Gainesville Regional Utilities

2011 financial statement audit results

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April 3, 2012

Dear Honorable Mayor and Members of the City Commission,

We are pleased to present the results of our audit of the 2011 financial statements of Gainesville Regional Utilities (GRU).

Our audit was designed to express an opinion on the 2011 financial statements as of September 30, 2011. We continued to receive the full support and assistance of GRU's personnel in conducting our audit. Open and candid dialogue with you, as an audit committee, is a critical step in the audit process, and in the overall corporate governance process and we appreciate this opportunity to share our insights resulting from our audit.

At Ernst & Young, we continually evaluate the quality of our professionals' work, with a focus on our goal to deliver remarkable client service. We strive to provide you with audit services of the highest quality that will meet or exceed your expectations, and we encourage you to participate in 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 City Commission and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

We look forward to meeting with you to discuss the contents of this report and answer any questions you may have about the results of our audit.

Very truly yours,

Michael Pattillo
Managing Partner

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Overview of the 2011 audit
Executive summary

Significant 2011 considerations	
Revenue recognition, including unbilled revenue and receivables	Derivative and hedging activities, including GASB 53 and related disclosures
Allowance for doubtful accounts	Regulatory assets/liabilities
Debt Compliance	Environmental liabilities

Key observations

- Audit scope was consistent with what was planned; we continually reassessed for changes in risk throughout the audit
- GRU's analysis of significant accounting matters is appropriate
- Reasonable judgments and consistency used by management in accounting estimates
- One unrecorded audit difference was identified. See Summary of Audit Differences section.
- Entity level controls and other internal controls over financial reporting - no material weaknesses identified
- Outstanding cooperation and communication between GRU and Ernst & Young

2011 audit results

Financial statement accounts and disclosures

Key issue/risk area	Summary of procedures and findings
Revenue recognition – Unbilled revenue and receivables	▶ GRU estimates unbilled revenue and related receivables utilizing a percentage unbilled calculation based on the number of days billed in the subsequent billing cycle related to the prior month. Billing cycles typically span across two months. This process assumes that consumption is equal throughout the billing cycle, however, management also takes into consideration weather effects to adjust for any significant differences in usage over the billing cycle. ▶ We tested the calculation for unbilled revenue as of September 30, 2011 and validated the unbilled percentage used by obtaining the query of October actual billings and recalculating the unbilled percentage based on service dates. We factored in considerations for the impact of weather on consumption during the month of September versus October. ▶ Based on the procedures performed, we believe unbilled revenue and related receivables are fairly stated in all material respects.
Allowance for doubtful accounts	▶ GRU calculates the allowance for doubtful accounts by applying historical write-off percentages to certain aged receivables. ▶ We obtained the detail calculation and clerically tested it. Using audit software, we re-aged the accounts receivable detail to ensure the percentages were applied to the correct aging balances. We reviewed support for historical write-off percentages and reviewed assumptions made by management in light of current economic trends. We performed a hindsight analytic to determine the reasonableness of management's estimation process. ▶ Based on the procedures performed, we believe the allowance for doubtful accounts is fairly stated in all material respects.

2011 audit results

Financial statement accounts and disclosures

Key issue/risk area	Summary of procedures and findings
Derivative and hedging activities, including GASB 53 and related disclosures	▶ Changes in fair value of derivative instruments are deferred and the effect of any ineffective hedges are accounted for based on the Regulated Operations section of GASB Statement 62. ▶ For interest rate swaps, we confirmed values with counterparties, we independently tested the fair value of swaps by utilizing our EY valuation professionals. We independently tested the hedges effectiveness in accordance with GASB 53. ▶ As the fuel hedge contracts are traded on an active market exchange, we independently tested the fair values by agreeing to market quotes as of September 30, 2011. We evaluated the hedges for effectiveness in accordance with GASB 53. ▶ Based on the procedures performed, we believe the deferred outflow and inflow amounts recorded in the Balance Sheet and disclosures are fairly stated in all material respects.
Regulatory assets/liabilities	▶ GRU's services are rate regulated, with those rates established by its Board. GASB 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, permits qualifying enterprise funds to apply the provisions of GASB 62, *Regulated Operations*. A rate regulated governmental entity should follow applicable GASB and FASB pronouncements for measurement and recognition unless its regulator has provided alternative measurement or recognition requirements. ▶ GRU has established certain regulatory assets/liabilities as a result of management approval and City Commission actions. We tested all new regulatory assets/liabilities and traced establishment to approval. We ensured appropriate accounting for regulatory assets/liabilities in accordance with related actions. ▶ Based on the procedures performed, we believe GRU continues to meet the requirements to apply GASB 62 and all regulatory assets/liabilities have been accounted for appropriately.

Fraud considerations and the risk of management override

We are responsible for planning and performing our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or by fraud (SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*).

Our audit procedures encompassed the requirements of SAS 99: brainstorming, gathering information to facilitate the identification of and response to fraud risks and performing mandatory procedures to address the risk of management override (including examining journal entries, reviewing accounting estimates and evaluating the business rationale of significant unusual transactions).

Identified fraud risks	Controls related to fraud risk	Summary of tests of controls and substantive procedures and related findings
Inappropriate capitalization of costs	▶ Management review of the financial statements as well as reconciliations for the utility plant accounts. ▶ Purchase requisitions require approval. ▶ Work order systems and unitization process; including review and approval ▶ Capital budget to actual analysis	We tested controls over the purchases to pay and capital asset addition processes. We performed substantive testing over capital asset additions, transfers from CWIP and other plant transactions.

Summary of audit differences

During the course of our audit, we accumulate differences between amounts recorded by GRU and amounts that we believe are required to be recorded under generally accepted accounting principles. Following is a summary of those differences we have identified through the date of this report that have not been recorded by GRU. We have also considered and evaluated any underlying internal control deficiencies relating to the audit differences identified below.

Summary of Audit Differences

Client Gainesville Regional Utilities **Audit Date** 9/30/2011

All Identified Misstatements Above Nominal Amount			Analysis of Misstatements Debit / (Credit)								
			Assets Current	*Assets Non-current*	*Liabilities Current*	*Liabilities Non-current*	*Income Effect of Correcting the Balance Sheet as of the End of the:*				*Other - Specify*
No.	*W/P Ref.*	*Description*	*Debit/(Credit)*	*Debit/(Credit)*	*Debit/(Credit)*	*Debit/(Credit)*	*Debit/(Credit) Current Period*	*Non Taxable*	*Debit/(Credit) Prior Period*	*Non Taxable*	*Debit/(Credit)*
Uncorrected Misstatements:											
Uncorrected Factual Misstatements:											
2011-07	Q-11-1	Correction of Bond Amortization Expense									
		Adjustment: 189190 Unamort. Loss Acq. Debt			-210,380			No			
		Adjustment: 225190 Premium on LT Debt			185,174			No			
		Adjustment: Net Assets						No			25,206
		Adjustment: PY Amortization Expense							25,206	No	
	Totals		0	0	-25,206	0					25,206
	Financial Statement Amounts		103,230,779	1,613,650,321	39,304,747	1,204,886,320					472,690,033
	Effect of uncorrected misstatements on F/S amounts		0.00%	0.00%	-0.06%	0.00%					0.01%
	Income effect of uncorrected misstatements (before tax)						0		25,206		
	Memo: Non-taxable items						0		0		
	Less: Tax effect at current year marginal rate		0.00%				0		0		
	Cumulative effect of uncorrected misstatements before turn-around effect					0.00%	0		25,206		
	Turn-around effect of prior period uncorrected misstatements (after tax)			All Factual and Projected Misstatements		-25,206					
				Judgmental misstatements:		0	-25,206				
	Cumulative effect of uncorrected misstatements, after turn-around effect					-0.08%	-25,206				
	Current year net income					100.00%	31,789,294				

2011 Ernst & Young services

	Services and deliverables
Opinions	▸ Express an opinion on the financial statements of GRU ▸ Audit was conducted 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 (GAO's) Government Auditing Standards
Internal control communications	▸ 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 that provides our recommendations regarding internal controls and opportunities for improvement or efficiency, based on observations made during the course of our audit

Required communications

Area	Comments
Auditor's responsibilities under generally accepted auditing standards The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States, as established by the American Institute of Certified Public Accountants, to obtain reasonable, rather than absolute assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GRU's internal control over financial reporting. Accordingly, we will express no such opinion.	Our responsibilities are included in our audit engagement letter. As part of our audit, we have obtained a sufficient understanding of internal control to plan our audit and to determine the nature, timing and extent of testing performed. We issued an unqualified opinion on GRU's financial statements for the years ended September 30, 2011 and 2010.
Overview of planned scope and timing We discuss with those charged with governance an overview of the planned audit scope and timing. These discussions are intended to assist those charged with governance in better understanding the consequences of the auditor's work for their oversight activities, discussing with the auditors issues of risk and materiality, and identifying any areas for which they may request the auditor to undertake additional procedures. Additional matters we may discuss include: ▸ How we propose to address the significant risk of material misstatement, whether due to fraud or error ▸ The concept of materiality in planning and executing the audit, focusing on the factors considered rather than on specific thresholds or amounts ▸ Where the entity has an internal audit function, the extent to which we will use the work of internal audit, and how we and the internal auditors can best work together	We have provided our findings in the section titled "2011 audit results and in the following pages of this section."

Required communications

Area	Comments
Other information in documents containing audited financial statements AICPA AU Section 550 establishes the auditor's responsibility for other information prepared by management that accompanies the audited financial statements. If GRU includes other information in documents containing audited financial statements, we review such other information and consider whether such information, or the manner of its presentation, is materially inconsistent with the audited financial statements. If we conclude that a material inconsistency exists, we determine whether the financial statements, our auditor's report, or, both require revision. In addition, we will notify you if we conclude that there is a material misstatement of fact in the other information.	We have reviewed other information accompanying GRU's separately issued financial statements for consistency.
Our views about the qualitative aspects of GRU's significant accounting practices We have open and constructive discussions with those charged with governance about qualitative aspects of the entity's significant accounting practices, including acceptability. These discussions may include: ▸ The appropriateness of accounting policies to the particular circumstances of the company, including the adoption of, or a change in, an accounting policy ▸ The effect of significant accounting policies in controversial or emerging areas ▸ Significant accounting estimates ▸ Financial statement disclosures and other related matters	We previously provided our views in the 2011 Audit Plan submitted to GRU management. We have provided our findings in the section titled "2011 audit results" and in the following pages.

Required communications

Area	Comments
Our views about the qualitative aspects of GRU's significant accounting practices: ▸ **The appropriateness of accounting policies to the particular circumstances of GRU including, the adoption of, or a change in, an accounting policy** As part of our discussion about the qualitative aspects of GRU's significant accounting practices, we discuss our views about the adoption of, or a change in accounting policies which may include the following: ▸ The initial selection of new, or changes in, significant accounting policies, including the application of new accounting pronouncements ▸ The effect of the timing and method of adopting a change in accounting policy on current and future earnings of the entity (or expected new accounting pronouncements) ▸ The appropriateness of the accounting policies to the particular circumstances of the entity ▸ Where acceptable alternative accounting policies exist, the identification of financial statement items that are affected by the chose of significant policies as well as information on accounting policies used by similar entities	During fiscal year 2011, GRU Adopted the following standards: ▸ GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. ▸ GASB Statement No. 63, *Financial reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position*. This statement is effective for periods beginning after December 15, 2011; however, GRU opted to implement this statement in fiscal 2011. The effect of adopting these standards resulted in certain changes in presentation and disclosure, but did not affect recognition. Accounting policies are consistent with GAAP and industry practices.
Our views about the qualitative aspects of GRU's significant accounting practices: ▸ **The effect of significant accounting policies in controversial or emerging areas** As part of our discussion about the qualitative aspects of GRU's significant accounting practices, we may discuss with those charged with governance effects of significant accounting policies in controversial or emerging areas (or those unique to an industry), particularly when there is a lack of authoritative guidance or consensus.	We are not aware of any significant transactions recorded by GRU based on significant accounting policies used by GRU in controversial or emerging areas for which there is a lack of authoritative guidance.

Required communications

Area	Comments
Our views about the qualitative aspects of GRU's significant accounting practices: ▸ **Significant accounting estimates** As part of our discussion about the qualitative aspects of GRU's significant accounting practices, we discuss our views about GRU's accounting estimates which may include the following: ▸ Management's identification of accounting estimates ▸ Management's process for making accounting estimates ▸ Risks of material misstatement ▸ Indicators of possible management bias ▸ Disclosure of estimation uncertainty in the financial statements	We have provided our findings in the section titled "2011 audit results." GRU has applied consistent estimation processes, and appropriately disclosed factors and assumptions used for significant estimates.
Our views about the qualitative aspects of GRU's significant accounting practices: ▸ **Financial statement disclosures and related matters** As part of our discussion about the qualitative aspects of GRU's significant accounting practices, we discuss our views about GRU's financial statement disclosures and other related matters which may include the following: ▸ The issues involved and related judgments made, in formulating sensitive financial statement disclosures ▸ The overall neutrality, consistency and clarity of financial statement disclosures ▸ The potential effect of significant risks and exposures and uncertainties on the financial statements ▸ The extent to which the financial statements are affected by unusual transactions including nonrecurring amounts recognized ▸ The factors affecting asset and liability carrying value ▸ The selective correction of misstatements	We have provided our findings in the section titled "2011 audit results." We believe that GRU's financial statement disclosures are complete and clearly presented.

Required communications

Area	Comments
Significant difficulties encountered in dealing with management when performing the audit We inform those charged with governance of any significant difficulties encountered in dealing with management related to the performance of the audit which may include such matters as: ▸ Significant delays in management providing required information ▸ An unnecessarily brief time within which to complete the audit ▸ The unavailability of expected information ▸ Restrictions imposed on us by management ▸ Management's unwillingness to provide information about management's plans for dealing with the adverse effects of the conditions or events that lead us to believe there is substantial doubt about the entity's ability to continue as a going concern	No matters reported.
Unrecorded misstatements We discuss with those charge with governance uncorrected misstatements and the effect that they may have on our opinion. We also discuss with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. In addition, we discuss with those charged with governance the implications of a failure to correct known and likely misstatements, if any, considering qualitative as well as quantitative considerations, including the possible implications in relation to future financial statements.	There was one unrecorded audit adjustment related to the 2011 audit. See "Summary of audit differences" section.
Material corrected misstatements We discuss with those charged with governance material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. In addition, we may discuss with those charge with governance other corrected immaterial misstatements, such as frequently recurring immaterial misstatements that may indicate a particular bias in the preparation of the financial statements.	There were no material corrected misstatements brought to the attention of management as a result of such procedures.

Required communications

Area	Comments
Disagreements with management We discuss with those charged with governance any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to GRU's financial statements or our auditor's report. For purposes of this discussion, disagreements do not include differences of opinion based on incomplete facts or preliminary information that are later resolved.	No matters reported.
Representations we are requesting from management We discuss with those charged with governance representation we are requesting from management.	We have provided a copy of the 2011 Management representation letter in Appendix B.
Management's consultation with other accountants When we are aware that management has consulted with other accountants about auditing or accounting matters, we discuss with those charged with governance our views about significant matters that were the subject of such consultation.	None of which we are aware.
Significant issues, if any, arising from the audit that were discussed, or the subject of, correspondence with management We discuss with those charged with governance any significant matters that were discussed with, or the subject of correspondence, with management, including: ▸ Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatements ▸ Discussions or correspondence in connection with our initial or recurring retention as the auditor, including, among other matters, any discussions regarding the application of accounting principles and auditing standards	No significant matters to report.

Required communications

Area	Comments
Communication of independence matters Although the auditor's report affirms our independence, in certain situations, we discuss with those charged with governance circumstances of relationships (e.g., financial interests, business or family relationships, or nonaudit services provided or expected to be provided) that in our professional judgment may reasonably be thought to bear on independence and that we gave significant consideration to in reaching the conclusion that independence has not been impaired.	There are no matters that, in our professional judgment, may reasonably be thought to bear on our independence or that we gave significant consideration to in reaching the conclusion that independence has not been impaired. Relating to the audit of the financial statements of GRU as of September 30, 2011, and for the year then ended, we are independent certified public accountants with respect to GRU and the City within the meaning of the applicable published pronouncements of the Independence Standards Board; Rule 101 of the American institute of Certified Public Accounts' 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 those regulatory and professional bodies.
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements We communicate with those charged with governance 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. In addition, we discuss any misappropriations perpetrated by lower level employees, based on our understanding with those charged with governance regarding the nature and extent of communications with them about such matters.	We are not aware of any matters that require communication. Refer to the "Fraud considerations" section for more information about our procedures related to the risks of material misstatement due to fraud.
Significant deficiencies and material weaknesses in internal control We communicate all significant deficiencies and material weaknesses in internal control that were identified during the course of our audit.	No material weaknesses were identified.

Required communications

Area	Comments
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 US firm. Accordingly, third-party service providers might include, but not be limited to, the following examples: non-US personnel who work for Ernst & Young affiliate firms (e.g., Ernst & Young United Kingdom), non-US personnel working in the US on a foreign secondment, non-US personnel working at Ernst & Young shared service centers.	No matters to report.
Other findings or issues regarding the oversight of the financial reporting process We communicate other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process.	There are no other findings or issues arising from the audit that are, in our judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process.

Appendix A

Timing of required communications

Timing of required communications

	Communicate when event occurs	Communicate on a timely basis, at least annually
Our responsibility under generally accepted auditing standards, including discussion of the type of opinion we are issuing		X
Overview of planned scope and timing		X
Other information in documents containing audited financial statements		X
Our views about the qualitative aspects of the Company's significant accounting practices, including:		
▸ The appropriateness of accounting policies to the particular circumstances of the company including, the adoption of, or a change in, an accounting policy	X	
▸ The effect of significant accounting policies in controversial or emerging areas	X	
▸ Significant accounting estimates		X
▸ Financial statement disclosures and related matters		X
Significant difficulties encountered in dealing with management when performing the audit	X	
Unrecorded misstatements		X
Material corrected misstatements		X
Disagreements with management	X	
Representations we are requesting from management		X
Management's consultations with other accountants	X	
Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management	X	
Communication of independence matters	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 in internal control		X
AICPA ethics ruling regarding third-party service providers		X
Other findings or issues regarding the oversight of the financial reporting process	X	
Additional communications required under GAS		X

Appendix B
Material written communications

Material written communications
Content

- 2011 Management letter of representation
- 2011 Management letter

February 9, 2012

Ernst & Young LLP
390 North Orange Avenue,
Suite 1700
Orlando, Florida 32801

In connection with your audits of the balance sheets, statements of revenues, expenses and changes in net assets, and cash flow of Gainesville Regional Utilities (GRU), a department of the City of Gainesville, Florida (the City), as of September 30, 2011 and 2010 and for the years then ended, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the financial position, changes in financial position and cash flows of GRU in conformity with US generally accepted accounting principles.

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

Accordingly, we make the following representations, which are true to the best of our knowledge and belief:

Management's responsibilities

We recognize that, as members of management of GRU, we are responsible for the fair presentation of its financial statements. We believe the statements of financial position, changes in financial position and cash flows are fairly presented in conformity with US generally accepted accounting principles applied on a basis consistent with that of the preceding years. We also recognize that, as members of management of GRU, we are responsible for establishing and maintaining effective internal control.

We have made available to your representatives all financial records and related data. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

Uncorrected misstatements

We believe that the effects of any uncorrected misstatements, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole. In addition, to the extent that uncorrected misstatements have been subsequently identified in the current period that affect prior year financial statements, we have evaluated the effect of correcting prior year consolidated financial statements and believe that the effects of the uncorrected misstatements are immaterial, both individually and in the aggregate, to the prior year consolidated financial statements taken as a whole.

Internal control

There are no transactions of a material nature, individually or in the aggregate, that have not been properly recorded in the accounting records underlying the financial statements.

We are not aware of any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting.

Minutes and contracts

We have made available to you all minutes of the meetings of the City Commission and committees of commissioners or summaries of actions of recent meetings for which minutes have not yet been prepared.

We also have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Risks and uncertainties

There are no risks and uncertainties related to significant estimates and current vulnerabilities due to material concentrations that have not been disclosed in accordance with Statement of Position 94-6, Disclosures of Certain Significant Risks and Uncertainties.

Environmental liabilities

We have disclosed to you all significant environmental matters and have made available to you all significant relevant information related to them. The environmental liabilities included in the balance sheets represents our best estimate of the potential losses, based on applying the probability of cash flows model defined in Government Accounting Standards Board (GASB) Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, using assumptions that we believe represent the expected outcomes of the uncertainties. The disclosures of environmental matters in the financial statements are adequate and consistent with the requirements of GASB Statement No 49. Any deferred charges related to environmental liabilities have been approved by the City Commission and are fully recoverable pursuant GASB Statement No 62, Regulated Operations.

Kelly Oil Contamination Liability Reserve

Based on our 2011 filing with the Florida Department of Environmental Protection, we have noted the contamination is contained within the grounds of the facility. As result, we updated our previous estimate and determined we would not be able to reasonably estimate a liability as it would require the demolition of the facility.

Ownership and pledging of assets

GRU has satisfactory title to all assets appearing in the balance sheets. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged. All assets to GRU has satisfactory title appear in the balance sheets.

Receivables and revenues

Receivables (including unbilled revenues) represent valid claims against the debtors indicated and do not include amounts for services provided subsequent to the balance sheet dates or other types of arrangements not constituting sales. All revenue recognized as of the balance sheet dates has been realized (or is realizable) and earned. Revenue has not been recognized before (1) persuasive evidence of an arrangement exists, (2) services rendered, (3) consideration to be received is fixed or determinable and (4) collectibility is reasonably assured.

Adequate provision has been made for losses, costs and expenses that may be incurred subsequent to the balance sheet dates in respect of sales and services rendered prior to those dates and for uncollectible accounts, discounts, returns and allowances, etc., that may be incurred in the collection of receivables at those dates.

We have adequately disclosed a description of our major revenue-generating products and services, the types of arrangements (including multiple-element arrangements) used to deliver these products or services, and a description of the revenue recognition policies applicable to these products or services.

We have disclosed to you all sales terms (both expressed and implied), including all rights of return or price adjustments and warranty provisions. We have made available to you all significant contracts, communications (either written or oral), and other relevant information pertaining to arrangements with our customers, including distributors and resellers.

Inventories

Inventories, including goods that are defective, slow-moving, obsolete or unusable, are stated at amounts not in excess of their estimated net realizable values.

Physical counts and measurements of inventories were made by competent employees under the supervision of management and book records were appropriately adjusted after giving recognition to cut-off for materials received and products shipped.

Financial instruments and Deposits

GRU has properly reported its investments at their fair values in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investments Pools, and all applicable disclosures required by GASB Statement No. 40, Deposit and Investment Risk Disclosures, have been made. GRU has complied with Section 218.415, Florida Statutes, related to the investment of public funds. Risk disclosures associated with deposits and investment securities are presented in accordance with GASB requirements.

Investments in The Energy Authority (TEA)

We have disclosed our equity interest in TEA in accordance with applicable GASB pronouncements and properly accounted for GRU's share of the net income of TEA for the periods ended September 30, 2011 and 2010. We have also disclosed GRU's commitments to TEA through trade guarantees, and believe that GRU's exposure to credit and/or transaction risk is limited to the guarantee amount disclosed in the notes to the financial statements.

Although not common stock in legal form, GRU's investments in TEA has risk and reward characteristics that are substantially similar to that entity's common stock.

Deferred charges

We believe that all material expenditures that have been deferred to future periods are recoverable through utility rates. In addition, the City Commission, as the rate setting authority, has approved the GRU budget which includes the material regulatory assets and liabilities related to environmental claims.

Fuel Contracts and other Derivative Instruments (including debt related instruments)

We believe that the value of the outstanding fuels contracts (options and futures) as of September 30, 2011 and 2010 is accurate and properly disclosed and recorded. All derivative financial instruments to which GRU is a party are reported at their fair values in the financial statements. GRU has appropriately implemented GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, by reporting the fair value of all derivative instruments on the balance sheets (with retroactive application). GRU has also properly assessed hedge effectiveness or ineffectiveness in accordance with provisions of GASB 53. For those instruments deemed as ineffective under GASB Statement No 53 (i.e., investment derivatives), we have applied FASB Statement No. 62 to defer recognition of the changes in fair value. This is consistent with GRU's rate making and bond covenant requirements and is fully disclosed in the notes to the financial statements.

Long-lived assets to be held and used, including amortizable intangible assets

No events or changes in circumstances have occurred that indicate the carrying amounts of long-lived assets to be held and used, including intangible assets that are subject to amortization, may not be recoverable.

Related party transactions

Transactions with related parties, as defined in GASB Statement No. 56, *Related Party Disclosures*, and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees, have been properly recorded and/or disclosed in the financial statements.

Arrangements with financial institutions

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statements.

Events of default under debt agreements

No events of default have occurred with respect to any of the GRU's debt agreements

Contingent liabilities

There are no unasserted claims or assessments, including those our lawyers have advised us of that are probable of assertion and must be disclosed in accordance with GASB Statement No 62, Accounting for Contingencies.

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. There have been no internal investigations or communications from regulatory agencies or government representatives concerning investigations or allegations of noncompliance with laws or regulations in any jurisdiction, noncompliance with or deficiencies in financial reporting practices, or other matters that could have a material effect on the financial statements.

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed by GASB Statement No. 62, nor are there any accruals for loss contingencies included in the balance sheets or gain contingencies reflected in earnings that are not in conformity with the provisions of GASB Statement No. 62.

Oral or written guarantees

Except for certain trading guarantees related to GRU's participation in TEA programs (which have been disclosed in the financial statement footnotes), there are no oral or written guarantees, including guarantees of the debt of others.

Purchase commitments

At September 30, 2011 and 2010, GRU had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at those dates.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 2011 and 2010, other than the interest rate swap arrangement and fuels contracts positions that are disclosed in the financial statements, as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

We have provided you with all agreements regarding purchases and sales of electric power and/or fuel. These agreements represent the entire arrangements and are not supplemented by other agreements either written or oral.

Fraud

We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the GRU's internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the financial statements. We have disclosed to you all allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the GRU.

Independence

We are not aware of any capital lease, material cooperative arrangement or other business relationship between the GRU and Ernst & Young LLP or any other member firm of the global Ernst & Young organization. We are not aware of any reason that Ernst & Young LLP would not be considered to be independent for purposes of the GRU's audit.

Conflicts of interest

There are no instances where any officer or employee of the GRU has an interest in a company with which the GRU does business that would be considered a "conflict of interest." Such an interest would be contrary to GRU policy.

Required Supplementary Information

Required supplementary information (MD&A) is measured and presented within prescribed guidelines.

Use of the work of a specialist

We agree with the findings of specialists in evaluating the coal inventory aerial survey and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Net Assets

Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and, if applicable, approved.

Debt Compliance

GRU is in compliance with all required debt covenants and requirements. GRU is also in compliance with post issuance requirements as specified in the Internal Revenue Code, including but not limited to the areas of arbitrage and private business use, for each of its outstanding bond issues.

General Disclosures

We have identified and disclosed to you, all laws, regulations and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts.

There have been no violations (or possible violations) of laws, regulations and provisions of contracts and grant agreements with effects that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

We have followed applicable laws and regulations in adopting, approving and amending budgets, debt limits and covenants and secondary market disclosures, deposits and investments.

The financial statements include all joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

There are no transactions that are required to be reported as special or extraordinary items.

Special items are appropriately classified and reported.

Subsequent events

There are no events or transactions have occurred or are pending that would have a material effect on the basic financial statements at that date or for the period then ended, or are of such significance in relation to GRU affairs to require mention in a note to the basic financial statements in order to make them not misleading regarding the financial position, changes in financial position and, where applicable, cash flows of the GRU.

We understand that your audits were conducted in accordance with auditing standards generally accepted in the United States as promulgated by the American Institute of Certified Public Accountants and were, therefore, designed primarily for the purpose of expressing an opinion on the basic financial statements of GRU taken as a whole, and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Regards,

Robert E. Hunzinger, General Manager

Jennifer L. Hunt, Chief Financial Officer

Christine C. Marion, Controller

Summary of Audit Differences

Client Gainesville Regional Utilities **Audit Date** 9/30/2011

All Identified Misstatements Above Nominal Amount			Analysis of Misstatements Debit / (Credit)								
			Assets Current	*Assets Non-current*	*Liabilities Current*	*Liabilities Non-current*	*Income Effect of Correcting the Balance Sheet as of the End of the:*				*Other - Specify*
No.	*W/P Ref.*	*Description*	*Debit/(Credit)*	*Debit/(Credit)*	*Debit/(Credit)*	*Debit/(Credit)*	*Debit/(Credit) Current Period*	*Non Taxable*	*Debit/(Credit) Prior Period*	*Non Taxable*	*Debit/(Credit)*
Uncorrected Misstatements:											
Uncorrected Factual Misstatements:											
2011-07	Q-11-1	Correction of Bond Amortization Expense									
		Adjustment: 189190 Unamort. Loss Acq. Debt			-210,380			No			
		Adjustment: 225190 Premium on LT Debt			185,174			No			
		Adjustment: Net Assets						No			25,206
		Adjustment: PY Amortization Expense							25,206	No	
		Totals	0	0	-25,206	0					25,206
		Financial Statement Amounts	103,230,779	1,613,650,321	39,304,747	1,204,886,320					472,690,033
		Effect of uncorrected misstatements on F/S amounts	0.00%	0.00%	-0.06%	0.00%					0.01%
		Income effect of uncorrected misstatements (before tax)					0		25,206		
		Memo: Non-taxable items					0		0		
		Less: Tax effect at current year marginal rate	0.00%				0		0		
		Cumulative effect of uncorrected misstatements before turn-around effect				0.00%	0		25,206		
		Turn-around effect of prior period uncorrected misstatements (after tax)		All Factual and Projected Misstat		-25,206					
				Judgmental misstatements:		0	-25,206				
		Cumulative effect of uncorrected misstatements, after turn-around effect				-0.08%	-25,206				
		Current year net income				100.00%	31,789,294				

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Honorable Mayor and Members of the 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), a department of the City of Gainesville, Florida, as of and for the year ended September 30, 2011, 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

This communication 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

February 9, 2012

Ernst & Young

Assurance | Tax | Transactions | Advisory

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Strong independent assurance provides a timely and constructive challenge to management, a robust and clear perspective to audit committees and critical information for investors and other stakeholders. The quality of our audit starts with our 60,000 assurance professionals, who have the experience of auditing many of the world's leading companies. We provide a consistent worldwide audit by assembling the right multidisciplinary team to address the most complex issues, using a proven global methodology and deploying the latest, high-quality auditing tools. And we work to give you the benefit of our broad sector experience, our deep subject matter knowledge and the latest insights from our work worldwide. It's how Ernst & Young makes a difference.

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