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FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

GAINESVILLE REGIONAL UTILITIES
GAINESVILLE, FLORIDA

SEPTEMBER 30, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Gainesville Regional Utilities, enterprise fund of the City of Gainesville, Florida, as of and for the years ended September 30, 2019 and 2018, 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 the 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 the 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, 2019 and 2018, 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, 2019 and 2018 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 17 to the financial statements, Gainesville Regional Utilities adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* effective October 1, 2018 to record a regulatory asset of net costs recoverable in future years for the Deerhaven Renewable Generating Station. The effect of this change restated prior year balances. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

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

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated February 24, 2020 on our consideration of the overall the Gainesville Regional Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Virchow Krause, LLP

Madison, Wisconsin
February 24, 2020

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, 2019, 2018, and 2017. It should be read in conjunction with the financial statements that follow this section.

Required Financial Statements

Statement of Net Position

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

Statement of Revenues, Expenses, and Changes in Net Position

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

Statement of Cash Flows

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

Notes to Financial Statements

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

Financial Analysis of Gainesville Regional Utilities

GRU's net position decreased $8.8 million, $4.3 million, and increased $1.1 million for fiscal years 2019, 2018 and 2017, 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

	2019	Restated 2018	Restated 2017
Current assets	**$ 118,305**	$ 119,656	$ 124,885
Restricted assets	**274,136**	175,965	159,000
Noncurrent assets	**142,980**	117,960	161,318
Capital assets, net	**1,886,223**	1,926,452	2,082,742
Deferred outflows of resources	**116,069**	71,927	106,924
Total assets and deferred outflows of resources	**$ 2,537,713**	$ 2,411,960	$ 2,634,869
Current liabilities	**$ 27,835**	$ 27,444	$ 60,733
Payable from restricted assets	**68,668**	74,773	61,564
Long-term debt	**1,848,676**	1,721,979	1,906,520
Noncurrent liabilities	**113,823**	76,832	88,850
Deferred inflows of resources	**55,312**	78,722	80,706
Total liabilities and deferred inflows of resources	**2,114,314**	1,979,750	2,198,373
Net position:			
Net investment in capital assets	**241,822**	270,950	226,493
Restricted	**53,894**	44,520	60,230
Unrestricted	**127,683**	116,740	149,773
Total net position	**423,399**	432,210	436,496
Total liabilities, deferred inflows of resources and net position	**$ 2,537,713**	$ 2,411,960	$ 2,634,869

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

	2019	Restated 2018	Restated 2017
Operating revenue	**$ 416,693**	$ 415,645	$ 460,541
Interest income	**4,774**	2,986	2,799
Other income, BABs	**5,212**	5,259	5,308
Other expense	**(9,029)**	(6,016)	(2,882)
Total revenues	**417,650**	417,874	465,766
Operating expenses	**329,899**	328,936	396,702
Interest expense, net of AFUDC	**62,248**	58,035	39,715
Total expenses	**392,147**	386,971	436,417
Income before capital contributions and transfers	**25,503**	30,903	29,349
Capital contributions, net	**3,971**	1,190	7,577
Transfer to City of Gainesville General Fund	**(38,285)**	(36,379)	(35,814)
Change in net position	**(8,811)**	(4,286)	1,112
Net position, beginning of year, restated	**432,210**	436,496	435,384
Net position, end of year, restated	**$ 423,399**	$ 432,210	$ 436,496

Financial Highlights

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

- Gross utility plant in service increased $60.6 million, or 2.2% in fiscal year 2019 due primarily to the completion of water and wastewater capital projects. Gross utility plant increased $799.8 million, or 40.1% in fiscal year 2018, and $128 million, or 6.9% in fiscal year 2017. See Capital Assets within this Management's Discussion and Analysis section, Note 4 Capital Assets, and Note 5 Capital Lease for additional information.

Financial Highlights (continued)

- 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. Long-term debt decreased $18.1 million, or 1.6%, in fiscal year 2017, due to scheduled principal payments, offset by the issuance of $5 million of new debt. See Long-Term Debt within this Management's Discussion and Analysis section, Note 5 Capital Lease, and Note 7 Long-Term Debt for additional information.

- GRU is completing remediation efforts at a former manufactured gas plant site. The costs incurred to date total $28.2 million and GRU estimates that total project costs will be approximately $29.2 million. GRU accrued a regulatory asset and liability to account for the cost and cost recovery of the expense, which is being recognized as customer revenues are received. See Note 13 Commitments and Contingencies for additional information.

- Sales and service charges increased $1.6 million or 0.4%, decreased $18 million or 4.5%, and increased $10.4 million or 2.7% in fiscal years 2019, 2018, and 2017, respectively. 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. The increase in sales and service charges in fiscal year 2017 is the result of increases associated with sales and modest base rate increases in the water, wastewater, and gas systems offset by a reduction in the fuel adjustment rates for gas.

- Operating expenses increased $963,000 or 0.3%, decreased $67.8 million or 17.1%, and increased $17.1 million or 4.5% in fiscal years 2019, 2018, and 2017, respectively. 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. The increase in operating expenses in fiscal year 2017 is due to increases in operation and maintenance expenses resulting from changes in operational work plans from capital work, as well as power purchased from GREC under the PPA.

Financial Highlights (concluded)

- Transfers from rate stabilization were $5 million, $3.8 million, and $11.7 million in fiscal years 2019, 2018, and 2017, respectively.

- 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. The number of customers for electric services increased 1.6%, water services increased 0.8%, wastewater services increased 1.3%, and gas services increased 1.3% in fiscal year 2017.

- 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. On October 1, 2017, GRU implemented a 2% increase in the revenue requirement for the electric system. There were no increases or decreases in the revenue requirements in any of the other systems.

Capital Assets

GRU's investment in capital assets as of September 30, 2019 was $1.9 billion, (net of accumulated depreciation and amortization). The decrease in net capital assets for fiscal year 2019 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, 2019, 2018, and 2017 (in thousands):

Gainesville Regional Utilities
Capital Assets
(net of accumulated depreciation)

	2019	2018	2017
Generation	$ 1,066,879	$ 1,100,191	$ 1,253,723
Transmission, distribution, and collection	506,477	489,324	492,338
Treatment	129,870	119,080	125,998
General plant	111,706	117,760	118,585
Construction work in progress	71,291	100,097	92,098
Total net utility plant	$ 1,886,223	$ 1,926,452	$ 2,082,742

Capital Assets (concluded)

Major capital asset events during the fiscal years include:

- GRU initially recorded a capital lease asset during fiscal year 2014 when GREC began commercial operations in December 2013. In November 2017, GRU purchased DHR and concurrently terminated the PPA with GREC, which provided a number of benefits:

  - The seamless integration of DHR into GRU's generating fleet has enabled the Utility to operate the plant much more efficiently than what was required under the PPA with GREC.
  - Although electric base rates increased, fuel costs decreased by a much larger margin, providing an overall benefit to GRU's customers.
  - DHR has become one of the Utility's most cost-effective generating facilities.
  - GRU's generating portfolio is now comprised of approximately 30% renewable energy.

  The capital lease asset was recorded at $0 at September 30, 2019, and 2018, and $1 billion at September 30, 2017. See Note 5 Capital Lease for additional information.

- Electric transmission and distribution expansion and capital replacements were $14.4 million in fiscal year 2019, $17.2 million in fiscal year 2018, and $12.7 million in fiscal year 2017. For 2019, approximately $1.7 million was spent on underground system improvements.

- Electric generation capital expenditures were $7.9 million for fiscal year 2019. These expenditures included $1.2 million for DHR, $4.6 million for the Deerhaven Generating Station (DH) and $2.2 million for the John R Kelly Generating Station (JRK).

- Water capital expenditures were $11.4 million in fiscal year 2019 with $6.2 million for supply, pumping, and treatment facilities and $5.2 million for transmission and distribution.

- Wastewater capital expenditures were $17.4 million in 2019. This included $7.2 million spent on treatment plant improvements and $10.3 million in collection improvements.

- Gas distribution expansion expenditures were $3.5 million in fiscal year 2019, $3.7 million in fiscal year 2018 and $3 million in fiscal year 2017. This expansion included expenditures of $736,000 in gas distribution mains and $2.7 million in residential gas services.

- Expenditures for telecommunication fiber and electronics expansion were $2.2 million in fiscal year 2019 which included fiber and related infrastructure installation and electronics upgrades.

Additional information may be found in Note 4 Capital Assets.

Long-Term Debt

At September 30, 2019, 2018, and 2017, GRU had total long-term debt outstanding of $1.7 billion $1.6 billion, and $1.9 billion, respectively, comprised of utilities system revenue bonds, commercial paper notes, and a capital lease (in thousands):

Gainesville Regional Utilities

Outstanding Debt at September 30:

	2019	2018	2017
Utilities system revenue bonds	**$ 1,687,270**	$ 1,534,340	$ 871,540
Commercial paper notes	**-**	93,000	58,900
Capital lease	**-**	-	941,269
Total	**$ 1,687,270**	$ 1,627,340	$ 1,871,709

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

- In April 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 FY19 through FY25.
- 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.
- As a result of the start of commercial operation of the GREC biomass plant in December 2013, and the purchase of DHR in November 2017 and concurrent termination of the PPA with GREC, GRU recorded a capital lease liability of $0 at September 30, 2019 and 2018, and $941.3 million at September 30, 2017. See Note 5 Capital Lease for additional information.

Long-Term Debt (concluded)

- The Utility has ratings of AA-, Aa3, and A+ with Standard and Poor's, Moody's Investor Service, and Fitch, 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 7 Long-Term Debt.

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

- GRU management, with the approval of the City Commission, entered into a long-term contract to obtain dependable capacity, energy, and environmental attributes from GREC's 102.5 megawatt biomass fueled power plant. The facility is located on a portion of land leased from GRU's Deerhaven power plant site and is owned by a third party. The plant became commercially operable in December 2013.

- On March 10, 2016, arbitration was filed by GREC with the American Arbitration Association (AAA) against GRU alleging that GREC did not have to perform a scheduled annual Planned Maintenance outage for April 2016. Prior to the dispute and the arbitration being filed with the AAA, GRU and GREC mutually agreed in writing to an annual Planned Maintenance Outage for twenty-one days, scheduled to take place April 9-29, 2016. GREC unilaterally cancelled the twenty-one day mutually agreed upon annual Planned Maintenance outage. Section 10.4.1(a) of the Power Purchase Agreement (PPA) requires GREC to submit a written annual maintenance plan containing its forecast of planned maintenance for the coming year no later than sixty (60) days prior to the start of each calendar year. Any and all changes to such plan shall be mutually agreeable to GREC and GRU. In April of 2016, GRU withheld $4.1 million in Available Energy invoice payments related to the agreed upon annual Planned Maintenance outage. As of September 30, 2017, GRU had withheld approximately $8.5 million for various commercial disputes related to the PPA. GRU entered into a Memorandum of Understanding with GREC on April 24, 2017, to explore the possible purchase of the biomass plant, the cancellation of the PPA and the resolution of the arbitration case. On September 12, 2017, GRU and GREC executed the Asset Purchase Agreement (APA) which defined the purchase of the biomass plant, the termination of the PPA and the resolution of the arbitration case. Closing occurred on November 7, 2017. Since GRU purchased DHR, it has experienced significant economical and operational efficiencies. The plant has been successfully integrated into GRU's generation fleet. See Note 5 Capital Lease for additional information.

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

- The primary factors currently affecting the utility industry include environmental regulations, Operating, Planning and Critical Infrastructure Protection Standards promulgated by NERC under FERC jurisdiction, and the increasing strategic and price differences among various types of fuels. No state or federal legislation is pending or proposed at this time for retail competition in Florida.

- GRU and its operations are subject to federal, state, and local statutory and regulatory requirements with respect to the siting and licensing of facilities, safety and security, air and water quality, land use, and other environmental factors.

- Legislation and regulation at the federal level has been proposed to mandate the use of renewable energy and to constrain the emission of greenhouse gases. GRU's institution of a solar feed-in-tariff and purchase of a 102.5 megawatt biomass fueled power plant will hedge against these uncertainties.

- GRU's long-term energy supply strategy is to provide safe, reliable, cost effective power, while meeting regulatory requirements. GRU has a diverse portfolio of generation including renewable energy. 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, 2019 and 2018

	2019	Restated 2018
Assets		
Current assets:		
Cash and investments	**$ 27,505,536**	$ 26,793,426
Accounts receivable, net of allowance for uncollectible accounts of $804,463 and $800,551 respectively	**53,616,263**	59,977,348
Inventories:		
Fuel	**19,720,370**	16,077,741
Materials and supplies	**12,442,849**	12,370,614
Fuel adjustment	**2,887,595**	2,376,941
Other assets and regulatory assets	**2,132,699**	2,059,993
Total current assets	**118,305,312**	119,656,063
Restricted assets:		
Utility deposits - cash and investments	**7,663,091**	9,078,180
Debt service - cash and investments	**56,094,239**	59,269,274
Rate stabilization - cash and investments	**56,941,703**	57,703,806
Construction fund - cash and investments	**125,749,489**	35,197,090
Utility plant improvement fund - cash and investments	**27,687,286**	14,716,405
Total restricted assets	**274,135,808**	175,964,755
Noncurrent assets:		
Net costs recoverable in future years - regulatory asset	**31,162,525**	13,091,147
Unamortized debt issuance costs - regulatory asset	**10,179,242**	9,056,235
Investment in The Energy Authority	**2,341,379**	2,257,296
Pollution remediation - regulatory asset	**10,019,649**	10,782,332
Other noncurrent assets and regulatory assets	**7,261,215**	8,650,252
Pension regulatory asset	**82,016,547**	74,122,351
Total noncurrent assets	**142,980,557**	117,959,613
Capital assets:		
Utility plant in service	**2,855,228,234**	2,794,579,603
Less: accumulated depreciation and amortization	**(1,040,296,525)**	(968,224,349)
	1,814,931,709	1,826,355,254
Construction in progress	**71,291,430**	100,096,678
Net capital assets	**1,886,223,139**	1,926,451,932
Total assets	**2,421,644,816**	2,340,032,363
Deferred outflows of resources:		
Unamortized loss on refundings of bonds	**15,155,675**	17,975,551
Accumulated decrease in fair value of hedging derivatives	**78,573,638**	36,890,504
General Employees' Pension plan costs	**19,288,232**	17,061,446
Other post-employment benefits plan	**3,051,089**	–
Total deferred outflows of resources	**116,068,634**	71,927,501
Total assets and deferred outflows of resources	**$ 2,537,713,450**	$ 2,411,959,864

Continued on next page.

See accompanying notes.

Gainesville Regional Utilities
Statements of Net Position (concluded)
September 30, 2019 and 2018

	2019	Restated 2018
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 16,361,070**	$ 21,380,541
Fuels payable	**3,961,178**	4,769,484
Due to other funds	**5,781,300**	450,832
Other liabilities and regulatory liabilities	**1,731,816**	843,012
Total current liabilities	**27,835,364**	27,443,869
Payable from restricted assets:		
Utility deposits	**7,659,426**	9,078,180
Accounts payable and accrued liabilities	**5,541,337**	8,342,554
Utilities system revenue bonds – current portion	**22,105,000**	27,885,000
Accrued interest payable	**33,262,622**	29,455,293
Other liabilities and regulatory liabilities	**99,542**	11,596
Total payable from restricted assets	**68,667,927**	74,772,623
Long-term debt:		
Utilities system revenue bonds	**1,665,165,000**	1,506,455,000
Commercial paper notes	**–**	93,000,000
Unamortized bond premium/discount	**102,411,008**	83,758,385
Fair value of derivative instruments	**81,099,411**	38,765,287
Total long-term debt	**1,848,675,419**	1,721,978,672
Noncurrent liabilities:		
Reserve for insurance claims	**3,337,000**	3,337,000
Reserve for environmental liability	**841,000**	519,000
Net pension liability	**99,566,813**	71,178,444
Net other post-employment benefits liability	**5,367,982**	1,206,366
Other noncurrent liabilities and regulatory liabilities	**4,710,311**	591,378
Total noncurrent liabilities	**113,823,106**	76,832,188
Total liabilities	**2,059,001,816**	1,901,027,352
Deferred inflows of resources:		
Rate stabilization	**53,574,388**	58,529,252
General Employees' Pension plan costs	**1,737,966**	20,005,353
Other post-employment benefits plan	**–**	187,818
Total deferred inflows of resources	**55,312,354**	78,722,423
Net position		
Net investment in capital assets	**241,821,913**	270,950,422
Restricted	**53,894,035**	44,519,655
Unrestricted	**127,683,332**	116,740,012
Total net position	**423,399,280**	432,210,089
Total liabilities, deferred inflows of resources and net position	**$ 2,537,713,450**	$ 2,411,959,864

See accompanying notes.

Gainesville Regional Utilities
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2019 and 2018

	2019	Restated 2018
Operating revenue:		
Sales and service charges	**$ 384,777,714**	$ 383,202,896
Transfers from rate stabilization	**4,954,864**	3,839,787
Amounts to be recovered from future revenue	**18,071,378**	16,540,399
Other operating revenue	**8,888,944**	12,062,184
Total operating revenues	**416,692,900**	415,645,266
Operating expenses:		
Operation and maintenance	**203,155,987**	210,340,751
Administrative and general	**29,406,672**	24,515,688
Depreciation and amortization	**97,336,684**	94,080,133
Total operating expenses	**329,899,343**	328,936,572
Operating income	**86,793,557**	86,708,694
Non-operating income (expense):		
Interest income	**4,774,240**	2,986,003
Interest expense, net of AFUDC	**(62,247,527)**	(58,034,716)
Other interest related income, BABs	**5,211,950**	5,259,227
Other expense	**(9,029,009)**	(6,016,654)
Total non-operating expense	**(61,290,346)**	(55,806,140)
Income before capital contributions and transfer	**25,503,211**	30,902,554
Capital contributions:		
Contributions from third parties	**4,154,415**	1,313,407
Reduction of plant costs recovered through contributions	**(183,434)**	(123,165)
Net capital contributions	**3,970,981**	1,190,242
Transfer to City of Gainesville General Fund	**(38,285,001)**	(36,379,080)
Change in net position	**(8,810,809)**	(4,286,284)
Net position – beginning of year	**432,210,089**	436,496,373
Net position – end of year	**$ 423,399,280**	$ 432,210,089

See accompanying notes.

Gainesville Regional Utilities
Statements of Cash Flows
For the Years Ended September 30, 2019 and 2018

	2019	Restated 2018
Operating activities:		
Cash received from customers	**$ 382,899,091**	$ 374,273,824
Cash payments to suppliers for goods and services	**(176,232,490)**	(197,798,403)
Cash payments to employees for services	**(60,041,857)**	(57,472,298)
Cash payments for operating transactions with other funds	**(2,539,019)**	(9,644,733)
Other operating receipts	**13,843,808**	15,901,971
Net cash provided by operating activities	**157,929,533**	125,260,361
Noncapital financing activities:		
Transfer to City of Gainesville General Fund	**(38,285,001)**	(36,379,080)
Net cash used in noncapital financing activities	**(38,285,001)**	(36,379,080)
Capital and related financing activities:		
Principal repayments and refunding on long-term debt, net	**(193,151,539)**	(24,020,000)
Interest paid on long-term debt	**(64,300,221)**	(46,618,627)
Proceeds from interest rebates, BABs	**5,211,950**	5,259,227
Acquisition and construction of fixed assets (including allowance for funds used during construction)	**(60,648,631)**	(822,636,979)
Proceeds from new debt and commercial paper	**275,697,032**	794,125,458
Other income	**(14,262,097)**	(2,646,033)
Net cash used in capital and related financing activities	**(51,453,506)**	(96,536,954)
Investing activities:		
Interest received	**4,774,240**	2,986,003
Purchase of investments	**(427,274,870)**	(255,616,354)
Investments in The Energy Authority	**(6,469,655)**	(7,495,899)
Distributions from The Energy Authority	**6,385,572**	7,332,586
Proceeds from investments	**380,726,776**	251,189,527
Net cash (used) provided by investing activities	**(41,857,937)**	(1,604,137)
Net change in cash and cash equivalents	**26,333,089**	(9,259,810)
Cash and cash equivalents, beginning of year	**27,231,947**	36,491,757
Cash and cash equivalents, end of year	**$ 53,565,036**	$ 27,231,947

Continued on next page.
See accompanying notes.

Gainesville Regional Utilities
Statements of Cash Flows (concluded)
For the Years Ended September 30, 2019 and 2018

	2019	Restated 2018
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 86,793,557**	$ 86,708,694
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**97,336,684**	94,080,133
Net costs recoverable in future years	**(18,071,378)**	(16,540,399)
Change in:		
Accounts receivable	**6,361,085**	(7,554,029)
Inventories	**(3,714,864)**	(12,997,227)
Utility meter deposits	**(1,387,095)**	(1,375,043)
Other assets and regulatory assets	**-**	58,087
Noncurrent assets	**762,683**	1,285,303
Payables and accrued liabilities	**(5,827,777)**	(16,612,929)
Due to other funds of the City	**5,330,468**	1,324,415
Fuel adjustment	**(510,654)**	2,352,376
Payable from restricted assets	**(4,188,312)**	(1,629,233)
Rate stabilization	**(4,954,864)**	(3,839,787)
Net cash provided by operating activities	**$ 157,929,533**	$ 125,260,361
Non-cash capital and related financing activities, and investing activities:		
Contribution of capital assets	**$ 3,970,981**	$ 1,190,242
Net costs recoverable in future years	**$ (18,071,378)**	$ (13,091,147)
Change in capital lease liability	**$ -**	$ (941,269,071)
Change in utility plant in service	**$ (60,648,631)**	$ (44,262,837)
Change in ineffective portion of hedging derivatives	**$ (650,991)**	$ 1,587,824
Change in accumulated decrease in fair value of hedging derivatives - interest rate swaps	**$ (41,683,134)**	$ 20,830,970
Change in accumulated decrease in fair value of hedging derivatives - fuel options and futures	**$ -**	$ (69,113)
Change in fair market value of investments	**$ 5,665,482**	$ (2,004,408)
Change in fair market value of hedging derivatives	**$ 42,334,124**	$ (22,418,793)
Change in bond premium/discount	**$ (9,572,013)**	$ (6,349,460)
Unamortized debt issuance costs	**$ (1,123,007)**	$ (3,234,994)
Unamortized loss on refundings of bonds	**$ (351,193)**	$ 3,396,729
Other	**$ (5,546,271)**	$ (1,551,681)

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

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

System of Accounts and Basis of Accounting

GRU is required to follow the provisions in the Second Amended and Restated Utilities System Revenue Bond Resolution (Resolution) adopted by the City on September 21, 2017. GRU's electric and gas accounts are maintained substantially in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC), as required by the Resolution, and in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting, including the application of regulatory accounting as described in Governmental Accounting Standards Board (GASB) Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

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

The Resolution specifies the flow of funds from revenues and the requirements for the use of certain restricted and unrestricted assets. Under the Resolution, rates are designed to cover operation and maintenance expenses, rate stabilization, debt service requirements, utility plant improvement fund contributions, and for any other lawful purpose. The flow of funds excludes depreciation expense and certain other noncash revenue and expense items. This method of rate setting results in costs being included in the determination of rates in different periods than when these costs are recognized for financial statement purposes. The effects of these differences are recognized in the determination of operating income in the period that they occur, in accordance with GRU's accounting policies.

1. Summary of Significant Accounting Policies (continued)

Current GASB Pronouncement Implementations

GASB Statement No. 83, *Certain Asset Retirement Obligations* - This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. Implementation of this guidance did not have any significant impact on GRU's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* - The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. GRU has implemented this Statement in Note 7 Long-Term Debt.

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.

1. Summary of Significant Accounting Policies (continued)

Future GASB Pronouncement Implementations (continued)

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 Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

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.

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 2018 amounts have been reclassified to conform to the 2019 presentation.

1. Summary of Significant Accounting Policies (continued)

Statement of Cash Flows

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

Fuel Inventories

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

Materials and Supplies Inventories

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

Investments

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

Costs Recoverable in Future Years

The Power Purchase Agreement (PPA) with the Gainesville Renewable Energy Center (GREC) was recorded as a capital lease until the purchase of the plant in November 2017. Activity related to this lease generates a non-cash flow related to depreciation expense which was recorded as net costs recoverable in future years. These net costs recoverable in future years represented the amount by which depreciation expense exceeds principal repayment on the capital lease obligation of $0 and $1.5 million for the years ended September 30, 2019 and 2018, respectively. See Note 5 Capital Lease for additional information.

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, 2019 and 2018, that amount was $18.1 million and $13.1 million, respectively.

1. Summary of Significant Accounting Policies (continued)

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 86 years. The overall depreciation rate was 3.43% and 3.24% for the periods ending September 30, 2019 and 2018, respectively.

Allowance for Funds Used During Construction (AFUDC)

An allowance for interest on borrowed funds used during construction of $883,000 and $1.7 million for the years ended September 30, 2019 and 2018, respectively, was included in construction in progress and as a reduction of interest expense. These amounts are computed by applying the effective interest rate on the funds borrowed to finance the projects to the monthly balance of projects under construction. The effective interest rate was approximately 4.1% and 3.8% for fiscal years 2019 and 2018, 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.

1. Summary of Significant Accounting Policies (continued)

Hedging Derivative Instruments

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

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

Long-Term Debt

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

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 14 Retirement Plans for additional information.

1. Summary of Significant Accounting Policies (continued)

Postemployment Benefits Other Than Pensions (OPEB)

A net OPEB liability 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 15 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.

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.

General Employees' Pension Plan Costs

Recognition of deferred outflows of resources related to pension costs totaled $19.3 million and $17.1 million as of September 30, 2019 and 2018, respectively. See Note 14 Retirement Plans for additional information.

Other Post-employment Benefits Plan

Recognition of deferred inflows of resources related to the OPEB plan were $3.1 million and $0 as of September 30, 2019 and 2018, respectively. See Note 15 Other Post-employment Benefits Plan for additional information.

1. Summary of Significant Accounting Policies (continued)

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 transfers of $5 million and $3.8 million from rate stabilization for the years ended September 30, 2019 and 2018, respectively. These amounts are reflected as increases or decreases in deferred inflows of resources – rate stabilization in the accompanying statements of net position.

Pension Costs

Recognition of deferred inflows of resources related to unrealized gains for the pension plan totaled $1.7 million and $20 million as of September 30, 2019 and 2018, respectively. See Note 14 Retirement Plan for additional information.

Other Post-employment Benefit Plan

Recognition of deferred inflows of resources related to unrealized gains for the OPEB plan were $0 and $188,000 as of September 30, 2019 and 2018, respectively. See Note 15 Other Post-employment Benefits Plan for additional information.

Net Position

GRU classifies net position into three components as follows:

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

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

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

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

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Revenue Recognition

Revenue is recognized when earned. GRU accrues for services rendered but unbilled, which totaled approximately $15.8 million and $16.4 million at September 30, 2019 and 2018, 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 liability. If the amount recovered through billings is less than actual fuel expenses, GRU records the excess fuel expense as a reduction of the liability or as an asset. See Note 6 Fuel and Purchased Gas Adjustment Levelization for additional information.

Pledged Revenues

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

Operating, Non-operating Revenues

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

1. Summary of Significant Accounting Policies (concluded)

Transactions with the City

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

Below is a summary of significant transactions:

- Administrative services – GRU provides payment for various administrative and insurance services provided by the City's governmental and business type functions.

- Nonmetered and metered service charges – GRU receives payment from the City for all nonmetered and metered service charges.

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

2. Deposits and Investments

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

In accordance with state laws and the Resolution, GRU is authorized to invest in obligations, which are unconditionally guaranteed by the United States of America or its agencies or instrumentalities, repurchase agreement obligations unconditionally guaranteed by the United States of America or its agencies, corporate indebtedness, direct and general obligations of any state of the United States of America or of any agency, instrumentality, or local governmental unit of any such state (provided such obligations are rated by a nationally recognized bond rating agency in either of its two highest rating categories), public housing bonds, and certain certificates of deposit. Investments in corporate indebtedness must be at a minimum acceptable level at time of purchase, (AA/Aa3/AA by Standard and Poor's, Moody's Investor Service, and/or Fitch ratings respectively), and in one of the two highest rating categories of at least one other nationally recognized rating agency.

2. Deposits and Investments (continued)

As of September 30, 2019, GRU had the following investments and maturities (in thousands):

		Maturities in Years		
	Fair Value	**Less than 1**	**1-5**	**Over 5**
Investment type:				
Commercial paper	$ 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	$ 248,076	$ 173,061	$ 75,015	$ -

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

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

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

	2019	2018
Restricted assets	**$ 274,136**	$ 175,965
Current assets:		
Cash and investments	**27,505**	26,793
Total cash and investments	**301,641**	202,758
Less cash and cash equivalents	**(53,565)**	(27,232)
Total investments	**$ 248,076**	$ 175,526

2. Deposits and Investments (concluded)

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 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, 2019 and 2018, all of GRU's corporate holdings were rated Aa2 or better by Moody's Investor Service, and/or AA or better by Standard and Poor's, and/or AA or better by Fitch; except for Guardian Life for which there were no ratings as of September 30, 2019 and 2018. As of September 30, 2019, all of GRU's commercial paper investments were rated P-2 or better or not rated (NR) by Moody's Investor Service, and/or A-2 or better by Standard and Poor's, and/or F2 or better or NR by Fitch. As of September 30, 2018, all of GRU's commercial paper investments were rated P-2 or better by Moody's Investor Service, and/or A-1 or better by Standard and Poor's, and/or F2 or better or NR by Fitch. As of September 30, 2019 and 2018, GRU's investments in 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. As of September 30, 2019 and 2018, GRU's investments in FHLB were rated Aaa by Moody's Investor Service, and AA+ by Standard and Poor's, and AA+ or NR by Fitch.

Concentration of Credit Risk

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

	Percent of Total Investments	
	2019	2018
Federal Home Loan Mortgage Corporation	**5.50%**	9.75%
New York Life	**n/a**	7.44%
Federal Farm Credit Bank	**5.07%**	5.15%
Federal National Mortgage Association	**n/a**	5.77%
Federal Home Loan Bank	**11.45%**	9.72%

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, 2019: 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 $2 million and $2.5 million and purchases from TEA were $7.2 million and $7.8 million for the years ended September 30, 2019 and 2018, respectively. GRU's equity interest was 5.9% and 5.6% for fiscal years 2019 and 2018, respectively, and accounted for using the equity method of accounting. As of September 30, 2019 and 2018, GRU's investment in TEA was $2.3 million.

Through a combination of agreements, GRU guaranteed credit received by TEA for $19.5 million and $21.7 million as of September 30, 2019 and 2018, 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, 2019 and 2018, GRU had not recorded a liability related to these guarantees.

3. Investment in The Energy Authority (concluded)

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

	2019	2018
Condensed statement of operations:		
Total revenue	**$ 1,279,819**	$ 1,334,738
Total cost of sales and expense	**(1,217,046)**	(1,252,868)
Operating income	**62,773**	81,870
Nonoperating income (expense)	**(1,205)**	105
Change in net position	**61,568**	81,975
Net position, beginning of period	**41,234**	36,417
Capital contributions	**(4,229)**	6
Member distributions	**(58,769)**	(77,767)
Net position, end of period	**$ 39,804**	$ 40,631
Condensed balance sheet:		
Assets:		
Current assets	**$ 167,808**	$ 165,904
Noncurrent assets	**23,666**	21,510
Total assets	**191,474**	187,414
Liabilities:		
Current liabilities	**151,620**	146,768
Noncurrent liabilities	**50**	15
Total liabilities	**151,670**	146,783
Total net position	**39,804**	40,631
Total liabilities and net position	**$ 191,474**	$ 187,414

GRU’s accounts receivable due from TEA totaled approximately $160,000 and $483,000 for the years ended September 30, 2019 and 2018, respectively.

4. Capital Assets

A summary of capital assets, changes in accumulated depreciation and amortization, and average depreciation rates for the years ended September 30, 2019 and 2018 follows (in thousands):

	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	$ 229,803	$ 1,436,395	$ 983,167	$ 205,863	$ 71,291	$ 2,926,519
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	$ 99,933	$ 369,516	$ 476,690	$ 94,157	n/a	$ 1,040,296
Net capital assets	$ 129,870	$ 1,066,879	$ 506,477	$ 111,706	$ 71,291	$ 1,886,223
Average depreciation rate	3.50%	3.21%	3.49%	4.52%	n/a	3.43%

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

5. Capital Lease

On November 7, 2017, GRU purchased the Gainesville Renewable Energy Center (GREC) biomass fueled generating power plant for $750 million, pursuant to the Asset Purchase Agreement (APA) executed on September 12, 2017. The purchase of the power plant terminated the power purchase agreement (PPA) with GREC.

The PPA was accounted for as a long-term capital lease for a term of 30 years with a capital lease asset and liability recorded. The capital lease asset and liability were recorded at $0 at September 30, 2019 and 2018. The total payments applicable to the lease were $0 and $6.3 million for September 30, 2019 and 2018, respectively. The payments for fiscal years 2019 and 2018 included $0 and $4.4 million, respectively, for interest expense included in fuel costs. The capital lease was being amortized over the life of the PPA. Amortization of $0 and $3.4 million was recorded for the fiscal years ended September 30, 2019 and 2018, respectively.

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

Due to the termination of the PPA, there were no minimum payments due as of September 30, 2019 and 2018.

A land lease was executed on September 28, 2009, between GRU and GREC for the land on which the biomass plant is located. Due to the purchase of the biomass plant and concurrent termination of the PPA, the land lease is no longer in effect and no rental income was received for the fiscal years ended September 30, 2019 and 2018.

6. Fuel and Purchased Gas Adjustment Levelization

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

The following table represents total revenues and expenses associated with the fuel and purchased gas adjustment and the subsequent impact on the fuel and purchased gas levelization balance as of September 30, 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	$ (534)	$ 23	$ (511)
Levelization Fund Beginning Balance	$ (2,310)	$ (67)	$ (2,377)
To (From) Levelization Fund	(534)	23	(511)
Levelization Fund Ending Balance	$ (2,844)	$ (44)	$ (2,888)

The following table represents total revenues and expenses associated with the fuel and purchased gas adjustment and the subsequent impact on the fuel and purchased gas levelization balance as of September 30, 2018 (in thousands):

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

7. Long-Term Debt

$196,950,000 Utilities System Revenue Bonds, 2005 Series A – 4.75% – 5.00%, dated November 16, 2005, mature on various dates through October 1, 2036, and were partially refunded as part of the 2012 Series A Utilities System Revenue Bond issuance. The 2005 Series A Bonds 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.

$61,590,000 Utilities System Revenue Bonds, 2005 Series B (Federally Taxable) – dated November 16, 2005, were refunded 100% in April 2019 by the 2019 Series B Bonds, ($26,665,000). The 2005 Series B Bonds were subject to redemption at the option of the City, in whole or in part, on any date, at a redemption price equal to the greater of 100% of the principal amount, plus accrued and unpaid interest to the date of redemption, or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2005 Series B Bonds were issued to pay a portion of the cost of acquisition and construction of certain improvements to the City's utilities system and to refund the City's Utilities System Commercial Paper Notes, Series D originally issued in June 2000. In August 2012, the 2012 Series B Bonds ($100,470,000) were issued to partially refund $31,560,000 of bonds maturing from October 1, 2015 and October 1, 2021.The total amount refunded by the 2019 Series B Bonds was $10,482,604, of which $10,115,000 was principal, $351,193 was redemption premium, and $16,411 was interest. As of September 30, 2019, there were no 2005 Series B Bonds outstanding.

$55,135,000 Utilities System Revenue Bonds, 2005 Series C – Variable interest rates based on market rates, 1.74% at September 30, 2019, 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 five-year Stand-by Bond Purchase Agreement (SBPA) with Helaba was entered on November 1, 2015, and terminates on November 24, 2020, at a current fee of 0.44%. As of September 30, 2019, the related debt outstanding is $3,090,000.

7. Long-Term Debt (continued)

$53,305,000 Utilities System Revenue Bonds, 2006 Series A – Variable interest rates based on market rates, 1.76% at September 30, 2019, 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 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 five-year SBPA with Helaba was entered on November 1, 2015 and terminates on November 24, 2020 at a current fee of 0.44%. As of September 30, 2019, 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, 1.65% at September 30, 2019, 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, 2019, 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.

7. Long-Term Debt (continued)

$90,000,000 Utilities System Revenue Bonds, 2008 Series B – Variable interest rates based on market rates, 1.65% at September 30, 2019, 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 the next five years. A SBPA with Barclays Bank, PLC was entered on June 1, 2017, and expires on June 29, 2020, at a current fee of 0.44%. An intent to renew has been made with Barclays. As of September 30, 2019, 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) – 4.69% – 5.65%, dated September 16, 2009, final maturity October 1, 2039. The 2009 Series B Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of 100% of the principal amount, plus accrued and unpaid interest to the date of redemption, or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2009 Series B Bonds were issued to pay costs of acquisition and construction of the City's utilities system.

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

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

7. Long-Term Debt (continued)

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

$81,860,000 Utilities System Revenue Bonds, 2012 Series A – 2.50% – 5.00%, dated August 2, 2012, final maturity October 1, 2028. The 2012 Series A Bonds were issued to (a) provide funds to refund $1,605,000 in aggregate principal amount of the 2003 Series A Bonds, (b) to provide funds to refund $78,690,000 in aggregate principal amount of the 2005 Series A Bonds, and (c) to pay cost of issuance of the 2012 Series A Bonds. These bonds mature at various dates from October 1, 2021 to October 1, 2028. Those bonds maturing on and after October 1, 2023, are subject to redemption prior to maturity, at a redemption price so specified.

$100,470,000 Utilities System Revenue Bonds, 2012 Series B – Variable interest rates based on market rates, 1.62% at September 30, 2019, 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 was entered on June 1, 2017, and expires on June 29, 2020, at a current fee of 0.43%. An intent to renew has been made on this liquidity facility. As of September 30, 2019, the related debt outstanding is $98,610,000.

$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.

7. Long-Term Debt (continued)

$30,970,000 Utilities System Revenue Bonds, 2014 Series B – 3.13% – 5.00%, dated December 19, 2014 with final maturity October 1, 2036. The 2014 Series B Bonds were issued to (a) provide funds to refund $12,725,000 in aggregate principal amount of a portion of the 2005 Series A Bonds; (b) provide funds to refund $19,915,000 in aggregate principal amount of a portion of the 2008 Series A Bonds; and (c) pay costs of issuance of the 2014 Series B Bonds. These bonds mature at various dates beginning October 1, 2015, through October 1, 2020, from October 1, 2029, to October 1, 2030, and October 1, 2036. The bonds maturing prior to October 1, 2024, are not subject to redemption prior to maturity. The bonds maturing on and after October 1, 2025, are subject to redemption prior to maturity at the option of GRU on and after October 1, 2024, as whole or in part at any time, at a redemption price plus interest so specified. The 2014 Series B Bonds created a net present value savings of $1,700,000, with yearly cash savings ranging from approximately $11,000 to over $600,000.

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

$150,000,000 Utilities System Revenue Bonds, 2017 Series B – Variable interest rates based on market rates, 2.15% at September 30, 2019, 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. These bonds mature at various dates beginning October 1, 2040, with final maturity date of October 1, 2044.

$115,000,000 Utilities System Revenue Bonds, 2017 Series C – Variable interest rates based on market rates, 2.35% at September 30, 2019, 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. These bonds mature at various dates beginning October 1, 2044 with final maturity date of October 1, 2047.

7. Long-Term Debt (continued)

$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 (i) paying the costs of the acquisition, construction, and equipping of certain capital improvements to the System, (ii) refunding the outstanding Utilities System Commercial Paper Notes, Series C, and (iii) 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.

$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 (i) paying the costs of the acquisition, construction, and equipping of certain capital improvements to the System, and (ii) refunding the outstanding Utilities System Commercial Paper Notes, Series D (iii) refunding all of the Utilities System Revenue Bonds, 2005 Series B (Federally Taxable), and (iv) 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.

$67,355,000 Utilities System Revenue Bonds, 2019 Series C – Variable interest rates based on market rates**,** 1.83% at September 30, 2019, dated April 26, 2019 with final maturity October 1, 2047. The 2019 Series C Bonds were issued for the primary purpose of (i) refunding (a) $18,515,000 of the 2005 Series C Bonds, (b) $13,905,000 of the 2006 Series A Bonds, (c) $8,430,000 of the 2007 Series A Bonds, (d) $14,200,000 of the 2008 Series B Bonds, and (e) $1,860,000 of the 2012 Series B Bonds, (ii) paying the costs of the acquisition, construction, and equipping of certain capital improvements to the System, and (iii) 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 part of the GASB Statement No. 88 requirement, Article VII of the Reimbursement Agreement states that:

7. Long-Term Debt (continued)

$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, NA at 0.45% and was set to expire November 30, 2018, but has been extended to November 30, 2021. The obligation of the bank may be substituted by another bank that meets certain credit standards and which is approved by the Utility and the Agent. Under terms of the agreement, the Utility may borrow up to $125,000,000 with same day availability ending on the termination date, as defined in the agreement. 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, 2019, there were no Series C Notes outstanding.

$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. Liquidity support for the Series D Notes is provided under a long-term credit agreement effective August 28, 2014 and amended in June 2017, with State Street Bank and Trust Company at a current fee of .47% and expires August 28, 2020, with an intent to renew. On April 12, 2019, $8,000,000 of the outstanding Series D Notes were refunded by the 2019 Series B Bonds. As of September 30, 2019 there were no Series D Notes outstanding.

$25,000,000 Utilities System Variable Rate Subordinated Utilities System Revenue Bond, 2018 Series A – On May 17, 2018, City Commission authorized a revolving line of credit on parity with commercial paper notes to finance from time to time tax exempt projects for the capital improvement plan for the electric system. The award of sale of purchase of the 2018 Series A Bond went to STI Institutional & Government, Inc. (SunTrust Bank), terms set forth in the purchase contract in the principal amount not to exceed $25,000,000. The contract of purchase is effective on August 3, 2018, and expires August 3, 2021. The interest rate is 81% of 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, 2019, 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.

7. Long-Term Debt (continued)

ARTICLE VIII

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

7. 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.

7. Long-Term Debt (continued)

Debt Service Requirements for Long-Term Debt

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

BONDS

Year Ending September 30,	Principal	Interest	Total Debt Service Requirement
2020	$ 22,105	$ 57,041	$ 79,146
2021	27,080	56,074	83,154
2022	25,645	54,748	80,393
2023	29,215	53,381	82,596
2024	32,105	51,994	84,099
2025-2029	221,430	234,469	455,899
2030-2034	287,240	183,529	470,769
2035-2039	352,875	121,893	474,768
2040-2044	221,385	50,956	272,341
2045-2049	135,835	13,614	149,449
	$ 1,354,915	$ 877,699	$ 2,232,614

DIRECT PLACEMENTS

Year Ending September 30,	Principal	Interest	Total Debt Service Requirement
2020	$ -	$ 6,979	$ 6,979
2021	-	7,160	7,160
2022	-	7,160	7,160
2023	-	7,160	7,160
2024	-	7,160	7,160
2025-2029	-	35,800	35,800
2030-2034	-	35,800	35,800
2035-2039	-	35,800	35,800
2040-2044	150,050	30,056	180,106
2045-2049	182,305	8,262	190,567
	$ 332,355	$ 181,337	$ 513,692

See Note 8 Hedging Activities for additional debt service requirements for interest rate swaps.

7. 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, 2019. Interest rates on variable-rate long-term debt were valued to be equal to 1.74% for the 2005 Series C Bonds, 1.76% for the 2006 Series A Bonds, 1.65% for the 2007 Series A Bonds, 1.65% for the 2008 Series B Bonds, 1.62% for the 2012 Series B Bonds, 2.15% for the 2017 Series B Bonds, 2.35% for the 2017 Series C Bonds, and 1.83% for the 2019 Series C Bonds.

The 2009 Series B and 2010 Series B Bonds receive a federal interest subsidy of 32.7% of the annual interest expense and are assumed to remain at said rate for the duration of the bonds. The subsidy is recorded as non-operating revenue on the Statements of Revenues, Expenses, and Changes in Net Position.

GRU's revenues net of specified operating expenses are pledged as security of the above Utilities System Revenue Bonds and Commercial Paper Notes. For fiscal years 2019 and 2018, principal and interest paid were $91.1 million and $90.1 million, respectively. For fiscal years 2019 and 2018, total pledged revenues were $402 million and $403.5 million, respectively. As of September 30, 2019, annual principal and interest payments are expected to require 23% 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 June 29, 2020, to November 30, 2021. Each of the SBPA and credit agreement termination dates may be extended. At September 30, 2019, 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, 2019, are August 28, 2020, and November 30, 2021. The credit agreement supporting the tax-exempt Commercial Paper Notes, Series C had no outstanding draws as of September 30, 2019 and 2018. The credit agreement supporting the taxable Commercial Paper Notes, Series D had no outstanding draws as of September 30, 2019 and 2018.

7. Long-Term Debt (concluded)

Changes in Long-Term Liabilities

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	-
Other noncurrent liabilities and regulatory liabilities	591	5,250	(1,131)	4,710	-
	$ 1,826,695	$ 356,521	$ (198,613)	$ 1,984,603	$ 22,105

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Utilities system revenue bonds	$ 871,540	$ 680,920	$ (18,120)	$ 1,534,340	$ 27,885
Add: Issuance premiums	16,903	73,205	(6,349)	83,759	-
Total bonds payable	888,443	754,125	(24,469)	1,618,099	27,885
Commercial paper	58,900	40,000	(5,900)	93,000	-
Capital lease	941,269	-	(941,269)	-	-
Fair value of derivative instruments	61,184	-	(22,419)	38,765	-
Reserve for insurance claim	3,337	-	-	3,337	-
Reserve for environmental liability	665	-	(146)	519	-
Net pension liability	82,704	-	(11,526)	71,178	-
Net other post-employment benefits liability	1,552	-	(346)	1,206	-
Other noncurrent liabilities and regulatory liabilities	591	-	-	591	-
	$ 2,038,645	$ 794,125	$ (1,006,075)	$ 1,826,695	$ 27,885

Interest Rate Swaps

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

8. Hedging Activities

Interest Rate Hedges

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

Terms, Fair Values, and Counterparty Credit Ratings

The terms, fair values, and counterparty credit ratings of the outstanding swaps as of September 30, 2019, were as follows (in thousands):

Associated Bond Issue	2005B*	2005C*	2006A*	2007A*
Notional amount	$17,935	$21,605	$20,905	$136,180
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	$34	($1,229)	($1,332)	($42,461)
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%	2.119%	2.110%
Variable receiver rate	SIFMA	SIFMA	70.00% of 1MO LIBOR	70.00% of 1MO LIBOR
Fair value	($17,707)	($9,547)	($6,227)	($2,632)
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+

* See Basis Risk section below.

8. Hedging Activities (continued)

Fair Value

All of the swap agreements, except for the 2005B swap, had a negative fair value as of September 30, 2019. As 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, 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	-
	$ (81,099)	$ (42,334)	$ 41,683	$ 651

All swap agreements, except for the 2005B and 2017B swaps, had a negative fair value as of September 30, 2018. Due to the low interest rate environment, as compared to the period when the swaps were entered into, the fixed payer rates exceeded the variable receiver rates (in thousands):

	Fair Value of Interest Rate Swaps at September 30, 2018	Changes in Fair Value	Changes in Deferred (Inflow) Outflow	Changes in Regulatory (Assets) Liability for Ineffective Instruments
2005B	$ 78	$ 46	$ -	$ (46)
2005C	(939)	741	-	(741)
2006A	(1,014)	801	-	(801)
2008B	(11,249)	4,048	(4,048)	-
2008B	(6,063)	2,181	(2,181)	-
2008C	-	-	-	-
2007A	(24,514)	9,550	(9,550)	-
2017B	3,419	3,419	(3,419)	-
2017B	1,517	1,517	(1,517)	-
	$ (38,765)	$ 22,303	$ (20,715)	$ (1,588)

8. Hedging Activities (continued)

Interest Rate Swap Payments

Debt service requirements on the interest rate swaps using interest rates in effect at September 30, 2019, are as follows (in thousands):

Year Ending September 30,	Debt Service
2020	$ 7,491
2021	7,267
2022	7,038
2023	6,776
2024	6,528
2025-2029	28,391
2030-2034	19,839
2035-2039	7,818
2040-2044	3,215
	$ 94,363

Credit Risk

As of September 30, 2019, although most of the fair value of the interest rate swaps was negative, GRU has structured its swap documents to minimize credit risk. To mitigate the potential for credit risk, GRU has negotiated additional termination event and collateralization requirements in the event of a ratings downgrade. Failure to deliver the Collateral Agreement to GRU as negotiated and detailed in the Schedule to the International Swaps and Derivative Agreements (ISDA) master agreement for each counterparty would constitute an event of default with respect to that counterparty.

Basis Risk

The Swaps Expose the City to Basis Risk

- The 2005 Series B Swap is exposed to basis risk through the potential mismatch of 77.14% of 1 Month LIBOR and SIFMA rate. As a result, savings may not be realized. As of September 30, 2019, the 1 Month LIBOR rate was 2.02%, and SMIFA rate was at 1.58%, which places the SIFMA at approximately 78% of 1 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, 2019, the 10 Year LIBOR rate was at 1.59%.

8. Hedging Activities (continued)

Basis Risk (concluded)

- The 2006 Series A Swap is exposed to basis risk through the potential mismatch of 68% of 10 Year LIBOR less 0.36% and the variable 31-day rollover rate. As a result, savings may not be realized.

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

- The 2017 Series B Swap is exposed to the difference between 70% of the 1 Month LIBOR and 70% of the 1 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.

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. Currently GRU has not encountered any credit market barriers.

8. Hedging Activities (concluded)

Effectiveness

Of the interest rate swap agreements, five have been deemed effective, while three have been deemed ineffective as of September 30, 2019. The ineffective portion related to interest rate swap agreements is recorded as a regulatory asset in the amount of $2.5 million and $1.9 million as of September 30, 2019 and 2018, respectively.

The unrealized loss on interest rate swap agreements was $42.3 million and $22.4 million in accumulated decrease in fair value of hedging derivatives at September 30, 2019 and 2018, respectively. There were no realized gains or losses related to interest rate swaps as of September 30, 2019 and 2018, respectively.

Fuel Hedges

GRU utilizes commodity price swap contracts to hedge the effects of fluctuations in the prices for natural gas. These transactions meet the requirements of GASB Statement No. 53. Realized losses related to gas hedging positions were recorded as an addition of fuel costs of $40,000 and $189,000 for September 30, 2019 and 2018, 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, 2019	Changes in Fair Value	Deferred (Inflows)/ Outflows Resources	Notional Amount (MMBTUs)
Natural Gas	$ -	$ -	$ -	0

	Fair Value of Cash Flow Hedges at September 30, 2018	Changes in Fair Value	Deferred (Inflows)/ Outflows Resources	Notional Amount (MMBTUs)
Natural Gas	$ -	$ (62)	$ -	0

9. Fair Value Measurement

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

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

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

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

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

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

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

- U.S. Treasury securities are valued using market prices (Level 2 inputs).

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

- Commodity derivatives, such as futures, swaps and options, which are ultimately settled using prices at locations quoted through clearinghouses, are valued using Level 2 inputs.

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

9. Fair Value Measurement (continued)

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Utility's assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels. GRU's fair value measurements are performed on a recurring basis. The following table presents fair value balances and their levels within the fair value hierarchy as of September 30, 2019 (in thousands):

	Level 1	Level 2	Level 3	Total
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	$ -	$ 109,870	$ -	$ 109,870
Liabilities				
Financial instruments				
Effective interest rate swaps	$ -	$ (78,573)	$ -	$ (78,573)
Ineffective interest rate swaps	-	(2,526)	-	(2,526)
Total financial instruments	$ -	$ (81,099)	$ -	$ (81,099)

9. Fair Value Measurement (concluded)

Fair value balances and their levels within the fair value hierarchy as of September 30, 2018, are represented in the following table (in thousands):

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

10. Restricted Net Position

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

	2019	2018
Restricted net position:		
Debt service	**$ 22,821**	$ 29,803
Utility plant improvement	**27,687**	14,717
Other	**3,386**	-
Restricted net position	**$ 53,894**	$ 44,520

11. 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):

Year Ending September 30,	Future Minimum Rental Revenue
2020	$ 1,828
2021	1,481
2022	950
2023	485
2024	102
2025-2029	55
	$ 4,901

12. Transfer to City of Gainesville General Fund

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

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

- A new base equal to the fiscal year 2014 General Fund Transfer (GFT) level that would have been produced under the formula methodology that was in place from fiscal years 2001 through 2010.
- Growth of the base by 1.5% per year for fiscal years 2016 through 2019.
- Reduction of this amount by an amount equal to the property tax revenue that accrues to the City of Gainesville related to the GREC Biomass Facility.

For the years ended September 30, 2019 and 2018, the transfer was $38.3 million and $36.4 million, respectively. The fiscal year 2015 formula ended September 30, 2019.

13. Commitments and Contingencies

General

The primary factors currently affecting the utility industry include environmental regulations, Operating, Planning and Critical Infrastructure Protection Standards promulgated by NERC under FERC jurisdiction, and the increasing strategic and price differences among various types of fuels. No state or federal legislation is pending or proposed at this time for retail competition in Florida. The role of municipalities as telecommunications providers pursuant to the 1996 Federal Telecommunications Act resulted in a number of state-level legislative initiatives across the nation to curtail this activity. In Florida, this issue culminated in the passage, in 2005, of legislation codified in Section 350.81, Florida Statutes (Section 350.81) that defined the conditions under which municipalities are allowed to provide retail telecommunications services. Although GRU has special status as a grandfathered entity under this legislation, the provision of certain additional retail telecommunications services by the Utility would implicate certain requirements of Section 350.81. Management does not expect that any required compliance with the requirements of Section 350.81 would have a material adverse effect on the operations or financial condition of GRUCom.

Environmental and Other Natural Resource Regulations

GRU and its operations are subject to federal, state and local environmental regulations which include, among other things, control of emissions of particulates, mercury, acid gases, SO_2 and NO_X into the air; discharges of pollutants, including heat, into surface or ground water; the disposal of wastes and reuse of products generated by wastewater treatment and combustion processes; management of hazardous materials; and the nature of waste materials discharged into the wastewater system's collection facilities. Environmental regulations generally are becoming more numerous and more stringent and, as a result, may substantially increase the costs of the Utility's services by requiring changes in the operation of existing facilities as well as changes in the location, design, construction, and operation of new facilities (including both facilities that are owned and operated by GRU as well as facilities that are owned and operated by others, from which the Utility purchases output, services, commodities and other materials). There is no assurance that the facilities in operation, under construction, or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations. Compliance with applicable regulations could result in increases in the costs of construction and/or operation of affected facilities, including associated costs such as transmission and transportation, as well as limitations on the operation of such facilities. Failure to comply with regulatory requirements could result in reduced operating levels or the complete shutdown of those facilities not in compliance as well as the imposition of civil and criminal penalties.

Increasing concerns about climate change and the effects of greenhouse gases (GHG) on the environment have resulted in EPA finalizing on August 3, 2015, carbon regulations for existing power plants. Currently, the Clean Power Plan is being litigated and on August 10, 2017, the United States Court of Appeals for the D.C. Circuit issued an order holding the challenges to the greenhouse gas new source performance standards (GHG NSPS) in abeyance "pending further order of the court." The order also directs EPA to file status reports at 90-day intervals beginning October 27, 2017.

13. Commitments and Contingencies (continued)

Environmental and Other Natural Resource Regulations (concluded)

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

Effective September 6, 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 being finalized at this time will establish emissions guidelines for states to use for greenhouse gas (GHG) emissions from existing electric utility generating units (EGUs) under CAA section 111(d). These guidelines will inform states on the development, submittal, and implementation of state plans to establish performance standards for GHG emissions from certain fossil fuel fired EGUs. Specifically, once finalized, it will provide to the state the ACE rule that will establish that the heat rate improvement (HRI) is the best system of emission reduction (BSER) for reducing greenhouse gas (GHG) and carbon dioxide (CO_2).

Internal Combustion Engine MACT

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

Climate Change

On June 25, 2013, President Obama issued a Presidential Memorandum directing the EPA to work expeditiously to complete GHG standards for the power sector. The agency is using its authority under section 111(d) of the Clean Air Act to issue emission guidelines to address GHG emissions from existing power plants. The Presidential Memorandum specifically directed the EPA to build on state leadership, provide flexibility and take advantage of a wide range of energy sources and technologies towards building a cleaner power sector. It also directed the EPA to issue proposed GHG standards, regulations, or guidelines, as appropriate for existing power plants by no later than June 1, 2014, and issue final GHG standards, regulations, or guidelines,

13. Commitments and Contingencies (continued)

Climate Change (continued)

as appropriate by no later than June 1, 2015. In addition, the Presidential Memorandum directed the EPA to include in the guidelines addressing existing power plants, a requirement that states submit to the EPA the implementation plans required under section 111(d) of the Clean Air Act and its implementing regulations by no later than June 30, 2016. States would be able to request more time to submit complete implementation plans with the EPA being able to allow states until June 30, 2017, or June 30, 2018, as appropriate, to submit additional information completing the submitted plan no later than June 30, 2016.

Accordingly, on June 2, 2014, EPA released a proposed rule, the Clean Power Plan Rule, that would limit and reduce carbon dioxide emissions from certain fossil fuel power plants, including existing plants. Finally, on August 3, 2015, EPA released the final version of such rule, and on October 23, 2015, the EPA published in the *Federal Register* the GHG existing source performance standards for power plants (the "Clean Power Plan"), and the final NSPS for GHG emissions from new, modified and reconstructed fossil fuel-fired power plants. The final Clean Power Plan was published at 80 Fed. Reg. 64662, and the final GHG NSPS were published at 80 Fed. Reg. 64510.

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

On January 26, 2016, 29 states requested that the U.S. Supreme Court stay implementation on the final GHG Clean Power Plan or CPP (80 Fed. Reg. 64662 – Oct. 23, 2015), pending judicial review of the rule. On February 9, 2016, the Supreme Court granted the stay of the Clean Power Plan pending judicial review of the rule. The stay will remain in effect pending Supreme Court Review if such review is sought. Since the U.S. Supreme Court stayed the EPA rulemaking on the Clean Power Plan, that extraordinary action will delay any regulatory action. GRU continues to closely monitor any activities with respect to Climate Change and GHGs.

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

13. Commitments and Contingencies (continued)

Climate Change (concluded)

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

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

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

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

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 3 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.

13. Commitments and Contingencies (continued)

Coal Combustion Products (concluded)

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

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

Storage Tanks

GRU is required to demonstrate financial responsibility for the costs of corrective actions and compensation of third-parties for bodily injury and property damage arising from releases of petroleum products and hazardous substances from storage tank systems. GRU has 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 empty and out of service, and two above-ground No. 6 oil tanks which are also empty and out of service. DH has one above-ground distillate and two above-ground No. 6 oil tanks one of which is out of service.

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

Remediation Sites

Several site investigations have been completed at the JRK Station, most recently in 2011. According to previous assessments, the horizontal extent of impacted soils extends from the northern containment wall of the above-ground storage tanks (ASTs) to the wastewater filter beds and from the old plant building to Sweetwater Branch Creek. The results of the most recent soil assessment document the presence of Benzo(a)*pyrene* in one soil sample at a concentration greater than its default commercial/industrial direct exposure based soil cleanup target levels (SCTLs). Four of the soil samples contained Benzo(a)*pyrene* equivalents at concentrations greater than its default commercial/industrial direct exposure based SCTLs. In addition, two of the soil samples contained total recoverable petroleum hydrocarbons (TRPH) at concentrations greater than its default commercial/industrial direct exposure based SCTLs.

13. Commitments and Contingencies (continued)

Remediation Sites (concluded)

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 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.

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.

13. Commitments and Contingencies (continued)

Water Use Restrictions (concluded)

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

The SJRWMD and the Suwannee River Water Management District (SRWMD) each have promulgated regulations referred to as "Year-Round Water Conservation Measures", for the purpose of increasing long-term water use efficiency through regulatory means. In addition, the SJRWMD and the SRWMD each have promulgated regulations referred to as a "Water Shortage Plan", for the purpose of allocating and conserving the water resource during periods of water shortage and maintaining a uniform approach towards water use restrictions. Each Water Shortage Plan sets forth the framework for imposing restrictions on water use for non-essential purposes when deemed necessary by the applicable water management district.

On August 7, 2012, in order to assist the SJRWMD and the SRWMD in the implementation and enforcement of such Water Conservation Measures and such Water Shortage Plans, the Board of County Commissioners of Alachua County enacted an ordinance creating year-round water conservation measures and water shortage regulations (the "County Water Use Ordinance"), thereby making such Water Conservation Measures and such Water Shortage Plans applicable to the unincorporated areas of the County. On December 20, 2012, the City Commission adopted a resolution to opt into the County's year round water conservation measures and water shortage regulations ordinances in order to give the Alachua County Environmental Protection Department the authority to enforce water shortage orders and water shortage emergencies within the City.

Manufactured Gas Plant

Gainesville's natural gas system originally distributed blue water gas, which was produced in town by gasification of coal using distillate oil. Although manufactured gas was replaced by pipeline gas in the mid-1950's, coal residuals and spilt fuel contaminated soils remain on and adjacent to the manufactured gas plant (MGP) site. When the natural gas system was purchased, GRU assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former MGP. GRU has pursued recovery for the MGP from past insurance policies and, to date, has recovered $2.2 million from such policies. GRU received final approval of its Remedial Action Plan which included the excavation and landfilling of impacted soils. This plan was implemented pursuant to a Brownfield Site Rehabilitation Agreement with the State.

Following remediation, the property has been redeveloped by the City as a park with storm-water ponds, nature trails, and recreational space, all of which were considered in the remediation plan's design. The duration of the groundwater monitoring program is unknown, and that timeframe is open to the results of the sampling data.

13. Commitments and Contingencies (concluded)

Manufactured Gas Plant (concluded)

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 2019 and 2018, expenditures which reduced the liability balance were $1.2 million and $1.3 million, respectively. The reserve balance at September 30, 2019 and 2018, was $980,000 and $641,000, 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 $1.2 million and $1.3 million, as of September 30, 2019 and 2018, respectively. The regulatory asset balance was $11 million and $11.7 million as of September 30, 2019 and 2018, 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.

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, 2019 and 2018, were $138,000 and $126,000, respectively.

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

Year Ending September 30,	Future Minimum Rental Payments
2020	$ 124
2021	57
2022	48
2023	48
2024	6
2025-2029	30
2030-2034	30
2035-2039	30
2040-2044	30
2045-2046	12
	$ 415

14. Retirement Plans

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

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

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

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan (continued)

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

Employees are eligible for normal retirement:

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

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

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

Employees are eligible for early retirement:

- If the date of hire occurred on or before 10/01/2012, after accruing 15 years of pension service credit and reaching age 55 while still employed.

- If the date of hire was on or after 10/02/2012, after accruing 20 years of pension service credit and reaching age 60 while still employed.

- Under the early retirement option, the benefit is reduced by 5/12ths of one percent for each month (5% for each year) by which the retirement date is less than the date the employee would reach age 65.

- Employees receive a deferred vested benefit if they are terminated after accruing five years of pension service credit but prior to eligibility for regular retirement. Those employees will be eligible to receive a benefit starting at age 65.

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

- If the retiree had at least 20 years of credited service prior to 10/01/2012 and had at least 20 years but less than 25 years of credited service upon retirement, COLA begins after reaching age 62.

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan (continued)

- If the retiree had at least 20 years of credited service prior to 10/01/2012 and had at least 25 years of credited service upon retirement, COLA begins after reaching age 60.

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

- If the retiree was hired after 10/01/2012 and had 30 years or more of credited service upon retirement, COLA begins after age 65.

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

Death benefits are paid as follows:

- If an active member retires after reaching normal retirement eligibility and had selected a tentative benefit option, benefit payments will be made to the beneficiary in accordance with the option selected.

- If an active member who is married dies after reaching normal retirement eligibility and did not previously select a tentative benefit option, the plan assumes the employee retired the day prior to death and elected the Joint & Survivor option naming their spouse as their beneficiary.

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan (continued)

- If an active member who is not married dies after reaching normal retirement eligibility and did not previously select a tentative benefit option, or if an active member dies prior to reaching normal retirement eligibility, or if a non-active member with a deferred vested benefit dies before age 65, the death benefit is a refund of the member's contributions without interest to the beneficiary on record.

- Continuation of retirement benefits after the death of a retiree receiving benefits is contingent on the payment option selected upon retirement. If the retiree has chosen a life annuity and dies prior to receiving benefits greater than the retiree's contributions to the plan, a lump sum equal to the difference is paid to the beneficiary on record.

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

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

	2019	2018
Active members	**1,553**	1,514
Retirees members/beneficiaries currently receiving benefits	**1,352**	1,316
Terminated members/beneficiaries entitled to benefits but not yet receiving benefits	**428**	441
Total	**3,333**	3,271

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

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan (concluded)

actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City contributes the difference between the actuarially determined rate and the contribution rate of employees. Plan members are required to contribute 5% of their annual covered salary. The rates were 18.4% and 18.2% of covered payroll for the years ended September 2019 and 2018, respectively. This rate was influenced by the issuance of the Taxable Pension Obligation Bonds, Series 2003A. The proceeds from this issue were utilized to retire the unfunded actuarial accrued liability at that time in the Employees' Plan. Differences between the required contribution and actual contribution are due to actual payroll experiences varying from the estimated total payroll used in the generation of the actuarially required contribution rate. Administrative costs are financed through investment earnings.

The net pension liability related to the Employees' Plan was measured as of September 30, 2019 and 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2018, and October 1, 2017, for September 30, 2019 and 2018, respectively.

The net pension liability applicable to GRU as an enterprise fund of the City was $99.6 million and $71.2 million at September 30, 2019 and 2018, respectively.

The total pension liability as of September 30, 2019, was determined based on a roll-forward of entry age normal liabilities from the October 1, 2018, actuarial valuation. 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

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

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

Mortality Rate

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

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Long-term Expected Rate of Return

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

Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2019 and 2018, are summarized in the following table:

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

Discount Rate

The discount rates used to measure the total pension liability were 7.9% and 8% as of September 30, 2019 and 2018, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the actuarially determined contribution rates less the member contributions. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Net Pension Liability

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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 10/01/2018	$ 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

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

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

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

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

The following presents GRU's portion of the net pension liability, calculated using the discount rate of 7.9% and 8% as of September 30, 2019 and 2018, 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):

	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

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

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

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

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

For the years ended September 30, 2019 and 2018, GRU recorded a regulatory asset for the Employees' Plan of $7.9 million and $981,000, respectively. At September 30, 2019 and 2018, the City and GRU reported deferred outflows of resources related to the Employees' Plan from the following sources (in thousands):

	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

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

14. Retirement Plans (concluded)

Defined Benefit Plans (concluded)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources (concluded)

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

Year Ending September 30,	GRU
2020	$ 4,611
2021	3,361
2022	3,787
2023	5,791
Total	$ 17,550

15. Other Post-employment Benefits Plan

Plan Description

By ordinance enacted by the City Commission, the City has established the Retiree Health Care Plan (RHCP), providing for the payment of a portion of the health care insurance premiums for eligible retired employees. Management of the RHCP is vested in the RHCP Board of Trustees which consists of the seven member City Commissioners all who are elected by the citizens of Gainesville for three year terms. The City of Gainesville issues a publicly available financial report that includes financial statements and required supplementary information for the RHCP. That report may be obtained by writing to City of Gainesville, Finance Department, P.O. Box 490, Gainesville, Florida 32627 or by calling (352) 334-5054.

Benefits Provided

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

Employees Covered by Benefit Terms

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

	2019	2018
Inactive employees or beneficiaries currently receiving benefit payments	**869**	869
Inactive employees entitled to but not yet receiving benefit payments	**1,131**	627
Active employees	**2,068**	2,067
Total	**4,068**	3,563

15. Other Post-employment Benefits Plan (continued)

Contributions

In 1995, the City instituted a cost sharing agreement with retired employees for individual coverage only, based on a formula taking into account age at the time the benefit is first accessed and service at time of retirement. The contribution requirements of plan members and the City are established and may be amended by the City Commission. These contributions are neither mandated nor guaranteed. The City has retained the right to unilaterally modify its payment for retiree health care benefits. Administrative costs are financed through investment earnings. RHCP members receiving benefits contribute a percentage of the monthly insurance premium. Based on this plan, the RHCP pays up to 50% of the individual premium for each insured according to the age/service formula factor of the retiree. Spouses and other dependents are eligible for coverage, but the employee is responsible for the entire cost, there is no direct RHCP subsidy. The employee contributes the premium cost each month, less the RHCP subsidy calculated as a percentage of the individual premium.

The State of Florida prohibits the City from separately rating retirees and active employees. The City therefore charges both groups an equal, blended rate premium. Although both groups are charged the same blended rate premium, GAAP requires the actuarial figures presented above to be calculated using age adjusted premiums approximating claim costs for retirees separate from active employees. The use of age adjusted premiums results in the addition of an implicit rate subsidy into the actuarial accrued liability. However, the City has elected to contribute to the RHCP at a rate that is based on an actuarial valuation prepared using the blended rate premium that is actually charged to the RHCP.

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

In September 2008, the City 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

15. Other Post-employment Benefits Plan (continued)

Contributions (concluded)

under the existing Ordinance. The City's contribution towards the premium will be adjusted annually at the rate of 50% of the annual percentage change in the individual premium compared to the prior year.

Investment Policy

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

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

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

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

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, 2019 and 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of October 1, 2017, and October 1, 2015, for September 30, 2019 and 2018, respectively.

15. Other Post-employment Benefits Plan (continued)

Actuarial Assumptions

The total OPEB liability as of September 30, 2019, was determined based on a roll-forward of the October 1, 2017 actuarial valuation. Below is a summary of the key actuarial assumptions used in the October 1, 2017 actuarial valuation:

Inflation	3.00%
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, 2015 actuarial valuation:

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

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

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 were 7.9% and 8% as of September 38, 2019 and 2018, 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.

15. Other Post-employment Benefits Plan (continued)

Discount Rate (concluded)

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

	Increase (Decrease)		
	Total OPEB Liability	**Plan Fiduciary Net Position**	**Net OPEB Liability**
Balances at 10/01/2018	$ 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

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

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

15. Other Post-employment Benefits Plan (continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rates

The following presents GRU's portion of the net OPEB liability, calculated using the discount rate of 7.9% and 8% as of September 30, 2019 and 2018, respectively, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate (in thousands):

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

	2018		
	1% Decrease (7.0%)	Discount Rate (8.0%)	1% Increase (9.0%)
Net OPEB liability (asset)	$ 3,611	$ 1,206	$ (877)

15. 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% and 6% as of September 30, 2019 and 2018, respectively, 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):

	2019		
	1% Decrease (3.5%)	Health Care Cost Trend Rate (4.5%)	1% Increase (5.5%)
Net OPEB liability (asset)	$ 2,254	$ 5,368	$ 9,048

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

OPEB Plan Fiduciary Net Position

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

15. 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, 2019 and 2018, GRU recognized OPEB expense of $355,000 and $274,000, respectively. At September 30, 2019 and 2018, the City and GRU reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	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 pension plan investments	1,808	-
Total	$ 3,051	$ -

	2018	
	Deferred Outflows of Resources GRU's Portion	Deferred Inflows of Resources GRU's Portion
Change in assumptions	$ -	$ (177)
Net difference between projected and actual investment earnings on pension plan investments	-	365
Total	$ -	$ 188

15. Other Post-employment Benefits Plan (concluded)

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

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

Year Ending September 30,	GRU
2020	$ 671
2021	671
2022	671
2023	762
2024	242
Thereafter	34
Total	$ 3,051

16. Risk Management

GRU is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters and insures against these losses. GRU purchases plant and machinery insurance from a commercial carrier. There have been no significant reductions in insurance coverage from the prior year, and settlements have not exceeded insurance coverage for the past three fiscal years. The City is self-insured for workers' compensation, auto liability, and general liability but carries excess workers' compensation coverage. These risks are accounted for under the City's General Insurance Fund.

GRU reimburses the City for premiums and claims paid on its behalf, recording the appropriate expense. However, GRU does maintain its own insurance reserve, for the self-insured portion. An actuarial study completed during fiscal year 2008 resulted in an increase to a balance of $3.3 million. The present value calculation assumes a rate of return of 4.5% with a confidence level of 75%. This reserve is recorded as a fully amortized deferred credit. All claims for fiscal 2019 and 2018 were paid from current year's revenues.

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

Year Ending September 30,	Beginning Balance	Claims	Payments	Change in Reserve	Ending Balance
2019	$ 3,337	$ 2,103	$ (2,103)	$ -	$ 3,337
2018	3,337	1,729	(1,729)	-	3,337
2017	3,337	2,253	(2,253)	-	3,337

17. Restatement

As of September 30, 2018, depreciation expense on DHR exceeded principal repayment on the related bonds by $13.1 million. GRU has elected to apply GASB Statement No. 62, paragraphs 476-500, *Regulated Operations,* and has restated its 2018 financial statements as follows (in thousands):

	Electric	Water	Wastewater	Gas	Grucom	Total
Statements of Net Postion						
Net costs recoverable in future years - regulatory asset, as previously reported	$ -	$ -	$ -	$ -	$ -	$ -
Restatement	13,091	-	-	-	-	13,091
Net costs recoverable in future years - regulatory asset, as restated	$ 13,091	$ -	$ -	$ -	$ -	$ 13,091
Net Position, end of year, as previously. reported	$ 228,342	$ 80,139	$ 105,046	$ 10,119	$ (4,527)	$ 419,119
Restatement	13,091	-	-	-	-	13,091
Net Position, end of year, as restated	$ 241,433	$ 80,139	$ 105,046	$ 10,119	$ (4,527)	$ 432,210
Statements of Revenues, Expenses, and Changes in Net Position						
Amounts to be recovered from future revenue, as previously reported	$ 3,449	$ -	$ -	$ -	$ -	$ 3,449
Restatement	13,091	-	-	-	-	13,091
Amounts to be recovered from future revenue, as restated	$ 16,540	$ -	$ -	$ -	$ -	$ 16,540
Change in net position, as previously reported	$ (5,249)	$ (6,300)	$ (7,874)	$ 5,763	$ (3,717)	$ (17,377)
Restatement	13,091	-	-	-	-	13,091
Change in net position, as restated	$ 7,842	$ (6,300)	$ (7,874)	$ 5,763	$ (3,717)	$ (4,286)

18. Subsequent Events

Fixed Payer Swap

On October 17, 2019, the City Commission approved a supplemental utilities system revenue bond resolution which authorized, among other potential transactions, execution of fixed payer swaps to hedge existing variable rate debt. Pursuant to this resolution on December 18, 2019, GRU executed a $115 million fixed payer swap hedge on the outstanding Series 2017C variable rate debt.

Refund of Fixed Rate Debt

On February 6, 2020, the City Commission approved a supplemental utilities system revenue bond resolution authorizing the issuance of the Series 2020A bonds to refund all of the $10.5 million Series 2010C bonds. The Series 2020A issue is a forward delivery, tax-exempt direct placement which closed on February 14, 2020. The bonds are expected to be issued on July 7, 2020.

SUPPLEMENTARY INFORMATION

Gainesville Regional Utilities
Schedules of Combined Net Revenues
in Accordance with Bond Resolution
For the Years Ended September 30, 2019 and 2018

	2019	2018
Revenues:		
Electric system:		
Sales of electricity	**$ 274,624,136**	$ 272,311,404
Transfers from rate stabilization	**1,175,150**	7,206,070
Other revenue	**1,942,310**	5,062,778
Other income	**6,455,279**	3,797,011
Build America Bonds	**2,873,052**	2,903,975
Total electric system revenues	**287,069,927**	291,281,238
Water system:		
Sales of water	**35,135,406**	34,665,428
Transfer to rate stabilization	**(1,434,068)**	(437,706)
Other revenue	**1,783,599**	1,911,099
Other income	**503,016**	397,622
Build America Bonds	**811,634**	817,966
Total water system revenues	**36,799,587**	37,354,409
Wastewater system:		
Sales of wastewater	**40,278,404**	40,785,747
Transfer from (to) rate stabilization	**(2,165,512)**	1,097,355
Other revenue	**3,812,266**	3,436,618
Other income	**424,708**	446,572
Build America Bonds	**925,348**	929,061
Total wastewater system revenues	**43,275,214**	46,695,353
Gas system:		
Sales of gas	**23,527,764**	24,077,326
Transfer from (to) rate stabilization	**6,907,847**	(3,887,772)
Other revenue	**(76,221)**	367,576
Other income	**434,367**	424,197
Build America Bonds	**601,916**	608,225
Total gas system revenues	**31,395,673**	21,589,552
Telecommunications system:		
Sales of services	**11,198,871**	11,362,989
Transfer from (to) rate stabilization	**471,447**	(138,160)
Other revenue	**(205,414)**	14,536
Other income	**197,688**	239,097
Total telecommunications system revenues	**11,662,592**	11,478,462
Total revenues	**$ 410,202,993**	$ 408,399,014

Continued on next page.

Gainesville Regional Utilities
Schedules of Combined Net Revenues
in Accordance with Bond Resolution (concluded)
For the Years Ended September 30, 2019 and 2018

	2019	2018
Operation, maintenance and administrative expenses:		
Electric system:		
Fuel expense	**$ 86,839,936**	$ 99,281,397
Operation and maintenance	**69,352,192**	65,969,401
Administrative and general	**22,508,085**	17,996,858
Total electric system expense	**178,700,213**	183,247,656
Water system:		
Operation and maintenance	**12,712,054**	11,627,273
Administrative and general	**5,032,544**	5,101,853
Total water system expense	**17,744,598**	16,729,126
Wastewater system:		
Operation and maintenance	**15,732,430**	15,650,012
Administrative and general	**4,803,929**	5,103,428
Total wastewater system expense	**20,536,359**	20,753,440
Gas system:		
Fuel expense and purchased gas	**8,169,312**	7,842,044
Operation and maintenance	**4,019,515**	3,082,310
Administrative and general	**2,978,438**	2,378,776
Total gas system expense	**15,167,265**	13,303,130
Telecommunications system:		
Operation and maintenance	**6,307,390**	5,669,793
Administrative and general	**1,082,086**	1,100,900
Total telecommunications system expense	**7,389,476**	6,770,693
Total expenses	**239,537,911**	240,804,045
Net revenue in accordance with bond resolution:		
Electric	**108,369,714**	108,033,582
Water	**19,054,989**	20,625,283
Wastewater	**22,738,855**	25,941,913
Gas	**16,228,408**	8,286,422
Telecommunications	**4,273,116**	4,707,769
Total net revenue in accordance with bond resolution	**170,665,082**	167,594,969
Aggregate bond debt service	**$ 90,191,176**	$ 89,235,841
Aggregate bond debt service coverage ratio	**1.89**	1.88
Total debt service	**$ 91,095,672**	$ 90,095,336
Total debt service coverage ratio	**1.87**	1.86

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution – Electric Utility System
For the Years Ended September 30, 2019 and 2018

	2019	2018
Revenues		
Residential	**$ 72,753,116**	$ 64,742,786
Non-residential	**86,272,732**	79,577,373
Fuel adjustment	**86,839,936**	99,281,397
Sales for resale	**4,774,197**	6,041,922
Utility surcharge	**4,466,504**	3,641,223
Other electric sales	**19,517,651**	19,026,703
Total sales of electricity	**274,624,136**	272,311,404
Transfers from rate stabilization	**1,175,150**	7,206,070
Other revenue	**1,942,310**	5,062,778
Other income	**6,455,279**	3,797,011
Build America Bonds	**2,873,052**	2,903,975
Total revenues	**287,069,927**	291,281,238
Operation, maintenance and administrative expenses		
Fuel expense	**86,839,936**	99,281,397
Power production	**45,716,984**	45,575,265
Transmission and distribution	**23,635,208**	20,394,136
Administrative and general	**22,508,085**	17,996,858
Total operation, maintenance, and administrative expenses	**178,700,213**	183,247,656
Total net revenues in accordance with bond resolution	**$ 108,369,714**	$ 108,033,582
Less:		
Debt service	**69,583,183**	66,107,727
Debt service - UPIF	**-**	(5,000,000)
UPIF contributions	**22,870,663**	25,498,577
Transfer to City of Gainesville General Fund	**15,915,868**	21,427,278
Net impact to rate stabilization	**$ –**	$ –

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution – Water Utility System
For the Years Ended September 30, 2019 and 2018

	2019	2018
Revenues		
Residential	**$ 21,370,730**	$ 21,121,920
Non-residential	**11,173,770**	11,044,930
Utility surcharge	**2,590,906**	2,498,578
Total sales of water	**35,135,406**	34,665,428
Transfers to rate stabilization	**(1,434,068)**	(437,706)
Other revenues	**1,783,599**	1,911,099
Other Income	**503,016**	397,622
Build America Bonds	**811,634**	817,966
Total revenues	**36,799,587**	37,354,409
Operation, maintenance, and administrative expenses		
Transmission and distribution	**4,369,766**	4,279,991
Treatment	**8,342,288**	7,347,282
Administrative and general	**5,032,544**	5,101,853
Total operation, maintenance, and administrative expenses	**17,744,598**	16,729,126
Total net revenues in accordance with bond resolution	**$ 19,054,989**	$ 20,625,283
Less:		
Debt service	**6,904,026**	7,318,225
UPIF contributions	**6,794,891**	7,468,215
Transfer to City of Gainesville General Fund	**5,356,072**	5,838,843
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, 2019 and 2018

	2019	2018
Revenues		
Residential	$ 26,493,074	$ 26,961,181
Non-residential	10,898,265	10,936,712
Utility surcharge	2,887,065	2,887,854
Total sales of services	40,278,404	40,785,747
Transfer from (to) rate stabilization	(2,165,512)	1,097,355
Other revenue	3,812,266	3,436,618
Other income	424,708	446,572
Build America Bonds interest income	925,348	929,061
Total revenues	43,275,214	46,695,353
Operation, maintenance, and administrative expenses		
Collection	7,812,563	8,501,302
Treatment	7,919,867	7,148,710
Administrative and general	4,803,929	5,103,428
Total operation, maintenance, and administrative expenses	20,536,359	20,753,440
Total net revenues in accordance with bond resolution	$ 22,738,855	$ 25,941,913
Less:		
Debt service	8,079,167	8,756,861
UPIF contributions	8,799,016	9,836,478
Transfer to City of Gainesville General Fund	5,860,672	7,348,574
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, 2019 and 2018

	2019	2018
Revenues		
Residential	$ 8,124,802	$ 8,532,414
Non-residential	5,428,619	5,782,413
Fuel adjustment	8,169,312	7,842,044
Utility surcharge	532,997	548,417
Other gas sales	1,272,034	1,372,038
Total sales of gas	23,527,764	24,077,326
Transfers from (to) rate stabilization	6,907,847	(3,887,772)
Other revenue	(76,221)	367,576
Other income	434,367	424,197
Build America Bonds	601,916	608,225
Total revenues	31,395,673	21,589,552
Operation, maintenance, and administrative expenses		
Fuel expense - purchased gas	8,169,312	7,842,044
Operation and maintenance	4,019,515	3,082,310
Administrative and general	2,978,438	2,378,776
Total operation, maintenance, and administrative expenses	15,167,265	13,303,130
Total net revenues in accordance with bond resolution	$ 16,228,408	$ 8,286,422
Less:		
Debt service	3,902,061	4,025,315
UPIF contributions	2,360,793	2,878,702
Transfer to City of Gainesville General Fund	9,965,554	1,382,405
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, 2019 and 2018

	2019	2018
Revenues		
Telecommunications	$ 7,737,841	$ 7,734,382
Trunking radio	1,672,251	1,759,037
Tower leasing	1,788,779	1,820,064
Other sales	-	49,506
Total sales of services	11,198,871	11,362,989
Transfers from (to) rate stabilization	471,447	(138,160)
Other revenue	(205,414)	14,536
Other income	197,688	239,097
Total revenues	11,662,592	11,478,462
Operation, maintenance, and administrative expenses		
Operation and maintenance	6,307,390	5,669,793
Administrative and general	1,082,086	1,100,900
Total operation, maintenance, and administrative expenses	7,389,476	6,770,693
Total net revenues in accordance with bond resolution	$ 4,273,116	$ 4,707,769
Less:		
Debt service	2,627,235	3,887,208
UPIF contributions	459,046	438,581
Transfer to City of Gainesville General Fund	1,186,835	381,980
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, 2019 and 2018

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:

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

Gainesville Regional Utilities
Combining Statement of Net Position
September 30, 2019

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Assets						
Current assets:						
Cash and investment	$ 16,982,089	$ 2,047,970	$ 364,091	$ 5,137,845	$ 2,973,541	$ 27,505,536
Accounts receivable, net of allowance for uncollectible accounts	40,316,120	5,141,828	4,972,930	1,931,298	1,254,087	53,616,263
Inventories:						
Fuel	19,720,370	-	-	-	-	19,720,370
Materials and supplies	10,012,419	1,157,414	240,930	587,860	444,226	12,442,849
Fuel adjustment	2,843,816	-	-	43,779	-	2,887,595
Other assets and regulatory assets	854,582	141,342	97,742	1,038,868	165	2,132,699
Total current assets	90,729,396	8,488,554	5,675,693	8,739,650	4,672,019	118,305,312
Restricted assets:						
Utility deposits - cash and investments	6,405,775	546,357	436,661	274,298	-	7,663,091
Debt service - cash and investments	43,426,735	3,972,153	4,324,531	3,526,461	844,359	56,094,239
Rate stabilization - cash and investments	27,422,350	11,772,533	12,784,286	2,378,199	2,584,335	56,941,703
Construction fund - cash and investments	71,732,453	19,656,315	24,172,167	6,442,092	3,746,462	125,749,489
Utility plant improvement fund - cash and investments	14,240,071	5,489,995	2,939,464	4,230,031	787,725	27,687,286
Total restricted assets	163,227,384	41,437,353	44,657,109	16,851,081	7,962,881	274,135,808
Noncurrent assets:						
Net costs recoverable in future years - regulatory assets	31,162,525	-	-	-	-	31,162,525
Unamortized debt issuance costs - regulatory asset	7,526,133	776,246	1,013,556	460,648	402,659	10,179,242
Investment in The Energy Authority	1,545,971	-	-	795,408	-	2,341,379
Pollution remediation - regulatory asset	-	-	-	10,019,649		10,019,649
Other noncurrent assets and regulatory assets	4,982,675	764,970	911,675	347,442	254,453	7,261,215
Pension regulatory asset	49,350,796	10,547,317	13,114,617	4,781,125	4,222,692	82,016,547
Total noncurrent assets	94,568,100	12,088,533	15,039,848	16,404,272	4,879,804	142,980,557
Capital assets:						
Utility plant in service	1,969,572,454	304,232,166	400,681,222	100,418,249	80,324,143	2,855,228,234
Less: accumulated depreciation and amortization	(634,009,182)	(132,270,707)	(174,541,559)	(56,589,168)	(42,885,909)	(1,040,296,525)
	1,335,563,272	171,961,459	226,139,663	43,829,081	37,438,234	1,814,931,709
Construction in progress	29,412,105	11,930,316	24,957,877	4,045,456	945,676	71,291,430
Net capital assets	1,364,975,377	183,891,775	251,097,540	47,874,537	38,383,910	1,886,223,139
Total assets	1,713,500,257	245,906,215	316,470,190	89,869,540	55,898,614	2,421,644,816
Deferred outflows of resources:						
Unamortized loss on refundings of bonds	8,361,193	2,186,805	2,600,268	975,807	1,031,602	15,155,675
Accumulated decrease in fair value of hedging derivatives	58,031,342	8,744,008	8,189,059	2,303,539	1,305,690	78,573,638
General Employees' Pension plan costs	11,599,062	2,476,688	3,096,781	1,103,472	1,012,229	19,288,232
Other post-employment benefits plan	1,938,052	345,993	434,780	184,896	147,368	3,051,089
Total deferred outflows of resources	79,929,649	13,753,494	14,320,888	4,567,714	3,496,889	116,068,634
Total assets and deferred outflows of resources	$ 1,793,429,906	$ 259,659,709	$ 330,791,078	$ 94,437,254	$ 59,395,503	$ 2,537,713,450

Continued on next page.

Gainesville Regional Utilities
Combining Statement of Net Position (concluded)
September 30, 2019

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Liabilities						
Current liabilities:						
Accounts payable and accrued liabilities	$ 11,749,084	$ 1,778,197	$ 1,693,108	$ 649,919	$ 490,762	$ 16,361,070
Fuels payable	3,486,424	-	-	474,754	-	3,961,178
Intercompany loan	-	-	-	(3,500,000)	3,500,000	-
Due to other funds	6,362,339	(474,538)	424,727	(426,077)	(105,151)	5,781,300
Other liabilities and regulatory liabilities	843,689	72,831	570,900	190,509	53,887	1,731,816
Total current liabilities	22,441,536	1,376,490	2,688,735	(2,610,895)	3,939,498	27,835,364
Payable from restricted assets:						
Utility deposits	6,402,109	583,216	399,803	274,298	–	7,659,426
Accounts payable and accrued liabilities	2,274,826	1,396,864	1,855,722	79,933	(66,008)	5,541,337
Utilities system revenue bonds – current	18,488,568	1,165,667	986,755	761,760	702,250	22,105,000
Accrued interest payable	24,272,672	2,997,226	3,747,802	1,644,684	600,238	33,262,622
Other liabilities and regulatory liabilities	59,242	11,406	20,257	6,711	1,926	99,542
Total payable from restricted assets	51,497,417	6,154,379	7,010,339	2,767,386	1,238,406	68,667,927
Long-term debt:						
Utilities system revenue bonds	1,239,220,833	133,592,657	168,178,863	69,383,206	54,789,441	1,665,165,000
Unamortized bond premium/discount	84,709,935	5,201,267	8,804,990	3,250,931	443,885	102,411,008
Fair value of derivative instruments	59,503,652	9,153,660	8,682,193	2,467,547	1,292,359	81,099,411
Total long-term debt	1,383,434,420	147,947,584	185,666,046	75,101,684	56,525,685	1,848,675,419
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	60,584,438	12,490,768	15,581,023	5,827,530	5,083,054	99,566,813
Net other post-employment benefits liabilities	3,367,278	628,755	786,049	324,576	261,324	5,367,982
Other noncurrent liabilities and regulatory liabilities	2,670,527	694,863	804,338	288,271	252,312	4,710,311
Total noncurrent liabilities	68,622,203	14,412,712	17,717,743	7,468,462	5,601,986	113,823,106
Total liabilities	1,525,995,576	169,891,165	213,082,863	82,726,637	67,305,575	2,059,001,816
Deferred inflows of resources:						
Rate stabilization	27,546,963	11,781,851	12,790,971	2,365,401	(910,798)	53,574,388
General Employees' Pension plan costs	365,420	533,238	630,374	57,066	151,868	1,737,966
Total deferred inflows of resources	27,912,383	12,315,089	13,421,345	2,422,467	(758,930)	55,312,354
Net position:						
Net investment in capital assets	100,323,336	64,367,822	98,024,317	(8,170,002)	(12,723,560)	241,821,913
Restricted	33,265,470	6,417,957	3,545,437	6,124,152	4,541,019	53,894,035
Unrestricted	105,933,141	6,667,676	2,717,116	11,334,000	1,031,399	127,683,332
Total net position	239,521,947	77,453,455	104,286,870	9,288,150	(7,151,142)	423,399,280
Total liabilities, deferred inflows of resources and net position	$ 1,793,429,906	$ 259,659,709	$ 330,791,078	$ 94,437,254	$ 59,395,503	$ 2,537,713,450

Gainesville Regional Utilities
Combining Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2019

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Operating revenue:						
Sales and service charges	$ 274,637,267	$ 35,135,407	$ 40,278,405	$ 23,527,764	$ 11,198,871	$ 384,777,714
Transfers from (to) rate stabilization	1,175,150	(1,434,068)	(2,165,512)	6,907,847	471,447	4,954,864
Amounts to be recovered from future revenue	18,071,378	-	-	-	-	18,071,378
Other operating revenue	3,513,636	1,785,768	3,841,675	(46,721)	(205,414)	8,888,944
Total operating revenues	297,397,431	35,487,107	41,954,568	30,388,890	11,464,904	416,692,900
Operating expenses:						
Operation and maintenance	156,215,287	12,712,054	15,732,430	12,188,826	6,307,390	203,155,987
Administrative and general	17,119,870	4,582,322	4,281,263	2,638,936	784,281	29,406,672
Depreciation and amortization	66,825,283	10,145,689	12,615,035	4,130,291	3,620,386	97,336,684
Total operating expenses	240,160,440	27,440,065	32,628,728	18,958,053	10,712,057	329,899,343
Operating income	57,236,991	8,047,042	9,325,840	11,430,837	752,847	86,793,557
Non-operating income (expense):						
Interest income	2,803,885	687,199	775,582	399,122	108,452	4,774,240
Interest expense, net of AFUDC	(44,760,968)	(5,540,584)	(6,655,756)	(3,074,887)	(2,215,332)	(62,247,527)
Other interest related income, BABs	2,873,052	811,634	925,348	601,916	-	5,211,950
Other expense	(4,148,229)	(2,918,363)	(1,656,662)	(222,802)	(82,953)	(9,029,009)
Total non-operating expenses	(43,232,260)	(6,960,114)	(6,611,488)	(2,296,651)	(2,189,833)	(61,290,346)
Income before capital contributions and transfers	14,004,731	1,086,928	2,714,352	9,134,186	(1,436,986)	25,503,211
Capital contributions:						
Contributions from third parties	183,434	1,584,047	2,386,934	-	-	4,154,415
Reduction of plant cost recovered through contributions	(183,434)	-	-	-	-	(183,434)
Net capital contributions	-	1,584,047	2,386,934	-	-	3,970,981
Transfers from (to) City of Gainesville General Fund	(15,915,868)	(5,356,072)	(5,860,672)	(9,965,554)	(1,186,835)	(38,285,001)
Change in net position	(1,911,137)	(2,685,097)	(759,386)	(831,368)	(2,623,821)	(8,810,809)
Net position – beginning of year, restated	241,433,084	80,138,552	105,046,256	10,119,518	(4,527,321)	432,210,089
Net position – end of year	$ 239,521,947	$ 77,453,455	$ 104,286,870	$ 9,288,150	$ (7,151,142)	$ 423,399,280

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

	Balance September 30, 2018	Additions	Sales, Retirements, and Transfers	Balance September 30, 2019
Plant in service				
Electric utility system:				
Production plant	$ 1,425,414,837	$ 15,911,171	$ 4,930,383	$ 1,436,395,625
Transmission and distribution plant	388,778,717	15,823,562	2,628,721	401,973,558
General and common plant	140,435,994	2,209,762	11,442,485	131,203,271
Total electric system	1,954,629,548	33,944,495	19,001,589	1,969,572,454
Water utility system:				
Supply, pumping, and treatment plant	76,495,631	12,929,928	2,316,053	87,109,506
Transmission and distribution plant	194,551,714	7,961,706	5,038,507	197,474,913
General plant	19,501,786	434,397	288,436	19,647,747
Total water system	290,549,131	21,326,031	7,642,996	304,232,166
Wastewater utility system:				
Pumping and treatment plant	138,211,730	6,752,018	2,270,501	142,693,247
Collection plant	182,673,903	18,387,530	3,675,052	197,386,381
Reclaimed water plant	35,344,998	357,681	-	35,702,679
General plant	24,759,052	587,684	447,821	24,898,915
Total wastewater system	380,989,683	26,084,913	6,393,374	400,681,222
Gas utility system:				
Distribution plant	74,966,390	5,817,350	130,292	80,653,448
General plant	15,110,538	194,302	190,675	15,114,165
Plant acquisition adjustment	4,650,636	-	-	4,650,636
Total gas system	94,727,564	6,011,652	320,967	100,418,249
GRUCom utility system:				
Distribution plant	59,331,488	5,993,861	-	65,325,349
General plant	14,352,189	751,306	104,701	14,998,794
Total GRUCom system	73,683,677	6,745,167	104,701	80,324,143
Total plant in service	$ 2,794,579,603	$ 94,112,258	$ 33,463,627	$ 2,855,228,234
Construction in progress				
Electric system	$ 37,911,701	$ 25,451,246	$ 33,950,842	$ 29,412,105
Water system	20,036,216	13,733,564	21,839,464	11,930,316
Wastewater system	30,439,153	20,771,536	26,252,812	24,957,877
Gas system	6,291,710	3,765,398	6,011,652	4,045,456
GRUCom system	5,417,898	2,266,599	6,738,821	945,676
Total construction in progress	$ 100,096,678	$ 65,988,343	$ 94,793,591	$ 71,291,430

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

	Balance September 30, 2018	Additions	Sales, Retirements, and Transfers	Balance September 30, 2019
Electric utility system:				
Production plant	$ 325,224,274	$ 46,001,548	$ 1,709,899	$ 369,515,923
Transmission and distribution plant	186,071,976	14,938,516	1,776,728	199,233,764
General and common plant	70,817,607	5,421,888	10,980,000	65,259,495
Total electric system	582,113,857	66,361,952	14,466,627	634,009,182
Water utility system:				
Supply, pumping, and treatment plant	29,417,647	3,339,564	1,572,204	31,185,007
Transmission and distribution plant	90,180,167	5,752,870	3,289,459	92,643,578
General plant	7,595,156	1,052,851	205,885	8,442,122
Total water system	127,192,970	10,145,285	5,067,548	132,270,707
Wastewater utility system:				
Pumping and treatment plant	66,208,453	4,437,309	1,897,869	68,747,893
Collection plant	85,155,623	5,764,752	2,712,909	88,207,466
Reclaimed water plant	5,088,380	894,462	-	5,982,842
General plant	10,445,292	1,518,915	360,849	11,603,358
Total wastewater system	166,897,748	12,615,438	4,971,627	174,541,559
Gas utility system:				
Distribution plant	42,645,677	3,362,900	111,769	45,896,808
General plant	5,410,341	771,456	136,008	6,045,789
Plant acquisition adjustment	4,650,636	-	4,065	4,646,571
Total gas system	52,706,654	4,134,356	251,842	56,589,168
GRUCom utility system:				
Distribution plant	37,181,700	2,897,637	-	40,079,337
General plant	2,131,420	722,749	47,597	2,806,572
Total GRUCom system	39,313,120	3,620,386	47,597	42,885,909
Total depreciation and amortization	$ 968,224,349	$ 96,877,417	$ 24,805,241	$ 1,040,296,525

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, 2019, and have issued our report thereon dated February 24, 2020.

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 contro*l 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 Virchow Krause, LLP

Madison, Wisconsin
February 24, 2020