

**SAN CARLOS ESTATES
WATER CONTROL DISTRICT
LEE COUNTY, FLORIDA
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2004**

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT	2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3 - 7
FINANCIAL STATEMENTS	
Governmental Fund Balance Sheet/Statement of Net Assets	8
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/ Statement of Activities.....	9
Notes to Financial Statements.....	10 - 13
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	15
Notes to Budgetary Comparison Schedule - General Fund	16
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	17
MANAGEMENT LETTER.....	18 - 20



INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
San Carlos Estates Water Control District
Lee County, Florida

We have audited the financial statements of San Carlos Estates Water Control District, as of and for the year ended September 30, 2004, as listed in the table of contents. These financial statements are the responsibility of San Carlos Estates Water Control District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Carlos Estates Water Control District as of September 30, 2004, and its changes in financial position and results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* and related statements. This results in a change in the format and content of the basis financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2005 on our consideration of San Carlos Estates Water Control District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

April 19, 2005

MYERS, BRETT HOLTZ & COMPANY, PA

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Management's Discussion and Analysis
September 30, 2004

As management of the San Carlos Estates Water Control District, we offer readers of the district's financial statements this narrative overview and analysis of the district's financial activities for the fiscal year ended September 30, 2004. Please note that no comparative information is provided for fiscal year 2003-2004 but San Carlos Estates Water Control District will be providing comparative information in the future.

FINANCIAL HIGHLIGHTS

- The district issued new debt in fiscal year 2004 in the amount of \$351,500 to pay for expenses, primarily engineering and legal, associated with the preparation for a capital improvement project to upgrade the district's drainage. As a result the district's net assets decreased by \$144,706.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the district's basic financial statements. The district's basic financial statements are comprised of two components: government-wide financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the district's finances, using accounting methods similar to a private sector business. These statements include all assets and liabilities on the accrual basis of accounting. All current year revenues and expense are taken into account regardless of when the cash is received or paid.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The district's liabilities exceeded assets by \$937,265 at the fiscal year ended on September 30, 2004.

The district's capital assets represent investments in land.

The unrestricted category of net assets has a balance of \$(937,265) at year end. The district's net assets decreased by \$144,706 during the current fiscal year.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Management's Discussion and Analysis
September 30, 2004

Governmental activities. As the district has no business-type activities, governmental activities were responsible for decreasing the district's net assets. The decrease is attributable to costs incurred in fiscal year 2004 to pay for expenses, primarily engineering and legal, associated with preparation for a capital improvement project to upgrade the district's drainage. The district has arranged for permanent financing to pay off the interim financing and fund the project's construction. A special assessment will provide the funds for the debt service.

Change in Net Assets

	Government Activities 2004
REVENUES	
Property Taxes	\$ 347,998
Interest	671
Use and Connection Fees	16,250
Other	<u>3,875</u>
Total Revenues	<u>368,794</u>
EXPENDITURES	
General	307,546
Capital Improvement Project	<u>205,954</u>
Total Expenses	<u>513,500</u>
Deficiency of Revenues over Expenditures	<u>\$(144,706)</u>
Net Assets - October 1, 2003	\$(792,559)
Net Assets - September 30, 2004	<u>(937,265)</u>
Decrease in Net Assets	<u>\$144,706</u>

Financial Analysis of the District's Funds

As noted earlier, the district uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the district's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Management's Discussion and Analysis
September 30, 2004

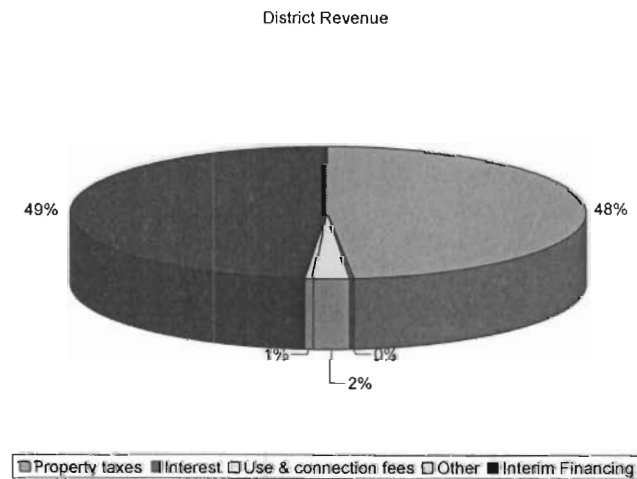
The general fund is the district's chief operating fund. At the end of the current fiscal year, the unrestricted net assets balance of the general fund was \$(937,265).

The net assets of the general fund decreased by \$144,706 during the current fiscal year. Key factors in this decrease are as follows:

- The decrease in net assets is attributable to expenses incurred to pay for costs, primarily engineering and legal, associated with preparation for a capital improvement project to upgrade the district's drainage.

General Fund Budgetary Highlights

An annual budget was legally adopted for the general fund and was amended once in 2004. Expenditures were under budget by \$224,267. Actual revenues exceeded budgeted revenues by \$9,542. Proceeds from interim financing were included as revenue in the budget. However, under generally accepted accounting principles loan proceeds are not considered a source of revenue. As a result, the net assets of the district decreased by \$144,706 during the year.



SAN CARLOS ESTATES WATER CONTROL DISTRICT
Management's Discussion and Analysis
September 30, 2004

Fiscal Year 2004 Budget – General Fund

	Budget	Actual	Variance
Revenues:			
Property Taxes	\$ 345,917	\$ 347,998	\$ 2,081
Interest	569	671	102
Use and Connection Fees	9429	16,250	6,821
Other	79	3,875	3,796
Proceeds from Interim Financing	<u>354,758</u>	<u>351,500</u>	<u>(3258)</u>
Total Revenue	<u>710,752</u>	<u>720,294</u>	<u>9542</u>
Expenditures:			
General	454,161	307,546	146,615
Capital Improvement Project	230,995	149,975	81,020
Interest	<u>52,611</u>	<u>55,979</u>	<u>(3,368)</u>
Total Expenditures	<u>\$737,767</u>	<u>\$513,500</u>	<u>\$224,267</u>

Capital Assets

At the end of fiscal year 2004, the district's investment in capital assets for its governmental activities was \$7,500. This investment in capital assets is land. There was no change in capital assets in fiscal year 2004.

LONG TERM DEBT

At the end of fiscal year 2004, the district had total long term debt in the amount of \$1,100,031 which consists of a note payable to pay expenses, primarily engineering and legal, associated with preparation for a capital improvement project to upgrade the district's drainage.

More detailed information about the district's long term debt can be found in Note 4 on page 12 of this report.

ECONOMIC FACTORS

The district's Board of Supervisors approved a general maintenance budget of \$555,406 for the 2004-2005 fiscal year. This is an 11% increase over the last fiscal year. This increase is due in part to the increased costs of gasoline and limerock used in maintenance of the district's roads. In addition, the district plans to take a more aggressive approach to the much needed canal cleaning.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Management's Discussion and Analysis
September 30, 2004

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the district's finances for the district's residents and creditors. Questions concerning this report or requests for additional financial information should be directed to:

Bud Lawson
San Carlos Estates Water Control District
PO Box 367807
Bonita Springs, FL 34136

SAN CARLOS ESTATES WATER CONTROL DISTRICT
GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

	General Fund	Adjustments (Note 3)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 167,985	\$ -	\$ 167,985
Certificates of deposit	18,036	-	18,036
Property taxes receivable	613	-	613
Prepaid insurance	5,393	-	5,393
Capital asset not being depreciated:			
Land	7,500	-	7,500
Total assets	<u>\$ 199,527</u>	<u>\$ -</u>	<u>\$ 199,527</u>
LIABILITIES			
Accounts payable	\$ 36,761	\$ -	\$ 36,761
Long-term liability:			
Due in less than one year	<u>-</u>	<u>1,100,031</u>	<u>1,100,031</u>
Total liabilities	36,761	1,100,031	1,136,792
FUND BALANCE/NET ASSETS			
Fund balance			
Unrestricted	<u>162,766</u>	<u>(162,766)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 199,527</u>	<u>937,265</u>	<u>1,136,792</u>
Net Assets:			
Invested in capital assets, net of related debt		7,500	7,500
Unrestricted		<u>(944,765)</u>	<u>(944,765)</u>
Total net assets		<u>\$ (937,265)</u>	<u>\$ (937,265)</u>

Read Independent Auditor's Report.
The accompanying notes are an integral
part of the financial statements.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	General Fund	Adjustments (Note 3)	Statement of Activities
REVENUES			
Property taxes	\$ 347,998	\$ -	\$ 347,998
Interest	671	-	671
Use and connection fees	16,250	-	16,250
Other	3,875	-	3,875
Total revenues	<u>368,794</u>	<u>-</u>	<u>368,794</u>
EXPENDITURES/EXPENSES			
Current:			
General			
Administration	56,761	-	56,761
Auditor	2,702	-	2,702
Drainage	22,437	-	22,437
Engineer	74,381	-	74,381
Grading	35,120	-	35,120
Insurance	5,362	-	5,362
Legal	10,851	-	10,851
Property appraiser	3,590	-	3,590
Tax collector commissions	3,503	-	3,503
Stabilization and repair	67,889	-	67,889
Swale mowing	24,950	-	24,950
Capital improvement project			
Administration	775	-	775
Engineer	58,893	-	58,893
Legal	81,807	-	81,807
Other	8,500	-	8,500
Long-term liabilities:			
Principal payments	1,469	(1,469)	-
Interest	55,979	-	55,979
Total expenditures/expenses	<u>514,969</u>	<u>(1,469)</u>	<u>513,500</u>
(Deficiency) excess of revenues over expenditures/expenses	(146,175)	1,469	(144,706)
OTHER FINANCING SOURCES			
Loan proceeds	<u>351,500</u>	<u>(351,500)</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures	205,325	(205,325)	
Change in net assets		(144,706)	(144,706)
Fund balance/net assets - October 1, 2003	<u>(42,559)</u>	<u>(750,000)</u>	<u>(792,559)</u>
Fund balance/net assets - September 30, 2004	<u>\$ 162,766</u>	<u>\$ (1,100,031)</u>	<u>\$ (937,265)</u>

Read Independent Auditor's Report.
The accompanying notes are an integral
part of the financial statements.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 1 - DESCRIPTION

The San Carlos Estates Drainage District (the "District"), a local governmental unit, was created by Circuit Court Decree, 12th Judicial Circuit, dated April 3, 1969 to provide water control and drainage services to a certain prescribed area in Lee County, Florida. The District is funded primarily by taxes and is operated by a three-person Board of Supervisors (the "Supervisors"). During the year ended September 30, 2004, the Supervisors voted to change the name of the District to the San Carlos Estates Water Control District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements conform to generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board ("GASB") and other recognized authoritative sources. The more significant accounting policies are described below.

Reporting Entity

GASB requires funds and account groups of agencies, boards, and authorities that are controlled by, or are dependent on, the District to be included in its Audit Report. In determining the agencies, boards, or authorities to be included in the annual financial report, the District considered the following criteria: oversight responsibility, including financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public services, and special financing relationships. Control by, or dependence on, the District has been determined and, as a result, no other agencies are included in the District's Audit Report since the District exercises no manifestations of oversight, nor is any agency's activity for the benefit of the District.

Government-wide and Fund Financial Statements

The District has implemented GASB Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" and related subsequent statements. These statements establish new financial reporting requirements for state and local governments throughout the United States.

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the District. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District does not currently have any business-type activities.

The District has one fund as follows:

General fund - The general fund is the principal fund used to account for all activities of the District.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured, and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The District's government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

The District's governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period." The District considers property taxes and impact fees as available if they are collected within 60 days after year end. All other governmental fund revenues are recognized when received. Expenditures are generally recorded when obligations are incurred, or when benefits are received.

Cash and Investments

At September 30, 2004, cash consisted of demand deposit accounts which are stated at cost. Cost approximates market value.

Investments can legally consist of repurchase agreements, US Government securities, certificates of deposit, and savings accounts. At September 30, 2004, investments consisted of a money market account and certificates of deposit which are stated at cost. Cost approximates market value.

All depositories are banks designated by the State Treasurer as qualified public depositories. As of September 30, 2004, these accounts were fully insured under Chapter 280 of the Florida Statutes.

Accounts Receivable

Accounts receivable consist of property taxes receivable. All accounts receivable are considered collectible; therefore no allowance for bad debt has been recorded.

Capital Assets

The District capitalizes purchases of \$500 or more. Capital assets are recorded at cost. Expenditures for maintenance, repairs, and minor renewals are expensed as incurred. Major renewals and enhancements are capitalized.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Liabilities

In the government-wide financial statements a note payable has been recorded.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet was adjusted to include the recognition of long-term liabilities. Net assets as of October 1, 2003, are reconciled as follows:

Fund balance - October 1, 2003	\$ (42,559)
Reclassification of long-term liability	(750,000)
Net assets - October 1, 2003	<u><u>\$ (792,559)</u></u>

In addition, the excess of revenues and other financing sources over expenditures for the year ended September 30, 2004, is reconciled as follows:

Excess of revenues and other financing sources over expenditures	<u>\$ 205,325</u>
Reclassification of principal payments on long-term liability	1,469
Reclassification of loan proceeds	<u>(351,500)</u>
Total adjustments	<u>(350,031)</u>
Change in net assets	<u><u>\$ (144,706)</u></u>

NOTE 4 - PROPERTY TAXES

All real and tangible personal property taxes are due and payable on November 1 of each year, or as soon thereafter as the tax roll is certified by the County Property Appraiser, and become delinquent on April 1 of the following year. The County Tax Collector mails to each property owner on the tax roll a notice of taxes levied by the various governmental entities in the County. A four percent discount is allowed if the taxes are paid in November, with the discount declining by one percent each month thereafter. Tax certificates for the full amount of any unpaid taxes and assessments must be sold no later than June 1 of each year at which time a lien attaches to the property.

At September 30, 2004, property taxes receivable were \$613.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 5 - LONG-TERM LIABILITY

As of September 30, 2004, the District had a note payable to a bank with a maximum available balance of \$1,500,000 with interest payable in quarterly installments at a rate equal to one-half percent less than the highest prime rate as published in The Wall Street Journal, not to exceed 5.5%. The note is collateralized by a lien on annual assessments and debt service assessments levied by the District. The principal balance was \$1,100,031 as of September 30, 2004. This balance was due in full on October 15, 2004. However, as of the date of this report, the note was in the process of being renewed.

NOTE 6 - CONTINGENCIES AND COMMITMENTS

As of September 30, 2004, certain landowners had brought suit against the District claiming that the District does not have the legal authority to perform certain functions nor enter into certain agreements. The District's counsel believes that an unfavorable outcome is unlikely.

In compliance with requirements of the South Florida Water Management District, the District began a capital improvement project during the prior year to upgrade its storm water management system. In order to secure funding for the completion of the project the District plans to issue bonds. It is anticipated that the bond closing will take place during the year ended September 30, 2005.

**REQUIRED SUPPLEMENTARY
INFORMATION**

SAN CARLOS ESTATES WATER CONTROL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Budget		Actual GAAP Basis	Adjustments to Budget Basis	Actual Budget Basis	Final Budget Favorable (Unfavorable)
	Original	Final				
REVENUES						
Property taxes	\$ 345,917	\$ 345,917	\$ 347,998	\$ -	\$ 347,998	\$ 2,081
Interest	569	569	671	-	671	102
Use and connection fees	9,429	9,429	16,250	-	16,250	6,821
Other	79	79	3,875	-	3,875	3,796
Total revenues	355,994	355,994	368,794	-	368,794	12,800
EXPENDITURES						
CURRENT						
General:						
Administration	28,000	52,000	56,761	-	56,761	(4,761)
Auditor	3,000	3,000	2,702	-	2,702	298
Contingency	56,000	163,096	-	-	-	163,096
Drainage	29,000	15,000	22,437	-	22,437	(7,437)
Engineer	35,000	64,000	74,381	-	74,381	(10,381)
Grading	35,000	40,500	35,120	-	35,120	5,380
Insurance	6,000	4,000	5,362	-	5,362	(1,362)
Legal	30,000	25,000	10,851	-	10,851	14,149
Property appraiser	3,566	3,565	3,590	-	3,590	(25)
Tax collector commissions	10,428	5,000	3,503	-	3,503	1,497
Stabilization and repair	80,000	55,000	67,889	-	67,889	(12,889)
Swale mowing	40,000	24,000	24,950	-	24,950	(950)
Total general	355,994	454,161	307,546	-	307,546	146,615

	Budget		Actual GAAP Basis	Adjustments to Budget Basis	Actual Budget Basis	Final Budget Favorable (Unfavorable)
	Original	Final				
OPERATING (CONTINUED)						
Capital improvement project:						
Administration	-	2,000	775	-	775	1,225
Engineer	-	127,995	58,893	-	58,893	69,102
Legal	-	92,500	81,807	-	81,807	10,693
Other	-	8,500	8,500	-	8,500	-
Total capital improvement project	-	230,995	149,975	-	149,975	81,020
Total current	355,994	685,156	457,521	-	457,521	227,635
LONG-TERM LIABILITIES						
Principal payments	-	-	-	1,469	1,469	(1,469)
Interest	-	52,611	55,979	-	55,979	(3,368)
Long-term liabilities	-	52,611	55,979	1,469	57,448	(4,837)
Total expenditures	355,994	737,767	513,500	1,469	514,969	222,798
(Deficiency) excess of revenues over expenditures	-	(381,773)	(144,706)	(1,469)	(146,175)	235,598
OTHER FINANCING SOURCES						
Loan proceeds	-	354,758	-	351,500	351,500	(3,258)
(Deficiency) excess of revenues and other financing sources over expenditures	-	(27,015)	(144,706)	350,031	205,325	232,340
Fund balance - October 1, 2003	(42,559)	(42,559)	(792,559)	750,000	(42,559)	-
Fund balance - September 30, 2004	\$ (42,559)	\$ (69,574)	\$ (937,265)	\$ 1,100,031	\$ 162,766	\$ 232,340

SAN CARLOS ESTATES WATER CONTROL DISTRICT
NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
SEPTEMBER 30, 2004

NOTE 1 - BUDGETARY PROCESS AND REPORTING

The District prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the District's method (budget basis) in the Budgetary Comparison Schedule - General Fund to provide a meaningful comparison of actual results with the budget.

A budget has been adopted by the District for its general fund. Estimated beginning fund balance is considered in the budgetary process, but is not included in the financial statements as budgeted revenue. Differences between estimated beginning fund balance and actual fund balance, if material, are submitted to the Supervisors as budget amendments.

The annual budget serves as the legal authorization for expenditures. Expenditures cannot legally exceed the amount budgeted in the general fund's budget. All budget amendments which change the legally adopted total appropriation for the general fund are approved by the Supervisors.

If, during the fiscal year, additional revenues become available for appropriation in excess of those estimated in the budget, the District, by resolution, may make supplemental appropriations for the year up to the amount of such excess. In the current year no additional revenues became available for appropriation in excess of those estimated in the budget.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Supervisors
San Carlos Estates Water Control District
Lee County, Florida

We have audited the financial statements of San Carlos Estates Water Control District as of and for the year ended September 30, 2004, and have issued our report thereon dated April 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered San Carlos Estates Water Control District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Carlos Estates Water Control District's 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*.

This report is intended solely for the information of management, the Auditor General, and the Comptroller of Florida. However, this report is a matter of public record and its distribution is not limited.

MYERS, BRETTOLTZ & COMPANY, PA

April 19, 2005

MANAGEMENT LETTER

Board of Supervisors
San Carlos Estates Water Control District
Lee County, Florida

In planning and performing our audit of the financial statements of San Carlos Estates Water Control District, as of and for the year ended September 30, 2004, (on which we have issued a report dated April 19, 2005), we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control structure. In connection therewith, we have issued our report on internal control over financial reporting and on compliance and other matters dated April 19, 2005.

Our comments and recommendations, including the status of prior year comments and recommendations, and the reporting requirements of the Auditor General, State of Florida, are presented under the following main captions:

- Status of Prior Year Comments
- Current Year Comments
- State Reporting Requirements

STATUS OF PRIOR YEAR COMMENTS

Compliance Finding #1 - This finding was resolved in the current year.

Compliance Finding #2 - This finding was resolved in the current year.

Management Letter Finding # 1 - This finding has been repeated in the current year.

CURRENT YEAR COMMENTS

Finding 04-1: The District experienced deteriorating financial conditions in the current year. This was evidenced by unfavorable financial indicators including an increase in fund deficit, a decrease in the ratio of unreserved fund balance to total expenditures, an increase in the ratio of current liabilities to revenues, and a decrease in the ratio of excess of revenues over (under) expenses to total revenues. The deteriorating financial condition resulted from the District incurring expenses relating to the capital improvement project when no related revenues have been received to cover the cost of the project.

Recommendation: The District is in the process of securing permanent financing, either bonds or loans, to cover the cost of the capital improvement project. These bonds will be paid off by a special assessment to property owners in the District over a 20 year period. The District will continue to experience unfavorable financial conditions until the project is completed and related property tax income is received.

CURRENT YEAR COMMENTS (CONTINUED)

Management's Response: Although we agree that, according to current accounting methods, the District experienced a deteriorating financial condition during last fiscal year, we do not believe this reflects a true picture of the District's financial condition.

To prepare for the capital improvements that were desperately needed to repair and upgrade its drainage system, the District was obliged to secure a line of credit to pay for the primarily legal and engineering expenses that are a necessary prerequisite for this kind of project. Although the District has the authority to pay for this kind of debt by way of an assessment on property owners, it was decided that there would be no assessment until construction was ready to begin on the project. Therefore, as expenses were incurred, the District's financial condition appeared to be deteriorating.

The District is now ready to begin the project and is currently in the final stages of securing permanent financing, either bonds or a bank loan, which will pay off the line of credit and cover the cost of construction of the capital improvement project. A special assessment to cover the debt service on the 20-year obligation will be imposed in the coming fiscal year.

Once again, according to current accounting methods, we agree with the statement that "The District will continue to experience unfavorable financial conditions until the project is completed and the related property tax income is received." However, the special assessment, unlike a "for profit" business' revenue, is mandatory. Therefore, we believe that this misstates the District's financial condition, since it is virtually a certainty that the assessments will be collected and the financing paid off in 20 years or less. In addition, when considered separately, the condition of the District's general operating revenue v. expenses is favorable.

For the above reasons, the district believes that it is actually in good financial condition and will continue to be so for the foreseeable future.

STATE REPORTING REQUIREMENTS

The rules of the Auditor General, State of Florida, require that this report be filed with the Auditor General together with the audited financial statements.

In connection with our audit of the financial statements of San Carlos Estates Water Control District, pursuant to Chapter 10.550, the Rules of the Auditor General, State of Florida-Local Government Entity Audits, we report the following:

- San Carlos Estates Water Control District has met one of the conditions described in Section 518.503(1), Florida Statutes regarding whether it was in a state of financial emergency during the year ended September 30, 2004. The District met the condition described in Section 218.503(1)(e), Florida Statutes because the District's unrestricted net assets showed a deficit balance as of September 30, 2004. This condition resulted from a deteriorating financial condition.

- The financial report of San Carlos Estates Water Control District filed with the Department of Banking and Finance, State of Florida, pursuant to Section 218.32, Florida Statutes, is in agreement with the financial statements for the year ended September 30, 2004.
- The San Carlos Estates Drainage District is a local governmental unit created by Circuit Court Decree, 12th Judicial Court, dated April 3, 1969, to provide water control and drainage services to a certain prescribed area in Lee County, Florida.
- San Carlos Estates Water Control District complied with Section 218.415, Florida Statutes, regarding the investment of public funds.
- The scope of the audit of the San Carlos Estates Water Control District included the use of financial condition assessment procedures to detect deteriorating financial conditions pursuant to Section 218.503(1), Florida Statutes.

This management letter is intended solely for the information of management, the Auditor General, and the Comptroller of Florida. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, reading "Myers, Brettholtz & Company, PA". The signature is written in a cursive, flowing style.

April 19, 2005

MYERS, BRETHOLTZ & COMPANY, PA