

Gainesville Regional Utilities

2013 audit results

March 17, 2014



Building a better
working world



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Members of the Audit, Finance, and Legislative Committee
Gainesville Regional Utilities

March 17, 2014

Dear Members of the Audit, Finance, and Legislative Committee

We are pleased to present the results of our audit of the financial statements of Gainesville Regional Utilities (GRU). Open and candid dialogue with you, as those charged with governance, is a critical step in the audit process, and in the overall corporate governance process and we appreciate this opportunity to share the insights from our audit with you.

Our audit was designed to express an opinion on the 2013 financial statements as of September 30, 2013. We continue to receive the full support and assistance of GRU's and the City's personnel in conducting our audit.

At EY, we are committed to delivering the highest quality audit services, and we continually evaluate the quality of our professionals' work in order to meet or exceed your expectations. We encourage you to participate in our Assessment of Service Quality (ASQ) process to provide your input on our performance. The ASQ process is a critical tool that enables us to monitor and improve the quality of our audit services to Gainesville Regional Utilities.

This report is intended solely for the information and use of those charged with governance and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

We look forward to meeting with you to discuss the contents of this report and answer any questions you may have about these or any other audit-related matters.

Very truly yours,

Michael E. Pattillo

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2013 EY services

Audit and audit-related services

Services and deliverables

- ▶ Consistent with our audit plan, we express an opinion on, and report to those charged with governance:
 - The basic financial statements of Gainesville Regional Utilities. The audit was conducted in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in the U.S. Government Accountability Office's (GAO) Government Auditing Standards and rules of the Auditor General, State of Florida for the form and conduct of audits of Florida local governments.
- ▶ Issue a written communication to:
 - Management and those charged with governance on internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts, grants, and other matters.
- ▶ Issue a management letter that provides our recommendations regarding internal controls and opportunities for improvement or efficiency, based on observations made during the course of our audit.

Executive summary

Significant 2013 considerations*

- ▶ Revenue Recognition, including unbilled revenue and receivables
- ▶ Allowance for doubtful accounts
- ▶ Inventory (Material and Supplies)
- ▶ Investments, including valuation and risk disclosure
- ▶ Capital Assets
- ▶ Regulatory Assets/Liabilities
- ▶ Derivatives and hedging instruments

Key audit results matters

Status

- ▶ The 2013 audit has been completed, and we issued an unmodified opinion on the financial statements.

Scope

- ▶ Our audit scope is consistent with the plan communicated in September 2013. We continually reassessed the need for changes to our planned audit approach throughout the audit.

Results

- ▶ GRU's analysis for significant accounting matters is appropriate.
- ▶ Reasonable judgments and consistency have been used by management to account for significant accounting estimates.*
- ▶ Entity level controls and other internal controls over financial reporting that were subject to testing appear to be designed and operating effectively.
- ▶ Outstanding cooperation and communication occurred between the Company and EY.

Reporting

- ▶ Our Report of Independent Certified Public Accountants for the audit of the 2013 basic financial statements of GRU is reflective of the new requirements of AICPA Clarified Auditing Standards No. 705 and 706. We have included our report under clarified auditing standards with a comparison to our report under prior auditing standards on pages 8-9.

* These matters are addressed on the following pages within our presentation.

2013 audit results

Areas of audit emphasis

Our audit procedures emphasize testing areas with the highest potential for risk of misstatement (e.g., those accounts, contracts or transactions where we believed there was the greatest potential for risk of material misstatement to the GRU financial statements, whether due to error or fraud, including disclosure items). We considered the effects of current market risk factors on GRU, and also placed emphasis on those areas requiring subjective determinations by management. Accordingly, our audit procedures at GRU included additional focus on the following areas which are consistent with what was communicated to you at our meeting in September 2013:

Key issue/risk area	Summary of procedures and findings
Revenue recognition – Unbilled revenue and receivables	<ul style="list-style-type: none"> ▶ GRU estimates unbilled revenue and related receivables utilizing a percentage unbilled calculation based on an average of the previous two months of unbilled percentages as determined by actual billings. Billing cycles typically span across two months. This process assumes that consumption is equal throughout the billing cycle, however, management also takes into consideration weather effects to adjust for any significant differences in usage over the billing cycle. ▶ We tested the calculation for unbilled revenue as of September 30, 2013 and validated the unbilled percentage used by obtaining the query of October actual billings and recalculating the unbilled percentage based on service dates. We factored in considerations for the impact of weather on consumption during the month of September versus October. ▶ Based on the procedures performed, we believe unbilled revenue and related receivables are fairly stated in all material aspects.
Allowance for doubtful accounts	<ul style="list-style-type: none"> ▶ GRU calculates the allowance for doubtful accounts by applying historical write-off percentages to certain aged receivables. ▶ We obtained the detail calculation and clerically tested it. Using audit software, we re-aged the accounts receivable detail to ensure the percentages were applied to the correct aging balances. We reviewed support for historical write-off percentages and reviewed assumptions made by management in light of current economic trends. We performed a hindsight analytic to determine the reasonableness of management's estimation process. ▶ Based on our audit procedures performed, we believe the allowance for doubtful accounts is fairly stated in all material respects.
Inventory (material and supplies)	<ul style="list-style-type: none"> ▶ Material and supplies inventory are reported at cost using the weighted-average cost method for materials. Obsolete and unusable items are reduced to estimated salvage values. ▶ We obtained a detail listing of inventory and selected a sample to test valuation by performing price testing. ▶ Based on the procedures performed, we believe inventory is fairly stated in all material aspects.

2013 audit results

Areas of audit emphasis

Key issue/risk area	Summary of procedures and findings
Investments, including valuation and risk disclosures	<ul style="list-style-type: none"> ▶ GRU follows the provisions of GASB 31, <i>Accounting and Financial Reporting for Certain Investments and for External Investment Pools</i>, in applying fair value to certain investments held. ▶ We confirmed reported securities with the applicable custodial financial institutions, and evaluated the classification of investments. We tested valuation using alternative pricing sources based on our assessment of the level of estimation uncertainty for each class of investments. We also tested related risk disclosures, and compliance with policies. ▶ Based on the procedures performed, we believe the investment balances in the Statements of Net Position are fairly stated in all materially respects in accordance with GASB 31.
Capital assets	<ul style="list-style-type: none"> ▶ GRU capitalizes assets which exceed \$2,500 and records capital assets at cost. The costs include material, labor, vehicle and equipment usage, related overhead items, capitalized interest, and certain administrative and general expenses. ▶ We selected a sample of assets capitalized during the current year and tested to determine the assets were capitalized in a timely manner. We tested a sample of cost additions to CWIP to determine costs were appropriate to be capitalized. We tested the capital asset roll forward and tested the reasonableness of depreciation expense. ▶ Based on the procedures performed, we believe the capital assets and the depreciation are fairly stated in all material respects.
Regulatory assets and liabilities	<ul style="list-style-type: none"> ▶ GRU's services are rate regulated, with those rates established by the City. GASB 34, <i>Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments</i>, permits qualifying enterprise funds to apply the provisions of GASB 62, <i>Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements</i>. A rate regulated governmental entity should follow applicable GASB and FASB pronouncements for measurement and recognition unless its regulator has provided alternative measurement or recognition requirements. ▶ GRU has established certain regulatory assets/liabilities as a result of management approval and City Commissions actions. We tested all new regulatory assets/liabilities. We ensured appropriate accounting for regulatory assets/liabilities in accordance with related actions. ▶ Based on the procedures performed, we believe GRU continues to meet the requirements to apply GASB 62 and that all regulatory assets/liabilities have been accounted for appropriately.

2013 audit results

Areas of audit emphasis

Key issue/risk area	Summary of procedures and findings
Derivative and hedging instruments	<ul style="list-style-type: none">▶ Changes in the fair value of derivative instruments are deferred and reported as deferred outflows or inflows based on Regulated Operations sections of GASB No. 62.▶ For interest rate swaps, we confirmed values with counterparties, and independently tested the fair value of swaps using an EY valuation resource. We independently tested hedge effectiveness in accordance with GASB 53.▶ As the fuel hedge contracts are traded in an active market, we independently tested the fair values by comparing to market quotes as of September 30, 2013. We evaluated hedge effectiveness in accordance with GASB 53.▶ Based on the procedures performed, we believe the amounts recorded as deferred outflow and inflow of resources are properly recorded in the Statement of Net Position and disclosures are fairly stated in all material respects.

Report of independent certified public accountants

Provided below is our report under clarified auditing standards with a comparison to our prior year report under prior auditing standards:

[Clarified auditing standards]

Report on Financial Statements

We have audited the accompanying financial statements of Gainesville Regional Utilities (a department of the city of Gainesville, Florida), as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Gainesville Regional Utilities' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gainesville Regional Utilities at September 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with US generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1 to the financial statements, the financial statements of Gainesville Regional Utilities (the Combined Utility Fund of the City of Gainesville, Florida) are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and each major fund of the City of Gainesville that is attributable to the transactions of Gainesville Regional Utilities. They do not purport to, and do not, present fairly the financial position of the City of Gainesville, Florida at September 30, 2013 or 2012, and the changes in its financial position or its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

[Prior auditing standards]

Report of Independent Certified Public Accountants

We have audited the accompanying financial statements and related statements of revenues, expenses and changes in net assets and cash flows of Gainesville Regional Utilities (a department of the City of Gainesville, Florida) as of and for the years ended September 30, 2012 and 2011, which collectively comprise GRU's basic financial statements as listed in the table of contents. These financial statements are the responsibility of GRU's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of Gainesville Regional Utilities' internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Gainesville Regional Utilities' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only Gainesville Regional Utilities (the Combined Utility Fund of the City of Gainesville, Florida) and are not intended to present fairly the financial position of the City of Gainesville, Florida, or the changes in its financial position and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gainesville Regional Utilities as of September 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2013, on our consideration of Gainesville Regional Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Report of independent certified public accountants

Provided below is our report under clarified auditing standards with a comparison to our prior year report under prior auditing standards:

[Clarified auditing standards]

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic 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, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we also have issued our report dated February 20, 2014 on our consideration of the Gainesville Regional Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Gainesville Regional Utilities' internal control over financial reporting and compliance.

[Prior auditing standards]

Accounting principles generally accepted in the United States require that Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

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

Inquiries relating to matters relevant to the audit

We previously made inquiries of GRU and City personnel related to fraud and other matters, that helped inform our audit strategy and the execution of our audit procedures. As a part of our upcoming meeting, we will update our inquiries of you to understand any other matters of which you believe we should be aware, including, but not limited to the following:

- ▶ Your views about the risks of material misstatements due to fraud
- ▶ Your knowledge of any actual, alleged or suspected fraud
- ▶ Your awareness of tips or complaints regarding the GRU's financial reporting (including those received through those charged with governance's own "whistleblower" program) and its response to such tips and complaints
- ▶ How you exercise oversight over the GRU's assessment of fraud risks and the establishment of controls to address these risks
- ▶ Your awareness of other matters, you believe, are relevant to the audit including, but not limited to, violations or possible violations of laws or regulations

Accounting developments

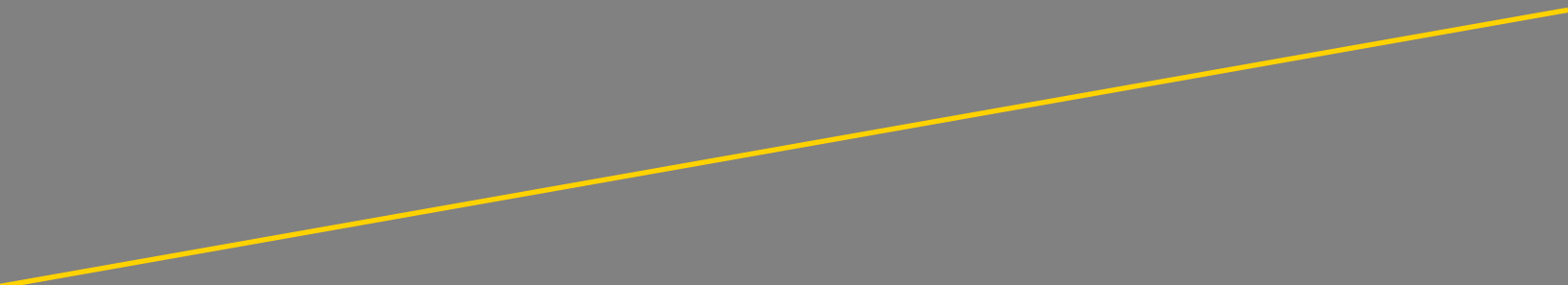
Accounting developments	Summary	Effect on GRU
<p>GASB Statement No. 65, Reporting Items Previously Recognized as Assets and Liabilities</p>	<ul style="list-style-type: none"> ▶ This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. ▶ Concepts Statement No. 4, <i>Elements of Financial Statements</i>, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. 	<p>The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012, which is GRU’s fiscal year 2014, and would be applied on a retroactive basis. GRU is currently evaluating the impact of the statement.</p>

Accounting developments

Accounting developments	Summary	Effect on GRU
<p>GASB Statement No. 68, Accounting and Financial Reporting for Pensions</p>	<ul style="list-style-type: none"> ▶ Statement No. 68 replaces the requirements of Statement No. 27, <i>Accounting for Pensions by State and Local Governmental Employers</i> and Statement No. 50, <i>Pension Disclosures</i>, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. ▶ Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and RSI. ▶ Defined benefit pension plans: The statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The statement calls for immediate recognition of more pension expense than is currently required. ▶ Statement No. 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense. ▶ Defined contribution pensions: The existing standards for governments that provide defined contribution pensions are largely carried forward in the new statement. These governments will recognize pension expenses equal to the amount of contributions or credits to employees' accounts, absent forfeited amounts. A pension liability will be recognized for the difference between amounts recognized as expense and actual contributions made to a defined contribution pension plan. 	<p>The provisions of this statement are effective for financial statements for periods beginning after June 15, 2014, which is GRU's fiscal year 2015. The implementation of this statement will impact the City's financial reporting, and will likely also affect GRU's separately issued financial statements.</p>

Appendix A:

Required communications
with those charged
with governance



Summary of required communications

Provided below is a summary of required communications between the audit team and those charged with governance.

	Communicate when event occurs	Communicate on a timely basis, at least annually
Overview of the planned scope and timing of the audit		X
Auditor's responsibility under generally accepted auditing standards, including discussion of the type of auditor's report we are issuing and if there are any events or conditions that cause us to conclude that there is substantial doubt about the entity's ability to continue as a going concern		X
Our views about the qualitative aspects of the entity's significant accounting practices, including:		
▸ Accounting policies		X
▸ Sensitive accounting estimates		X
▸ Financial statement disclosures and related matters		X
▸ Significant unusual transactions	X	
Uncorrected misstatements, related to accounts and disclosures, considered by management to be immaterial		X
Material corrected misstatements, related to accounts and disclosures		X
Significant deficiencies and material weaknesses in internal control	X	
Our responsibility, any procedures performed and the results relating to other information in documents containing audited financial statements		X
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements	X	
Independence matters		X
Representations we are requesting from management		X
Changes to the terms of the audit with no reasonable justification for the change	X	

Summary of required communications

	Communicate when event occurs	Communicate on a timely basis, at least annually
Significant findings and issues arising during the audit relating to related parties	X	
Significant findings or issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management	X	
Significant difficulties encountered during the audit	X	
Disagreements with management	X	
Management's consultations with other accountants	X	
Findings regarding external confirmations	X	
AICPA ethics ruling regarding third-party service providers		X
Other findings or issues regarding the oversight of the financial reporting process	X	

Required communications

Area	Comments
<p>Overview of the planned scope and timing of the audit</p> <p>We provide those charged with governance with an overview of our overall audit scope, including the timing of the audit.</p>	<p>Our audit scope is consistent with the plan communicated to GRU and the City during the September 2013 planning meeting.</p>
<p>Auditor's responsibility under generally accepted auditing standards, including discussion of the type of auditor's report we are issuing and if there are any events or conditions that cause us to conclude that there is substantial doubt about the entity's ability to continue as a going concern</p> <p>The financial statements are the responsibility of management as prepared with the oversight of those charged with governance. Our audit was designed in accordance with auditing standards generally accepted in the United States, as established by the American Institute of Certified Public Accountants, to obtain reasonable assurance about whether the financial statements are free of material misstatement.</p> <p>An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we will express no such opinion.</p> <p>An audit also includes the evaluation of the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the evaluation of the overall presentation of the financial statements.</p> <p>We also communicate to you matters required by other legal or regulatory requirements.</p>	<p>Our responsibilities are included in our audit engagement agreement. A copy of such agreement has previously been provided to you .</p> <p>As part of our audit, we have obtained a sufficient understanding of internal control to plan our audit and to determine the nature, timing and extent of testing performed. We issued an unmodified opinion on GRU's financial statements as of and for the year ended September 30, 2013.</p>

Required communications

Area	Comments
<p>Our views about the qualitative aspects of GRU's significant accounting practices, including the accounting policies</p> <p>As part of our discussion about the qualitative aspects of the entity's significant accounting practices, we discuss our views about GRU's application of accounting policies including instances we believe a significant accounting policy, although acceptable under US GAAP, is not appropriate for the particular circumstances of GRU.</p> <p>Our discussion may also include the following:</p> <ul style="list-style-type: none"> ▶ The initial selection of new, or changes in, significant accounting principles and policies, including the application of new accounting pronouncements. ▶ The effect of the timing and method of adopting a change in accounting policy on current and future earnings of GRU or expected new accounting pronouncements. ▶ The appropriateness of the accounting policies to the particular circumstances of GRU. ▶ Where acceptable alternative accounting policies exist, the identification of financial statement items that are affected by the implemented significant policies as well as information on accounting policies used by similar entities. ▶ The effect of a significant accounting policy in a controversial or emerging area (or those unique to an industry), particularly when there is a lack of authoritative guidance or consensus. 	<p>Management has not selected or changed any significant accounting policies or changed the application of those policies in the current year.</p> <p>We are not aware of any significant accounting policies used by GRU in controversial or emerging areas or for which there is a lack of authoritative guidance . We have included a discussion of significant accounting policies within the section titled "2013 Audit Results."</p>

Required communications

Area	Comments
<p>Our views about the qualitative aspects of GRU's significant accounting practices:</p> <p>(1) Management's process used to develop particularly sensitive accounting estimates, our conclusions regarding the reasonableness of such estimates and the basis for those conclusions.</p> <p>Our discussion may also include the following:</p> <ul style="list-style-type: none"> ▶ Risks of material misstatement ▶ Indicators of possible management bias ▶ Disclosure of estimation uncertainty in the financial statements <p>(2) Financial statement disclosures and related matters which may include the following:</p> <ul style="list-style-type: none"> ▶ The issues involved and related judgments made, in formulating sensitive financial statement disclosures ▶ The overall neutrality, consistency and clarity of financial statement disclosures ▶ The potential effect of significant risks and exposures and uncertainties on the financial statements ▶ The extent to which the financial statements are affected by unusual transactions including nonrecurring amounts recognized ▶ The factors affecting asset and liability carrying value ▶ The selective correction of misstatements <p>(3) Significant unusual transactions (i.e., those outside the normal course of business for GRU or those that appear unusual due to timing, size, or nature) and the policies or practices management has used to account for those transactions.</p>	<p>We have provided our views regarding accounting estimates in the sections titled "Areas of audit emphasis" on page 5.</p>

Required communications

Area	Comments
<p>Uncorrected misstatements, related to accounts and disclosures, considered by management to be immaterial</p> <p>We discuss with those charged with governance uncorrected misstatements and the effect that they may have on our opinion in the auditor's report. We also discuss the effect of uncorrected misstatements related to prior periods on the significant classes of transactions, account balances or disclosures, and the financial statements as a whole.</p> <p>In addition, we discuss with those charged with governance the implications of a failure to correct known and likely misstatements, if any, considering qualitative as well as quantitative considerations, including the possible implications in relation to future financial statements.</p>	<p>During 2013, the turnaround affect of prior year uncorrected misstatements was approximately \$966,000.</p>
<p>Material corrected misstatements, related to accounts and disclosures</p> <p>We discuss with those charged with governance material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. In addition, we may discuss other corrected immaterial misstatements, such as frequently recurring immaterial misstatements that may indicate a particular bias in the preparation of the financial statements.</p>	<p>During 2013, there was a corrected misstatement for approximately \$2,601,000 related to the understatement of accrued electric fuel.</p>
<p>Significant deficiencies and material weaknesses in internal control</p> <p>We communicate all significant deficiencies and material weaknesses in internal control that were identified during the course of our audit.</p>	<p>See separate report issued 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.</p>

Required communications

Area	Comments
<p>Our responsibility, any procedures performed and the results relating to other information in documents containing audited financial statements</p> <p>Our auditor's report on the financial statements relates only to the financial statements and the accompanying notes. If the entity includes other information in documents containing audited financial statements, we review such other information and consider whether such information, or the manner of its presentation, is materially inconsistent with the audited financial statements. If we conclude that a material inconsistency exists, we determine whether the financial statements, our auditor's report, or both require revision. In addition, we notify you if we conclude that there is a material misstatement of fact in the other information.</p>	<p>We have reviewed the GRU's Management's Discussion and Analysis and found the information presented to be consistent with the information in the audited financial statements.</p>
<p>Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements</p> <p>We communicate with those charged with governance fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements.</p>	<p>We are not aware of any matters that require communication.</p>
<p>Independence matters</p> <p>Although the auditor's report affirms our independence, in certain situations, we discuss with those charged with governance circumstances of relationships (e.g., financial interests, business or family relationships, or nonaudit services provided or expected to be provided) that in our professional judgment may reasonably be thought to bear on independence and that we gave significant consideration to in reaching the conclusion that independence has not been impaired.</p>	<p>We are not aware of any matters, that in our professional judgment, would impair our independence.</p>

Required communications

Area	Comments
<p>Representations we are requesting from management</p> <p>We discuss with those charged with governance representations we are requesting from management.</p>	<p>We have obtained from management a letter of representations related to the audit and a copy of the letter of representations is available upon request.</p>
<p>Changes to the terms of the audit with no reasonable justification for the change</p> <p>We discuss with those charged with governance any changes to the terms of the audit engagement where there is no reasonable justification for the change and we are not permitted by management to continue the original audit.</p>	<p>None.</p>
<p>Significant findings and issues arising during the audit relating to related parties</p> <p>We discuss with those charged with governance any significant findings and issues arising during the audit relating to the entity's related parties. Such matters may include the following:</p> <ul style="list-style-type: none"> ▶ Non-disclosure (whether intentional or not) by management of related parties or significant related party transactions ▶ The identification of significant related party transactions that have not been appropriately authorized and approved ▶ Disagreement with management regarding the accounting for, and disclosure of, significant related party transactions in accordance with US GAAP ▶ Non-compliance with applicable law or regulations prohibiting or restricting specific types of related party transactions ▶ Difficulties in identifying the party that ultimately controls the entity 	<p>None.</p>

Required communications

Area	Comments
<p>Significant findings or issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management</p> <p>We discuss with those charged with governance any significant matters that were discussed with, or the subject of correspondence with, management, including:</p> <ul style="list-style-type: none"> ▶ Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatements. ▶ Discussions or correspondence in connection with our initial or recurring retention as the auditor, including, among other matters, any discussions regarding the application of accounting principles and auditing standards, the scope of the audit, financial statement disclosures and the wording of the auditor’s report. We communicate those major professional issues we discussed with management, prior to our being hired as the auditors, during the entity’s two most recently completed fiscal years and any subsequent interim period. 	<p>No matters reported.</p>
<p>Significant difficulties encountered during the audit</p> <p>We inform those charged with governance of any significant difficulties encountered in dealing with management related to the performance of the audit which may include such matters as:</p> <ul style="list-style-type: none"> ▶ Significant delays in management providing required information ▶ An unnecessarily brief time within which to complete the audit ▶ The unavailability of expected information ▶ Restrictions imposed on us by management ▶ Management’s unwillingness to provide information about its plans for dealing with the adverse effects of the conditions or events that lead us to believe there is substantial doubt about the entity’s ability to continue as a going concern 	<p>None.</p>

Required communications

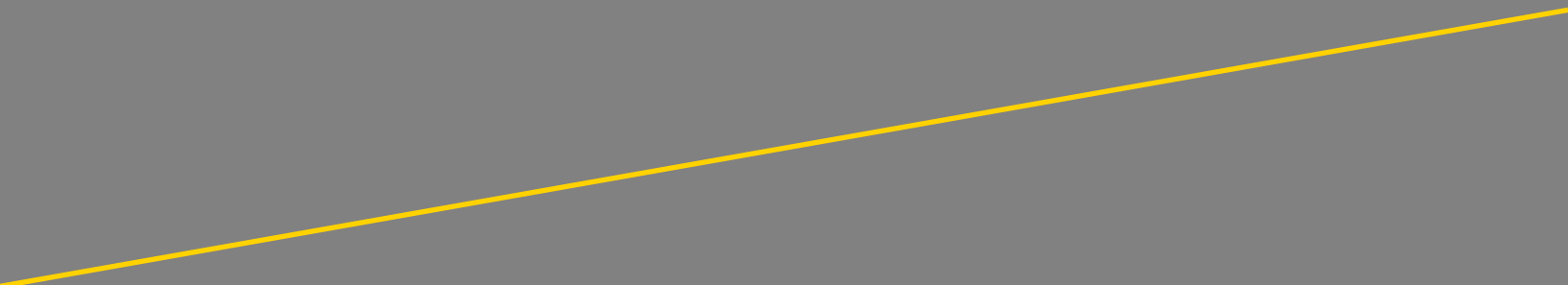
Area	Comments
<p>Disagreements with management</p> <p>We discuss with those charged with governance any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the entity's financial statements or our auditor's report. For purposes of this discussion, disagreements do not include differences of opinion based on incomplete facts or preliminary information that are later resolved.</p>	None.
<p>Management's consultations with other accountants</p> <p>When we are aware that management has consulted with other accountants about accounting or auditing matters, we discuss with those charged with governance our views about significant matters that were the subject of such consultation.</p>	None of which we are aware.
<p>Findings regarding external confirmations</p> <p>We discuss with those charged with governance any instances where management has not permitted us to send confirmation requests, or where we cannot obtain relevant and reliable audit evidence from alternative procedures.</p>	None.

Required communications

Area	Comments
<p>AICPA ethics ruling regarding third-party service providers</p> <p>AICPA Ethics Ruling No. 112 under Rule 102, <i>Integrity and Objectivity</i>, requires that we inform you whenever we use a third-party service provider in providing professional services to the entity. The Rule has broadly defined “third-party service provider” to include an individual who is not employed by our US firm. Accordingly, third-party service providers might include, but not be limited to, the following examples: non US personnel who work for EY affiliate firms (e.g., EY United Kingdom), non US personnel working in the US on a foreign secondment and non US personnel working at EY shared service centers.</p>	<p>From time to time, and depending on the circumstances, (1) we may subcontract portions of the Audit Services to other EY firms, who may deal with the Company or its affiliates directly, although EY alone will remain responsible to you for the Audit Services, and (2) personnel (including non-certified public accountants) from an affiliate of EY or another EY firm or any of their respective affiliates, or from independent third-party service providers (including independent contractors), may participate in providing the Audit Services. In addition, third-party service providers may perform services for EY in connection with the Audit Services.</p>
<p>Other findings or issues regarding the oversight of the financial reporting process</p> <p>We communicate other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process.</p>	<p>There are no other findings or issues arising from the audit that are, in our judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process.</p>

Appendix B:

Peer review report





KPMG LLP
345 Park Avenue
New York, NY 10154-0102

System Review Report

To the Partners of Ernst & Young LLP
and the National Peer Review Committee of the AICPA Peer Review Board:

We have reviewed the system of quality control for the accounting and auditing practice of Ernst & Young LLP (the firm) applicable to non-SEC issuers, in effect for the year ended June 30, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control (SOC) I and 2 engagements].

In our opinion, the system of quality control for the accounting and auditing practice of Ernst & Young LLP, applicable to non-SEC issuers, in effect for the year ended June 30, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Ernst & Young LLP has received a peer review rating of *pass*.

KPMG LLP

December 6, 2013

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About EY's Assurance Services

Our assurance services help our clients meet their reporting requirements by providing an objective and independent examination of the financial statements that are provided to investors and other stakeholders. Throughout the audit process, our teams provide timely and constructive challenge to management on accounting and reporting matters and a robust and clear perspective to audit committees charged with oversight.

The quality of our audit starts with our 60,000 assurance professionals, who have the breadth of experience and on-going professional development that comes from auditing many of the world's leading companies.

For every client, we assemble the right multidisciplinary team with the sector knowledge and subject-matter expertise to address your specific issues. All teams use our Global Audit Methodology and latest audit tools to deliver consistent audits worldwide.

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