FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

GAINESVILLE REGIONAL UTILITIES
GAINESVILLE, FLORIDA

SEPTEMBER 30, 2017 AND 2016

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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 year ended September 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Gainesville Regional Utilities's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gainesville Regional Utilities as of September 30, 2017, and the respective changes in financial position and cash flows thereof for the year 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, FL, as of September 30, 2017 and 2016 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 18 to the financial statements, net position as of September 30, 2016 has been restated to correct a material misstatement related to recording a prior period loss on utility plant retirements on the statement of net position as opposed to a current year expense. Our opinion is not modified with respect to this matter.

Other Matters

The financial statements of the Gainesville Regional Utilities as of September 30, 2016, prior to restatement, were audited by other auditors whose report dated March 6, 2017, expressed an unmodified opinion on those statements.

As part of the audit of the September 30, 2017 financial statements, we also audited the adjustment described in Note 18 that was applied to restate the 2016 financial statements. In our opinion, such adjustment is appropriate and has been properly applied. We were not engaged to audit, review, or apply any procedures to the 2016 financial statements of the Gainesville Regional Utilities other than with respect to the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

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 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. The Gainesville Regional Utilities omitted these schedules as they are included in the City's comprehensive annual financial report. Our opinion on the financial statements is not affected by this missing information.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated March 29, 2018 on our consideration of the overall City of Gainesville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, including those systems applicable to Gainesville Regional Utilities. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Gainesville's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 29, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

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

We offer readers of GRU's financial statements this management's discussion and analysis of the financial activities of GRU for the fiscal years ended September 30, 2017, 2016, and 2015. It should be read in conjunction with the financial statements that follow this section.

Required Financial Statements

Statement of Net Position

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

Statement of Revenues, Expenses, and Changes in Net Position

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

Statement of Cash Flows

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

Notes to Financial Statements

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

Financial Analysis of Gainesville Regional Utilities

GRU's net position increased $1.1 million, decreased $400,000, and decreased $700,000 for fiscal years 2017, 2016 and 2015, 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

	2017	Restated 2016	**Restated** 2015
Current assets	**$124,885**	$114,087	$107,207
Restricted assets	**159,000**	202,918	240,828
Noncurrent assets	**159,765**	130,447	113,580
Capital assets, net	**2,082,742**	2,103,349	2,126,801
Deferred outflows of resources	**106,924**	127,084	123,985
Total assets and deferred outflows of resources	**$2,633,316**	$2,677,885	$2,712,401
Current liabilities	**$61,325**	$55,125	$53,928
Payable from restricted assets	**61,564**	158,745	55,277
Long-term debt	**1,906,520**	1,873,880	2,004,375
Noncurrent liabilities	**86,706**	74,928	91,287
Deferred inflows of resources	**80,705**	79,823	71,715
Total liabilities and deferred inflows of resources	**2,196,820**	2,242,501	2,276,582
Net position:			
Net investment in capital assets	**226,493**	223,743	248,958
Restricted	**60,230**	82,186	77,427
Unrestricted	**149,773**	129,455	109,434
Total net position	**436,496**	435,384	435,819
Total liabilities, deferred inflows of resources and net position	**$2,633,316**	$2,677,885	$2,712,401

Financial Analysis of Gainesville Regional Utilities *(Concluded)*

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

	2017	Restated 2016	Restated 2015
Operating revenue	**$460,541**	$433,818	$425,941
Other income, BABs	**5,308**	5,373	5,345
Other income (expense)	**(83)**	13,987	8,290
Total revenues	**465,766**	453,178	439,576
Operating expenses	**396,702**	379,620	365,930
Interest expense, net of AFUDC	**39,715**	40,463	40,857
Total expenses	**436,417**	420,082	406,787
Income before capital contributions and transfers	**29,349**	33,095	32,789
Capital contributions, net	**7,577**	1,464	1,404
Transfer to City of Gainesville General Fund	**(35,814)**	(34,994)	(34,892)
Change in net position	**1,112**	(435)	(699)
Net position, beginning of year, restated	**435,384**	435,819	436,518
Net position, end of year, restated	**$436,496**	$435,384	$435,819

Financial Highlights

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

- Gross utility plant in service increased $128 million, or 6.9%, in fiscal year 2017. The increase was due primarily to completion of water and waste water pumping and treatment facilities. Gross utility plant increased $83 million, or 4.7% in fiscal year 2016 due primarily to completion of generation, distribution, and control systems facilities, and increased $59 million, or 2.2% in fiscal year 2015. See Capital Assets within this Management's Discussion and Analysis section, Note 4 Capital Assets, and Note 6 Capital Lease for additional information.
- Long-term debt decreased $18.1 million, or 1.6%, in fiscal year 2017, due to the issuance of $5 million of new debt and scheduled principal payments. Long-term debt decreased $22.2 million, or 2.3%, in fiscal year 2016, due to scheduled principal payments. Long-term debt increased $22.8 million, or 2.4%, in fiscal year 2015 due to the issuance of utility system revenue bonds and commercial paper notes in December 2014. See Long-Term Debt within this Management's Discussion and Analysis section, Note 6 Capital Lease, and Note 8 Long-Term Debt for additional information.

Financial Highlights *(Concluded)*

- GRU is completing remediation efforts at a former manufactured gas plant site. The costs incurred to date total $29.1 million and GRU estimates that total project costs will be approximately $29.9 million. GRU accrued a regulatory asset and liability to account for the cost and cost recovery of the expense, which is being recognized as customer revenues are received. See Note 14 Commitments and Contingencies for additional information.

- Sales and service charges increased $10.4 million or 2.7%, increased $900,000 or 0.3%, and increased $10.2 million or 2.8% in fiscal years 2017, 2016, and 2015, respectively. The increase in sales and service charges in fiscal years 2017 and 2016 is the result of increases associated with sales and modest base rate increases in the water, wastewater, and gas systems offset by a reduction in the fuel adjustment rates. The increase in sales and service charges in fiscal year 2015 is the result of base rate and fuel adjustment increases implemented in October 2014.

- Operating expenses increased $17.1 million or 4.5%, increased $13.7 million or 3.7%, and increased $25.7 million or 7.6% in fiscal years 2017, 2016, and 2015, respectively. 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 a biomass facility. The increase in operating expenses in fiscal years 2016 and 2015 is due primarily to power purchased from a biomass facility.

- Transfers from rate stabilization were $11.7 million in fiscal year 2017. $2.4 million and $7.7 million were transferred to rate stabilization in fiscal year 2016 and 2015, respectively.

- The number of customers for electric services increased 1.6%, water services increased 0.8%, wastewater services increased 1.3%, and gas services increased 1.3% in fiscal year 2017. The number of customers for electric services increased 0.3%, water services increased 0.9%, wastewater services increased 1%, and gas services increased 1% in fiscal year 2016. The number of customers for electric services increased 0.8%, water services increased 0.9%, wastewater services increased 1%, and gas services increased 1.1% in fiscal year 2015.

  On October 1, 2017, GRU implemented a 2% increase in the revenue requirement for the electric system. There were no increases or decreases in the revenue requirements in any of the other systems. On October 1, 2016, GRU implemented a 3% increase in the revenue requirement for the water system, a 3% increase for the wastewater system, and a 9% increase for the gas system.

Capital Assets

GRU's investment in capital assets as of September 30, 2017, was $2.1 billion (net of accumulated depreciation and amortization). The decrease in net capital assets for fiscal year 2017 was 1%. In fiscal year 2016, the decrease in net capital assets was 1.1%. The net decrease in capital assets for 2015 was 1.3%,

The following table summarizes GRU's capital assets, net of accumulated depreciation and amortization, for the years ended September 30, 2017, 2016, and 2015 (in thousands):

Gainesville Regional Utilities
Capital Assets
(net of accumulated depreciation)

	2017	2016	2015
Generation	**$1,253,723**	$1,279,183	$1,313,333
Transmission, distribution, and collection	**492,338**	448,086	445,029
Treatment	**125,998**	119,355	81,942
General plant	**118,585**	116,844	122,419
Construction work in progress	**92,098**	139,881	164,078
Total net utility plant	**$2,082,742**	$2,103,349	$2,126,801

Major capital asset events during the fiscal years include:

- GRU initially recorded a capital lease asset during fiscal year 2014 when GREC began commercial operations in December 2013. The capital lease asset was recorded at $1 billion at September 30, 2017, 2016, and 2015, respectively. See Note 6 Capital Lease and Note 19 Subsequent Events for additional information.
- Electric transmission and distribution expansion was $12.7 million in fiscal year 2017, $13.5 million in fiscal year 2016, and $11.4 million in fiscal year 2015. For 2017, approximately $4.5 million was spent on underground system improvements.
- Electric generation capital expenditures were $14.1 million for fiscal year 2017. These expenditures included $1.2 million for the John R Kelly (JRK) generating station and $12.9 million for the Deerhaven (DH) generating station.
- Water capital expenditures were $6.3 million in fiscal year 2017 with $1.8 million for supply, pumping, and treatment facilities and $3.2 million for transmission and distribution.
- Wastewater capital expenditures were $12.8 million in 2017. This included $3.1 million spent on treatment plant improvements and $7.7 million in collection improvements.

Capital Assets *(Concluded)*

- Gas distribution expansion expenditures were $3 million in fiscal year 2017, $3.1 million in fiscal year 2016 and $3.8 million in fiscal year 2015. This expansion included expenditures of $800,000 in gas distribution mains and $800,000 in residential gas services.

- Telecommunication fiber and electronics expansion were $1.8 million in fiscal year 2017 which included $600,000 in fiber and related infrastructure installation and $500,000 in electronics upgrades.

Additional information may be found in Note 4 Capital Assets.

Long-Term Debt

At September 30, 2017, 2016, and 2015, GRU had total long-term debt outstanding of $1.9 billion, comprised of utilities system revenue bonds, commercial paper notes, and a capital lease (in thousands).

Gainesville Regional Utilities

Outstanding Debt at September 30:

	2017	2016	2015
Utilities system revenue bonds	**$ 871,540**	$ 889,075	$ 905,880
Commercial paper notes	**58,900**	59,500	64,900
Capital lease	**941,269**	959,679	977,280
Total	**$ 1,871,709**	$ 1,908,254	$ 1,948,060

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

- During fiscal year 2017, GRU reduced utilities system revenue bonds and commercial paper notes by $24 million through scheduled principal payments.
- During fiscal year 2017, GRU issued $5 million in tax exempt commercial paper to support construction costs for water and wastewater systems.
- During fiscal year 2017, GRU replaced the liquidity facility for the 2008B revenue bonds from Bank of Montreal (BMO) to Barclays as well as replaced the liquidity facility for the 2012B revenue bonds from Sumitomo Mitsui Banking Corporation (SMBC) to Citibank. GRU also extended a letter of credit with State Street Bank and Trust Company for the taxable commercial paper line of $25 million.
- As a result of the start of commercial operation of the GREC biomass plant in December 2013, GRU recorded a capital lease liability of $941.3 million, $959.7 million, and $977.3 million at September 30, 2017, 2016, and 2015, respectively. See Note 6 Capital Lease and Note 19 Subsequent Events for additional information.

Long-Term Debt *(Concluded)*

- The Utility has ratings of AA, Aa3, and AA with Standard and Poor's, Moody's Investor Service, and/or Fitch Ratings, respectively, for utility system revenue bonds. The Utility has ratings of P-2 or better, A-2 or better, and F2 or better with Moody's Investors Service, Standard & Poor's, and Fitch Ratings, respectively, for commercial paper notes. In September 2017, Moody's Investors Service adjusted GRU's long term rating to Aa3 from Aa2 due to a revised approach to their rating methodology.

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

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

- GRU management, with the approval of the City Commission, entered into a long-term contract to obtain dependable capacity, energy, and environmental attributes from GREC's 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 has 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 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. See Note 14 Commitments and Contingencies and Note 19 Subsequent Events for additional information.

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

- 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.

- On October 26, 2016, the EPA published an update to the Cross-State Air Pollution Rule ("CSAPR"). For three states, including Florida, the EPA is removing them from the CSAPR ozone season NOx trading program because modeling for the Final Rule indicates that these states do not contribute significantly to ozone air quality problems in downwind states. Therefore, GRU will not have to meet any ozone season limits in 2018 and probably 2019.

- In late 2011, the EPA promulgated the Mercury and Air Toxics Standards (MATS) to reduce emissions of toxic air pollutants from power plants which faced several legal challenges including a decision on June 29, 2015, by the U.S. Supreme Court reversing the District of Columbia Circuit Court's decision to uphold the EPA's rule establishing the standards. But since the Supreme Court did not vacate the rule, the MATS rule remained in effect. On April 14, 2016, the Administrator of the EPA signed the final supplemental finding in the MATS rule and concluded it is proper to regulate mercury emissions from power plants. Challenges to the rule were filed by various parties and on April 27, 2017, the D.C. Circuit Court granted the EPA's motion to postpone oral argument in these challenges and directed the EPA to file status reports with the courts every 90 days. GRU's Deerhaven (DH) Unit #2 is the only generation unit affected by the MATS rule and air quality control systems are currently in place at DH which enables this station to comply with these standards at a known cost for operations and reagents. See Note 14 Commitments and Contingencies for additional information.

- Legislation and regulation at the federal level has been proposed to mandate the use of renewable energy and to constrain the emission of greenhouse gases. GRU's institution of a solar feed-in-tariff and purchase of a 102.5 megawatt biomass fueled power plant will hedge against these uncertainties. See Note 19, Subsequent Event, for additional information.

GRU's long-term energy supply strategy is to encourage maximum cost effective energy conservation, renewable energy in combination with GRU owned generation, and purchased power while managing potential regulatory requirements. Based on the most recent forecasts, GRU has adequate reserves of generating capacity to meet forecasted loads plus a reserve margin through 2022. This forecast incorporates new population forecasts and changed economic circumstances.

Requests for Information

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

FINANCIAL STATEMENTS

Gainesville Regional Utilities
Statements of Net Position
September 30, 2017 and 2016

	2017	Restated 2016
Assets		
Current assets:		
Cash and investments	**$ 49,488,170**	$ 61,091,852
Accounts receivable, net of allowance for uncollectible accounts of $711,612 and $837,332, respectively	**52,423,319**	49,351,371
Inventories:		
Fuel	**7,697,011**	8,162,677
Materials and supplies	**7,754,117**	6,946,095
Fuel adjustment	**4,729,317**	(14,831,564)
Other assets and regulatory assets	**2,793,639**	3,366,191
Total current assets	**124,885,573**	114,086,622
Restricted assets:		
Utility deposits - cash and investments	**9,998,718**	9,891,380
Debt service - cash and investments	**42,322,319**	41,714,440
Rate stabilization - cash and investments	**62,431,906**	74,262,078
Construction fund - cash and investments	**8,828,762**	18,258,514
Utility plant improvement fund - cash and investments	**35,418,075**	58,792,082
Total restricted assets	**158,999,780**	202,918,494
Noncurrent assets:		
Net costs recoverable in future years - regulatory asset	**61,574,434**	46,423,923
Unamortized debt issuance costs - regulatory asset	**5,821,241**	5,821,432
Investment in The Energy Authority	**2,093,983**	2,102,681
Pollution remediation - regulatory asset	**12,133,159**	12,826,026
Other noncurrent assets and regulatory assets	**5,000,848**	7,156,828
Pension regulatory asset	**73,141,512**	56,115,877
Total noncurrent assets	**159,765,177**	130,446,767
Capital assets:		
Utility plant in service	**1,994,737,580**	1,866,654,212
Capital lease	**1,006,808,754**	1,006,808,754
Less: accumulated depreciation and amortization	**(1,010,902,213)**	(909,994,667)
	1,990,644,121	1,963,468,299
Construction in progress	**92,098,075**	139,880,802
Net capital assets	**2,082,742,196**	2,103,349,101
Total assets	**2,526,392,726**	2,550,800,984
Deferred outflows of resources:		
Unamortized loss on refundings of bonds	**21,372,280**	24,766,323
Accumulated decrease in fair value of hedging derivatives	**57,652,361**	81,362,499
Pension costs	**27,899,197**	20,954,810
Total deferred outflows of resources	**106,923,838**	127,083,632
Total assets and deferred outflows of resources	**$ 2,633,316,564**	$ 2,677,884,616

Continued on next page.

See accompanying notes.

Gainesville Regional Utilities
Statements of Net Position (concluded)
September 30, 2017 and 2016

	2017	Restated 2016
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 29,457,057**	$ 21,154,977
Fuels payable	**13,305,897**	12,170,813
Due to other funds	**(873,583)**	1,489,944
Capital lease – current portion	**19,255,473**	18,409,781
Other liabilities and regulatory liabilities	**179,859**	1,899,847
Total current liabilities	**61,324,703**	55,125,362
Payable from restricted assets:		
Utility deposits	**9,532,684**	9,879,734
Accounts payable and accrued liabilities	**9,971,787**	9,213,425
Utilities system revenue bonds – current portion	**18,120,000**	107,535,000
Commercial paper notes – current portion	**5,900,000**	13,600,000
Accrued interest payable	**18,039,204**	18,516,765
Total payable from restricted assets	**61,563,675**	158,744,924
Long-term debt:		
Utilities system revenue bonds	**853,420,000**	781,540,000
Commercial paper notes	**53,000,000**	45,900,000
Capital lease	**922,013,598**	941,269,071
Unamortized bond premium/discount	**16,902,387**	17,990,208
Fair value of derivative instruments	**61,184,080**	87,180,294
Total long-term debt	**1,906,520,065**	1,873,879,573
Noncurrent liabilities:		
Reserve for insurance claims	**3,337,000**	3,337,000
Reserve for environmental liability	**665,000**	266,000
Net pension liability	**82,704,362**	71,325,377
Total noncurrent liabilities	**86,706,362**	74,928,377
Total liabilities	**2,116,114,805**	2,162,678,236
Deferred inflows of resources:		
Rate stabilization	**62,369,039**	74,077,388
Pension costs	**18,336,347**	5,745,310
Total deferred inflows of resources	**80,705,386**	79,822,698
Net position		
Net investment in capital assets	**226,493,152**	223,742,479
Restricted	**60,230,091**	82,186,093
Unrestricted	**149,773,130**	129,455,110
Total net position	**436,496,373**	435,383,682
Total liabilities, deferred inflows of resources and net position	**$ 2,633,316,564**	$ 2,677,884,616

See accompanying notes.

Gainesville Regional Utilities
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2017 and 2016

	2017	Restated 2016
Operating revenue:		
Sales and service charges	**$ 401,190,960**	$ 390,812,821
Transfers from/(to) rate stabilization	**11,708,349**	(2,362,847)
Amounts to be recovered from future revenue	**33,560,292**	33,560,292
Other operating revenue	**14,081,125**	11,807,541
Total operating revenues	**460,540,726**	433,817,807
Operating expenses:		
Operation and maintenance	**250,632,067**	230,128,599
Administrative and general	**40,667,600**	50,506,178
Depreciation and amortization	**105,402,712**	98,984,763
Total operating expenses	**396,702,379**	379,619,540
Operating income	**63,838,347**	54,198,267
Non-operating income (expense):		
Interest expense, net of AFUDC	**(39,714,579)**	(40,463,217)
Other interest related income, BABs	**5,308,201**	5,372,529
Other income (expense)	**(82,960)**	13,987,579
Total non-operating expense	**(34,489,338)**	(21,103,109)
Income before capital contributions and transfers	**29,349,009**	33,095,158
Capital contributions:		
Contributions from third parties	**7,636,082**	1,659,399
Reduction of plant costs recovered through contributions	**(58,390)**	(194,936)
Net capital contributions	**7,577,692**	1,464,463
Transfer to City of Gainesville General Fund	**(35,814,010)**	(34,994,591)
Change in net position	**1,112,691**	(434,970)
Net position – beginning of year, restated	**435,383,682**	435,818,652
Net position – end of year, restated	**$ 436,496,373**	$ 435,383,682

See accompanying notes.

Gainesville Regional Utilities
Statements of Cash Flows
For the Years Ended September 30, 2017 and 2016

	2017	Restated 2016
Operating activities:		
Cash received from customers	**$ 397,879,291**	$ 390,117,786
Cash payments to suppliers for goods and services	**(262,733,577)**	(202,870,326)
Cash payments to employees for services	**(56,733,264)**	(54,591,582)
Cash payments for operating transactions with other funds	**(7,383,825)**	(6,629,986)
Other operating receipts	**28,321,636**	9,444,694
Net cash provided by operating activities	**99,350,261**	135,470,586
Noncapital financing activities:		
Transfer to City of Gainesville General Fund	**(35,814,010)**	(34,994,591)
Net cash used in noncapital financing activities	**(35,814,010)**	(34,994,591)
Capital and related financing activities:		
Principal repayments and refunding on long-term debt, net	**(23,135,000)**	(22,205,000)
Interest paid on long-term debt	**(40,192,140)**	(38,101,113)
Proceeds from interest rebates, BABs	**5,308,201**	5,372,529
Acquisition and construction of fixed assets (including allowance for funds used during construction)	**(69,689,834)**	(77,099,955)
Proceeds from new debt and commercial paper	**5,000,000**	-
Other income	**3,151,706**	3,149,084
Net cash used in capital and related financing activities	**(119,557,067)**	(128,884,455)
Investing activities:		
Interest received	**1,314,281**	661,066
Purchase of investments	**(285,349,954)**	(390,235,264)
Investments in The Energy Authority	**(6,075,313)**	(6,787,229)
Distributions from The Energy Authority	**6,084,011**	7,246,426
Proceeds from investments	**327,003,774**	375,286,264
Proceeds from CR3 settlement	**-**	10,177,429
Net cash used/(provided) by investing activities	**42,976,799**	(3,651,308)
Net change in cash and cash equivalents	**(13,044,016)**	(32,059,768)
Cash and cash equivalents, beginning of year	**49,535,773**	81,595,541
Cash and cash equivalents, end of year	**$ 36,491,757**	$ 49,535,773

Continued on next page.
See accompanying notes.

Gainesville Regional Utilities
Statements of Cash Flows (concluded)
For the Years Ended September 30, 2017 and 2016

		2017		Restated 2016
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	**$**	**63,838,347**	$	54,198,267
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization		**105,402,712**		98,984,763
Net costs recoverable in future years		**(15,150,511)**		(15,959,059)
Change in:				
Accounts receivable		**(3,071,948)**		(1,957,090)
Inventories		**(342,356)**		7,711,411
Other assets and regulatory assets		**(166,934)**		429,046
Noncurrent assets		**101,488**		998,220
Payables and accrued liabilities		**9,437,164**		7,864,848
Due to other funds of the City		**(2,363,527)**		(2,630,122)
Fuel adjustment		**(19,560,881)**		(3,968,160)
Payable from restricted assets		**(26,624,013)**		(11,964,460)
Other liabilities and regulatory liabilities		**(201,210)**		(1,861,980)
Utility deposits		**(239,721)**		1,262,055
Rate stabilization		**(11,708,349)**		2,362,847
Net cash provided by operating activities	**$**	**99,350,261**	$	135,470,586
Non-cash capital and related financing activities, and investing activities:				
Contribution of capital assets	**$**	**7,577,692**	$	1,464,463
Net costs recoverable in future years	**$**	**(15,150,511)**	$	(15,959,059)
Change in capital lease liability	**$**	**(18,409,781)**	$	(17,601,233)
Acquisition of utility plant in service with construction fund payable	**$**	**758,362**	$	4,200,338
Change in ineffective portion of hedging derivatives	**$**	**2,536,638**	$	(693,448)
Change in accumulated decrease in fair value of hedging derivatives - interest rate swaps	**$**	**23,459,575**	$	(9,444,078)
Change in accumulated decrease in fair value of hedging derivatives - fuel options and futures	**$**	**250,563**	$	1,731,592
Change in fair market value of investments	**$**	**(1,179,432)**	$	215,968
Change in fair market value of hedging derivatives	**$**	**(25,996,214)**	$	10,137,527
Other	**$**	**273,653**	$	(2,303,123)

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

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

System of Accounts and Basis of Accounting

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

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

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

1. Summary of Significant Accounting Policies (continued)

Current GASB Pronouncement Implementations

GASB Statement No. 74, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plan,* as they relate to certain other postemployment benefit ("OPEB") plans that are administered through trusts or equivalent arrangements. This Statement requires more extensive note disclosures and other information related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Implementation of this guidance did not have any significant impact on GRU's financial statements.

GASB Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73* - The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. As of the September 30, 2017, GRU has adopted this Statement in the calculation of pension assets and liabilities.

Future GASB Pronouncement Implementations

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, including the recognition and measurement of liabilities, deferred outflows of resources, deferred inflows of resources and expense. For each qualifying plan providing postemployment benefits other than pensions, employers are required to report the difference between the actuarial OPEB liability and the related plan's fiduciary net position as the net OPEB liability on the statement of net position. Previously, a liability was recognized only to the extent that contributions made to each plan were exceeded by the actuarially calculated contributions for those plans. Additionally, Statement No. 75 sets forth note disclosure and required supplementary disclosure requirements for defined contribution OPEB. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

1. Summary of Significant Accounting Policies (continued)

Future GASB Pronouncement Implementations (continued)

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* - The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

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

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

GASB Statement No. 85, *Omnibus 2017* - The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). 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 (concluded)

GASB Statement No. 86, *Certain Debt Extinguishment Issues* - The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

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

Rates and Regulation

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

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

1. Summary of Significant Accounting Policies (continued)

Funds in Accordance with the Resolution

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

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

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

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

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

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

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

Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 presentation.

Statement of Cash Flows

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

Fuel Inventories

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

1. Summary of Significant Accounting Policies (continued)

Materials and Supplies Inventories

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

Investments

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

Costs Recoverable in Future Years

The Power Purchase Agreement (PPA) with the Gainesville Renewable Energy Center (GREC) is recorded as a capital lease. Activity related to this lease generates a non-cash flow related to depreciation expense which is recorded as net costs recoverable in future years. These net costs recoverable in future years represent the amount by which depreciation expense exceeds principal repayment on the capital lease obligation of $15.1 million and $16 million for the years ended September 30, 2017 and 2016, respectively.

Capital Assets and Depreciation

Capital assets are recorded at historical cost and include utility plant and general plant assets. The costs of capital assets include material, labor, vehicle and equipment usage, related overhead items, capitalized interest, and certain administrative and general expenses. Maintenance and replacements of minor items are charged to operations and maintenance expenses. When units of depreciable property are retired, the original cost less salvage value, is charged to accumulated depreciation if there is outstanding debt that originally constructed or purchased that asset. If there is no longer outstanding debt the net book value less salvage value is recorded as a gain or loss in the income statement. Removal cost of the old asset is added to the cost of constructing the new asset and amortized over the life of that asset. Cost of removal of an asset that is not replaced with a new asset is recorded as a gain or loss in the income statement. GRU has a capitalization threshold of $2,500 for general plant assets and no capitalization threshold for utility plant.

Depreciation of capital assets is computed using the straight-line method over the estimated lives of the assets ranging from 2 to 86 years. The overall depreciation rate was 3.60% and 3.28% for the periods ending September 30, 2017 and 2016, respectively.

1. Summary of Significant Accounting Policies (continued)

Allowance for Funds Used During Construction (AFUDC)

An allowance for interest on borrowed funds used during construction of $1.5 million and $1.1 million for the years ended September 30, 2017 and 2016, 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% for fiscal years 2017 and 2016.

Contributions in Aid of Construction

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

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

Hedging Derivative Instruments

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

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

1. Summary of Significant Accounting Policies (continued)

Deferred Outflows of Resources

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

Unamortized loss on refunding of bonds

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

Accumulated decrease in fair value of hedging derivatives

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

Unrealized contributions and losses related to pension

Recognition of deferred outflows of resources related to pension costs totaled $27.9 million and $21 million as of September 30, 2017 and 2016, respectively. See Note 15 Retirement Plan for additional information.

Deferred Inflows of Resources

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

Rate stabilization

GRU designs its rates to recover costs of providing services. In order to stabilize future rate increases or decreases, GRU determines a rate stabilization amount to be charged or credited to revenues on an annual basis. There were rate stabilization transfers of $11.7 million from and additions of $2.4 million to for the years ended September 30, 2017 and 2016, respectively. These amounts are reflected as increases or decreases in deferred inflows of resources – rate stabilization in the accompanying statements of net position.

Unrealized gains related to pension

Recognition of deferred inflows of resources related to unrealized gains for the pension plan totaled $18.3 million and $5.7 million as of September 30, 2017 and 2016, respectively.

1. Summary of Significant Accounting Policies (continued)

Net Position

GRU classifies net position into three components as follows:

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

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

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

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

Use of Estimates

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

Revenue Recognition

Revenue is recognized when earned. GRU accrues for services rendered but unbilled, which totaled approximately $13.8 million and $14.4 million at September 30, 2017 and 2016, respectively.

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

1. Summary of Significant Accounting Policies (concluded)

Pledged Revenues

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

Operating, Non-operating Revenues

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

Transactions with the City

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

Below is a summary of significant transactions:

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

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

- Operating transfer to the General Fund – GRU makes payments to the City's General Fund from operating revenues. See Note 13 Transfer to City of Gainesville General Fund for additional information.

2. Deposits and Investments

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

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

As of September 30, 2017, 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	$ 74,682	$ 74,682	$ -	$ -
Corporate bonds	28,214	4,525	23,689	-
U.S. agencies	61,620	15,973	45,647	-
U.S. bonds	8,498	1,498	7,000	-
Total	$ 173,014	$ 96,678	$ 76,336	$ -

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

		Maturities in Years		
	Fair Value	**Less than 1**	**1-5**	**Over 5**
Investment type:				
Commercial paper	$ 119,680	$ 119,680	$ -	$ -
Corporate bonds	26,559	3,012	23,547	-
U.S. agencies	61,114	-	55,113	6,001
U.S. bonds	8,664	-	8,664	-
Total	$ 216,017	$ 122,692	$ 87,324	$ 6,001

2. Deposits and Investments (continued)

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

	2017	2016
Restricted assets	$ 159,000	$ 202,918
Current assets:		
Cash and investments	49,488	61,092
Total cash and investments	208,488	264,010
Less cash and cash equivalents	(36,492)	(49,536)
Total investments	$ 171,996	$ 214,474

Interest Rate Risk

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

Credit Risk

GRU's investment policy and Resolution limits investments in state and local taxable or tax-exempt debt, corporate fixed income securities, and other corporate indebtedness to investments that are rated by a nationally recognized rating agency at a minimum acceptable level at time of purchase, (AA/Aa3/AA by Standard and Poor's, Moody's Investor Service, and/or Fitch Ratings respectively), and at least one nationally recognized rating agency in either of its two highest rating categories. As of September 30, 2017 and 2016, all of GRU's corporate holdings were rated Aa2 or better by Moody's Investor Service and/or AA+ or better by Standard and Poor's and/or AA+ or better by Fitch. As of September 30, 2017 and 2016, all of GRU's commercial paper investments were rated P-2 or better by Moody's Investor Service and/or A-2 or better by Standard and Poor's and/or F2 or better by Fitch. As of September 30, 2017 and 2016, GRU's FFCB, FHLMC, and FNMA were rated Aaa by Moody's Investor Service and AA+ by Standard and Poor's and AAA by Fitch. As of September 30, 2017 and 2016, GRU's FHLB were rated Aaa by Moody's Investor Service and AA+ by Standard and Poor's and 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:

2. Deposits and Investments (concluded)

Concentration of Credit Risk (concluded)

	Percent of Total Investments	
	2017	2016
Issuer:		
Federal Home Loan Mortgage Corporation	**7.89%**	2.32%
New York Life	**10.25%**	5.94%
Federal Farm Credit Bank	**5.93%**	7.88%
Federal National Mortgage Association	**8.39%**	13.25%
Federal Home Loan Bank	**13.62%**	4.91%

3. Investment in The Energy Authority

GRU has an equity investment in The Energy Authority (TEA), a power marketing corporation comprised of eight municipal utilities as of September 30, 2017: MEAG Power, JEA (Florida), South Carolina Public Service Authority, Nebraska Public Power District, GRU, City Utilities of Springfield (Missouri), Public Utility District No. 1 of Cowlitz County (Washington), and American Municipal Power, Inc. (Ohio). TEA provides energy products and resource management services to equity members and non-members and allocates transaction savings and operating expenses to equity members pursuant to Settlement Procedures under the Operating Agreement.

In the Statement of Revenues, Expenses, and Changes in Net Position, GRU's sales to and purchases from TEA are recorded in sales and service charges and operations and maintenance expenses, respectively. Sales to TEA were $871,000 and $409,000, and purchases from TEA were $24.8 million and $19.8 million for the years ended September 30, 2017 and 2016, respectively.

GRU's equity interest was 5.6% for fiscal years 2017 and 2016, and accounted for using the equity method of accounting. As of September 30, 2017 and 2016, GRU's investment in TEA was $2.1 million each year.

Through a combination of agreements, GRU guaranteed credit received by TEA for $19.5 million and $23.1 million as of September 30, 2017 and 2016, respectively. TEA evaluates its credit needs periodically and requests equity members to adjust their guarantees accordingly. The guarantee agreements are intended to provide credit support for TEA when entering into transactions on behalf of equity members. Such guarantees are within the scope of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* and would require the equity members to make payments to TEA's counterparties if TEA failed to deliver energy, capacity, or natural gas as required by contract, or if TEA failed to make payment for the purchases of such commodities. If guarantee payments are required, GRU has rights with other equity members that such payments be apportioned based on certain criteria.

3. Investment in The Energy Authority (concluded)

The guarantees generally have indefinite terms; however, GRU can terminate its guarantee obligations by providing notice to counterparties and others, as required by the agreements. Such terminations would not pertain to any transactions TEA entered into prior to notice being given. As of September 30, 2017 and 2016, GRU had not recorded a liability related to these guarantees.

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

	2017	2016
Condensed statement of operations:		
Total revenue	**$ 1,153,933**	$ 1,039,075
Total cost of sales and expense	**(1,092,748)**	(1,008,613)
Operating income	**61,185**	30,462
Nonoperating income (expense)	**38**	10
Change in net position	**$ 61,223**	$ 30,472
Condensed balance sheet:		
Assets:		
Current assets	**$ 177,777**	$ 128,527
Noncurrent assets	**15,622**	12,282
Total assets	**$ 193,399**	$ 140,809
Liabilities:		
Current liabilities	**$ 155,313**	$ 102,615
Noncurrent liabilities	**394**	346
Total liabilities	**155,707**	102,961
Total net position	**37,692**	37,848
Total liabilities and net position	**$ 193,399**	$ 140,809

GRU’s accounts receivable due from TEA totaled approximately $521,000 and $288,000 for the years ended September 30, 2017 and 2016, 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, 2017 and 2016 follows (in thousands):

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

	Utility Plant in Service					
	Treatment	Generation	Transmission, Distribution, and Collection	General	Construction in Progress	Combined
Balance, October 1, 2015	$ 158,327	$ 1,627,112	$ 814,985	$ 190,055	$ 131,596	$ 2,922,075
Additions	42,951	19,529	29,369	3,291	75,105	170,245
Less sales, retirements, and transfers	(570)	(6,262)	(3,499)	(1,825)	(66,820)	(78,976)
Balance, September 30, 2016	$ 200,708	$ 1,640,379	$ 840,855	$ 191,521	$ 139,881	$ 3,013,344
Accumulated depreciation, October 1, 2015	$ 70,950	$ 288,380	$ 333,692	$ 62,966	n/a	$ 755,988
Depreciation expense	5,488	17,770	27,319	8,686	n/a	59,263
Capital lease	-	33,560	-	-	n/a	33,560
Less retirements/ adjustments	4,916	21,485	31,758	3,025	n/a	61,184
Accumulated depreciation, September 30, 2016	$ 81,354	$ 361,195	$ 392,769	$ 74,677	n/a	$ 909,995
Net capital assets	$ 119,354	$ 1,279,184	$ 448,086	$ 116,844	$ 139,881	$ 2,103,350
Average depreciation rate	3.06%	3.14%	3.30%	4.55%	n/a	3.28%

5. Jointly Owned Electric Plant

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

The Nuclear Regulatory Commission (NRC) requires utilities owning nuclear powered electric generating plants to provide financial assurance that funds would be sufficient and available when needed to pay the future decommissioning costs. In accordance with the NRC requirements, GRU established a decommissioning trust fund. GRU's carrying balance in this decommissioning trust fund at September 30, 2017 and September 30, 2016, including interest earnings, was approximately $0 million and $0 million, respectively.

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

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

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

5. Jointly Owned Electric Plant (concluded)

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

6. Capital Lease

GRU executed a PPA with the Gainesville Renewable Energy Center (GREC) in 2009. The plant, a 102.5 megawatt biomass-fired power production facility located in Alachua County, Florida, utilizes woody biomass comprised of urban wood waste, forest wood waste, and mill residue. The nature of these are further limited by Forest Sustainability Standards that are included as part of the PPA. The PPA requires that GREC provide available energy, delivered energy, and environmental attributes exclusively to GRU and began commercial operations on December 17, 2013. GRU is required to pay for all available energy from the plant at fixed prices, adjusted for liquidated damages and other penalties. GRU is also required to pay a variable operations and maintenance charge for all delivered energy, a fuel charge for all delivered energy, a shutdown charge as applicable and ad valorem taxes paid by GREC.

The PPA has been accounted for as a long-term capital lease for a term of 30 years with a capital lease asset and liability recorded. The capital lease asset was recorded at $1 billion at September 30, 2017 and 2016. The total payments applicable to the lease were $61.2 million for September 30, 2017 and 2016. The payments for fiscal year 2017 and 2016 included $42.8 million and $43.6 million, respectively, for interest expense included in fuel costs. The capital lease will be amortized over the life of the PPA. Amortization of $33.6 million was recorded at September 30, 2017 and 2016.

6. Capital Lease (concluded)

The following lists the minimum payments due under the PPA as of September 30, 2017 (in thousands):

	2017
2018	$ 61,216
2019	61,216
2020	61,216
2021	61,216
2022	61,216
2023-2027	306,081
2028-2032	306,081
2033-2037	306,081
2038-2042	306,081
2043-2044	74,218
Total minimum lease payments	1,604,622
Less: Amounts representing interest	(663,353)
Net minimum lease payments	$ 941,269

If at any time GRU's senior unsecured debt rating is rated below a Standard & Poor's rating of A- or a Moody's rating of A3 (such rating levels to be equitably adjusted if either rating agency were in the future to change its rating standards), GRU is required to pay or provide to GREC a security deposit equal to $40 million as security for GRU's performance of its obligations under the PPA. If required, such security shall be in the form of cash deposited in either an interest bearing escrow account mutually acceptable to GREC and GRU, an unconditional and irrevocable direct pay letter of credit in form and substance reasonably satisfactory to GREC, or a performance bond in form and substance reasonably satisfactory to GREC. As of September 30, 2017, GRU's credit ratings were in compliance with the performance security requirements.

A land lease was executed on September 28, 2009, between GRU and GREC for the land on which the biomass plant is located. The payment per year is $100 for a term of 47 years on the condition that GREC provide dependable energy to GRU. If a condition occurs in which GREC does not provide dependable energy to GRU, the payment will be adjusted to the fair market value of the land at that time. Rental income of $100 was received for the years ended September 30, 2017 and 2016, respectively.

As of November 7, 2017, GRU purchased the plant and terminated the PPA and capital lease. See Note 19 Subsequent Event for additional information.

7. Fuel and Purchased Gas Adjustment Levelization

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

The following table represents total revenues and expenses associated with the fuel and purchased gas adjustment and the subsequent impact on the fuel and purchased gas levelization balance as of September 30, 2017 (in thousands):

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

The following table represents total revenues and expenses associated with the fuel and purchased gas adjustment and the subsequent impact on the fuel and purchased gas levelization balance as of September 30, 2016 (in thousands):

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

8. Long-Term Debt

$196,950,000 Utilities System Revenue Bonds, 2005 Series A – 4.75% - 5.00%, dated November 16, 2005, mature on various dates through October 1, 2036, and were partially refunded as part of the 2012 Series A Utilities System Revenue Bond issuance. The 2005 Series A Bonds are subject to redemption at the option of the City on and after October 1, 2015, as a whole or in part at any time, at a redemption price of 100% of the principal amount, plus accrued interest to the date of redemption. The 2005 Series A Bonds were issued to pay a portion of the cost of acquisition and construction of certain improvements to the City's utilities system and to refund the City's Utilities System Commercial Paper Notes, Series C. In March 2007, the 2007 Series A Bonds ($139,505,000) were issued to advance-refund to the maturity dates a portion of the bonds maturing from October 1, 2030 to October 1, 2036. The proceeds related to the refunded bonds were deposited into an escrow account to refund the bonds on October 1, 2015, at 100% of par. In August 2012, the 2012 Series A Bonds ($81,860,000) were issued to refund $78,690,000 of bonds maturing from October 1, 2021 thru October 1, 2028. In December 2014, the 2014 Series B Bonds ($30,970,000) were issued to advance-refund $12,725,000 for portions of bonds maturing from October 1, 2029, October 1, 2030, and October 1, 2036. The proceeds of the refunded bonds were deposited into an escrow account to refund the bonds on October 1, 2015.

$61,590,000 Utilities System Revenue Bonds, 2005 Series B (Federally Taxable) – 5.31%, dated November 16, 2005, final maturity October 1, 2021. The 2005 Series B Bonds are subject to redemption at the option of the City, in whole or in part, on any date, at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2005 Series B Bonds were issued to pay a portion of the cost of acquisition and construction of certain improvements to the City's utilities system and to refund the City's Utilities System Commercial Paper Notes, Series D originally issued in June 2000. In August 2012, the 2012 Series B Bonds ($100,470,000) were issued to partially refund $31,560,000 of bonds maturing from October 1, 2015 and October 1, 2021.

$55,135,000 Utilities System Revenue Bonds, 2005 Series C – Variable interest rates based on market rates, 0.96% at September 30, 2017, dated November 16, 2005, final maturity October 1, 2026. The 2005 Series C Bonds are subject to redemption at the option of the City at a redemption price of 100% of the principal amount, plus accrued interest to the date of redemption. The 2005 Series C Bonds were issued to refund a portion of the City's Utilities System Revenue Bonds, 1996 Series A. A liquidity facility is provided by Helaba at 0.29% and expires November 24, 2020. In August 2012, the 2012 Series B Bonds ($100,470,000) were issued to partially refund $17,570,000 of bonds maturing from October 1, 2013 thru October 1, 2017.

8. Long-Term Debt (continued)

$53,305,000 Utilities System Revenue Bonds, 2006 Series A – Variable interest rates based on market rates, 0.95% at September 30, 2017, dated July 6, 2006, final maturity October 1, 2026. The 2006 Series A Bonds are subject to redemption at the option of the City, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption. The 2006 Series A Bonds were issued to pay a portion of the cost of acquisition and construction of certain improvements to the City's utilities system and to refund a portion of the City's Utilities System Revenue Bonds, 1996 Series A. The 2006 Series A Bonds created a net present value savings of over $6,200,000, with yearly cash savings ranging from approximately $371,000 to over $890,000. In August 2012, the 2012 Series B Bonds ($100,470,000) were issued to partially refund $25,930,000 of bonds maturing from October 1, 2013 thru October 1, 2020. A liquidity facility is provided by Helaba at 0.29% and expires November 24, 2020.

$139,505,000 Utilities System Revenue Bonds, 2007 Series A – Variable interest rates based on market rates, 0.95% at September 30, 2017, dated July 6, 2006, final maturity October 1, 2036. The 2007 Series A Bonds are subject to redemption at the option of the City, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption. The 2007 Series A Bonds were issued to refund a portion of the City's Utilities System Revenue Bonds, 2003 Series A and a portion of the City's Utilities System Revenue Bonds, 2005 Series A. The 2007 Series A Bonds created a net present value savings of over $8,500,000, with yearly cash savings ranging from $100,000 to $500,000. A liquidity facility is provided by State Street Bank and Trust at 0.39% and expires March 1, 2018. The liquidity facility (or other financial agreement) will be renewed, replaced, or implemented by March 1, 2018.

$105,000,000 Utilities System Revenue Bonds, 2008 Series A (Federally Taxable) – 5.02% - 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 thru October 1, 2020.

$90,000,000 Utilities System Revenue Bonds, 2008 Series B – Variable interest rates based on market rates, 0.97% at September 30, 2017, dated February 13, 2008, final maturity October 1, 2038. The 2008 Series B Bonds are subject to redemption prior to maturity at the election of the City in whole or in part, at a redemption price of 100% of the principal amount plus accrued interest to the date of redemption. The 2008 Series B Bonds were issued to pay costs of acquisition and construction of the City's utilities system. A liquidity facility is provided by Barclay's at 0.29% and expires June 29, 2020.

8. Long-Term Debt (continued)

$156,900,000 Utilities System Revenue Bonds, 2009 Series B – Issuer Subsidy – Build America Bonds (Federally Taxable) – 4.50% - 5.65%, dated September 16, 2009, final maturity October 1, 2039. The 2009 Series B Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2009 Series B Bonds were issued to pay costs of acquisition and construction of the City's utilities system.

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

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

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

$81,860,000 Utilities System Revenue Bonds, 2012 Series A – 2.50% - 5.00%, dated August 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.

8. Long-Term Debt (continued)

$100,470,000 Utilities System Revenue Bonds, 2012 Series B – Variable interest rates based on market rates, 0.97% at September 30, 2017, dated August 2, 2012, final maturity October 1, 2042. The 2012 Series B Bonds were issued to (a) refund $31,560,000 in aggregate principal amount of the 2005 Series B Bonds, (b) provide funds to refund $17,570,000 in aggregate principal amount of the 2005 Series C Bonds, (c) provide funds to refund $25,930,000 in aggregate principal amount of the 2006 Series A Bonds, (d) provide funds to refund $14,405,000 in aggregate principal amount of the 2008 Series A Bonds, and (e) pay costs of issuance of the 2012 Series B Bonds. These bonds mature at various dates through October 1, 2042. The 2012 Series B Bonds are subject to redemption prior to maturity, at a redemption price so specified. A liquidity facility is provided by Citibank at 0.33% and expires on June 29, 2020.

$37,980,000 Utilities System Revenue Bonds, 2014 Series A – 2.50% - 5.00%, dated December 19, 2014, with final maturity October 1, 2044. The 2014 Series A Bonds were issued to (a) provide funds for the payment of the cost and acquisition and construction of certain improvements to the System, and (b) pay costs of issuance of the 2014 Series A Bonds. These bonds mature at various dates beginning October 1, 2015, and from October 1, 2021 to October 1, 2034, October 1, 2039, and October 1, 2044. The bonds maturing prior to October 1, 2024 are not subject to redemption prior to maturity. The bonds maturing on and after October 1, 2025 are subject to redemption prior to maturity at the option of GRU on and after October 1, 2024, as whole or in part at any time, at a redemption price plus interest so specified.

$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.

$85,000,000 Utilities System Commercial Paper Notes, Series C Notes – These tax-exempt notes are subordinated debt and may continue to be issued to refinance maturing Series C Notes or provide for other costs. Liquidity support for the Series C Notes is provided under a long-term credit agreement effective November 30, 2015, with Bank of America, NA at 0.40% and is set to expire November 30, 2018. The obligation of the bank may be substituted by another bank that meets certain credit standards and which is approved by the Utility and the Agent. Under terms of the agreement, the Utility may borrow up to $85,000,000 with same day availability ending on the termination date, as defined in the agreement. Interest is at a variable market rate which was 0.91% at September 30, 2017. Series C Notes of $50.9 million are outstanding as of September 30, 2017.

8. Long-Term Debt (continued)

$25,000,000 Utilities System Commercial Paper Notes, Series D Notes – In June 2000, a Utilities System Commercial Paper Note Program, Series D (taxable) was established in a principal amount not to exceed $25,000,000. On December 16, 2014, GRU issued $8,000,000 of Series D Notes to provide funds for the cost of acquisition and construction of certain improvements to the telecommunications system. Interest is at a variable market rate of 1.295% at September 30, 2017. Series D Notes of $8 million are outstanding as of September 30, 2017. These taxable notes are subordinated debt. Liquidity support for the Series D Notes is provided under a long-term credit agreement effective August 28, 2014, with State Street Bank and Trust Company at 0.42% and expires August 28, 2020.

Debt Service Requirements for Long-Term Debt

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

Year Ending September 30	Principal	Interest	Total Debt Service Requirements
2018	$ 24,020	$ 24,791	$ 48,811
2019	24,885	23,920	48,805
2020	25,935	22,938	48,873
2021	27,055	21,933	48,988
2022	26,790	21,073	47,863
2023–2027	151,910	93,687	245,597
2028–2032	201,100	70,336	271,436
2033–2037	216,475	48,425	264,900
2038-2042	208,220	17,780	226,000
2043-2045	24,050	642	24,692
	$ 930,440	$ 345,525	$ 1,275,965

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

The interest rates used in this table are per GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which requires the rate used in the calculations be that in effect as of September 30, 2017. Interest rates on variable-rate long-term debt were valued to be equal to 0.96% for the 2005 Series C Bonds, 0.95% for the 2006 Series A Bonds, 0.95% for the 2007 Series A Bonds, 0.97% for the 2008 Series B Bonds, 0.97% for the 2012 Series B Bonds, 0.91% for the Commercial Paper Notes, Series C, and 1.295% for the Commercial Paper Notes, Series D.

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

8. Long-Term Debt (continued)

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 2017 and 2016, principal and interest paid were $62.6 million and $62 million, respectively. For fiscal years 2017 and 2016, total customer gross revenues were $422.5 million and $422.7 million, respectively. As of September 30, 2017, annual principal and interest payments are expected to require 11% of gross 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 standby bond purchase agreements (SBPA) or credit agreements relating to that series of obligation. The purchase price of the obligations tendered or deemed tendered for purchase is payable solely from the proceeds of the remarketing thereof and moneys drawn under the applicable SBPA or credit agreement. The current stated termination dates of the SBPA and credit agreements range from March 1, 2018 to November 24, 2020. Each of the SBPA and credit agreement termination dates may be extended. At September 30, 2017, there were no outstanding draws under the SBPA.

GRU has entered into revolving credit agreements with commercial banks to provide liquidity support for its commercial paper notes. If funds are not available to pay the principal of any maturing commercial paper notes during the term of the credit agreement, GRU is entitled to make a borrowing under the credit agreement. The termination dates of the credit agreements, as of September 30, 2017, are November 30, 2018 and August 28, 2020. The credit agreement supporting the tax-exempt Commercial Paper Notes, Series C had no outstanding draws as of September 30, 2017 and 2016. The credit agreement supporting the taxable Commercial Paper Notes, Series D had no outstanding draws as of September 30, 2017 and 2016.

Changes in Long-Term Liabilities

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

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

8. Long-Term Debt (concluded)

Changes in Long-Term Liabilities (concluded)

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Utilities system revenue bonds	$ 905,880	$ -	$ (16,805)	$ 889,075	$ 107,535
Add: Issuance premiums	19,078	-	(1,087)	17,991	-
Total bonds payable	924,958	-	(17,892)	907,066	107,535
Commercial paper	64,900	-	(5,400)	59,500	13,600
Capital lease	977,280	-	(17,601)	959,679	18,410
Fair value of derivative instruments	77,043	10,137		87,180	-
Reserve for insurance claims	3,337	-	-	3,337	-
Reserve for environmental liability	266	-	-	266	-
Reserve for decommissioning CR3	11,622	-	(11,622)	-	-
	$ 2,059,406	$ 10,137	$ (52,515)	$ 2,017,028	$ 139,545

Interest Rate Swaps

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

9. Hedging Activities

Interest Rate Hedges

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

Terms, Fair Values, and Counterparty Credit Ratings

The terms, fair values, and counterparty credit ratings of the outstanding swaps as of September 30, 2017, were as follows (in thousands):

9. Hedging Activities (continued)

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

Associated Bond Issue	2008CP*	2005B*	2005C*	2006A*
Notional amounts	$ 5,900	$ 32,160	$ 30,790	$ 29,795
Effective date	7/3/2002	11/16/2005	11/16/2005	7/6/2006
Fixed payer rate	4.100%	SIFMA	3.200%	3.224%
Variable receiver rate	SIFMA	77.14% of 1 MO LIBOR	60.36% of 10 YR LIBOR	68% of 10 YR LIBOR – 0.3635%
Fair value	$ (117)	$ 32	$ (1,680)	$ (1,815)
Termination date	10/1/2017	10/1/2021	10/1/2026	10/1/2026
Counterparty credit rating	Baa1/BBB+/A	Aa2/AA-	Aa3/A+/AA-	Aa2/AA-

Associated Bond Issue		2008B*	2008B*	2007A*
Notional amounts		$ 58,500	$ 31,500	$ 136,900
Effective date		2/13/2008	2/13/2008	3/1/2007
Fixed payer rate		4.229%	4.229%	3.944%
Variable receiver rate		SIFMA	SIFMA	SIFMA
Fair value		$ (15,297)	$ (8,244)	$ (34,064)
Termination date		10/1/2038	10/1/2038	10/1/2036
Counterparty credit rating		Aa3/A+/AA-	Aa3/A+/AA-	Aa2/AA-

* See Basis Risk section below.

Fair Value

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

	Fair Value of Interest Rate Swaps at September 30, 2017	Changes in Fair Value	Changes in Deferred (Inflow) Outflow	Changes in Regulatory (Assets) Liability for Ineffective Instruments
2008CP	$ (117)	$ 308	$ (308)	$ -
2005B	32	209	-	(209)
2005C	(1,680)	1,117	-	(1,117)
2006A	(1,815)	1,211	-	(1,211)
2008B	(15,297)	5,778	(5,778)	-
2008B	(8,244)	3,114	(3,114)	-
2007A	(34,064)	14,260	(14,260)	-
	$ (61,184)	$ 25,997	$ (23,460)	$ (2,537)

9. Hedging Activities (continued)

Fair Value (concluded)

All swap agreements had a negative fair value as of September 30, 2016. Due to the low interest rate environment, as compared to the period when the swaps were entered into, the fixed payer rates exceeded the variable receiver rates (in thousands):

	Fair Value of Interest Rate Swaps at September 30, 2016	Changes in Fair Value	Changes in Deferred (Inflow) Outflow	Changes in Regulatory (Assets) Liability for Ineffective Instruments
2008CP	$ (425)	$ 586	$ (586)	$ -
2005B	(176)	(370)	-	370
2005C	(2,797)	(153)	-	153
2006A	(3,026)	(171)	-	171
2008B	(21,074)	(2,063)	2,063	-
2008B	(11,358)	(1,114)	1,114	-
2007A	(48,324)	(6,853)	6,853	-
	$ (87,180)	$ (10,138)	$ 9,444	$ 694

Interest Rate Swap Payments

Debt service requirements on the interest rate swaps using interest rates in effect at September 30, 2017, would be as follows (in thousands):

2018	$ 8,056
2019	7,870
2020	7,718
2021	7,520
2022	7,314
2023–2027	32,123
2028–2032	23,820
2033–2037	8,282
2038–2042	171
	$ 102,874

Credit Risk

As of September 30, 2017, although most of the fair value of the interest rate swaps were 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.

9. Hedging Activities (continued)

Basis Risk

The swaps expose the City to basis risk:

- The 2005 Series B Swap is exposed to basis risk through the potential mismatch of 77.14% of one-month LIBOR and the SIFMA rate. As a result, savings may not be realized. As of September 30, 2017, the one-month LIBOR rate was 1.23 %, and SIFMA rate was at .94 %, which places the SIFMA at approximately 76 % of one-month LIBOR at that date.
- The 2005 Series C Swap is exposed to basis risk through the potential mismatch of 60.36% of 10-year LIBOR and the variable 31-day rollover rate. As a result, savings may not be realized. As of September 30, 2017, the 10-year LIBOR rate was at 2.28 %.
- The 2006 Series A Swap is exposed to basis risk through the potential mismatch of 68% of 10-year LIBOR less 0.36% and the variable 31-day rollover rate. As a result, savings may not be realized.
- The 2007 Series A and the 2008 Series B Swaps are exposed to the difference between SIFMA and the variable 31-day rollover rate.
- The Commercial Paper Series C Notes Swap (formerly the 2002 Series A Swap) is exposed to the difference between the weekly SIFMA index and CP maturity rate of less than 90 days based on current market conditions. As a result, savings may not be realized.

Termination Risk

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

Interest Rate Risk

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

Rollover Risk

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

9. Hedging Activities (concluded)

Market Access Risk

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

Effectiveness

Of the interest rate swap agreements, four have been determined to be effective, while three have been deemed ineffective as of September 30, 2017. The ineffective portion related to interest rate swap agreements is recorded as a regulatory asset in the amount of $3.5 million and $6 million as of September 30, 2017 and 2016, respectively.

Fair value changes of $26 million and $10.1 million have been recorded for interest rate swap agreements in accumulated decrease in fair value of hedging derivatives at September 30, 2017 and 2016, respectively. There were no realized gains or losses related to interest rate swaps as of September 30, 2017 and 2016, 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 $438,000 and $3.8 million for September 30, 2017 and 2016, 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, 2017	Changes in Fair Value	Deferred (Inflows)/ Outflows Resources	Notional Amount (MMBTUs)
Natural Gas	$62	$243	$0	89

	Fair Value of Cash Flow Hedges at September 30, 2016	Changes in Fair Value	Deferred (Inflows)/ Outflows Resources	Notional Amount (MMBTUs)
Natural Gas	($181)	$2,137	($201)	430

10. Fair Value Measurement

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

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

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

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

- 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.

10. Fair Value Measurement (continued)

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Utility's assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels. GRU's fair value measurements are performed on a recurring basis. The following table presents fair value balances and their levels within the fair value hierarchy as of September 30, 2017 (in thousands):

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

10. Fair Value Measurement (concluded)

Fair value balances and their levels within the fair value hierarchy as of September 30, 2016, are represented in the following table (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Fair value investments				
U.S. Treasuries	$ -	$ 8,664	$ -	$ 8,664
U.S. Agencies:				
Federal Home Loan Mortgage Corp	-	4,953	-	4,953
Federal National Mortgage Assn	-	28,578	-	28,578
Federal Home Loan Bank	-	10,590	-	10,590
Federal Farm Credit Bank	-	16,993	-	16,993
Corporate bonds:				
Massmutual Global Funding	-	5,024	-	5,024
Guardian Life	-	5,549	-	5,549
New York Life	-	12,974	-	12,974
New York Life Global	-	3,012	-	3,012
Total fair value investments	$ -	$ 96,338	$ -	$ 96,338
Liabilities				
Financial instruments				
Effective interest rate swaps	$ -	$ (81,181)	$ -	$ (81,181)
Ineffective interest rate swaps	-	(5,999)	-	(5,999)
Total financial instruments	$ -	$ (87,180)	$ -	$ (87,180)

11. Restricted Net Position

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

	2017	2016
Restricted net position:		
Debt service	**$ 24,283**	$ 23,198
Utility plant improvement	**35,418**	58,792
Other	**529**	196
Restricted net position	**$ 60,230**	$ 82,186

12. Lease Revenue

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

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

September 30,	Revenue
2018	$ 1,700
2019	1,593
2020	1,518
2021	1,428
2022	1,267
2023-2027	3,899
2028-2032	2,041
Thereafter	341
	$ 13,787

13. Transfer to City of Gainesville General Fund

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

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

- A new base equal to the fiscal year 2014 General Fund Transfer level that would have been produced under the formula methodology that was in place from fiscal years 2001 through 2010.

- Growth of the base by 1.5% per year for fiscal years 2016 through 2019.

- Reduction of this amount by an amount equal to the property tax revenue that accrues to the City of Gainesville related to the GREC Biomass Facility.

For the years ended September 30, 2017 and 2016, the transfer was $35.8 million and $35 million, respectively.

14. 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 of the requirements of Section 350.81. Management does not expect that any required compliance with the requirements of Section 350.81 would have a material adverse effect on the operations or financial condition of GRUCom.

Environmental and Other Natural Resource Regulations

GRU and its operations are subject to federal, state and local environmental regulations which include, among other things, control of emissions of particulates, 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, (including, particularly, GREC), from which the Utility purchases output, services, commodities and other materials]. There is no assurance that the facilities in operation, under construction, or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations. Compliance with applicable regulations could result in increases in the costs of construction and/or operation of affected facilities, including associated costs such as transmission and transportation, as well as limitations on the operation of such facilities. Failure to comply with regulatory requirements could result in reduced operating levels or the complete shutdown of those facilities not in compliance as well as the imposition of civil and criminal penalties.

14. Commitments and Contingencies (continued)

Environmental and Other Natural Resource Regulations (concluded)

Increasing concerns about climate change and the effects of greenhouse gases (GHG) on the environment have resulted in EPA finalizing on August 3, 2015 carbon regulations for existing power plants. 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.

Further litigation is expected regardless of the DC Circuit Court of Appeals decision. In addition, the EPA has been given presidential direction to review the Clean Power Plan. 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.

Air Emissions

The Clean Air Act

The Clean Air Act regulates emissions of air pollutants, establishes national air quality standards for major pollutants, and requires permitting of both new and existing sources of air pollution. Among the provisions of the Clean Air Act that affect GRU's operations are: (1) the acid rain program, which requires nationwide reductions of SO_2 and NO_X from existing and new fossil-fueled electric generating plants, (2) provisions related to toxic or hazardous pollutants, and (3) requirements to address regional haze.

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

14. Commitments and Contingencies (continued)

Air Emissions (continued)

The Cross-State Air Pollution Rule (CSAPR)

On July 6, 2011, the EPA released its final Cross-State Air Pollution Rule (CSAPR). This rule is the final version of the Transport Rule and replaces Clean Air Interstate Rule (CAIR). In Florida, only ozone season NO_X emissions are regulated by CSAPR through the use of allowances.

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

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

Mercury and Air Toxics Standards (MATS)

On December 16, 2011, the EPA promulgated a rule to reduce emissions of toxic air pollutants from power plants. Specifically, these MATS for power plants will reduce emissions from new and existing coal- and oil-fired electric utility steam generating units (EGUs). The EPA also signed revisions to the new source performance standards for fossil fuel-fired EGUs. Such revisions revised the standards that new coal- and oil-fired power plants must meet for particulate matter, SO_2 and NO_X. On November 25, 2014, the United States Supreme Court accepted certiorari to hear challenges to the mercury rules.

On June 29, 2015, the U.S. Supreme Court issued a 5-to-4 decision reversing the D.C. Circuit's decision to uphold EPA's rule establishing mercury and air toxics standards (MATS) for electric

14. Commitments and Contingencies (continued)

Air Emissions (continued)

Mercury and Air Toxics Standards (MATS) (continued)

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

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

On May 6, 2016, the EPA filed a brief urging the U.S. Supreme Court to deny a *writ of certiorari* filed by 20 states requesting that the Court review and reverse a decision by the U.S. Court of Appeals for the D.C. Circuit to remand EPA's Mercury and Air Toxics Standards ("MATS") rule to the Agency without vacating the rule. According to EPA's brief, the Supreme Court should deny review of whether the MATS rule should have been vacated while EPA made its "appropriate and necessary" finding because the issue is moot now that EPA has issued the finding. Additionally, EPA argues that the Clean Air Act ("CAA"), not the Administrative Procedure Act, governs whether the MATS rule should have been vacated and the CAA does not mandate vacatur of a rule on remand. Rather, the CAA gives a court discretion on whether to vacate a remanded rule based on the circumstances. Finally, EPA asserts that the D.C. Circuit was correct in not vacating the MATS rule on remand because EPA could quickly remedy the legal deficiency and vacating the rule would have been harmful to the public because it would have allowed an increase in emissions of HAPs from EGUs.

14. Commitments and Contingencies (continued)

Air Emissions (concluded)

Mercury and Air Toxics Standards (MATS) (concluded)

Murray Energy became the first party to appeal the final MATS Appropriate and Necessary Finding, filing its petition for review on April 25, 2016, the same day the rule was published in the Federal Register. 81 Fed. Reg. 24,420 (Apr. 25, 2016). All petitions for review of the Finding must have been filed in the D.C. Circuit Court no later than June 24, 2016. As of this deadline, six petitions for review have been filed in the D.C. Circuit Court and have been consolidated under the lead case *Murray Energy Corp. v. EPA*, No. 16-1127.

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

On April 27, 2017, the D.C. Circuit Court granted the EPA's motions to postpone oral argument in the challenge to the EPA's supplemental determination that it was "appropriate and necessary" to regulate emissions of hazardous air pollutants from electric generating units ("Supplemental Finding"), Murray v. EPA, No. 16-1127 (D.C. Cir.), as well as in industry's challenge to the EPA's denial of administrative petitions for reconsideration of MATS, ARIPPA v. EPA, No. 15-1180 (D.C. Cir.). Oral argument in both cases was previously scheduled for May 18, 2017.

The court also ordered both challenges held in abeyance "pending further order of the court." EPA is directed to file status reports with the court every 90 days. The parties will be directed to file motions to govern future proceedings within 30 days of the EPA notifying the court and the parties of any action it has or will be taking with respect to the Supplemental Finding and the MATS reconsideration petitions.

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

14. Commitments and Contingencies (continued)

Effluent Limitation Guidelines

On September 30, 2015, the EPA issued a final rule addressing effluent limitation guidelines (“ELG”) for power plants under the Clean Water Act (the “ELG Rule”). The final rule establishes Best Available Technology Economically Achievable ("BAT"), New Source Performance Standards ("NSPS"), Pretreatment Standards for Existing Sources ("PSES"), and Pretreatment Standards for New Sources ("PSNS") that may apply to discharges of six waste streams: flue gas desulfurization ("FGD") wastewater, fly ash transport water, bottom ash transport water, flue gas mercury control wastewater, gasification wastewater, and combustion residual leachate.

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

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

The Utility Water Act Group (“UWAG”), on March 24, 2017, filed an administrative petition for reconsideration of the ELG Rule. The petition requests the EPA reconsider the ELG Rule and seeks an administrative stay to suspend all compliance deadlines, while the EPA works to reconsider and revise the rule.

On April 12, 2017, the EPA Administrator, announced that he will reconsider the ELG for the power sector, in response to the two petitions for reconsideration received from UWAG and the Small Business Administration’s Office of Advocacy. Both petitions raised concerns that the ELG Rule imposed unreasonable costs and lacked scientific support.

The Sierra Club, Clean Water Action, and a handful of other groups filed on May 3, 2017, a legal challenge against EPA’s ELG stay. The complaint, filed in the D.C. Circuit Court, cites six supposed legal deficiencies in the EPA’s stay, and asks the court to vacate the stay and compel the EPA to reinstate the compliance deadlines. All parties are now waiting on a decision by the D.C. Circuit Court.

On July 28th, 2017, the EPA filed a cross motion for summary judgment. The motion makes two main arguments: (1) Sierra Club filed the suit in the wrong court; it should have been filed in the 5th Circuit, which is considering the legal challenges against the substance of the ELG rules and (2) the EPA has “extraordinary broad authority” to stay the compliance deadlines under section

14. Commitments and Contingencies (continued)

Effluent Limitation Guidelines (concluded)

705 of the APA. Note that this filing does not address EPA's reconsideration of the ELG rules, which may ultimately moot the litigation in the D.C. District Court. This motion is noteworthy, however, in that the EPA is mounting a vigorous defense of its steps to unwind the ELG rules.

On August 23, 2017, the 5th Circuit granted the Department of Justice's motion to "sever and hold in abeyance all judicial proceedings as to all issues relating to the portion of the 2015 Rule concerning the new, more stringent BAT limitations and PSES applicable to (1) bottom ash transport water, (2) FGD wastewater, and (3) gasification wastewater." The abeyance will last until the EPA completes its rulemaking and variance activities. The challenges against other elements of the ELG rule will move forward.

Regional Haze

On June 15, 2005, the EPA issued the Clean Air Visibility Rule, amending its 1999 regional haze rule, which had established timelines for states to improve visibility in national parks and wilderness areas throughout the United States. Under the amended rule, certain types of older sources may be required to install best available retrofit technology (BART). Some of the effects of the amended rule could be requirements for newer and cleaner technologies and additional controls for particulate matter, SO_2 and NO_X emissions from utility sources. The states were to develop their regional haze implementation plans by December 2007, identifying the facilities that will have to reduce emissions and then set emissions limits for those facilities. However, states have not met that schedule and on January 15, 2009, the EPA published a notice finding that 37 states (including Florida), the District of Columbia, and the Virgin Islands failed to submit all or a portion of their regional haze implementation plans. The EPA's notice initiates a two-year period during which each jurisdiction must submit a haze implementation plan or become subject to a Federal Implementation Plan issued by the EPA that would set the basic program requirements. GRU has installed additional emission control equipment at Deerhaven Unit 2 to reduce SO_2 and NO_X emissions that potentially contribute to regional haze.

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

The reasonable further progress (RFP) section of Florida's regional haze state implementation plan, which has been approved by EPA, applies to DH 2. GRU has voluntarily requested a cap on SO_2 emissions, which provides DH 2 with an exemption from the RFP section. A draft permit from the FDEP was issued on June 1, 2012 approving GRU's requested cap on SO_2 emissions, and the final permit was issued on June 26, 2012.

14. Commitments and Contingencies (continued)

Internal Combustion Engine MACT

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

Climate Change

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

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.

14. Commitments and Contingencies (continued)

Climate Change (concluded)

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 Dakota, Utah, Wisconsin, Wyoming, the Arizona Corporation Commission, and the North Carolina Department of Environmental Quality, also filed their motion to stay the final Section 111(d) rule under the Clean Air Act. Such a stay would put implementation of the rule on hold until the court decides on its legality.

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

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

On August 10, 2017, the United States Court of Appeals for the D.C. Circuit issued an order holding the challenges to the greenhouse gas new source performance standards ("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.

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.

14. 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.

Storage Tanks

GRU is required to demonstrate financial responsibility for the costs of corrective actions and compensation of third-parties for bodily injury and property damage arising from releases of petroleum products and hazardous substances from certain underground and above-ground storage tank systems. GRU has eleven fuel oil storage tanks. The South Energy Center has two underground distillate (No. 2) oil tanks; the JRK Station has four above-ground distillate oil tanks, 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, the most recent was in 2011. According to previous assessments, the horizontal extent of soils impacted with No. 6 fuel oil extends from the northern containment wall of the above-ground storage tanks (ASTs) to the wastewater filter beds and from the old plant building to Sweetwater Branch Creek. The results of the most recent soil assessment document the presence of Benzo(a)*pyrene* in one soil sample at a concentration greater than its default commercial/industrial direct exposure based soil cleanup target levels (SCTLs). Four of the soil samples contained Benzo(a)*pyrene* equivalents at concentrations greater than its default commercial/industrial direct exposure based SCTLs. In addition, two of the soil samples contained total recoverable petroleum hydrocarbons (TRPH) at concentrations greater than its default commercial/industrial direct exposure based SCTLs.

14. 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 number 6 Fuel Oil is present as a non-aqueous phase liquid.

In August 2013, the Utility submitted a no further action (NFA) proposal to the FDEP requesting that the site be granted a no further action status based on an evaluation of the soil and groundwater data with respect to site conditions and operations. The FDEP has not formally responded to the NFA request and there is currently no further update.

Water Use Restrictions

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

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

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

14. Commitments and Contingencies (continued)

Water Use Restrictions (concluded)

On August 7, 2012, in order to assist the SJRWMD and the SRWMD in the implementation and enforcement of such Water Conservation Measures and such Water Shortage Plans, the Board of County Commissioners of Alachua County enacted an ordinance creating year-round water conservation measures and water shortage regulations (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 at and adjacent to the manufactured gas plant (MGP) site. When the natural gas system was purchased, GRU assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former MGP. GRU has pursued recovery for the MGP from past insurance policies and, to date, has recovered $2.2 million from such policies. GRU received final approval of its Remedial Action Plan which entailed the excavation and landfilling of impacted soils at a specially designed facility. This plan was implemented pursuant to a Brownfield Site Rehabilitation Agreement with the State. Following remediation, the property 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 what the sampling data shows.

Based upon GRU's analysis of the cost to clean up this site, GRU has accrued a liability to reflect the costs associated with the cleanup effort. During fiscal years 2017 and 2016, expenditures which reduced the liability balance were approximately $1.1 million and $1 million, respectively. The reserve balance at September 30, 2017 and at September 30, 2016, was approximately $814,000 and $629,000, respectively.

GRU is recovering the costs of this cleanup through customer charges. A regulatory asset was established for the recovery of remediation costs from customers. Customer billings were $1.1 million, as of September 30, 2017 and 2016. The regulatory asset balance was $13.1 million and $14 million as of September 30, 2017 and 2016, respectively.

14. Commitments and Contingencies (continued)

Manufactured Gas Plant (concluded)

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

GREC

On March 10, 2016, Gainesville Renewable Energy Center, LLC ("GREC"), filed arbitration (American Arbitration Association Case No. 01-16-0000-8157) against the City doing business as the Gainesville Regional Utilities ("GRU"), initially challenging GRU's withholding payment of invoiced amounts pursuant to the long-term power purchase agreement between GRU and GREC ("PPA"). Since January 31, 2017, $8.5 million (including accrued interest) has been withheld by GRU based on disputed amounts actually invoiced by GREC. In addition, GREC has alleged claims in contract and tort that it asserts could result in aggregate damages to GREC of over $100 million. Likewise, GRU has alleged claims in contract that could result in aggregate damages to GRU of over $100 million. At this stage in the proceedings, neither party has substantiated the dollar value of these additional claims to the tribunal. At this stage in the proceedings, it is not possible for GRU to predict the outcome of these claims. However, GRU is vigorously defending against the GREC Counts in arbitration and believes that (i) some or all of any damages resulting from the GREC Counts constituting tort claims would be subject to sovereign immunity claims processes and statutory caps, (ii) some or all of any damages resulting from the tort claims may be covered by liability insurance of the City, and (iii) regardless of whether GREC is successful on any of the GREC Counts, GRU Management believes that any potential liability of GRU will not have a material adverse effect on the financial conditions of GRU. GRU entered into a Memorandum of Understanding with GREC on April 24, 2017, to explore the possible purchase of the biomass plant, the cancellation of the PPA and the resolution of the arbitration case. On September 12, 2017, GRU and GREC executed the APA which defined the purchase of the biomass plant, the termination of the PPA and the resolution of the arbitration case. Subsequent to September 30, 2017, GRU purchased the biomass plant and closing occurred on November 7, 2017. See Note 19 Subsequent Events for additional information.

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, 2017 and 2016, were $108,000 and $125,000, respectively.

14. Commitments and Contingencies (concluded)

Operating Leases (concluded)

Future minimum rental payments for various operating leases are:

September 30,	Payments
2018	$ 108,517
2019	26,789
2020	7,433
2021	7,203
2022	6,050
2023-2027	30,250
2028-2032	30,250
2033-2037	30,250
2038-2042	30,250
2043-2046	24,200
	$ 301,192

15. Retirement Plans

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

Defined Benefit Plans

Employees' Plan:

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

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

The Employees' Plan provides retirement, disability, and death benefits.

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.

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan: (continued)

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

Employees are eligible for normal retirement:

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

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

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

Employees are eligible for early retirement:

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

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

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

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

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

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

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan: (continued)

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

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

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

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

Death benefits are paid as follows:

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

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

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

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan: (continued)

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

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

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

	2017	2016
Active members	**1,519**	1,465
Retirees members/beneficiaries currently receiving benefits	**1,266**	1,225
Terminated members/beneficiaries entitled to benefits but not yet receiving benefits	**428**	431
Total	**3,213**	3,121

The contribution requirements of plan members and the City are established and may be amended by City Ordinance approved by the City Commission. The City is required to contribute at an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City contributes the difference between the actuarially determined rate and the contribution rate of employees. Plan members are required to contribute 5% of their annual covered salary. The rates were 17.45% and 16.88% of covered payroll for the years ended September 2017 and 2016, 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

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan: (concluded)

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, 2017 and 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2016 and October 1, 2015, for September 30, 2017 and 2016, respectively.

The net pension liability applicable to GRU as an enterprise fund of the City was $82.7 million and $71.3 million at September 30, 2017 and 2016, respectively.

The total pension liability as of September 30, 2017, was determined based on a roll-forward of entry age normal liabilities from the October 1, 2016 actuarial valuation. Below is a summary of the key actuarial assumptions used in the October 1, 2016 actuarial valuation:

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

Below is a summary of the key actuarial assumptions used in the October 1, 2015 actuarial valuation:

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

Mortality Rate:

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

Long-term Expected Rate of Return:

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

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Long-term Expected Rate of Return: (concluded)

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation are summarized in the following table for fiscal year 2017 and 2016:

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

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

Discount Rate:

The discount rates used to measure the total pension liability were 8.10% and 8.20% as of September 30, 2017 and 2016, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the actuarially determined contribution rates less the member contributions. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Discount Rate: (concluded)

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

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

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

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

The fiscal year 2016 ending net pension liability is less than the fiscal year 2017 beginning net position liability due to actuarial methodologies.

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

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

The following presents the net pension liability, calculated using the discount rate of 8.1% and 8.2% as of September 30, 2017 and 2016, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

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

		2016	
Sensitivity for GRU's Portion (in thousands):	**1% Decrease (7.2%)**	**Current Discount Rate (8.2%)**	**1% Increase (9.2%)**
Net pension liability	113,976	71,325	44,307

Pension plan fiduciary net position:

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

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

For the year ended September 30, 2017 and 2016, GRU recognized pension expense for the Employees' Plan of $17 million and $8 million, respectively. At September 30, 2017 and 2016, the City and GRU reported deferred outflows of resources related to the Employees' Plan from the following sources (in thousands):

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

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

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

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

15. Retirement Plans (concluded)

Defined Benefit Plans (concluded)

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

	2017 Deferred Inflows of Resources GRU's Portion
Net difference between projected and actual earnings on pension plan investments	$ (18,336)
Total	$ (18,336)

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

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

Fiscal Year	GRU
2018	$ 4,597
2019	4,597
2020	809
2021	(440)
Total	$ 9,563

16. Other Post-employment Benefits Plan

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

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

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

The cost of providing post-employment benefits to GRU retirees was $271,000 and $246,000 for fiscal years ended September 30, 2017 and 2016, respectively.

17. Risk Management

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

GRU reimburses the City for premiums and claims paid on its behalf, recording the appropriate expense. However, GRU does maintain its own insurance reserve, for the self-insured portion. An actuarial study completed during fiscal year 2008 resulted in an increase to a balance of $3.3 million. The present value calculation assumes a rate of return of 4.5% with a confidence level of 75%. This reserve is recorded as a fully amortized deferred credit. All claims for fiscal 2017 and 2016 were paid from current year's revenues.

17. Risk Management (concluded)

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

Fiscal Year	Beginning Balance	Claims	Payments	Change in Reserve	Ending Balance
2017	**$ 3,337**	**$ 2,253**	**$ (2,253)**	**$ -**	**$ 3,337**
2016	$ 3,337	$ 1,178	$ (1,178)	$ -	$ 3,337
2015	$ 3,337	$ 1,957	$ (1,957)	$ -	$ 3,337

18. Restatement

GRU has restated its 2016 financial statements to correct recording of utility plant retirements in prior years. Based on prior auditor guidance, GRU recorded utility plant retirements as a reduction to accumulated depreciation instead of recording any gain or loss on the utility plant retirements to net income in the year the assets were retired. A portion of the utility plant retirements were purchased or built with debt that is still outstanding. Those costs, approximately $6.4 million, will be recovered in future years from ratepayers as the outstanding debt is fully repaid.

Restatement of beginning net position per system as of October 1, 2015:

	Electric	Water	Wastewater	Gas	Grucom	Total
			(Thousands)			
Net Position, beginning of year, as previously reported	$ 286,181	$ 78,404	$ 100,850	$ 10,325	$ (654)	$ 475,106
Restatement	(36,115)	(326)	(989)	(618)	(1,239)	(39,287)
Net Position, beginning of year, as restated	$ 250,066	$ 78,078	$ 99,861	$ 9,707	$ (1,893)	$ 435,819

Restatement of ending net position per system as of September 30, 2016:

	Electric	Water	Wastewater	Gas	Grucom	Total
Net Position, end of year, as previously reported	$ 284,403	$ 79,081	$ 104,564	$ 10,216	$ (1,300)	$ 476,964
Restatement	(38,327)	(472)	(1,005)	(623)	(1,153)	(41,580)
Net Position, end of year, as restated	$ 246,076	$ 78,609	$ 103,559	$ 9,593	$ (2,453)	$ 435,384

19. Subsequent Events

On November 7, 2017, GRU issued the 2017 Utilities 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. The purchase of the power plant and the subsequent termination of the PPA with GREC will reduce capital assets by $131 million, regulatory assets by $63 million, current liabilities by $14 million and long-term debt by $171 million. In addition, with the purchase of the biomass fueled generation power plant and the termination of the PPA, the arbitration case between GRU and GREC was resolved and dismissed with prejudice (per the terms of the APA).

SUPPLEMENTARY INFORMATION

Gainesville Regional Utilities
Schedules of Combined Net Revenues
in Accordance with Bond Resolution
For the Years Ended September 30, 2017 and 2016

	2017	2016
Revenues:		
Electric system:		
Sales of electricity	**$ 293,066,410**	$ 287,808,939
Transfers from rate stabilization	**15,548,835**	1,040,147
Other revenue	**6,022,825**	14,907,556
Other income	**70,159**	1,338,385
Build America Bonds	**2,935,564**	2,975,136
Total electric system revenues	**317,643,793**	308,070,163
Water system:		
Sales of water	**35,307,646**	33,048,658
Transfer to rate stabilization	**(2,517,293)**	(3,264,403)
Other revenue	**2,338,143**	3,062,392
Other income (expense)	**(862,300)**	137,904
Build America Bonds	**824,619**	833,766
Total water system revenues	**35,090,815**	33,818,317
Wastewater system:		
Sales of wastewater	**40,105,516**	38,220,254
Transfer to rate stabilization	**(849,983)**	(2,117,697)
Other revenue	**3,874,344**	5,111,199
Other income	**122,122**	191,823
Build America Bonds	**933,336**	940,799
Total wastewater system revenues	**44,185,335**	42,346,378
Gas system:		
Sales of gas	**21,522,855**	20,316,747
Transfer from (to) rate stabilization	**(1,058,123)**	1,986,508
Other revenue	**918,597**	1,228,825
Other income (expense)	**(73,167)**	170,119
Build America Bonds	**614,682**	622,829
Total gas system revenues	**21,924,844**	24,325,028
Telecommunications system:		
Sales of services	**11,189,423**	11,684,200
Transfer from (to) rate stabilization	**584,913**	(7,402)
Other revenue	**11,562**	1,294
Other income (expense)	**(335,831)**	66,392
Total telecommunications system revenue	**11,450,067**	11,744,484
Total revenues	**$ 430,294,854**	$ 420,304,370

Continued on next page.

Gainesville Regional Utilities
Schedules of Combined Net Revenues
in Accordance with Bond Resolution (concluded)
For the Years Ended September 30, 2017 and 2016

	2017	2016
Operation, maintenance and administrative expenses:		
Electric system:		
Fuel expense	**$ 162,490,201**	$ 156,070,106
Operation and maintenance	**49,551,764**	42,020,231
Administrative and general	**23,482,983**	27,200,222
Total electric system expense	**235,524,948**	225,290,559
Water system:		
Operation and maintenance	**9,944,066**	7,985,190
Administrative and general	**5,519,450**	6,841,967
Total water system expense	**15,463,516**	14,827,157
Wastewater system:		
Operation and maintenance	**13,078,881**	10,939,007
Administrative and general	**5,973,307**	6,449,144
Total wastewater system expense	**19,052,188**	17,388,151
Gas system:		
Fuel expense and purchased gas	**7,025,104**	6,751,817
Operation and maintenance	**2,505,904**	2,058,670
Administrative and general	**3,370,550**	5,766,555
Total gas system expense	**12,901,558**	14,577,042
Telecommunications system:		
Operation and maintenance	**5,285,596**	4,301,929
Administrative and general	**1,823,125**	3,120,361
Total telecommunications system expense	**7,108,721**	7,422,290
Total expenses	**290,050,931**	279,505,199
Net revenue in accordance with bond resolution:		
Electric	**82,118,845**	82,780,604
Water	**19,627,299**	18,991,160
Wastewater	**25,133,147**	24,958,227
Gas	**9,023,286**	9,747,986
Telecommunications	**4,341,346**	4,322,194
Total net revenue in accordance with bond resolution	**$ 140,243,923**	$ 140,800,171
Aggregate bond debt service	**$ 55,988,596**	$ 55,821,582
Aggregate bond debt service coverage ratio	**2.50**	2.52
Total debt service	**$ 62,571,817**	$ 62,027,441
Total debt service coverage ratio	**2.24**	2.27

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution – Electric Utility System
For the Years Ended September 30, 2017 and 2016

		2017		2016
Revenues				
Sales of electricity:				
Residential	$	47,236,704	$	48,414,299
Non-residential		61,748,151		60,244,513
Fuel adjustment		162,490,201		155,825,143
Sales for resale		4,042,864		3,901,063
Utility surcharge		2,979,234		3,049,201
Other electric sales		14,569,256		16,375,720
Total sales of electricity		293,066,410		287,809,939
Transfers from rate stabilization		15,548,835		1,040,147
Other revenue		6,022,825		14,907,556
Other income		70,159		1,338,385
Build America Bonds		2,935,564		2,975,136
Total revenues		317,643,793		308,071,163
Operation, maintenance and administrative expenses				
Fuel expenses		162,490,201		155,825,143
Power production		29,340,502		27,723,441
Transmission and distribution		19,232,279		14,296,790
Interchange		978,983		244,963
Administrative and general		23,482,983		27,200,222
Total operation, maintenance, and administrative expenses		235,524,948		225,290,559
Total net revenues in accordance with bond resolution	$	82,118,845	$	82,780,604
Less:				
Debt service		38,978,216		38,623,885
Debt service - UPIF		(5,000,000)		-
UPIF contributions		27,046,177		24,734,721
Transfer to City of Gainesville General Fund		21,094,452		19,421,998
Net impact to rate stabilization - addition (reduction)	$	–	$	–

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution – Water Utility System
For the Years Ended September 30, 2017 and 2016

	2017	2016
Revenues		
Residential	**$ 21,876,220**	$ 20,391,611
Non-residential	**10,832,890**	10,276,880
Utility surcharge	**2,598,536**	2,380,167
Total sales of water	**35,307,646**	33,048,658
Transfers to rate stabilization	**(2,517,293)**	(3,264,403)
Other revenues	**2,338,143**	3,062,392
Other Income (expense)	**(862,300)**	137,904
Build America Bonds	**824,619**	833,766
Total revenues	**35,090,815**	33,818,317
Operation, maintenance, and administrative expenses		
Transmission and distribution	**3,281,281**	2,512,270
Treatment	**6,662,785**	5,472,920
Administrative and general	**5,519,450**	6,841,967
Total operation, maintenance, and administrative expenses	**15,463,516**	14,827,157
Total net revenues in accordance with bond resolution	**$ 19,627,299**	$ 18,991,160
Less:		
Debt service	**6,836,438**	6,555,120
UPIF contributions	**7,042,712**	6,758,167
Transfer to City of Gainesville General Fund	**5,748,149**	5,677,873
Net impact to rate stabilization - addition (reduction)	**$ –**	$ –

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Wastewater Utility System
For the Years Ended September 30, 2017 and 2016

	2017	2016
Revenues		
Residential	**$27,090,198**	$ 26,062,781
Non-residential	**10,157,051**	9,514,192
Utility surcharge	**2,858,267**	2,643,281
Total sales of services	**40,105,516**	38,220,254
Transfers to rate stabilization	**(849,983)**	(2,117,697)
Other revenue	**3,874,344**	5,111,199
Other income	**122,122**	191,823
Build America Bonds interest income	**933,336**	940,799
Total revenues	**44,185,335**	42,346,378
Operation, maintenance, and administrative expenses		
Collection	**6,402,349**	3,669,178
Treatment	**6,676,532**	7,269,829
Administrative and general	**5,973,307**	6,449,144
Total operation, maintenance, and administrative expenses	**19,052,188**	17,388,151
Total net revenues in accordance with bond resolution	**$ 25,133,147**	$ 24,958,227
Less:		
Debt service	**8,466,469**	8,123,577
UPIF contributions	**9,432,248**	9,337,059
Transfer to City of Gainesville General Fund	**7,234,430**	7,497,591
Net impact to rate stabilization - addition (reduction)	**$ –**	$ –

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution – Gas Utility System
For the Years Ended September 30, 2017 and 2016

	2017	2016
Revenues		
Residential	**$7,360,771**	$ 7,142,586
Non-residential	**5,484,284**	4,753,630
Fuel adjustment	**7,025,104**	6,751,817
Utility surcharge	**474,737**	456,549
Other gas sales	**1,177,959**	1,212,165
Total sales of gas	**21,522,855**	20,316,747
Transfers from (to) rate stabilization	**(1,058,123)**	1,986,508
Other revenue	**918,597**	1,228,825
Other income (expense)	**(73,167)**	170,119
Build America Bonds	**614,682**	622,829
Total revenues	**21,924,844**	24,325,028
Operation, maintenance, and administrative expenses		
Fuel expense - purchased gas	**7,025,104**	6,751,817
Operation and maintenance	**2,505,904**	2,058,670
Administrative and general	**3,370,550**	5,766,555
Total operation, maintenance, and administrative expenses	**12,901,558**	14,577,042
Total net revenues in accordance with bond resolution	**$ 9,023,286**	$ 9,747,986
Less:		
Debt service	**4,568,628**	4,526,353
UPIF contributions	**3,093,726**	2,824,504
Transfer to City of Gainesville General Fund	**1,360,932**	2,397,129
Net impact to rate stabilization - addition (reduction)	**$ –**	$ –

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution – Telecommunications System
For the Years Ended September 30, 2017 and 2016

	2017	2016
Revenues		
Residential	**$ 46,884**	$ 52,719
Non-residential	**11,142,539**	11,631,481
Total sales of services	**11,189,423**	11,684,200
Transfers from (to) rate stabilization	**584,913**	(7,402)
Other revenue	**11,562**	1,294
Other income (expense)	**(335,831)**	66,392
Total revenues	**11,450,067**	11,744,484
Operation, maintenance, and administrative expenses		
Operation and maintenance	**5,285,596**	4,301,929
Administrative and general	**1,823,125**	3,120,361
Total operation, maintenance, and administrative expenses	**7,108,721**	7,422,290
Total net revenues in accordance with bond resolution	**$ 4,341,346**	$ 4,322,194
Less:		
Debt service	**3,722,066**	4,198,506
UPIF contributions	**243,233**	123,688
Transfer to City of Gainesville General Fund	**376,047**	-
Net impact to rate stabilization - addition (reduction)	**$ –**	$ –

Gainesville Regional Utilities
Notes to Schedules of Net Revenues in Accordance with Bond Resolution
For the Years Ended September 30, 2017 and 2016

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

- All non-cash activities are excluded.

Gainesville Regional Utilities
Combining Statement of Net Position
September 30, 2017

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Assets						
Current assets:						
Cash and investment	$ 22,728,981	$ 6,387,901	$ 7,525,783	$ 5,359,309	$ 7,486,196	$ 49,488,170
Accounts receivable, net of allowance for uncollectible accounts	40,632,400	4,359,451	4,480,718	1,660,485	1,290,265	52,423,319
Inventories:						
Fuel	7,697,011	-	-	-	-	7,697,011
Materials and supplies	5,908,213	896,162	57,961	452,419	439,362	7,754,117
Fuel adjustment	5,588,054	-	-	(858,737)	-	4,729,317
Other assets and regulatory assets	1,772,668	87,331	(33,076)	955,890	10,826	2,793,639
Total current assets	84,327,327	11,730,845	12,031,386	7,569,366	9,226,649	124,885,573
Restricted assets:						
Utility deposits - cash and investments	8,252,179	811,537	538,532	396,470	-	9,998,718
Debt service - cash and investments	27,862,023	4,448,782	4,727,328	2,956,770	2,327,416	42,322,319
Rate stabilization - cash and investments	35,572,780	9,842,787	11,646,168	5,359,917	10,254	62,431,906
Construction fund - cash and investments	1,647,799	962,695	1,794,039	75,639	4,348,590	8,828,762
Utility plant improvement fund - cash and investments	13,176,782	12,049,174	6,615,940	3,543,882	32,297	35,418,075
Total restricted assets	86,511,563	28,114,975	25,322,007	12,332,678	6,718,557	158,999,780
Noncurrent assets:						
Net costs recoverable in future years - regulatory asset	61,574,434	-	-	-	-	61,574,434
Unamortized debt issuance costs - regulatory asset	3,755,097	636,226	775,856	384,614	269,448	5,821,241
Investment in The Energy Authority	1,288,881	-	-	805,102	-	2,093,983
Pollution remediation - regulatory asset	-	-	-	12,133,159	-	12,133,159
Other noncurrent assets and regulatory assets	3,458,776	559,219	673,991	224,048	84,814	5,000,848
Pension regulatory asset	43,747,899	9,524,607	11,832,759	4,243,886	3,792,361	73,141,512
Total noncurrent assets	113,825,087	10,720,052	13,282,606	17,790,809	4,146,623	159,765,177
Capital assets:						
Utility plant in service	1,158,781,857	289,287,812	380,256,040	93,723,302	72,688,569	1,994,737,580
Capital lease	1,006,808,754	-	-	-	-	1,006,808,754
Less: accumulated depreciation and amortization	(651,851,821)	(117,915,869)	(155,367,998)	(48,679,203)	(37,087,322)	(1,010,902,213)
	1,513,738,790	171,371,943	224,888,042	45,044,099	35,601,247	1,990,644,121
Construction in progress	66,931,096	7,629,868	12,739,777	3,485,611	1,311,723	92,098,075
Net capital assets	1,580,669,886	179,001,811	237,627,819	48,529,710	36,912,970	2,082,742,196
Total assets	1,865,333,863	229,567,683	288,263,818	86,222,563	57,004,799	2,526,392,726
Deferred outflows of resources:						
Unamortized loss on refundings of bonds	12,564,939	2,768,723	3,204,533	1,198,347	1,635,738	21,372,280
Accumulated decrease in fair value of hedging derivatives	42,283,618	6,565,355	6,082,057	1,693,593	1,027,738	57,652,361
Pension costs	16,687,258	3,633,078	4,513,504	1,618,794	1,446,563	27,899,197
Total deferred outflows of resources	71,535,815	12,967,156	13,800,094	4,510,734	4,110,039	106,923,838
Total assets and deferred outflows of resources	$ 1,936,869,678	$ 242,534,839	$ 302,063,912	$ 90,733,297	$ 61,114,838	$ 2,633,316,564

Continued on next page.

Gainesville Regional Utilities
Combining Statement of Net Position (concluded)
September 30, 2017

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Liabilities						
Current liabilities:						
Accounts payable and accrued liabilities	$ 22,327,635	$ 2,482,592	$ 2,914,998	$ 1,113,119	$ 618,713	$ 29,457,057
Fuels payable	12,951,316	-	-	354,581	-	13,305,897
Due to other funds	3,824,172	(2,944,700)	(4,113,456)	3,091,534	(731,133)	(873,583)
Capital lease – current	19,255,473	-	-	-	-	19,255,473
Other liabilities and regulatory liabilities	(325,675)	(115,506)	(84,300)	121,967	583,373	179,859
Total current liabilities	58,032,921	(577,614)	(1,282,758)	4,681,201	470,953	61,324,703
Payable from restricted assets:						
Utility deposits	7,786,145	811,537	538,532	396,470	-	9,532,684
Accounts payable and accrued liabilities	7,587,273	674,756	1,333,598	50,504	325,656	9,971,787
Utilities system revenue bonds – current	13,311,733	1,119,907	1,003,467	719,788	1,965,105	18,120,000
Commercial paper notes – current	3,131,425	508,285	1,256,995	1,003,295	-	5,900,000
Accrued interest payable	10,827,643	2,455,202	2,899,657	1,341,776	514,926	18,039,204
Total payable from restricted assets	42,644,219	5,569,687	7,032,249	3,511,833	2,805,687	61,563,675
Long-term debt:						
Utilities system revenue bonds	505,365,110	113,529,642	133,690,283	56,290,970	44,543,995	853,420,000
Commercial paper notes	21,546,000	5,256,000	11,304,000	6,894,000	8,000,000	53,000,000
Capital lease	922,013,598	-	-	-	-	922,013,598
Unamortized bond premium/discount	11,023,034	1,527,785	3,027,942	901,268	422,358	16,902,387
Fair value of derivative instruments	44,290,895	7,124,573	6,756,048	1,997,438	1,015,126	61,184,080
Total long-term debt	1,504,238,637	127,438,000	154,778,273	66,083,676	53,981,479	1,906,520,065
Noncurrent liabilities:						
Reserve for insurance claims	1,999,960	598,326	546,333	187,085	5,296	3,337,000
Reserve for environmental liability	-	-	-	665,000	-	665,000
Pension liability	49,467,696	10,769,896	13,379,828	4,798,751	4,288,191	82,704,362
Total noncurrent liabilities	51,467,656	11,368,222	13,926,161	5,650,836	4,293,487	86,706,362
Total liabilities	1,656,383,433	143,798,295	174,453,925	79,927,546	61,551,606	2,116,114,805
Deferred inflows of resources:						
Rate stabilization	35,928,183	9,910,077	11,722,814	5,385,476	(577,511)	62,369,039
Pension costs	10,967,461	2,387,789	2,966,435	1,063,929	950,733	18,336,347
Total deferred inflows of resources	46,895,644	12,297,866	14,689,249	6,449,405	373,222	80,705,386
Net position:						
Net investment in capital assets	91,649,021	60,116,857	91,010,113	(3,922,970)	(12,359,869)	226,493,152
Restricted	30,321,750	13,975,461	8,366,957	5,133,317	2,432,606	60,230,091
Unrestricted	111,619,830	12,346,360	13,543,668	3,145,999	9,117,273	149,773,130
Total net position	233,590,601	86,438,678	112,920,738	4,356,346	(809,990)	436,496,373
Total liabilities, deferred inflows of resources and net position	$ 1,936,869,678	$ 242,534,839	$ 302,063,912	$ 90,733,297	$ 61,114,838	$ 2,633,316,564

Gainesville Regional Utilities
Combining Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2017

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Operating revenue:						
Sales and service charges	$ 293,065,520	$ 35,307,647	$ 40,105,516	$ 21,522,854	$ 11,189,423	$ 401,190,960
Transfers from/(to) rate stabilization	15,548,835	(2,517,293)	(849,983)	(1,058,123)	584,913	11,708,349
Amounts to be recovered from future revenue	33,560,292	-	-	-	-	33,560,292
Other operating revenue	6,788,432	2,338,144	4,010,855	932,133	11,561	14,081,125
Total operating revenues	348,963,079	35,128,498	43,266,388	21,396,864	11,785,897	460,540,726
Operating expenses:						
Operation and maintenance	212,175,975	9,939,568	13,180,232	10,049,311	5,286,981	250,632,067
Administrative and general	22,837,828	5,682,575	6,054,622	4,032,547	2,060,028	40,667,600
Depreciation and amortization	73,832,112	11,157,578	12,784,138	4,310,417	3,318,467	105,402,712
Total operating expenses	308,845,915	26,779,721	32,018,992	18,392,275	10,665,476	396,702,379
Operating income	40,117,164	8,348,777	11,247,396	3,004,589	1,120,421	63,838,347
Non-operating income (expense):						
Interest expense, net of AFUDC	(23,485,516)	(5,344,573)	(5,798,557)	(2,888,095)	(2,197,838)	(39,714,579)
Other interest related income, BABs	2,935,563	824,619	933,337	614,682	-	5,308,201
Other income (expense)	64,961	(495,470)	94,743	(156,578)	409,384	(82,960)
Total non-operating expense	(20,484,992)	(5,015,424)	(4,770,477)	(2,429,991)	(1,788,454)	(34,489,338)
Income before capital contributions and transfers	19,632,172	3,333,353	6,476,919	574,598	(668,033)	29,349,009
Capital contributions:						
Contributions from third parties	58,390	4,067,912	3,509,780	-	-	7,636,082
Reduction of plant cost recovered through contributions	(58,390)	-	-	-	-	(58,390)
Net capital contributions	-	4,067,912	3,509,780	-	-	7,577,692
Transfers (to) from						
Other systems	(11,023,055)	6,176,788	6,609,418	(4,450,380)	2,687,229	-
City of Gainesville General Fund	(21,094,452)	(5,748,149)	(7,234,430)	(1,360,932)	(376,047)	(35,814,010)
Change in net position	(12,485,335)	7,829,904	9,361,687	(5,236,714)	1,643,149	1,112,691
Net position – beginning of year, restated	246,075,936	78,608,774	103,559,051	9,593,060	(2,453,139)	435,383,682
Net position – end of year	$ 233,590,601	$ 86,438,678	$ 112,920,738	$ 4,356,346	$ (809,990)	$ 436,496,373

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

	Balance September 30, 2016	Additions	Sales, Retirements, and Transfers	Balance September 30, 2017
Plant in service				
Electric utility system:				
Production plant	$ 1,640,378,611	$ 26,422,164	$ 1,117,765	$ 1,665,683,010
Transmission and distribution plant	354,236,141	7,345,535	1,392,136	360,189,540
General and common plant	119,204,835	10,716,047	(9,797,179)	139,718,061
Total electric system	2,113,819,587	44,483,746	(7,287,278)	2,165,590,611
Water utility system:				
Supply, pumping, and treatment plant	71,748,173	4,693,542	–	76,441,715
Transmission and distribution plant	169,541,827	26,112,845	1,657,133	193,997,539
General plant	22,740,190	1,927,552	5,819,184	18,848,558
Total water system	264,030,190	32,733,939	7,476,317	289,287,812
Wastewater utility system:				
Pumping and treatment plant	128,960,038	9,245,441	–	138,205,479
Collection plant	155,710,632	33,099,633	158,239	188,652,026
Reclaimed water plant	27,713,041	1,776,501	121,040	29,368,502
General plant	28,231,446	2,273,143	6,474,556	24,030,033
Total wastewater system	340,615,157	46,394,718	6,753,835	380,256,040
Gas utility system:				
Distribution plant	70,232,120	3,845,233	13,287	74,064,066
General plant	9,514,226	1,632,437	(3,861,937)	15,008,600
Plant acquisition adjustment	4,650,636	–	–	4,650,636
Total gas system	84,396,982	5,477,670	(3,848,650)	93,723,302
GRUCom utility system:				
Distribution plant	58,770,778	3,779,808	519,578	62,031,008
General plant	11,830,272	1,121,020	2,293,731	10,657,561
Total GRUCom system	70,601,050	4,900,828	2,813,309	72,688,569
Total plant in service	$ 2,873,462,966	$ 133,990,901	$ 5,907,533	$ 3,001,546,334
Construction in progress				
Electric system	$ 60,980,014	$ 50,973,778	$ 45,022,696	$ 66,931,096
Water system	28,928,104	11,435,702	32,733,938	7,629,868
Wastewater system	41,780,614	17,353,883	46,394,720	12,739,777
Gas system	4,612,388	4,354,433	5,481,210	3,485,611
GRUCom system	3,579,682	2,632,869	4,900,828	1,311,723
Total construction in progress	$ 139,880,802	$ 86,750,665	$ 134,533,392	$ 92,098,075

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

	Balance September 30, 2016	Additions	Sales, Retirements, and Transfers	Balance September 30, 2017
Electric utility system:				
Production plant	$ 361,195,806	$ 51,695,197	$ 930,988	$ 411,960,015
Transmission and distribution plant	161,431,326	13,371,224	1,107,665	173,694,885
General and common plant	56,307,935	8,586,003	(1,302,983)	66,196,921
Total electric system	578,935,067	73,652,424	735,670	651,851,821
Water utility system:				
Supply, pumping, and treatment plant	22,979,595	3,205,253	-	26,184,848
Transmission and distribution plant	80,590,110	5,169,322	856,028	84,903,404
General plant	5,059,436	2,780,488	1,012,308	6,827,616
Total water system	108,629,141	11,155,063	1,868,336	117,915,868
Wastewater utility system:				
Pumping and treatment plant	58,373,147	4,091,687	-	62,464,834
Collection plant	74,278,154	5,271,807	85,860	79,464,101
Reclaimed water plant	3,554,834	869,831	32,754	4,391,911
General plant	7,796,372	2,544,068	1,293,288	9,047,152
Total wastewater system	144,002,507	12,777,393	1,411,902	155,367,998
Gas utility system:				
Distribution plant	36,025,312	3,271,331	12,797	39,283,846
General plant	3,217,833	1,033,158	(493,729)	4,744,720
Plant acquisition adjustment	4,650,637	-	-	4,650,637
Total gas system	43,893,782	4,304,489	(480,932)	48,679,203
GRUCom utility system:				
Distribution plant	32,239,209	2,386,280	399,147	34,226,342
General plant	2,294,961	933,164	367,144	2,860,981
Total GRUCom system	34,534,170	3,319,444	766,291	37,087,323
Total depreciation and amortization	$ 909,994,667	$ 105,208,813	$ 4,301,267	$ 1,010,902,213

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, 2017, and have issued our report thereon dated March 29, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 29, 2018