

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**GAINESVILLE REGIONAL UTILITIES
GAINESVILLE, FLORIDA**

SEPTEMBER 30, 2020 AND 2019

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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, an enterprise fund of the City of Gainesville, Florida, as of and for the years ended September 30, 2020 and 2019, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2020 and 2019, 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 the Gainesville Regional Utilities enterprise fund, and do not purport to, and do not, present fairly the financial position of the City of Gainesville, Florida, as of September 30, 2020 and 2019 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 16 to the financial statements, the pension regulatory asset and due to other funds balances as of September 30, 2019 have been restated to correct a material misstatement related to Gainesville Regional Utilities' share of the Taxable Pension Obligation Bonds, Series 2003A, issued by the City of Gainesville. 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 States 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 audits were 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 are 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 19, 2021 on our consideration of the overall 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 solely 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 effectiveness of Gainesville Regional Utilities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Gainesville Regional Utilities' internal control over financial reporting and compliance.

Baker Tilly US, LLP

Madison, Wisconsin
February 19, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

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

We offer readers of GRU's financial statements this management's discussion and analysis of the financial activities of GRU for the fiscal years ended September 30, 2020, 2019, and 2018. It should be read in conjunction with the financial statements that follow this section.

Required Financial Statements

Statement of Net Position

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

Statement of Revenues, Expenses, and Changes in Net Position

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

Statement of Cash Flows

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

Notes to Financial Statements

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

Management's Discussion and Analysis

Financial Analysis of Gainesville Regional Utilities

GRU's net position decreased \$14 million, decreased \$8.8 million, and decreased \$4.3 million for fiscal years 2020, 2019 and 2018, 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

	2020	Restated 2019	Restated 2018
Current assets	\$ 123,646	\$ 118,305	\$ 119,656
Restricted assets	250,332	274,135	175,965
Noncurrent assets	171,459	160,454	135,991
Capital assets, net	1,871,400	1,886,223	1,926,452
Deferred outflows of resources	157,679	116,069	71,927
Total assets and deferred outflows of resources	<u>\$ 2,574,516</u>	<u>\$ 2,555,186</u>	<u>\$ 2,429,991</u>
Current liabilities	\$ 35,879	\$ 28,407	\$ 28,002
Payable from restricted assets	77,785	68,668	74,773
Long-term debt	1,852,750	1,848,675	1,721,979
Noncurrent liabilities	132,746	130,725	94,305
Deferred inflows of resources	65,983	55,312	78,722
Total liabilities and deferred inflows of resources	<u>2,165,143</u>	<u>2,131,787</u>	<u>1,997,781</u>
Net position:			
Net investment in capital assets	192,217	241,822	270,950
Restricted	84,031	53,894	44,520
Unrestricted	133,125	127,683	116,740
Total net position	<u>409,373</u>	<u>423,399</u>	<u>432,210</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,574,516</u>	<u>\$ 2,555,186</u>	<u>\$ 2,429,991</u>

Management's Discussion and Analysis

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

	2020	2019	Restated 2018
Operating revenue	\$ 390,570	\$ 416,693	\$ 415,645
Interest income	3,039	4,774	2,986
Other income, BABs	5,155	5,212	5,259
Other expense	(7,583)	(9,029)	(6,016)
Total revenues	391,181	417,650	417,874
Operating expenses	311,973	329,899	328,936
Interest expense, net of AFUDC	62,588	62,248	58,035
Total expenses	374,561	392,147	386,971
Income before capital contributions and transfers	16,620	25,503	30,903
Capital contributions, net	7,639	3,971	1,190
Transfer to City of Gainesville General Fund	(38,285)	(38,285)	(36,379)
Change in net position	(14,026)	(8,811)	(4,286)
Net position, beginning of year, restated	423,399	432,210	436,496
Net position, end of year, restated	\$ 409,373	\$ 423,399	\$ 432,210

Financial Highlights

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

- Gross utility plant in service increased \$49.5 million, or 1.7% in fiscal year 2020 due primarily to the completion of electric, water and wastewater capital projects. Gross utility plant increased \$60.6 million, or 2.2% in fiscal year 2019, and \$799.8 million, or 40.1% in fiscal year 2018. See Capital Assets within this Management's Discussion and Analysis section, and Note 4 Capital Assets.

Management's Discussion and Analysis

Financial Highlights (Continued)

- Long-term debt decreased \$22.3 million, or 1.3%, in fiscal year 2020, due to scheduled principal payments. Long-term debt increased \$59.9 million, or 3.7%, in fiscal year 2019, due to the issuance of \$247.8 million of utilities system revenue bonds, a portion of which were used to refund \$94 million in outstanding revenue bonds, and all outstanding commercial paper notes of \$93 million. Long-term debt decreased \$244.4 million, or 13.1%, in fiscal year 2018, due to the removal of the long-term capital lease of \$941.3 million as well as scheduled principal payments, offset by the issuance of \$680.9 million of utilities system revenue bonds to fund the purchase of Deerhaven Renewable Generating Station (DHR) and \$40 million of tax-exempt commercial paper notes. See Long-Term Debt within this Management's Discussion and Analysis section, and Note 6 Long-Term Debt for additional information.
- GRU is completing remediation efforts at a former manufactured gas plant site. The costs incurred to date total \$28.2 million and GRU estimates that total project costs will be approximately \$29.1 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 12 Commitments and Contingencies for additional information.
- Sales and service charges decreased \$14.6 million or 3.8%, increased \$1.6 million or 0.4%, and decreased \$18 million or 4.5% in fiscal years 2020, 2019, and 2018, respectively. The decrease in sales and service charges in fiscal year 2020 is primarily the result of decreases in the fuel adjustment and purchased gas adjustment rates in response to lower fuel expenses compared to 2019 offset by increases in base rates. The increase in sales and service charges in fiscal year 2019 is primarily the result of an increase in electric base rates, offset by a decrease in fuel adjustment revenue. 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.
- Operating expenses decreased \$17.9 million or 5.4%, increased \$963,000 or 0.3%, and decreased \$67.8 million or 17.1% in fiscal years 2020, 2019, and 2018, respectively. The decrease in operating expenses in fiscal year 2020 is due primarily to decreases in fuel expenses resulting from lower natural gas prices compared to 2019. The increase in fiscal year 2019 is due to higher maintenance costs than the prior year on aging plants as well as increased overheads. The increases were offset by a decrease in fuel adjustment expense. 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.

Management's Discussion and Analysis

Financial Highlights (Concluded)

- The transfer to rate stabilization was \$5 million in fiscal year 2020. Transfers from rate stabilization were \$5 million and \$3.8 million in fiscal years 2019 and 2018, respectively.
- The number of customers for electric services increased 1.1%, water services increased 0.9%, wastewater services increased 0.9%, and gas services increased 1% in fiscal year 2020. The number of customers for electric services and water services remained flat, wastewater services increased 0.2%, and gas services increased 0.7% in fiscal year 2019. 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.
- For fiscal year 2021, GRU did not implement a revenue requirement for any system. On October 1, 2019, GRU implemented increases in the revenue requirement of 6.4% for the electric system, 0.4% for the water and wastewater systems, and 0.6% for the gas system. 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.

Capital Assets

GRU's investment in capital assets as of September 30, 2020 was \$1.87 billion, (net of accumulated depreciation and amortization). The decrease in net capital assets for fiscal year 2020 was 0.8%. In fiscal year 2019, the decrease in net capital assets was 2.1%. In fiscal year 2018, the decrease in net capital assets was 7.5%.

The following table summarizes GRU's capital assets, net of accumulated depreciation and amortization, for the years ended September 30, 2020, 2019, and 2018 (in thousands):

Gainesville Regional Utilities			
Capital Assets			
(net of accumulated depreciation)			
	2020	2019	2018
Generation	\$ 1,028,161	\$ 1,066,879	\$ 1,100,191
Transmission, distribution, and collection	507,442	506,477	489,324
Treatment	125,773	129,870	119,080
General plant	107,245	111,706	117,760
Construction work in progress	102,779	71,291	100,097
Total net utility plant	\$ 1,871,400	\$ 1,886,223	\$ 1,926,452

Management's Discussion and Analysis

Capital Assets (Concluded)

Major capital asset events during the fiscal years include:

- Electric transmission and distribution expansion and capital replacements were \$20 million in fiscal year 2020, \$14.4 million in fiscal year 2019, and \$17.2 million in fiscal year 2018. For 2020, approximately \$1.9 million was spent on underground system improvements.
- Electric generation capital expenditures were \$20.9 million for fiscal year 2020. These expenditures included \$2.2 million for DHR, \$9.9 million for the Deerhaven Generating Station (DH) and \$8.2 million for the John R Kelly Generating Station (JRK).
- Water capital expenditures were \$12.2 million in fiscal year 2020 with \$6.5 million for supply, pumping, and treatment facilities and \$5.7 million for transmission and distribution.
- Wastewater capital expenditures were \$19.7 million in 2020. This included \$7.9 million spent on treatment plant improvements and \$11.8 million in collection improvements.
- Gas distribution expansion expenditures were \$4 million in fiscal year 2020, \$3.5 million in fiscal year 2019 and \$3.7 million in fiscal year 2018. This expansion included expenditures of \$800,000 in gas distribution mains and \$3.2 million in residential gas services.
- Expenditures for telecommunication fiber and electronics expansion were \$642,000 in fiscal year 2020 which included fiber and related infrastructure installation and electronics upgrades.

Additional information may be found in Note 4 Capital Assets.

Management's Discussion and Analysis

Long-Term Debt

At September 30, 2020, 2019, and 2018, GRU had total long-term debt outstanding of \$1.7 billion, \$1.7 billion, and \$1.6 billion, respectively, comprised of utilities system revenue bonds and commercial paper notes (in thousands):

Gainesville Regional Utilities Outstanding Debt at September 30:

	2020	2019	2018
Utilities system revenue bonds	\$ 1,664,970	\$ 1,687,270	\$ 1,534,340
Commercial paper notes	-	-	93,000
Total	<u>\$ 1,664,970</u>	<u>\$ 1,687,270</u>	<u>\$ 1,627,340</u>

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

- In July 2020, GRU issued its Utilities System Revenue Bonds, 2020 Series A, which refunded the Utilities System Revenue Bonds, 2010 Series C.
- In April 2019, GRU closed on its 2019 Series A, B, and C bond issue. This transaction:
 - Provided \$114 million in new money for acquisition and/or construction of GRU capital assets.
 - Converted all \$93 million of currently outstanding commercial paper to long-term fixed rate debt.
 - Restructured approximately \$67 million of variable rate debt, producing in excess of \$56 million in near term debt service reduction over the period fiscal year 2019 through fiscal year 2025.
 - As expected, the issue resulted in material changes to GRU's balance sheet, such as:
 - Increase in construction fund cash.
 - Increase in outstanding long-term revenue bonds.
 - Decrease of outstanding commercial paper.
 - Increase in unamortized bond premium.

Management's Discussion and Analysis

Long-Term Debt (concluded)

- The Utility has ratings of Aa3, AA-, and A+ with Moody's Investor Service, Standard & Poor's, 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.

Additional information may be found in Note 6 Long-Term Debt.

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

- The primary factors currently affecting the utility industry include environmental regulations, 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, a solar purchased power agreement, and purchase of a 102.5 megawatt biomass fueled power plant will hedge against these uncertainties.
- On September 29, 2020, the City of Gainesville closed on its series 2020 Special Obligation Revenue Bonds for the purpose of reducing the unfunded portion of the actuarial liability of its pension plans. This transaction will result in cost savings for the City as a whole including GRU. See Note 13 Retirement Plans for additional information.
- 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. The City Commission has directed GRU to achieve a generation portfolio of 100% renewable energy by 2045. 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.

Requests for Information

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

FINANCIAL STATEMENTS

Gainesville Regional Utilities
Statements of Net Position
September 30, 2020 and 2019

	2020	Restated 2019
Assets		
Current assets:		
Cash and investments	\$ 34,499,741	\$ 27,505,536
Accounts receivable, net of allowance for uncollectible accounts of \$3,013,752 and \$804,463 respectively	58,406,125	53,616,263
Inventories:		
Fuel	17,170,962	19,720,370
Materials and supplies	12,414,596	12,442,849
Fuel adjustment	-	2,887,595
Other assets and regulatory assets	1,154,085	2,132,699
Total current assets	<u>123,645,509</u>	<u>118,305,312</u>
Restricted and internally designated assets:		
Utility deposits - cash and investments	8,481,812	7,663,091
Debt service - cash and investments	60,083,857	56,094,239
Rate stabilization - cash and investments	62,945,910	56,941,703
Construction fund - cash and investments	67,152,924	125,749,489
Utility plant improvement fund - cash and investments	51,667,909	27,687,286
Total restricted and internally designated assets	<u>250,332,412</u>	<u>274,135,808</u>
Noncurrent assets:		
Net costs recoverable in future years - regulatory asset	36,642,053	31,162,525
Unamortized debt issuance costs - regulatory asset	9,604,095	10,179,242
Investment in The Energy Authority	2,958,684	2,341,379
Pollution remediation - regulatory asset	8,940,369	10,019,649
Other noncurrent assets and regulatory assets	7,738,316	7,261,215
Pension regulatory asset	105,575,047	99,489,678
Total noncurrent assets	<u>171,458,564</u>	<u>160,453,688</u>
Capital assets:		
Utility plant in service	2,904,733,491	2,855,228,234
Less: accumulated depreciation and amortization	<u>(1,136,111,856)</u>	<u>(1,040,296,525)</u>
	1,768,621,635	1,814,931,709
Construction in progress	102,778,847	71,291,430
Net capital assets	<u>1,871,400,482</u>	<u>1,886,223,139</u>
Total assets	<u>2,416,836,967</u>	<u>2,439,117,947</u>
Deferred outflows of resources:		
Unamortized loss on refundings of bonds	11,258,300	15,155,675
Accumulated decrease in fair value of hedging derivatives	120,802,265	78,573,638
General Employees' Pension plan costs	21,226,376	19,288,232
Other post-employment benefits plan	4,391,772	3,051,089
Total deferred outflows of resources	<u>157,678,713</u>	<u>116,068,634</u>
Total assets and deferred outflows of resources	<u>\$ 2,574,515,680</u>	<u>\$ 2,555,186,581</u>

Continued on next page.

See accompanying notes.

Gainesville Regional Utilities
Statements of Net Position (concluded)
September 30, 2020 and 2019

	2020	Restated 2019
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 16,648,318	\$ 16,361,070
Fuels payable	4,586,774	3,961,178
Due to other funds	6,082,928	6,353,019
Fuel and purchased gas adjustment	7,762,392	-
Other liabilities and regulatory liabilities	798,503	1,731,816
Total current liabilities	35,878,915	28,407,083
Payable from restricted assets:		
Utility deposits	8,476,982	7,659,426
Accounts payable and accrued liabilities	9,571,571	5,541,337
Utilities system revenue bonds – current portion	27,090,000	22,105,000
Accrued interest payable	32,510,583	33,262,622
Other liabilities and regulatory liabilities	135,664	99,542
Total payable from restricted assets	77,784,800	68,667,927
Long-term debt:		
Utilities system revenue bonds	1,637,880,000	1,665,165,000
Unamortized bond premium/discount	91,865,654	102,411,008
Fair value of derivative instruments	123,004,284	81,099,411
Total long-term debt	1,852,749,938	1,848,675,419
Noncurrent liabilities:		
Reserve for insurance claims	3,337,000	3,337,000
Reserve for environmental liability	841,000	841,000
Net pension liability	14,566,344	99,566,813
Net other post-employment benefits liability	854,405	5,367,982
Due to other funds	108,519,131	16,901,412
Other noncurrent liabilities and regulatory liabilities	4,628,460	4,710,311
Total noncurrent liabilities	132,746,340	130,724,518
Total liabilities	2,099,159,993	2,076,474,947
Deferred inflows of resources:		
Rate stabilization	58,152,475	53,574,388
General Employees' Pension plan costs	1,196,323	1,737,966
Other post-employment benefits plan	6,633,675	-
Total deferred inflows of resources	65,982,473	55,312,354
Net position		
Net investment in capital assets	192,217,500	241,821,913
Restricted	84,031,134	53,894,035
Unrestricted	133,124,580	127,683,332
Total net position	409,373,214	423,399,280
Total liabilities, deferred inflows of resources and net position	\$ 2,574,515,680	\$ 2,555,186,581

See accompanying notes.

Gainesville Regional Utilities
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenue:		
Sales and service charges	\$ 370,167,945	\$ 384,777,714
Transfers from (to) rate stabilization	(4,578,087)	4,954,864
Amounts to be recovered from future revenue	5,479,529	18,071,378
Other operating revenue	19,500,709	8,888,944
Total operating revenues	<u>390,570,096</u>	<u>416,692,900</u>
Operating expenses:		
Operation and maintenance	178,555,049	197,073,619
Administrative and general	32,371,679	35,489,040
Depreciation and amortization	101,046,520	97,336,684
Total operating expenses	<u>311,973,248</u>	<u>329,899,343</u>
Operating income	<u>78,596,848</u>	<u>86,793,557</u>
Non-operating income (expense):		
Interest income	3,039,395	4,774,240
Interest expense, net of AFUDC	(62,588,476)	(62,247,527)
Other interest related income, BABs	5,154,906	5,211,950
Other expense	(7,582,534)	(9,029,009)
Total non-operating expense	<u>(61,976,709)</u>	<u>(61,290,346)</u>
Income before capital contributions and transfer	<u>16,620,139</u>	<u>25,503,211</u>
Capital contributions:		
Contributions from third parties	7,778,464	4,154,415
Reduction of plant costs recovered through contributions	(139,669)	(183,434)
Net capital contributions	<u>7,638,795</u>	<u>3,970,981</u>
Transfer to City of Gainesville General Fund	<u>(38,285,000)</u>	<u>(38,285,001)</u>
Change in net position	(14,026,066)	(8,810,809)
Net position – beginning of year	<u>423,399,280</u>	<u>432,210,089</u>
Net position – end of year	<u>\$ 409,373,214</u>	<u>\$ 423,399,280</u>

See accompanying notes.

Gainesville Regional Utilities
Statements of Cash Flows
For the Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating activities:		
Cash received from customers	\$ 382,529,529	\$ 382,899,091
Cash payments to suppliers for goods and services	(111,908,644)	(161,948,366)
Cash payments to employees for services	(65,660,542)	(60,041,857)
Cash payments for operating transactions with other funds	(28,054,800)	(16,823,143)
Other operating receipts	16,197,903	13,843,808
Net cash provided by operating activities	<u>193,103,446</u>	<u>157,929,533</u>
Noncapital financing activities:		
Transfer to City of Gainesville General Fund	(38,285,000)	(38,285,001)
Net cash used in noncapital financing activities	<u>(38,285,000)</u>	<u>(38,285,001)</u>
Capital and related financing activities:		
Principal repayments and refunding on long-term debt, net	(33,336,147)	(193,151,539)
Interest paid on long-term debt	(69,209,863)	(64,300,221)
Proceeds from interest rebates, BABs	2,577,453	5,211,950
Acquisition and construction of fixed assets (including allowance for funds used during construction)	(81,821,308)	(60,648,631)
Proceeds from new debt and commercial paper	10,715,000	275,697,032
Other income	(6,951,718)	(14,262,097)
Net cash used in capital and related financing activities	<u>(178,026,583)</u>	<u>(51,453,507)</u>
Investing activities:		
Interest received	7,046,621	4,774,240
Purchase of investments	(490,947,807)	(427,274,870)
Investments in The Energy Authority	(8,987,708)	(6,469,655)
Distributions from The Energy Authority	8,370,403	6,385,572
Proceeds from investments	532,675,685	380,726,776
Net cash (used) provided by investing activities	<u>48,157,194</u>	<u>(41,857,937)</u>
Net change in cash and cash equivalents	24,949,057	26,333,089
Cash and cash equivalents, beginning of year	53,565,036	27,231,947
Cash and cash equivalents, end of year	<u>\$ 78,514,093</u>	<u>\$ 53,565,036</u>

*Continued on next page.
See accompanying notes.*

Gainesville Regional Utilities
 Statements of Cash Flows (concluded)
 For the Years Ended September 30, 2020 and 2019

	2020	2019
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 78,596,848	\$ 86,793,557
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	101,046,520	97,336,684
Net costs recoverable in future years	(5,479,528)	(18,071,378)
Change in:		
Accounts receivable	(4,789,862)	6,361,085
Inventories	2,577,661	(3,714,864)
Utility meter deposits	844,092	(1,387,095)
Noncurrent assets	1,079,280	762,683
Payables and accrued liabilities	912,844	(5,827,777)
Due to other funds	(942,717)	5,330,468
Fuel adjustment	10,649,987	(510,654)
Payable from restricted assets	4,030,234	(4,188,312)
Rate stabilization	4,578,087	(4,954,864)
Net cash provided by operating activities	\$ 193,103,446	\$ 157,929,533
Non-cash capital and related financing activities, and investing activities:		
Contribution of capital assets	\$ 7,638,795	\$ 3,970,981
Net costs recoverable in future years	\$ (5,479,528)	\$ (18,071,378)
Change in utility plant in service	\$ 7,183,862	\$ (60,648,631)
Change in ineffective portion of hedging derivatives	\$ 323,754	\$ (650,991)
Change in accumulated (increase) decrease in fair value of hedging derivatives - interest rate swaps	\$ (42,228,627)	\$ (41,683,134)
Change in fair market value of investments	\$ (1,144,996)	\$ 5,665,482
Change in fair market value of hedging derivatives	\$ 41,904,873	\$ 42,334,124
Change in bond premium/discount	\$ (10,236,105)	\$ (9,572,013)
Unamortized debt issuance costs	\$ 575,147	\$ (1,123,007)
Unamortized loss on refundings of bonds	\$ 3,897,376	\$ (351,193)
Other	\$ (156,408)	\$ (5,546,271)

See accompanying notes.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

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 non-cash 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, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Current GASB Pronouncement Implementations

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* - The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. Implementation of this statement impacted GRU's financial statements by postponing the implementation dates of upcoming GASB Statements.

Future GASB Pronouncement Implementations

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.

GASB Statement No. 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 No. 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 GASB 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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Future GASB Pronouncement Implementations (continued)

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.

GASB Statement No. 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.

GASB Statement No. 91, *Conduit Debt Obligations* - The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates* - Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. 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, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Future GASB Pronouncement Implementations (concluded)

GASB Statement 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* - The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

GASB Statement 96, *Subscription-Based Information Technology Arrangements* - This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

GASB Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* - The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. 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, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

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.

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 2019 amounts have been reclassified to conform to the 2020 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

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.

Costs Recoverable in Future Years

The amount by which depreciation on Deerhaven Renewable Generating Station (DHR) exceeds principal repayment on the related bonds is recorded as amounts to be recovered from future revenue. For the years ended September 30, 2020 and 2019, that amount was \$5.5 million and \$18.1 million, respectively.

Capital Assets and Depreciation

Capital assets are recorded at historical cost and include utility plant and general plant assets. The costs of capital assets include material, labor, vehicle and equipment usage, related overhead items, capitalized interest, and certain administrative and general expenses. Maintenance and 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 an expense 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 83 years. The overall depreciation rate was 3.49% and 3.43% for the years ending September 30, 2020 and 2019, respectively.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Allowance for Funds Used During Construction (AFUDC)

An allowance for interest on borrowed funds used during construction of \$765,000 and \$883,000 for the years ended September 30, 2020 and 2019, respectively, was included in construction in progress and as a reduction of interest expense. These amounts are computed by applying the effective interest rate on the funds borrowed to finance the projects to the monthly balance of projects under construction. The effective interest rate was approximately 4.2% and 4.1% for fiscal years 2020 and 2019, respectively.

Contributions in Aid of Construction

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

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

Hedging Derivative Instruments

GRU records fuel and financial related derivative instruments in accordance with GASB Statement No. 53, *Accounting and Reporting for Financial and Derivative Instruments*. All effective derivative instruments are included in the Statements of Net Position as either an asset or liability measured at fair 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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Long-Term Debt (concluded)

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 6 Long-Term Debt for additional information.

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 Employees' Pension Plan (Employees' Plan) and additions to or 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 13 Retirement Plans for additional information.

Postemployment Benefits Other Than Pensions (OPEB)

A net OPEB liability is recorded in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 14 Other Post-employment Benefits Plan 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Deferred Outflows of Resources (concluded)

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. See Note 7 Hedging Activities for additional information.

General Employees' Pension Plan Costs

Recognition of deferred outflows of resources related to pension costs totaled \$21.2 million and \$19.3 million as of September 30, 2020 and 2019, respectively. See Note 13 Retirement Plans for additional information.

Other Post-employment Benefits Plan

Recognition of deferred outflows of resources related to the OPEB plan were \$4.4 million and \$3.1 million as of September 30, 2020 and 2019, respectively. See Note 14 Other Post-employment Benefits Plan for additional information.

Deferred Inflows of Resources

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

Rate Stabilization

GRU designs its rates to recover costs of providing services. In order to stabilize future rate increases or decreases, GRU determines a rate stabilization amount to be charged or credited to revenues on an annual basis. There were additions of \$4.6 million to and transfers of \$5 million from rate stabilization for the years ended September 30, 2020 and 2019, respectively. These amounts are reflected as increases or decreases in deferred inflows of resources – rate stabilization in the accompanying statements of net position.

General Employees' Pension Plan Costs

Recognition of deferred inflows of resources related to unrealized gains for the pension plan totaled \$1.2 million and \$1.7 million as of September 30, 2020 and 2019, respectively. See Note 13 Retirement Plan for additional information.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Deferred Inflows of Resources (concluded)

Other Post-employment Benefit Plan

Recognition of deferred inflows of resources related to unrealized gains for the OPEB plan were \$6.6 million and \$0 as of September 30, 2020 and 2019, respectively. See Note 14 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.

Use of Estimates

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

Revenue Recognition

Revenue is recognized when earned. GRU accrues for services rendered but unbilled, which totaled approximately \$14 million and \$15.8 million at September 30, 2020 and 2019, respectively.

Fuel and purchased gas adjustment levelization revenue is adjusted as expenses are incurred. Amounts charged to customers for fuel are based on estimated costs and are adjusted in the following month when the costs are known. 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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition (concluded)

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 5 Fuel and Purchased Gas Adjustment Levelization for additional information.

Pledged Revenues

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

Operating, Non-operating Revenues

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

Transactions with the City

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

Below is a summary of significant transactions:

- Administrative services – GRU pays for various administrative and certain insurance services provided by the City's governmental and business type functions. GRU receives payment for Information Technology, telecommunications, certain insurance services and billing services provided to the City's governmental and business type functions.
- Pension obligation payments – GRU makes payments to the City for pension expense obligations. See Note 13 Retirement Plans for additional information.
- Nonmetered and metered service charges – GRU receives payment from the City for all nonmetered and metered service charges.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

1. Summary of Significant Accounting Policies (concluded)

Transactions with the City (concluded)

- Operating transfer to the General Fund – GRU makes payments to the City’s General Fund from operating revenues. See Note 11 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.

As of September 30, 2020, 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	\$ 136,115	\$ 136,115	\$ -	\$ -
Corporate bonds	25,059	14,615	10,444	-
U.S. agencies	38,011	-	38,011	-
U.S. treasuries	7,133	4,016	3,117	-
Total	\$ 206,318	\$ 154,746	\$ 51,572	\$ -

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Notes to Financial Statements
September 30, 2020 and 2019

2. Deposits and Investments (continued)

As of September 30, 2019, 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	\$ 138,206	\$ 138,206	\$ -	\$ -
Corporate bonds	18,711	6,209	12,502	-
U.S. agencies	65,186	9,707	55,479	-
U.S. treasuries	25,973	18,939	7,034	-
Total	<u>\$ 248,076</u>	<u>\$ 173,061</u>	<u>\$ 75,015</u>	<u>\$ -</u>

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

	2020	2019
Restricted assets	<u>\$ 250,332</u>	\$ 274,136
Current assets:		
Cash and investments	<u>34,500</u>	27,505
Total cash and investments	<u>284,832</u>	301,641
Less cash and cash equivalents	<u>(78,514)</u>	(53,565)
Total investments	<u>\$ 206,318</u>	<u>\$ 248,076</u>

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 limit 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 the 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, 2020, 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 NR by Fitch Ratings. As of September 30, 2019, all of GRU's corporate holdings were rated Aa3 or better by Moody's Investor Service and/or AA or better by Standard and Poor's and/or AA or better or NR by Fitch Ratings. As of September 30, 2020, all of GRU's commercial paper investments were rated P-1 by Moody's Investor Service and/or A-2 or better by Standard and Poor's and/or F1 or NR by Fitch Ratings. As of September 30, 2019, all of GRU's commercial paper investments were rated P-2 or better or NR by Moody's Investor Service and/or A-2 or better by Standard

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2. Deposits and Investments (concluded)

Credit Risk (concluded)

and Poor's and/or F2 or better or NR by Fitch Ratings. As of September 30, 2020, GRU's FFCB, FHLMC, and FNMA were rated Aaa by Moody's Investor Service, and AA+ or NR by Standard and Poor's, and AAA or NR by Fitch Ratings. As of September 30, 2019, GRU's FFCB, FHLMC, and FNMA were rated Aaa or NR by Moody's Investor Service, and AA+ by Standard and Poor's and AAA or NR by Fitch Ratings. As of September 30, 2020, GRU did not own any FHLB securities. As of September 30, 2019, GRU's FHLB were rated Aaa by Moody's Investor Service, and AA+ by Standard and Poor's, and AA+ or NR by Fitch Ratings.

Concentration of Credit Risk

State law does not limit the amount that may be invested in any one issuer. It does require, however, that investments be diversified to control risk of loss from over concentration of assets. As of September 30, GRU had more than 5% of the investment portfolio invested with the following issuers:

	Percent of Total Investments	
	2020	2019
Federal Home Loan Mortgage Corporation	4.36%	5.50%
Guardian Life	5.16%	n/a
Federal Farm Credit Bank	6.54%	5.07%
Federal National Mortgage Association	7.52%	n/a
Federal Home Loan Bank	n/a	11.45%

3. Investment in The Energy Authority

GRU has an equity investment in The Energy Authority (TEA), a power marketing corporation comprised of seven municipal utilities as of September 30, 2020: Municipal Electric Authority of Georgia, Jacksonville Electric Authority (Florida), South Carolina Public Service Authority, Nebraska Public Power District, GRU, City Utilities of Springfield (Missouri), and American Municipal Power, Inc. (Ohio). As of September 30, 2019, Public Utility District No. 1 of Cowlitz County did not have an equity interest in TEA. 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 \$1.3 million and \$2 million and purchases from TEA were \$5.4 million and \$7.2 million for the years ended September 30, 2020 and 2019, respectively. GRU's equity interest was 5.9% for fiscal years 2020 and 2019, and accounted for using the equity method of accounting. As of September 30, 2020 and 2019, GRU's investment in TEA was \$3 million and \$2.3 million, respectively.

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3. Investment in The Energy Authority (concluded)

Through a combination of agreements, GRU guaranteed credit received by TEA for \$16.9 million and \$19.5 million as of September 30, 2020 and 2019, 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. 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, 2020 and 2019, 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>2020</u>	<u>2019</u>
Condensed statement of operations:		
Total revenue	\$ 901,423	\$ 1,279,819
Total cost of sales and expense	(852,836)	(1,217,046)
Operating income	<u>48,587</u>	<u>62,773</u>
Nonoperating income (expense)	32	(1,205)
Change in net position	<u>48,619</u>	<u>61,568</u>
Net position, beginning of period	41,770	41,234
Capital contributions	404	(4,229)
Member distributions	(40,495)	(58,769)
Net position, end of period	<u>\$ 50,298</u>	<u>\$ 39,804</u>
Condensed balance sheet:		
Assets:		
Current assets	\$ 155,621	\$ 167,808
Noncurrent assets	<u>22,752</u>	<u>23,666</u>
Total assets	<u>178,373</u>	<u>191,474</u>
Liabilities:		
Current liabilities	127,800	151,620
Noncurrent liabilities	<u>275</u>	<u>50</u>
Total liabilities	<u>128,075</u>	<u>151,670</u>
Total net position	<u>50,298</u>	<u>39,804</u>
Total liabilities and net position	<u>\$ 178,373</u>	<u>\$ 191,474</u>

GRU's accounts receivable due from TEA totaled approximately \$167,000 and \$160,000, for the years ended September 30, 2020 and 2019, respectively.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

4. Capital Assets

A summary of capital assets, changes in accumulated depreciation and amortization, and average depreciation rates for the years ended September 30, 2020 and 2019, follows (in thousands):

	Utility Plant in Service					
	Treatment	Generation	Transmission, Distribution, and Collection	General	Construction in Progress	Combined
Balance, October 1, 2019	\$ 229,803	\$ 1,436,395	\$ 983,167	\$ 205,863	\$ 71,291	\$ 2,926,519
Additions	5,115	8,174	39,024	5,637	89,942	147,892
Capital lease	-	-	-	-	-	-
Less sales, retirements, and transfers	(1,188)	(1,749)	(4,663)	(845)	(58,454)	(66,899)
Balance, September 30, 2020	<u>\$ 233,730</u>	<u>\$ 1,442,820</u>	<u>\$ 1,017,528</u>	<u>\$ 210,655</u>	<u>\$ 102,779</u>	<u>\$ 3,007,512</u>
Accumulated depreciation, October 1, 2019	\$ 99,933	\$ 369,516	\$ 476,690	\$ 94,157	n/a	\$ 1,040,296
Depreciation expense	8,761	45,236	36,596	10,017	n/a	100,610
Capital lease	-	-	-	-	n/a	-
Less retirements/ adjustments	(737)	(93)	(3,200)	(764)	n/a	(4,794)
Accumulated depreciation, September 30, 2020	<u>\$ 107,957</u>	<u>\$ 414,659</u>	<u>\$ 510,086</u>	<u>\$ 103,410</u>	<u>n/a</u>	<u>\$ 1,136,112</u>
Net capital assets	<u>\$ 125,773</u>	<u>\$ 1,028,161</u>	<u>\$ 507,442</u>	<u>\$ 107,245</u>	<u>\$ 102,779</u>	<u>\$ 1,871,400</u>
Average depreciation rate	<u>3.78%</u>	<u>3.14%</u>	<u>3.66%</u>	<u>4.81%</u>	<u>n/a</u>	<u>3.49%</u>

	Utility Plant in Service					
	Treatment	Generation	Transmission, Distribution, and Collection	General	Construction in Progress	Combined
Balance, October 1, 2018	\$ 214,708	\$ 1,425,414	\$ 940,298	\$ 214,160	\$ 100,097	\$ 2,894,677
Additions	19,682	15,911	54,342	4,177	65,988	160,100
Capital lease	-	-	-	-	-	-
Less sales, retirements, and transfers	(4,587)	(4,930)	(11,473)	(12,474)	(94,794)	(128,258)
Balance, September 30, 2019	<u>\$ 229,803</u>	<u>\$ 1,436,395</u>	<u>\$ 983,167</u>	<u>\$ 205,863</u>	<u>\$ 71,291</u>	<u>\$ 2,926,519</u>
Accumulated depreciation, October 1, 2018	\$ 95,626	\$ 325,224	\$ 450,974	\$ 96,399	n/a	\$ 968,223
Depreciation expense	7,777	46,002	33,611	9,488	n/a	96,878
Capital lease	-	-	-	-	n/a	-
Less retirements/ adjustments	(3,470)	(1,710)	(7,895)	(11,730)	n/a	(24,805)
Accumulated depreciation, September 30, 2019	<u>\$ 99,933</u>	<u>\$ 369,516</u>	<u>\$ 476,690</u>	<u>\$ 94,157</u>	<u>n/a</u>	<u>\$ 1,040,296</u>
Net capital assets	<u>\$ 129,870</u>	<u>\$ 1,066,879</u>	<u>\$ 506,477</u>	<u>\$ 111,706</u>	<u>\$ 71,291</u>	<u>\$ 1,886,223</u>
Average depreciation rate	<u>3.50%</u>	<u>3.21%</u>	<u>3.49%</u>	<u>4.52%</u>	<u>n/a</u>	<u>3.43%</u>

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Notes to Financial Statements
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5. 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, 2020 (in thousands):

	Fuel Adjustment	Purchased Gas Adjustment	Total
Revenues	\$ 77,014	\$ 7,307	\$ 84,321
Expenses	(67,539)	(6,132)	(73,671)
To (From) Levelization Fund	<u>\$ 9,475</u>	<u>\$ 1,175</u>	<u>\$ 10,650</u>
Levelization Fund Beginning Balance	\$ (2,844)	\$ (44)	\$ (2,888)
To (From) Levelization Fund	9,475	1,175	10,650
Levelization Fund Ending Balance	<u>\$ 6,631</u>	<u>\$ 1,131</u>	<u>\$ 7,762</u>

The following table represents total revenues and expenses associated with the fuel and purchased gas adjustment and the subsequent impact on the fuel and purchased gas levelization balance as of September 30, 2019 (in thousands):

	Fuel Adjustment	Purchased Gas Adjustment	Total
Revenues	\$ 86,306	\$ 8,192	\$ 94,498
Expenses	(86,840)	(8,169)	(95,009)
To (From) Levelization Fund	<u>\$ (534)</u>	<u>\$ 23</u>	<u>\$ (511)</u>
Levelization Fund Beginning Balance	\$ (2,310)	\$ (67)	\$ (2,377)
To (From) Levelization Fund	(534)	23	(511)
Levelization Fund Ending Balance	<u>\$ (2,844)</u>	<u>\$ (44)</u>	<u>\$ (2,888)</u>

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

6. 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 were 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. The outstanding balance of \$405,000 was fully redeemed on February 27, 2020 with operating funds. As of September 30, 2020, there were no 2005 Series A Bonds outstanding.

\$55,135,000 Utilities System Revenue Bonds, 2005 Series C – Variable interest rates based on market rates, 0.13% at September 30, 2020, 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. 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. In April 2019, the 2019 Series C Bonds, (\$67,355,000), were issued to partially refund \$18,515,000 of bonds maturing from October 1, 2019, through October 1, 2024. The refunding was to provide near term debt relief and stabilize cash reserves. A Stand-by Bond Purchase Agreement (SBPA) with Helaba with termination date of November 24, 2020, was replaced with a four-year SBPA from Barclays Bank PLC on May 20, 2020. The new agreement has a current fee of 0.38% as compared to Helaba's 0.44%. The four-year SBPA with Barclay's Bank PLC is stated to expire May 17, 2024. As of September 30, 2020, the related debt outstanding is \$3,090,000.

\$53,305,000 Utilities System Revenue Bonds, 2006 Series A – Variable interest rates based on market rates, 0.12% at September 30, 2020, 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. In April 2019, the

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September 30, 2020 and 2019

6. Long-Term Debt (continued)

2019 Series C Bonds, (\$67,355,000), were issued to partially refund \$13,905,000 of bonds maturing from October 1, 2019, through October 1, 2024. The refunding was to provide near term debt relief and stabilize reserves. A Stand-by Bond Purchase Agreement (SBPA) with Helaba with termination date of November 24, 2020, was replaced with a four-year SBPA from Barclays Bank PLC on May 20, 2020. The new agreement has a current fee of 0.38% as compared to Helaba's 0.44%. The four-year SBPA with Barclay's Bank PLC is stated to expire May 17, 2024. As of September 30, 2020, the related debt outstanding is \$2,985,000.

\$139,505,000 Utilities System Revenue Bonds, 2007 Series A – Variable interest rates based on market rates, 0.13% at September 30, 2020, 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. In April 2019, the 2019 Series C Bonds, (\$67,355,000), were issued to partially refund \$8,430,000 of bonds maturing from October 1, 2019, through October 1, 2024. The refunding was to provide debt service relief and increase cash reserves for the next five years. A SBPA with State Street Bank and Trust was entered on March 1, 2007, and since amended most recently by the Fourth Amendment that is set to expire on April 1, 2021, at a current fee of 0.51%. As of September 30, 2020, the related debt outstanding is \$127,750,000.

\$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 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. As of September 30, 2020, the related debt outstanding is \$5,400,000.

\$90,000,000 Utilities System Revenue Bonds, 2008 Series B – Variable interest rates based on market rates, 0.15% at September 30, 2020, 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. In April 2019, the 2019 Series C Bonds, (\$67,355,000), were issued to partially refund \$14,200,000 of bonds maturing from October 1, 2022, through October 1, 2024. The refunding was to provide debt service relief and increase cash reserves for

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6. Long-Term Debt (continued)

the next five years. A SBPA with Barclays Bank PLC with an expiration date of June 29, 2020, was renewed on May 20, 2020, at a fee of 0.38%, a reduced fee from 0.44% previously. The new four-year SBPA is stated to expire on May 17, 2024. As of September 30, 2020, the related debt outstanding is \$75,800,000.

\$156,900,000 Utilities System Revenue Bonds, 2009 Series B – Issuer Subsidy – Build America Bonds (Federally Taxable) – 4.85% – 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. As of September 30, 2020, the related debt outstanding is \$138,515,000.

\$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. As of September 30, 2020, the related debt outstanding is \$12,930,000.

\$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. As of September 30, 2020, the related debt outstanding is \$132,445,000.

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6. 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. The outstanding balance of \$10,505,000 was defeased on July 7, 2020, by a forward delivery of a direct placement with Bank of America, N.A., which created the 2020 Series A Bonds. An escrow account was created at USBANK on July 7, 2020, for \$10,778,216 to refund the 2010 Series C Bonds on October 1, 2020. As of September 30, 2020, there were no 2010 Series C Bonds outstanding.

\$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. As of September 30, 2020, the related debt outstanding is \$81,860,000.

\$100,470,000 Utilities System Revenue Bonds, 2012 Series B – Variable interest rates based on market rates, 0.13% at September 30, 2020, 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. In April 2019, the 2019 Series C Bonds, (\$67,355,000), were issued to partially refund \$1,860,000 of bonds maturing from October 1, 2021, through October 1, 2023. The refunding was to provide near term debt relief and stabilize reserves. A SBPA with Citibank with a stated termination date of June 29, 2020, was replaced by a four-year SBPA on May 20, 2020, by Barclays Bank PLC at a fee of 0.38% as compared to 0.43% previously. The new SBPA has a stated termination date of May 17, 2024. As of September 30, 2020, the related debt outstanding is \$98,610,000.

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September 30, 2020 and 2019

6. Long-Term Debt (continued)

\$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. A cancellable forward starting swap agreement with Bank of America, N.A., was entered on April 8, 2020, with cash flows effective on October 1, 2024. Details of the forward starting swap is located in Note 7 Hedging Activities. As of September 30, 2020, the related debt outstanding is \$37,835,000.

\$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. As of September 30, 2020, the related debt outstanding is \$16,275,000.

\$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. As of September 30, 2020, the related debt outstanding is \$407,920,000.

Gainesville Regional Utilities
Notes to Financial Statements
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6. Long-Term Debt (continued)

\$150,000,000 Utilities System Revenue Bonds, 2017 Series B – Variable interest rates based on market rates, 0.55% at September 30, 2020, 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) pay 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 Margin Rate Factor (MRF), (b) bank fee of 0.35%, calculated on the basis of 360 days, (c) contract termination date of November 7, 2020. Agreements have been made in regards to the expiration of the direct placement with Wells Fargo Bank, N.A., with details described in Note 17 Subsequent Events. These bonds mature at various dates beginning October 1, 2040, with final maturity date of October 1, 2044. As of September 30, 2020, the related debt outstanding is \$150,000,000.

\$115,000,000 Utilities System Revenue Bonds, 2017 Series C – Variable interest rates based on market rates, 0.75% at September 30, 2020, 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, (b) bank fee of 0.51%, calculated on the basis of 360 days, and (c) contract termination date of November 7, 2020. Agreements have been made in regards to the expiration of the direct placement with Bank of America, N.A., with details described in Note 17 Subsequent Events. These bonds mature at various dates beginning October 1, 2044, with final maturity date of October 1, 2047. As of September 30, 2020, the related debt outstanding is \$115,000,000.

\$153,820,000 Utilities System Revenue Bonds, 2019 Series A – 5.00%, dated April 12, 2019, with final maturity on October 1, 2047. The 2019 Series A Bonds were issued for the primary purpose of (a) paying the costs of the acquisition, construction, and equipping of certain capital improvements to the System, (b) refunding the outstanding Utilities System Commercial Paper Notes, Series C, and (c) paying costs of issuance of the 2019 Series A Bonds. These bonds were issued at a premium and mature beginning on October 1, 2041, and ending on October 1, 2047. The 2019 Series A Bonds will be subject to redemption prior to maturity at the option of the City on and after October 1, 2029, as a whole or in part at any time, at a redemption price of 100% of the principal amount thereof, plus accrued interest. A cancellable forward starting swap agreement with Wells Fargo Bank, N.A., was entered on April 8, 2020, with cash flows effective on October 1, 2029. Details of the forward starting swap is located in Note 7 Hedging Activities. As of September 30, 2020, the related debt outstanding is \$153,820,000.

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

\$26,665,000 Utilities System Revenue Bonds, 2019 Series B (Federally Taxable) – 3.875%, dated April 12, 2019 with final maturity on October 1, 2047. The 2019 Series B Bonds were issued for the primary purpose of (a) paying the costs of the acquisition, construction, and equipping of certain capital improvements to the System, (b) refunding the outstanding Utilities System Commercial Paper Notes, Series D, (c) refunding all of the Utilities System Revenue Bonds, 2005 Series B (Federally Taxable), and (d) paying costs of issuance of the 2019 Series B Bonds. The 2019 Series B Bonds are term bonds and are subject to redemption through the mandatory sinking fund installments on October 1 in the years starting with 2041 at a redemption price of 100% of the principal amount thereof, plus accrued interest. As of September 30, 2020, the related debt outstanding is \$26,665,000.

\$67,355,000 Utilities System Revenue Bonds, 2019 Series C – Variable interest rates based on market rates, 0.12% at September 30, 2020, dated April 26, 2019 with final maturity October 1, 2047. The 2019 Series C Bonds were issued for the primary purpose of (a) refunding (i) \$18,515,000 of the 2005 Series C Bonds, (ii) \$13,905,000 of the 2006 Series A Bonds, (iii) \$8,430,000 of the 2007 Series A Bonds, (iv) \$14,200,000 of the 2008 Series B Bonds, and (v) \$1,860,000 of the 2012 Series B Bonds, (b) paying the costs of the acquisition, construction, and equipping of certain capital improvements to the System, and (c) paying costs of issuance of the 2019 Series C Bonds. Payment of the principal and interest on the 2019 Series C Bonds will be initially secured by a Letter of Credit by Bank of America, N.A. with a fee of 0.35% and terminates on April 25, 2022. As of September 30, 2020, the related debt outstanding is \$67,355,000.

\$10,715,000 Utilities System Revenue Bonds, 2020 Series A – 2.06% dated July 7, 2020, with a final maturity October 1, 2034. These 2020 Series A Bonds were issued to (a) refund the 2010 Series C Bonds on July 7, 2020, and (b) pay cost of issuance. These bonds are direct placement bonds and the sale was awarded to Bank of America, N.A. with a fixed rate of 2.06%. The 2020 Series A Bonds mature at various dates beginning October 1, 2020, and every year after with final maturity date of October 1, 2034. As of September 30, 2020, the related debt outstanding is \$10,715,000.

\$125,000,000 Utilities System Commercial Paper Notes, Series C Notes – These tax-exempt notes were 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, N.A. 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. On April 12, 2019, \$85,000,000 of the outstanding Series C Notes were refunded by the 2019 Series A Bonds. As of September 30, 2020, there were no Series C Notes outstanding.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

6. Long-Term Debt (continued)

\$25,000,000 Utilities System Commercial Paper Notes, Series D Notes – In June 2000, a Utilities System Commercial Paper Note Program, Series D (taxable) was established in a principal amount not to exceed \$25,000,000. These taxable notes were subordinated debt. 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. On April 12, 2019, \$8,000,000 of the outstanding Series D Notes were refunded by the 2019 Series B Bonds. Liquidity support for the Series D Notes is provided under a long-term credit agreement effective August 28, 2014, and has been amended in June 2017 and August 2020, with State Street Bank and Trust Company at a current fee of 0.67% as compared to 0.47% previously. The credit agreement is stated to expire on August 27, 2021. As of September 30, 2020, there were no Series D Notes outstanding.

\$25,000,000 Utilities System Variable Rate Subordinated Revenue Bonds, 2018 Series A – On May 17, 2018, the 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 1 Month LIBOR plus 1.85% calculated on the basis of a 360 day year. The unused fee (liquidity fee) is 0.25%. As of September 30, 2020, there were no outstanding draws on this line of credit.

\$50,000,000 Utilities System Variable Rate Subordinated Revenue Bond, 2020 Series A – On April 16, 2020, the City Commission adopted a resolution and authorized a taxable revolving line of credit of \$50,000,000 on parity with commercial paper notes to finance from time to time the taxable cost of projects for electric, water, wastewater, gas, and GRUCom systems. The award of sale of purchase of the 2020 Series A Bond went to Truist Bank, with terms set forth in the purchase contract not to exceed \$50,000,000. The contract of purchase is effective on April 29, 2020, and expires April 29, 2022. The interest rate is 1 Month LIBOR plus 1.85% calculated on the basis of a 360 day year. The unused fee (liquidity fee) is 0.30%. As of September 30, 2020, there were no outstanding draws on this line of credit.

To further comply with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, GRU states Article VIII Events of Default and Remedies of Bondholders, Section 801, in the Second Amended and Restated Utilities System Revenue Bond Resolution adopted September 21, 2017, in order to provide more information as it relates to (1) events to default with finance related consequences, (2) termination events, and (3) subjective acceleration clauses.

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

EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

SECTION 801.Events of Default. If one or more of the following Events of Default shall happen:

- (i) if default shall be made in (a) the due and punctual payment of the principal or Redemption Price of any Bond (other than Parity Reimbursement Obligations) when and as the same shall become due and payable, whether at maturity or by call or proceedings for redemption, or otherwise, (b) in the due and punctual payment of any amounts due on Parity Reimbursement Obligations (after the lapse of any notice requirements or grace periods, or both, as provided by the applicable Parity Reimbursement Obligation);
- (ii) if default shall be made in the due and punctual payment of any installment of interest on any Bond or the unsatisfied balance of any Sinking Fund Installment, when and as such interest installment or Sinking Fund Installment shall become due and payable;
- (iii) the Revenues in any Fiscal Year shall be inadequate to comply with the requirements of Section 710 hereof, unless the City promptly takes remedial action to ensure compliance thereafter consistent with the determination of the Consulting Engineer rendered pursuant to paragraph 4 of Section 713 hereof;
- (iv) if default shall be made by the City in the performance or observance of any other of the covenants, agreements or conditions on its part in the Resolution or in the Bonds contained, and such default shall have continued for a period of 90 days after written notice specifying such default and requiring that it shall have been remedied and stating that such notice is a "Notice of Default" hereunder is given to the City by the Trustee or to the City and to the Trustee by the Holders of not less than 25% in principal amount of the Bonds Outstanding; provided, however, the City shall not be deemed in default hereunder if such default can be cured within a reasonable period of time and if the City in good faith institutes applicable curative action and within 90 days of such notice diligently pursues such action until the default has been corrected;
- (v) a court having jurisdiction in the premises shall enter a decree or order providing for relief in respect of the City in an involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the City or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs and such decree or order shall remain unstayed and in effect for a period of ninety (90) days; or

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

6. Long-Term Debt (continued)

- (vi) the City shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of the City or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any action in furtherance of the foregoing; then, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, either the Trustee (by notice in writing to the City and the Co-Trustee, if any), or the Holders of not less than 25% in principal amount of the Bonds Outstanding (by notice in writing to the City, the Trustee and the Co-Trustee, if any), may declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee or of the Holders of not less than 25% in principal amount of the Bonds to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, but before the Bonds shall have matured by their terms, all overdue installments of interest on the Bonds, together with interest on such overdue installments of interest to the extent permitted by law and the reasonable and proper charges, expenses and liabilities of the Trustee and the Co-Trustee, if any, and all other sums then payable by the City under the Resolution, including, without limitation, Parity Hedging Contract Obligations then due (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration), shall either be paid by or for the account of the City or provision satisfactory to the Trustee and the Co-Trustee, if any, shall be made for such payment, and all defaults under the Bonds or under the Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case the Holders of 25% in principal amount of the Bonds Outstanding, by written notice to the City, the Trustee and the Co-Trustee, if any, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the Holders of 25% in principal amount of the Bonds Outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default shall ipso facto be deemed to be annulled, but no such rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

6. 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):

BONDS			
Year Ending September 30,	Principal	Interest	Total Debt Service Requirements
2021	\$ 27,080	\$ 51,003	\$ 78,083
2022	25,645	49,531	75,176
2023	29,215	48,164	77,379
2024	32,105	46,776	78,881
2025	31,785	44,888	76,673
2026-2030	241,250	195,108	436,358
2031-2035	291,215	132,726	423,941
2036-2040	364,545	78,086	442,631
2041-2045	174,825	21,763	196,588
2046-2048	104,235	3,932	108,167
	\$ 1,321,900	\$ 671,977	\$ 1,993,877

DIRECT PLACEMENTS			
Year Ending September 30,	Principal	Interest	Total Debt Service Requirements
2021	\$ 10	\$ 1,929	\$ 1,939
2022	40	1,988	2,028
2023	45	1,987	2,032
2024	45	1,986	2,031
2025	45	1,985	2,030
2026-2030	240	9,911	10,151
2031-2035	10,290	9,483	19,773
2036-2040	-	8,838	8,838
2041-2045	193,825	6,687	200,512
2046-2048	138,530	1,281	139,811
	\$ 343,070	\$ 46,075	\$ 389,145

See Note 7 Hedging Activities for additional debt service requirements for interest rate swaps.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

6. Long-Term Debt (continued)

Debt Service Requirements for Long-Term Debt (concluded)

In accordance with GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, the interest requirement for variable-rate debt was determined using the interest rates that were in effect at September 30, 2020. Interest rates on variable-rate long-term debt were valued to be equal to 0.13% for the 2005 Series C Bonds, 0.12% for the 2006 Series A Bonds, 0.13% for the 2007 Series A Bonds, 0.15% for the 2008 Series B Bonds, 0.13% for the 2012 Series B Bonds, 0.55% for the 2017 Series B Bonds, 0.75% for the 2017 Series C Bonds, and 0.12% for the 2019 Series C Bonds.

The 2009 Series B and 2010 Series B Bonds receive a federal interest subsidy of 32.9% 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 2020 and 2019, principal and interest paid were \$96.7 million and \$91.1 million, respectively. For fiscal years 2020 and 2019, total pledged revenues were \$397.9 million and \$402 million, respectively. As of September 30, 2020, annual principal and interest payments are expected to require 21% of pledged revenues on average.

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 SBPAs 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 April 1, 2021, to May 17, 2024. Each of the SBPA and credit agreement termination dates may be extended. At September 30, 2020, there were no outstanding draws under any of the SBPAs. Available credits including interest, under each VRDO are as follows: \$3.1 million for 2005 Series C, \$3 million for 2006 Series A, \$129.3 million for 2007 Series A, \$76.7 million for 2008 Series B, \$99.8 million for 2012 Series B, and \$68.1 million for 2019 Series C.

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, 2020, are August 27, 2021, and November 30, 2021. The credit agreement supporting the tax-exempt Commercial Paper Notes, Series C had no outstanding draws as of September 30, 2020, and 2019. The credit agreement supporting the taxable Commercial Paper Notes, Series D had no outstanding draws as of September 30, 2020, and 2019.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

6. Long-Term Debt (concluded)

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2020, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Utilities system revenue bonds	\$ 1,687,270	\$ 10,715	\$ (33,015)	\$ 1,664,970	\$ 27,090
Add: Issuance premiums	102,411	-	(10,545)	91,866	-
Total bonds payable	1,789,681	10,715	(43,560)	1,756,836	27,090
Commercial paper	-	-	-	-	-
Fair value of derivative instruments	81,099	42,682	(777)	123,004	-
Reserve for insurance claim	3,337	-	-	3,337	-
Reserve for environmental liability	841	-	-	841	-
Net pension liability	99,567	-	(85,001)	14,566	-
Net other post-employment benefits liability	5,368	-	(4,514)	854	-
Due to other funds	23,254	94,137	(2,789)	114,602	6,083
Other noncurrent liabilities and regulatory liabilities	4,710	-	(82)	4,628	-
	<u>\$ 2,007,857</u>	<u>\$ 147,534</u>	<u>\$ (136,723)</u>	<u>\$ 2,018,668</u>	<u>\$ 33,173</u>

Long-term liabilities activity for the year ended September 30, 2019, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Utilities system revenue bonds	\$ 1,534,340	\$ 247,840	\$ (94,910)	\$ 1,687,270	\$ 22,105
Add: Issuance premiums	83,759	28,224	(9,572)	102,411	-
Total bonds payable	1,618,099	276,064	(104,482)	1,789,681	22,105
Commercial paper	93,000	-	(93,000)	-	-
Fair value of derivative instruments	38,765	42,334	-	81,099	-
Reserve for insurance claim	3,337	-	-	3,337	-
Reserve for environmental liability	519	322	-	841	-
Net pension liability	71,178	28,389	-	99,567	-
Net other post-employment benefits liability	1,206	4,162	-	5,368	-
Due to other funds	18,482	5,330	(558)	23,254	6,353
Other noncurrent liabilities and regulatory liabilities	591	5,250	(1,131)	4,710	-
	<u>\$ 1,845,177</u>	<u>\$ 361,851</u>	<u>\$ (199,171)</u>	<u>\$ 2,007,857</u>	<u>\$ 28,458</u>

Interest Rate Swaps

GRU is a party to certain interest rate swap agreements. GRU applies hedge accounting where applicable. See Note 7 Hedging Activities for additional information.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

7. 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, 2020 and 2019

7. 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, 2020, were as follows (in thousands):

Associated Bond Issue	2005B*	2005C*	2006A*	2007A*
Notional amount	\$10,250	\$17,895	\$17,310	\$135,795
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	(\$1)	(\$1,057)	(\$1,144)	(\$51,493)
Termination date	10/1/2021	10/1/2026	10/1/2026	10/1/2036
Counterparty credit rating	Aa2/AA-	Aa2/A+/AA	Aa2/AA-	Aa2/AA-
Associated Bond Issue	2008B*	2008B*	2017B*	2017B*
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%	1.760%	1.559%
Variable receiver rate	SIFMA	SIFMA	70.00% of 1MO LIBOR	70.00% of 1MO LIBOR
Fair value	(\$20,814)	(\$11,224)	(\$14,672)	(\$4,061)
Termination date	10/1/2038	10/1/2038	10/1/2044	10/1/2044
Counterparty credit rating	Aa2/A+/AA	Aa2/A+/AA	A1/A+/A+	Aa3/A+/A+
Associated Bond Issue	2017C*	2014A*	2019A*	
Notional amount	\$115,000	\$34,025	\$153,820	
Effective date	1/1/2020	10/1/2024	10/1/2029	
Fixed payer rate	1.410%	1.054%	1.171%	
Variable receiver rate	70.00% of 1MO LIBOR	70.00% of 1MO LIBOR	70.00% of 1MO LIBOR	
Fair value	(\$18,608)	(\$349)	\$419	
Termination date	10/1/2047	10/1/2044	10/1/2047	
Counterparty credit rating	Aa3/A+/A+	Aa2/A+/AA-	Aa2/A+/AA-	

* See Basis Risk section below.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

7. Hedging Activities (continued)

Fair Value

All of the swap agreements, except for the 2019A swap, had a negative fair value as of September 30, 2020. As the interest rate environment has decreased over the past year, the negative fair value of the swap agreements has increased. 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, 2020	Changes in Fair Value	Changes in Deferred (Inflow) Outflow	Changes in Regulatory (Assets) Liability for Ineffective Instruments
2005B	\$ (1)	\$ (35)	\$ -	\$ 35
2005C	(1,057)	171	-	(171)
2006A	(1,144)	187	-	(188)
2008B	(20,814)	(3,107)	3,107	-
2008B	(11,224)	(1,677)	1,677	-
2007A	(51,493)	(9,032)	9,032	-
2017B	(14,672)	(8,445)	8,446	-
2017B	(4,061)	(1,429)	1,429	-
2017C	(18,608)	(18,608)	18,608	-
2014A	(349)	(349)	349	-
2019A	419	419	(419)	-
	<u>\$ (123,004)</u>	<u>\$ (41,905)</u>	<u>\$ 42,229</u>	<u>\$ (324)</u>

All of the swap agreements, except for the 2005B swap, had a negative fair value as of September 30, 2019. Due to the low interest rate environment, as compared to the period when the swaps were entered into, the fixed payer rates exceed the variable receiver rates (in thousands):

	Fair Value of Interest Rate Swaps at September 30, 2019	Changes in Fair Value	Changes in Deferred (Inflow) Outflow	Changes in Regulatory (Assets) Liability for Ineffective Instruments
2005B	\$ 34	\$ (44)	\$ -	\$ 43
2005C	(1,228)	(289)	-	290
2006A	(1,331)	(317)	-	318
2008B	(17,707)	(6,458)	6,457	-
2008B	(9,547)	(3,484)	3,484	-
2007A	(42,461)	(17,947)	17,947	-
2017B	(6,227)	(9,646)	9,646	-
2017B	(2,632)	(4,149)	4,149	-
	<u>\$ (81,099)</u>	<u>\$ (42,334)</u>	<u>\$ 41,683</u>	<u>\$ 651</u>

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7. Hedging Activities (continued)

Interest Rate Swap Payments

Debt service requirements on the interest rate swaps using interest rates in effect at September 30, 2020, are as follows (in thousands):

<u>Year Ending September 30,</u>	<u>Debt Service</u>
2021	\$ 13,553
2022	13,253
2023	12,905
2024	12,539
2025	12,418
2026-2030	57,558
2031-2035	47,850
2036-2040	30,328
2041-2045	19,426
2046-2048	2,388
	<u>\$ 222,218</u>

Credit Risk

As of September 30, 2020, although most of the fair value of the interest rate swaps were negative, GRU has structured its swap agreements 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, 2020, the one-month LIBOR rate was 0.14825%, and SMIFA rate was at 0.11%, which places the SIFMA at approximately 74% 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, 2020, the 10-year LIBOR rate was at 0.711%.

Gainesville Regional Utilities
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7. 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 and C Swaps are 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 2014 Series A and the 2019 Series A Swaps are forward starting swaps with effective dates of October 1, 2024, and October 1, 2029, respectively. They will be exposed to the difference between 70% of the one-month LIBOR and the variable rollover rate.

Termination Risk

The swap agreement will be terminated at any time if certain events occur that result in one party not performing in accordance with the agreement. The swap can be terminated due to illegality, a credit event upon merger, 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 A+ from Fitch Ratings. Currently GRU has not encountered any credit market barriers.

Gainesville Regional Utilities
Notes to Financial Statements
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7. Hedging Activities (concluded)

Effectiveness

Of the interest rate swap agreements, eight have been deemed effective, while three have been deemed ineffective as of September 30, 2020. The ineffective portion related to interest rate swap agreements is recorded as a regulatory asset in the amount of \$2.2 million and \$2.5 million as of September 30, 2020 and 2019, respectively.

The unrealized loss on interest rate swap agreements was \$41.9 million and \$42.3 million in accumulated decrease in fair value of hedging derivatives at September 30, 2020 and 2019, respectively. There were no realized gains or losses related to interest rate swaps as of September 30, 2020 and 2019, respectively.

Fuel Hedges

GRU utilizes futures and options 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 \$196,000 and \$40,000 for September 30, 2020 and 2019, 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, 2020	Changes in Fair Value	Deferred (Inflows)/ Outflows Resources	Notional Amount (MMBTUs)
Natural Gas	\$ -	\$ -	\$ -	0

	Fair Value of Cash Flow Hedges at September 30, 2019	Changes in Fair Value	Deferred (Inflows)/ Outflows Resources	Notional Amount (MMBTUs)
Natural Gas	\$ -	\$ -	\$ -	0

Gainesville Regional Utilities
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8. 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

8. 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, 2020 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Fair Value Investments				
U.S. Treasuries	\$ -	\$ 7,133	\$ -	\$ 7,133
U.S. Agencies:				
Federal Home Loan Mortgage Corp.	-	8,991	-	8,991
Federal National Mortgage Assn.	-	15,520	-	15,520
Federal Home Loan Bank	-	-	-	-
Federal Farm Credit Bank	-	13,500	-	13,500
Corporate bonds:				
MassMutual Global Funding	-	5,047	-	5,047
Guardian Life	-	10,642	-	10,642
Walmart	-	4,014	-	4,014
New York Life	-	5,356	-	5,356
Total fair value investments	<u>\$ -</u>	<u>\$ 70,203</u>	<u>\$ -</u>	<u>\$ 70,203</u>
Liabilities				
Financial instruments				
Effective interest rate swaps	\$ -	\$ (120,802)	\$ -	\$ (120,802)
Ineffective interest rate swaps	-	(2,202)	-	(2,202)
Total financial instruments	<u>\$ -</u>	<u>\$ (123,004)</u>	<u>\$ -</u>	<u>\$ (123,004)</u>

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

8. Fair Value Measurement (concluded)

Fair value balances and their levels within the fair value hierarchy as of September 30, 2019, are represented in the following table (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Fair Value Investments				
U.S. Treasuries	\$ -	\$ 25,974	\$ -	\$ 25,974
U.S. Agencies:				
Federal Home Loan Mortgage Corp.	-	13,646	-	13,646
Federal National Mortgage Assn.	-	10,548	-	10,548
Federal Home Loan Bank	-	28,403	-	28,403
Federal Farm Credit Bank	-	12,588	-	12,588
Corporate bonds:				
MassMutual Global Funding	-	4,994	-	4,994
Guardian Life	-	5,497	-	5,497
Walmart	-	4,009	-	4,009
New York Life	-	4,211	-	4,211
Total fair value investments	<u>\$ -</u>	<u>\$ 109,870</u>	<u>\$ -</u>	<u>\$ 109,870</u>
Liabilities				
Financial instruments				
Effective interest rate swaps	\$ -	\$ (78,573)	\$ -	\$ (78,573)
Ineffective interest rate swaps	-	(2,526)	-	(2,526)
Total financial instruments	<u>\$ -</u>	<u>\$ (81,099)</u>	<u>\$ -</u>	<u>\$ (81,099)</u>

9. Restricted Net Position

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

	<u>2020</u>	<u>2019</u>
Restricted net position:		
Debt service	\$ 27,565	\$ 22,821
Utility plant improvement	51,668	27,687
Other	4,798	3,386
Restricted net position	<u>\$ 84,031</u>	<u>\$ 53,894</u>

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

10. Lease Revenue

GRU leases communication tower antenna space to various wireless communications service providers on eleven communications towers and two water towers throughout our service territory. Two of the five transmitter sites for the countywide public safety radio system are also located on these communications towers.

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

<u>Year Ending September 30,</u>	<u>Future Minimum Rental Revenue</u>
2021	\$ 1,664
2022	1,278
2023	961
2024	446
2025	131
2026	52
	<u>\$ 4,532</u>

11. 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.

The fiscal year 2015 formula ended September 30, 2019. During the fiscal year 2020 budget process, the City Commission approved keeping the General Fund Transfer flat, eliminating the 1.5% annual inflation factor.

For the years ended September 30, 2020 and 2019, the transfer was \$38.3 million.

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12. 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

12. Commitments and Contingencies (continued)

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 19, 2019, the EPA issued the final Affordable Clean Energy (ACE) rule to replace the Clean Power Plan (CPP) to restore the rule of law and empowers states to continue to reduce emissions while providing affordable and reliable energy. The Affordable Clean Energy rule (ACE) adheres to the Clean Air Act and gives states the regulatory certainty they need to continue to reduce emissions and provide a dependable, diverse, and affordable supply of electricity. The ACE rule establishes emissions guidelines for states to use to limit carbon dioxide emissions (CO₂) at their coal-fired power plants. Specifically, ACE identifies heat rate improvements as the best system of emission reduction (BSER) for CO₂ from coal-fired plants, and these improvements can be made at individual facilities. Also contained in the rule are new implementing regulations for ACE and future existing source rules under Clean Air Act Section 111(d). These guidelines will inform states as they set unit-specific standards of performance. The states will have three years to submit plans, which is in line with planning timelines under the Clean Air Act.

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 if fuel burned consists of more than 50% coal on a total heat or mass input basis.

On August 28, 2020, EPA's Closure Part A rule was published in the Federal Register with the final rule effective date of September 28, 2020. As part of this rule revision, the definition of lined/unlined surface impoundments was changed resulting in the exclusion of clay as meeting the definition. If GRU continues to burn in excess of 50% coal, an alternative means of managing the CCR in Deerhaven's surface impoundments is necessary. GRU has submitted an infeasibility demonstration to EPA to request additional time per the rule revision requirement for addressing the impact of this rule change.

Gainesville Regional Utilities
Notes to Financial Statements
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12. Commitments and Contingencies (continued)

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

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

Remediation Sites

Several site investigations have been completed at the JRK Station, most recently in September 2020. 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 documented 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 No. 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

Gainesville Regional Utilities
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12. Commitments and Contingencies (continued)

Remediation Sites (concluded)

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's 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 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.

The results of the additional assessment were submitted to FDEP with the findings that the extent of impact has not been fully defined. FDEP has requested GRU conduct additional assessment such that complete delineation is achieved, and a Remedial Action Plan (RAP) can be developed to address all impacts to all media.

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.

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12. Commitments and Contingencies (continued)

Water Use Restrictions (concluded)

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.

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, 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 2020 and 2019, expenditures which reduced the liability balance were \$1.1 million and \$1.2 million, respectively. The reserve balance at September 30, 2020 and 2019, was \$841,000 and \$980,000, 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 \$1.1 million and \$1.2 million, as of September 30, 2020 and 2019, respectively. The regulatory asset balance was \$9.8 million and \$11 million as of September 30, 2020 and 2019, 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.

Gainesville Regional Utilities
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12. Commitments and Contingencies (concluded)

Purchase Commitments

On July 16, 2020, the City Commission approved a Power Purchase Agreement (PPA) for solar electric to add 50 megawatts of solar generation to our service area by December 2022. On July 21, 2020, GRU entered into a 20-year contract with the option for two additional five-year terms and a purchase opportunity at years 8, 12, and 16, and at change in control. This will enable us to provide GRU customers with affordable solar power while taking the next steps toward meeting the City Commission's goal of 100 percent renewable by 2045. GRU will own all green environmental attributes (renewable energy credits).

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, 2020 and 2019, were \$186,000 and \$174,000, respectively.

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

<u>Year Ending September 30,</u>	<u>Future Minimum Rental Payments</u>
2021	\$ 125
2022	86
2023	83
2024	41
2025	6
2026-2030	30
2031-2035	30
2036-2040	30
2041-2045	30
2046	6
	<u>\$ 467</u>

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13. Retirement Plans

The City sponsors and administers the Employees' Pension Plan (Employees' Plan).

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.

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.

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13. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan (continued)

- 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.
- 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

13. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan (continued)

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.
- 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

13. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan (continued)

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:

	2020	2019
Active members	1,640	1,553
Retirees members/beneficiaries currently receiving benefits	1,376	1,352
Terminated members/beneficiaries entitled to benefits but not yet receiving benefits	427	428
Total	3,443	3,333

The contribution requirements of plan members and the City are established and may be amended by City Ordinance approved by the City Commission. The City is required to contribute at an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City contributes the difference between the actuarially determined rate and the contribution rate of employees. Plan members are required to contribute 5% of their annual covered salary. The rates were 175.82% and 18.40% of covered payroll for the years ended September 2020 and 2019, respectively. This rate was influenced by the issuance of the Taxable Pension Obligation Bonds, Series 2003A and the Special Obligation Revenue Bonds, Series 2020 issued by the City. The proceeds from these issues were utilized to retire the unfunded actuarial accrued liability at the time of issuance 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 Taxable Pension Obligation Bonds, Series 2003A has interest rates of 1.71% to 6.19%, final maturity on October 1, 2032, with principal payments due October 1 and interest payments due October 1 and April 1 payable solely from non-ad valorem revenues and not subject to redemption prior to maturity. On September 29, 2020, the City of Gainesville issued \$206.1

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

13. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan (concluded)

million in Special Obligation Revenue Bonds, Series 2020. The proceeds of these bonds were deposited into the Employees' Plan and Consolidated Police Officers' and Firefighters' Plan for September 30, 2020, to retire 95% of the unfunded actuarial accrued liability existing at that time in these plans. The Special Obligation Revenue Bonds, Series 2020 has an interest rate of 2.61%, final maturity on October 1, 2042, with principal payments due October 1, and interest payments due October 1 and April 1. These bonds are payable solely from legally available non-ad valorem revenues. GRU recorded a due to other funds for its share of the pension contribution expense related to these bonds. The total outstanding at September 30, 2020, is \$111 million with \$108.5 million not expected to be paid within the current year. The total outstanding at September 30, 2019, was \$17.5 million with \$17 million not expected to be paid within the current year.

The net pension liability related to the Employees' Plan was measured as of September 30, 2020 and 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2019, and October 1, 2018, for September 30, 2020 and 2019, respectively.

The net pension liability applicable to GRU as an enterprise fund of the City was \$14.6 million and \$99.6 million at September 30, 2020 and 2019, respectively.

The total pension liability as of September 30, 2020, was determined based on a roll-forward of the entry age normal liabilities from the October 1, 2019, actuarial valuation. Below is a summary of the key actuarial assumptions used in the October 1, 2019, actuarial valuation:

Inflation	2.50%
Salary Increases	3.00% to 5.00%
Investment Rate of Return	7.9%, net of pension investment expenses

Below is a summary of the key actuarial assumptions used in the October 1, 2018, actuarial valuation:

Inflation	2.50%
Salary Increases	3.00% to 5.00%
Investment Rate of Return	7.9%, net of pension investment expenses

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

13. Retirement Plans (continued)

Defined Benefit Plans (continued)

Mortality Rate

Mortality rates were based on the RP2000 Combined Healthy Mortality Table projected generationally with Mortality Improvement Scale BB.

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 expenses 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 as of September 30, 2020 and 2019, are summarized in the following table:

<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%
Domestic 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 was 7.9% as of September 30, 2020 and 2019. 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, 2020 and 2019

13. Retirement Plans (continued)

Defined Benefit Plans (continued)

Net Pension Liability

Changes in the Net Pension Liability for GRU for the years ended September 30, 2020 and 2019 (in thousands):

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 10/01/2019	\$ 342,088	\$ 242,521	\$ 99,567
Changes for the year:			
Service cost	5,103	-	5,103
Interest	26,670	-	26,670
Differences between expected and actual experience	(92)	-	(92)
Changes to assumptions	-	-	-
Contributions - employer	-	104,247	(104,247)
Contributions - employee	-	2,965	(2,965)
Contributions - buyback	115	115	-
Net investment income	-	10,009	(10,009)
Benefit payments, including refunds and DROP payouts	(21,872)	(21,872)	-
Administrative expense	-	(330)	330
Other Changes *	1,336	1,127	209
Net changes	11,260	96,261	(85,001)
Balances at 09/30/2020	\$ 353,348	\$ 338,782	\$ 14,566

* Reflects a change in GRU's portion of the Net Pension Liability.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 10/01/2018	\$ 324,034	\$ 252,856	\$ 71,178
Changes for the year:			
Service cost	5,760	-	5,760
Interest	25,602	-	25,602
Differences between expected and actual experience	3,890	-	3,890
Changes to assumptions	3,550	-	3,550
Contributions - employer	-	9,918	(9,918)
Contributions - employee	-	2,694	(2,694)
Contributions - buyback	71	71	-
Net investment income	-	(1,596)	1,596
Benefit payments, including refunds and DROP payouts	(20,819)	(20,819)	-
Administrative expense	-	(603)	603
Net changes	18,054	(10,335)	28,389
Balances at 09/30/2019	\$ 342,088	\$ 242,521	\$ 99,567

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

13. 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 7.9% as of September 30, 2020 and 2019, 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 (in thousands):

	2020		
Sensitivity for GRU's Portion:	1% Decrease (6.9%)	Current Discount Rate (7.9%)	1% Increase (8.9%)
Net pension liability	\$ 54,749	\$ 14,566	\$ (19,134)
	2019		
Sensitivity for GRU's Portion:	1% Decrease (6.9%)	Current Discount Rate (7.9%)	1% Increase (8.9%)
Net pension liability	\$ 138,719	\$ 99,567	\$ 66,758

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, 2020 and 2019

13. Retirement Plans (concluded)

Defined Benefit Plans (concluded)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the years ended September 30, 2020 and 2019, GRU recorded a pension expense of \$11.2 million and \$9.9 million, respectively. At September 30, 2020 and 2019, the City and GRU reported deferred outflows of resources related to the Employees' Plan from the following sources (in thousands):

	2020	
	Deferred Outflows of Resources GRU's Portion	Deferred Inflows of Resources GRU's Portion
	\$	\$
Differences between expected and actual experience	3,163	1,196
Net difference between projected and actual investment earnings on pension plan investments	12,403	-
Change to assumptions	5,660	-
Total	\$ 21,226	\$ 1,196
	2019	
	Deferred Outflows of Resources GRU's Portion	Deferred Inflows of Resources GRU's Portion
	\$	\$
Differences between expected and actual experience	5,149	1,738
Net difference between projected and actual investment earnings on pension plan investments	2,544	-
Change to assumptions	11,595	-
Total	\$ 19,288	\$ 1,738

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

Year Ending September 30,	Net Deferred Outflows/(Inflows) of Resources
2021	\$ 5,138
2022	5,564
2023	7,573
2024	1,770
2025	(15)
Thereafter	-
Total	\$ 20,030

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

14. 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 members of the City Commission 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.

Employees Covered by Benefit Terms

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

	2020	2019
Inactive employees or beneficiaries currently receiving benefit payments	1,431	869
Inactive employees entitled to but not yet receiving benefit payments	-	1,131
Active employees	2,307	2,068
Total	3,738	4,068

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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

14. Other Post-employment Benefits Plan (continued)

Contributions (concluded)

The State of Florida prohibits the City from separately rating retirees and active employees. The City therefore charges both groups an equal, blended rate premium. Although both groups are charged the same blended rate premium, GAAP requires 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 \$35.2 million Taxable Other Post Employment Benefit (OPEB) bonds to retire the unfunded actuarial accrued liability then existing in the RHCP Trust Fund. This allowed the City to reduce its contribution rate. The City's actual regular contribution was less than the annual required contribution calculated using the age-adjusted premiums instead of the blended rate premiums. The difference between the annual required calculation and the City's actual regular contribution was due to two factors. The first is the amortization of the negative net OPEB obligation created in fiscal year 2005 by the issuance of the OPEB bonds. The other factor is that the City has elected to contribute based on the blended rate premium instead of the age-adjusted premium, described above as the implicit rate subsidy. The OPEB bonds were for ten years and were paid in full in June 2015.

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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

14. Other Post-employment Benefits Plan (continued)

Investment Policy (concluded)

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>
Large Cap Value Equity	19.44%	6.00%
Large Cap Growth Equity	19.44%	5.90%
Small Cap Value Equity	11.11%	6.10%
Small Cap Growth Equity	11.11%	4.90%
International Value Equity	11.11%	4.90%
International Growth Equity	11.11%	4.90%
Core Fixed Income	5.57%	1.70%
Private Real Estate	11.11%	5.90%
Total	<u>100.00%</u>	

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, 2020 and 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of October 1, 2019, for September 30, 2020, and a roll-forward of the October 1, 2017, valuation for September 30, 2019.

Actuarial Assumptions

The total OPEB liability as of September 30, 2020, was determined based on a roll-forward of the October 1, 2019, actuarial valuation. Below is a summary of the key actuarial assumptions used in the October 1, 2019, actuarial valuation:

Inflation	3.00%
Salary Increases	3.00% to 5.00%
Investment Rate of Return	7.90%, net of OPEB plan investment expense
Health care cost trend rates	4.50%

Below is a summary of the key actuarial assumptions used in the October 1, 2017, actuarial valuation:

Inflation	3.00%
Salary Increases	3.00% to 5.00%
Investment Rate of Return	7.90%, net of OPEB plan investment expense
Health care cost trend rates	4.50%

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

14. Other Post-employment Benefits Plan (continued)

Actuarial Assumptions (concluded)

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, 2017, actuarial valuation was more than 30 months and 1 day before the Utility's prior fiscal year-end. However, GRU determined that its portion of the difference between the October 1, 2017, valuation and the valuation for the Utility's prior year-end is not material.

Mortality Rate

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.

Discount Rate

The discount rate used to measure the total OPEB liability was 7.9% compounded annually, net of investment expenses as of September 30, 2020 and 2019, 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. 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, 2020 and 2019

14. Other Post-employment Benefits Plan (continued)

Changes in Net OPEB Liability for GRU

Changes in Net OPEB Liability for GRU for the years ended September 30, 2020 and 2019 (in thousands):

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at 10/01/2019	\$ 29,539	\$ 24,171	\$ 5,368
Changes for the year:			
Service cost	785	-	785
Interest	2,747	-	2,747
Differences between expected and actual experience	(1,384)	-	(1,384)
Changes in assumptions	(6,198)	-	(6,198)
Contributions - employer	-	1,153	(1,153)
Net investment income	-	271	(271)
Benefit payments	(2,174)	(2,174)	-
Administrative expense	-	(5)	5
Other Changes *	5,548	4,593	955
Net changes	(676)	3,838	(4,514)
Balances at 09/30/2020	\$ 28,863	\$ 28,009	\$ 854

* Reflects a change in GRU's portion of the Net OPEB Liability as of September 30, 2020, and a change in asset value as of September 30, 2019.

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at 10/01/2018	\$ 26,791	\$ 25,585	\$ 1,206
Changes for the year:			
Service cost	650	-	650
Interest	2,336	-	2,336
Differences between expected and actual experience	1,199	-	1,199
Changes in assumptions	273	-	273
Contributions - employer	-	891	(891)
Net investment income	-	(588)	588
Benefit payments	(1,710)	(1,710)	-
Administrative expense	-	(7)	7
Net changes	2,748	(1,414)	4,162
Balances at 09/30/2019	\$ 29,539	\$ 24,171	\$ 5,368

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

14. 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 7.9% as of September 30, 2020 and 2019, 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):

	2020			
	1% Decrease	Discount	1% Increase	
	(6.9%)	Rate	(7.9%)	
	(8.9%)			
Net OPEB liability (asset)	\$ 3,770	\$ 854	\$ (1,637)	
	2019			
	1% Decrease	Discount	1% Increase	
	(6.9%)	Rate	(7.9%)	
	(8.9%)			
Net OPEB liability (asset)	\$ 8,156	\$ 5,368	\$ 2,974	

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

14. Other Post-employment Benefits Plan (continued)

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 4.5% as of September 30, 2020 and 2019, 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):

	2020		
	Health Care Cost Trend		
	1% Decrease (3.5%)	Rate (4.5%)	1% Increase (5.5%)
Net OPEB liability (asset)	<u>\$ (2,088)</u>	<u>\$ 854</u>	<u>\$ 4,340</u>
	2019		
	Health Care Cost Trend		
	1% Decrease (3.5%)	Rate (4.5%)	1% Increase (5.5%)
Net OPEB liability (asset)	<u>\$ 2,254</u>	<u>\$ 5,368</u>	<u>\$ 9,048</u>

OPEB Plan Fiduciary Net Position

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

14. Other Post-employment Benefits Plan (continued)

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

For the years ended September 30, 2020 and 2019, GRU recorded an OPEB Expense of \$389,000 and \$355,000, respectively. At September 30, 2020 and 2019, the City and GRU reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	2020	
	Deferred Outflows of Resources GRU's Portion	Deferred Inflows of Resources GRU's Portion
Differences between expected and actual experience	\$ 814	\$ 1,211
Change in assumptions	375	5,423
Net difference between projected and actual investment earnings on OPEB plan investments	3,203	-
Total	\$ 4,392	\$ 6,634

	2019	
	Deferred Outflows of Resources GRU's Portion	Deferred Inflows of Resources GRU's Portion
Differences between expected and actual experience	\$ 856	\$ -
Change in assumptions	387	-
Net difference between projected and actual investment earnings on OPEB plan investments	1,808	-
Total	\$ 3,051	\$ -

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

14. 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>Year Ending September 30,</u>	<u>Net Deferred Outflows/(Inflows) of Resources</u>
2021	\$ 240
2022	240
2023	349
2024	(269)
2025	(907)
Thereafter	(1,895)
Total	\$ (2,242)

15. Risk Management

GRU is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters and insures against these losses. GRU purchases plant and machinery insurance from a commercial carrier. There have been no significant reductions in insurance coverage from 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 were paid from current year revenues for fiscal years 2020, 2019 and 2018.

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

<u>Year Ending September 30,</u>	<u>Beginning Balance</u>	<u>Claims</u>	<u>Payments</u>	<u>Change in Reserve</u>	<u>Ending Balance</u>
2020	\$ 3,337	\$ 2,051	\$ (2,051)	\$ -	\$ 3,337
2019	3,337	2,103	(2,103)	-	3,337
2018	3,337	1,729	(1,729)	-	3,337

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

16. Restatement

GRU restated certain 2019 amounts related to recognition of its share of the reduced pension liability caused by the City's issuance of the Taxable Pension Obligation Bonds, Series 2003A, as discussed in Note 13 Retirement Plans. The Utility has restated its 2019 financial statements as follows (in thousands):

Statements of Net Position	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Gas</u>	<u>GRUCom</u>	<u>Total</u>
Assets						
Noncurrent asset:						
Pension regulatory asset, as previously reported	\$ 49,351	\$ 10,547	\$ 13,115	\$ 4,781	\$ 4,223	\$ 82,017
Restatement	11,099	1,981	2,490	1,059	844	17,473
Pension regulatory asset, as restated	<u>60,450</u>	<u>12,528</u>	<u>15,605</u>	<u>5,840</u>	<u>5,067</u>	<u>99,490</u>
Liabilities						
Current liability:						
Due to other funds, as previously reported	\$ 6,362	\$ (475)	\$ 425	\$ (426)	\$ (105)	\$ 5,781
Restatement	363	65	81	35	28	572
Due to other funds, as restated	<u>\$ 6,725</u>	<u>\$ (410)</u>	<u>\$ 506</u>	<u>\$ (391)</u>	<u>\$ (77)</u>	<u>\$ 6,353</u>
Noncurrent liability:						
Due to other funds, as previously reported	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restatement	10,736	1,917	2,408	1,024	816	16,901
Due to other funds, as restated	<u>\$ 10,736</u>	<u>\$ 1,917</u>	<u>\$ 2,408</u>	<u>\$ 1,024</u>	<u>\$ 816</u>	<u>\$ 16,901</u>

The restatement did not have an impact on net position.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2020 and 2019

17. Subsequent Events

Direct Placement of Long-term Debt

On October 15, 2020, the City Commission approved three resolutions relating to the issuance, refunding and renewal of debt. They are:

- The issuance of \$105 million Utilities System Revenue Bonds, 2020 Series B direct placement with TD Bank to refund \$105 million of the Utilities System Revenue Bonds, 2017 Series B.
- The renewal and reissuance of the remaining \$45 million of the Utilities System Revenue Bonds, 2017 Series B direct placement with Wells Fargo.
- Renewal and reissuance of the \$115 million Utilities System Revenue Bonds, 2017 Series C direct placement with Bank of America.

On November 2, 2020, the transactions were executed and the proceeds were used to refund a portion of the \$150 million Utilities System Revenue Bonds 2017 Series B direct placement with Wells Fargo, reducing the outstanding par value from \$150 million to \$45 million. The refunded portion of the direct placement with Wells Fargo was replaced by the \$105 million Utilities System Revenue Bonds, 2020 Series B direct placement with TD Bank.

Customer Information System

On November 19, 2020, the City Commission approved a \$30.8 million project over ten years to upgrade GRU's current customer information system (CIS), a critical software system, which was installed in 2007. The CIS houses customer data and is responsible for billing GRU's utility customers. It is also used to bill storm water and refuse services for the City of Gainesville.

Advanced Metering Infrastructure

On February 4, 2021, the City Commission approved an \$81.2 million project over 21 years to install and host an advanced metering infrastructure (AMI) system that will enhance organizational and customer efficiencies. AMI is an integrated system of smart meters, communications networks, and data management systems that enable two-way communication between utilities and customers. These systems provide the ability to automatically and remotely measure consumer consumption, connect and disconnect services, detect meter tampering, identify and isolate outages, and monitor voltage. This project will result in better customer interaction, improved quality of service and shortened response times to outages.

SUPPLEMENTARY INFORMATION

Gainesville Regional Utilities
Schedules of Combined Net Revenues
in Accordance with Bond Resolution
For the Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues:		
Electric system:		
Sales of electricity	\$ 261,397,146	\$ 274,624,136
Transfer from (to) rate stabilization	(2,918,305)	1,175,150
Other revenue	9,539,021	1,942,310
Other income	3,572,047	6,455,279
Build America Bonds	2,836,450	2,873,052
Total electric system revenues	<u>274,426,359</u>	<u>287,069,927</u>
Water system:		
Sales of water	35,515,133	35,135,406
Transfer from (to) rate stabilization	(2,699,220)	(1,434,068)
Other revenue	3,018,221	1,783,599
Other income	716,561	503,016
Build America Bonds	803,844	811,634
Total water system revenues	<u>37,354,539</u>	<u>36,799,587</u>
Wastewater system:		
Sales of wastewater	40,372,682	40,278,404
Transfer from (to) rate stabilization	(2,730,032)	(2,165,512)
Other revenue	6,193,942	3,812,266
Other income	745,926	424,708
Build America Bonds	920,185	925,348
Total wastewater system revenues	<u>45,502,703</u>	<u>43,275,214</u>
Gas system:		
Sales of gas	21,411,908	23,527,764
Transfer from (to) rate stabilization	1,963,645	6,907,847
Other revenue	395,413	(76,221)
Other income	453,673	434,367
Build America Bonds	594,428	601,916
Total gas system revenues	<u>24,819,067</u>	<u>31,395,673</u>
Telecommunications system:		
Sales of services	11,471,073	11,198,871
Transfer from (to) rate stabilization	1,805,825	471,447
Other revenue	40,944	(205,414)
Other income	44,665	197,688
Total telecommunications system revenues	<u>13,362,507</u>	<u>11,662,592</u>
Total revenues	<u>\$ 395,465,175</u>	<u>\$ 410,202,993</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operation, maintenance and administrative expenses:		
Electric system:		
Fuel expense	\$ 67,538,540	\$ 86,839,936
Operation and maintenance	67,473,533	65,945,893
Administrative and general	21,472,442	25,914,384
Total electric system expense	<u>156,484,515</u>	<u>178,700,213</u>
Water system:		
Operation and maintenance	11,258,256	11,789,254
Administrative and general	6,871,279	5,955,344
Total water system expense	<u>18,129,535</u>	<u>17,744,598</u>
Wastewater system:		
Operation and maintenance	14,598,152	14,650,837
Administrative and general	7,056,092	5,885,522
Total wastewater system expense	<u>21,654,244</u>	<u>20,536,359</u>
Gas system:		
Fuel expense and purchased gas	6,132,442	8,169,312
Operation and maintenance	2,629,563	3,637,452
Administrative and general	2,800,091	3,360,501
Total gas system expense	<u>11,562,096</u>	<u>15,167,265</u>
Telecommunications system:		
Operation and maintenance	7,775,419	6,017,776
Administrative and general	1,007,025	1,371,700
Total telecommunications system expense	<u>8,782,444</u>	<u>7,389,476</u>
Total expenses	<u>216,612,834</u>	<u>239,537,911</u>
Net revenue in accordance with bond resolution:		
Electric	117,941,844	108,369,714
Water	19,225,004	19,054,989
Wastewater	23,848,459	22,738,855
Gas	13,256,971	16,228,408
Telecommunications	4,580,063	4,273,116
Total net revenue in accordance with bond resolution	<u>178,852,341</u>	<u>170,665,082</u>
Aggregate bond debt service	<u>\$ 96,710,070</u>	<u>\$ 90,191,176</u>
Aggregate bond debt service coverage ratio	<u>1.85</u>	<u>1.89</u>
Total debt service	<u>\$ 96,710,070</u>	<u>\$ 91,095,672</u>
Total debt service coverage ratio	<u>1.85</u>	<u>1.87</u>

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Electric Utility System
For the Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues		
Residential	\$ 77,945,688	\$ 72,753,116
Non-residential	87,961,847	86,272,732
Fuel adjustment	67,538,540	86,839,936
Sales for resale	3,805,969	4,774,197
Utility surcharge	4,499,414	4,466,504
Other electric sales	19,645,688	19,517,651
Total sales of electricity	<u>261,397,146</u>	<u>274,624,136</u>
Transfer from (to) rate stabilization	(2,918,305)	1,175,150
Other revenue	9,539,021	1,942,310
Other income	3,572,047	6,455,279
Build America Bonds	2,836,450	2,873,052
Total revenues	<u>274,426,359</u>	<u>287,069,927</u>
Operation, maintenance and administrative expenses		
Fuel expense	67,538,540	86,839,936
Power production	44,662,358	45,716,984
Transmission and distribution	22,811,175	20,228,909
Administrative and general	21,472,442	25,914,384
Total operation, maintenance, and administrative expenses	<u>156,484,515</u>	<u>178,700,213</u>
Total net revenues in accordance with bond resolution	<u>\$ 117,941,844</u>	<u>\$ 108,369,714</u>
Less:		
Debt service	74,346,601	69,583,183
UPIF contributions	21,179,375	22,870,663
Transfer to City of Gainesville General Fund	22,415,868	15,915,868
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, 2020 and 2019

	2020	2019
Revenues		
Residential	\$ 21,854,359	\$ 21,370,730
Non-residential	11,020,935	11,173,770
Utility surcharge	2,639,839	2,590,906
Total sales of water	35,515,133	35,135,406
Transfer from (to) rate stabilization	(2,699,220)	(1,434,068)
Other revenues	3,018,221	1,783,599
Other Income	716,561	503,016
Build America Bonds	803,844	811,634
Total revenues	37,354,539	36,799,587
Operation, maintenance, and administrative expenses		
Transmission and distribution	3,059,094	3,446,966
Treatment	8,199,162	8,342,288
Administrative and general	6,871,279	5,955,344
Total operation, maintenance, and administrative expenses	18,129,535	17,744,598
Total net revenues in accordance with bond resolution	\$ 19,225,004	\$ 19,054,989
Less:		
Debt service	7,074,691	6,904,026
UPIF contributions	6,794,242	6,794,891
Transfer to City of Gainesville General Fund	5,356,071	5,356,072
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, 2020 and 2019

	2020	2019
Revenues		
Residential	\$ 27,375,089	\$ 26,493,074
Non-residential	10,016,640	10,898,265
Utility surcharge	2,980,953	2,887,065
Total sales of services	40,372,682	40,278,404
Transfer from (to) rate stabilization	(2,730,032)	(2,165,512)
Other revenue	6,193,942	3,812,266
Other income	745,926	424,708
Build America Bonds interest income	920,185	925,348
Total revenues	45,502,703	43,275,214
Operation, maintenance, and administrative expenses		
Collection	5,046,202	4,757,906
Treatment	9,551,950	9,892,931
Administrative and general	7,056,092	5,885,522
Total operation, maintenance, and administrative expenses	21,654,244	20,536,359
Total net revenues in accordance with bond resolution	\$ 23,848,459	\$ 22,738,855
Less:		
Debt service	8,644,371	8,079,167
UPIF contributions	8,343,416	8,799,016
Transfer to City of Gainesville General Fund	6,860,672	5,860,672
Net impact to rate stabilization	\$ -	\$ -

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Gas Utility System
For the Years Ended September 30, 2020 and 2019

	2020	2019
Revenues		
Residential	\$ 8,101,115	\$ 8,124,802
Non-residential	5,387,465	5,428,619
Fuel adjustment	6,132,442	8,169,312
Utility surcharge	544,628	532,997
Other gas sales	1,246,258	1,272,034
Total sales of gas	21,411,908	23,527,764
Transfer from (to) rate stabilization	1,963,645	6,907,847
Other revenue	395,413	(76,221)
Other income	453,673	434,367
Build America Bonds	594,428	601,916
Total revenues	24,819,067	31,395,673
Operation, maintenance, and administrative expenses		
Fuel expense - purchased gas	6,132,442	8,169,312
Operation and maintenance	2,629,563	3,637,452
Administrative and general	2,800,091	3,360,501
Total operation, maintenance, and administrative expenses	11,562,096	15,167,265
Total net revenues in accordance with bond resolution	\$ 13,256,971	\$ 16,228,408
Less:		
Debt service	4,141,955	3,902,061
UPIF contributions	6,649,462	2,360,793
Transfer to City of Gainesville General Fund	2,465,554	9,965,554
Net impact to rate stabilization	\$ -	\$ -

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Telecommunications System
For the Years Ended September 30, 2020 and 2019

	2020	2019
Revenues		
Telecommunications	\$ 7,749,855	\$ 7,737,841
Trunking radio	1,678,920	1,672,251
Tower leasing	2,042,298	1,788,779
Total sales of services	11,471,073	11,198,871
Transfer from (to) rate stabilization	1,805,825	471,447
Other revenue	40,944	(205,414)
Other income	44,665	197,688
Total revenues	13,362,507	11,662,592
Operation, maintenance, and administrative expenses		
Operation and maintenance	7,775,419	6,017,776
Administrative and general	1,007,025	1,371,700
Total operation, maintenance, and administrative expenses	8,782,444	7,389,476
Total net revenues in accordance with bond resolution	\$ 4,580,063	\$ 4,273,116
Less:		
Debt service	2,502,452	2,627,235
UPIF contributions	890,776	459,046
Transfer to City of Gainesville General Fund	1,186,835	1,186,835
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, 2020 and 2019

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:

- ° Amounts to be recovered from future revenue
- ° Depreciation and amortization expense
- ° Allowance for Funds Used During Construction (AFUDC)
- ° Capital contributions

**Gainesville Regional Utilities
Combining Statement of Net Position
September 30, 2020**

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Assets						
Current assets:						
Cash and investment	\$ 23,143,271	\$ 2,721,482	\$ 544,236	\$ 5,067,721	\$ 3,023,031	\$ 34,499,741
Accounts receivable, net of allowance for uncollectible accounts	43,971,226	4,852,787	6,136,110	2,095,045	1,350,957	58,406,125
Inventories:						
Fuel	17,170,962	-	-	-	-	17,170,962
Materials and supplies	9,951,942	1,323,761	39,028	593,830	506,035	12,414,596
Other assets and regulatory assets	199,553	28,820	59,427	862,376	3,909	1,154,085
Total current assets	94,436,954	8,926,850	6,778,801	8,618,972	4,883,932	123,645,509
Restricted and internally designated assets:						
Utility deposits - cash and investments	7,151,282	567,258	474,616	288,656	-	8,481,812
Debt service - cash and investments	47,617,409	3,881,381	4,565,357	2,543,805	1,475,905	60,083,857
Rate stabilization - cash and investments	30,439,894	14,469,069	15,523,773	409,247	2,103,927	62,945,910
Construction fund - cash and investments	41,293,045	9,459,302	10,863,368	2,424,393	3,112,816	67,152,924
Utility plant improvement fund - cash and investments	27,022,692	9,334,668	3,719,509	10,186,617	1,404,423	51,667,909
Total restricted and internally designated assets	153,524,322	37,711,678	35,146,623	15,852,718	8,097,071	250,332,412
Noncurrent assets:						
Net costs recoverable in future years - regulatory assets	36,642,053	-	-	-	-	36,642,053
Unamortized debt issuance costs - regulatory asset	7,112,981	731,555	957,875	435,618	366,066	9,604,095
Investment in The Energy Authority	2,230,968	-	-	727,716	-	2,958,684
Pollution remediation - regulatory asset	-	-	-	8,940,369	-	8,940,369
Other noncurrent assets and regulatory assets	4,937,708	1,048,353	1,137,358	412,249	202,648	7,738,316
Pension regulatory asset	64,438,824	13,273,750	16,608,687	5,998,755	5,255,031	105,575,047
Total noncurrent assets	115,362,534	15,053,658	18,703,920	16,514,707	5,823,745	171,458,564
Capital assets:						
Utility plant in service	1,989,961,646	313,399,491	416,357,506	104,746,052	80,268,796	2,904,733,491
Less: accumulated depreciation and amortization	(697,899,940)	(142,868,169)	(188,187,487)	(60,756,527)	(46,399,733)	(1,136,111,856)
Construction in progress	1,292,061,706	170,531,322	228,170,019	43,989,525	33,869,063	1,768,621,635
Net capital assets	1,339,624,856	186,973,145	261,017,238	48,382,289	35,402,954	1,871,400,482
Total assets	1,702,948,666	248,665,331	321,646,582	89,368,686	54,207,702	2,416,836,967
Deferred outflows of resources:						
Unamortized loss on refundings of bonds	5,858,613	1,763,431	2,183,535	833,227	619,494	11,258,300
Accumulated decrease in fair value of hedging derivatives	94,609,439	11,139,659	10,578,394	2,872,004	1,602,769	120,802,265
General Employees' Pension plan costs	12,840,345	2,700,990	3,384,236	1,203,646	1,097,159	21,226,376
Other post-employment benefits plan	2,812,708	508,261	651,364	226,991	192,448	4,391,772
Total deferred outflows of resources	116,121,105	16,112,341	16,797,529	5,135,868	3,511,870	157,678,713
Total assets and deferred outflows of resources	\$ 1,819,069,771	\$ 264,777,672	\$ 338,444,111	\$ 94,504,554	\$ 57,719,572	\$ 2,574,515,680

Continued on next page.

Gainesville Regional Utilities
Combining Statement of Net Position (concluded)
September 30, 2020

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Liabilities						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 12,446,596	\$ 1,735,369	\$ 1,419,674	\$ 590,862	\$ 455,817	\$ 16,648,318
Fuels payable	4,204,072	-	-	382,702	-	4,586,774
Intercompany loan	(1,325,000)	-	-	(3,500,000)	4,825,000	-
Due to other funds	6,776,052	(214,966)	856,625	(1,297,074)	(37,709)	6,082,928
Fuel adjustment	6,631,573	-	-	1,130,819	-	7,762,392
Other liabilities and regulatory liabilities	736,979	15,106	-	33,930	12,488	798,503
Total current liabilities	29,470,272	1,535,509	2,276,299	(2,658,761)	5,255,596	35,878,915
Payable from restricted assets:						
Utility deposits	7,146,453	604,115	437,759	288,655	-	8,476,982
Accounts payable and accrued liabilities	4,870,879	1,285,012	3,298,074	118,464	(858)	9,571,571
Utilities system revenue bonds – current	23,929,556	938,573	878,108	759,830	583,933	27,090,000
Accrued interest payable	23,760,830	2,889,419	3,678,627	1,622,676	559,031	32,510,583
Other liabilities and regulatory liabilities	93,611	25,974	12,625	2,641	813	135,664
Total payable from restricted assets	59,801,329	5,743,093	8,305,193	2,792,266	1,142,919	77,784,800
Long-term debt:						
Utilities system revenue bonds	1,215,232,897	132,627,753	167,229,315	68,590,409	54,199,626	1,637,880,000
Unamortized bond premium/discount	75,525,227	4,725,488	8,194,392	3,046,924	373,623	91,865,654
Fair value of derivative instruments	95,893,589	11,491,913	11,002,700	3,013,083	1,602,999	123,004,284
Total long-term debt	1,386,651,713	148,845,154	186,426,407	74,650,416	56,176,248	1,852,749,938
Noncurrent liabilities:						
Reserve for insurance claims	1,999,960	598,326	546,333	187,085	5,296	3,337,000
Reserve for environmental liability	-	-	-	841,000	-	841,000
Net pension liability	6,145,935	2,653,635	2,974,212	1,434,248	1,358,314	14,566,344
Net other post-employment benefits liability	547,203	98,881	126,721	44,160	37,440	854,405
Due to other funds	69,501,016	12,558,956	16,094,972	5,608,854	4,755,333	108,519,131
Other noncurrent liabilities and regulatory liabilities	2,623,962	682,855	790,571	283,262	247,810	4,628,460
Total noncurrent liabilities	80,818,076	16,592,653	20,532,809	8,398,609	6,404,193	132,746,340
Total liabilities	1,556,741,390	172,716,409	217,540,708	83,182,530	68,978,956	2,099,159,993
Deferred inflows of resources:						
Rate stabilization	30,465,268	14,481,071	15,521,003	401,756	(2,716,623)	58,152,475
General Employees' Pension plan costs	18,526	470,553	550,040	29,070	128,134	1,196,323
Other post-employment benefits plan	4,248,533	767,718	983,871	342,864	290,689	6,633,675
Total deferred inflows of resources	34,732,327	15,719,342	17,054,914	773,690	(2,297,800)	65,982,473
Net position:						
Net investment in capital assets	67,130,310	58,593,674	94,452,338	(11,937,644)	(16,021,178)	192,217,500
Restricted	50,852,760	10,277,175	4,645,155	11,114,892	7,141,152	84,031,134
Unrestricted	109,612,984	7,471,072	4,750,996	11,371,086	(81,558)	133,124,580
Total net position	227,596,054	76,341,921	103,848,489	10,548,334	(8,961,584)	409,373,214
Total liabilities, deferred inflows of resources and net position	\$ 1,819,069,771	\$ 264,777,672	\$ 338,444,111	\$ 94,504,554	\$ 57,719,572	\$ 2,574,515,680

Gainesville Regional Utilities
Combining Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2020

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Operating revenue:						
Sales and service charges	\$ 261,397,147	\$ 35,515,133	\$ 40,372,683	\$ 21,411,908	\$ 11,471,074	\$ 370,167,945
Transfers from (to) rate stabilization	(2,918,305)	(2,699,220)	(2,730,032)	1,963,645	1,805,825	(4,578,087)
Amounts to be recovered from future revenue	5,479,529	-	-	-	-	5,479,529
Other operating revenue	9,836,514	3,033,896	6,193,942	395,413	40,944	19,500,709
Total operating revenues	273,794,885	35,849,809	43,836,593	23,770,966	13,317,843	390,570,096
Operating expenses:						
Operation and maintenance	135,012,026	11,258,256	14,598,152	9,911,196	7,775,419	178,555,049
Administrative and general	17,047,017	6,099,594	6,123,434	2,436,687	664,947	32,371,679
Depreciation and amortization	66,472,849	11,779,593	14,841,978	4,309,410	3,642,690	101,046,520
Total operating expenses	218,531,892	29,137,443	35,563,564	16,657,293	12,083,056	311,973,248
Operating income	55,262,993	6,712,366	8,273,029	7,113,673	1,234,787	78,596,848
Non-operating income (expense):						
Interest income	1,779,047	429,120	456,128	244,474	130,626	3,039,395
Interest expense, net of AFUDC	(43,727,810)	(5,945,642)	(7,345,815)	(3,278,102)	(2,291,107)	(62,588,476)
Other interest related income, BABs	2,836,449	803,844	920,185	594,428	-	5,154,906
Other expense	(5,281,569)	(953,161)	(728,295)	(132,233)	(487,276)	(7,582,534)
Total non-operating expenses	(44,393,883)	(5,665,839)	(6,697,797)	(2,571,433)	(2,647,757)	(61,976,709)
Income before capital contributions and transfers	10,869,110	1,046,527	1,575,232	4,542,240	(1,412,970)	16,620,139
Capital contributions:						
Contributions from third parties	139,669	3,054,685	4,584,110	-	-	7,778,464
Reduction of plant cost recovered through contributions	(139,669)	-	-	-	-	(139,669)
Net capital contributions	-	3,054,685	4,584,110	-	-	7,638,795
Transfers from (to)						
City of Gainesville General Fund	(22,415,868)	(5,356,071)	(6,860,672)	(2,465,554)	(1,186,835)	(38,285,000)
Change in net position	(11,546,758)	(1,254,859)	(701,330)	2,076,686	(2,599,805)	(14,026,066)
Net position – beginning of year, restated	239,142,812	77,596,780	104,549,819	8,471,648	(6,361,779)	423,399,280
Net position – end of year	\$ 227,596,054	\$ 76,341,921	\$ 103,848,489	\$ 10,548,334	\$ (8,961,584)	\$ 409,373,214

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

	Balance September 30, 2019	Additions	Sales, Retirements, and Transfers	Balance September 30, 2020
Plant in service				
Electric utility system:				
Production plant	\$ 1,436,395,625	\$ 8,174,007	\$ 1,749,257	\$ 1,442,820,375
Transmission and distribution plant	401,973,558	14,502,271	2,528,132	413,947,697
General and common plant	131,203,271	2,303,540	313,237	133,193,574
Total electric system	<u>1,969,572,454</u>	<u>24,979,818</u>	<u>4,590,626</u>	<u>1,989,961,646</u>
Water utility system:				
Supply, pumping, and treatment plant	87,109,506	1,837,095	722,513	88,224,088
Transmission and distribution plant	197,474,913	8,057,290	1,024,659	204,507,544
General plant	19,647,747	1,192,777	172,665	20,667,859
Total water system	<u>304,232,166</u>	<u>11,087,162</u>	<u>1,919,837</u>	<u>313,399,491</u>
Wastewater utility system:				
Pumping and treatment plant	142,693,247	3,277,429	465,581	145,505,095
Collection plant	197,386,381	11,684,623	840,467	208,230,537
Reclaimed water plant	35,702,679	813,603	16,135	36,500,147
General plant	24,898,915	1,437,285	214,473	26,121,727
Total wastewater system	<u>400,681,222</u>	<u>17,212,940</u>	<u>1,536,656</u>	<u>416,357,506</u>
Gas utility system:				
Distribution plant	80,653,448	3,965,947	12,045	84,607,350
General plant	15,114,165	514,874	140,973	15,488,066
Plant acquisition adjustment	4,650,636	-	-	4,650,636
Total gas system	<u>100,418,249</u>	<u>4,480,821</u>	<u>153,018</u>	<u>104,746,052</u>
Telecommunications system:				
Distribution plant	65,325,349	599	241,295	65,084,653
General plant	14,998,794	189,275	3,926	15,184,143
Total telecommunications system	<u>80,324,143</u>	<u>189,874</u>	<u>245,221</u>	<u>80,268,796</u>
Total plant in service	<u>\$ 2,855,228,234</u>	<u>\$ 57,950,615</u>	<u>\$ 8,445,358</u>	<u>\$ 2,904,733,491</u>
Construction in progress				
Electric system	\$ 29,412,105	\$ 43,136,841	\$ 24,985,796	\$ 47,563,150
Water system	11,930,316	15,944,377	11,432,870	16,441,823
Wastewater system	24,957,877	25,254,337	17,364,995	32,847,219
Gas system	4,045,456	4,828,129	4,480,821	4,392,764
Telecommunications system	945,676	778,089	189,874	1,533,891
Total construction in progress	<u>\$ 71,291,430</u>	<u>\$ 89,941,773</u>	<u>\$ 58,454,356</u>	<u>\$ 102,778,847</u>

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

	Balance September 30, 2019	Additions	Sales, Retirements, and Transfers	Balance September 30, 2020
Electric utility system:				
Production plant	\$ 369,515,923	\$ 45,236,059	\$ 92,841	\$ 414,659,141
Transmission and distribution plant	199,233,764	15,123,483	1,783,185	212,574,062
General and common plant	65,259,495	5,675,972	268,730	70,666,737
Total electric system	634,009,182	66,035,514	2,144,756	697,899,940
Water utility system:				
Supply, pumping, and treatment plant	31,185,007	4,026,824	357,256	34,854,575
Transmission and distribution plant	92,643,578	6,600,136	670,915	98,572,799
General plant	8,442,122	1,152,634	153,961	9,440,795
Total water system	132,270,707	11,779,594	1,182,132	142,868,169
Wastewater utility system:				
Pumping and treatment plant	68,747,893	4,734,226	379,476	73,102,643
Collection plant	88,207,466	7,581,945	603,683	95,185,728
Reclaimed water plant	5,982,842	959,111	4,751	6,937,202
General plant	11,603,358	1,566,696	208,140	12,961,914
Total wastewater system	174,541,559	14,841,978	1,196,050	188,187,487
Gas utility system:				
Distribution plant	45,896,808	3,506,500	10,955	49,392,353
General plant	6,045,789	802,909	131,095	6,717,603
Plant acquisition adjustment	4,646,571	-	-	4,646,571
Total gas system	56,589,168	4,309,409	142,050	60,756,527
Telecommunications system:				
Distribution plant	40,079,337	2,824,373	126,152	42,777,558
General plant	2,806,572	818,317	2,714	3,622,175
Total telecommunications system	42,885,909	3,642,690	128,866	46,399,733
Total depreciation and amortization	\$ 1,040,296,525	\$ 100,609,185	\$ 4,793,854	\$ 1,136,111,856

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, 2020, and have issued our report thereon dated February 19, 2021.

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 a 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 US, LLP

Madison, Wisconsin
February 19, 2021