



**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
GAINESVILLE REGIONAL UTILITIES
GAINESVILLE, FLORIDA**

SEPTEMBER 30, 2024 AND 2023

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SEPTEMBER 30, 2024 AND 2023

TABLE OF CONTENTS

Independent Auditors' Report	1-3
Required Supplementary Information - Unaudited	
Management's Discussion and Analysis	4-11
Financial Statements	
Statements of Net Position	12-13
Statements of Revenues, Expenses, and Changes in Net Position	14
Statements of Cash Flows.....	15-16
Notes to Financial Statements.....	17-86
Other Report	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	88-89

INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report

To the Gainesville Regional Utilities Authority of
Gainesville Regional Utilities

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Gainesville Regional Utilities (GRU), an enterprise fund of the City of Gainesville, Florida (the City), as of and for the years ended September 30, 2024 and 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the GRU as of September 30, 2024 and 2023, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the GRU and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the enterprise fund and do not purport to, and do not, present fairly the financial position of the City, as of September 30, 2024, and 2023, and the changes in financial position, or cash flows 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 GRU's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2025 on our consideration of the GRU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the GRU's 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 GRU's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Madison, Wisconsin
February 14, 2025

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 systems. GRU is a utility enterprise of the City of Gainesville, Florida (City) and is reported as an enterprise fund in the Annual Comprehensive Financial Report of the City.

We offer readers of GRU's financial statements this Management's Discussion and Analysis (MD&A) of the financial activities of GRU for the fiscal years ended September 30, 2024, 2023 and 2022 with comparison to the prior fiscal year. The MD&A should be read in conjunction with the financial statements and notes that follow this section.

Basic Financial Statements

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

Statement of Revenues, Expenses, and Changes in Net Position: The current and prior year revenues and expenses are reported in this statement along with the resulting change in net position. This statement measures the success of the combined Utility's operations over the past year.

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

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

Management's Discussion and Analysis

Financial Analysis of Gainesville Regional Utilities

GRU's net position increased \$16.2 million, decreased \$17.3 million, and increased \$20.4 million for fiscal years 2024, 2023 and 2022, 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

	2024	2023	2022
Current assets	\$ 161,634	\$ 148,786	\$ 174,246
Restricted and internally designated assets	339,895	391,955	255,062
Noncurrent assets	278,519	297,518	296,135
Net capital assets	1,855,470	1,856,737	1,854,172
Deferred outflows of resources	15,897	40,014	95,717
Total assets and deferred outflows of resources	\$ 2,651,415	\$ 2,735,010	\$ 2,675,332
Current liabilities	\$ 53,050	\$ 45,585	\$ 44,295
Payable from restricted assets	83,723	86,973	78,962
Long-term debt	1,824,785	1,915,180	1,802,756
Noncurrent liabilities	108,237	152,759	192,711
Deferred inflows of resources	163,108	132,209	137,011
Total liabilities and deferred inflows of resources	2,232,903	2,332,706	2,255,735
Net position:			
Net investment in capital assets	149,175	90,780	97,713
Restricted	92,911	96,978	82,648
Unrestricted	176,426	214,546	239,236
Total net position	418,512	402,304	419,597
Total liabilities, deferred inflows of resources and net position	\$ 2,651,415	\$ 2,735,010	\$ 2,675,332

Management's Discussion and Analysis

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

	2024	2023	2022
Operating revenue	\$ 433,557	\$ 450,956	\$ 524,838
Interest income	14,551	7,019	2,697
Other interest related income, BABs	4,874	4,927	5,012
Total revenues	452,982	462,902	532,547
Operating expenses	359,782	381,496	417,228
Interest expense	68,859	66,126	63,511
Other (income) expense	1,446	(1,344)	4,563
Total expenses	430,087	446,278	485,302
Income before capital contributions and transfer	22,895	16,624	47,245
Contributions from third parties	8,618	366	9,401
Transfer to City of Gainesville General Fund	(15,305)	(34,283)	(36,283)
Change in net position	16,208	(17,293)	20,363
Net position, beginning of year	402,304	419,597	399,234
Net position, end of year, restated	\$ 418,512	\$ 402,304	\$ 419,597

Financial Highlights

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

- Current assets increased \$12.8 million in fiscal year 2024 due primarily to an increase in operating cash and investments. Current assets decreased \$25.5 million in fiscal year 2023 due primarily to the movement of the fuel and purchased gas adjustment balance from an asset owed to GRU to a liability of GRU.
- Restricted and internally designated assets decreased \$52.1 million in fiscal year 2024 due primarily to a decrease in construction fund and utility plant improvement fund cash spent on capital project activity during the fiscal year. Restricted and internally designated assets increased \$136.9 million in fiscal year 2023 due primarily to an increase in construction fund cash and investments resulting from the 2023 bond issuance.

Management's Discussion and Analysis

- Noncurrent assets decreased \$19.0 million in fiscal year 2024 due primarily to a decrease in net costs recoverable in future years and the fair value of derivative instruments. Noncurrent assets increased \$1.4 million in fiscal year 2023 due primarily to an increase in the pension regulatory asset.
- Long-term debt decreased \$90.4 million in fiscal year 2024 due primarily to scheduled principal payments and early defeasance of utility system revenue bonds as part of our debt reduction plan along with a reduction of unamortized bond premium associated with the early defeasance. Long-term debt increased \$112.4 million in fiscal year 2023 due primarily to the issuance of the 2023 Series C utility system revenue bonds.
- Noncurrent liabilities decreased \$44.5 million in fiscal year 2024 due primarily to a decrease in net pension from a liability to an asset. Noncurrent liabilities decreased \$40 million in fiscal year 2023 due primarily to a decrease in the net pension liability.
- Sales and service charges decreased \$17 million or 3.7%, decreased \$43.1 million or 8.8%, and increased \$89.6 million or 22.5%, in fiscal years 2024, 2023, and 2022, respectively. The decrease in sales and service charges in fiscal year 2024 is primarily the result of decreases in the fuel adjustment and purchased gas adjustment rates in response to lower fuel expenses compared to fiscal year 2023, partially offset by increases in electric and wastewater base rates. The decrease in sales and service charges in fiscal year 2023 is primarily the result of decreases in the fuel adjustment and purchased gas adjustment rates in response to lower fuel expenses compared to fiscal year 2022, partially offset by increases in electric and wastewater base rates.
- Operating expenses decreased \$21.7 million or 5.7%, decreased \$35.7 million or 8.6%, and increased \$85.7 million or 25.9%, in fiscal years 2024, 2023, and 2022, respectively. The decrease in fiscal year 2024 is due to lower natural gas and biomass fuel expenses compared to fiscal year 2023. The decrease in fiscal year 2023 is due to reductions in the fuel adjustment and purchased gas adjustment rates in response to lower fuel expenses compared to fiscal year 2022.
- The transfer to rate stabilization was \$492 thousand in fiscal year 2024. Transfers to rate stabilization were \$9 million in fiscal year 2023, and transfers from rate stabilization were \$12.3 million in fiscal year 2022.
- For fiscal year 2025, GRU did not implement increases in the revenue requirement for the electric, water, wastewater and gas systems. For fiscal year 2024, GRU implemented increases in the revenue requirement of 3% for the electric system and 5% for the wastewater system. For fiscal year 2023, GRU implemented increases in the revenue requirement of 3% for the electric system and 5% for the wastewater system.

Management's Discussion and Analysis

Capital Assets

GRU's investment in capital assets as of September 30, 2024 was \$1.9 billion (net of accumulated depreciation and amortization). Gross utility plant in service increased \$107.3 million, or 3.4% in fiscal year 2024 due primarily to the completion of electric, water and wastewater capital projects. Gross utility plant in service increased \$58.5 million, or 1.9% in fiscal year 2023 due primarily to the completion of electric, water and wastewater capital projects. Gross utility plant increased \$106.1 million, or 3.6% in fiscal year 2022 due primarily to the completion of electric, water and wastewater capital projects.

Major capital asset events during the fiscal years include:

- Electric transmission and distribution additions were \$26 million in fiscal year 2024. These additions included regulator bank controller replacements and meter deployment associated with our Advanced Metering Infrastructure.
- Electric generation additions were \$19.6 million for fiscal year 2024. These additions included Deerhaven Renewable Plant Stacker Reclaimer Bearing replacement, John R. Kelly electrical upgrades and Deerhaven Unit 1 Stacker repairs.
- Water additions were \$35 million in fiscal year 2024. These additions included improvements to the Murphree Water Treatment Plant service pumps and lime sludge pumps, distribution lines for existing and new extensions, along with meter deployment associated with our Advanced Metering Infrastructure.
- Wastewater additions were \$38.8 million in fiscal year 2024. These additions included upgrades to the Kanapaha Water Reclamation Facility (KWRF) for aerator replacements, rebuilding a dewatering centrifuge, and upgrades to treatment and disposal equipment. Other additions included manhole replacements, improvements and extensions to gravity collection systems and cleanouts.
- Gas distribution additions were \$11.9 million in fiscal year 2024. These additions were due to extensions of the gas system to new residential and commercial developments.
- Telecommunications additions for fiber and electronics expansion were \$763 thousand in fiscal year 2024, including a new server farm project.

Commitments for capital expenses as of September 30, 2024 were \$71.6 million due primarily to work on our Advanced Metering Infrastructure, Main Street Water Reclamation Facility, Eastside Operations Center Lift Station #1 and substation transformer replacements, Wastewater line and manhole rehabilitation, Deerhaven compressor spare rotor, South Energy Center Underground steam pipes, and telecommunications central office mechanical and electrical renovations.

Additional information may be found in Note 4 Capital Assets.

Management's Discussion and Analysis

Long-Term Debt

At September 30, 2024, 2023, and 2022, GRU had total long-term debt outstanding of \$1.8 billion in fiscal year 2024, \$1.8 billion for the fiscal year 2023, and \$1.7 billion for fiscal year 2022, comprised of utilities system revenue bonds (in thousands):

Gainesville Regional Utilities Outstanding Debt at September 30:

	2024	2023	2022
Utilities system revenue bonds	\$ 1,773,860	\$ 1,849,115	\$ 1,731,945

Long-term debt, including current portion, decreased \$75.3 million, or 4.1%, in fiscal year 2024 due to \$35.7 million in scheduled principal payments, \$23.2 million in redemptions, and \$16.4 million in defeasances. The redemptions and defeasances were part of the Utility's debt reduction plan and the debt reduction associated with the sale of the Trunking Radio System (TRS). Long-term debt, including current portion, increased \$117.1 million, or 6.8%, in fiscal year 2023 due to the issuance of the 2023 Series bonds offset by scheduled principal payments. Long-term debt, including current portion, decreased \$1.7 million, or .1%, in fiscal year 2022, due to scheduled principal payments and a refunding of the 2007A and 2012A Bond series.

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

- On September 25, 2024, GRU defeased \$15.7 million of the 2017 Series A and redeemed \$10.1 million of the 2012 Series B using funds set aside from savings generated for the sole purpose of reducing outstanding long-term debt.
- On September 25, 2024, GRU redeemed \$255,000 of the 2014 Series B, redeemed \$610,000 of the 2019 Series C, and defeased \$705,000 of the 2019 Series A using proceeds from the sale of the TRS on December 28, 2023. The redemptions and defeasance were to pay off a portion of the associated TRS related debt.
- On August 22, 2024, GRU redeemed \$275,000 of the 2020 Series A, \$1.2 million of the 2022 Series A, and \$4.7 million of the 2022 Series B using proceeds from the sale of the TRS on December 28, 2023. The redemption was to pay off a portion of the associated TRS related debt.
- On May 10, 2024, GRU redeemed \$3.1 million of the 2005 Series C and \$3.0 million of the 2006 Series A using funds set aside from savings generated to reduce the Utility's long-term debt.
- On June 22, 2023, GRU issued its Utilities System Revenue Bonds, 2023 Series C for \$151.2 million as a direct placement with Wells Fargo to fund its capital program.

Management's Discussion and Analysis

- In May 2023, GRU issued its 2023 Series A bonds (\$160 million) to replace the 2017 Series B bonds (\$45 million) and the 2017 Series C bonds (\$115 million), and issued its 2023 Series B bonds (\$105 million) to replace the 2020 Series B bonds (\$105 million) as direct placements.
- In May 2023, GRU issued its 2023 Series A swap (\$45 million) to replace the 2017 Series B swap (\$45 million), and issued its 2023 Series A swap (\$115 million) to replace the 2017 Series C swap (\$115 million), and issued its 2023 Series B swap (\$105 million) to replace the 2017 Series B swap (\$105 million).
- On October 26, 2022, a portion of the 2017 Series A October 1, 2026 and October 1, 2027 maturities were legally defeased for the purpose of reducing outstanding debt. The cash defeasance targeted reducing spikes in debt service in certain years to a more manageable level. Cashflow savings were targeted for FY 2022-2027 to provide short-term savings in debt service. \$2,710,000 and \$750,000 were legally defeased from the October 1, 2026, and October 1, 2027, maturities respectively. The escrow agreement was executed with U.S. Bank N.A. and the account was gross funded at closing. A verification agent was used to confirm cashflows of the defeased debt. The amount of cash for the escrow account to purchase securities was \$3,570,832. The cashflow in the escrow account has scheduled payment dates from April 1, 2023, through October 1, 2027. The escrow sinking fund includes \$3,460,000 principal and \$729,500 of defeased interest for a defeased debt service total of \$4,189,500, resulting in a present value saving of \$3,602,840.
- In July 2022, GRU issued its Utilities System Revenue Bonds, 2022 Series A for \$66.8 million, which refunded most of the 2012 Series A bond in the amount of \$66.1 million.
- In April 2022, GRU issued its Utilities System Revenue Bonds, 2022 Series B for \$234 million. The issuance refunded the 2007 Series A bond of \$127.8 million and the 2008 Series B bond of \$75.8. Additionally the issuance terminated \$132.2 million of the 2007 Series A swaps and \$90 million of the 2008 Series B swaps.
- On October 28, 2021, a portion of the 2017 Series A October 1, 2025, and October 1, 2026, maturities were legally defeased for the purpose of reducing outstanding debt. The cash defeasance targeted reducing spikes in debt service in certain years to a more manageable level. Cashflow savings were targeted for FY 2022-2026 to provide short-term savings in debt service. \$4,220,000 and \$2,965,000 were legally defeased from the October 1, 2025, and October 1, 2026, maturities respectively. The escrow agreement was executed with U.S. Bank N.A. and the account was gross funded at closing. A verification agent was used to confirm cashflows of the defeased debt. The amount of cash for the escrow account to purchase securities was \$8,413,010, which also included a cash deposit of \$197,010. The cashflow in the escrow account has scheduled payment dates from April 1, 2022, through October 1, 2026. The escrow sinking fund includes \$7,185,000 of principal and \$1,585,250 of defeased interest for a defeased debt service total of \$8,770,250.

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

Management's Discussion and Analysis

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

On June 28, 2023, Florida Governor Ron DeSantis signed Bill CS/HB 1645 into law as Chapter 2023-348 (2023-348) which took effect on July 1, 2023. 2023-348 changes the governance of GRU to a governor appointed board known as the Gainesville Regional Utilities Authority (GRUA), upon installation of the Authority's members. The law replaced existing governance of the Gainesville City Commission with the Authority.

In June 2024, the City Commission of the City of Gainesville passed Ordinance 2024-448, which submitted to voters an amendment to the City of Gainesville Charter deleting Article VII which had established GRUA in its entirety. GRUA filed a Complaint for Declaratory Judgment and Injunctive Relief on September 10, 2024, followed by an Emergency Motion for Temporary Injunction and a Request for Expedited Hearing on September 23, 2024. A hearing was held on October 23, 2024, and a temporary injunction was put in place to prevent the City of Gainesville from enforcing the charter amendment until resolution of the issues in the legal case. The parties are engaging in discovery and preparing competing Motions for Summary Judgement. Expected timing of the hearing is April 2025.

GRU implemented a new billing system that went live in April 2023. Some benefits include improving customers' ability to: view billing history; signing up for eBill or paper billing; updating email, mailing addresses and phone number; starting, stopping or moving service and paying their bill.

GRU is implementing an Advanced Metering Infrastructure that upgrades GRU meters to digital and equips these meters with wireless communication technology. This will allow collection of usage data daily as opposed to manual monthly readings. AMI will increase the efficiency of obtaining meter readings used in generating bills for our customers, improve safety conditions for staff and reduce wear and tear on vehicles. Customers will not be inconvenienced by GRU reading meters and be able to easily monitor their usage.

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.

GRU's long-term energy supply strategy is to provide safe, reliable, cost effective power, while meeting regulatory requirements. GRU has a diverse portfolio of generation including renewable energy. Based on the most recent forecasts, GRU has adequate reserves of generating capacity to meet forecasted loads plus maintaining the regulatory required reserve margin through 2031. 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, 2024 and 2023

	2024	2023
Assets		
Current assets:		
Cash and investments	\$ 54,239,572	\$ 25,834,774
Accounts receivable, net of allowance for uncollectible accounts of \$11,695,489 and \$8,993,806 respectively	53,623,615	65,342,716
Inventories:		
Fuel	18,585,283	18,661,824
Materials and supplies	29,487,675	34,818,772
Regulatory assets	1,287,951	1,265,951
Other assets	4,409,626	2,861,564
Total current assets	<u>161,633,722</u>	<u>148,785,601</u>
Restricted and internally designated assets:		
Current:		
Utility deposits - cash and investments	9,599,626	8,517,871
Debt service - cash and investments	68,803,492	70,069,516
Noncurrent:		
Debt defeasance - cash and investments	3,739,339	3,431,550
Fuel hedges - cash and investments	6,693,134	10,939,925
Rate stabilization - cash and investments	67,043,019	64,844,503
Construction fund - cash and investments	153,563,586	178,171,014
Utility plant improvement fund - cash and investments	30,453,140	55,980,916
Total restricted and internally designated assets	<u>339,895,336</u>	<u>391,955,295</u>
Noncurrent assets:		
Long-term lease receivable	19,592,609	19,282,835
Fair value of derivative instruments	19,406,603	44,406,093
Investment in The Energy Authority	11,300,704	9,575,168
Regulatory assets	201,511,896	217,323,839
Other assets	2,436,052	6,930,583
Net pension asset - restricted	21,402,726	-
Net other post-employment benefits asset - restricted	2,868,296	-
Total noncurrent assets	<u>278,518,886</u>	<u>297,518,518</u>
Capital assets:		
Utility plant in service	3,223,983,439	3,116,725,499
Right-of-use asset	12,784,133	11,461,919
Less: accumulated depreciation and amortization	<u>(1,501,603,046)</u>	<u>(1,410,835,846)</u>
	1,735,164,526	1,717,351,572
Construction in progress	120,304,965	139,385,234
Net capital assets	<u>1,855,469,491</u>	<u>1,856,736,806</u>
Total assets	<u>2,635,517,435</u>	<u>2,694,996,220</u>
Deferred outflows of resources:		
Unamortized loss on refunding of bonds	4,650,301	6,635,778
Accumulated decrease in fair value of hedging derivatives	1,518,293	5,655,372
General Employees' Pension plan costs	8,477,927	23,654,803
Other post-employment benefits plan	1,250,552	4,067,550
Total deferred outflows of resources	<u>15,897,073</u>	<u>40,013,503</u>
Total assets and deferred outflows of resources	<u><u>\$ 2,651,414,508</u></u>	<u><u>\$ 2,735,009,723</u></u>

Continued on next page.
See accompanying notes.

Gainesville Regional Utilities
Statements of Net Position (concluded)
September 30, 2024 and 2023

	2024	2023
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 25,216,312	\$ 19,553,568
Fuels payable	6,258,869	7,013,001
Due to other funds	8,824,732	9,405,643
Fuel and purchased gas adjustment	9,452,207	6,437,296
Other liabilities	3,298,330	3,175,256
Total current liabilities	<u>53,050,450</u>	<u>45,584,764</u>
Current liabilities from restricted assets:		
Utility deposits	9,530,217	8,509,917
Accounts payable and accrued liabilities	7,939,152	11,329,801
Utility system revenue bonds	35,340,000	35,680,000
Accrued interest payable	30,681,208	31,413,711
Other liabilities	232,269	39,092
Total payable from restricted assets	<u>83,722,846</u>	<u>86,972,521</u>
Long-term debt:		
Utility system revenue bonds	1,738,520,000	1,813,435,000
Long-term liability - leases	262,925	209,486
Long-term liability - SBITA	2,016,020	2,868,910
Unamortized bond premium/discount	81,626,821	92,538,457
Fair value of derivative instruments	2,358,738	6,128,402
Total long-term debt	<u>1,824,784,504</u>	<u>1,915,180,255</u>
Noncurrent liabilities:		
Reserve for insurance claims	1,342,000	1,960,000
Reserve for environmental liability	708,000	708,000
Net pension liability	-	47,616,640
Net other post-employment benefits liability	-	3,415,965
Due to other funds	105,918,768	98,649,296
Other noncurrent liabilities	267,965	408,528
Total noncurrent liabilities	<u>108,236,733</u>	<u>152,758,429</u>
Total liabilities	<u>2,069,794,533</u>	<u>2,200,495,969</u>
Deferred inflows of resources:		
Rate stabilization	68,035,584	62,491,181
Accumulated increase in fair value of hedging derivatives	19,509,103	44,505,619
General Employees' Pension plan costs	48,460,600	302,280
Other post-employment benefits plan	6,916,347	4,553,201
Leases	20,186,330	20,357,062
Total deferred inflows of resources	<u>163,107,964</u>	<u>132,209,343</u>
Net position		
Net investment in capital assets	149,174,438	88,400,318
Restricted (Note 9)	92,911,458	96,978,299
Unrestricted	176,426,115	216,925,794
Total net position	<u>418,512,011</u>	<u>402,304,411</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,651,414,508</u>	<u>\$ 2,735,009,723</u>

See accompanying notes.

Gainesville Regional Utilities
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2024 and 2023

	2024	2023
Operating revenue:		
Sales and service charges	\$ 428,197,043	\$ 445,197,153
Transfers from (to) rate stabilization	(491,525)	(8,955,351)
Amounts to be recovered from (to) future revenue	(13,471,062)	(3,593,002)
Other operating revenue	19,322,588	18,307,610
Total operating revenues	433,557,044	450,956,410
Operating expenses:		
Operation and maintenance	212,984,335	233,168,292
Administrative and general	37,203,360	44,233,038
Depreciation and amortization	109,594,924	104,094,708
Total operating expenses	359,782,619	381,496,038
Operating income	73,774,425	69,460,372
Non-operating income (expense):		
Interest income	14,551,323	7,019,224
Interest expense	(68,858,759)	(66,126,119)
Other interest related income, BABs	4,874,344	4,926,434
Other income (expense)	(1,446,420)	1,344,401
Total non-operating income (expense)	(50,879,512)	(52,836,060)
Income before capital contributions and transfer	22,894,913	16,624,312
Capital contributions:		
Contributions from third parties	8,918,762	691,830
Reduction of plant costs recovered through contributions	(300,850)	(325,599)
Net capital contributions	8,617,912	366,231
Transfer to City of Gainesville General Fund	(15,305,225)	(34,283,000)
Change in net position	16,207,600	(17,292,457)
Net position – beginning of year	402,304,411	419,596,868
Net position – end of year	\$ 418,512,011	\$ 402,304,411

See accompanying notes.

Gainesville Regional Utilities
Statements of Cash Flows
For the Years Ended September 30, 2024 and 2023

	2024	2023
Operating activities:		
Cash received from customers	\$ 445,921,950	\$ 479,457,189
Cash payments to suppliers for goods and services	(147,054,366)	(209,956,623)
Cash payments to employees for services	(74,346,331)	(71,281,076)
Cash payments for operating transactions with other funds	(22,442,308)	(18,607,304)
Other operating receipts	24,515,750	16,887,223
Net cash provided by operating activities	226,594,695	196,499,409
Noncapital financing activities:		
Transfer to City of Gainesville General Fund	(15,305,225)	(34,283,000)
Net cash used in noncapital financing activities	(15,305,225)	(34,283,000)
Capital and related financing activities:		
Principal repayments and refunding on long-term debt, net	(76,750,871)	(31,980,728)
Interest paid on long-term debt	(74,337,924)	(69,934,783)
Other receipts	7,999,644	-
Proceeds from interest rebates, BABs	4,874,344	4,926,434
Acquisition and construction of fixed assets	(110,282,959)	(99,854,400)
Proceeds from new debt and commercial paper	-	151,273,337
Other income (expense)	(3,378,471)	3,487,996
Net cash used in capital and related financing activities	(251,876,237)	(42,082,144)
Investing activities:		
Interest received	13,854,660	7,429,176
Purchase of investments	(447,998,673)	(316,083,389)
Investments in The Energy Authority	(13,228,651)	(15,528,518)
Distributions from The Energy Authority	11,503,115	14,455,731
Proceeds from investments	469,991,848	237,095,210
Net cash (used) provided by investing activities	34,122,299	(72,631,790)
Net change in cash and cash equivalents	(6,464,468)	47,502,474
Cash and cash equivalents, beginning of year	120,584,287	73,081,813
Cash and cash equivalents, end of year	\$ 114,119,819	\$ 120,584,287

*Continued on next page.
See accompanying notes.*

Gainesville Regional Utilities
Statements of Cash Flows (concluded)
For the Years Ended September 30, 2024 and 2023

	2024	2023
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 73,774,425	\$ 69,460,372
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	109,594,924	104,094,708
Net costs recoverable in future years	13,471,062	3,593,002
Change in:		
Accounts receivable	11,719,101	3,127,284
Inventories	5,407,638	(17,282,215)
Utility meter deposits	1,038,883	(221,636)
Noncurrent assets	1,204,148	1,097,114
Payables and accrued liabilities	4,908,612	(9,643,257)
Due to other funds	307,237	625,498
Fuel adjustment	3,014,911	30,257,274
Payable from restricted assets	(3,390,649)	2,435,914
Rate stabilization	5,544,403	8,955,351
Net cash provided by operating activities	<u>\$ 226,594,695</u>	<u>\$ 196,499,409</u>
Non-cash capital and related financing activities, and investing activities:		
Contribution of capital assets	\$ 8,617,912	\$ 366,231
Net costs recoverable in future years	\$ 13,471,062	\$ 3,593,002
Change in long-term lease receivable	\$ (309,774)	\$ 897,656
Change in long-term lease/SBITA liability	\$ (573,307)	\$ (2,416,739)
Change in utility plant in service	\$ (6,028,383)	\$ 7,772,438
Change in ineffective portion of hedging derivatives	\$ (370,389)	\$ (295,641)
Change in accumulated (increase) decrease in fair value of hedging derivatives - interest rate swaps	\$ 4,137,079	\$ (2,769,265)
Change in accumulated decrease in fair value of hedging derivatives - fuel options and futures	\$ (24,996,516)	\$ (5,439,507)
Change in fair value of investments	\$ 13,525,753	\$ 7,221,761
Change in fair value of derivatives	\$ 21,229,826	\$ 14,860,664
Change in bond premium/discount	\$ (10,911,636)	\$ (8,495,023)
Unamortized debt issuance costs	\$ 470,435	\$ (241,883)
Unamortized loss on refundings of bonds	\$ 1,865,452	\$ 1,265,366
Change in General Employees Pension Plan	\$ (651,281)	\$ (225,367)
Other	\$ (268,653)	\$ (2,200,246)

See accompanying notes.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

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 Annual Comprehensive Financial Report of the City. That report may be obtained by writing to the City of Gainesville, Budget & Finance Department, P.O. Box 490, Gainesville, Florida 32627, or by calling (352) 334-5054.

System of Accounts and Basis of Accounting

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

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

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

1. Summary of Significant Accounting Policies (continued)

Current and Future GASB Pronouncement Implementations

Statement No. 99, *Omnibus 2022* - The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

- Exchange or Exchange-Like Financial Guarantees

Implementation of this guidance did not have any significant impact on GRU's financial statements.

GASB Statement 100, *Accounting Changes and Error Corrections* - The primary objectives of this Statement are to enhance accounting and financial reporting requirements for accounting changes and error correction. This statement (1) defines accounting changes, (2) prescribes the accounting and financial reporting for each type of accounting change and error corrections, (3) addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information and supplementary information, and (4) requires descriptive note disclosures about accounting changes and error corrections. Implementation of this guidance did not have any significant impact on GRU's financial statements.

GASB Statement 101, *Compensated Absences* – The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or noncash means, with an exception of certain types of compensated absences such as, parental leave, military leave, and jury duty, that should not be recognized until the leave is used. This Statement establishes guidance for measuring a liability for leave that has not been used, for leave that has been used but not yet paid or settled, and certain salary-related payments that are directly and incrementally associated with payments for leave. GRU is due to implement this guidance beginning October 1, 2024, and is currently evaluating the impact that adoption of this Statement will have on its financial statements.

GASB Statement 102, *Certain Risk Disclosures* – The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If a government determines that those

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

1. Summary of Significant Accounting Policies (continued)

Current and Future GASB Pronouncement Implementations (continued)

criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- The concentration or constraint
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

GRU is due to implement this guidance beginning October 1, 2024, and is currently evaluating the impact that adoption of this Statement will have on its financial statements.

GASB Statement 103, *Financial Reporting Model Improvements* – The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

Management's Discussion and Analysis: This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This Statement emphasizes that the analysis provided in MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. In addition, this Statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

1. Summary of Significant Accounting Policies (continued)

Current and Future GASB Pronouncement Implementations (continued)

Unusual or Infrequent Items: This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position: This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses.

In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this Statement requires that a subtotal for *operating income (loss) and noncapital subsidies* be presented before reporting other nonoperating revenues and expenses. Subsidies are defined as (1) resources received from another party or fund (a) for which the proprietary fund does not provide goods and services to the other party or fund and (b) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise, (2) resources provided to another party or fund (a) for which the other party or fund does not provide goods and services to the proprietary fund and (b) that are recoverable through the proprietary fund's current or future pricing policies, and (3) all other transfers.

Major Component Unit Information: This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

Budgetary Comparison Information: This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

GRU is due to implement this guidance beginning October 1, 2025, and is currently evaluating the impact that adoption of this Statement will have on its financial statements.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

1. Summary of Significant Accounting Policies (continued)

Current and Future GASB Pronouncement Implementations (concluded)

GASB Statement 104, *Disclosure of Certain Capital Assets* - The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets.

This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, Subscription-Based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class.

This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

GRU is due to implement this guidance beginning October 1, 2025, and is currently evaluating the impact that adoption of this Statement will have on its financial statements.

Rates and Regulation

On June 28, 2023, Florida Governor Ron DeSantis signed Bill CS/HB 1645 into law as Chapter 2023-348 (2023-348), Laws of Florida, which took effect on July 1, 2023. 2023-348 changes the governance of GRU to a governor appointed board known as the Gainesville Regional Utilities Authority (GRUA or the Authority), upon installation of the Authority's members. The law replaced existing governance of the Gainesville City Commission with the Authority. GRU's budget and rates are approved by the Authority.

GRU's rates are established in accordance with the Resolution. Each year during the budget process, and at any other time deemed necessary, the governing body 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

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
- 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 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.

Additional Restricted Funds

The Utility Deposit Fund accounts for funds accumulated for customer deposits, which are returned to customers whose payment history remains in good standing with the utility after an established length of time.

Internally Designated Funds

Certain funds at GRU are considered internally designated outside of the Resolution:

- Fuel Hedging brokerage account
- Debt Defeasance Fund

The Fuel Hedging brokerage account are funds sent to an account to purchase fuel options and futures as a financial transaction to offset increasing natural gas costs.

The Debt Defeasance Fund accounts for funds earned through savings from debt restructurings approved by the GRUA to use to defease future debt.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

1. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain 2023 amounts have been reclassified to conform to the 2024 presentation.

Statement of Cash Flows

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

Fuel Inventories

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

Materials and Supplies Inventories

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

Investments

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

1. Summary of Significant Accounting Policies (continued)

Regulatory Assets

Current and non-current regulatory assets consist of the following (in thousands):

	<u>2024</u>	<u>2023</u>
Electric service expansion	\$ 372	\$ 413
Net costs recoverable in future years	30,237	43,708
Unamortized debt issuance costs	9,342	9,812
Swap termination fees (Note 7)	25,088	27,216
Ineffective portion of Swap Hedges	102	100
Ineffective portion of Fuel Hedges	840	473
Pollution remediation	5,361	6,543
Other post-employment benefits	2,797	3,901
Pension (Note 14)	128,661	126,424
Total	<u>\$ 202,800</u>	<u>\$ 218,590</u>
	<u>2024</u>	<u>2023</u>
Current	\$ 1,288	\$ 1,266
Non-current	201,512	217,324
Total	<u>\$ 202,800</u>	<u>\$ 218,590</u>

Costs Recoverable in Future Years

The amount by which depreciation on Deerhaven Renewable Generating Station (DHR) exceeds principal repayment on the related bonds is recorded as amounts to be recovered from future revenue. For the years ended September 30, 2024 and 2023, the amounts recoverable from (to) future revenue is \$(13.5) million and \$(3.6) million, respectively.

Capital Assets and Depreciation

Capital assets are recorded at historical cost and include utility plant, general plant, and right-of-use assets. The costs of capital assets include material, labor, vehicle and equipment usage, related overhead items, capitalized interest (fiscal year 2021 and prior), and certain administrative and general expenses. Maintenance and replacement of minor items are charged to operations and maintenance expenses. When units of depreciable property are retired, the original cost less salvage value is charged to accumulated depreciation if there is outstanding debt that originally constructed or purchased that asset. If there is no longer outstanding debt, the net book value less salvage value is recorded as a gain or loss in the income statement. Removal cost of the old asset is added to the cost of constructing the new asset and amortized over the life of that new asset. Cost of removal of an asset that is not replaced with a new asset is recorded as an expense in the income statement. GRU has a capitalization threshold of \$2,500 for general plant assets and no capitalization threshold for utility plant.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

1. Summary of Significant Accounting Policies (continued)

Capital Assets and Depreciation (concluded)

Depreciation of capital assets is computed using the straight-line method over the estimated lives of the assets ranging from 2 to 83 years. See Note 4 Capital Assets for additional information.

Subscription-Based Information Technology Arrangements (SBITA)

GRU enters into SBITA arrangements with other entities as a subscriber of information technology in accordance with GASB Statement No. 96 *Subscription-Based Information Technology Arrangements*, and establishes an accounting model for subscription assets that requires the recognition of a SBITA liability and an intangible right-to-use subscription asset in the Statement of Net Position for fiscal years 2024 and 2023. See Note 11 Subscription-Based Information Technology Arrangements for additional information.

Leases

GRU enters into leases of capital assets with other entities as a lessor in accordance with GASB Statement No. 87 *Leases*, and records a lease receivable and corresponding deferred inflow of resources in the Statement of Net Position for fiscal years 2024 and 2023. GRU continues to report and depreciate the capital assets being leased. See Note 10 Leases for additional information.

GRU enters into leases of capital assets of other entities as a lessee in accordance with GASB Statement No. 87 *Leases*, and records a lease liability and an intangible right-to-use capital asset (known as the lease asset) in the Statement of Net Position for fiscal years 2024 and 2023. See Note 10 Leases for additional information.

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. Depreciation on these assets is recorded on a straight-line basis over the estimated lives of the assets.

GRU recognizes capital contributions to the water, wastewater, and telecommunications 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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

1. Summary of Significant Accounting Policies (continued)

Hedging Derivative Instruments (concluded)

or liability measured at fair value. All ineffective derivative instruments are recorded as a regulatory asset. Changes in the fair value of the hedging derivative instruments during the year are recorded as either deferred outflows or deferred inflows and are recognized in the period in which the derivative is settled. The settlement of fuel and financial-related hedging derivative instruments is included as a part of fuel costs and interest expense, respectively, in the Statements of Revenues, Expenses, and Changes in Net Position.

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

Long-Term Debt

Long-term debt and other obligations are reported as liabilities. Bond premiums and discounts are amortized over the life of the bonds using the effective interest rate method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year-end for premiums and discounts is shown as an increase or decrease in the liability section of the balance sheet. The balance at year-end for the loss on refunding is shown as a deferred outflow of resources in the statement of net position. See Note 6 Long-Term Debt for additional information.

Net Pension Liability (Asset)

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

1. Summary of Significant Accounting Policies (continued)

Postemployment Benefits Other Than Pensions (OPEB)

A net OPEB liability (asset) is recorded in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. For purposes of measuring the net OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. Benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. See Note 15 Other Post-employment Benefits Plan for additional information.

Deferred Outflows of Resources

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

Unamortized Loss on Refunding of Bonds

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

Accumulated Decrease in Fair Value of Hedging Derivatives

GRU has two types of hedging instruments: interest rate swap agreements and natural gas hedges. Each is associated with an item that is eligible to be hedged. For effective hedging transactions, hedge accounting is applied, and fair value changes are recorded on the statement of net position as either a deferred inflow of resources or a deferred outflow of resources until such time that the transaction ends. See Note 7 Hedging Activities for additional information.

General Employees' Pension Plan Costs

Recognition of deferred outflows of resources related to pension costs totaled \$8.5 million and \$23.7 million as of September 30, 2024 and 2023, respectively. See Note 14 Retirement Plans for additional information.

Other Post-employment Benefits Plan

Recognition of deferred outflows of resources related to the OPEB plan was \$1.3 million and \$4.1 million as of September 30, 2024 and 2023, respectively. See Note 15 Other Post-employment Benefits Plan for additional information.

Deferred Inflows of Resources

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

1. Summary of Significant Accounting Policies (continued)

Deferred Inflows of Resources (concluded)

Rate Stabilization

GRU designs its rates to recover the costs of providing services. In order to stabilize future rate increases or decreases, GRU determines a rate stabilization amount to be charged or credited to revenues on an annual basis. There were transfers of \$492,000 and \$9 million to rate stabilization for the years ended September 30, 2024 and 2023, respectively. Rate stabilization amounts of \$68 million and \$62.5 million, respectively, are reflected in deferred inflows of resources in the statements of net position.

General Employees' Pension Plan Costs

Recognition of deferred inflows of resources related to unrealized gains for the pension plan totaled \$48.5 million and \$302,000 as of September 30, 2024 and 2023, respectively. See Note 14 Retirement Plans for additional information.

Other Post-employment Benefit Plan

Recognition of deferred inflows of resources related to unrealized gains for the OPEB plan was \$6.9 million and \$4.6 million as of September 30, 2024 and 2023, respectively. See Note 15 Other Post-employment Benefits Plan for additional information.

Leases

Recognition of deferred inflows of resources related to future lease revenues for tower leasing was \$20.2 million for September 30, 2024, and \$20.4 million for September 30, 2023. See Note 10 Leases for additional information.

Net Position

GRU classifies net position into three components as follows:

- Net investment in capital assets – consists of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – consists of non-capital assets that must be used for a particular purpose as specified by creditors, contributors, grantors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – consists of assets that do not meet the definition of net investment in capital assets or restricted net position.

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Revenue Recognition

Revenue is recognized when earned. GRU accrues for services rendered but unbilled, which totaled approximately \$16.9 million and \$20.2 million at September 30, 2024 and 2023, respectively.

Fuel and purchased gas adjustment levelization revenue is adjusted as expenses are incurred. Amounts charged to customers for fuel are based on estimated costs and are adjusted in the following month when the costs are known. The amount charged in the fuel adjustment is adjusted and approved by the CEO of the Utility as deemed necessary. If the amount recovered through billing 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 5 Fuel and Purchased Gas Adjustment Levelization for additional information.

Pledged Revenues

Under the terms of the Resolution relating to the sale of the Utilities System Revenue Bonds, payment of principal and interest is secured by an irrevocable lien on GRU's net revenue (exclusive of any funds that may be established pursuant to the Resolution for certain other specified purposes), including any investments and income thereof. The Utilities System Revenue Bonds have a first lien and the Variable Rate Subordinated Revolving Lines of Credit 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 revenue derived from customer sales or service charges and recoveries related to future rate collections and other items. Non-operating revenues include interest on investments, gains and losses on sales of assets, and other items. Substantially all of GRU's operating revenues are pledged to the repayment of Utility System Revenue Bonds.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

1. Summary of Significant Accounting Policies (concluded)

Transactions with the City

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

Below is a summary of significant transactions:

- Administrative services – GRU pays for various administrative and certain insurance services provided by the City's governmental and business-type functions. GRU receives payment for Information Technology, telecommunications, certain insurance services, and billing services provided to the City's governmental and business-type functions.
- Pension obligation payments – GRU makes payments to the City for pension expense obligations. See Note 14 Retirement Plans for additional information.
- Non-metered and metered service charges – GRU receives payment from the City for all non-metered and metered service charges.
- Operating transfer to the General Fund – GRU makes payments to the City's General Fund from operating revenues. See Note 12 Transfer to the City of Gainesville General Fund for additional information.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

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 being 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 at least one Nationally Recognized Statistical Ratings Organization, (NRSRO). Investments in corporate indebtedness must be at a minimum acceptable level at time of purchase, in its highest short-term (ST) or three highest long-term (LT) rating categories (A-1/P-1, A-/A3, or equivalent). All assets held by GRU shall be invested pursuant to the guidelines set forth in the Investment Policy. It is the intent of the policy to provide sufficient latitude to effectively manage funds so as to maximize returns within acceptable risk exposure and ensure compliance with bond covenants and related parameters.

As of September 30, 2024, GRU had the following investments and maturities (in thousands):

	Fair Value	Maturities in Years		
		Less than 1	1-5	Over 5
Investment type:				
Commercial paper	\$ 109,743	\$ 109,743	\$ -	\$ -
Corporate bonds	18,321	3,103	15,218	-
U.S. agencies	131,415	97,862	33,553	-
U.S. treasuries	20,536	20,536	-	-
Total	\$ 280,015	\$ 231,244	\$ 48,771	\$ -

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

2. Deposits and Investments (continued)

As of September 30, 2023, GRU had the following investments and maturities (in thousands):

	Fair Value	Maturities in Years		
		Less than 1	1-5	Over 5
Investment type:				
Commercial paper	\$ 131,397	\$ 131,397	\$ -	\$ -
Corporate bonds	25,014	10,959	14,055	-
U.S. agencies	117,037	68,543	48,494	-
U.S. treasuries	23,758	20,905	2,853	-
Total	\$ 297,206	\$ 231,804	\$ 65,402	\$ -

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

	2024	2023
Restricted assets and internally designated	\$ 339,895	\$ 391,955
Current assets:		
Cash and investments	54,240	25,835
Total cash and investments	394,135	417,790
Less cash and cash equivalents	(114,120)	(120,584)
Total investments	\$ 280,015	\$ 297,206

Interest Rate Risk

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

Credit Risk

GRU's investment policy and Resolution limit investments in state and local taxable or tax-exempt debt, corporate fixed income securities, and other corporate indebtedness to investments that are rated by at least one NRSRO. Investments in corporate indebtedness must be at a minimum acceptable level at time of purchase, in its highest short-term (ST) or three highest long-term (LT) rating categories (A-1/P-1, A-/A3, or equivalent) by Standard and Poor's, Moody's Investor Service, and/or equivalent.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

2. Deposits and Investments (concluded)

Credit Risk (concluded)

The table below illustrates GRU's holdings with investment ratings from Standard and Poor's (S&P), Moody's Investor Service, and Fitch Ratings.

	2024			2023		
	S&P	Moody's	Fitch	S&P	Moody's	Fitch
Commercial Paper	A-1 or A-1+	P-1	N/A, F1, or F1+	A-1	N/A or P-1	N/A or F1
Corporate Indebt.	A or better	A2 or better	N/A, A, or better	A- or better	A3 or better	N/A, A or better
FFCB	AA+	Aaa	AA+	AA+	Aaa	NR
FHLMC	A-1+ or AA+	P-1 or Aaa	F1+ or AAA	AA+	Aaa	NR
FHLB	A-1 or AA+	P-1 or Aaa	N/A	A-1 or AA+	P-1 or Aaa	NR
FNMA	A-1	P-1	F1+	A-1+	P-1	F1+

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 an over concentration of assets. As of September 30, GRU had more than 5% of the investment portfolio invested with the following issuers:

	<u>Percent of Total Investments</u>	
	<u>2024</u>	<u>2023</u>
Federal Home Loan Mortgage Corporation	12.47%	4.65%
Federal Farm Credit Bank	6.11%	4.16%
Federal Home Loan Bank	12.94%	24.05%
Federal National Mortgage Association	15.42%	6.52%

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

3. Investment in The Energy Authority

GRU has an equity investment in The Energy Authority (TEA), an energy marketing corporation comprised of seven municipal utilities as of September 30, 2024: Grand River Dam Authority (Oklahoma), Jacksonville Electric Authority (Florida), South Carolina Public Service Authority, Nebraska Public Power District, GRU, City Utilities of Springfield (Missouri), and American Municipal Power, Inc. (Ohio). TEA provides energy products and resource management services to equity members and non-members and allocates transaction savings and operating expenses to equity members pursuant to Settlement Procedures under the Operating Agreement.

In the Statement of Revenues, Expenses, and Changes in Net Position, GRU's sales to and purchases from TEA are recorded in sales and service charges and operations and maintenance expenses, respectively. Sales to TEA were \$2 million and \$4.3 million, and purchases from TEA were \$6.7 million and \$7.2 million, for the years ended September 30, 2024 and 2023, respectively. GRU's equity interest was 5.9% for fiscal year 2024 and 6.0% for fiscal year 2023, and accounted for using the equity method of accounting. As of September 30, 2024 and 2023, GRU's investment in TEA was \$11 million and \$9.6 million, respectively.

Through a combination of agreements, GRU guaranteed credit received by TEA for \$44.5 million and \$36.4 million as of September 30, 2024 and 2023, respectively. TEA evaluates its credit needs periodically and requests equity members to adjust their guarantees accordingly. The guarantee agreements are intended to provide credit support for TEA when entering into transactions on behalf of equity members. Such guarantees are within the scope of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, and would require the equity members to make payments to TEA's counterparties if TEA failed to deliver energy, capacity, or natural gas as required by contract, or if TEA failed to make payment for the purchases of such commodities. If guarantee payments are required, GRU has rights with other equity members that such payments be apportioned based on certain criteria. The guarantees generally have indefinite terms; however, GRU can terminate its guarantee obligations by providing notice to counterparties and others, as required by the agreements. Such terminations would not pertain to any transactions TEA entered into prior to notice being given. As of September 30, 2024 and 2023, GRU had not recorded a liability related to these guarantees.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

3. Investment in The Energy Authority (concluded)

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

	<u>2024</u>	<u>2023</u>
Condensed statement of operations:		
Total revenue	\$ 2,347,669	\$ 3,132,281
Total cost of sales and expense	(2,251,995)	(3,026,014)
Operating income	95,674	106,267
Nonoperating income (expense)	5,164	3,887
Change in net position	100,838	110,154
Net position, beginning of period	155,682	145,932
Capital contributions	26,137	1,252
Member distributions	(94,130)	(98,449)
Net position, end of period	<u>\$ 188,527</u>	<u>\$ 158,889</u>
Condensed balance sheet:		
Assets:		
Current assets	\$ 421,758	\$ 355,758
Noncurrent assets and deferred outflows	47,047	61,959
Total assets and deferred outflows	<u>468,805</u>	<u>417,717</u>
Liabilities:		
Current liabilities	261,257	236,091
Noncurrent liabilities and deferred inflows	19,021	22,737
Total liabilities and deferred inflows	<u>280,278</u>	<u>258,828</u>
Total net position	<u>188,527</u>	<u>158,889</u>
Total liabilities, deferred inflows and net position	<u>\$ 468,805</u>	<u>\$ 417,717</u>

GRU's accounts receivable due from TEA totaled approximately \$210,000 and \$442,000, for the years ended September 30, 2024 and 2023, respectively.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

4. Capital Assets

Net capital assets as of September 30, 2024, are \$1.9 billion. A summary of capital assets, changes in accumulated depreciation and amortization for the year ending September 30, 2024, follows (in thousands):

	Balance October 1, 2023	Additions	Less Sales, Retirements and Transfers	Balance September 30, 2024
<u>Utility Plant in Service</u>				
Treatment	\$ 257,524	\$ 22,696	\$ (3,641)	\$ 276,579
Generation	1,494,446	19,587	(6,475)	1,507,558
Transmission, Distribution, and Collection	1,135,072	85,499	(14,417)	1,206,154
General	229,684	6,820	(2,811)	233,693
Construction in Progress	139,385	115,828	(134,908)	120,305
Right-of-use Leases	754	245	-	999
Right-of-use SBITA	10,708	1,077	-	11,785
Combined	<u>\$ 3,267,573</u>	<u>\$ 251,752</u>	<u>\$ (162,252)</u>	<u>\$ 3,357,073</u>

	Balance October 1, 2023	Depreciation / Amortization Expense	Less Retirements / Adjustments	Balance September 30 2024
<u>Accumulated Depreciation and Amortization</u>				
Treatment	\$ 133,635	\$ 9,414	(2,769)	\$ 140,280
Generation	545,344	49,542	(2,500)	592,386
Transmission, Distribution, and Collection	599,840	38,580	(9,591)	628,829
General	129,214	8,687	(2,271)	135,630
Construction in Progress	n/a	n/a	n/a	n/a
Right-of-use Leases	407	195	(1)	601
Right-of-use SBITA	2,396	2,610	(1,129)	3,877
Combined	<u>\$ 1,410,836</u>	<u>\$ 109,028</u>	<u>\$ (18,261)</u>	<u>\$ 1,501,603</u>

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

4. Capital Assets (concluded)

Net capital assets as of September 30, 2023, are \$1.9 billion. A summary of capital assets, changes in accumulated depreciation and amortization for the year ending September 30, 2023, follows (in thousands):

	Balance October 1, 2022	Additions	Less Sales, Retirements and Transfers	Balance September 30, 2023
<u>Utility Plant in Service</u>				
Treatment	\$ 257,524	\$ -	\$ -	\$ 257,524
Generation	1,480,926	14,132	(612)	1,494,446
Transmission, Distribution, and Collection	1,089,157	51,222	(5,307)	1,135,072
General	230,621	1,661	(2,598)	229,684
Construction in Progress	106,912	102,806	(70,333)	139,385
Right-of-use Leases	759	-	(5)	754
Right-of-use SBITA	-	10,708	-	10,708
Combined	<u>\$ 3,165,899</u>	<u>\$ 180,529</u>	<u>\$ (78,855)</u>	<u>\$ 3,267,573</u>
	Balance October 1, 2022	Depreciation / Amortization Expense	Less Retirements / Adjustments	Balance September 30, 2023
<u>Accumulated Depreciation and Amortization</u>				
Treatment	\$ 124,671	\$ 8,964	-	\$ 133,635
Generation	498,327	46,906	111	545,344
Transmission, Distribution, and Collection	565,702	36,439	(2,301)	599,840
General	122,763	8,981	(2,530)	129,214
Construction in Progress	n/a	n/a	n/a	n/a
Right-of-use Leases	264	148	(5)	407
Right-of-use SBITA	-	2,396	-	2,396
Combined	<u>\$ 1,311,727</u>	<u>\$ 103,834</u>	<u>\$ (4,725)</u>	<u>\$ 1,410,836</u>

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

5. Fuel and Purchased Gas Adjustment Levelization

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

The following table represents total revenues and expenses associated with the fuel and purchased gas adjustment and the subsequent impact on the fuel and purchased gas levelization balance as of September 30, 2024 (in thousands):

	Fuel Adjustment	Purchased Gas Adjustment	Total
Revenues	\$ 84,291	\$ 11,436	\$ 95,727
Expenses	(83,162)	(9,550)	(92,712)
To (From) Levelization Fund	<u>\$ 1,129</u>	<u>\$ 1,886</u>	<u>\$ 3,015</u>
Levelization Fund Beginning Balance	\$ 4,541	\$ 1,896	\$ 6,437
To (From) Levelization Fund	1,129	1,886	3,015
Levelization Fund Ending Balance	<u>\$ 5,670</u>	<u>\$ 3,782</u>	<u>\$ 9,452</u>

The following table represents total revenues and expenses associated with the fuel and purchased gas adjustment and the subsequent impact on the fuel and purchased gas levelization balance as of September 30, 2023 (in thousands):

	Fuel Adjustment	Purchased Gas Adjustment	Total
Revenues	\$ 135,006	\$ 17,424	\$ 152,430
Expenses	(109,347)	(12,826)	(122,173)
To (From) Levelization Fund	<u>\$ 25,659</u>	<u>\$ 4,598</u>	<u>\$ 30,257</u>
Levelization Fund Beginning Balance	\$ (21,118)	\$ (2,702)	\$ (23,820)
To (From) Levelization Fund	25,659	4,598	30,257
Levelization Fund Ending Balance	<u>\$ 4,541</u>	<u>\$ 1,896</u>	<u>\$ 6,437</u>

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

6. Long-Term Debt

On September 30, 2024 and 2023, total debt outstanding was (in thousands):

Bond Series	Rate	Maturity	Original Issuance	2024	2023
2005C	Variable ¹	2026	\$ 55,135	\$ -	\$ 3,090
2006A	Variable ¹	2026	53,305	-	2,985
	5.147% -	2039	156,900		
2009B	5.655%			117,905	123,310
2010A	5.874%	2030	12,930	12,930	12,930
2010B	6.024%	2040	132,445	132,445	132,445
2012B	Variable ¹	2042	100,470	88,545	98,610
	3.250% -				
2014A	5.000%	2044	37,980	35,035	36,000
	3.125% -				
2014B	5.000%	2036	30,970	11,830	12,085
	4.000% -				
2017A	5.000%	2040	415,920	327,705	357,750
2019A	5.000%	2047	153,820	153,115	153,820
2019B	3.875%	2047	26,665	26,665	26,665
2019C	Variable ¹	2047	67,355	66,745	67,355
2020A	2.060%	2034	10,665	10,300	10,620
2021A	5.000%	2051	95,760	95,760	95,760
2022A	1.510%	2028	66,600	53,325	66,600
2022B	2.847%	2038	232,880	225,345	232,880
2023A	Variable ²	2047	160,000	160,000	160,000
2023B	Variable ³	2044	105,000	105,000	105,000
2023C	Variable ⁴	2053	151,210	151,210	151,210
				\$ 1,773,860	\$ 1,849,115

¹ Bonds are subject to daily variable rate resets

² Bonds are subject to 79% of 1M SOFR plus .57% bank fee

³ Bonds are subject to 80% of 1M SOFR plus .53% bank fee

⁴ Bonds are subject to 81.5% of 1M SOFR plus .57% bank fee

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

6. Long-Term Debt (continued)

The table below shows the changes in long-term debt balances that occurred during the years ended September 30, 2024 and 2023 (in thousands).

	September 30	
	2024	2023
Long-term Debt outstanding at beginning of year	\$ 1,849,115	\$ 1,731,945
Changes in Long-term debt		
2023 Series A Issuance	-	160,000
2023 Series B Issuance	-	105,000
2023 Series C Issuance	-	151,210
Fixed and Variable Rate debt redeemed	(35,680)	(30,580)
2005 Series C Full Redemption	(3,090)	-
2006 Series A Full Redemption	(2,985)	-
2012 Series B Redemption	(10,065)	-
2014 Series B Redemption	(255)	-
2017 Series A Defeasance	(15,650)	(3,460)
2017 Series B Refunded	-	(45,000)
2017 Series C Refunded	-	(115,000)
2019 Series A Defeasance	(705)	-
2019 Series C Redemption	(610)	-
2020 Series A Redemption	(275)	-
2020 Series B Refunded	-	(105,000)
2022 Series A Redemption	(1,200)	-
2022 Series B Redemption	(4,740)	-
Long-term Debt outstanding at end of year	<u>\$ 1,773,860</u>	<u>\$ 1,849,115</u>

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

6. Long-Term Debt (continued)

Debt Service Requirements for Long-Term Debt

Annual debt service requirements to maturity for long-term debt as of September 30, 2024 (in thousands):

BONDS			
Year Ending September 30,	Principal	Interest	Total Debt Service Requirements
2025	\$ 21,835	\$ 52,309	\$ 74,144
2026	17,250	50,723	67,973
2027	16,460	49,875	66,335
2028	12,595	49,141	61,736
2029	30,300	48,056	78,356
2030-2034	176,770	194,948	371,718
2035-2039	274,450	140,573	415,023
2040-2044	262,915	67,419	330,334
2045-2049	220,700	25,021	245,721
2050-2054	35,405	2,713	38,118
2054-2058	-	-	-
	\$ 1,068,680	\$ 680,778	\$ 1,749,458

DIRECT PLACEMENTS			
Year Ending September 30,	Principal	Interest	Total Debt Service Requirements
2025	13,505	\$ 28,492	\$ 41,997
2026	22,470	28,059	50,529
2027	22,805	27,555	50,360
2028	20,510	27,082	47,592
2029	20,905	26,638	47,543
2030-2034	112,225	125,205	237,430
2035-2039	76,550	109,487	186,037
2040-2044	122,745	93,452	216,197
2045-2049	161,385	51,026	212,411
2050-2054	132,080	18,107	150,187
	\$ 705,180	\$ 535,103	\$ 1,240,283

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

6. Long-Term Debt (continued)

Debt Service Requirements for Long-Term Debt (continued)

In accordance with GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, the interest requirement for variable-rate debt was determined using the interest rates that were in effect as of September 30, 2024. Interest rates on variable-rate long-term debt were valued to be equal to 4.05% for the 2012 Series B Bonds, 3.98% for the 2019 Series C Bonds, 5.25% for the 2023 Series A Bonds, 5.20% for the 2023 Series B Bonds, and 4.80% for the 2023 Series C Bonds.

The 2009 Series B and 2010 Series B Bonds receive a federal interest subsidy of 33% of the annual interest expense and are assumed to remain at said rate through the sequestration period of 2030. The sequestration rate will be applied unless and until a law is enacted that cancels or otherwise affects the sequestration reduction rate. The subsidy is recorded as non-operating revenue on the Statements of Revenues, Expenses, and Changes in Net Position.

GRU's revenues net of specified operating expenses are pledged as security of the above Utilities System Revenue Bonds and Lines of Credit. For fiscal years 2024 and 2023, principal and interest paid were \$149 million and \$109.7 million, respectively. For fiscal years 2024 and 2023, total pledged revenues were \$466.9 million and \$475.5 million, respectively. As of September 30, 2024, annual principal and interest payments are expected to require 22% of pledged revenues on average.

For GRU's utilities system variable rate demand obligations (VRDO), support is provided in connection with tenders for purchase with various liquidity providers pursuant to Stand-by Bond Purchase Agreements (SBPA) or credit agreements relating to that series of obligations. The purchase price of the obligations tendered or deemed tendered for purchase is payable solely from the proceeds of the remarketing thereof and moneys drawn under the applicable SBPA or credit agreement. The current stated termination dates of the SBPA and credit agreements range from April 25, 2025, to November 21, 2027. Each of the SBPA and credit agreement termination dates may be extended. At September 30, 2024, there were no outstanding draws under any of the SBPAs. Available credits including interest, under each VRDO are as follows: \$90 million for 2012 Series B, and \$68 million for 2019 Series C.

The revolving credit agreements with commercial banks to provide liquidity support for its commercial paper notes were terminated on April 29, 2022, along with the programs those facilities support, such as the tax-exempt Commercial Paper Notes Series C and the taxable Commercial Paper Notes Series D.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

6. Long-Term Debt (continued)

Debt Service Requirements for Long-Term Debt (concluded)

Liquidity Facilities and Direct Placements, as of September 30, 2024:

LIQUIDITY FACILITIES							
Series	Series Type	Facility	Term Date	Fee	Remarketing Agent	Par (000)	
						O/S or LOC	Amounts Drawn
2012B	Daily VRDO	Truist	04/24/27	43 bps	JP Morgan	88,545	0
2018A (LOC)	TE LOC	SunTrust	11/21/27	25 bps	NA	25,000	0
2019C	Daily VRDN	Bank of America	04/25/25	34 bps	Bank of America	66,745	0
2020A (LOC)	Taxable LOC	Truist	11/21/27	30 bps	NA	50,000	0
2022A/B	TE/Taxable	US Bank	04/29/25	17 bps	NA	150,000	0

DIRECT PLACEMENTS						
Series	Series Type	Bank	Term Date	Fee	GRU Pays	Par (000)
						O/S or LOC
2020A	Fixed	Bank of America	10/01/34	-	2.06%	10,300
2022B	Fixed	Bank of America	10/01/38	-	2.847%	225,345
2022A	Fixed	Bank of America	10/01/28	-	1.51%	53,325
2023A	Monthly	Truist	05/01/26	57 bps	79% 1M SOFR	160,000
2023B	Monthly	TD Bank	05/01/26	53 bps	80% 1M SOFR	105,000
2023C	Monthly	TD Bank	06/22/26	57 bps	81.5% 1M SOFR	151,210

Revocable Trust Account

On October 28, 2021, a portion of the October 1, 2025, 2009 Series B maturity, totaling \$1.1 million, was allocated to a revocable trust specifically established to ensure future payments on the outstanding debt. This strategic move aimed to achieve short-term savings in debt service, targeting anticipated spikes in debt service payments during the Fiscal Years 2022-2026, thereby making them more manageable. The transaction facilitated GRU's continued receipt of the Build America Bonds (BABs) subsidy while circumventing the high costs associated with a make-whole call redemption. It also enabled GRU to focus on a single maturity effectively. An escrow agreement was established with U.S. Bank N.A., and the account was fully funded at closing. A total of \$1.3 million was deposited into the escrow account to purchase securities, including a cash deposit of \$29,000. Cash flow from the escrow account is anticipated to fund payment dates covering the period from April 1, 2022, to October 1, 2025. The revocable trust account has a market value of \$1.2 million at September 30, 2024.

Irrevocable Trust Account

As of September 30, 2024 and 2023, the amounts of outstanding bonds considered defeased are \$16.4 million and \$3.5 million, respectively. The irrevocable trust accounts have recorded balances of \$29 million and \$10.8 million at September 2024 and September 2023, respectively, from prior lien bonds defeased in October 2021, October 2022, and September 2024. These balances are deemed sufficient to service and redeem the defeased bonds currently outstanding.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

6. Long-Term Debt (continued)

Events of Default and Remedies of Bondholders

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

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

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

6. Long-Term Debt (continued)

Events of Default and Remedies of Bondholders (concluded)

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

6. Long-Term Debt (concluded)

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2024, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Utilities system revenue bonds	\$ 1,849,115	\$ -	\$ (75,255)	\$ 1,773,860	\$ 35,340
Add: Issuance premiums	92,539	-	(10,912)	81,627	-
Total bonds payable	1,941,654	-	(86,167)	1,855,487	35,340
Lease Liability	357	395	(346)	406	143
SBITA Liability	5,101	402	(853)	4,650	2,634
Fair value of derivative instruments	6,128	14,185	(17,955)	2,358	-
Reserve for insurance claim	1,960	-	(618)	1,342	-
Reserve for environmental liability	1,096	22	-	1,118	410
Net pension liability	47,617	-	(47,617)	-	-
Net other post-employment benefits liability	3,416	-	(3,416)	-	-
Due to other funds	108,055	7,921	(1,232)	114,744	8,825
Other noncurrent liabilities and regulatory liabilities	409	193	(334)	268	-
	<u>\$ 2,115,793</u>	<u>\$ 23,118</u>	<u>\$ (158,538)</u>	<u>\$ 1,980,373</u>	<u>\$ 47,352</u>

Long-term liabilities activity for the year ended September 30, 2023, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Utilities system revenue bonds	\$ 1,731,945	\$ 416,210	\$ (299,040)	\$ 1,849,115	\$ 35,680
Add: Issuance premiums	101,034	-	(8,495)	92,539	-
Total bonds payable	1,832,979	416,210	(307,535)	1,941,654	35,680
Lease Liability	503	2	(148)	357	148
SBITA Liability	-	5,101	-	5,101	2,232
Fair value of derivative instruments	-	19,927	(13,799)	6,128	-
Reserve for insurance claim	1,960	-	-	1,960	-
Reserve for environmental liability	939	157	-	1,096	388
Net pension liability	80,910	-	(33,293)	47,617	-
Net other post-employment benefits liability	4,194	-	(778)	3,416	-
Due to other funds	109,519	2,046	(3,510)	108,055	9,406
Other noncurrent liabilities and regulatory liabilities	2,779	179	(2,549)	409	-
	<u>\$ 2,033,783</u>	<u>\$ 443,622</u>	<u>\$ (361,612)</u>	<u>\$ 2,115,793</u>	<u>\$ 47,854</u>

Interest Rate Swaps

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

7. Hedging Activities

Interest Rate Hedges

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

Terms, Fair Values, and Counterparty Credit Ratings

The terms, fair values, and counterparty credit ratings of the outstanding swaps as of September 30, 2024, were as follows (in thousands):

<u>Associated Bond Issue</u>	<u>2005C*</u>	<u>2006A*</u>	<u>2023A*</u>	<u>2023A*</u>
Notional amount	\$4,560	\$4,400	\$45,000	\$115,000
Effective date	11/16/2005	7/6/2006	5/1/2023	5/1/2023
Fixed payer rate	3.200%	3.224%	1.868%	1.410%
Variable receiver rate	60.36% of 10YR SOFR Conversion	68.00% of 10YR SOFR Conversion less .365%	79.00% of 1MO SOFR	70.00% of 10 YR SOFR less .355%
Fair value	(\$49)	(\$53)	(\$1,092)	\$742
Termination date	10/1/2026	10/1/2026	10/1/2044	10/1/2047
Counterparty credit rating	Aa2/A+/AA	Aa2/AA-	Aa3/A+/A+	Aa3/A+/A+
<u>Associated Bond Issue</u>	<u>2023B*</u>	<u>2023C*</u>	<u>2014A*</u>	<u>2019A*</u>
Notional amount	\$105,000	\$151,210	\$34,025	\$153,820
Effective date	5/1/2023	6/22/2023	10/1/2024	10/1/2029
Fixed payer rate	2.112%	2.421%	1.054%	2.586%
Variable receiver rate	80.00% of 1MO LIBOR fallback conversion	81.50% of 1MO SOFR	70.00% of 1MO LIBOR fallback conversion	70.00% of 1MO SOFR
Fair value	\$4,120	\$9,349	\$4,201	\$2,189
Termination date	10/1/2044	10/1/2053	10/1/2044	10/1/2047
Counterparty credit rating	A1/A+/A+	Aa2/A+/AA-	Aa1/A+/AA	A1/A+/A+

* See Basis Risk section

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

7. Hedging Activities (continued)

Fair Value

As of September 30, 2024, all swap agreements, with the exception of the 2005C, 2006A, and 2023A (\$45 million notional) swaps, demonstrated a positive fair value. Swaps that exhibit positive fair values tend to have a variable receiver interest rate higher than the corresponding fixed payer interest rate (in thousands):

	Fair Value of Interest Rate Swaps at September 30, 2024	Changes in Fair Value	Changes in Deferred (Inflow)/Outflow	Changes in Regulatory (Assets) Liability for Ineffective Instruments
2005C	\$ (49)	\$ (1)	\$ -	\$ 1
2006A	(53)	(2)	-	2
2023A	(1,092)	(2,351)	2,351	-
2023A	742	(3,058)	3,058	-
2023B	4,120	(6,208)	6,208	-
2023C	9,349	(7,437)	7,437	-
2014A	4,201	(774)	774	-
2019A	2,189	(5,168)	5,168	-
	<u>\$ 19,407</u>	<u>\$ (24,999)</u>	<u>\$ 24,996</u>	<u>\$ 3</u>

All of the swap agreements, except for the 2005C and 2006A swaps, had a positive fair value as of September 30, 2023. The swaps with the positive fair values have a higher variable receiver interest rate as compared to their fixed payer interest rate due to an increasing interest rate environment (in thousands):

	Fair Value of Interest Rate Swaps at September 30, 2023	Changes in Fair Value as of May 1, 2023	Changes in Deferred (Inflow)/Outflow	Changes in Regulatory (Assets) Liability for Ineffective Instruments
2005C	\$ (49)	\$ 85	\$ -	\$ (85)
2006A	(51)	92	-	(92)
2023A	1,259	1,259	(1,259)	-
2023A	3,800	3,800	(3,800)	-
2023B	10,328	10,328	(10,328)	-
2023C	16,786	16,786	(16,786)	-
2014A	4,975	1,414	(1,414)	-
2019A	7,358	7,358	(7,358)	-
	<u>\$ 44,406</u>	<u>\$ 41,122</u>	<u>\$ (40,945)</u>	<u>\$ (177)</u>

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

7. Hedging Activities (continued)

Interest Rate Swap Payments

Debt service requirements on the interest rate swaps using interest rates in effect at September 30, 2024, are as follows (in thousands):

<u>Year Ending September 30,</u>	<u>Debt Service</u>
2025	\$ (6,545)
2026	(7,343)
2027	(6,507)
2028	(6,478)
2029	(6,448)
2030-2034	(38,448)
2035-2039	(38,527)
2040-2044	(30,678)
2045-2049	(13,721)
2050-2054	(4,646)
	<u>\$ (159,341)</u>

Credit Risk

As of September 30, 2024, although most of the fair value of the interest rate swaps were positive, GRU has structured its swap agreements to minimize credit risk. To mitigate the potential for credit risk, GRU has negotiated additional termination event and collateralization requirements in the event of a ratings downgrade. Failure to deliver the Collateral Agreement to GRU as negotiated and detailed in the Schedule to the International Swaps and Derivative Agreements (ISDA) master agreement for each counterparty would constitute an event of default with respect to that counterparty.

Basis Risk

The board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York formed the Alternative Reference Rates Committee, known as the ARRC. ARRC recommended and provided alternative reference rates to replace the USD LIBOR ICE swap rates, which ended June 30, 2023.

To avoid disruption to the existing swap contracts, ARRC suggested certain fallback provisions using conversion formulas for the 10 YR LIBOR ICE swap rate, by incorporating the 10YR SOFR ICE rate, USISSO10. ARRC also suggested using the fallback ICE LIBOR 1M index, VUS0001M, to replace the 1M USD LIBOR rate, US0001M. The fallback conversion formula, suggested by ARRC, was published in the ARRC White Paper in March 2021.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

7. Hedging Activities (continued)

Basis Risk (concluded)

The Swaps Expose GRU to Basis Risk

- The 2005 Series C Swap, \$4.6 million notional, is exposed to basis risk through the potential mismatch of 60.36% of 10-year LIBOR, which has been replaced by the fallback conversion formula using the 10YR SOFR index, and the variable 31-day rollover rate. As a result, savings may not be realized. As of September 30, 2024, the fallback conversion rate was at 3.598%.
- The 2006 Series A Swap, \$4.4 million notional, is exposed to basis risk through the potential mismatch of 68% of 10-year LIBOR less .365%, which has been replaced by the fallback conversion formula using the 10YR SOFR index, and the variable 31-day rollover rate. As a result, savings may not be realized. As of September 30, 2024, the fallback conversion rate was at 3.598%.
- The 2023 Series A Swap, \$45 million notional, is exposed to the difference between 79% of the one-month SOFR and 79% of the one-month SOFR plus .57% bank fee. As a result, savings may not be realized. As of September 30, 2024, the one-month SOFR rate was 4.846%.
- The 2023 Series A Swap, \$115 million notional, is exposed to the difference between 70% of the ten-year SOFR less .355% and 79% of the one-month SOFR plus .57% bank fee. As a result, savings may not be realized. As of September 30, 2024, the ten-year SOFR rate was 3.311%.
- The 2023 Series B Swap, \$105 million notional, is exposed to the difference between 80% of the one-month LIBOR, and 80% of the one-month SOFR plus .53% bank fee. Due to the cessation of the USD LIBOR swap indices on June 30, 2023, a fallback conversion rate is implemented. As a result, savings may not be realized. As of September 30, 2024, the fallback conversion rate was 4.970%.
- The 2023 Series C Swap, \$151.2 million notional, is exposed to the difference between 81.5% of the one-month SOFR and 81.5% of the one-month SOFR plus .57% bank fee. As a result, savings may not be realized. As of September 30, 2024, the one-month SOFR rate was 4.846%.
- The 2014 Series A and the 2019 Series A Swaps are forward starting swaps (FSS) with effective dates of October 1, 2024, and October 1, 2029, respectively. The 2014 Series A Swap, \$34 million notional, will be exposed to the difference between 70% of the one-month LIBOR and the variable rollover rate. The index for the 2014 Series A will be amended when economic decisions are made on the forward starting swap before the effective date. The 2019 Series A Swap, \$153.8 million notional, will be exposed to 70% of the one-month SOFR as amended in December 21, 2022, and the variable rollover rate.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

7. Hedging Activities (continued)

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, derivatives and fuel hedges. GRU mitigates this risk by actively reviewing and negotiating its swap agreements.

Rollover Risk

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

Market Access Risk

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

Price Risk

This risk is associated with the decline in value of a commodity due to price volatility. GRU minimizes price risk through exercising fuel hedges for natural gas.

Fuel Hedges

GRU enters into natural gas futures and options to reduce the risk of price fluctuations during the fiscal year. As of September 30, 2024, GRU had financial hedge positions with a notional amount of 16.4 Metric Million British Thermal Units (MMBtu). Results of fuel hedge activities were recorded as an increase in fuel costs of \$12.7 million for the year ended September 30, 2024, and an increase of \$15.8 million for the year ended September 30, 2023.

Fair value as related to fuel hedging is recorded as fair value of derivative instruments in the Statement of Net Position and recognized in fuel expense as costs are incurred. The fair value of fuel hedges at September 30, 2024, is recorded as a noncurrent liability of \$2.4 million. The fair value of fuel hedges at September 30, 2023, was recorded as a noncurrent liability of \$6.1 million. Changes in fair value related to fuel hedging contracts are recorded as deferred inflows and outflows in the Statement of Net Position. GRU incurred a net change in fair value for fuel hedges of \$3.8 million as of September 30, 2024.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

7. Hedging Activities (concluded)

Effectiveness

Of the eight interest rate swap agreements, six were deemed effective, while two were deemed ineffective as of September 30, 2024. The ineffective portion related to interest rate swap agreements is recorded as a regulatory asset in the amount of \$103,000 and \$100,000 as of September 30, 2024 and 2023, respectively.

The unrealized loss on interest rate swap agreements was \$25 million representing a decrease in fair value of hedging derivatives at September 30, 2024, as compared to an unrealized gain of \$41.1 million on September 30, 2023. The change in fair value of \$25 million is based on the fair value 'at-the-market' as of September 30, 2024. There were no realized gains or losses related to interest rate swaps as of September 30, 2024 and 2023.

GRU utilizes futures and options contracts to hedge the effects of fluctuations in the prices of natural gas. Fuel hedging contracts are comprised of 87% Futures and 13% Options and meet the requirements of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

The fuel hedges were tested for effectiveness using two effectiveness testing methods as of September 30, 2024. The ineffective portion is recorded as a regulatory asset in the amount of \$841,000 and \$473,000 as of September 30, 2024 and 2023, respectively.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

8. Fair Value Measurement

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

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

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

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. U.S. Treasury securities, U.S. agencies, corporate bonds, and financial hedges are examples of Level 2 inputs.
- Level 3 inputs are unobservable inputs that reflect GRU's own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

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

- U.S. Treasury securities are valued using market prices of similar assets (Level 2 inputs).
- Investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating.
- Commodity derivatives, such as futures, swaps, and options, which are ultimately settled using prices at locations quoted through clearinghouses, are valued using Level 2 inputs.
- Other hedging derivatives, such as swaps settled using prices at locations other than those quoted through clearinghouses and options with strike prices not identically quoted through a clearinghouse, are valued using Level 2 inputs. For these instruments, fair value is based on pricing algorithms using observable market quotes.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

8. Fair Value Measurement (continued)

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Utility's assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels. GRU's fair value measurements are performed on a recurring basis. The following table presents fair value balances and their levels within the fair value hierarchy as of September 30, 2024 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Fair Value Investments				
Commercial Paper	\$ -	\$ 109,743	\$ -	\$ 109,743
U.S. Treasuries	-	20,536	-	20,536
U.S. Agencies:				
Federal Home Loan Mortgage Corp.	-	34,919	-	34,919
Federal National Mortgage Assn.	-	43,181	-	43,181
Federal Home Loan Bank	-	36,237	-	36,237
Federal Farm Credit Bank	-	17,078	-	17,078
Corporate bonds:				
Principal Life Global	-	3,827	-	3,827
National Sec. Clearing	-	3,270	-	3,270
New York Life	-	3,103	-	3,103
Home Depot Inc.	-	3,358	-	3,358
Schwab Corp.	-	4,763	-	4,763
Total fair value investments	<u>-</u>	<u>280,015</u>	<u>-</u>	<u>280,015</u>
Fair Value Financial instruments				
Effective interest rate swaps	-	19,509	-	19,509
Ineffective interest rate swaps	-	(102)	-	(102)
Total financial instruments	<u>-</u>	<u>19,407</u>	<u>-</u>	<u>19,407</u>
Total Assets Fair Value	<u>\$ -</u>	<u>\$ 299,422</u>	<u>\$ -</u>	<u>\$ 299,422</u>
Liabilities				
Fair Value Derivatives				
Effective fuel hedge derivatives	\$ -	\$ 1,518	\$ -	\$ 1,518
Ineffective fuel hedge derivatives	-	841	-	841
Total fair value derivatives	<u>-</u>	<u>2,359</u>	<u>-</u>	<u>2,359</u>
Total Liabilities Fair Value	<u>\$ -</u>	<u>\$ 2,359</u>	<u>\$ -</u>	<u>\$ 2,359</u>

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

8. Fair Value Measurement (concluded)

Fair value balances and their levels within the fair value hierarchy as of September 30, 2023, are represented in the following table (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Fair Value Investments				
Commercial Paper	\$ -	\$ 131,397	\$ -	\$ 131,397
U.S. Treasuries	-	23,758	-	23,758
U.S. Agencies:				
Federal Home Loan Mortgage Corp.	-	13,815	-	13,815
Federal National Mortgage Assn.	-	19,389	-	19,389
Federal Home Loan Bank	-	71,475	-	71,475
Federal Farm Credit Bank	-	12,358	-	12,358
Corporate bonds:				
Principal Life Global	-	3,572	-	3,572
Met Life	-	4,751	-	4,751
National Sec. Clearing	-	3,068	-	3,068
New York Life	-	2,983	-	2,983
Pacific Life	-	2,431	-	2,431
Schwab Corp.	-	4,433	-	4,433
GA Global	-	3,776	-	3,776
Total fair value investments	-	297,206	-	297,206
Fair Value Financial instruments				
Effective interest rate swaps	-	44,506	-	44,506
Ineffective interest rate swaps	-	(100)	-	(100)
Total financial instruments	-	44,406	-	44,406
Total Assets Fair Value	\$ -	\$ 341,612	\$ -	\$ 341,612
Liabilities				
Fair Value Derivatives				
Effective fuel hedge derivatives	\$ -	\$ 5,655	\$ -	\$ 5,655
Ineffective fuel hedge derivatives	-	473	-	473
Total fair value derivatives	-	6,128	-	6,128
Total Liabilities Fair Value	\$ -	\$ 6,128	\$ -	\$ 6,128

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

9. Restricted Net Position

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

	<u>2024</u>	<u>2023</u>
Restricted net position:		
Debt service	\$ 38,120	\$ 38,636
Utility plant improvement	30,453	55,981
Net pension asset	21,403	-
Net other post-employment benefits asset	2,868	-
Other	67	2,361
Restricted net position	<u>\$ 92,911</u>	<u>\$ 96,978</u>

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

10. Leases

Lessee

GRU leases communication tower antenna ground space, fiber optics, and equipment from third parties. Lease terms range from 1 to 6 years. Several leases have an option to extend the lease term after completion of the contracted term. GRU uses an incremental borrowing rate of 3.5% to calculate the lease liability. GRU leased assets are amortized over the life of the leases; the accumulated amortization is included in Note 4 Capital Assets. There were no commitments prior to the commencement of the lease contracts, and no lease impairments as of September 30, 2024.

GRU has four variable lease contracts that split one-half of the ground space revenue collected from the communication tower with the University of Florida (UF) Foundation. The Lessee payment to the UF Foundation is dependent upon the Lessor rent payments and escalation revenue stated in the Lessor contract. GRU accounts for the total rent collected as revenue and one-half of the rent amount payment to the UF Foundation as an expense.

The following table summarizes future principal and interest payments as of September 30, 2024 (in thousands):

Year Ended September 30,	Principal	Interest	Total
2024	\$ 143	\$ 12	\$ 155
2025	131	7	138
2026	69	3	72
2027	51	1	52
2028	12	-	12
Total	<u>\$ 406</u>	<u>\$ 23</u>	<u>\$ 429</u>

Lessor

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

GRU lease contract terms vary from 1 to 40 years, which includes options to extend. There was no receipt of variable or other lease payment prior to the commencement of the contracts. The incremental borrowing rate was 3.5% as of September 30, 2024, and September 30, 2023. Lease interest income was \$697,000 for September 30, 2024, and \$702,000 for September 30, 2023. Lease revenue was \$1.7 million for September 30, 2024, and \$1.5 million for September 30, 2023.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

11. Subscription-Based Information Technology Arrangements

GRU uses subscription-based information technology arrangements in providing services to our customers. SBITA base terms range from 1 to 5 years while some have an option to extend the arrangement beyond the base term. GRU uses an incremental borrowing rate of 4.5%, unless otherwise provided within the arrangement documentation, to calculate the SBITA liability. Subscription agreements that have terms of more than one year are recorded as a right-of-use asset and are amortized over the life of the arrangement term. GRU's subscription assets and the related accumulated amortization are included in Note 4, Capital Assets. There were no commitments prior to the commencement of the subscription agreements and no subscription impairments as of September 30, 2024.

The following table summarizes future subscription fees and the accrued interest as of September 30, 2024 (in thousands):

Year Ended September 30,	Principal	Interest	Total
2025	\$ 2,634	\$ 151	\$ 2,785
2026	1,417	51	1,468
2027	396	13	409
2028	100	6	106
2029	103	3	106
Total	<u>\$ 4,650</u>	<u>\$ 224</u>	<u>\$ 4,874</u>

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

12. Transfer to City of Gainesville General Fund

GRU transfers monies monthly to the City's General Fund. The General Fund Transfer (GFT) 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.

On July 19, 2021, the Commission approved Resolution No. 210116. This resolution reduced the general fund transfer by two million dollars a year through fiscal year 2027.

On May 4, 2023, the Commission approved Resolution No. 2023-417. This resolution renamed the GFT to the Government Services Contribution (GSC) and established a formula to determine the level of the GSC from GRU to the City's General Fund. The formula consists of a property tax calculation component and a franchise fee component. The property tax calculation component will use the total insured values included in the most recent property insurance policy, discounted to 70% of total insured values. The franchise fee component of 5% will be applied to the most recently audited electric system revenues less fuel and rate stabilization fund transfers.

For the years ended September 30, 2024, and 2023, the transfer was \$15.3 million and \$34.3 million, respectively.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

13. Commitments and Contingencies

General

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

The role of municipalities as telecommunications providers pursuant to the 1996 Federal Telecommunications Act resulted in a number of state-level legislative initiatives across the nation to curtail this activity. In Florida, this issue culminated in the passage, in 2005, of legislation codified in Section 350.81, Florida Statutes that defined the conditions under which municipalities are allowed to provide retail telecommunications services. GRU has special status as a grandfathered entity under this legislation.

Environmental and Other Natural Resource Regulations

GRU and its operations are subject to federal, state, and local environmental regulations which include, among other things, control of emissions of particulates, mercury, acid gases, SO₂ and NO_X into the air; discharges of pollutants, including heat, into surface or ground water; the disposal of wastes and reuse of products generated by wastewater treatment and combustion processes; management of hazardous materials; and the nature of waste materials discharged into the wastewater system's collection facilities. Environmental regulations in general are becoming more numerous and more stringent and 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. This includes both facilities that are owned and operated by GRU as well as from facilities the Utility purchases output, services, commodities, and other materials. There is no assurance that the facilities in operation, under construction, or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations. Compliance with applicable regulations could result in increases in the costs of construction and/or operation of affected facilities, including associated costs such as transmission and transportation, as well as limitations on the operation of such facilities. Failure to comply with regulatory requirements could result in reduced operating levels or the complete shutdown of those facilities not in compliance, as well as the imposition of civil and criminal penalties.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

13. Commitments and Contingencies (continued)

EPA Air Emissions Reduction Initiative

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

On January 19, 2021, the D.C. Circuit vacated the ACE rule and remanded it to the EPA for further proceedings consistent with its opinion.

On June 30, 2022, the Supreme Court issued a landmark decision that Congress did not give the EPA the authority under Section 111 of the Clean Air Act to set emission standards for existing power plants that prescribe the market share of certain types of power generation. The Court reversed the D.C. Circuit ruling striking down the Trump-era ACE rule, which repealed the Obama-era CPP and replaced it with more limited regulations of CO₂ emissions from existing power plants.

On September 19, 2022, based on the Supreme Court's June 30 decision reversing and remanding the DC Circuit's decision, the DC Circuit ordered the parties to file Motions to govern further proceedings. On October 3, 2022, EPA/DOJ, along with the states, industry and NGOs, filed a Joint Motion, requesting that the DC Circuit (a) withdraw its March 5, 2021 Partial Mandate, (b) issue a new Partial Mandate denying the challenges to the CPP repeal and granting the challenges to the revisions to the 111(d) implementing rules, and (c) place the remaining, unresolved challenges to the ACE rule in abeyance until EPA promulgates a replacement rule.

On October 27, 2022, the DC Circuit issued an Order granting the Joint Motion, as described above. Accordingly, the CPP was repealed, the 111(d) implementing rules were vacated, and the remaining challenges to the ACE rule are in abeyance until EPA promulgates a replacement rule.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

13. Commitments and Contingencies (continued)

EPA Air Emissions Reduction Initiative (concluded)

On March 7, 2023, the EPA extended the due date for state plans under the ACE rule until April 15, 2024. Because the ACE rule's July 8, 2022, deadline passed while the rule was vacated by the D.C. Circuit, and because states had no reason to continue to work on their plans during the period when the ACE rule was vacated, it is necessary to extend the deadline for state plan submittal. By extending the deadline, this action makes clear the EPA does not expect states to take immediate action to develop and submit plans under the Clean Air Act section 111(d) with respect to greenhouse gas emissions from power plants at this time. This is a final rule that will be effective upon publication in the Federal Register.

On May 5, 2023, the EPA proposed ACE replacement/TTTT rule.

On November 20, 2023, the EPA published a supplemental proposed ACE replacement/TTTT rule; comments were due December 20, 2023, with a proposed final ruling in April 2024.

On May 9, 2024, the U.S.EPA published final regulations addressing greenhouse gas (GHG) emissions from fossil fuel-fired electric generating units (EGUs or EGs). Additionally, the Affordable Clean Energy (ACE) rule, or Subpart UUUUa, has been repealed.

Coal Combustion Products

The EPA published a final rule (40 CFR 257), effective October 14, 2015, to regulate the disposal of coal combustion residuals (CCR) as solid waste under subtitle D of the Resource Conservation and Recovery Act (RCRA). The rule includes national minimum criteria for existing and new CCR landfills and existing and new CCR surface impoundments. GRU is subject to the requirements of the promulgated rule that are applicable to CCR ponds and landfill at Deerhaven if the fuel burned consists of more than 50% coal on a total heat or mass input basis.

On August 28, 2020, EPA's Closure Part A rule was published in the Federal Register with the final rule effective date of September 28, 2020. As part of this rule revision, EPA required the closure of all unlined CCR surface impoundments. Therefore, if GRU combusts more than 50% coal, GRU will need to install a lined surface impoundment, or line (i.e., retrofit) the existing surface impoundment system, which is currently undergoing closure.

Storage Tanks

GRU is required to demonstrate financial responsibility for the costs of corrective actions and compensation of third-parties for bodily injury and property damage arising from releases of petroleum products and hazardous substances from storage tank systems. GRU has 11 fuel oil storage tanks. The South Energy Center has two underground distillate (No. 2) oil tanks. The J.R. Kelly Station (JRK) has four above-ground distillate oil tanks, which are out of service, and two above-ground No. 6 oil tanks, which are also out of service. DH has one above-ground distillate and two above-ground No. 6 oil tanks, one of which is out of service.

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

13. Commitments and Contingencies (continued)

Remediation Sites

Several site investigations have been completed at the JRK Station. According to previous assessments, the horizontal extent of impacted soils extends from the northern containment wall of the above-ground storage tanks (ASTs) to the wastewater filter beds and from the old plant building to Sweetwater Branch Creek. The results of the most recent soil assessment documented the presence of Benzo(a)*purine* 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.

Following the submittal of the August 2013 No Further Action Proposal, the Florida Department of Environmental Protection (FDEP) prepared comments regarding the No Further Action Proposal and provided them to GRU in a letter dated January 10, 2014. In August of 2014, GRU provided responses to the FDEP's January 2014 comment letter. In March of 2016, an attempt was made to meet with the FDEP, but a time was not set up for the meeting. The delay in responding to GRU's comments was due in part to the FDEP's waiting on resolution of the request to use an active hydraulic containment system as an engineering control. Ultimately, the FDEP rejected the use of the active containment system as an engineering control. On April 17, 2017, the FDEP provided comments on GRU's August 2014 response to the FDEP's January 2014 comment letter. The FDEP requested further assessment of the extent of No. 6 fuel oil in the subsurface. GRU's response proposed additional soil investigation to assess the extent of No. 6 fuel oil, both as a non-aqueous phase liquid and as stained soils. GRU also proposed temporarily shutting down the groundwater recovery system and evaluating whether free product returns to the wells. This information will be used to evaluate what actions will be needed to recover free product, if any is detected.

The Florida Department of Environmental Protection (FDEP) had requested a supplemental site assessment (SSA) be conducted to assess the nature and extent of non-aqueous phase liquids (NAPL), soil impacts, and groundwater quality impacts at the J.R. Kelly site. Environmental Consulting & Technology (ECT) – one of GRU's consultants, conducted a supplemental site assessment and submitted the results to the FDEP in the June 2022 Supplemental Site Assessment Report. On July 19, 2022, the FDEP sent a response letter requesting additional assessment to complete delineation of target analytes at the J.R. Kelly Generating Station site.

The results of the additional assessment were submitted to FDEP with the findings that the extent of impact has not been fully defined. FDEP has requested GRU conduct additional assessment such that complete delineation is achieved, and a Remedial Action Plan (RAP) can be developed to address all impacts to all media. In March and July 2023, an additional assessment was conducted, and the results are in review for the development of a report to submit to FDEP.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

13. Commitments and Contingencies (continued)

Remediation Sites (concluded)

In January 2024, a Supplemental Site Assessment Report was submitted to the FDEP recommending additional soil assessment in the southern portion of the site. In June 2024, GRU received a comment letter from the FDEP regarding the January 2024 Supplemental Site Assessment Report requesting additional assessment beyond the initial recommendations.

In August 2024, ECT prepared a response to the FDEP's request. In October 2024 the FDEP concurred with ECT's recommendations.

ECT proposes to conduct additional soil sampling activities based on the FDEP comment/approval letter dated October 17, 2024, for the further assessment of the extent of target analytes at the site as required by Chapter 62-780, F.A.C.

Manufactured Gas Plant

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

A soil excavation was conducted to remove visibly stained soils and soils containing free phase coal tar. During the soil excavation it was discovered that the extent of the stained soils and coal tar was exceeded beyond the limits of the planned excavation. Following the removal of the contaminated soils and construction of the park, groundwater sampling was conducted to evaluate the groundwater quality and evaluate the effects of the coal tars that were not removed during the soil excavation. Currently the site is in a monitoring phase to assess the extent of the dissolved coal tar constituents in the aquifer and evaluate options for site closure.

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

Based upon GRU's analysis of the cost to clean up this site, GRU has accrued a liability to reflect the costs associated with the cleanup effort. During fiscal years 2024 and 2023, expenses were \$1.2 million and \$1.1 million, respectively. The reserve balance at September 30, 2024 and 2023, was \$1.1 million.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

13. Commitments and Contingencies (continued)

Manufactured Gas Plant (concluded)

GRU is recovering the costs of this cleanup through customer charges. A regulatory asset was established for the recovery of remediation costs from customers. Customer billings were \$1.2 million and \$1.1 million as of September 30, 2024 and 2023 respectively. The regulatory asset balance was \$5.4 million and \$6.5 million as of September 30, 2024 and 2023, respectively.

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

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 be either 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 resources 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.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

13. Commitments and Contingencies (continued)

Water Use Restrictions (concluded)

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

The St. Johns River Water Management District issued GRU consumptive use permit (CUP) number 11339-6 (GRU CUP) on September 10, 2014. The GRU CUP authorizes GRU to withdraw 10,950 million gallons per year (30 million gallons per day, or MGD, annual average) for public water supply purposes through September 10, 2034.

By an Order dated May 11, 2021, the District determined that Lakes Brooklyn and Lake Geneva were not meeting (i.e., were below) the new minimum flows and levels (MFLs) rule. Withdrawals authorized by individual consumptive use permits, individually or cumulatively, were in violation of the MFLs for Lakes Brooklyn and Lake Geneva. Per an agreement fully executed on August 6, 2021, GRU elected to participate financially in the construction, operation, and maintenance of the Black Creek Water Resource Development Project (Black Creek WRD) to address GRU's impacts to the Lakes Brooklyn and Geneva MFLs.

Per the fully executed agreement, GRU agreed to pay 0.25 feet of lift or \$2.1 million based on the 0.1-foot lake level increase construction cost estimate, along with GRU's share of the Black Creek WRD operation and maintenance costs of \$616,000, for a combined total of \$2.7 million, to be paid in two installments. The payments are to be delivered, in escrow, to the Florida Department of Financial Services (DFS), per the terms of the Escrow Agreement between GRU, the District, and DFS. Each installment represents one-half of GRU's total proportional share of the Black Creek WRD construction costs of \$1 million, and the operation and maintenance costs of \$308,000, for a combined total of \$1.4 million.

On October 28, 2021, per the terms of the Escrow Agreement, GRU delivered, in escrow, the first payment of \$1.4 million to the Florida Department of Financial Services.

On October 30, 2023, per the terms of the Escrow Agreement, GRU delivered the final installment of \$1.4 million, in escrow, to the Florida Department of Financial Services.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

13. Commitments and Contingencies (concluded)

Purchase Commitments

On July 16, 2020, the City Commission approved a Power Purchase Agreement (PPA) for solar electric to add 50 megawatts of solar generation to our service area by December 2022. On July 21, 2020, GRU entered into a 20-year contract with the option for two additional five-year terms and a purchase opportunity at years 8, 12, and 16, and at change in control. On April 20, 2023, the City Commission authorized the General Manager or designee to execute a contract amendment to the Power Purchase Agreement to extend the commercial operation date until the fourth quarter of calendar year 2024 or the first quarter of calendar year 2025, and to expand the facility size from 50 megawatts of solar generation to 74.9 megawatts to mitigate cost impacts. However, due to a recent surge in construction-related costs, construction of this project has not started. GRU is currently in negotiations with the solar developer to terminate the agreement. Neither GRU nor the solar developer will have further obligations related to the project once the agreement is terminated.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

14. Retirement Plans

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

Defined Benefit Plans

Employees' Plan

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

The City of Gainesville issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Plan. That report may be obtained by writing to the City of Gainesville, Department of Financial Services, 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 varies depending on the date of hire as follows:

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

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

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

Employees are eligible for normal retirement:

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan (continued)

- If the date of hire was between 10/02/2007 and 10/01/2012, after accruing 25 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 65 while still employed.
- If the date of hire was on or after 10/02/2012, after accruing 30 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 65 while still employed.

Employees are eligible for early retirement:

- If the date of hire occurred on or before 10/01/2012, after accruing 15 years of pension service credit and reaching age 55 while still employed.
- If the date of hire was on or after 10/02/2012, after accruing 20 years of pension service credit and reaching age 60 while still employed.
- Under the early retirement option, the benefit is reduced by 5/12ths of one percent for each month (5% for each year) by which the retirement date is less than the date the employee would reach age 65.
- Employees receive a deferred vested benefit if they are terminated after accruing five years of pension service credit but prior to eligibility for regular retirement. Those employees will be eligible to receive a benefit starting at age 65.

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

- If the retiree had at least 20 years of credited service prior to 10/01/2012 and had at least 20 years but less than 25 years of credited service upon retirement, COLA begins after reaching age 62.
- If the retiree had at least 20 years of credited service prior to 10/01/2012 and had at least 25 years of credited service upon retirement, COLA begins after reaching age 60.
- If the retiree was hired on or before 10/01/2012 and had less than 20 years of credited service on or before 10/01/2012 and 25 years or more of credited service upon retirement, COLA begins after reaching age 65.
- If the retiree was hired after 10/01/2012 and had 30 years or more of credited service upon retirement, COLA begins after age 65.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan (continued)

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

Death benefits are paid as follows:

- If an active member retires after reaching normal retirement eligibility and has selected a tentative benefit option, benefit payments will be made to the beneficiary in accordance with the option selected.
- If an active member who is married dies after reaching normal retirement eligibility and did not previously select a tentative benefit option, the plan assumes the employee retired the day prior to death and elected the Joint & Survivor option naming their spouse as their beneficiary.
- If an active member who is not married dies after reaching normal retirement eligibility and did not previously select a tentative benefit option, or if an active member dies prior to reaching normal retirement eligibility, or if a non-active member with a deferred vested benefit dies before age 65, the death benefit is a refund of the member's contributions without interest to the beneficiary on record.
- Continuation of retirement benefits after the death of a retiree receiving benefits is contingent on the payment option selected upon retirement. If the retiree has chosen a life annuity and dies prior to receiving benefits greater than the retiree's contributions to the plan, a lump sum equal to the difference is paid to the beneficiary on record.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan (continued)

Disability benefits are paid to eligible regular employees of the City who become totally and permanently unable to perform substantial work for pay within a 50-mile radius of the home or city hall, whichever is greater, and who are 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 of 42% for in line of duty disability and a minimum of 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 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:

	2024	2023
Active members	1,636	1,644
Retirees members/beneficiaries currently receiving benefits	1,537	1,507
Terminated members/beneficiaries entitled to benefits but not yet receiving benefits	548	529
Total	3,721	3,680

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 7.11% and 5.09% of covered payroll for the years ended September 2024 and 2023, respectively. This rate was influenced by the issuance of the Taxable Pension Obligation Bonds, Series 2003A and the Special Obligation Revenue Bonds, Series 2020 issued by the City. The proceeds from these issues were utilized to retire the unfunded actuarial accrued liability at the time of issuance in the Employees' Plan. Differences between the required contribution and actual contribution are due to actual payroll experiences varying from the estimated total payroll used in the generation of the actuarially required contribution rate. Administrative costs are

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan (concluded)

financed through investment earnings. The Taxable Pension Obligation Bonds, Series 2003A have an interest rate of 1.71% to 6.19%, with a final maturity on October 1, 2032, with principal payments due October 1 and interest payments due October 1 and April 1 payable solely from non-ad valorem revenues and not subject to redemption prior to maturity. On September 29, 2020, the City of Gainesville issued \$206.1 million in Special Obligation Revenue Bonds, Series 2020. The proceeds of these bonds were deposited into the Employees' Plan and Consolidated Police Officers' and Firefighters' Plan for September 30, 2020, to retire 95% of the unfunded actuarial accrued liability existing at that time in these plans. The Special Obligation Revenue Bonds, Series 2020 have an interest rate of 2.61%, and a final maturity on October 1, 2042, with principal payments due October 1, and interest payments due October 1 and April 1. These bonds are payable solely from legally available non-ad valorem revenues. GRU recorded a due to other funds for its share of the pension contribution expense related to these bonds. The total outstanding at September 30, 2024, was \$110.1 million with \$106 million not expected to be paid within the current year. The total outstanding at September 30, 2023, was \$102.2 million with \$98.6 million not expected to be paid within the current year.

During the fiscal year ended September 30, 2024, GRU revised the allocation for Series 2020 Pension Obligation Bonds based on the unfunded pension liability at the time of issuance. The change in estimate was necessitated by the need to equitably allocate the obligation between the City and GRU. The revised estimate increased the total outstanding at September 30, 2024, by \$11.4 million, from \$84.2 million to \$95.6 million. This change in estimate is accounted for prospectively, as required by GASB Statement 100.

The net pension liability (asset) related to the Employees' Plan was measured as of September 30, 2024 and 2023. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of October 1, 2023, and October 1, 2022, for September 30, 2024 and 2023, respectively.

The net pension liability (asset) applicable to GRU as an enterprise fund of the City was \$(21.4) million and \$48 million at September 30, 2024 and 2023, respectively.

The total pension liability as of September 30, 2024, was determined based on a roll-forward of the entry age normal liabilities from the October 1, 2023, actuarial valuation. Below is a summary of the key actuarial assumptions used in the October 1, 2023, and October 1, 2022, actuarial valuations:

Inflation	2.50%
Salary Increases	Service based
Investment Rate of Return	7.75%
Discount Rate	7.75%

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Mortality Rate

Mortality rates were based on the PubG.H-2010 Mortality Tables projected generationally with Mortality Improvement Scale MP-2018.

The mortality assumption rates were mandated by Chapter 2015-157, Laws of Florida. This law mandates the use of the assumptions used in either of the two most recent valuations of the Florida Retirement System (FRS). The above rates are those outlined in Milliman's July 1, 2021, FRS valuation report for non-special-risk employees, with appropriate adjustments made based on plan demographics.

Long-term Expected Rate of Return

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2024 and 2023, are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.75% as of September 30, 2024 and 2023. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the actuarially determined contribution rates less the member contributions. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Net Pension Liability (Asset)

Changes in the Net Pension Liability (Asset) for GRU for the years ended September 30, 2024 and 2023 (in thousands):

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at 10/01/2023	\$ 444,850	\$ 397,233	\$ 47,617
Changes for the year:			
Service cost	6,535	-	6,535
Interest	33,638	-	33,638
Differences between expected and actual experience	541	-	541
Contributions - employer	-	5,494	(5,494)
Contributions - employee	-	3,908	(3,908)
Net investment income	-	100,302	(100,302)
Benefit payments, including refunds and DROP payouts	(27,913)	(27,913)	-
Administrative expense	-	(334)	334
Other changes *	(3,396)	(3,032)	(364)
Net changes	<u>9,405</u>	<u>78,425</u>	<u>(69,020)</u>
Balances at 09/30/2024	<u>\$ 454,255</u>	<u>\$ 475,658</u>	<u>\$ (21,403)</u>

* Reflects a change in GRU's portion of the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at 10/01/2022	\$ 381,436	\$ 300,527	\$ 80,909
Changes for the year:			
Service cost	6,480	-	6,480
Interest	33,002	-	33,002
Differences between expected and actual experience	(335)	-	(335)
Contributions - employer	-	3,717	(3,717)
Contributions - employee	-	3,651	(3,651)
Net investment income	-	76,403	(76,403)
Benefit payments, including refunds and DROP payouts	(27,298)	(27,298)	-
Administrative expense	-	(393)	393
Other changes *	51,565	40,626	10,939
Net changes	<u>63,414</u>	<u>96,706</u>	<u>(33,292)</u>
Balances at 09/30/2023	<u>\$ 444,850</u>	<u>\$ 397,233</u>	<u>\$ 47,617</u>

* Reflects a change in GRU's portion of the Net Pension Liability (Asset)

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

14. Retirement Plans (continued)

Defined Benefit Plans (continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents GRU's portion of the net pension liability (asset), calculated using the discount rate of 7.75% as of September 30, 2024 and 2023, as well as what GRU's portion of the Plan's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate (in thousands):

Sensitivity for GRU's Portion:	2024		
	1% Decrease	Current	1% Increase
	6.75%	Discount	8.75%
	Rate 7.75%		
Net pension liability (asset)	\$ 29,268	\$ (21,403)	\$ (63,955)
	2023		
Net pension liability (asset)	\$ 97,515	\$ 47,617	\$ 5,731

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

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

14. Retirement Plans (concluded)

Defined Benefit Plans (concluded)

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

For the years ended September 30, 2024 and 2023, GRU recorded a pension expense of \$4.7 million and \$3.3 million, respectively. At September 30, 2024 and 2023, the City and GRU reported deferred outflows of resources and deferred inflows of resources related to the Employees' Plan from the following sources (in thousands):

	2024	
	Deferred Outflows of Resources GRU's Portion	Deferred Inflows of Resources GRU's Portion
	Differences between expected and actual experience	\$ 5,059
Net difference between projected and actual investment earnings on pension plan investments	-	48,244
Change to assumptions	3,419	-
Total	\$ 8,478	\$ 48,460

	2023	
	Deferred Outflows of Resources GRU's Portion	Deferred Inflows of Resources GRU's Portion
	Differences between expected and actual experience	\$ 6,249
Net difference between projected and actual investment earnings on pension plan investments	12,791	-
Change to assumptions	4,615	-
Total	\$ 23,655	\$ 302

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

Year Ending September 30,	Net Deferred Outflows/(Inflows) of Resources
2025	\$ (8,761)
2026	4,321
2027	(21,554)
2028	(13,988)
2029	-
Thereafter	-
Total	\$ (39,982)

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

15. Other Post-employment Benefits Plan

Plan Description

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

Benefits Provided

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

Employees Covered by Benefit Terms

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

	2024	2023
Inactive employees or beneficiaries currently receiving benefit payments	896	1,466
Inactive employees entitled to but not yet receiving benefit payments	647	-
Active employees	<u>2,029</u>	<u>2,117</u>
Total	<u>3,572</u>	<u>3,583</u>

Contributions

The contribution policy of the City is established and may be amended by the City at any time. The annual contribution consists of the normal cost amount developed annually plus, given there is any unfunded actuarial accrued liability (UAAL), an amount to amortize said UAAL over 10 years from inception.

For the years ended September 30, 2024 and 2023, GRU contributed \$1.2 million and \$524,000, respectively, for other post-employment benefits.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

15. Other Post-employment Benefits Plan (continued)

Investment Policy

The following reflects the current target allocation and expected returns as provided by Morgan Stanley. These allocations and long term rates of return were provided as of September 30, 2023:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Large Cap Value Equity	22.50%	7.00%
Large Cap Growth Equity	22.50%	8.40%
Small Cap Value Equity	10.00%	7.20%
Small Cap Growth Equity	10.00%	8.40%
International Value Equity	10.00%	7.80%
International Growth Equity	10.00%	7.80%
Core Fixed Income	5.00%	2.50%
Private Real Estate	10.00%	4.50%
Total	<u>100.00%</u>	

Net OPEB Liability

The net OPEB liability related to the RHCP was measured as of September 30, 2024 and 2023. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of October 1, 2023, for September 30, 2024 and 2023.

Actuarial Assumptions

The total OPEB liability as of September 30, 2024, was determined based on a roll-forward of the October 1, 2023, actuarial valuation. Below is a summary of the key actuarial assumptions used in the October 1, 2023, actuarial valuation:

Inflation Rate	3.00%
Salary Increase Rate(s)	Service Based
Discount Rate	7.75%
Initial Trend Rate	8.50%
Ultimate Trend Rate	4.00%
Years to Ultimate	38
Investment Rate of Return	7.75%

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

15. Other Post-employment Benefits Plan (continued)

Actuarial Assumptions (concluded)

GASB Statement No. 75 requires that the total OPEB liability should be determined either by an actuarial valuation as of the measurement date, or by utilizing update procedures to roll the OPEB liability forward to the measurement date. The update procedures should include amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end.

Mortality Rate

All mortality rates were based on the Pub-2010 mortality tables. All mortality rates are those outlined in Milliman's July 1, 2023, Florida Retirement System (FRS) valuation report. All rates are using mortality improvement scale MP-2018.

Discount Rate

The discount rates used to measure the total OPEB liability was 7.75% compounded annually, net of investment expenses, as of September 30, 2024 and 2023. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City Contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

15. Other Post-employment Benefits Plan (continued)

Changes in Net OPEB Liability (Asset) for GRU

Changes in Net OPEB Liability (Asset) for GRU for the years ended September 30, 2024 and 2023 (in thousands):

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balances at 10/01/2023	\$ 27,698	\$ 24,282	\$ 3,416
Changes for the year:			
Service cost	603	-	603
Interest	1,986	-	1,986
Differences between expected and actual experience	(1,774)	-	(1,774)
Changes in assumptions	(1,043)	-	(1,043)
Contributions - employer	-	1,216	(1,216)
Net investment income	-	4,888	(4,888)
Benefit payments	(2,516)	(2,516)	-
Administrative expense	-	(8)	8
Other changes *	327	287	40
Net changes	<u>(2,417)</u>	<u>3,867</u>	<u>(6,284)</u>
Balances at 09/30/2024	<u>\$ 25,281</u>	<u>\$ 28,149</u>	<u>\$ (2,868)</u>

* Reflects a change in GRU's portion of the Net OPEB Liability (Asset) as of September 30, 2024, and a change in asset value as of September 30, 2023.

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balances at 10/01/2022	\$ 27,469	\$ 23,276	\$ 4,193
Changes for the year:			
Service cost	551	-	551
Interest	2,058	-	2,058
Differences between expected and actual experience	-	-	-
Changes in assumptions	-	-	-
Contributions - employer	-	524	(524)
Net investment income	-	2,786	(2,786)
Benefit payments	(1,786)	(1,786)	-
Administrative expense	-	(15)	15
Other changes *	(594)	(503)	(91)
Net changes	<u>229</u>	<u>1,006</u>	<u>(777)</u>
Balances at 09/30/2023	<u>\$ 27,698</u>	<u>\$ 24,282</u>	<u>\$ 3,416</u>

* Reflects a change in GRU's portion of the Net OPEB Liability (Asset) as of September 30, 2023, and a change in asset value as of September 30, 2022.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

15. Other Post-employment Benefits Plan (continued)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rates

The following presents GRU's portion of the net OPEB liability (asset), calculated using the discount rate of 7.75% as of September 30, 2024 and 2023, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (in thousands):

	2024		
	Current Discount		
	1% Decrease 6.75%	Rate 7.75%	1% Increase 8.75%
Net OPEB liability (asset)	\$ (307)	\$ (2,868)	\$ (5,060)

	2023		
	Current Discount		
	1% Decrease 6.75%	Rate 7.75%	1% Increase 8.75%
Net OPEB liability (asset)	\$ 6,210	\$ 3,416	\$ 1,329

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Health Care Cost Trend Rates

The following presents the Net OPEB Liability of the City, as well as what the City's Net OPEB Liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates (in thousands):

	2024		
	Health Care Cost Trend		
	1% Decrease 3.00% - 7.50%	Rate 4.00% - 8.50%	1% Increase 5.00% - 9.50%
Net OPEB liability (asset)	\$ (5,460)	\$ (2,868)	\$ 201

	2023		
	Health Care Cost Trend		
	1% Decrease	Rate	1% Increase
Net OPEB liability (asset)	\$ 633	\$ 3,416	\$ 7,078

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

15. Other Post-employment Benefits Plan (continued)

OPEB Plan Fiduciary Net Position

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

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

At September 30, 2024 and 2023, the City and GRU reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	2024	
	Deferred Outflows of Resources GRU's Portion	Deferred Inflows of Resources GRU's Portion
Differences between expected and actual experience	\$ -	\$ 2,960
Change in assumptions	1,251	2,971
Net difference between projected and actual investment earnings on OPEB plan investments	-	985
Total	\$ 1,251	\$ 6,916

	2023	
	Deferred Outflows of Resources GRU's Portion	Deferred Inflows of Resources GRU's Portion
Differences between expected and actual experience	\$ 180	\$ 1,817
Change in assumptions	1,610	2,737
Net difference between projected and actual investment earnings on OPEB plan investments	2,278	-
Total	\$ 4,068	\$ 4,554

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

15. Other Post-employment Benefits Plan (concluded)

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

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

Year Ending September 30,	Net Deferred Outflows/(Inflows) of Resources
2025	\$ (1,298)
2026	(580)
2027	(2,023)
2028	(960)
2029	(402)
Thereafter	(402)
Total	<u>\$ (5,665)</u>

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

16. Risk Management

GRU is exposed to various risks of loss related to the theft of, damage to and destruction of assets; errors and omissions; employee injuries; and natural disasters. GRU is also subject to risk of loss arising from the ordinary course of business, including, but not limited to, claims for damages for personal injuries, employment-related claims, and breach of contract.

The risks of workers' compensation, auto liability and general liability are accounted for under the City of Gainesville General Insurance Fund. The City is self-insured for workers' compensation, auto liability and general liability but also carries excess coverage for workers' compensation, auto liability and general liability. Third-party coverage is currently maintained for workers' compensation claims in excess of \$350,000. GRU maintains an insurance reserve for the self-insured portion and uses a commercial carrier to purchase plant and machinery insurance. 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. GRU reimburses the City for premiums and claims paid on its behalf, recording the appropriate expense.

In fiscal year 2022, the liability was adjusted to align with a three-year average of outstanding claims. In fiscal year 2024, the liability was further adjusted to align with GRU's estimation that there will be a reduction of future claims. For fiscal years 2024, 2023, and 2022, all claims were paid from current-year revenues.

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

Year Ending September 30,	Beginning Balance	Claims	Payments	Change in Reserve	Ending Balance
2024	\$ 1,960	\$ 752	\$ (752)	\$ (618)	\$ 1,342
2023	\$ 1,960	\$ 863	\$ (863)	\$ -	\$ 1,960
2022	\$ 3,337	\$ 1,503	\$ (1,503)	\$ (1,377)	\$ 1,960

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

17. Litigation

Jacob Rodgers v. William Stormant and City of Gainesville, d/b/a Gainesville Regional Utilities; Case No. 01-2016-CA-000659 in the Circuit Court of the Eighth Judicial Circuit in and for Alachua County, Florida.

On October 7, 2015, a City-owned vehicle driven by a City employee collided with a vehicle. In February 2016, the plaintiff filed suit against the City employee, personally, and added the City as a defendant in June 2017. The trial was conducted in early May 2021. The jury reached a verdict of \$120 million against the City. The trial court denied the City's motion for a new trial, but granted a remittitur, reducing the overall award to \$18.3 million.

The plaintiff rejected the remittitur and filed a notice of appeal. The City subsequently filed a cross-appeal as to the court's orders denying its motion for new trial and motion for directed verdict. Briefs were filed with Florida's First District Court of Appeal, and oral argument was scheduled for January 25, 2023. On January 18, 2023, however, the First District Court of Appeal issued an order cancelling the oral argument and relinquishing jurisdiction to the trial court to enter a Final Judgment. On January 30, 2023, the trial court entered the final judgment proposed by the Plaintiff/Appellant, awarding him the remitted damages, so that the appellate proceedings may go forward with a new date for oral argument. The City's cross-appeal persisted to oral argument. On September 7, 2023, the court heard oral argument from both parties, and subsequently issued an opinion on November 29, 2023, affirming the trial court's holding that the law of the case precluded the City from reasserting the issue of sovereign immunity, and reversing and remanding for a new trial limited to the issue of the alleged comparative negligence of Plaintiff/Appellee in failing to wear a seatbelt. The Court determined that the remitted damages award cannot be retried. Thus, the remitted damages award will operate as a cap on damages. On retrial, the City can seek to reduce its liability based on the comparative fault of the plaintiff and plaintiff's driver without facing the risk that the jury will award damages above the remitted amount. Also, the plaintiff will need to present his case on liability without presenting to the jury any evidence related to his damages.

Prior to the re-trial of Plaintiff's comparative fault, the parties reached a mediated settlement fully resolving all remaining claims, which was formally approved by the GRU Authority and finalized on September 4, 2024. Accordingly, the trial court ordered the clerk to close the case file for Case No. 01-2016-CA-000659, and on October 30, 2024, the trial court entered a final judgment pursuant to the mediated settlement agreement adjudging that Plaintiff recover from the City the sum of \$11 million, for which let execution issue up to \$200,000, and which shall bear interest at the legal rate. In January 2025, the \$200,000 agreed settlement was paid to the Plaintiff.

The parties' settlement agreement specifically reserved all rights for the Plaintiff to pursue a legislative claim bill, and the City's rights to defend against entry of a legislative claim bill. On December 12, 2024, Florida State Senator Mack Bernard from District 24 (Palm Beach County) filed a legislative claim bill seeking relief for Plaintiff. The City intends to defend against the claim bill.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

17. Litigation (concluded)

Any claim bill must be heard and approved by both houses of the Florida Legislature and signed by the Governor. In the event a claim bill is approved directing the City to appropriate and pay plaintiff a sum in excess of \$200,000, the City plans to request the legislature structure such payment over a term of years that would allow the City to cover such liability with currently available operating funds or through a borrowing.

Gainesville Regional Utilities
Notes to Financial Statements
September 30, 2024 and 2023

18. Subsequent Events

Natural Gas Prepay Transaction

On November 6, 2024, GRUA authorized the CEO or his designee to negotiate and execute a natural gas prepay agreement subject to certain execution parameters. On December 11, 2024, GRUA approved a resolution which approves a natural gas supply agreement with Municipal Gas Authority of Georgia reflecting a natural gas prepayment agreement with Main Street Natural Gas. Expected savings from the first segment of this transaction are 52 cents per MMBTU committed to the transaction or approximately \$1.9 million per year. On December 18, 2024, GRU signed the agreement with Municipal Gas Authority of Georgia.

\$150 Million Utilities System Variable Rate Subordinated Revenue Bond, 2022 Series A

On December 11, 2024, GRUA approved a resolution to amend a credit agreement between GRUA and U.S. Bank National Association to extend the maturity date of the agreement as well as a modification of the applicable interest rate index. On December 20, 2024, the amendment was executed to extend the life of the agreement three years and will utilize the “Monthly Reset Term Secured Overnight Financing Rate (SOFR)” as the applicable index.

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 Gainesville Regional Utilities Authority of
Gainesville Regional Utilities

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the Gainesville Regional Utilities (the GRU), which comprise the GRU's statement of financial position as of September 30, 2024, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 14, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the GRU's internal control over financial reporting (internal control) as a basis for designing 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 the GRU's internal control. Accordingly, we do not express an opinion on the effectiveness of the GRU's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Baker Tilly US, LLP

Madison, Wisconsin
February 14, 2025