supporting the tax-exempt Commercial Paper Notes, Series C had no outstanding draws as of September 30, 2018 and 2017. The credit agreement supporting the taxable Commercial Paper Notes, Series D had no outstanding draws as of September 30, 2018 and 2017.

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2018, was as follows (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--------------------------------------|----------------------|-------------------|---------------------|---------------------|------------------------|
| Utilities system revenue bonds | \$ 871,540 | \$ 680,920 | \$ (18,120) | \$ 1,534,340 | \$ 27,885 |
| Add: Issuance premiums | 16,903 | 73,205 | (6,349) | 83,759 | - |
| Total bonds payable | 888,443 | 754,125 | (24,469) | 1,618,099 | 27,885 |
| Commercial paper | 58,900 | 40,000 | (5,900) | 93,000 | - |
| Capital lease | 941,269 | - | (941,269) | - | - |
| Fair value of derivative instruments | 61,184 | - | (22,419) | 38,765 | - |
| Reserve for insurance claim | 3,337 | - | - | 3,337 | - |
| Reserve for environmental liability | 665 | - | (146) | 519 | - |
| | <u>\$ 1,953,798</u> | <u>\$ 794,125</u> | <u>\$ (994,203)</u> | <u>\$ 1,753,720</u> | <u>\$ 27,885</u> |

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Notes to Financial Statements
September 30, 2018 and 2017

7. Long-Term Debt (concluded)

Changes in Long-Term Liabilities (concluded)

Long-term liabilities activity for the year ended September 30, 2017, was as follows (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--------------------------------------|----------------------|-----------------|--------------------|---------------------|------------------------|
| Utilities system revenue bonds | \$ 889,075 | \$ - | \$ (17,535) | \$ 871,540 | \$ 18,120 |
| Add: Issuance premiums | 17,991 | - | (1,088) | 16,903 | - |
| Total bonds payable | 907,066 | - | (18,623) | 888,443 | 18,120 |
| Commercial paper | 59,500 | 5,000 | (5,600) | 58,900 | 5,900 |
| Capital lease | 959,679 | - | (18,410) | 941,269 | 19,255 |
| Fair value of derivative instruments | 87,180 | - | (25,996) | 61,184 | - |
| Reserve for insurance claim | 3,337 | - | - | 3,337 | - |
| Reserve for environmental liability | 266 | 399 | - | 665 | - |
| | <u>\$ 2,017,028</u> | <u>\$ 5,399</u> | <u>\$ (68,629)</u> | <u>\$ 1,953,798</u> | <u>\$ 43,275</u> |

Interest Rate Swaps

GRU is a party to certain interest rate swap agreements. GRU applies hedge accounting where applicable. See Note 8 Hedging Activities for additional information

8. 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

8. Hedging Activities (continued)

Terms, Fair Values, and Counterparty Credit Ratings

The terms, fair values, and counterparty credit ratings of the outstanding swaps as of September 30, 2018, were as follows (in thousands):

| <u>Associated Bond Issue</u> | <u>2005B*</u> | <u>2005C*</u> | <u>2006A*</u> | <u>2007A*</u> |
|------------------------------|------------------------|-------------------------|---------------------------------------|------------------------|
| Notional amount | \$25,230 | \$26,225 | \$23,375 | \$136,545 |
| Effective date | 11/16/2005 | 11/16/2005 | 7/6/2006 | 3/1/2007 |
| Fixed payer rate | SIFMA | 3.200% | 3.224% | 3.944% |
| Variable receiver rate | 77.14% of 1MO LIBOR | 60.36% of 10YR LIBOR | 68.00% of 10YR LIBOR Less .365% | SIFMA |
| Fair value | \$78 | (\$939) | (\$1,014) | (\$24,514) |
| Termination date | 10/1/2021 | 10/1/2026 | 10/1/2026 | 10/1/2036 |
| Counterparty credit rating | Aa2/AA- | Aa3/A+/AA | Aa2/AA- | Aa2/AA- |
| <u>Associated Bond Issue</u> | <u>2008B*</u> | <u>2008B*</u> | <u>2017B*</u> | <u>2017B*</u> |
| Notional amount | \$58,500 | \$31,500 | \$105,000 | \$45,000 |
| Effective date | 2/13/2008 | 2/13/2008 | 11/7/2017 | 11/7/2017 |
| Fixed payer rate | 4.229% | 4.229% | 2.119% | 2.110% |
| Variable receiver rate | SIFMA | SIFMA | 70.00% of 1MO LIBOR | 70.00% of 1MO LIBOR |
| Fair value | (\$11,249) | (\$6,063) | \$3,419 | \$1,517 |
| Termination date | 10/1/2038 | 10/1/2038 | 10/1/2044 | 10/1/2044 |
| Counterparty credit rating | Aa3/A+/AA | Aa3/A+/AA | A1/A+/A+ | A1/A+/A+ |

* See Basis Risk section below.

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8. Hedging Activities (continued)

Fair Value

All of the swap agreements, except for the 2005B and 2017B swaps, had a negative fair value as of September 30, 2018. As interest rate environment has risen over the past year, the negative fair value of the swap agreements has improved. Due to the lower 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, 2018 | Changes in Fair Value | Changes in Deferred (Inflow) Outflow | Changes in Regulatory (Assets) Liability for Ineffective Instruments |
|-------|--|--------------------------------------|---|---|
| 2005B | \$ 78 | \$ 46 | \$ - | \$ (46) |
| 2005C | (939) | 741 | - | (741) |
| 2006A | (1,014) | 801 | - | (801) |
| 2008B | (11,249) | 4,048 | (4,048) | - |
| 2008B | (6,063) | 2,181 | (2,181) | - |
| 2007A | (24,514) | 9,550 | (9,550) | - |
| 2017B | 3,419 | 3,419 | (3,419) | - |
| 2017B | 1,517 | 1,517 | (1,517) | - |
| | <u>\$ (38,765)</u> | <u>\$ 22,303</u> | <u>\$ (20,715)</u> | <u>\$ (1,588)</u> |

All swap agreements, except for the 2005B swap, had a negative fair value as of September 30, 2017. 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, 2017 | Changes in Fair Value | Changes in Deferred (Inflow) Outflow | Changes in Regulatory (Assets) Liability for Ineffective Instruments |
|--------|--|--------------------------------------|---|---|
| 2008CP | \$ (117) | \$ 308 | \$ (308) | \$ - |
| 2005B | 32 | 209 | - | (209) |
| 2005C | (1,680) | 1,117 | - | (1,117) |
| 2006A | (1,815) | 1,211 | - | (1,211) |
| 2008B | (15,297) | 5,778 | (5,778) | - |
| 2008B | (8,244) | 3,114 | (3,114) | - |
| 2007A | (34,064) | 14,260 | (14,260) | - |
| | <u>\$ (61,185)</u> | <u>\$ 25,997</u> | <u>\$ (23,460)</u> | <u>\$ (2,537)</u> |

Gainesville Regional Utilities
Notes to Financial Statements
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8. Hedging Activities (continued)

Interest Rate Swap Payments

Debt service requirements on the interest rate swaps using interest rates in effect at September 30, 2018, are as follows (in thousands):

| | | |
|-----------|-----------|---------------|
| 2019 | \$ | 7,011 |
| 2020 | | 6,913 |
| 2021 | | 6,780 |
| 2022 | | 6,631 |
| 2023 | | 6,448 |
| 2024–2028 | | 28,425 |
| 2029–2033 | | 21,040 |
| 2034–2038 | | 8,385 |
| 2039–2043 | | 3,089 |
| 2044–2048 | | 146 |
| | <u>\$</u> | <u>94,868</u> |

Credit Risk

As of September 30, 2018, although most of the fair value of the interest rate swaps was negative, GRU has structured its swap documents to minimize credit risk. To mitigate the potential for credit risk, GRU has negotiated additional termination event and collateralization requirements in the event of a ratings downgrade. Failure to deliver the Collateral Agreement to GRU as negotiated and detailed in the Schedule to the International Swaps and Derivative Agreements (ISDA) master agreement for each counterparty would constitute an event of default with respect to that counterparty.

Basis Risk

The swaps expose the City to basis risk:

- The 2005 Series B Swap is exposed to basis risk through the potential mismatch of 77.14% of one-month LIBOR and SIFMA rate. As a result, savings may not be realized. As of September 30, 2018, the one-month LIBOR rate was 2.26%, and SMIFA rate was at 1.56%, which places the SIFMA at approximately 69% 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, 2018, the 10-year LIBOR rate was at 3.11%.

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8. Hedging Activities (continued)

Basis Risk (concluded)

- 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 2017 Series B Swap is exposed to the difference between 70% of the one-month LIBOR and 70% of the one-month LIBOR plus bank fee times the margin rate factor (corporate tax change from 35% to 21%, effective with the Tax Reform in January 1, 2018). As a result, savings may not be realized.
- The Commercial Paper Series C Notes Swap (formerly the 2002 Series A Swap) terminated October 1, 2018.

Termination Risk

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

Interest Rate Risk

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

Rollover Risk

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

Market Access Risk

This risk is associated with the event that GRU will not be able to enter credit markets for interest rate swap agreements or that the credit market becomes more costly. GRU maintains a strong credit rating of Aa3 from Moody's, AA- from Standard and Poor's, and AA- from Fitch. Currently GRU has not encountered any credit market barriers.

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8. Hedging Activities (concluded)

Effectiveness

Of the interest rate swap agreements, five have been deemed effective, while three have been deemed ineffective as of September 30, 2018. The ineffective portion related to interest rate swap agreements is recorded as a regulatory asset in the amount of \$1.9 million and \$3.5 million as of September 30, 2018 and 2017, respectively.

The unrealized loss on interest rate swap agreements was \$22.4 million and \$26 million in accumulated decrease in fair value of hedging derivatives at September 30, 2018 and 2017, respectively. There were no realized gains or losses related to interest rate swaps as of September 30, 2018 and 2017, respectively.

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 \$189,000 and \$438,000 for September 30, 2018 and 2017, 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, 2018 | Changes in Fair Value | Deferred (Inflows)/ Outflows Resources | Notional Amount (MMBTUs) |
|-------------|---|----------------------------------|---|---|
| Natural Gas | \$ - | \$ (62) | \$ - | 0 |

| | Fair Value of Cash Flow Hedges at September 30, 2017 | Changes in Fair Value | Deferred (Inflows)/ Outflows Resources | Notional Amount (MMBTUs) |
|-------------|---|----------------------------------|---|---|
| Natural Gas | \$ 62 | \$ 243 | \$ - | 89 |

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9. 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.
- 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. treasury securities, 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 market prices (Level 2 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 2 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.

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9. 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, 2018 (in thousands):

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------------|----------------|--------------------|----------------|--------------------|
| Assets | | | | |
| Fair Value Investments | | | | |
| U.S. Treasuries | \$ - | \$ 9,735 | \$ - | \$ 9,735 |
| U.S. Agencies: | | | | |
| Federal Home Loan Mortgage Co | - | 17,111 | - | 17,111 |
| Federal National Mortgage Assn. | - | 10,121 | - | 10,121 |
| Federal Home Loan Bank | - | 17,057 | - | 17,057 |
| Federal Farm Credit Bank | - | 9,033 | - | 9,033 |
| Corporate bonds: | | | | |
| Massmutual Global Funding | - | 4,841 | - | 4,841 |
| Guardian Life | - | 5,324 | - | 5,324 |
| New York Life | - | 13,056 | - | 13,056 |
| Total fair value investments | <u>\$ -</u> | <u>\$ 86,278</u> | <u>\$ -</u> | <u>\$ 86,278</u> |
| Liabilities | | | | |
| Financial instruments | | | | |
| Effective interest rate swaps | \$ - | \$ (36,891) | \$ - | \$ (36,891) |
| Ineffective interest rate swaps | - | (1,875) | - | (1,875) |
| Total financial instruments | <u>\$ -</u> | <u>\$ (38,766)</u> | <u>\$ -</u> | <u>\$ (38,766)</u> |

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9. Fair Value Measurement (concluded)

Fair value balances and their levels within the fair value hierarchy as of September 30, 2017, are represented in the following table (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------|-------------|--------------------|-------------|--------------------|
| Assets | | | | |
| Fair Value Investments | | | | |
| U.S. Treasuries | \$ - | \$ 8,498 | \$ - | \$ 8,498 |
| U.S. Agencies: | | | | |
| Federal Home Loan Mortgage Cor | - | 13,465 | - | 13,465 |
| Federal National Mortgage Assn. | - | 14,313 | - | 14,313 |
| Federal Home Loan Bank | - | 23,573 | - | 23,573 |
| Federal Farm Credit Bank | - | 10,269 | - | 10,269 |
| Corporate bonds: | | | | |
| Massmutual Global Funding | - | 4,949 | - | 4,949 |
| Guardian Life | - | 5,431 | - | 5,431 |
| New York Life | - | 17,834 | - | 17,834 |
| Total fair value investments | \$ - | \$ 98,332 | \$ - | \$ 98,332 |
| Liabilities | | | | |
| Financial instruments | | | | |
| Effective interest rate swaps | \$ - | \$ (57,721) | \$ - | \$ (57,721) |
| Ineffective interest rate swaps | - | (3,463) | - | (3,463) |
| Total financial instruments | \$ - | \$ (61,184) | \$ - | \$ (61,184) |

10. Restricted Net Position

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

| | 2018 | 2017 |
|--------------------------------|------------------|------------------|
| Restricted net position: | | |
| Debt service | \$ 29,803 | \$ 24,283 |
| Utility plant improvement | 14,717 | 35,418 |
| Other | - | 529 |
| Restricted net position | \$ 44,520 | \$ 60,230 |

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11. Lease Revenue

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

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

| <u>Year ending September 30,</u> | <u>Future Minimum Rental Revenue</u> |
|--------------------------------------|--|
| 2019 | \$ 1,752 |
| 2020 | 1,549 |
| 2021 | 1,457 |
| 2022 | 1,293 |
| 2023 | 903 |
| 2024-2028 | 3,573 |
| 2029-2033 | 1,843 |
| Thereafter | 96 |
| | <u>\$ 12,466</u> |

12. 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 (GFT) 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.

For the years ended September 30, 2018 and 2017, the transfer was \$36.4 million and \$35.8 million, respectively. GRU is currently in discussions with the City for GFT payments beginning in fiscal year 2020.

Gainesville Regional Utilities
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13. Commitments and Contingencies

General

The primary factors currently affecting the utility industry include environmental regulations, Operating, Planning and Critical Infrastructure Protection Standards promulgated by NERC 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 role of municipalities as telecommunications providers pursuant to the 1996 Federal Telecommunications Act resulted in a number of state-level legislative initiatives across the nation to curtail this activity. In Florida, this issue culminated in the passage, in 2005, of legislation codified in Section 350.81, Florida Statutes (Section 350.81) that defined the conditions under which municipalities are allowed to provide retail telecommunications services. Although GRU has special status as a grandfathered entity under this legislation, the provision of certain additional retail telecommunications services by the Utility would implicate certain 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, mercury, acid gases, SO₂ 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, from which the Utility purchases output, services, commodities and other materials). There is no assurance that the facilities in operation, under construction, or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations. Compliance with applicable regulations could result in increases in the costs of construction and/or operation of affected facilities, including associated costs such as transmission and transportation, as well as limitations on the operation of such facilities. Failure to comply with regulatory requirements could result in reduced operating levels or the complete shutdown of those facilities not in compliance as well as the imposition of civil and criminal penalties.

Increasing concerns about climate change and the effects of greenhouse gases (GHG) on the environment have resulted in EPA finalizing on August 3, 2015 carbon regulations for existing power plants. Currently, the Clean Power Plan is being litigated and on August 10, 2017, the United States Court of Appeals for the D.C. Circuit issued an order holding the challenges to the

Gainesville Regional Utilities
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13. Commitments and Contingencies (continued)

Environmental and Other Natural Resource Regulations (concluded)

greenhouse gas new source performance standards (GHG NSPS) in abeyance “pending further order of the court.” The order also directs EPA to file status reports at 90-day intervals beginning October 27, 2017.

Further litigation is expected regardless of the D.C. Circuit Court of Appeals decision. In addition, the EPA has been given presidential direction to review the Clean Power Plan (CPP). The court has also ordered the parties to file supplemental briefs addressing whether the challenges should be remanded to the EPA rather than held in abeyance. The briefs were filed on May 15, 2017. On October 10, 2017, EPA proposed to repeal the CPP. The Whitehouse OMB received the EPA’s proposal to replace the CPP on July 9, 2018. Then on August 21, 2018, EPA proposed the Affordable Clean Energy (ACE) plan as a replacement to the CPP. It is currently under review.

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.

Climate Change

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 the 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. It also directed the 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 GHG standards, regulations, or guidelines, as appropriate by no later than June 1, 2015. In addition, the Presidential Memorandum directed the EPA to include in the guidelines addressing existing power plants, a requirement that states submit to the 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. States would be able to request more time to submit complete implementation plans with 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.

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13. Commitments and Contingencies (continued)

Climate Change (continued)

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 such rule, and on October 23, 2015 the EPA published in the *Federal Register* the GHG existing source performance standards for power plants (the “Clean Power Plan”), and the final NSPS for GHG emissions from new, modified and reconstructed fossil fuel-fired power plants. The final Clean Power Plan was published at 80 Fed. Reg. 64662, and the final GHG NSPS were published at 80 Fed. Reg. 64510.

On October 23, 2015, the American Public Power Association (APPA) and the Utility Air Regulatory Group (UARG) filed a joint petition for review of the EPA’s final Section 111(d) rule to regulate carbon dioxide (CO₂) emissions from existing electric generating sources in the D.C. Circuit Court. In addition, the state of West Virginia joined by Texas, Alabama, Arkansas, Colorado, Florida, Georgia, Indiana, Kansas, Kentucky, Louisiana, Michigan, Missouri, Montana, Nebraska, New Jersey, Ohio, South Carolina, South Dakota, Utah, Wisconsin, Wyoming, the Arizona Corporation Commission, and the North Carolina Department of Environmental Quality, also filed their motion to stay the final Section 111(d) rule under the Clean Air Act. Such a stay would put implementation of the rule on hold until the court decides on its legality.

On January 26, 2016, twenty-nine states requested that the U.S. Supreme Court stay implementation on the final GHG Clean Power Plan or CPP (80 Fed. Reg. 64662 – Oct. 23, 2015), pending judicial review of the rule. On February 9, 2016, the Supreme Court granted the stay of the Clean Power Plan pending judicial review of the rule. The stay will remain in effect pending Supreme Court Review if such review is sought. Since the U.S. Supreme Court stayed the EPA rulemaking on the Clean Power Plan, that extraordinary action will delay any regulatory action. GRU continues to closely monitor any activities with respect to Climate Change and GHGs.

The D.C. Circuit Court issued an order on April 28, 2017, holding the consolidated Clean Power Plan cases in abeyance for 60 days. The D.C. Circuit Court is requiring the EPA to file status reports concerning its ongoing regulatory deliberations at 30 days intervals. The court also asked the parties to file supplemental briefs by May 15, 2017, addressing whether the judicial process should be ended and the matter should be remanded to the EPA.

On August 10, 2017, the United States Court of Appeals for the D.C. Circuit issued an order holding the challenges to the GHG NSPS in abeyance “pending further order of the court.” The order also directs the EPA to file status reports at 90-day intervals beginning October 27, 2017.

On October 10, 2017, the EPA Administrator signed a rule proposing the repeal of the CPP and on October 16, 2017, the proposed repeal of the CPP was published in the Federal Register. On November 2, 2017, a hearing was announced for November 28 and 29, 2017, in West Virginia.

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13. Commitments and Contingencies (continued)

Climate Change (concluded)

On January 11, 2018, the comment period was extended to April 26, 2018, and three listening sessions were announced for February and March in Missouri, California and Wyoming.

With respect to a replacement rule, the Advance Notice of Proposed Rulemaking for the CPP replacement was published on December 28, 2017. The Whitehouse OMB received the EPA's proposal to replace the CPP on July 9, 2018. Then on August 21, 2018, EPA proposed the Affordable Clean Energy (ACE) plan as a replacement to the CPP. It is currently under review.

Coal Combustion Products

The EPA published a final rule (40 CFR 257), effective October 14, 2015, to regulate the disposal of coal combustion residuals (CCR) as solid waste under subtitle D of the Resource Conservation and Recovery Act (RCRA). The rule includes national minimum criteria for existing and new CCR landfills and existing and new CCR surface impoundments. GRU is subject to the requirements of the promulgated rule that are applicable to CCR ponds and landfill at Deerhaven.

On May 1, 2017, the EPA Administrator sent a letter informing states that the EPA is working on guidance for implementing state permitting programs that allow flexibility in individual permits to manage the safe disposal of coal combustion residuals, known as CCR or "coal ash." The EPA expects that its new guidance will allow for the safe disposal and continued beneficial use of coal ash, while enabling states to decide what works best for their environment. GRU, through the Florida Electric Power Coordinating Group, made contact with FDEP's Tim Bahr on May 2, 2017, and he confirmed that the EPA shared some draft CCR permit program materials (draft FAQs, draft checklist, etc.). The FDEP is planning to discuss that internally. The EPA has finished drafting the guidance document that is intended to assist States in ensuring that their permit program applications are complete. This guidance has been published in the Federal Register and GRU continues to closely follow developments to CCR regulations.

FCG has requested FDEP to apply to EPA for program approval through FDEP's incorporation by reference of the federal CCR Rule, in the Department's rules, which may include Florida specific provisions.

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 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, two of which are empty and out of service, and two above-ground No. 6 oil tanks which are also empty and out of service. DH has one above-ground distillate and two above-ground No. 6 oil tanks one of which is out of service.

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13. Commitments and Contingencies (continued)

Storage Tanks (concluded)

All of GRU's fuel storage tanks have secondary containment and/or interstitial monitoring and the Utility is insured for the requisite amounts.

Remediation Sites

Several site investigations have been completed at the JRK Station, most recently in 2011. According to previous assessments, the horizontal extent of impacted soils 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.

Following the submittal of the August 2013 No Further Action Proposal, the Florida Department of Environmental Protection (FDEP) prepared comments regarding the No Further Action Proposal and provided them to GRU in a letter dated January 10, 2014. In August of 2014 GRU provided responses to the FDEP's January 2014 comment letter. In March of 2016 an attempt was made to meet with the FDEP, but a time was not set up for the meeting. The delay in responding to GRU's comments was due in part to the FDEP waiting on resolution of the request to use an active hydraulic containment system as an engineering control. Ultimately, the FDEP rejected the use of the active containment system as an engineering control. On April 17, 2017, the FDEP provided comments on GRU's August 2014 response to the FDEP January 2014 comment letter.

The FDEP requested further assessment of the extent of No. 6 fuel oil in the subsurface. GRU's response proposed additional soil investigation to assess the extent of No. 6 fuel oil; both as a non-aqueous phase liquid and as stained soils. GRU also proposed temporarily shutting down

Gainesville Regional Utilities
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13. Commitments and Contingencies (continued)

Remediation Sites (concluded)

the groundwater recovery system and evaluating whether free product returns to the wells. This information will be used to evaluate what actions will be needed to recover free product, if any is detected.

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 (the "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.

Gainesville Regional Utilities
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13. Commitments and Contingencies (continued)

Manufactured Gas Plant

Gainesville's natural gas system originally distributed blue water gas, which was produced in town by gasification of coal using distillate oil. Although manufactured gas was replaced by pipeline gas in the mid-1950's, coal residuals and spilt fuel contaminated soils remain on 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. GRU received final approval of its Remedial Action Plan which included the excavation and landfilling of impacted soils. This plan was implemented pursuant to a Brownfield Site Rehabilitation Agreement with the State. Following remediation, the property has been redeveloped by the City as a park with storm-water ponds, nature trails, and recreational space, all of which were considered in the remediation plan's design. The duration of the groundwater monitoring program is unknown, and that timeframe is open to the results of the sampling data.

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 2018 and 2017, expenditures which reduced the liability balance were \$1.3 million and \$1.1 million, respectively. The reserve balance at September 30, 2018 and at September 30, 2017, was \$641,000 and \$814,000, respectively.

GRU is recovering the costs of this cleanup through customer charges. A regulatory asset was established for the recovery of remediation costs from customers. Customer billings were \$1.3 million and \$1.1 million, as of September 30, 2018 and 2017, respectively. The regulatory asset balance was \$11.7 million and \$13.1 million as of September 30, 2018 and 2017, 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, GREC filed arbitration (American Arbitration Association Case No. 01-16-0000-8157) against the City doing business as Gainesville Regional Utilities, initially challenging GRU's withholding payment of invoiced amounts pursuant to the long-term power purchase agreement between GRU and GREC. Since January 31, 2017, \$8.5 million (including accrued interest) had been withheld by GRU based on disputed amounts actually invoiced by GREC. In addition, GREC had alleged claims in contract and tort that it asserts could result in aggregate damages to GREC of over \$100 million. Likewise, GRU had alleged claims in contract that could

Gainesville Regional Utilities
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13. Commitments and Contingencies (concluded)

GREC (concluded)

result in aggregate damages to GRU of over \$100 million. GRU entered into a Memorandum of Understanding with GREC on April 24, 2017, to explore the possible purchase of the biomass plant, the cancellation of the PPA and the resolution of the arbitration case. On September 12, 2017, GRU and GREC executed the APA which defined the purchase of the biomass plant, the termination of the PPA and the resolution of the arbitration case. Pursuant to the terms of the APA, GRU purchased the biomass plant on November 7, 2017.

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, 2018 and 2017, were \$126,000 and \$108,000, respectively.

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

| Year ending September 30, | Future Minimum Rental Payments |
|--------------------------------------|---|
| 2019 | \$ 53 |
| 2020 | 27 |
| 2021 | 18 |
| 2022 | 9 |
| 2023 | 9 |
| 2024-2028 | 30 |
| 2029-2033 | 30 |
| 2034-2038 | 30 |
| 2039-2043 | 30 |
| 2044-2046 | 18 |
| | <u>\$ 254</u> |

Gainesville Regional Utilities
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14. Retirement Plans

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

Defined Benefit Plans

Employees' Plan:

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

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.

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 percent of final average earnings vary depending on the date of hire as follows:

| <u>Date of Hire</u> | <u>Fixed percent of FAE (multiplier)</u> | <u>Final Average Earnings</u> |
|-------------------------|--|-------------------------------|
| 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

14. 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.

Gainesville Regional Utilities
Notes to Financial Statements
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14. 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 five 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan: (continued)

- If an active member who is not married dies after reaching normal retirement eligibility and did not previously select a tentative benefit option, or if an active member dies prior to reaching normal retirement eligibility, or if a non-active member with a deferred vested benefit dies before age 65, the death benefit is a refund of the member's contributions without interest to the beneficiary on record.
- Continuation of retirement benefits after the death of a retiree receiving benefits is contingent on the payment option selected upon retirement. If the retiree has chosen a life annuity and dies prior to receiving benefits greater than the retiree's contributions to the plan, a lump sum equal to the difference is paid to the beneficiary on record.

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

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

| | 2018 | 2017 |
|---|-------|-------|
| Active members | 1,514 | 1,519 |
| Retirees members/beneficiaries currently receiving benefits | 1,316 | 1,266 |
| Terminated members/beneficiaries entitled to benefits but not yet receiving benefits | 441 | 428 |
| Total | 3,271 | 3,213 |

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan: (concluded)

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 18.2% and 16.08% of covered payroll for the years ended September 2018 and 2017, respectively. This rate was influenced by the issuance of the Taxable Pension Obligation Bonds, Series 2003A. The proceeds from this issue were utilized to retire the unfunded actuarial accrued liability at that time in the Employees' Plan. Differences between the required contribution and actual contribution are due to actual payroll experiences varying from the estimated total payroll used in the generation of the actuarially required contribution rate. Administrative costs are financed through investment earnings.

The net pension liability related to the Employees' Plan was measured as of September 30, 2018 and 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2017 and October 1, 2016, for September 30, 2018 and 2017, respectively.

The net pension liability applicable to GRU as an enterprise fund of the City was \$71.2 million and \$82.7 million at September 30, 2018 and 2017, respectively.

The total pension liability as of September 30, 2018, was determined based on a roll-forward of entry age normal liabilities from the October 1, 2017 actuarial valuation. Below is a summary of the key actuarial assumptions used in the October 1, 2017 actuarial valuation:

| | |
|---------------------------|---|
| Inflation | 3.75% |
| Salary Increases | 3.00% to 5.00% |
| Investment Rate of Return | 8.00%, net of pension investment expenses |

Below is a summary of the key actuarial assumptions used in the October 1, 2016 actuarial valuation:

| | |
|---------------------------|---|
| Inflation | 4.50% |
| Salary Increases | 3.00% to 5.00% |
| Investment Rate of Return | 8.10%, net of pension investment expenses |

Mortality Rate:

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table projected generationally with Mortality Improvement Scale BB.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Long-term Expected Rate of Return:

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation are summarized in the following table for fiscal year 2018 and 2017:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long Term Expected Real Rate of Return</u> |
|---------------------------|--------------------------|---|
| Domestic Equity | 47.0% | 7.5% |
| International Equity | 28.0% | 8.5% |
| Broad Market Fixed Income | 8.0% | 2.5% |
| Real Estate | 12.0% | 4.5% |
| Alternative | 5.0% | 7.0% |
| Total | <u>100.0%</u> | |

Discount Rate:

The discount rates used to measure the total pension liability were 8% and 8.1% as of September 30, 2018 and 2017, 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Net Pension Liability:

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

| | Increase (Decrease) | | |
|--|----------------------------|--------------------------------|--------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| Balances at 10/01/2017 | \$ 314,508 | \$ 231,804 | \$ 82,704 |
| Changes for the year: | | | |
| Service cost | 3,238 | - | 3,238 |
| Interest | 24,644 | - | 24,644 |
| Differences between expected and actual experience | (2,933) | - | (2,933) |
| Changes to assumptions | 3,287 | - | 3,287 |
| Contributions - employer | - | 9,406 | (9,406) |
| Contributions - employee | - | 2,480 | (2,480) |
| Contributions - buy back | 51 | 51 | - |
| Net investment income | - | 28,277 | (28,277) |
| Benefit payments, including refunds and DROP payouts | (18,761) | (18,761) | - |
| Administrative expense | - | (401) | 401 |
| Net changes | <u>9,526</u> | <u>21,052</u> | <u>(11,526)</u> |
| Balances at 09/30/2018 | <u>\$ 324,034</u> | <u>\$ 252,856</u> | <u>\$ 71,178</u> |

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

| | Increase (Decrease) | | |
|--|----------------------------|--------------------------------|--------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| Balances at 10/01/2016 | \$ 292,068 | \$ 208,984 | \$ 83,084 |
| Changes for the year: | | | |
| Service cost | 4,887 | - | 4,887 |
| Interest | 23,273 | - | 23,273 |
| Differences between expected and actual experience | 4,472 | - | 4,472 |
| Changes to assumptions | 12,309 | - | 12,309 |
| Contributions - employer | - | 8,572 | (8,572) |
| Contributions - employee | - | 2,825 | (2,825) |
| Net investment income | - | 34,278 | (34,278) |
| Benefit payments, including refunds and DROP payouts | (22,501) | (22,501) | - |
| Administrative expense | - | (354) | 354 |
| Net changes | <u>22,440</u> | <u>22,820</u> | <u>(380)</u> |
| Balances at 09/30/2017 | <u>\$ 314,508</u> | <u>\$ 231,804</u> | <u>\$ 82,704</u> |

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

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

The following presents GRU's portion of the net pension liability, calculated using the discount rate of 8% and 8.1% as of September 30, 2018 and 2017, as well as what GRU's portion of the Plan's net pension liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

| | 2018 | | |
|---|-------------------------------|---|-------------------------------|
| Sensitivity for GRU's Portion (in thousands): | 1% Decrease (7.0%) | Current Discount Rate (8.0%) | 1% Increase (9.0%) |
| Net pension liability | \$ 107,350 | \$ 71,178 | \$ 40,839 |

| | 2017 | | |
|---|-------------------------------|---|-------------------------------|
| Sensitivity for GRU's Portion (in thousands): | 1% Decrease (7.1%) | Current Discount Rate (8.1%) | 1% Increase (9.1%) |
| Net pension liability | \$ 118,611 | \$ 82,704 | \$ 52,587 |

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Pension expense and deferred outflows of resources and deferred inflows of resources:

For the years ended September 30, 2018 and 2017, GRU recorded a regulatory asset for the Employees' Plan of \$981,000 and \$17 million, respectively. At September 30, 2018 and 2017, the City and GRU reported deferred outflows of resources related to the Employees' Plan from the following sources (in thousands):

| | 2018 | |
|---|---|--|
| | Deferred Outflows of Resources GRU's Portion | Deferred Inflows of Resources GRU's Portion |
| Differences between expected and actual experience | \$ 3,216 | \$ 2,321 |
| Net difference between projected and actual investment earnings on pension plan investments | - | 17,684 |
| Change to assumptions | 13,845 | - |
| Total | \$ 17,061 | \$ 20,005 |

| | 2017 | |
|---|---|--|
| | Deferred Outflows of Resources GRU's Portion | Deferred Inflows of Resources GRU's Portion |
| Differences between expected and actual experience | \$ 4,514 | \$ - |
| Net difference between projected and actual investment earnings on pension plan investments | 7,286 | 18,336 |
| Change to assumptions | 16,099 | - |
| Total | \$ 27,899 | \$ 18,336 |

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

14. Retirement Plans (concluded)

Defined Benefit Plans (concluded)

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

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

| <u>Fiscal Year</u> | <u>GRU</u> |
|--------------------|-------------------|
| 2019 | \$ 2,564 |
| 2020 | (1,157) |
| 2021 | (2,384) |
| 2022 | (1,967) |
| Total | <u>\$ (2,944)</u> |

15. Other Post-employment Benefits Plan

Plan description:

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. Management of the RHCP is vested in the RHCP Board of Trustees which consists of the seven member City Commissioners all who are elected by the citizens of Gainesville for three year terms.

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.

Benefits Provided:

The RHCP is a single-employer defined benefit health care plan administered by the City which provides medical insurance benefits to eligible retirees and their beneficiaries.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

15. Other Post-employment Benefits Plan (continued)

Employees covered by benefit terms:

At September 30, 2018, the following employees were covered by the benefit terms:

| | |
|--|--------------|
| Inactive employees or beneficiaries currently receiving benefit payments | 869 |
| Inactive employees entitled to but not yet receiving benefit payments | 627 |
| Active employees | <u>2,067</u> |
| Total | <u>3,563</u> |

Contributions:

In 1995, the City instituted a cost sharing agreement with retired employees for individual coverage only, based on a formula taking into account age at the time the benefit is first accessed and service at time of retirement. The contribution requirements of plan members and the City are established and may be amended by the City Commission. These contributions are neither mandated nor guaranteed. The City has retained the right to unilaterally modify its payment for retiree health care benefits. Administrative costs are financed through investment earnings. 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 the actuarial figures presented above to be calculated using age adjusted premiums approximating claim costs for retirees separate from active employees. The use of age adjusted premiums results in the addition of an implicit rate subsidy into the actuarial accrued liability. However, the City has elected to contribute to the RHCP at a rate that is based on an actuarial valuation prepared using the blended rate premium that is actually charged to the RHCP.

In July 2005, the City issued \$35,210,000 Taxable Other Post Employment Benefit (OPEB) bonds to retire the unfunded actuarial accrued liability then existing in the Retiree Health Care Plan (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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

15. Other Post-employment Benefits Plan (continued)

Contributions: (concluded)

In September 2008, the City terminated the existing program and trust and created 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.

Investment policy:

The City Commission has the responsibility to develop a policy for the investment of the assets of the RHCP. The investment of the assets must be consistent with the written investment policy adopted by the City Commission (Section 2-438 of the Gainesville City Code).

The policies are structured to maximize the financial return to the RHCP consistent with the risks incumbent in each investment and are structured to establish and maintain an appropriate diversification of the RHCP's assets. The City Commission periodically undertakes studies to evaluate the potential consequence of alternative investment strategies on the long term well-being of the RHCP.

Based on analysis of the RHCP assets and expected investment returns and risks associated with alternative asset mix strategies, the City adopted the following asset class targets, based on market value:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long Term Expected Real Rate of Return</u> |
|-------------------------|--------------------------|---|
| Equities | 80.0% | 9.0% |
| Real Estate | 10.0% | 6.0% |
| Alternative investments | 5.0% | 8.0% |
| Fixed income | 5.0% | 3.0% |
| Total | <u>100.0%</u> | |

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

15. Other Post-employment Benefits Plan (continued)

Net OPEB Liability:

GRU implemented GASB Statement No. 75 in 2018. The net OPEB liability related to the RHCP was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of October 1, 2015, rolled forward to September 30, 2018.

Actuarial assumptions:

The total OPEB liability in the October 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|------------------------------|--|
| Inflation | 3.75% |
| Salary Increase | 3.00% to 5.00% |
| Investment Rate of Return | 8.00%, net of OPEB plan investment expense |
| Health care cost trend rates | 6.00% |

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale BB.

The actuarial assumptions used in the October 1, 2015, valuation were based on the results of an actuarial experience study for the period ended October 1, 2015.

GASB Statement No. 75 requires that the total OPEB liability should be determined either by an actuarial valuation as of the measurement date, or by utilizing update procedures to roll the OPEB liability forward to the measurement date. The update procedures should include amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end. The October 1, 2015, actuarial valuation is more than 30 months and 1 day before the Utility's most recent fiscal year-end. However, GRU has determined that its portion of the difference between the October 1, 2015, valuation and the valuation for the Utility's most recent year-end is not material.

Discount rate:

The discount rate used to measure the total OPEB liability was 8% percent. 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. Based on those assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

15. Other Post-employment Benefits Plan (continued)

Discount rate: (concluded)

Changes in Net OPEB Liability for GRU (in thousands):

| | Increase (Decrease) | | |
|--|-------------------------|--------------------------------|-----------------------|
| | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability |
| Balances at 10/01/2017 | \$ 25,657 | \$ 24,105 | \$ 1,552 |
| Changes for the year: | | | |
| Service cost | 511 | - | 511 |
| Interest | 2,054 | - | 2,054 |
| Differences between expected and actual experience | - | - | - |
| Changes in assumptions | 222 | - | 222 |
| Contributions - employer | - | 765 | (765) |
| Net investment income | - | 2,373 | (2,373) |
| Benefit payments | (1,653) | (1,653) | - |
| Administrative expense | - | (5) | 5 |
| Net changes | <u>1,134</u> | <u>1,480</u> | <u>(346)</u> |
| Balances at 09/30/2018 | <u>\$ 26,791</u> | <u>\$ 25,585</u> | <u>\$ 1,206</u> |

Changes in Net OPEB Liability for GRU (in thousands):

| | Increase (Decrease) | | |
|--|-------------------------|--------------------------------|-----------------------|
| | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability |
| Balances at 10/01/2016 | \$ 24,863 | \$ 22,564 | \$ 2,299 |
| Changes for the year: | | | |
| Service cost | 487 | - | 487 |
| Interest | 2,002 | - | 2,002 |
| Differences between expected and actual experience | (347) | - | (347) |
| Changes in assumptions | 212 | - | 212 |
| Contributions - employer | - | 616 | (616) |
| Net investment income | - | 2,487 | (2,487) |
| Benefit payments | (1,560) | (1,560) | - |
| Administrative expense | - | (2) | 2 |
| Net changes | <u>794</u> | <u>1,541</u> | <u>(747)</u> |
| Balances at 09/30/2017 | <u>\$ 25,657</u> | <u>\$ 24,105</u> | <u>\$ 1,552</u> |

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

15. Other Post-employment Benefits Plan (continued)

Sensitivity of the net OPEB liability to changes in the discount rates:

The following presents GRU's portion of the net OPEB liability, calculated using the discount rate of 8% and 8.1% as of September 30, 2018 and 2017, respectively, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate (in thousands):

| | 2018 | | |
|----------------------------|-------------------------------|-------------------------------------|-------------------------------|
| | 1% Decrease (7.0%) | Discount Rate (8.0%) | 1% Increase (9.0%) |
| Net OPEB liability (asset) | \$ 3,611 | \$ 1,206 | \$ (877) |
| | 2017 | | |
| | 1% Decrease (7.1%) | Discount Rate (8.1%) | 1% Increase (9.1%) |
| Net OPEB liability (asset) | \$ 3,855 | \$ 1,552 | \$ (442) |

Sensitivity of the net OPEB liability to changes in the health care cost trend rates:

The following presents GRU's portion of the net OPEB liability, calculated using the health care cost trend rate of 6% as of September 30, 2018 and 2017, as well as what the Plan's net OPEB liability would be if it were calculated using a health care cost trend rate that is one percentage-point lower or one percentage-point higher than the current rate (in thousands):

| | 2018 | | |
|----------------------------|-------------------------------|---|-------------------------------|
| | 1% Decrease (5.0%) | Health Care Cost Trend Rate (6.0%) | 1% Increase (7.0%) |
| Net OPEB liability (asset) | \$ (1,344) | \$ 1,206 | \$ 4,177 |

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

15. Other Post-employment Benefits Plan (continued)

Sensitivity of the net OPEB liability to changes in the health care cost trend rates: (concluded)

| | 2017 | | |
|--|----------------------------|---|-----------------------|
| | 1% Decrease (5.0%) | Health Care Cost Trend Rate (6.0%) | 1% Increase (7.0%) |
| | Net OPEB liability (asset) | \$ (890) | \$ 1,552 |

OPEB plan fiduciary net position:

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued RHCP financial report.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:

For the year ended September 30, 2018, GRU recognized OPEB expense of \$274,000. At September 30, 2018, the City and GRU reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

| | Deferred Outflows of Resources GRU's Portion | Deferred Inflows of Resources GRU's Portion |
|---|--|---|
| Change in assumptions | \$ - | \$ (177) |
| Net difference between projected and actual investment earnings on pension plan investments | - | 365 |
| Total | \$ - | \$ 188 |

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

15. Other Post-employment Benefits Plan (concluded)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: (concluded)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

| <u>Fiscal Year</u> | <u>GRU</u> |
|--------------------|-----------------|
| 2018 | \$ (47) |
| 2019 | (47) |
| 2020 | (47) |
| 2021 | (47) |
| Thereafter | - |
| Total | <u>\$ (188)</u> |

16. Risk Management

GRU is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters and insures against these losses. GRU purchases plant and machinery insurance from a commercial carrier. There have been no significant reductions in insurance coverage from the prior year, and settlements have not exceeded 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%. All claims for fiscal 2018 and 2017 were paid from current year's revenues.

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

| <u>Fiscal Year</u> | <u>Beginning Balance</u> | <u>Claims</u> | <u>Payments</u> | <u>Change in Reserve</u> | <u>Ending Balance</u> |
|--------------------|--------------------------|---------------|-----------------|--------------------------|-----------------------|
| 2018 | \$ 3,337 | \$ 1,729 | \$ (1,729) | \$ - | \$ 3,337 |
| 2017 | 3,337 | 2,253 | (2,253) | - | 3,337 |
| 2016 | 3,337 | 1,178 | (1,178) | - | 3,337 |

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2018 and 2017

17. Subsequent Events

Air Quality Control System

GRU experienced a collapse of the Turbosorp Air Quality Control System at the Deerhaven Unit 2 generation facility during fiscal year 2016. This failure resulted in a loss of \$5.4 million recorded as a receivable and regulatory asset during the fiscal year ended September 30, 2018. GRU filed an insurance claim after the incident and received a payment of \$3.9 million on December 6, 2018, from one insurance carrier that will be applied against the receivable. On December 28, 2018, GRU received an additional payment of \$319,000 from another insurance carrier that will be applied against the regulatory asset.

Utilities System Revenue Bonds

On February 21, 2019, the City Commission approved a supplemental utilities system revenue bond resolution authorizing the issuance of the 2019 Series A and B bonds. Approximately \$160 million in proceeds from Series A will be used to fund capital projects in 2019 and 2020, replenish Utility Plant Improvement Fund reserves, and convert GRU's currently outstanding tax-exempt short-term commercial paper to long-term bonds. Approximately \$26.7 million in proceeds from Series B will be used to fund GRUCom capital projects over the next several years, convert outstanding taxable commercial paper to long-term bonds, and refund the outstanding 2005 Series B bonds.

SUPPLEMENTARY INFORMATION

Gainesville Regional Utilities
Schedules of Combined Net Revenues
in Accordance with Bond Resolution
For the Years Ended September 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|-----------------------|-----------------------|
| Revenues: | | |
| Electric system: | | |
| Sales of electricity | \$ 272,311,404 | \$ 293,066,410 |
| Transfers from rate stabilization | 7,206,070 | 15,548,835 |
| Other revenue | 5,062,778 | 6,022,825 |
| Other income | (1,763,862) | 70,159 |
| Build America Bonds | 2,903,975 | 2,935,564 |
| Total electric system revenues | <u>285,720,365</u> | <u>317,643,793</u> |
| Water system: | | |
| Sales of water | 34,665,428 | 35,307,646 |
| Transfer to rate stabilization | (437,706) | (2,517,293) |
| Other revenue | 1,911,099 | 2,338,143 |
| Other income (expense) | (89,225) | (862,300) |
| Build America Bonds | 817,966 | 824,619 |
| Total water system revenues | <u>36,867,562</u> | <u>35,090,815</u> |
| Wastewater system: | | |
| Sales of wastewater | 40,785,747 | 40,105,516 |
| Transfer from (to) rate stabilization | 1,097,355 | (849,983) |
| Other revenue | 3,436,618 | 3,874,344 |
| Other income | (93,845) | 122,122 |
| Build America Bonds | 929,061 | 933,336 |
| Total wastewater system revenues | <u>46,154,936</u> | <u>44,185,335</u> |
| Gas system: | | |
| Sales of gas | 24,077,326 | 21,522,855 |
| Transfer from rate stabilization | (3,887,772) | (1,058,123) |
| Other revenue | 367,576 | 918,597 |
| Other income (expense) | 113,919 | (73,167) |
| Build America Bonds | 608,225 | 614,682 |
| Total gas system revenues | <u>21,279,274</u> | <u>21,924,844</u> |
| Telecommunications system: | | |
| Sales of services | 11,362,989 | 11,189,423 |
| Transfer from (to) rate stabilization | (138,160) | 584,913 |
| Other revenue | 14,536 | 11,562 |
| Other income (expense) | (29,030) | (335,831) |
| Total telecommunications system revenue | <u>11,210,335</u> | <u>11,450,067</u> |
| Total revenues | <u>\$ 401,232,472</u> | <u>\$ 430,294,854</u> |

Continued on next page.

Gainesville Regional Utilities
Schedules of Combined Net Revenues
in Accordance with Bond Resolution (concluded)
For the Years Ended September 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Operation, maintenance and administrative expenses: | | |
| Electric system: | | |
| Fuel expense | \$ 99,281,397 | \$ 162,490,201 |
| Operation and maintenance | 65,969,401 | 48,572,781 |
| Administrative and general | 12,435,985 | 24,461,966 |
| Total electric system expense | <u>177,686,783</u> | <u>235,524,948</u> |
| Water system: | | |
| Operation and maintenance | 11,627,273 | 9,944,066 |
| Administrative and general | 4,615,006 | 5,519,450 |
| Total water system expense | <u>16,242,279</u> | <u>15,463,516</u> |
| Wastewater system: | | |
| Operation and maintenance | 15,650,012 | 13,078,881 |
| Administrative and general | 4,563,011 | 5,973,307 |
| Total wastewater system expense | <u>20,213,023</u> | <u>19,052,188</u> |
| Gas system: | | |
| Fuel expense and purchased gas | 7,842,044 | 7,025,104 |
| Operation and maintenance | 3,082,310 | 2,505,904 |
| Administrative and general | 2,068,498 | 3,370,550 |
| Total gas system expense | <u>12,992,852</u> | <u>12,901,558</u> |
| Telecommunications system: | | |
| Operation and maintenance | 5,669,793 | 5,285,596 |
| Administrative and general | 832,773 | 1,823,125 |
| Total telecommunications system expense | <u>6,502,566</u> | <u>7,108,721</u> |
| Total expenses | <u>233,637,503</u> | <u>290,050,931</u> |
| Net revenue in accordance with bond resolution: | | |
| Electric | 108,033,582 | 82,118,845 |
| Water | 20,625,283 | 19,627,299 |
| Wastewater | 25,941,913 | 25,133,147 |
| Gas | 8,286,422 | 9,023,286 |
| Telecommunications | 4,707,769 | 4,341,346 |
| Total net revenue in accordance with bond resolution | <u>167,594,969</u> | <u>140,243,923</u> |
| Aggregate bond debt service | <u>\$ 89,235,841</u> | <u>\$ 55,988,596</u> |
| Aggregate bond debt service coverage ratio | <u>1.88</u> | <u>2.50</u> |
| Total debt service | <u>\$ 90,095,336</u> | <u>\$ 62,571,817</u> |
| Total debt service coverage ratio | <u>1.86</u> | <u>2.24</u> |

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Electric Utility System
For the Years Ended September 30, 2018 and 2017

| | 2018 | 2017 |
|---|--------------------|--------------------|
| Revenues | | |
| Sales of electricity: | | |
| Residential | \$ 64,742,786 | \$ 47,236,704 |
| Non-residential | 79,577,373 | 61,748,151 |
| Fuel adjustment | 99,281,397 | 162,490,201 |
| Sales for resale | 6,041,922 | 4,042,864 |
| Utility surcharge | 3,641,223 | 2,979,234 |
| Other electric sales | 19,026,703 | 14,569,256 |
| Total sales of electricity | <u>272,311,404</u> | <u>293,066,410</u> |
| Transfers from rate stabilization | 7,206,070 | 15,548,835 |
| Other revenue | 5,062,778 | 6,022,825 |
| Other income (expense) | (1,763,862) | 70,159 |
| Build America Bonds | 2,903,975 | 2,935,564 |
| Total revenues | <u>285,720,365</u> | <u>317,643,793</u> |
| Operation, maintenance and administrative expenses | | |
| Fuel expenses | 99,281,397 | 162,490,201 |
| Power production | 45,575,265 | 29,340,502 |
| Transmission and distribution | 20,394,136 | 19,232,279 |
| Administrative and general | 12,435,985 | 24,461,966 |
| Total operation, maintenance, and administrative expenses | <u>177,686,783</u> | <u>235,524,948</u> |
| Total net revenues in accordance with bond resolution | <u>108,033,582</u> | <u>82,118,845</u> |
| Less: | | |
| Debt service | 66,107,727 | 38,978,216 |
| Debt service - UPIF | (5,000,000) | (5,000,000) |
| UPIF contributions | 25,498,577 | 27,046,177 |
| Transfer to City of Gainesville General Fund | 21,427,278 | 21,094,452 |
| Net impact to rate stabilization | <u>\$ -</u> | <u>\$ -</u> |

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Water Utility System
For the Years Ended September 30, 2018 and 2017

| | 2018 | 2017 |
|---|------------------------|------------------------|
| Revenues | | |
| Residential | \$ 21,121,920 | \$ 21,876,220 |
| Non-residential | 11,044,930 | 10,832,890 |
| Utility surcharge | 2,498,578 | 2,598,536 |
| Total sales of water | 34,665,428 | 35,307,646 |
| Transfers to rate stabilization | (437,706) | (2,517,293) |
| Other revenues | 1,911,099 | 2,338,143 |
| Other Income (expense) | (89,225) | (862,300) |
| Build America Bonds | 817,966 | 824,619 |
| Total revenues | 36,867,562 | 35,090,815 |
| Operation, maintenance, and administrative expenses | | |
| Transmission and distribution | 4,279,991 | 3,281,281 |
| Treatment | 7,347,282 | 6,662,785 |
| Administrative and general | 4,615,006 | 5,519,450 |
| Total operation, maintenance, and administrative expenses | 16,242,279 | 15,463,516 |
| Total net revenues in accordance with bond resolution | 20,625,283 | 19,627,299 |
| Less: | | |
| Debt service | 7,318,225 | 6,836,438 |
| UPIF contributions | 7,468,215 | 7,042,712 |
| Transfer to City of Gainesville General Fund | 5,838,843 | 5,748,149 |
| Net impact to rate stabilization | \$ – | \$ – |

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Wastewater Utility System
For the Years Ended September 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| Revenues | | |
| Residential | \$ 26,961,181 | \$ 27,090,198 |
| Non-residential | 10,936,712 | 10,157,051 |
| Utility surcharge | 2,887,854 | 2,858,267 |
| Total sales of services | <u>40,785,747</u> | <u>40,105,516</u> |
| Transfers to rate stabilization | 1,097,355 | (849,983) |
| Other revenue | 3,436,618 | 3,874,344 |
| Other income | (93,845) | 122,122 |
| Build America Bonds interest income | 929,061 | 933,336 |
| Total revenues | <u>46,154,936</u> | <u>44,185,335</u> |
| Operation, maintenance, and administrative expenses | | |
| Collection | 8,501,302 | 6,402,349 |
| Treatment | 7,148,710 | 6,676,532 |
| Administrative and general | 4,563,011 | 5,973,307 |
| Total operation, maintenance, and administrative expenses | <u>20,213,023</u> | <u>19,052,188</u> |
| Total net revenues in accordance with bond resolution | <u>25,941,913</u> | <u>25,133,147</u> |
| Less: | | |
| Debt service | 8,756,861 | 8,466,469 |
| UPIF contributions | 9,836,478 | 9,432,248 |
| Transfer to City of Gainesville General Fund | 7,348,574 | 7,234,430 |
| Net impact to rate stabilization | <u>\$ -</u> | <u>\$ -</u> |

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Gas Utility System
For the Years Ended September 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| Revenues | | |
| Residential | \$ 8,532,414 | \$ 7,360,771 |
| Non-residential | 5,782,413 | 5,484,284 |
| Fuel adjustment | 7,842,044 | 7,025,104 |
| Utility surcharge | 548,417 | 474,737 |
| Other gas sales | 1,372,038 | 1,177,959 |
| Total sales of gas | <u>24,077,326</u> | <u>21,522,855</u> |
| Transfers from (to) rate stabilization | (3,887,772) | (1,058,123) |
| Other revenue | 367,576 | 918,597 |
| Other income (expense) | 113,919 | (73,167) |
| Build America Bonds | 608,225 | 614,682 |
| Total revenues | <u>21,279,274</u> | <u>21,924,844</u> |
| Operation, maintenance, and administrative expenses | | |
| Fuel expense - purchased gas | 7,842,044 | 7,025,104 |
| Operation and maintenance | 3,082,310 | 2,505,904 |
| Administrative and general | 2,068,498 | 3,370,550 |
| Total operation, maintenance, and administrative expenses | <u>12,992,852</u> | <u>12,901,558</u> |
| Total net revenues in accordance with bond resolution | <u>8,286,422</u> | <u>9,023,286</u> |
| Less: | | |
| Debt service | 4,025,315 | 4,568,628 |
| UPIF contributions | 2,878,702 | 3,093,726 |
| Transfer to City of Gainesville General Fund | 1,382,405 | 1,360,932 |
| Net impact to rate stabilization | <u>\$ -</u> | <u>\$ -</u> |

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Telecommunications System
For the Years Ended September 30, 2018 and 2017

| | 2018 | 2017 |
|---|--------------|--------------|
| Revenues | | |
| Telecommunications | \$ 7,734,382 | \$ 7,721,940 |
| Trunking radio | 1,759,037 | 1,771,755 |
| Tower leasing | 1,820,064 | 1,695,728 |
| Other sales | 49,506 | - |
| Total sales of services | 11,362,989 | 11,189,423 |
| Transfers from (to) rate stabilization | (138,160) | 584,913 |
| Other revenue | 14,536 | 11,562 |
| Other income (expense) | (29,030) | (335,831) |
| Total revenues | 11,210,335 | 11,450,067 |
| Operation, maintenance, and administrative expenses | | |
| Operation and maintenance | 5,669,793 | 5,285,596 |
| Administrative and general | 832,773 | 1,823,125 |
| Total operation, maintenance, and administrative expenses | 6,502,566 | 7,108,721 |
| Total net revenues in accordance with bond resolution | 4,707,769 | 4,341,346 |
| Less: | | |
| Debt service | 3,887,208 | 3,722,066 |
| UPIF contributions | 438,581 | 243,233 |
| Transfer to City of Gainesville General Fund | 381,980 | 376,047 |
| Net impact to rate stabilization | \$ - | \$ - |

Gainesville Regional Utilities
Notes to Schedules of Net Revenues in Accordance with Bond Resolution
For the Years Ended September 30, 2018 and 2017

The Schedules of Net Revenues in Accordance with Bond Resolution are in compliance with the bond resolution and do not agree to the audited Statements of Revenues, Expenses, and Changes in Net Position. The difference is due mainly to the exclusion of the following noncash activities:

- ° Depreciation and amortization expense
- ° Allowance for Funds Used During Construction
- ° Contributions in Aid of Construction

Gainesville Regional Utilities
Combining Statement of Net Position
September 30, 2018

| | Electric | Water | Wastewater | Gas | GRUCom | Combined |
|--|-------------------------|-----------------------|-----------------------|----------------------|----------------------|-------------------------|
| Assets | | | | | | |
| Current assets: | | | | | | |
| Cash and investment | \$ 15,504,248 | \$ 1,544,114 | \$ 340,211 | \$ 5,708,312 | \$ 3,696,541 | \$ 26,793,426 |
| Accounts receivable, net of allowance for uncollectible accounts | 46,743,358 | 4,706,734 | 5,398,423 | 1,898,480 | 1,230,353 | 59,977,348 |
| Inventories: | | | | | | |
| Fuel | 16,077,741 | - | - | - | - | 16,077,741 |
| Materials and supplies | 10,247,806 | 1,092,393 | 78,328 | 501,903 | 450,184 | 12,370,614 |
| Fuel adjustment | 2,310,115 | - | - | 66,826 | - | 2,376,941 |
| Other assets and regulatory assets | 870,443 | 81,977 | 68,098 | 1,029,823 | 9,652 | 2,059,993 |
| Total current assets | <u>91,753,711</u> | <u>7,425,218</u> | <u>5,885,060</u> | <u>9,205,344</u> | <u>5,386,730</u> | <u>119,656,063</u> |
| Restricted assets: | | | | | | |
| Utility deposits - cash and investments | 7,581,525 | 630,775 | 483,012 | 382,868 | - | 9,078,180 |
| Debt service - cash and investments | 44,990,439 | 4,113,993 | 4,573,187 | 3,481,326 | 2,110,329 | 59,269,274 |
| Rate stabilization - cash and investments | 27,854,271 | 10,134,806 | 10,387,793 | 9,180,120 | 146,816 | 57,703,806 |
| Construction fund - cash and investments | 16,694,925 | 6,129,395 | 9,760,384 | 2,129,594 | 482,792 | 35,197,090 |
| Utility plant improvement fund - cash and investments | 1,937,712 | 8,140,771 | 1,620,025 | 2,667,897 | 350,000 | 14,716,405 |
| Total restricted assets | <u>99,058,872</u> | <u>29,149,740</u> | <u>26,824,401</u> | <u>17,841,805</u> | <u>3,089,937</u> | <u>175,964,755</u> |
| Noncurrent assets: | | | | | | |
| Unamortized debt issuance costs - regulatory asset | 7,116,859 | 600,684 | 733,246 | 364,321 | 241,125 | 9,056,235 |
| Investment in The Energy Authority | 1,412,689 | - | - | 844,607 | - | 2,257,296 |
| Pollution remediation - regulatory asset | - | - | - | 10,782,332 | - | 10,782,332 |
| Other noncurrent assets | | | | | | |
| and regulatory assets | 5,986,327 | 927,533 | 981,913 | 504,043 | 250,436 | 8,650,252 |
| Pension regulatory asset | 44,336,403 | 9,652,115 | 11,989,694 | 4,302,736 | 3,841,403 | 74,122,351 |
| Total noncurrent assets | <u>58,852,278</u> | <u>11,180,332</u> | <u>13,704,853</u> | <u>16,798,039</u> | <u>4,332,964</u> | <u>104,868,466</u> |
| Capital assets: | | | | | | |
| Utility plant in service | 1,954,629,548 | 290,549,130 | 380,989,683 | 94,727,565 | 73,683,677 | 2,794,579,603 |
| Less: accumulated depreciation and amortization | (582,113,857) | (127,192,970) | (166,897,748) | (52,706,654) | (39,313,120) | (968,224,349) |
| | <u>1,372,515,691</u> | <u>163,356,160</u> | <u>214,091,935</u> | <u>42,020,911</u> | <u>34,370,557</u> | <u>1,826,355,254</u> |
| Construction in progress | 37,911,701 | 20,036,216 | 30,439,154 | 6,291,709 | 5,417,898 | 100,096,678 |
| Net capital assets | <u>1,410,427,392</u> | <u>183,392,376</u> | <u>244,531,089</u> | <u>48,312,620</u> | <u>39,788,455</u> | <u>1,926,451,932</u> |
| Total assets | <u>1,660,092,253</u> | <u>231,147,666</u> | <u>290,945,403</u> | <u>92,157,808</u> | <u>52,598,086</u> | <u>2,326,941,216</u> |
| Deferred outflows of resources | | | | | | |
| Unamortized loss on refundings of bonds | 10,345,267 | 2,450,131 | 2,856,627 | 1,071,327 | 1,252,199 | 17,975,551 |
| Accumulated decrease in fair value of hedging derivatives | 27,872,915 | 3,812,891 | 3,365,034 | 1,128,017 | 711,647 | 36,890,504 |
| Pension costs | 10,184,607 | 2,224,171 | 2,779,464 | 968,528 | 904,676 | 17,061,446 |
| Total deferred outflows of resources | <u>48,402,789</u> | <u>8,487,193</u> | <u>9,001,125</u> | <u>3,167,872</u> | <u>2,868,522</u> | <u>71,927,501</u> |
| Total assets and deferred outflows of resources | <u>\$ 1,708,495,042</u> | <u>\$ 239,634,859</u> | <u>\$ 299,946,528</u> | <u>\$ 95,325,680</u> | <u>\$ 55,466,608</u> | <u>\$ 2,398,868,717</u> |

Continued on next page.

Gainesville Regional Utilities
Combining Statement of Net Position (concluded)
September 30, 2018

| | Electric | Water | Wastewater | Gas | GRUCom | Combined |
|--|-------------------------|-----------------------|-----------------------|----------------------|----------------------|-------------------------|
| Liabilities | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and accrued liabilities | \$ 17,080,494 | \$ 1,909,634 | \$ 1,407,272 | \$ 656,753 | \$ 326,388 | \$ 21,380,541 |
| Fuels payable | 4,769,484 | - | - | - | - | 4,769,484 |
| Due to other funds | 1,840,713 | (458,711) | 610,639 | (1,376,624) | (165,185) | 450,832 |
| Other liabilities and regulatory liabilities | 687,082 | - | - | 155,930 | - | 843,012 |
| Total current liabilities | 24,377,773 | 1,450,923 | 2,017,911 | (563,941) | 161,203 | 27,443,869 |
| Payable from restricted assets: | | | | | | |
| Utility deposits | 7,581,525 | 667,632 | 446,155 | 382,868 | - | 9,078,180 |
| Accounts payable and accrued liabilities | 4,075,614 | 1,843,695 | 2,382,292 | 41,860 | (907) | 8,342,554 |
| Utilities system revenue bonds – current | 19,989,595 | 2,105,484 | 2,517,176 | 1,197,009 | 2,075,736 | 27,885,000 |
| Accrued interest payable | 23,314,865 | 2,144,199 | 2,385,240 | 1,167,951 | 443,038 | 29,455,293 |
| Other liabilities and regulatory liabilities | 8,175 | 970 | 1,198 | 516 | 737 | 11,596 |
| Total payable from restricted assets | 54,969,774 | 6,761,980 | 7,732,061 | 2,790,204 | 2,518,604 | 74,772,623 |
| Long-term debt: | | | | | | |
| Utilities system revenue bonds | 1,166,295,515 | 111,424,157 | 131,173,107 | 55,093,961 | 42,468,260 | 1,506,455,000 |
| Commercial paper notes | 41,004,000 | 11,373,000 | 21,318,000 | 10,489,000 | 8,816,000 | 93,000,000 |
| Unamortized bond premium/discount | 78,462,569 | 1,357,315 | 2,753,631 | 809,515 | 375,355 | 83,758,385 |
| Fair value of derivative instruments | 28,963,880 | 4,125,294 | 3,741,542 | 1,253,174 | 681,397 | 38,765,287 |
| Total long-term debt | 1,314,725,964 | 128,279,766 | 158,986,280 | 67,645,650 | 52,341,012 | 1,721,978,672 |
| Noncurrent liabilities: | | | | | | |
| Reserve for insurance claims | 1,999,960 | 598,326 | 546,333 | 187,085 | 5,296 | 3,337,000 |
| Reserve for environmental liability | - | - | - | 519,000 | - | 519,000 |
| Pension liability | 42,552,146 | 9,271,526 | 11,535,681 | 4,107,196 | 3,711,895 | 71,178,444 |
| Other noncurrent liabilities and regulatory liabilities | 723,820 | 156,827 | 193,019 | 72,382 | 651,696 | 1,797,744 |
| Total noncurrent liabilities | 45,275,926 | 10,026,679 | 12,275,033 | 4,885,663 | 4,368,887 | 76,832,188 |
| Total liabilities | 1,439,349,437 | 146,519,348 | 181,011,285 | 74,757,576 | 59,389,706 | 1,901,027,352 |
| Deferred inflows of resources | | | | | | |
| Rate stabilization | 28,722,113 | 10,347,783 | 10,625,459 | 9,273,248 | (439,351) | 58,529,252 |
| Pension costs | 11,968,864 | 2,604,760 | 3,233,477 | 1,164,069 | 1,034,183 | 20,005,353 |
| Other deferred inflows | 112,691 | 24,416 | 30,051 | 11,269 | 9,391 | 187,818 |
| Total deferred inflows of resources | 40,803,668 | 12,976,959 | 13,888,987 | 10,448,586 | 604,223 | 78,722,423 |
| Net position | | | | | | |
| Net investment in capital assets | 127,639,867 | 63,868,104 | 97,003,678 | (5,335,523) | (12,225,704) | 270,950,422 |
| Restricted | 23,605,535 | 10,072,885 | 3,843,847 | 4,980,807 | 2,016,581 | 44,519,655 |
| Unrestricted | 77,096,535 | 6,197,563 | 4,198,731 | 10,474,234 | 5,681,802 | 103,648,865 |
| Total net position | 228,341,937 | 80,138,552 | 105,046,256 | 10,119,518 | (4,527,321) | 419,118,942 |
| Total liabilities, deferred inflows of resources and net position | \$ 1,708,495,042 | \$ 239,634,859 | \$ 299,946,528 | \$ 95,325,680 | \$ 55,466,608 | \$ 2,398,868,717 |

Gainesville Regional Utilities
Combining Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2018

| | Electric | Water | Wastewater | Gas | GRUCom | Combined |
|--|-----------------------|----------------------|-----------------------|----------------------|-----------------------|-----------------------|
| Operating revenue: | | | | | | |
| Sales and service charges | \$ 272,311,405 | \$ 34,665,428 | \$ 40,785,747 | \$ 24,077,327 | \$ 11,362,989 | \$ 383,202,896 |
| Transfers from (to) rate stabilization | 7,206,070 | (437,706) | 1,097,355 | (3,887,772) | (138,160) | 3,839,787 |
| Amounts to be recovered from future revenue | 3,449,252 | - | - | - | - | 3,449,252 |
| Other operating revenue | 6,326,018 | 1,917,436 | 3,436,618 | 367,576 | 14,536 | 12,062,184 |
| Total operating revenues | 289,292,745 | 36,145,158 | 45,319,720 | 20,557,131 | 11,239,365 | 402,554,119 |
| Operating expenses: | | | | | | |
| Operation and maintenance | 165,221,991 | 11,624,923 | 15,647,528 | 12,178,011 | 5,668,298 | 210,340,751 |
| Administrative and general | 12,436,321 | 4,615,040 | 4,563,010 | 2,068,544 | 832,773 | 24,515,688 |
| Depreciation and amortization | 64,986,291 | 9,556,615 | 12,153,991 | 4,192,783 | 3,190,453 | 94,080,133 |
| Total operating expenses | 242,644,603 | 25,796,578 | 32,364,529 | 18,439,338 | 9,691,524 | 328,936,572 |
| Operating income | 46,648,142 | 10,348,580 | 12,955,191 | 2,117,793 | 1,547,841 | 73,617,547 |
| Non-operating income (expense): | | | | | | |
| Interest income | 1,788,802 | 403,465 | 390,818 | 282,200 | 120,718 | 2,986,003 |
| Interest expense, net of AFUDC | (41,758,609) | (5,213,819) | (6,073,189) | (2,845,714) | (2,143,385) | (58,034,716) |
| Other interest related income, BABs | 2,903,975 | 817,966 | 929,061 | 608,225 | - | 5,259,227 |
| Other expense | (4,781,467) | (351,007) | (399,435) | (161,079) | (323,666) | (6,016,654) |
| Total non-operating expense | (41,847,299) | (4,343,395) | (5,152,745) | (2,116,368) | (2,346,333) | (55,806,140) |
| Income before capital contributions and transfers | 4,800,843 | 6,005,185 | 7,802,446 | 1,425 | (798,492) | 17,811,407 |
| Capital contributions: | | | | | | |
| Contributions from third parties | 123,165 | 600,208 | 590,034 | - | - | 1,313,407 |
| Reduction of plant cost recovered through contributions | (123,165) | - | - | - | - | (123,165) |
| Net capital contributions | - | 600,208 | 590,034 | - | - | 1,190,242 |
| Transfers from (to) | | | | | | |
| Other systems | 11,377,771 | (7,066,676) | (8,918,388) | 7,144,152 | (2,536,859) | - |
| City of Gainesville General Fund | (21,427,278) | (5,838,843) | (7,348,574) | (1,382,405) | (381,980) | (36,379,080) |
| Change in net position | (5,248,664) | (6,300,126) | (7,874,482) | 5,763,172 | (3,717,331) | (17,377,431) |
| Net position – beginning of year, restated | 233,590,601 | 86,438,678 | 112,920,738 | 4,356,346 | (809,990) | 436,496,373 |
| Net position – end of year | \$ 228,341,937 | \$ 80,138,552 | \$ 105,046,256 | \$ 10,119,518 | \$ (4,527,321) | \$ 419,118,942 |

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

| | Balance September 30, 2017 | Additions | Sales, Retirements, and Transfers | Balance September 30, 2018 |
|--------------------------------------|----------------------------------|-----------------------|---|----------------------------------|
| Plant in service | | | | |
| Electric utility system: | | | | |
| Production plant | \$ 1,665,683,010 | \$ 792,952,189 | \$ 1,033,220,362 | \$ 1,425,414,837 |
| Transmission and distribution plant | 360,189,540 | 29,694,727 | 1,105,550 | 388,778,717 |
| General and common plant | 139,718,061 | 2,532,137 | 1,814,204 | 140,435,994 |
| Total electric system | <u>2,165,590,611</u> | <u>825,179,053</u> | <u>1,036,140,116</u> | <u>1,954,629,548</u> |
| Water utility system: | | | | |
| Supply, pumping, and treatment plant | 76,441,715 | 53,916 | – | 76,495,631 |
| Transmission and distribution plant | 193,997,539 | 6,726,301 | 6,172,126 | 194,551,714 |
| General plant | 18,848,558 | 1,006,902 | 353,674 | 19,501,786 |
| Total water system | <u>289,287,812</u> | <u>7,787,119</u> | <u>6,525,800</u> | <u>290,549,131</u> |
| Wastewater utility system: | | | | |
| Pumping and treatment plant | 138,205,479 | 6,251 | – | 138,211,730 |
| Collection plant | 188,652,026 | 5,719,586 | 11,697,709 | 182,673,903 |
| Reclaimed water plant | 29,368,502 | – | (5,976,496) | 35,344,998 |
| General plant | 24,030,033 | 911,110 | 182,091 | 24,759,052 |
| Total wastewater system | <u>380,256,040</u> | <u>6,636,947</u> | <u>5,903,304</u> | <u>380,989,683</u> |
| Gas utility system: | | | | |
| Distribution plant | 74,064,066 | 1,781,429 | 879,105 | 74,966,390 |
| General plant | 15,008,600 | 378,525 | 276,587 | 15,110,538 |
| Plant acquisition adjustment | 4,650,636 | – | – | 4,650,636 |
| Total gas system | <u>93,723,302</u> | <u>2,159,954</u> | <u>1,155,692</u> | <u>94,727,564</u> |
| GRUCom utility system: | | | | |
| Distribution plant | 62,031,008 | 2,208,577 | 4,908,097 | 59,331,488 |
| General plant | 10,657,561 | 133,210 | (3,561,418) | 14,352,189 |
| Total GRUCom system | <u>72,688,569</u> | <u>2,341,787</u> | <u>1,346,679</u> | <u>73,683,677</u> |
| Total plant in service | <u>\$ 3,001,546,334</u> | <u>\$ 844,104,860</u> | <u>\$ 1,051,071,591</u> | <u>\$ 2,794,579,603</u> |
| Construction in progress | | | | |
| Electric system | \$ 66,931,096 | \$ 796,522,775 | \$ 825,542,170 | \$ 37,911,701 |
| Water system | 7,629,868 | 20,168,925 | 7,762,577 | 20,036,216 |
| Wastewater system | 12,739,777 | 24,375,995 | 6,676,619 | 30,439,153 |
| Gas system | 3,485,611 | 4,858,693 | 2,052,594 | 6,291,710 |
| GRUCom system | 1,311,723 | 6,449,174 | 2,342,999 | 5,417,898 |
| Total construction in progress | <u>\$ 92,098,075</u> | <u>\$ 852,375,562</u> | <u>\$ 844,376,959</u> | <u>\$ 100,096,678</u> |

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

| | Balance September 30, 2017 | Additions | Sales, Retirements, and Transfers | Balance September 30, 2018 |
|--|---|----------------------|--|---|
| Electric utility system: | | | | |
| Production plant | \$ 411,960,015 | \$ 42,345,055 | \$ 129,080,796 | \$ 325,224,274 |
| Transmission and distribution plant | 173,694,885 | 13,536,741 | 1,159,650 | 186,071,976 |
| General and common plant | 66,196,921 | 5,514,128 | 893,442 | 70,817,607 |
| Total electric system | 651,851,821 | 61,395,924 | 131,133,888 | 582,113,857 |
| Water utility system: | | | | |
| Supply, pumping, and treatment plant | 26,184,848 | 3,250,981 | 18,182 | 29,417,647 |
| Transmission and distribution plant | 84,903,404 | 5,258,581 | (18,182) | 90,180,167 |
| General plant | 6,827,616 | 1,047,054 | 279,514 | 7,595,156 |
| Total water system | 117,915,868 | 9,556,616 | 279,514 | 127,192,970 |
| Wastewater utility system: | | | | |
| Pumping and treatment plant | 62,464,834 | 4,337,049 | 593,430 | 66,208,453 |
| Collection plant | 79,464,101 | 5,355,997 | (335,525) | 85,155,623 |
| Reclaimed water plant | 4,391,911 | 888,559 | 192,090 | 5,088,380 |
| General plant | 9,047,152 | 1,572,386 | 174,246 | 10,445,292 |
| Total wastewater system | 155,367,998 | 12,153,991 | 624,241 | 166,897,748 |
| Gas utility system: | | | | |
| Distribution plant | 39,283,846 | 3,383,004 | 21,173 | 42,645,677 |
| General plant | 4,744,721 | 809,779 | 144,159 | 5,410,341 |
| Plant acquisition adjustment | 4,650,636 | – | – | 4,650,636 |
| Total gas system | 48,679,203 | 4,192,783 | 165,332 | 52,706,654 |
| GRUCom utility system: | | | | |
| Distribution plant | 34,226,342 | 2,479,315 | (476,043) | 37,181,700 |
| General plant | 2,860,981 | 711,138 | 1,440,699 | 2,131,420 |
| Total GRUCom system | 37,087,323 | 3,190,453 | 964,656 | 39,313,120 |
| Total depreciation and amortization | \$ 1,010,902,213 | \$ 90,489,767 | \$ 133,167,631 | \$ 968,224,349 |

OTHER REPORT

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*

Independent Auditors' Report

To the Honorable Mayor and City Commission
Gainesville Regional Utilities
Gainesville, Florida

We have audited, 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, the financial statements of Gainesville Regional Utilities as of and for the year ended September 30, 2018, and have issued our report thereon dated February 27, 2019.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
February 27, 2019