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Gainesville Regional Utilities of the City of Gainesville, Florida

2007 Audit Results

Ernst & Young

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March 3, 2008

Audit and Finance Committee
City of Gainesville, Florida

Dear Members of the Audit and Finance Committee:

We are pleased to present the results of our audit of the financial statements of Gainesville Regional Utilities (GRU), a department of the City of Gainesville (the City) for the year ended September 30, 2007.

This Report to the Audit and Finance Committee summarizes our audit, the scope of our engagement, and key observations and findings from our audit procedures to date. The document also contains the communications required by our professional standards and by *Government Auditing Standards.*

Our audit is designed to express an opinion on the financial statements as of September 30, 2007. In accordance with professional standards, we obtained a sufficient understanding of internal control to plan the audit and to determine the nature, timing and extent of tests to be performed. However, we were not engaged to, and we did not, perform an audit of internal control over financial reporting.

At Ernst & Young, we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to use our Assessment of Service Quality (ASQ) process to provide your input on our performance. The ASQ process is a critical tool in enabling us to continually monitor and improve the quality of our audit services to GRU.

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

We appreciate this opportunity to meet with you to discuss the contents of this report and answer any questions you may have about these or any other audit related matters. If you have any questions or comments, please call Mike Pattillo at (407) 872-6757 or Melissa Walsh at (813) 225-4914.

Very truly yours,

Mike Pattillo

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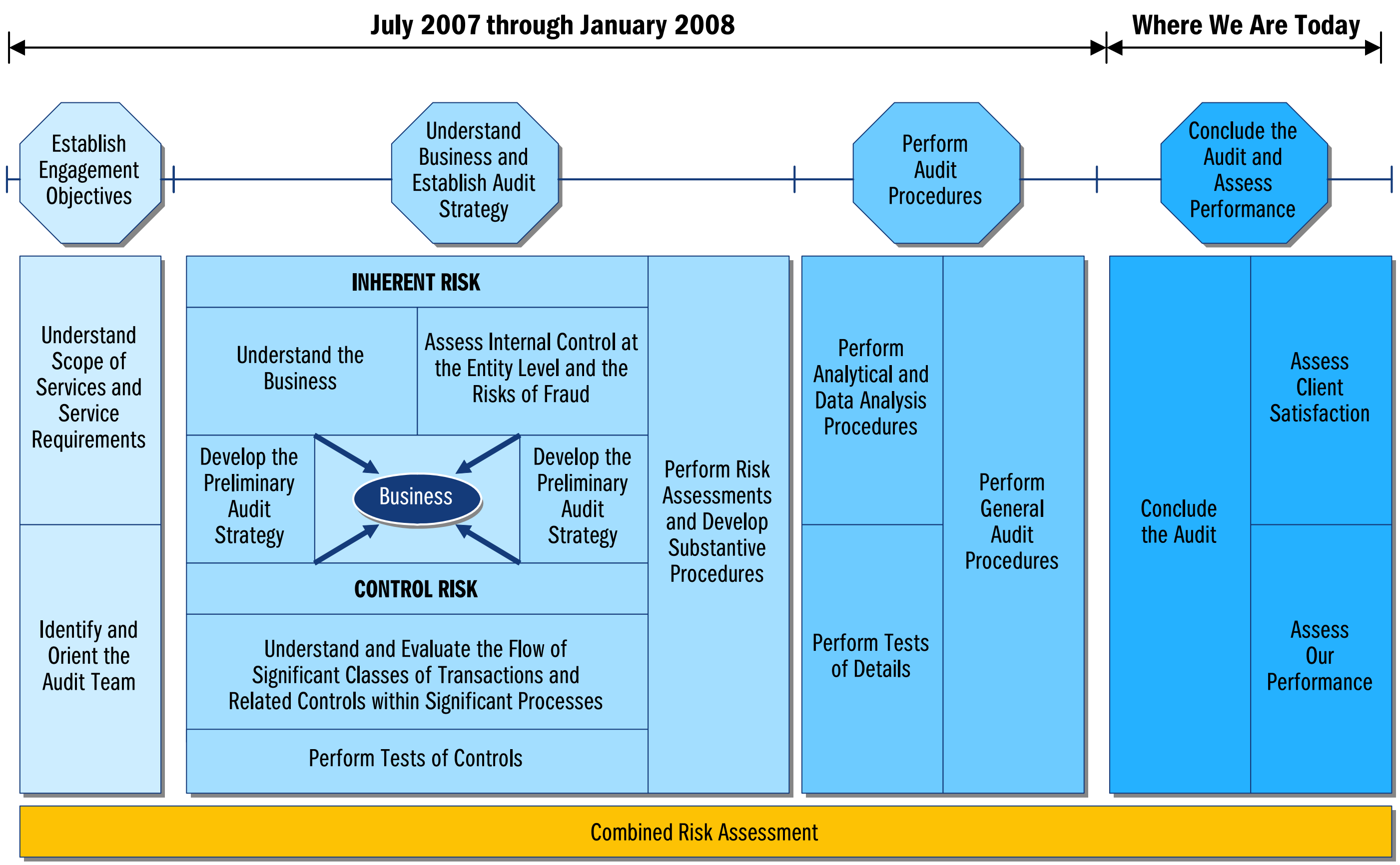
2007 Financial Statement Audit Results and Communications

THE ERNST & YOUNG AUDIT APPROACH



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Summary of What We Agreed to Do

As discussed with management during our planning process, our audit plan represented an approach responsive to the assessment of risk for GRU. Specifically, we designed our audit to :

- Express an opinion on GRU's financial statements.
- Be made in accordance with auditing standards generally accepted in the United States and generally accepted governmental auditing standards as set forth in the U.S. General Accounting Office's Government Auditing Standards, and Rules of the Auditor General, State of Florida for the form and conduct of audits of Florida local governments.
- Issue reports on internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts, grants, and other matters.
- Issue a management letter to management and the City Commission.
- Issue this report to the Audit and Finance Committee.

Areas of Emphasis for Financial Statement Accounts and Disclosures

The principal areas of audit emphasis were as follows:

- Accounting for billed and unbilled accounts receivable, emphasizing the integration of GRU's billing system and general ledger.
- Regulatory assets and liabilities, deferred environmental costs and commodity contracts.
- Documentation and review of the GRU's accounting policies and practices associated with the investment in The Energy Authority and related electric and gas transaction activity.
- Review and testing of IT general controls in support of the financial audit on GRU's information systems through our Technology and Security Risk Solutions personnel.
- Net asset classifications and compliance with bond covenants with respect to restricted assets.
- Review of the accounting and reporting for debt transactions, including refundings.
- Environmental liabilities and related disclosures.
- Computation of required transfers to the City of Gainesville pursuant to applicable ordinances.
- Debt compliance, including continuing disclosure requirements.
- Compliance with applicable laws, regulations, and contractual provisions.
- Analysis of fuel contracts, hedging programs, and commitment disclosures.
- Financial statement close process, including significant disclosures.

Required Communications

Area	Comments
Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS) The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. As a part of our audit, we obtained an understanding of internal control sufficient to plan our audit and to determine the nature, timing and extent of testing performed. However, we were not engaged to and we did not perform an audit of internal control over financial reporting.	As a part of our audit, we obtained a sufficient understanding of internal controls to plan our audit and to determine the nature, timing, and extent of testing performed. We have issued an unqualified opinion on GRU's financial statements for the year ended September 30, 2007.
Critical Accounting Policies and Practices We report all critical accounting policies and practices used by GRU in preparing the financial statements and our assessment of the disclosure of such policies.	The significant accounting policies of GRU are described in Note 1 to the financial statements. There were no significant accounting policy changes during the 2007 fiscal year.
Our Judgments About the Quality of GRU's Accounting Principles We discuss our judgments about the quality, not just the acceptability, of the accounting policies as applied in GRU's financial reporting, including the consistency of the accounting policies and their application, and the clarity and completeness of the financial statements and related disclosures.	Accounting principles selected by management are consistent with those prescribed by accounting and industry standards. In addition, management has consistently applied its accounting principles and GRU's financial statements and related disclosures are clearly presented in a complete manner.
Sensitive Accounting Estimates The preparation of the financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's current judgments. We determine that the Committee is informed about management's process for formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates.	Significant estimates and assumptions made by management in preparing the financial statements relate to evaluating the need for potential allowances for uncollectible accounts receivable, recording unbilled revenues, computing and amortizing regulatory assets and liabilities, assessing contingencies, assigning composite depreciation rates (useful lives), computing indirect costs allocable to capital projects, determining inventory reserves, and allocating costs among segments.
The Adoption of, or a Change in, an Accounting Principle We determine that the Committee is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.	None.

Required Communications (continued)

Area	Comments
All Material Alternative Accounting Treatments Discussed with Management We report to the Committee all alternative accounting treatments within GAAP for policies and practices related to material items (including recognition, measurement, presentation and disclosure alternatives) that have been discussed with management during the current audit period including: (i) Ramifications of the use of such alternative disclosures and treatments, including the reasons why the alternative was selected and, if management did not select our preferred alternative, the reasons why it was not selected. (ii) The treatment preferred by us.	We are not aware of any material transactions for which there are alternative accounting treatments.
Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas We determine that the Committee is informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.	We are not aware of any significant unusual transactions recorded by GRU or of any significant accounting policies used by GRU related to controversial or emerging areas for which there is a lack of authoritative guidance.
Significant Audit Adjustments We provide the Committee with information about adjustments arising from the audit (whether recorded or not) that could in our judgment, either individually or in the aggregate, have a significant effect on GRU's financial statements.	Refer to "Summary of Audit Differences" section.
Unrecorded Audit Differences Considered by Management to be Immaterial We inform the Committee about unrecorded audit differences accumulated by us (i.e., adjustments either identified by us or brought to our attention by management) during the current audit and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.	Refer to "Summary of Audit Differences" section.

Required Communications (continued)

Area	Comments
Fraud and Illegal Acts We report to the Committee fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements.	We are not aware of any matters that require communication. Refer to "Fraud Considerations" section for more information about our procedures related to fraud.
Significant Deficiencies and Material Weaknesses in Internal Control We communicate all significant deficiencies and material weaknesses in internal control over financial reporting that may have been identified during the course of our audit, including (1) all significant deficiencies and material weaknesses that exist as of the date of management's assessment, and (2) any significant deficiencies or material weaknesses we become aware of as of an earlier (i.e., interim) date that management has not also identified as significant deficiencies or material weaknesses and begun corrective action.	A material weakness was identified; refer to Appendix C.
Disagreements with Management	None.
Serious Difficulties Encountered in Dealing with Management when Performing the Audit	None.
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	None.
Consultation with Other Accountants	None of which we are aware.

Required Communications (continued)

Area	Comments
Independence We communicate, at least annually, the following to the Board or Committee of GRU: • Disclose, in writing, all relationships between Ernst & Young and our related entities and the Company and its related entities that, in our professional judgment, may reasonably be thought to bear on independence; • Confirm in writing that, in our professional judgment, we are independent of GRU within the meaning of *Government Auditing Standards*; and • Discuss with the Board any matters that in our professional judgment may reasonably be thought to bear on our independence.	• We are not aware of any relationships between Ernst & Young and GRU that, in our professional judgment, may reasonably be thought to bear on our independence. • Relating to our audit of the financial statements of GRU as of September 30, 2007, and for the year then ended, we are independent certified public accountants with respect to GRU within the meaning of the applicable published pronouncements of the Independence Standards Boards: Rule 101 of the American Institute of Certified Public Accountants' Code of Professional Conduct, its interpretations and rulings; and Governmental Auditing Standards. Our policies relating to financial interests (e.g., stock ownership, loans, and other credit) generally are stricter than the requirements imposed by these regulatory and professional bodies. • We have not performed any nonaudit services for GRU in the 2007 fiscal year.
AICPA Ethics Ruling Regarding Third-Party Service Providers From time to time and depending upon the circumstances, third-party service providers, independent contractors, and consultants to Ernst & Young may participate in providing professional services. AICPA Ethics Ruling No. 112 under Rule 102, *Integrity and Objectivity*, requires that we inform clients whenever we use a third-party service provider in providing professional services to a client. The Rule has broadly defined "third-party service provider" to include an individual who is not employed by our U.S. firm. Accordingly, third-party service providers might include, but not be limited to, the following examples: non U.S. personnel who work for Ernst & Young affiliate firms (e.g., Ernst & Young United Kingdom), non U.S. personnel working in the U.S. on a foreign secondment, non U.S. personnel working at Ernst & Young IT shared service centers.	No third-party service providers provided assistance related to the 2007 audit.
You have engaged us to conduct an audit of GRU's financial statements for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States, and *Government Auditing Standards*, issued by the Comptroller General of the United States Our responsibilities for testing and reporting on internal control and on compliance with applicable laws and regulations under those standards and the table contrasting our responsibilities in this engagement with other procedures that could be performed in other financial-related audits were previously provided to GRU and included in the 2007 Meeting with the Financial Management Team dated July 12, 2007. Our latest peer review report is included at Appendix E.	

Summary of Audit Differences

During the course of our audit, we accumulated differences between amounts recorded by GRU and amounts that we believe are required to be recorded under generally accepted accounting principles. On the following page is a summary of those differences we have identified through the date of our audit report.

Summary of Audit Differences (continued)

Client Gainesville Regional Utilities **Audit Date** 9/30/2007

All Identified Audit Differences Above Nominal Amount			Analysis of Audit Differences Debit / (Credit)					
		Account	*Assets Current*	*Assets Non-current*	*Liabilities (Current)*	*Liabilities (Non-current)*	*Income / Expenses*	
No.			*Debit/(Credit)*	*Debit/(Credit)*	*Debit/(Credit)*	*Debit/(Credit)*	*Debit/(Credit) Current Period*	*Debit/(Credit) Prior Period*
Recorded Audit Differences:								
1		To appropriately record deposits and the associated cash						
		Adjustment: Cash	(56,572)					
		Adjustment: Cash	(270,817)					
		Adjustment: Cash- Utility Deposits	270,817					
		Adjustment: Customer Deposits			56,572			
2		To properly record revenue related to interchange sales and accrued for September 2007 revenue.						
		Adjustment: Cash	(74,112)					
		Adjustment: Cash - Rate Stabilization		74,112				
		Adjustment: Electric Revenue					(2,605,398)	
		Adjustment: Gas expense					1,231,286	
		Adjustment: Misc Accounts Receivable	1,374,112					
		Adjustment: Rate Stabilization Transfer					1,374,112	
		Adjustment: Reserve for Rate Stabilization				(1,374,112)		
3		To correct wages payable accrued.						
		Adjustment: Accrued Wages/Salaries Payable - Electric			4,797,165			
		Adjustment: Accrued Wages/Salaries Payable - GRUcom			313,141			
		Adjustment: Cash - Electric	(4,797,165)					
		Adjustment: Cash - GRUcom	(313,141)					
4		Items to accrue as noted during the search for unrecorded liabilties.						
		Adjustment: CWIP		1,943,499				
		Adjustment: Electric T&D					42,517	
		Adjustment: Fuel Expense					3,471,910	
		Adjustment: Liabilities			(5,457,926)			
Unrecorded Audit Differences:								
Unrecorded Errors:								
5	FY2007	To properly record amortization expense for the loss on refunding for the 2007 Series A Debt Reacquisition						
		Adjustment: Amortization Expense (XX-428-024)					149,512	
		Adjustment: Unamortized Loss on Refunding 2007 (XX-189-011)	(149,512)					
6	FY2007	To record cash differences between the general ledger and reconciliations						
		Adjustment: Cash	(454,267)					
		Adjustment: Expense					454,267	
7	FY2006	In order to properly report overstatement of revenue that was recorded in 2007, but related to September 2006						
		Adjustment: Electric Revenue						(262,670)
	Balance Sheet Totals		(603,779)	0	0	0		
	Financial Statement Amounts		93,012,669	1,142,405,679	55,738,434	813,715,521		
	Effect of unrecorded audit differences on F/S amounts		-0.65%	0.00%	0.00%	0.00%		
	Income effect of unrecorded audit differences (before tax)						603,779	(262,670)
	Cumulative effect of unrecorded audit differences before turn-around effect					3.16%	603,779	(262,670)
	Turn-around effect of prior-period unrecorded audit differences (after tax)			All Errors		262,670		
				Judgmental differences:		0	262,670	
	Cumulative effect of unrecorded audit differences, after turn-around effect					4.54%	866,449	
	Current year change in net assets					100.00%	19,087,123	

Fraud Considerations

SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*, was issued to heighten the awareness of auditors to the potential for fraud when planning and executing audits. SAS 99 also emphasizes the need for increased professional skepticism throughout the audit engagement. Under SAS 99, we are responsible for planning and performing the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or by fraud. We approach all audits with an understanding that fraud could occur in any company at any time, and could be perpetrated by anyone. The following provides a summary of the principal procedures required under SAS 99 and the results of our procedures.

Engagement Team Discussion

SAS 99 requires, as part of planning the audit, that there be a discussion among the audit team members, which includes all significant locations. The discussion should allow key members of the team to share thoughts and ideas about how and where they believe the client's financial statements might be susceptible to material misstatement due to fraud. A key element of this discussion, which is led by the partner in charge of the audit, is to emphasize the importance of maintaining the proper mindset throughout the audit regarding the potential for fraud.

Gathering Information Needed to Identify Risks of Material Misstatement due to Fraud

SAS 99 requires auditors to perform certain procedures to obtain information that is used to identify risks of material misstatement due to fraud. These procedures include:

- Inquiring of management and others within the organization about the risks of fraud. Inquiries are required to be made of management, the Board, internal audit, and other operational and financial personnel within the organization, focusing on such areas as the individual's knowledge of actual or suspected fraud and understanding about specific risks of fraud in the organization. Further, inquiries are made regarding the oversight activities of the Board regarding management's assessment of the risks of fraud, whether programs and controls have been established at the organization to mitigate the risk of fraud, how multiple locations within an organization are monitored for fraud, and how management communicates to employees its views on business practices and ethical behavior.
- Inquiring about matters raised from the Board procedures for complaints (including "whistle-blowers") regarding accounting, internal accounting controls, or auditing matters.
- Considering unusual or unexpected relationships that have been identified in performing analytical procedures in planning the audit.
- Considering whether fraud risk factors exist.
- Considering other information gathered throughout the audit.

Fraud Considerations (continued)

Identifying, Assessing and Responding to Fraud Risks

As a result of the information gathered from the procedures above, we identify and assess specific fraud risks. The auditor's response to the assessment of the risks of material misstatement of the financial statements due to fraud is influenced by the nature and significance of the risks identified and the organization's programs and controls that address these identified risks. For each identified fraud risk, our audit response generally would include a combination of tests of controls and substantive tests responsive to the identified risks. Additionally, our response to fraud risks might include a change in the timing or nature of audit procedures, or we might decide that the extent of testing needs to be expanded in certain areas (e.g., expanded testing on revenue cutoff at year-end when risks relating to revenue recognition have been identified).

Mandatory Procedures to Address the Risk of Management Override

Fraudulent financial reporting often involves management override of controls that otherwise appear to be operating effectively. SAS 99 includes certain mandatory procedures to address the risk of management override of controls, such as testing journal entries and other adjustments, evaluating the business rationale of significant unusual transactions and reviewing accounting estimates and evaluating for biases that could result in material misstatement due to fraud, including a retrospective review of significant prior year estimates.

Testing Journal Entries and Other Adjustments

SAS 99 requires us to test journal entries and other adjustments and the PCAOB has focused on this area, among others, in its inspection process. SAS 99 acknowledges that management is in a unique position to perpetrate fraud because of its ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding established controls that otherwise appear to be operating effectively. Fraudulent financial reporting often involves the manipulation of the financial reporting process by recording inappropriate or unauthorized journal entries or making inappropriate adjustments to amounts reported in the financial statements that are not reflected in formal journal entries (such as in consolidating adjustments, report combinations, or reclassifications).

Our testing of journal entries and other adjustments is an important audit procedure that requires careful planning and execution. Our testing includes both journal entries recorded in the general ledger and other adjustments posted outside of the general ledger. Although our tests generally include all types of journal entries (e.g., standard, nonstandard, system, manual), our emphasis is on identifying and testing entries processed outside of the normal course of business.

Our approach to testing journal entries and other adjustments in accordance with SAS 99 generally includes the following: :

- Obtaining an understanding of the financial statement close process and controls over journal entries and other adjustments.
- Identifying and selecting journal entries and other adjustments for testing.
- Inquiring of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

Fraud Considerations (continued)

Evaluating Audit Evidence

We assess the risk of material misstatement due to fraud throughout the audit. We are mindful of conditions that may be identified during fieldwork that change or support a judgment regarding the assessment of fraud risks, such as discrepancies in the accounting records, conflicting or missing evidential matter, and/or problematic or unusual relationships between the auditor (including internal audit) and management. No such matters were noted during our audit.

Looking Ahead

Continuity and Commitment of Your Engagement Team

In listening to management and the marketplace, we know that great value is placed on having a superior service team distinguished by relevant credentials and continuity of service.

We believe we have built such a team. Their enthusiasm and commitment to GRU ensure responsive, innovative, and forward-looking service focused on its business issues.

Michael Pattillo, Coordinating Partner

- Audit Partner and Director of the Firm's Florida Public Sector Practice
- 19 years of experience

Michael Barrett, Independent Review Partner

- Firm's Southeast Area Utility Sector Leader
- 28 years of experience

Melissa Walsh, Audit Manager

- Public sector audit professional specializing in public utilities
- 8 years of experience

Natasha Novikov, Audit Senior

- Audit professional and member of Ernst & Young's public sector practice group
- 4 years of experience

Appendix A

Table of Required Communications with Committees

Appendix A—Timing of Required Communications

	Communicate When Event Occurs	Communicate On a Timely Basis, At Least Annually
Communications Required on All Audits		
Our Responsibility Under GAAS Including Other Information in Documents Containing Audited Financial Statements		X
Major Issues Discussed with Management	X	
Significant Audit Adjustments		X
Unrecorded Audit Differences Considered by Management to Be Immaterial		X
Our Judgments About the Quality of the Company's Accounting Principles		X
Disagreements with Management	X	
Consultations with Other Accountants	X	
Serious Difficulties Encountered in Dealing with Management When Performing the Audit	X	
The Adoption of, or a Change in, an Accounting Principle	X	
Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas	X	
Sensitive Accounting Estimates		X
Fraud and Illegal Acts Involving Senior Management and Fraud and Illegal Acts that Cause a Material Misstatement of the Financial Statements	X	
Significant Deficiencies and Material Weaknesses Identified During Audit of Internal Control		X

Appendix B

Management Letter

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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.

Ernst & Young LLP

January 9, 2008

Exhibit A

Status of Prior Year's Recommendation

Recommendation	Status
Cash Reconciliations	
• 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	
• 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	
• 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	
• 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.
• 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.

Appendix C

Report of Independent Certified Public Accountants 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*

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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 reconcilements and other activities were not timely performed for a period of time. One major area affected by the conversion was the posting and reconcilement 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 reconcilations 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.

Ernst + Young LLP

January 9, 2008

Appendix D

Board Trends and Key Topics

Board Trends and Key Topics

Ernst & Young develops resources on a variety of topics that are of interest to Board members and management. These topics have been covered in articles that have appeared in our *BoardMatters Quarterly* (BMQ) newsletter, Thought Center Webcasts and publications. Ernst & Young also works with Tapestry Networks to orchestrate private dialogues, including the Board Leadership Network (ACLN) and area-based Board Networks (ACN). The ACLN is a group of Board chairs from some of America's leading companies. For reference purposes, we have provided highlights of the articles and topics that appeared in 2007.

Topic Area	Topic/Resource
Accounting and Auditing	• Board Alert: Credit, Liquidity, and Valuation Issues in the Financial Markets (BMQ-October) • Ernst & Young's 2007 Mid-Year Accounting Update (Thought Center Webcast-June) • Perspectives on FIN 48: What's Next? (Thought Center Webcast-July) • New Executive Compensation Disclosure Rules: Considerations for Directors and Board Members (BMQ-March) • Priorities for the 2007 Proxy Season (Tapestry Networks InSights-March)
Boards	• Board Perspectives, Board Survey Results and Industry Trends (January) • Increasing Board Effectiveness (Tapestry Networks ViewPoints-October) • Shared Responsibility (Tapestry Networks VantagePoint) – Southeast ACN VantagePoint-March – Pacific Southwest ACN VantagePoint-March
Business	• Best in Class: How Top Corporations Can Help Transform Public Education (Thought Center Webcast-May) • Enhancing Trust and Competition in the Global Public Capital Markets (Tapestry Networks ViewPoints-April) • Industry 360: The Ernst & Young Source for Global Industry Insights, Volume I (September)
Challenging Situations	• Four Lessons for Boards from High-Profile Accounting Scandals (Tapestry Networks ViewPoints-April) • Navigating Challenging Situations (Tapestry Networks VantagePoint) – Mid-Atlantic ACN VantagePoint-August – Canada ACN VantagePoint-August – North Central ACN VantagePoint-July
Continuing Education	• The Importance of Continuing Education (BMQ-July) • Compliance Education from the Director's Perspective (BMQ-July) • Continuing Education: One Board Member's Perspective (BMQ-July) • Forward View: Board Continuing Education: Avoid the Classroom! (BMQ-July) • Regulatory Risks and the Context of Continuing Education (BMQ-July)

Board Trends and Key Topics (continued)

Topic Area	Topic/Resource
Finance	• Board Relationships with the Finance Committee (Tapestry Networks North Central ACN VantagePoint-March)
Fraud	• Preventing and Investigating Fraud: the Board's Role (Tapestry Networks Pacific Southwest ACN VantagePoint-January) • The Foreign Corrupt Practices Act: Charting a Safe Course in the Context of Acquisition (Thought Center Webcast-April)
IFRS	• IFRS or U.S. GAAP? (BMQ-October) • IFRS: An Option for U.S. Issuers? (2007 Year-End Corporate Reporting Update, November and Thought Center Webcast-August) • Global Eye on IFRS (Bimonthly publication: January, March, June, August, October)
Information Technology	• Information Security (Thought Center Webcast-June) • Information Security Priorities: A Global View of Risks (BMQ-March) • Information Technology Governance (Tapestry Networks VantagePoint) – Mid-Atlantic ACN VantagePoint-January – Canada ACN VantagePoint-April – Pacific Southwest ACN VantagePoint-July
Private Equity	• The Secret of Success for Private Equity: How Do Private Equity Investors Create Value? (Thought Center Webcast-November) • The Rise of Private Equity: Considerations for Public Company Directors (Tapestry Networks InSights-July)
Regulatory	• Regulatory Balance: a Dialogue with John White (Tapestry Networks ViewPoints-October) • The Thoughts of Chairman Olson: A Summary of Public Statements by PCAOB Chairman Mark Olson (Tapestry Networks InSights-February)
Risk Management	• "Strategic Business Risk: 2008 – The Top 10 Risks for Business" (November) • Risk Management Programs: What Does the Board Need to Know (BMQ-October) • The Personal Liability of Board Members: How Real is the Risk? (BMQ-October) • Forward View: Technology Risks: What is on the Horizon for Board Chairs? (BMQ-March) • Forward View: What Board Chairs Say About Risk Management (BMQ-October) • Privacy Issues for 2007: Managing Risk and Compliance (Thought Center Webcast-February) • “Risk Management in Emerging Markets” (November)

Board Trends and Key Topics (continued)

Topic Area	Topic/Resource
Section 404	• The New 404 Balancing Act: Assessing Choices, Making the Right Decisions (Thought Center Webcast-July) • SEC and PCAOB Make Proposals to Improve Implementation of Section 404 (BMQ-March)
Strategic Growth	• IPO Success Factors from the "Class of '06/'07" (Thought Center Webcast-November) • Keeping Your Options Open: Multi-Tracking Your Way to Capital Infusion (Thought Center Webcast-September) • U.S. Clean Technology: Policy Developments, Incentives, and Regulations (Thought Center Webcast-September)
Tax	• Tax Risk: Global Strategies in Risk Management (BMQ-March)
XBRL	• XBRL Reporting (2007 Year-End Corporate Reporting Update, November)

Appendix E

Peer Review Report

345 Park Avenue
New York, NY 10017

Telephone 212 909 5600
Fax 212 872 3001

To the Partners of Ernst & Young LLP
and the AICPA Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Ernst & Young LLP (the Firm) applicable to non-SEC issuers in effect for the year ended June 30, 2007. The Firm's accounting and auditing practice applicable to SEC issuers was not reviewed by us since the Public Company Accounting Oversight Board (PCAOB) is responsible for inspecting that portion of the Firm's accounting and auditing practice in accordance with PCAOB requirements. A system of quality control encompasses the Firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (the AICPA). The design of the system, and compliance with it, are the responsibilities of the Firm. Our responsibility is to express an opinion on the design of the system and the Firm's compliance with that system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the AICPA Center for Public Company Audit Firms and included procedures to plan and perform the review that are summarized in the attached description of the peer review process. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it since it was based on selective tests. Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice applicable to non-SEC issuers of Ernst & Young LLP in effect for the year ended June 30, 2007, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the Firm with reasonable assurance of complying with applicable professional standards.

As is customary in a peer review, we are issuing a letter under this date that sets forth comments relating to certain policies and procedures or compliance with them. The matters described in that letter were not considered to be of sufficient significance to affect the opinion expressed in this report.

KPMG LLP

December 20, 2007

KPMG

Attachment to the Peer Review Report of Ernst & Young LLP

Description of the Peer Review Process

Overview

Firms enrolled in the AICPA Center for Public Company Audit Firms (the Center) have their system of quality control periodically reviewed by independent peers. These reviews are system and compliance oriented with the objective of evaluating whether:

> The reviewed firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers has been designed to meet the requirements of the Quality Control Standards established by the AICPA.
>
> The reviewed firm's quality control policies and procedures applicable to non-SEC issuers were being complied with to provide the firm with reasonable assurance of complying with professional standards.

A peer review is based on selective tests and directed at assessing whether the design of and compliance with the firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers provides the firm with reasonable, not absolute, assurance of complying with professional standards. Consequently a peer review on the firm's system of quality control is not intended to, and does not, provide assurance with respect to any individual engagement conducted by the firm or that none of the financial statements audited by the firm should be restated.

The Center's Peer Review Committee (PRC) establishes and maintains review standards. At regular meetings and through report evaluation task forces, the PRC considers each peer review, evaluates the reviewer's competence and performance, and examines every report, letter of comments, and accompanying response from the reviewed firm that states its corrective action plan before the peer review is finalized. The Center's staff plays a key role in overseeing the performance of peer reviews working closely with the peer review teams and the PRC.

Once the PRC accepts the peer review reports, letters of comments, and reviewed firms' responses, these documents are maintained in a file available to the public. In some situations, the public file also includes a signed undertaking by the firm agreeing to specific follow-up action requested by the PRC.

Firms that perform audits or play a substantial role in the audit of one or more SEC issuers, as defined by the Public Company Accounting Oversight Board (PCAOB) are required to be registered with and have their accounting and auditing practice applicable to SEC issuers inspected by the PCAOB. Therefore, we did not review the firm's accounting and auditing practice applicable to SEC issuers.

Planning the Review for the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers

To plan the review of Ernst & Young LLP, we obtained an understanding of (1) the nature and extent of the firm's accounting and auditing practice, and (2) the design of the firm's system of quality control sufficient to assess the inherent and control risks implicit in its practice. Inherent risks were assessed by obtaining an understanding of the firm's practice, such as the industries of its clients and other factors of complexity in serving those clients, and the organization of the firm's personnel into practice units. Control risks were assessed by obtaining an understanding of the design of the firm's system of quality control, including its audit methodology, and monitoring procedures. Assessing control risk is the process of evaluating the effectiveness of the reviewed firm's quality control system in preventing the performance of engagements that do not comply with professional standards.

Performing the Review for the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers

Based on our assessment of the combined level of inherent and control risks, we identified practice units and selected engagements within those units to test for compliance with the firm's system of quality control. The engagements selected for review included audits performed under the Government Auditing Standards, audits performed under FDICIA, multi-office audits, and audits of Employee Benefit Plans. The engagements selected for review represented a cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagement reviews included examining working paper files and reports and interviewing engagement personnel. We also reviewed the supervision and control of portions of engagements for non-SEC issuers performed outside the United States.

The scope of the peer review also included examining selected administrative and personnel files to determine compliance with the firm's policies and procedures for the elements of quality control pertaining to independence, integrity, and objectivity; personnel management; and acceptance and continuance of clients and engagements. Prior to concluding the review, we reassessed the adequacy of scope and conducted an exit conference with firm management to discuss our findings and recommendations.

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December 20, 2007

To the Partners of
Ernst & Young LLP
and the AICPA Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Ernst & Young LLP (the Firm) applicable to non-SEC issuers in effect for the year ended June 30, 2007, and have issued our report thereon dated December 20, 2007. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report, which should be read in conjunction with this letter.

Engagement Performance

Comment **-** The Firm has comprehensive policies that require audit documentation sufficient to enable an experienced auditor having no previous connection with an engagement to understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached. In some instances, we believe more robust or comprehensive documentation was needed to support the conclusions reached by engagement teams in the following key areas:

- *Use of Service Organizations* – In some instances, the engagement team did not fully document its testing of user control considerations identified in the SAS No. 70 report.
- *Fair Value and Using the Work of a Specialist* – In some instances, there was insufficient documentation pertaining to the audit procedures performed over management data used to compute fair values and the engagement team's understanding and evaluation of the assumptions used by the specialist in its determination of fair value.
- *Income Taxes* – In some instances, there was insufficient documentation of audit procedures performed pertaining to the testing of deferred income tax balances and valuation allowances.
- *Combined Risk Assessments* – In some instances, there was insufficient documentation or inconsistencies in the documentation pertaining to changes the engagement team made in its preliminary combined risk assessment as a result of changes during the course of the audit.

We were able to satisfy ourselves through discussions with the engagement team or review of other supplemental documentation that the Firm is taking or has taken appropriate actions to remediate the deficiencies noted above.

Recommendation – We note that commencing with its 2007 audits, the Firm is deploying a new automated documentation tool that it believes will assist engagement teams in complying with firm policies and professional standards pertaining to documentation. We recommend that the Firm also emphasize the above documentation matters by reminding its executives of the importance of their involvement in supervising and reviewing audit engagements.

Employee Benefit Plans

Comment – The Firm has comprehensive policies regarding the audits of employee benefit plans, which include guidance regarding the audit procedures to be performed to verify the existence and market values of investments held by such plans. In some instances, engagement teams placed reliance on service provider's control reports, principally in the areas of investments, to limit the extent of the additional substantive audit procedures to be performed with respect to investment values at the plan year end. However, we believe that in certain instances, the engagement team did not sufficiently document the substantive audit procedures performed over investment values of the plan assets at year-end to comply with professional standards. We were able to satisfy ourselves through discussions with the engagement team that the Firm is taking or has taken appropriate actions to remediate the deficiencies noted above.

Recommendation – The Firm should emphasize its policies regarding audit documentation of the substantive audit procedures performed over investment values at year end when placing reliance on service provider's control reports.

Comment – The Firm has comprehensive policies regarding the content of its documentation pertaining to each audit engagement. In some instances, audit procedures performed during the audit of the plan sponsor were also relied upon for the audit of the employee benefit plan, for example, audit procedures pertaining to payroll and investments, without sufficient documentation in the files for the audit of the employee benefit plan. We were able to satisfy ourselves through discussions with the engagement team and review of certain audit work papers at the plan sponsor level that sufficient audit procedures had been performed.

Recommendation – For employee benefit plan audits, the Firm should emphasize its policies regarding the required contents of its audit documentation for each audit when the Firm audits both the employee benefit plan and the plan sponsor.

KPMG LLP

December 20, 2007

ERNST & YOUNG

Ernst & Young LLP
5 Times Square
New York, New York 10036

Phone: (212) 773-3000
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December 20, 2007

AICPA Center for Public Company Audit Firms Peer Review Committee

Dear Committee Members:

We are pleased to provide our response to the letter of comments issued in connection with our peer review for the year ended June 30, 2007. This letter should be read in connection with that letter. We believe the peer review program assists us in identifying areas where we can continue to improve our performance and quality control systems and processes.

Our overriding objective is to make certain that all aspects of our auditing and quality control processes are of high quality. As a result, the firm is in the process of deploying a new global audit documentation platform designed to help drive a more consistent and appropriate execution and documentation of our Global Audit Methodology. We believe the new platform also has been designed to better enable the supervision and review of the work performed by our engagement teams. The platform has been pilot tested on a sample of calendar 2006 audits and is being deployed for initial use on calendar 2007 audits.

We have been emphasizing during 2007 and will continue to emphasize awareness regarding the matters noted in the letter of comments through internal communications and learning programs. Examples of these activities include:

- Accounting and Auditing Update sessions held in the Fall/Winter 2007, which generally include partners through seniors. These sessions covered current A&A matters including the results of all internal and external inspection activities.

- Audit Release issued in December 2007. This communication covered the areas identified through all inspection activities along with excerpts and summary comments from our firm guidance reinforcing each of the topics.

- Audit Quality Executive Events annually held in the Spring/Summer. These events are attended by partners through managers and focus in-depth on current auditing topics and the importance of their involvement in supervising and reviewing audit engagements.

- Employee Benefit Plan annual training program held in the Spring.

In addition to these actions, our 2008 internal inspection program will focus on the matters noted in the letter of comments.

Ernst & Young LLP

AICPA

Peer Review Program

December 28, 2007

James S. Turley, CPA
Ernst & Young, LLP
5 Times Square
New York, NY 10036-6530

Dear Mr. Turley:

It is my pleasure to notify you that on December 28, 2007, the Center Peer Review Committee accepted the report on the most recent peer review of your firm, the related letter of comments, and your firm's response thereto. Those documents will now be placed in the public files of the Center for Public Company Audit Firms. The due date for your next review is December 31, 2010. This is the date by which all review documents should be completed and submitted.

As you know, the reviewer's opinion was unmodified. The Committee asked me to convey its congratulations to the firm.

Sincerely,

James W. Brackens, Jr
Vice President -
Firm Quality & Practice Monitoring

cc: David T. Brumbeloe, CPA

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