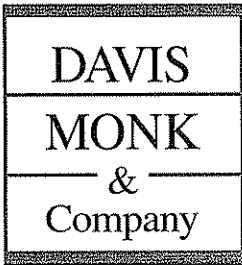


CITY OF GAINESVILLE,
FLORIDA
MANAGEMENT LETTER
AND
SINGLE AUDIT REPORTS
SEPTEMBER 30, 2007

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Management Letter

Honorable Mayor and City Commissioners
City of Gainesville, Florida

We have audited the basic financial statements of the City of Gainesville, Florida (the "City"), as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated February 26, 2008. Our report on the basic financial statements included references to the report of other auditors who issued a separate management letter. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Auditor General.

Pursuant to the Rules of the Auditor General, which govern the conduct of governmental audits performed in the State of Florida, we make the following representations:

- As required by the Rules of the Auditor General, we determined that the annual financial report for the City, for the fiscal year ended September 30, 2007, was filed with the Department of Financial Services pursuant to Section 218.32, Florida Statutes, and is in substantial agreement with the audit report. It should be noted that the annual financial report includes the accounts of the Gainesville Housing Authority, which the State of Florida has characterized as a dependent special district. Pursuant to the provisions of GASB Statement No. 14, the City's basic financial statements do not include the Gainesville Housing Authority in the financial reporting entity.
- The scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, *Determination of Financial Emergency*. We determined that the City has not met one or more of the conditions described in that section that are indicative of a state of financial emergency.
- As required by the Rules of the Auditor General, we applied financial condition assessment procedures, as of the end of the fiscal year, pursuant to Rule 10.556(8). It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management. The application of such procedures did not reveal evidence of "deteriorating financial condition" as that term is defined in Rule 10.554.

- As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. Our audit did not reveal noncompliance with the provisions of Section 218.415, Florida Statutes.
- The Rules of the Auditor General stipulate that auditors should review the status of prior-audit findings. In that regard, there were no prior audit findings.

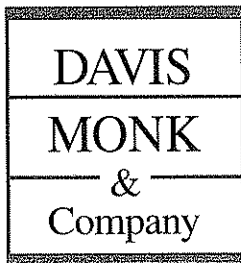
Following this letter are our reports on internal control and compliance relative to financial reporting and financial assistance programs. Also, other auditors have issued separate communications relative to Gainesville Regional Utilities. The comments in those documents should be considered in conjunction with this management letter.

This management letter is intended solely for the information and use of the Audit and Finance Committee, management and oversight audit agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for the cooperation and courtesies extended to us during the course of our audit. We have sincerely enjoyed our association with the City and look forward to a continuing relationship. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.



February 26, 2008
Gainesville, Florida



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**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With Government Auditing Standards**

Honorable Mayor and City Commissioners
City of Gainesville, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the City of Gainesville, Florida (the "City"), as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 26, 2008. Our report on the basic financial statements included a reference to the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.


Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

Other auditors noted certain matters that they reported to management of GRU in separate communications dated January 9, 2008.

This report is intended solely for the information and use of the Audit and Finance Committee, management and oversight audit agencies, and is not intended to be and should not be used by anyone other than these specified parties.



February 26, 2008
Gainesville, Florida

**Schedule of Federal Awards and State Financial Assistance
For the Fiscal Year Ended September 30, 2007
City of Gainesville, Florida**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract/Grant No.</u>	<u>Expenditures</u>	<u>Program Total</u>
<u>U.S DEPARTMENT OF AGRICULTURE</u>				
Passed Through Florida Department of Agriculture: Improving Wind Resistance of Right-of Way Trees	10.664	10301	\$ 23,356	
<u>US DEPARTMENT OF EDUCATION</u>				
Passed Through Florida Dept of Education via School Board of Alachua County 21st Century Community Learning Center	84.287	010-2447A-7CCC1	201,046	
<u>U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT</u>				
Community Development Block Grant-Entitlement Program	14.218	B-04/05-MC-12-007	1,484,082	
Supportive Housing Program-MHP	14.235	FL29B40-8004	93,050	
Supportive Housing Program-VETSPACE	14.235	FL29B40-8003	91,678	184,728
HOME Investment Partnership Grant	14.239	M-05-MC-12-0007	898,639	
Economic Development-SE 12th Street	14.246	B-03-SP-FL-0140	172	
Depot Park Trail Project	14.251	B-05-SP-FL-0422	2,198	
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Domestic Violence	16.590	2003WEBX0062	9,442	
Internet Crimes Against Children	16.543	2004MCCXK002	183,938	
Bulletproof Vest FY 04	16.607	N/A	419	
COPS Universal Hiring	16.710	2003UMWX0023	96,197	
COPS Secure our Schools	16.710	2004CKWX0143	25,000	
COPS-04 Technology Grant	16.710	2004CKWX0065	4,068	
COPS-05 Technology Grant	16.710	2005CKWX0266	112,703	
COPS-06 Technology Grant	16.710	2006CKWX0233	74,960	
Crime Prevention Education & Technology 2006	16.710	2006DJBX0765	40,517	353,445
CPD Latent Enhancement Initiative - Coverdell Forensic Science	16.742	2006DNBX0027	61,874	
Federal Equitable Sharing Proceeds	16.XXX	N/A	798,911	
Passed Through Florida Department of Law Enforcement: JAG/Sexual Predator and Offender Tracking Program	16.738	2006-JAGC-ALAC-8-P3-184	14,336	
JAG/ Victims of Violent Crimes	16.738	2006-JAGC-ALAC-2-M8-061	19,410	33,746
Project Safe Neighborhood/ Prevent Youth Firearm Violence	16.609	2005-CJ-7L-03-11-02-007	55,580	
<u>U.S DEPARTMENT OF TRANSPORTATION</u>				
Federal Transit Administration:				
Multimodal Transportation Center	20.500	FL-03-0246-02	754,234	
Bus Replacement	20.500	FL-04-0006-00	2,000	
2003 Bus Purchases	20.500	FL-03-0239-00	9,245	
2005 Section 5309 Grant	20.500	FL-03-0278-01	57,126	
2006 Section 5309 Grant	20.500	FL-00-0011-00	60,227	
2004 Urbanized Formula Grant	20.507	FL-90-X510-00	2,252	
2005 Urbanized Formula Grant	20.507	FL-90-X536-00	82,440	
2006 Urbanized Formula Grant	20.507	FL-90-X572-01	1,828,804	
2007 Urbanized Formula Grant	20.507	FL-90-X624-00	1,400,000	4,196,328
Passed Through Florida Department of Transportation				
DUI Enforcement Specialist	20.605	FA-07-22-07	25,357	
LAPA/ Glen Springs Road Safety Improvement	20.205	211385-1-58-01/8888 979 A	18,093	
LAPA/Enhancement of Depot Road	20.205	420537-1-38-01/088849/07	180,508	
LAPA/Building Access Improvements-University of Florida	20.205	211365-4-58-01/088717/07	983,928	
LAPA/Building Access Improvements-NW 53rd Ave at Main Street	20.205	211378-1-58-01/088796/06	2,475	1,185,004
<u>ENVIRONMENTAL PROTECTION AGENCY</u>				
Water Quality Program Special Project - Revitalizing the Sweetwater	66.606	X984735-99	123,817	
Passed Through Florida Department of Environmental Protection:				
Revitalizing the Sweetwater - Phase 1	66.460	G0181	3,131	
Duval Neighborhood Stormwater Park - Phase 1	66.460	G0180	6,042	9,173
<u>DEPARTMENT OF HOMELAND SECURITY</u>				
Passed Through Florida Department of Homeland Security:				
Florida Domestic Preparedness Hazardous Materials/WMD Equipment	97.004	FM172	2,642	
2005 State Homeland Security/Haz Materials/WMD Response Teams	97.073	FM235	27,175	
2006-2007 SHSGP	97.073	07DS-5N-13-00-16-217	15,663	42,838
Passed Through Florida Division of Emergency Management:				
FEMA-HMGP Booker T Washington Subdivision Drainage	97.039	FM-1561-101-R/07HM-6@-03-11-02-	4,940	
FEMA - HMGP SW 34th Street Industrial Park Drainage	97.039	FM-1561-102-R/07HM-6@-03-11-02-	13	4,953
<u>NATIONAL ENDOWMENT TO THE HUMANITIES</u>				
Passed Through Florida Humanities Council:				
Florida American Heritage River: The Art of the St. Johns Region	45.164	0307-3296-1956	1,625	
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 9,883,313	

**Schedule of Federal Awards and State Financial Assistance
For the Fiscal Year Ended September 30, 2007
City of Gainesville, Florida**

<u>State Grantor/ Program Title</u>	<u>State CSFA Number</u>	<u>Contract/Grant No.</u>	<u>Expenditures</u>	<u>Program Total</u>
<u>DEPARTMENT OF ENVIRONMENTAL PROTECTION</u>				
FRDAP-Hogtown Creek Greenway	37.017	F6127	\$ 112,825	
<u>DEPARTMENT OF STATE</u>				
Local Arts Agency Grant-2006/2007	45.005	07-8023	19,601	
Local Arts Agency Grant-2007/2008	45.005	07-8023	987	\$ 20,588
<u>DEPARTMENT OF COMMUNITY AFFAIRS</u>				
SHIP 2004/2005	52.901	N/A	589,724	
SHIP 2005/2006	52.901	N/A	721,085	1,310,809
<u>DEPARTMENT OF TRANSPORTATION</u>				
Public Transit Block Grant Operating Assistance 2006/2007	55.010	AON71 / FIN 41175718407	1,356,306	
Urban Capital - Transfer Station	55.017	AL132 / FIN 40837219401	500,000	
SDG Base Level Sunday Services 05/06	55.012	AOC37 / FIN 41117738401	106,267	
SDG Implementation & Marketing RTS Projects	55.012	AOC36 / FIN 41117748401	12,642	118,909
<u>DEPARTMENT OF HEALTH</u>				
EMS FY 05-06 Trust Fund Pass through from County	64.005	N/A	22,987	
EMS 2004-2005 Pass through from County	64.005	N/A	23,675	
EMS 2006-2007 Pass through from County	64.005	N/A	51,781	98,443
<u>DEPARTMENT OF LAW ENFORCEMENT</u>				
Violent Crime Investigations	71.004	VC002	<u>15,354</u>	
TOTAL EXPENDITURES OF STATE AWARDS			<u>\$ 3,533,234</u>	

**Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended September 30, 2007
City of Gainesville, Florida**

Note 1. Basis of Presentation

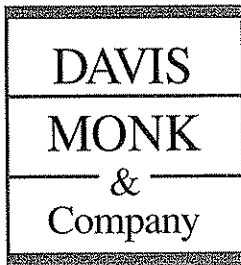
The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of the City of Gainesville, Florida and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the Florida Single Audit Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Subrecipients

The City provided federal awards to subrecipients as follows:

<u>Program Title</u>	Federal CFDA	
	<u>Number</u>	<u>Amount</u>
Community Development Block Grant	14,218	\$ 319,437
HOME Investment Partnership Grant	14,239	136,459
LAPA/Building Access Improvements-University of Florida	20,205	983,928

The City did not provide state awards to subrecipients.



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**Report on Compliance and on Internal Control Over Compliance
Applicable to Each Major Federal Awards Program and State
Financial Assistance Project**

Honorable Mayor and City Commissioners
City of Gainesville, Florida

Compliance

We have audited the compliance of the City of Gainesville, Florida (the "City"), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, and the requirements described in the State Projects Compliance Supplement, that are applicable to each of its major federal programs and state projects for the year ended September 30, 2007. The City's major federal program and major state projects are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and state projects is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.550, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program and each of its major state projects for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program or state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented or detected by the entity's internal control.

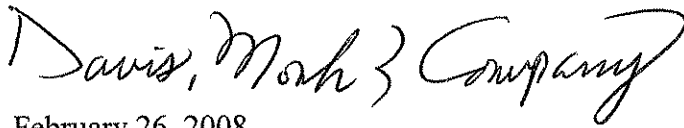
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards and State Financial Assistance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the City as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 26, 2008. Our report on the basic financial statements included a reference to the report of other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for

purposes of additional analysis as required by OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Audit and Finance Committee, management and oversight audit agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Davis, Mark } Company". The signature is written in a cursive, flowing style.

February 26, 2008
Gainesville, Florida

**Schedule of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2007
City of Gainesville, Florida**

Part I - Summary of Auditors' Results

1. The auditors' report on the basic financial statements was unqualified.
2. The audit did not disclose significant deficiencies in internal control over financial reporting.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. The audit did not disclose significant deficiencies in internal control over the major federal program and state projects.
5. The auditors' report on compliance for the major federal program and state projects was unqualified.
6. The audit did not disclose any findings relative to the major federal program and state projects.
7. The City's major program/projects were:

<u>Federal Program</u>	<u>CFDA No.</u>
Federal Transit Cluster	20.500, 20.507
<u>State Projects</u>	<u>CSFA No.</u>
State Housing Initiatives Program	52.901
Public Transit Block Grant Program	55.010

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs for federal programs, and \$300,000 was used for state projects.
9. The City qualified as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings

No matters are reportable.

Part III – Findings and Questioned Costs – Federal Programs

No matters are reportable.

Part IV – Findings and Questioned Costs – State Programs

No matters are reportable.

Independent Certified Public Accountants Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

The Honorable Mayor and
Members of the City Commission
City of Gainesville, Florida

We have audited the financial statements of Gainesville Regional Utilities (a department of the City of Gainesville, Florida) as of and for the year ended September 30, 2007, and have issued our report thereon dated January 9, 2008. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gainesville Regional Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gainesville Regional Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gainesville Regional Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the following two paragraphs to be significant deficiencies in internal control over financial reporting.

Account and System Reconciliations

During the 2007 fiscal year, GRU implemented a new billing system, which involved the conversion of data from the legacy system, changes in processes, and the significant commitment of time and resources to accomplish. In connection with this implementation project, certain normal routine account reconciliations and other activities were not timely performed for a period of time. One major area affected by the conversion was the posting and reconciliation of daily billing and cash activity between the general ledger and the billing system. As a result, a key internal control activity, the preparation and review of monthly bank reconciliations, was not performed for an extended period beginning in April 2007. This delay in the bank reconciliation process combined with other similar delays in account and system reconciliations enabled errors and unreconciled differences to remain undetected and/or unadjusted during this period of time and as of year end.

While we recognize that the deficiencies described herein were due primarily to complications associated with the billing system conversion, we also noted that GRU's accounting department was not completely staffed throughout the year and that several positions have been recently filled with new employees. In addition, as we have noted in prior years, GRU's general ledger system makes the financial statement close process more complex and cumbersome than is necessary and requires a great deal of manual processing. However, we continue to recommend that cash and other system and account reconciliations be prepared properly at all times throughout the year, and that identified adjustments be posted timely to the general ledger. We also recommend that as GRU moves forward with its financial management system project management evaluates the current staffing levels of its accounting and finance function to ensure staffing and experience levels are appropriate given the significant commitment of personnel resources that will no doubt be required for a successful implementation.

Management's Response:

Management agrees with this recommendation. The delays in reconciliation were primarily due to implementation of the new billing system and a lack of critical financial reporting necessary to perform reconciliations of cash and other accounts affected by cash transactions. A team has been assigned to address GRU's reporting needs, which will provide the tools to ensure accurate data and allow GRU to reconcile cash and other accounts on a timely basis. As noted, many of our staff in both Accounting and Cash areas have been hired within the last year, which contributed to the delays, as we had new personnel dealing with a new system. The staff is now trained and familiar with the tasks assigned to them. We have just begun our Financial Management Information System project, which will replace our current general ledger system. It is a primary goal of this project to automate many of the manual processes currently performed in Ellipse, with the result of more timely closing and financial reporting. The new system should be implemented by January of 2009. As a part of this project, we will evaluate our staffing needs to ensure adequate staff to close the books and reconcile accounts timely.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be a material weakness.

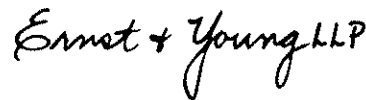
Compliance and Other Matters

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

Gainesville Regional Utilities' response to the finding identified in our audit is included above. We did not audit Gainesville Regional Utilities' response and accordingly, we express no opinion on it.

We also noted certain additional matters that we reported to management of Gainesville Regional Utilities in a separate letter dated January 9, 2008.

This report is intended solely for the information and 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.



January 9, 2008

Management Letter on Internal Control

City Commission, City of Gainesville, Florida and
Gainesville Regional Utilities

In planning and performing our audit of the financial statements of Gainesville Regional Utilities, (GRU or the Utility) as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GRU's internal control. Accordingly, we do not express an opinion on the effectiveness of GRU's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed in our separately issued Independent Certified Public Accountants Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, dated January 9, 2008, we identified certain deficiencies in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Current Year Recommendations

During our audit, we noted the following matter involving internal control over financial reporting and its operation that we consider to be a significant deficiency as defined above. However, we do not believe that the following deficiency is a material weakness.

Accrual of Liabilities

During the performance of our audit procedures, we noted during the search for unrecorded liabilities that three invoices totaling approximately \$5,457,000 related to the current fiscal year should have been accrued. We recommend that the process for determining accruals during the close process be improved with a more thorough review of accruals so that accounting for such items are consistent. Inconsistency with the process could expose GRU to a misstatement in the financial statements because of inconsistent application of policies.

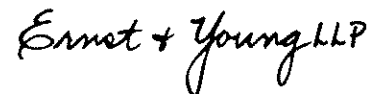
Management's Response:

Management agrees with the recommendation. The invoice accrual process has been revised to include additional procedures. An additional level of oversight has been added to ensure that invoices are properly accrued.

Status of Prior Year Recommendations

Please see Exhibit A attached.

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



January 9, 2008

Exhibit A

Status of Prior Year's Recommendation

Recommendation	Status
Cash Reconciliations	
<ul style="list-style-type: none">We recommend evidence of review of reconciliations in order to improve documentation of controls; we recommend that the total per the general ledger agree to the trial balance after all adjustments are made during month close and that the adjustments be made timely.	See current year comment.
Financial Statement Close Process	
<ul style="list-style-type: none">We recommend management consider the financial statement closing process, with the overall goal of reducing the cycle time necessary to close and produce financial statements.	In process. See current year comment.
Program Change Controls	
<ul style="list-style-type: none">We recommend a segregation of duties be implemented for the program change process in CBIS. We recommend the individual performing the change be separate from the individual moving the change into production.	Implemented.
User Access	
<ul style="list-style-type: none">We recommend that the company develop a formal process to periodically review users' access to the applications and take appropriate action if issues are found.	In process.
<ul style="list-style-type: none">Develop a formal notification process to identify terminated employees to the IT Department and Application Administrators and that the IT Department and Application Administrators remove terminated users' accounts and note such action on the notification received; and 2) periodically review inactive accounts (i.e. accounts that have not been used over a period of time, i.e. 60 to 90 days), and disable or lock these accounts until the users or users' manager(s) can be contacted to determine if access is still appropriate and necessary.	In process.