

GOVERNANCE LETTER

Honorable Mayor and Council Members
City of Ocala
Ocala, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ocala, Florida (the City) for the year ended September 30, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards; *Government Auditing Standards*; the Uniform Guidance, Florida Department of Financial Services, *State Projects Compliance Supplement*; and Chapter 10.550, *Rules of the Auditor General*; as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 27, 2024. Professional standards also require that we communicate to you the following information related to our audit:

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 13 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 100, *Accounting Changes and Error Corrections*. There was no impact to the City's financial statements as a result of the adoption of this statement. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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:

- **Depreciation Expense and Accumulated Depreciation** — As discussed in the notes to the financial statements, capital assets are stated at cost at the time of purchase or construction. Management estimates accumulated depreciation and depreciation expense for such assets by utilizing the straight-line method of depreciation and by determining estimated useful lives based on the classes of depreciable property described in the notes to the financial statements.

CERTIFIED PUBLIC ACCOUNTANTS

Gainesville | Ocala | Tallahassee | Sarasota | Orlando | Tampa

purvisgray.com

Members of American and Florida Institutes of Certified Public Accountants

Honorable Mayor and Council Members
City of Ocala
Ocala, Florida

- **Allowance for Doubtful Accounts** — Management's estimate of the allowance for doubtful accounts reduces the City's accounts receivable balances to the net realizable value in the statement of net position and increases the bad debt expense in the statement of revenues, expenses, and changes in net position in accordance with generally accepted accounting principles. Management estimates the allowance periodically during the year and at year-end. Management's estimation methodology estimates the allowance as: 100% of accounts receivable balances 90 days or older, plus the accounts receivable balances less than 90 days old multiplied by a ratio determined by management.
- **Estimation of Unbilled Revenue** — Management's estimate of the unbilled revenue is reported as part of accounts receivable (net) on the statement of net position and consists of an accrual for usage in September 2024, billed in October 2024. Estimating the revenue involves calculating a percentage of each account's total number of days in September 2024 and applying each account's percentage to the billed revenue for each account to come up with the estimated September 2024 unbilled revenue.
- **Investment Fair Value** — Management's estimate of the fair value of financial instruments is based on the fair market value of the security at a particular point in time.
- **Net Pension Liability, Pension Related Deferred Outflows and Inflows of Resources, and Pension Expense** — The City's net pension liability, deferred outflows, deferred inflows, and pension expense for the established defined-benefit plans are estimates based on actuarial studies performed by a qualified actuary hired by the City. There are significant underlying assumptions in the actuarial report, which if changed would significantly affect the reported amounts.
- **Other Postemployment Benefits (OPEB)** — The unfunded accrued actuarial liability, deferred outflows, and deferred inflows for OPEB are determined by an actuarial report based on employee census data and assumptions selected by management, based on industry trends. There are significant underlying assumptions in the actuarial report which, if changed, would significantly affect the reported amounts.
- **Incurred but Not Reported (IBNR) Self Insurance Claims** — The City's calculation of IBNR costs is based on cost estimates developed by the City's actuary and third-party administrator. Generally, the same cost estimates are used for both regulatory and accounting purposes. The annual IBNR cost estimate is recorded in the self-insurance fund of the City, which is classified as an internal service fund within the City's Annual Comprehensive Financial Report.
- **Leases** — Management's estimate related to the initial measurement of lease assets and liabilities, interest expense, lease term, present value of lease payments, and fair value of underlying assets is all based on interpretation of the terms in the agreements and the discount rate determined by management.
- **Subscription-Based Information Technology Arrangements (SBITA)** — Management's estimate related to the initial measurement of SBITA assets and liabilities, interest expense, subscription term, present value of subscription payments is all based on interpretation of the terms in the agreements and the discount rate determined by management.
- **Litigation** — As mentioned in Note 11, Commitments and Contingent Liabilities, the City has various suits and claims arising in the ordinary course of operations.

Honorable Mayor and Council Members
City of Ocala
Ocala, Florida

We evaluated the methods, assumptions and data used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The following is considered a significant financial statement item:

- **Regulatory Operations/Rate Stabilization** — As discussed in the notes to the financial statements, management records rate stabilization funding so that revenues are deferred as cash is set aside for future rate stabilization, and revenue is recognized from the deferred revenue account as rate stabilization funds are utilized to buffer customers' utility bills. This method was adopted in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and reflects the economics of rate regulation by the City Council.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing 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 clearly trivial, and communicate them to the appropriate level of management. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 26, 2025.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's 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.

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 the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Honorable Mayor and Council Members
City of Ocala
Ocala, Florida

The following are audit matters that we would like to bring to the attention of the Mayor, City Council, and management of the City:

- **GASB Statement No. 101, *Compensated Absences***—will become effective for the year ending September 30, 2025. This statement updates the treatment for compensated absences and requires that liabilities for compensated absences be recognized for: (1) leave that has not been used, and (2) leave that has been used but not yet paid in cash or settled through non-cash means. The City is reviewing the impact of this new standard on its financial reporting.
- **GASB Statement No. 102, *Certain Risk Disclosures***—will become effective for the year ending September 30, 2025. This statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.
- **GASB Statement No. 103, *Financial Reporting Model Improvements***—will be effective for the year ending September 30, 2026. This statement introduces improvements to the financial reporting model aimed at enhancing the clarity and decision-usefulness of key financial information while addressing certain application issues. The City should review the potential impact of this new standard on its financial reporting.
- **GASB Statement No. 104, *Disclosure of Certain Capital Assets***—will be effective for the year ending September 30, 2026. This statement enhances financial statement note disclosures by requiring governments to provide more detailed information about certain types of capital assets. Specifically, lease assets, intangible right-to-use assets, and subscription-based information technology assets must be disclosed separately by major class in the capital assets note disclosures. Additionally, intangible assets other than these categories must also be disclosed separately by major class.

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 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We are engaged to report on the combining and individual non-major fund financial statements, non-major fund budgetary comparison schedules, and the schedule of expenditures of federal awards and state projects, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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 underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Honorable Mayor and Council Members
City of Ocala
Ocala, Florida

We were not engaged to report on introductory and statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

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

Purvis Gray

March 26, 2025
Ocala, Florida