



# **Gainesville Regional Utilities**

## **Proposal for Annual Audit Services**

**Interview – December 1, 2016**

# Agenda



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**About Baker  
Tilly**

**GRU's audit  
needs**

**Baker Tilly  
qualifications  
&  
differentiators**

**Baker  
Tilly/GRU audit  
team**

**Peer  
references**

**Audit approach**

**Timeline**

**Additional  
questions**

**Discussion &  
questions**

## Baker Tilly overview

80  
years

**80 year history** of focusing on client needs and providing outstanding service

12th  
largest

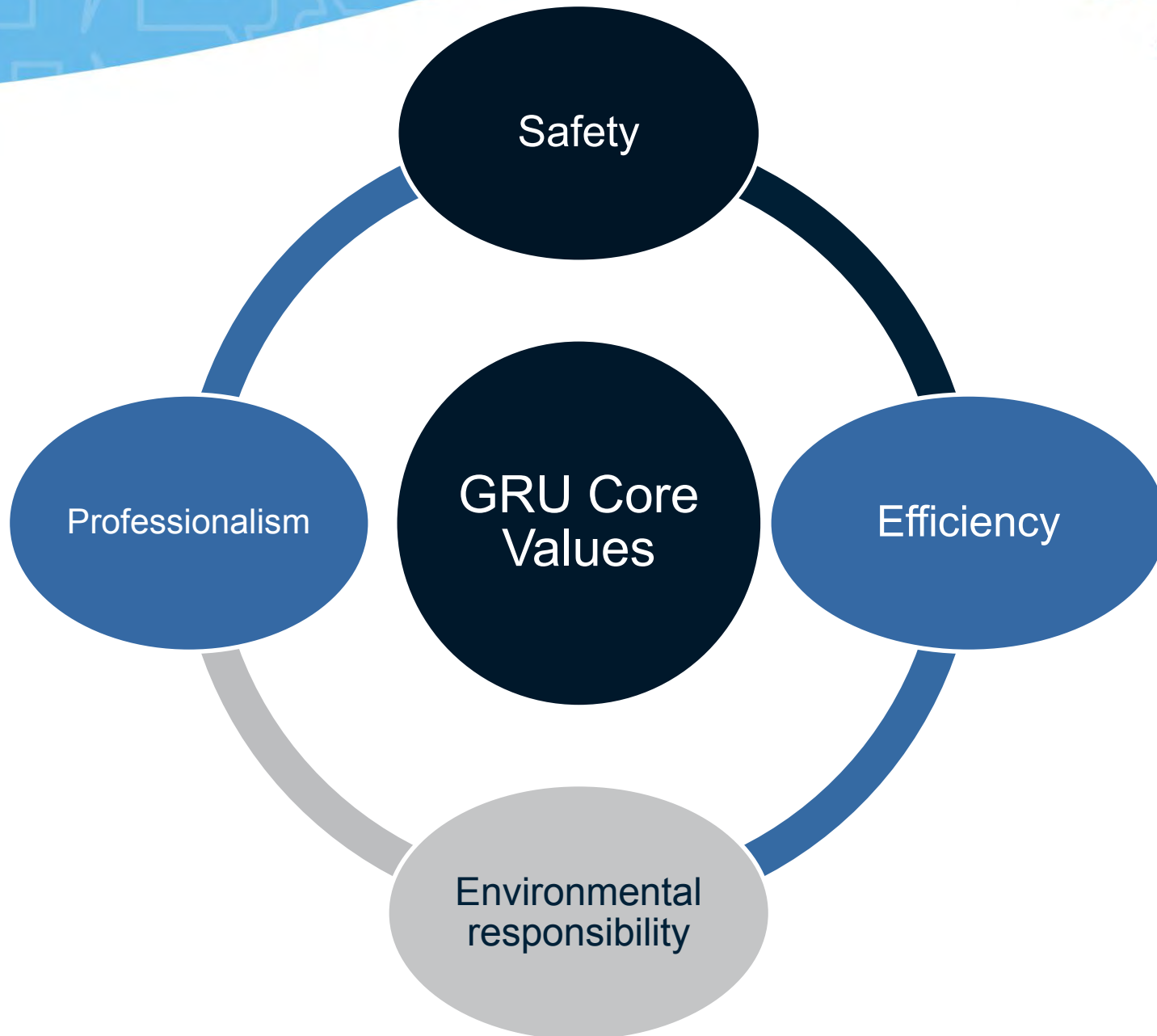
**Top 12 largest** accounting and advisory firm in the United States – deep resources to serve you with our **65 Energy & Utilities team members**

400  
utilities

Energy and Utilities Group serves over **400 utilities** nationwide including **125 electric utilities**

Baker Tilly offers an independent perspective to evaluating and implementing efficient business processes, financial analysis, and managing risk

## GRU's audit needs



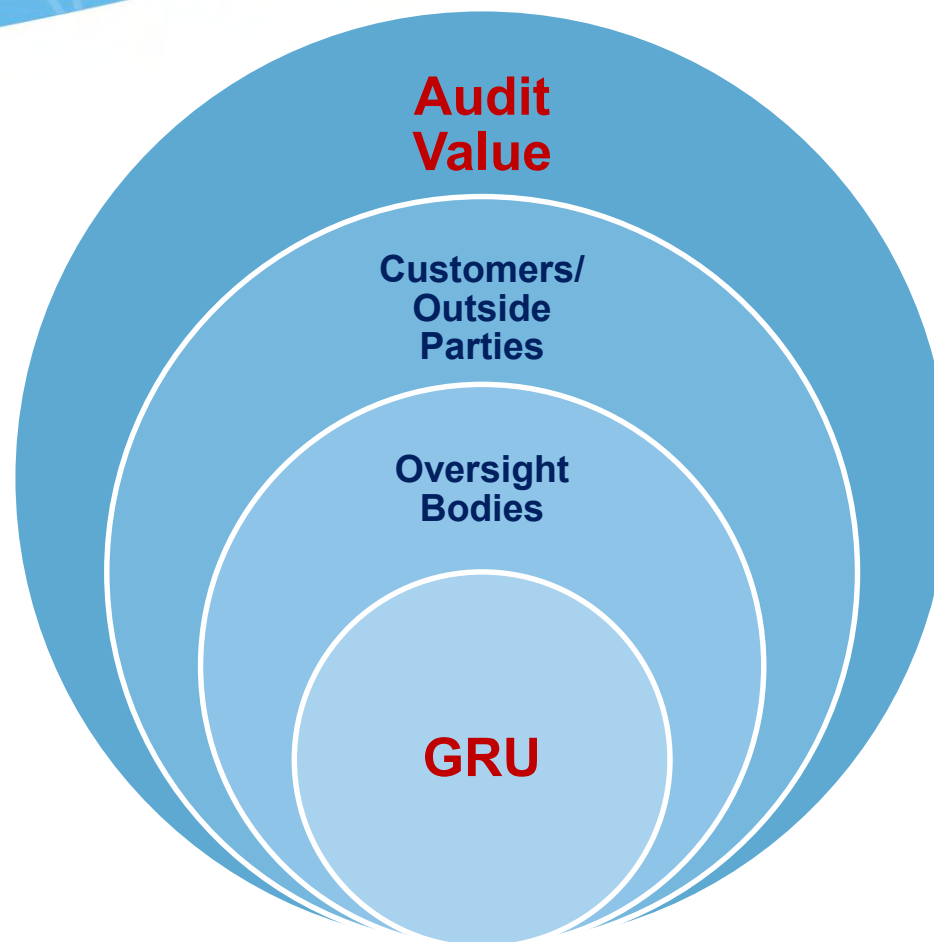


# GRU

## *Deriving value from the audit*

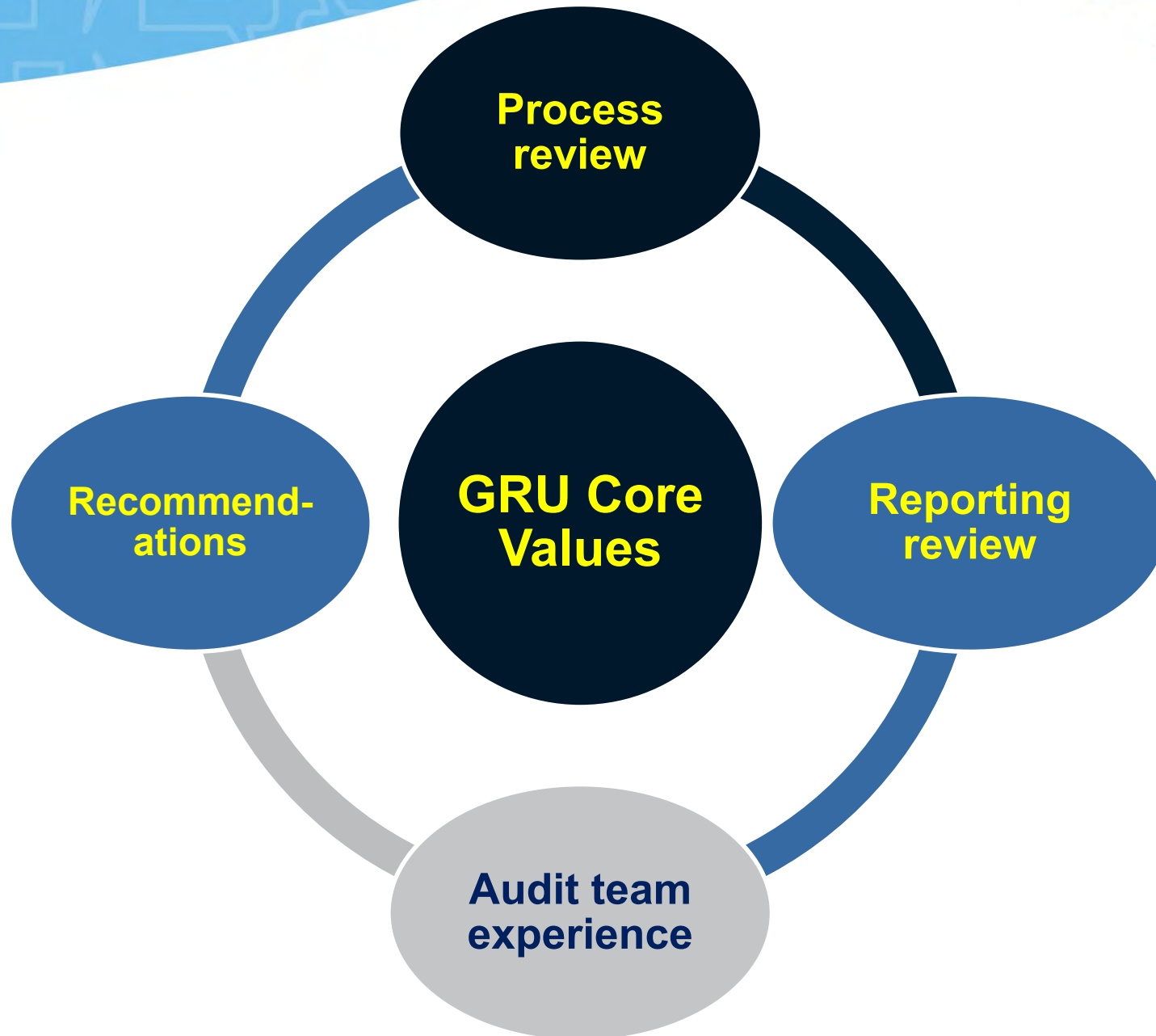


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***We view the audit as an opportunity to provide an opinion on the reliability of financial reporting to the GRU Oversight Bodies, Customer-Owners and Outside Parties and to provide value to GRU***

# How can an audit meet these needs?



## **Baker Tilly qualifications & differentiators**



# Baker Tilly differentiators



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# Our clients' voices speak volumes



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## Colorado Springs Utilities

"We have been very pleased with the service provided by Baker Tilly with our annual audit and other services provided. **Our goal was to work with an auditor that has substantial focus and expertise in large public utility accounting, financial reporting and controls. Baker Tilly has lived up to the expectations of our Board, Management and City Auditor.** We believe we have substantially reduced financial risks, have a better knowledge of industry financial development and trends and have better relationships with finance and accounting staffs from other large public utilities. We hope to continue our relationship with Baker Tilly as our auditor and advisor for a very long time."



## Lower Colorado River Authority

"Baker Tilly serves us in a timely and professional manner. We are a billion-dollar organization that requires our auditors to be accessible, collaborative and commit to being an exceptional service provider – Baker Tilly fits that mold. They are able to serve our needs and provide valuable, timely support from Wisconsin very effectively. Accessibility and timely service has never been a concern for us."



# Baker Tilly serves GRU's peers in the utility industry



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Public power utility client	Operating revenues	Audit	Consulting
Long Island Power Authority (LIPA)	\$3,859,549,000		X
Bonneville Power Administration	\$3,257,461,000		X
CPS Energy	\$2,629,677,000	X	
Sacramento Municipal Utility District	\$1,474,168,000	X	
Lower Colorado River Authority	\$1,021,300,000		X
Seattle City Light	\$886,400,000	X	
Colorado Springs Utilities	\$868,846,000	X	
Snohomish Public Utilities District	\$645,198,000	X	
Wisconsin Public Power, Inc.	\$519,974,000	X	
Energy Northwest	\$463,000,000	X	
Gainesville Regional Utilities	\$439,577,000		X
Modesto Irrigation District	\$424,999,000	X	
Massachusetts Municipal Wholesale	\$311,774,000	X	
Illinois Municipal Electric Agency	\$318,081,000	X	
Missouri River Energy Services	\$204,103,000	X	
Oklahoma Municipal Power Authority	\$188,011,000	X	
Delaware Municipal Electric Corporation	\$163,966,000	X	
MSR Public Power Agency	\$149,637,000	X	



# Baker Tilly industry involvement and thought leadership



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## American Public Power Association

- Presenters at national conferences
- Teachers for Education Courses
- Textbook authors

## American Waterworks Association

- Presenters at state and national conferences

## American Gas Association

- Presenters at national conferences

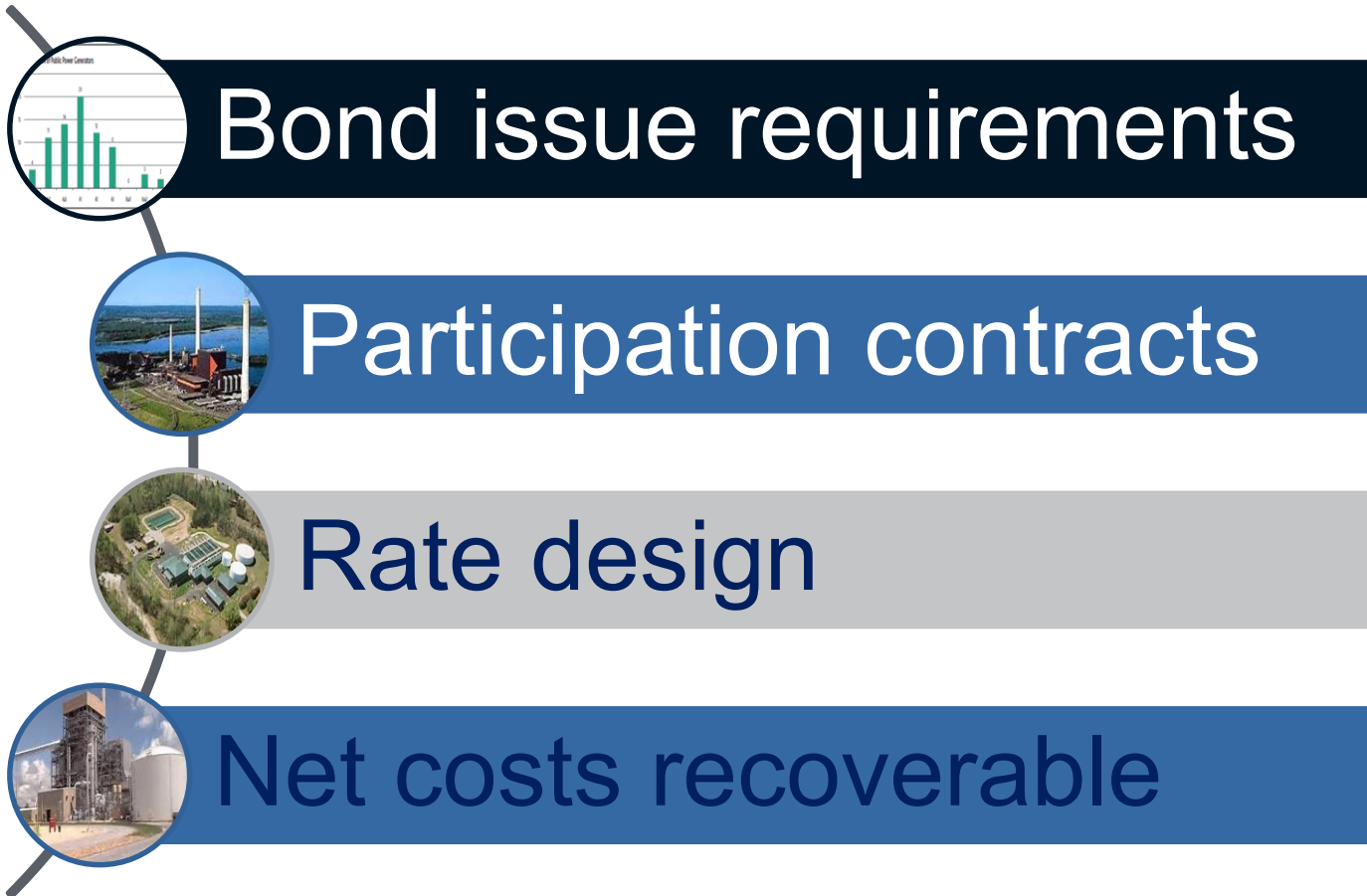
## GASB/FASB/AICPA

- Asset Retirement Obligation Task Force members
- Members of other committees
- Uniform guidance/single audit committee members
- Comment papers and input on potential standards

# Specialized industry knowledge to meet GRU's accounting and reporting needs



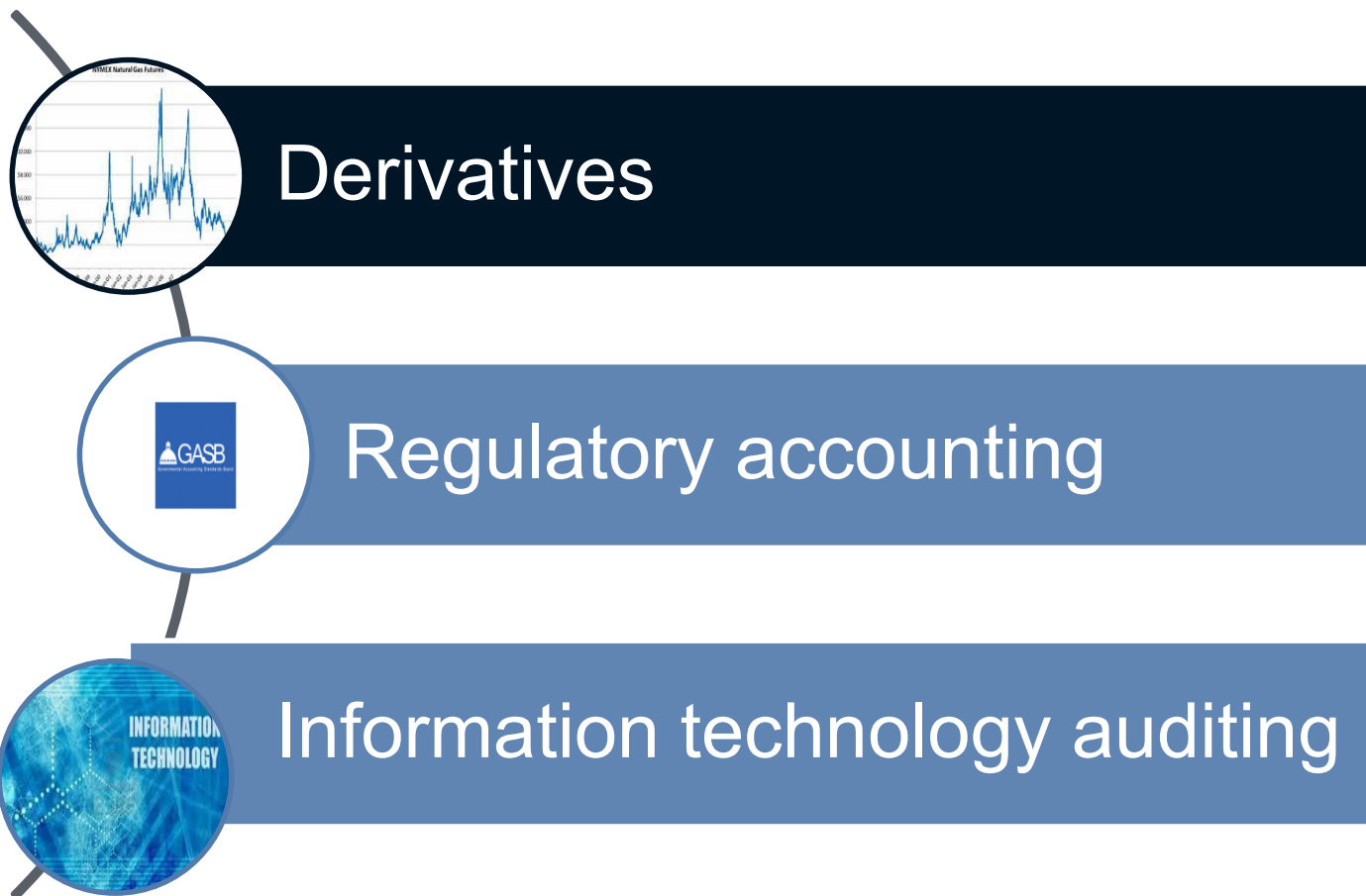
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# Specialized industry knowledge to meet GRU's accounting and reporting needs



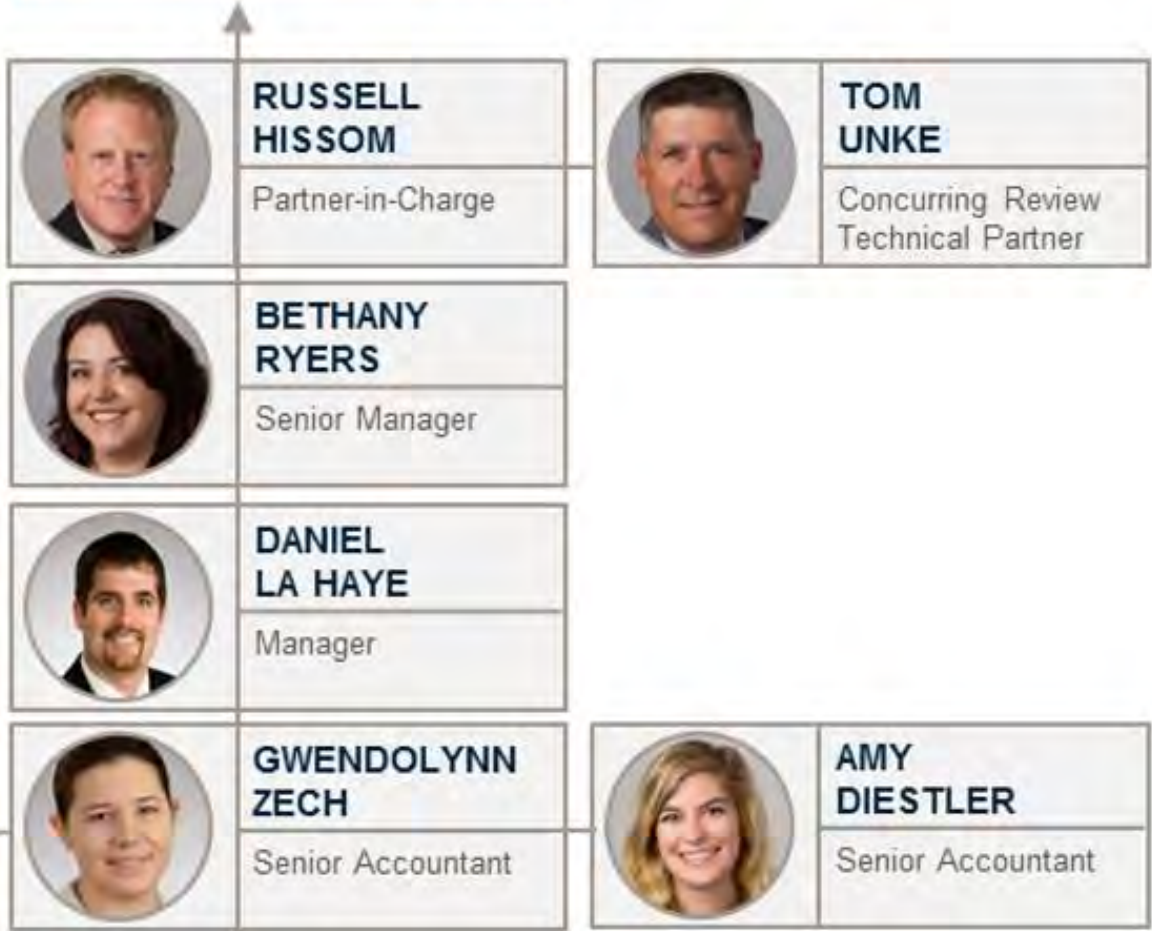
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## **Baker Tilly/GRU audit team**

# Baker Tilly/GRU audit team



**Supporting managers, seniors and staff**

Local resources determined based on project needs and skill requirements

# Staff continuity and a focused team are keys to a successful audit



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## Snohomish Public Utility District

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“Baker Tilly has performed the financial statement audit for Snohomish County Public Utility District for the past six years. Their staff is knowledgeable about the industry, the audits have been well-planned and very efficient, they have exhibited good continuity in staffing our engagement, and they have performed well in meeting our deadlines.”



# GRU defines Exceptional Client Service



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The GRU services team is available any time (not just during “business hours”)



Our newsletters and webinars will keep GRU current on industry issues



Breaking industry news emails, whitepapers and Thought Leadership are a regular part of our service



Our social media platform shares breaking news of industry interest







# The Baker Tilly audit team is provides Exceptional Client Service



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## Colorado Springs Utilities

“What I have found with Baker Tilly over the years, and I have worked with many of the largest accounting firms nationally, is that Baker Tilly has really good accessibility. They tend to understand our issues in public power as opposed to the power industry in general.”



## CPS Energy

“Baker Tilly has provided the highest level of professional services in the annual audit of CPS Energy’s financial statements. Their staff stays up-to-date on the most recent accounting guidance; and their knowledge of financial systems, leveraging of technology, and stability in audit staffing allow them to complete the annual financial audits in an efficient manner for their clients.”





## Peer references

# Peer GRU utility references



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GRU



CPS Energy – San Antonio Electric



Sacramento Municipal Utility District



Colorado Springs Utilities

# Peer GRU utility references



Florida Municipal Power Agency



Energy Northwest



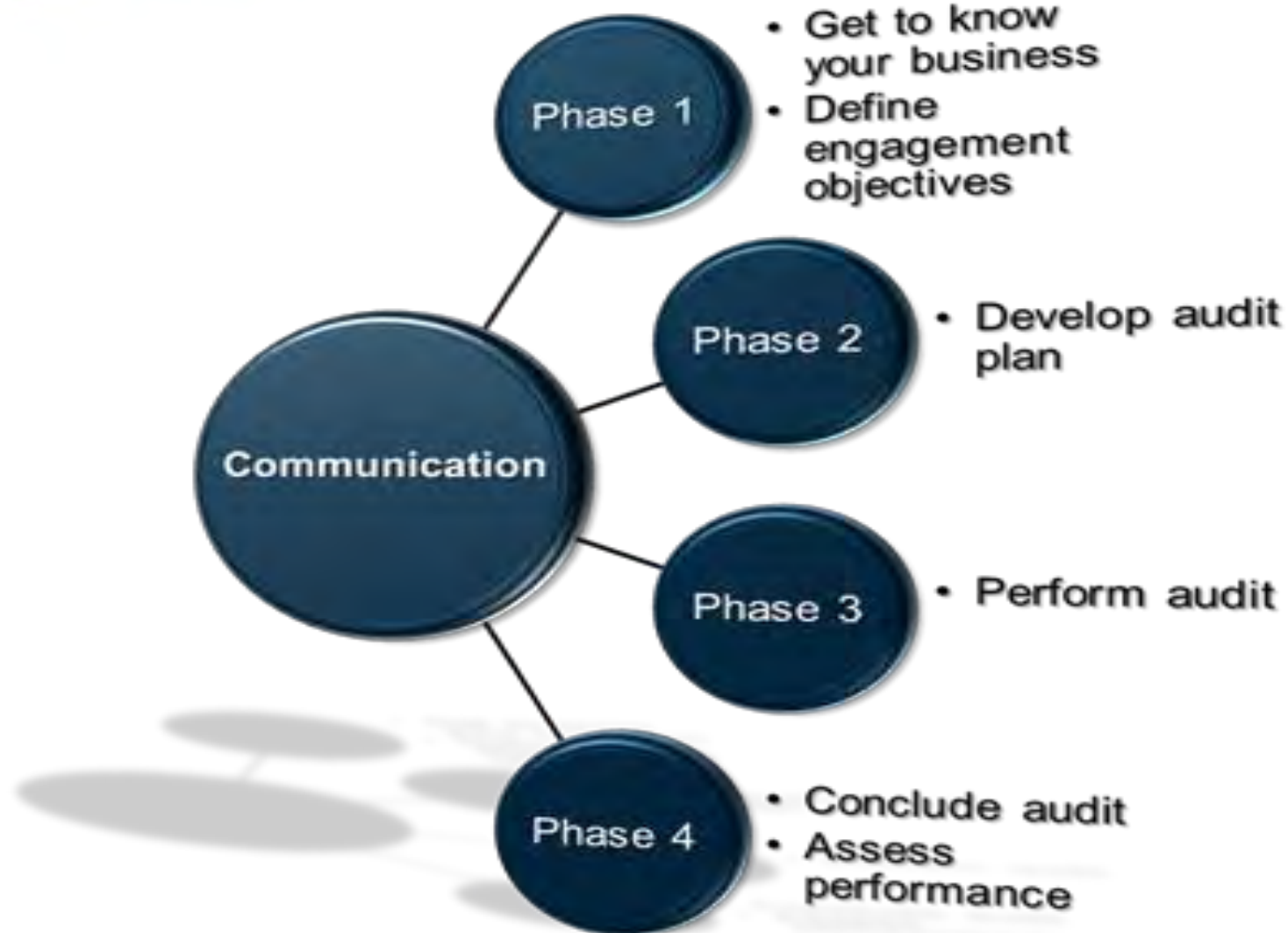
Snohomish Public Utility District



We serve over 400 electric, water, wastewater, gas and telecommunications utilities

# Audit approach

# Overall audit approach





# GRU will experience a smooth audit transition



## 1. Review information from prior auditor

- Verify opening balances
- Obtain transition documents as required by AICPA standards

## 2. Meet with the GRU accounting and finance team

- Introduce teams
- Discuss audit approach
- Discuss prior management letter
- Discuss implementation of new accounting standards
- Discuss areas of financial reporting and overall operations to be addressed during the audit

## 3. Meet with the GRU audit oversight body

- Discuss areas of audit concern
- Discuss prior auditor management letter comments
- Receive input as to areas for additional audit review as part of audit work plan

## 4. Review existing GRU systems documentation

- Audit team review of the GRU systems, accounting records and policies and procedures documentation
- Review interim financial reporting
- Utilize this background information to tailor audit approach



# GRU will experience a smooth audit transition



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## Energy Northwest

"Baker Tilly provided a strong transition team and hit the ground running, gaining a quick overall knowledge of our business and financial transactions. We were looking for a focus on streamlining the regulatory and reporting processes and receiving quality input into our specific utility accounting issues. Baker Tilly fulfilled that need by providing immediate feedback on our processes which resulted in a better understanding of regulatory requirements along with identifying specific areas for refinements and efficiencies. Baker Tilly has been very professional and extremely easy to work with, putting the customer first - response time and attention to understanding our internal processes has proved invaluable in our first year audit relationship with Baker



## Lansing Board of Water and Light

"We recently switched to Baker Tilly this year. We are on schedule to meet our reporting deadlines and the transition has been smooth, transparent, and professional."



# Overall audit approach



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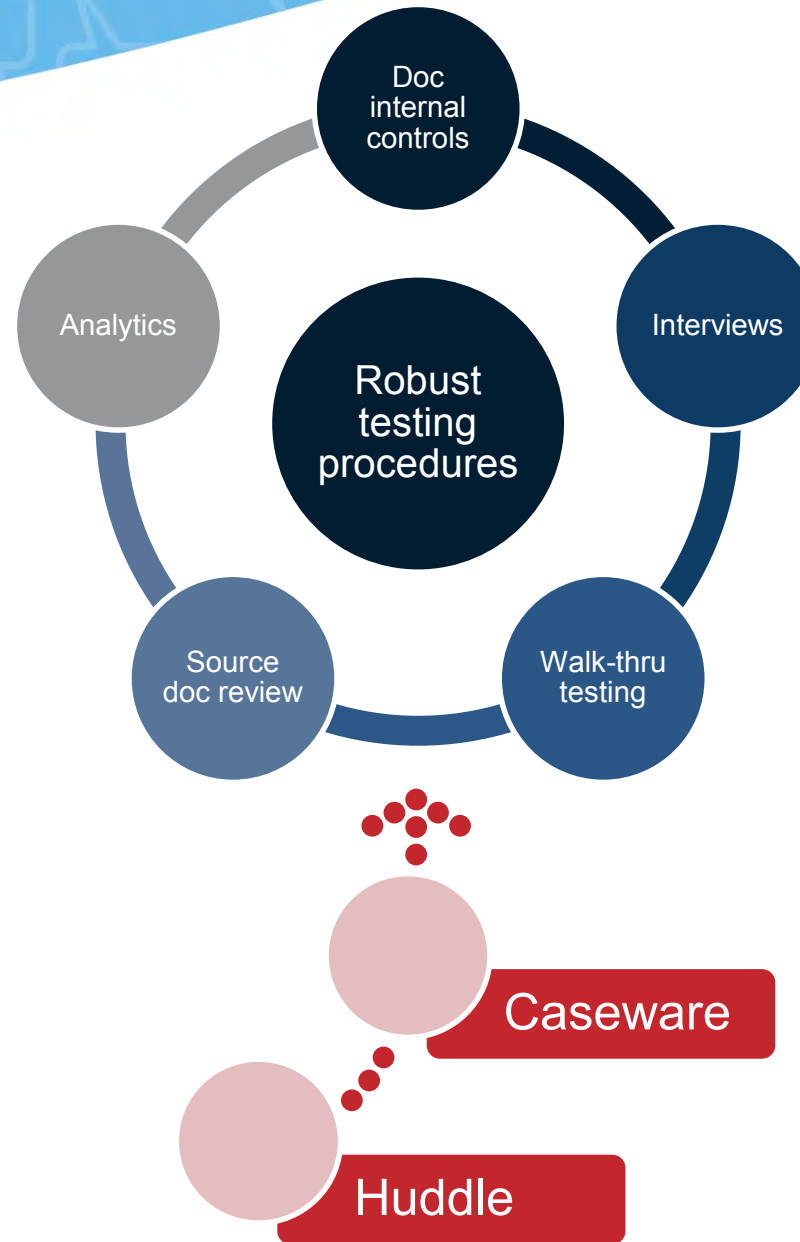


# GRU

## Audit testing procedures and tools



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# GRU

## Audit Work plan

### Main Areas of Audit Focus



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Area of Focus	Area of Focus
<b>Control environment</b>	<b>Internal controls</b>
<b>Information technology</b>	Cash and investments
Regulatory assets and liabilities	Derivative contracts
Fixed assets	Revenues and receivables
Expenditures and payables	Financing and debt
Cost of production	Compliance with laws and regulations
Payroll	Contracts and contingencies
Financial reporting	<b>Oversight body interaction</b>

# Audit deliverables



Report on fair presentation of financial statements in keeping with GAAP



Report on internal control structure



Report on compliance with GRU bond covenants

...of Long-Term Debt

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

Year Ending September 30	Principal	Interest	Total Debt Service Requirements
2016	\$ 22,205	\$ 22,227	\$ 44,432
2017	23,135	21,544	44,679
2018	24,020	20,814	44,834
2019	24,885	20,083	44,968
2020	25,835	19,073	44,908
2021-2025	137,970	83,801	221,771
2026-2030	178,895	65,816	244,711
2031-2035	214,040	47,886	261,926
2036-2040	227,355	28,810	256,165
2041-2045	32,540	2,370	34,910
	\$ 670,720	\$ 309,444	\$ 980,164

“In-relation to report on net revenues and flow of funds for bond compliance



Management letter – Rules of Auditor General 2016 – Section 10.554 (1) (i)



Recommendations for improvements in controls and business processes



## Audit timeline

# GRU Annual audit schedule



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Numb	Task Name	Start	Finish	4th Quarter				1st Quarter		
				Aug	Sep	Oct	Nov	Dec	Jan	Feb
1	Audit planning	Tue 8/1/17	Fri 8/18/17	█						
2	Preliminary audit fieldwork	Mon 8/21/17	Fri 9/1/17	█						
3	Audit planning, review of preliminary audit fieldwork, closing of books and preparation of final schedules by GRU	Tue 9/5/17	Fri 11/24/17		█					
4	Final audit fieldwork	Mon 11/27/17	Fri 12/15/17				█			
5	Audit completion procedures	Mon 12/18/17	Fri 12/22/17					█		
6	Deliver draft reports to GRU	Tue 1/2/18	Tue 1/2/18						█ 1/2	
7	Discuss reports with GRU and complete edits	Tue 1/2/18	Fri 1/12/18						█	
8	Deliver all reports in proposal to GRU	Mon 1/15/18	Mon 1/15/18							█ 1/15
9	Present reports, opinion and management letter (to be determined)	Tue 2/6/18	Tue 2/6/18							█ 2/6

## Additional presentation questions

**1. Describe at least two critical business and industry risks GRU is facing that may affect our financial reporting and describe why your firm is best suited to guide us.**

Competitive pricing of services based on real-time data & data security

- This impacts rate-recovery of strategic initiatives from rate-payers – regulatory accounting is key in this area
- Our audit includes analysis of classification of expenses, regulatory deferrals (and rate recovery) & capital expenditures
- Baker Tilly IT risk assessment includes review of business continuity plan effectiveness & data security processes
- Our audit approach includes review of management's use of reporting tools and approach to enterprise risk management
- Our training courses for GRU will include financial statement analysis and use of benchmarks to determine areas for further review

**1. Describe at least two critical business and industry risks GRU is facing that may affect our financial reporting and describe why your firm is best suited to guide us.**

Long-term  
infrastructure  
investment &  
access to capital  
markets

- Meeting bond coverage & maintaining a strong bond rating are key to accessing capital markets at lower interest rates
- Our audit approach includes review of key benchmarks including capitalization (debt vs. equity) & long-term strategies for debt management
- Baker Tilly's deliverables includes report on compliance with bond covenants and meeting debt coverage ratios
- Baker Tilly represents our clients before bond rating agencies



# GRU

## Additional presentation questions

### *Internal Audit Specific*



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**2. How will your firm maximize collaboration with our internal auditors to fully utilize their knowledge of our risk and operating environment? How will you communicate with the City Auditor if you believe that GRU management is not adequately responding to accounting changes?**

#### **Working as a partner with internal audit**

- Interview with Chief Audit Executive on key areas and issues
- Planning meetings with City Auditor
- Review of internal audit plan and reports
- Discussion of audit plan with Internal Audit

#### **Communication with City Auditor**

- Baker Tilly will discuss any issues with internal audit on lack of response to accounting changes
- Material weaknesses or significant deficiencies in are detailed in mgmt. letter
- Control weaknesses communicated to management



# GRU

## Additional presentation questions

### *Ethics and Fraud*



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### 3. Please explain how you will address internal “tone at the top” issues and current antifraud programs and controls.

#### “Tone at the top issues”

- “Tone at the top” documented in evaluation of control environment
- SAS 99 interviews include questions on tone at the top
- Issues considered material discussed with oversight body

#### Antifraud programs and controls

- Antifraud programs and controls documented in evaluation of control environment
- Reports from programs reviewed as part of testing of control environment

# GRU

## Additional presentation questions

### *Utility Projects*



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#### 4. Provide example of work done (rate studies, power supply contracts and billing system issues) for a utility organization that is similar in size and complexity to GRU?

##### Rate Studies

- Gainesville Regional Utilities
- Colton, CA Electric
- Columbia, MO
- Mass. Municipal Wholesale Electric
- Riverside, CA (allocations)

##### Power Supply

- Xcel Energy
- San Diego Gas & Electric
- Riverside, CA
- Oklahoma Gas & Electric
- Lower Colorado River Authority
- Illinois Municipal Electric Agency
- Oklahoma Municipal Power Auth
- Indiana Municipal Power Agency
- Omaha Public Power District
- Sothern California Public Power Agency

##### Billing System Issues

- Austin Electric
- Xcel Energy
- Sacramento Municipal Utility District
- Snohomish Public Utility District

# GRU

## Additional presentation questions

### *Client Communication*



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**5. Describe your commitment for the communication process to clients. Would you consider your firm client centric? How accessible is partner to client questions on current procedures and proposed changes to accounting procedures?**

#### **Communication Process**

- Team accessible anytime (not just during “business hours”)
- Calls/emails returned in one day
- Client service plan
- Ask our references of their satisfaction with our services and communication on their needs

#### **Partner Accessibility**

- Partner always available same day via direct line, cell phone or email at anytime
- Partner spends majority of time on-site during audit fieldwork
- Discussion available anytime on processes
- Active in making recommendations

# GRU

## Additional presentation questions

### *Client Communication*



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**5. How will your firm communicate new accounting standards or changes in laws that may be applicable to clients? How proactive is your firm? Describe any offered CPE, GASB updates, authoritative updates or client training?**

#### Communication

- New standards or applicable laws communicated via hot topics emails, bi-monthly newsletter & quarterly updates
- Social media platform daily discusses industry issues

#### Training

- Proposal includes annual 8 hour on-site Continuing Education training for GRU staff on financial and operational areas – Baker Tilly is a certified firm for CPE – courses count towards Florida CPE requirement
- Baker Tilly webinars on new areas
- Proposal includes 40 hours of annual accounting consulting services at no additional fee

# GRU

## Additional presentation questions

### *IT Risk Assessment*



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## 6. Describe how each major element of the GRU financial processing system hardware/software will be assessed for risk to financial reporting?

### IT Risk Assessment

- Identification of IT controls
- Testing of key interfaces of IT and accounting transactions and financial reporting
- This testing is key in driving focus of audit plan

### IT Risk Assessment Team

- Performed by IT Specialists who hold CISA certifications – Shirley Boorsma, CISA is lead
- Project team performs services on-site
- Estimated IT assessment is 40 – 60 hours annually



# GRU

## Additional presentation questions

### *IT Infrastructure*



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## 7. Explain how you factored changes in software systems into audit approach and describe steps you will take.

### Software system considerations

- IT assessment team are SAP and ERP specialists
- Baker Tilly methodology ranks systems for analysis – GRU system is highest ranked and will receive our highest level of specialists

### Audit approach

- Testing of key interfaces of IT and accounting transactions and financial reporting
- This testing is key in driving focus of audit plan
- Prove the process – proves the output

# GRU

## Additional presentation questions

### *Regulatory Accounting*



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### 8. Provide overview of clients who utilize regulatory accounting.

Client	Client
Bonneville Power Administration	Colorado Springs Utilities
CPS Energy (San Antonio)	Delaware Municipal Electric Company
Gainesville Regional Utilities	Illinois Municipal Electric Agency
Laurentian Energy Authority	MMWEC
Modesto Irrigation District	MSR Public Power Agency
Muscatine Power and Water	Oklahoma Municipal Power Authority
Southern Illinois Power Cooperative	Sacramento Municipal Utility District
Snohomish Public Utility District	WPPI Energy

# GRU

## Additional presentation questions

### *Regulatory Accounting*



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#### **8. Provide examples of FAS 71/GASB 62 applications you have audited or provided client assistance.**

*Baker Tilly has assisted clients with implementation of regulatory accounting under FAS 71/ASC 980/GASB 62. Common uses include:*

#### **Regulatory assets**

- Extraordinary maintenance
- Loss on asset retirements
- Future recoverable costs
- GASB 68 liability recovery
- Deferred power costs
- Unrealized derivative losses
- Other post-employment benefits
- Decommissioning
- Unreimbursed storm damage
- Debt issuance costs

#### **Regulatory liabilities and Deferred inflows**

- Unrealized derivative gains
- Refunds
- Grant revenues
- Rate stabilization
- Contributions in aid of construction

# GRU

## Additional presentation questions

### *Regulatory Accounting*



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## 8. Describe experience in auditing interest rate swaps and or other hedging derivatives.

### Derivatives and interest rate swaps

- Baker Tilly's audit team for GRU has deep experience in auditing derivatives – including fuel hedges and interest rate swaps. We audit many clients that utilize these tools to manage risk.
- We are familiar in testing all methods allowable under GASB standards for effectiveness and in advising clients in the use GASB 62 regulatory accounting for deferring recognition of ineffective derivatives in the Statement of Revenues, Expenditures and Changes in Net Position.



# GRU

## Additional presentation questions

### *Regulatory Accounting*



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## 8. Describe experience with net costs recoverable and provide a sample of clients.

### **Net costs recoverable**

Difference between depreciation expense and bond principal paid on financed assets  
Allowable under GASB 62  
Smooths utility earning and rates  
Baker Tilly teaches this for APPA Advanced Accounting Course

***Clients: GRU***

***IMEA***

***OMPA***

# GRU

## Additional presentation questions

### *Rate Making*



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## 9. Describe your experience with rate-making financial statements (flow of funds) versus GAAP financial statements. Describe your experience with how regulatory accounting impacts rates and your audit approach.

### Experience with rate-making financial statements

- Baker Tilly's experience in preparing rate studies make us intimately familiar with rate-making financial statements (including GRU's)
- Rate-making statements are necessary to match rate recovery with customer rates

### Impact of regulatory accounting on rates

- Regulatory accounting items are included in rate-making financial statements and show as deferrals on GAAP financial statements
- Regulatory items should be approved by oversight bodies and timed in utility rates to smooth rate recovery from ratepayers
- Our audit approach is to test the appropriateness and oversight approval of regulatory deferrals and their recovery in rates

# GRU

## Additional presentation questions

### *Rate Making*



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## 9. Describe your experience with rates/rate design as it relates to financial statement audits.

### Rate design and financial statement audits

- Application of utility rates are tested as part of audit workplan
- Baker Tilly uses the knowledge gained in performing rate studies in testing rates and analytical review of overall revenues
- Analytic review includes distribution of revenues by rate classes

# GRU

## Additional presentation questions

### *Financials*



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### 10. What should GRU expect as far as the timing of the review of workpapers, additional questions/items that are needed from that review, and final QAQC for the financial statements?

#### Workpaper review and final QAQC

- Review of workpapers and financial statements is done by audit senior manager and partner during final fieldwork and continues during audit completion; additional questions are asked during that process
- Final QAQC is performed during audit completion procedures, any questions or comments are relayed to GRU at that time
- All of this is factored into the audit timeline so agreed-to deadlines are met by Baker Tilly and GRU for issuance of audit opinion and other deliverables



# Summary

# Summary



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**Baker Tilly specializes in audits of municipal utilities**

**The Baker Tilly/GRU audit team has deep utility experience**

**The Baker Tilly audit approach provides value beyond the audit**

# Contact Info



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**Russ Hissom, CPA, CIA, CISA**

Partner

608 240 2361

608 628 4020

[Russ.hissom@bakertilly.com](mailto:Russ.hissom@bakertilly.com)



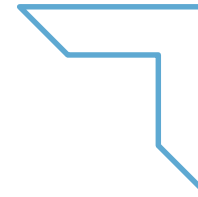
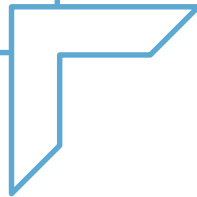
**Bethany Ryers, CPA, MAS**

Senior Manager

608 240 2382

[Bethany.ryers@bakertilly.com](mailto:Bethany.ryers@bakertilly.com)





# Discussion

