

GAINESVILLE REGIONAL UTILITIES

Gainesville, Florida

COMMUNICATION TO THOSE CHARGED WITH
GOVERNANCE AND MANAGEMENT

As of and for the Year Ended September 30, 2019

GAINESVILLE REGIONAL UTILITIES

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**COMMUNICATION OF RECOMMENDATIONS
AND INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT
MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES**

INFORMATIONAL POINTS

GASB UPDATES

The Government Accounting Standard Board (GASB) has been very active in recent years, issuing new standards at a fast pace. Over the next few years, Gainesville Regional Utilities will have many new standards to evaluate and implement. Here are the standards which may impact you in the next year:

- > GASB 84 improves guidance regarding the identification of fiduciary activities and how they should be reported, effective for reporting periods beginning on or after December 15, 2018
- > GASB 90 clarifies accounting and financial reporting for majority equity interests, effective for reporting periods beginning on or after December 15, 2018

Other GASB pronouncements on the horizon, while the implementation dates is in the near term these could have significant impacts on government financial statements:

- > GASB 87 improves accounting and financial reporting for leases, effective for reporting periods beginning on or after December 15, 2019
- > GASB 89 provides guidance for accounting for interest cost incurred before the end of a construction period, effective for reporting periods beginning on or after December 15, 2019
- > GASB 90 provides a single method of reporting conduit debt obligations, effective for reporting periods after December 15, 2020

Looking even further ahead, the Technical Agenda, below, outlines significant areas GASB is currently working on:

- > Conceptual Framework
 - Disclosure
 - Recognition
- > Major Projects
 - Financial Reporting Model
 - Revenue and Expense Recognition
- > Practice Issues
 - Compensated Absences
 - Deferred Compensation Plans – reexamination of Statement 32
 - Omnibus
 - Prior-Period Adjustments, Accounting Changes, and Error Corrections
 - Public Private Partnerships and Availability Payment Arrangements
 - Secured Overnight Financing Rate – London Interbank Offered Rate Replacement
 - Subscription-Based IT arrangements
 - Implementation Guidance
- > Pre-Agenda Research
 - Capital Assets
 - Going Concern Disclosures Reexamination
 - Interim Financial Reporting
 - Investment Fees

Through our firm involvement on AICPA committees, Baker Tilly follows these developments closely so that we can help you prepare for the changes as they evolve. This participation also allows us to share with GASB the experiences and perspectives of our clients to potentially influence the direction of future projects.

INFORMATIONAL POINTS (cont.)

GASB UPDATES (cont.)

Full lists of projects, as well as many resources, are available on GASB's website which is located at www.gasb.org.

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

To the City Commission
Gainesville Regional Utilities
Gainesville, Florida

Baker Tilly appreciates the opportunity to serve as the auditor of Gainesville Regional Utilities.

We have completed our audit of the financial statements of Gainesville Regional Utilities for the year ended September 30, 2019, and have issued our report thereon dated February 24, 2020. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS
GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA***

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the commission of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated September 18, 2019.

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Gainesville Regional Utilities are described in Note 1 to the financial statements. As described in Note 1, Gainesville Regional Utilities changed accounting policies related to financial reporting for debt disclosures by adopting Governmental Accounting Standards Board (GASB) Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.

As described in Note 17, Gainesville Regional Utilities changed accounting policies related to regulatory accounting by adopting GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, in 2019 related to a regulatory asset of net costs recoverable in future years for the Deerhaven Renewable Generating Station. The accounting change was retrospectively applied to prior periods presented as if the policy had always been used, which resulted in a restatement of prior balances.

We noted no other transactions entered into by Gainesville Regional Utilities during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- > Management's estimate of the allowance for doubtful accounts is based on historical revenues, loss levels, and analysis of the collectability of accounts.
- > Management's estimate for the value of mark-to-market derivative instruments is based on third party valuations.
- > Management's estimate of unbilled revenue receivable and revenues is based on actual cycle billings that are billed subsequent to year-end for consumption prior to September 30, 2019, multiplied by the average daily usage for the meter read period.
- > Management's estimate of the net pension liability and related deferrals are based on information provided by the City based on the Utilities' retirement contributions made and the actuarial studies performed by a qualified actuary retained by the City.
- > Management's estimate of the net other post-employment benefits (OPEB) liability and related deferrals are based on information provided by the City based on the Utilities' participating employee count and retirees and the actuarial studies performed by a qualified actuary retained by the City.
- > Management's estimate of the valuation of its coal pile is based on coal density testing and an aerial survey performed by third parties, in addition to the average cost of coal purchased.

We evaluated the key factors and assumptions used to develop the significant estimates in determining their reasonableness in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the notes to the financial statements are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such misstatements identified.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

INDEPENDENCE

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and Gainesville Regional Utilities that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of Gainesville Regional Utilities for the year ended September 30, 2019, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to Gainesville Regional Utilities in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. During the year ended September 30, 2019, Baker Tilly provided the following services to the City of Gainesville:

- > Executive staffing consulting services

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Gainesville Regional Utilities' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

RESTRICTION ON USE

This information is intended solely for the use of the City Commission and management and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
February 24, 2020

MANAGEMENT REPRESENTATIONS

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707-7398

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of Gainesville Regional Utilities as of September 30, 2019 and 2018 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the Gainesville Regional Utilities and the respective changes in financial position and cash flows, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the Utilities required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, if any, are reasonable.

6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
8. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
10. Guarantees, whether written or oral, under which the utility is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

11. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Utility Advisory Board and City Commission or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. We have disclosed to you results of our assessment of internal controls that mitigate the risk that the financial statement may be materially misstated as a result of fraud.
13. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
15. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. There are no known related parties or related party relationships and transactions of which we are aware.

Other

17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

18. We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that you have reported to us.
19. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
20. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report, if applicable.
21. The utility has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
22. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
23. There are no:
 - a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
 - c. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
 - d. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
24. In regards to the nonattest services performed by Baker Tilly for the City of Gainesville listed below, The City has 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.
 - a. Executive staffing consulting services

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
25. Gainesville Regional Utilities has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
26. Gainesville Regional Utilities has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
27. The financial statements properly classify all funds and activities.
28. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified


29. We believe that we have properly identified all derivative instruments and any embedded derivative instruments that require bifurcation. The utility's hedging activities, if any, are in accordance with its documented and approved hedging and risk management policies. The utility follows the valuation, accounting, reporting and disclosure requirements outlined in GASB No. 53. We believe the timing, nature, and amounts of all forecasted transactions are probable of occurring. The fair values of all derivatives and hedged items have been determined based on prevailing market prices or by using financial models that we believe are the most appropriate models for valuing such instruments and that incorporate market data and other assumptions that we have determined to be reasonable and appropriate at year end.
30. Provisions for uncollectible receivables, if any, have been properly identified and recorded.
31. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
32. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
33. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
34. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
35. Tax-exempt bonds issued have retained their tax-exempt status.
36. The operations and rate setting process meet the condition for application of accounting for regulated operations as outlined in GASB No. 62. All regulatory items included in the financial statements have been approved and are being accounted for in accordance with specific action taken by the regulatory body and as such the expectation of future recovery or refund is reasonable.
37. We have appropriately disclosed Gainesville Regional Utilities's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy.
38. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
39. With respect to the supplementary information, (SI):
- a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
40. We agree with the restatement presented in the current year's financial statements.

41. We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as the measurement date in accordance with the requirements of GASB 72 – *Fair Value Measurement*. In addition our disclosures related to fair value measurements are consistent with the objectives outlined in GASB 72. We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the financial statements and believe this information to be reliable and consistent with the requirements.
42. All borrowings and financial obligations of Gainesville Regional Utilities of which we are aware are included in the financial statements at September 30, 2019 and 2018, as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.
43. Gainesville Regional Utilities has not violated any covenants or requirements of its bond resolutions and other agreements related to outstanding securities during any of the periods reported. We have fully disclosed to you all covenants and information related to how we determined our compliance with the terms of the covenants.
44. We assume responsibility for, and agree with, the findings of specialists and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
45. Any direct borrowings, direct placements, lines of credit or debt default clauses have been identified and properly disclosed.

Sincerely,

Gainesville Regional Utilities

Signed:



Claudia Rasnick, CFO

2/24/2020

Signed:



Ed Bielarski, General Manager

2/24/2020