

**SAN CARLOS ESTATES
WATER CONTROL DISTRICT**

Annual Financial Report

September 30, 2011

SAN CARLOS ESTATES WATER CONTROL DISTRICT

September 30, 2011

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Board of Supervisors
San Carlos Estates Water Control District
Bonita Springs, Florida

We have audited the accompanying financial statements of the governmental activities and the major fund of San Carlos Estates Water Control District as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 respective financial position of the governmental activities and the major fund of San Carlos Estates Water Control District as of September 30, 2011, and the respective changes in financial position, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 6, 2012, 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 read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Boyd, Miller, Hether & Perry, P.C.

June 6, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of San Carlos Estates Water Control District would like to offer the readers of the District's financial statements this discussion and analysis of the District's financial activities during the fiscal year that ended on September 30, 2011. We encourage readers to consider the information presented in this discussion and analysis in conjunction with the District's financial statements, which follow this section.

The District has hired an employee for the administration of the District's operations and capital improvement program.

FINANCIAL AND DISTRICT HIGHLIGHTS

Financial Highlights

- The assets of the District exceeded its liabilities at the end of the fiscal year ended September 30, 2011, by \$13,083,533.
- The District's total net assets increased by \$131,945.
- The District's total revenue (on an accrual basis) was \$941,857 for the year ended September 30, 2011.
- Total expenses for all of the District's activities were \$809,912 for the year.

District Highlights

- General maintenance expenditures decreased thirteen percent during the fiscal year.
- The District made an additional principal payment on their loans for Phase I & II.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to San Carlos Estates Water Control District's basic financial statements. The District's annual report consists of two parts: management's discussion and analysis (this section) and the basic financial statements. The basic financial statements themselves consist of three components: government-wide financial data, fund financial data and notes to the financial statements. The District is a special-purpose government engaged in a single governmental program. The District is allowed to present their fund financial data and their government-wide financial data combined using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. These statements present different views of the District:

- The last column of the statements is the government-wide financial data that provide both long-term and short-term information about the District's overall financial status.
- The fund financial data focus on individual parts of the District's government, reporting the District's operations in more detail than the government-wide data.

Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences between government-wide activities (reported in the statement of net assets and the statement of activities) and governmental funds are reconciled in a footnote to the financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Assets exceeded liabilities by \$13,083,533 for the fiscal year ended September 30, 2011. The largest assets include capital assessments, and capital assets (swale drainage and road improvements), approximately (32%) and (62%) of the District's total assets, respectively.

The District uses capital assets to provide services to its landowners; accordingly, these assets are not available for future spending.

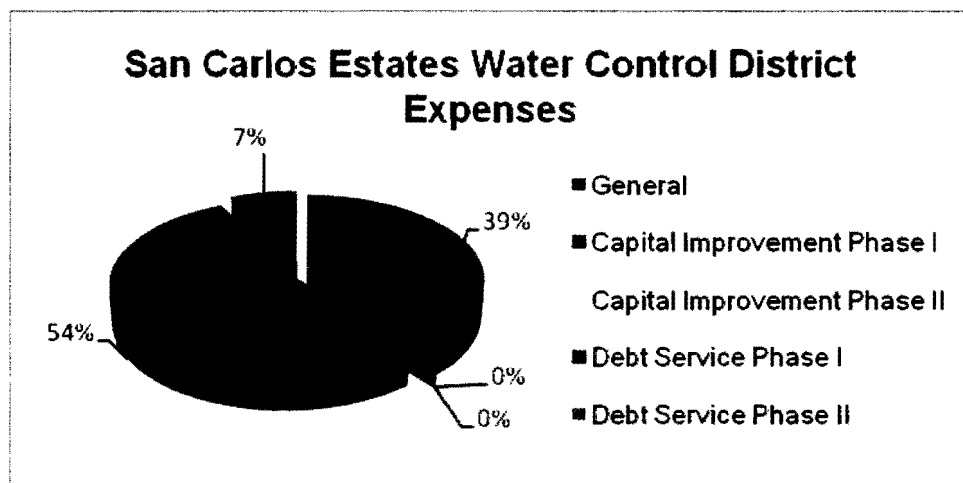
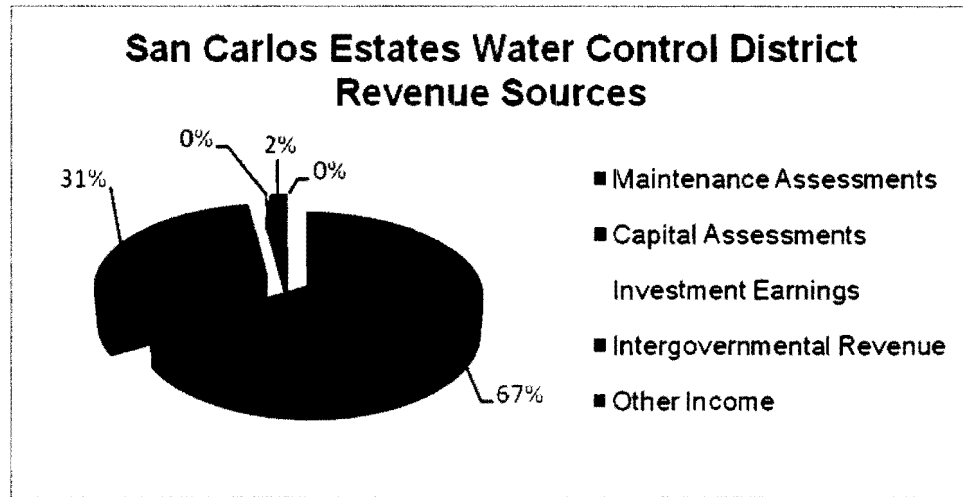
The following table highlights the net assets as of September 30, 2011, and 2010:

	<u>2011</u>	<u>2010</u>
Capital assessments	\$ 6,332,831	\$ 6,780,524
Other current assets	9,417	10,631
Investments	965,175	796,044
Capital assets	<u>12,181,752</u>	<u>12,208,378</u>
Total assets	<u>19,489,175</u>	<u>19,795,577</u>
Current liabilities	405,096	388,158
Other noncurrent liabilities	<u>6,000,546</u>	<u>6,455,831</u>
Total liabilities	<u>6,405,642</u>	<u>6,843,989</u>
Net assets:		
Invested in capital assets, net of related debt	5,848,922	5,427,854
Restricted for debt service	116,189	126,175
Unrestricted	<u>7,118,422</u>	<u>7,397,559</u>
Total net assets	<u>\$ 13,083,533</u>	<u>\$ 12,951,588</u>

The following table highlights the changes in net assets for the years ended September 30, 2011, and 2010:

	<u>2011</u>	<u>2010</u>
Revenues		
Maintenance assessments	\$ 626,067	\$ 772,567
Special assessments	294,834	374,524
Investment earnings	1,901	5,114
Intergovernmental revenue	18,305	25,500
Other income	<u>750</u>	<u>1,500</u>
Total revenues	<u>941,857</u>	<u>1,179,205</u>
Program expenses		
Physical environment	<u>809,912</u>	<u>872,434</u>
Total expenses	<u>809,912</u>	<u>872,434</u>
Increase in net assets	131,945	306,771
Net assets, beginning of year	<u>12,951,588</u>	<u>12,644,817</u>
Net assets, end of year	<u>\$ 13,083,533</u>	<u>\$ 12,951,588</u>

The following graphs represent the sources of revenue and expenses for the fiscal year:



BUDGETARY HIGHLIGHTS

The District adopted the fiscal year 2010/2011 budget on August 17, 2010, with a decrease of 14.49% in the assessment rate from fiscal year 2010. Total expenditures budgeted for the fiscal year ended September 30, 2011, were \$1,463,749. Total assessment revenue budgeted was \$1,339,749.

Total actual expenditures were \$230,147 below budgeted expenditures. This was mainly due to the following:

- Expenditures were not at budgeted level of appropriations.

Total actual revenues were \$397,892 below the budgeted revenue.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the beginning of the fiscal year ended September 30, 2011, the District had \$12,261,631 invested in a construction of Phase I and Phase II improvements. The District did not make any additions to the capital assets during the fiscal year.

The following table summarizes the District's capital assets, net of accumulated depreciation, for the years ended September 30, 2011, and 2010:

	<u>2011</u>	<u>2010</u>
Infrastructure assets	<u>\$12,181,752</u>	<u>\$ 12,208,378</u>

Debt

The following table presents the District's total outstanding debt for the fiscal years ended September 30, 2011, and 2010:

	<u>2011</u>	<u>2010</u>
Accounts payable and other liabilities	\$ 72,812	\$ 63,465
Notes payable - bank	<u>6,332,830</u>	<u>6,780,524</u>
Total outstanding debt, September 30,	<u>\$ 6,405,642</u>	<u>\$ 6,843,989</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

Bud Lawson
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P. O. Box 367807
Bonita Springs, FL 34135

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Statement of Net Assets and
Governmental Funds Balance Sheet
September 30, 2011

	General Fund	Adjustments (Note 7)	Statement of Net Assets
Assets			
Investments	\$ 965,175	\$ -	\$ 965,175
Capital assessments receivable Phase I	5,616,164	-	5,616,164
Capital assessments receivable Phase II	716,667	-	716,667
Prepaid expenses	5,972	-	5,972
Due from other government	3,445	-	3,445
Land	-	7,500	7,500
Other capital assets	-	12,174,252	12,174,252
Total assets	<u>\$ 7,307,423</u>	<u>12,181,752</u>	<u>19,489,175</u>
Liabilities			
Current			
Accounts payable	\$ 25,056	-	25,056
Accrued liabilities	-	47,756	47,756
Long-term			
Due within one year	-	332,284	332,284
Due in more than one year	-	6,000,546	6,000,546
Total liabilities	<u>25,056</u>	<u>6,380,586</u>	<u>6,405,642</u>
Fund balance/net assets			
Fund balance			
Nonspendable	6,057,972	(6,057,972)	-
Restricted	116,189	(116,189)	-
Unassigned	1,108,206	(1,108,206)	-
Total fund balance	<u>7,282,367</u>	<u>(7,282,367)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 7,307,423</u>		
Net assets			
Invested in capital assets, net of related debt		5,848,922	5,848,922
Restricted for debt service		116,189	116,189
Unrestricted		7,118,422	7,118,422
Total net assets		<u>\$ 13,083,533</u>	<u>\$ 13,083,533</u>

See accompanying notes.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Statement of Activities and Governmental Fund Revenues,
Expenditures, and Changes in Fund Balance
For the Year Ended September 30, 2011

	<u>General Fund</u>	<u>Adjustments (Note 7)</u>	<u>Statement of Net Assets</u>
Expenditures/expenses			
Physical environment			
General maintenance			
Drainage	\$ 137,767	\$ -	\$ 137,767
Swale mowing	100,000	-	100,000
Administration	69,455	-	69,455
Legal	50,455	-	50,455
Engineer	47,339	-	47,339
Roads	20,330	-	20,330
Other professional services	19,000	-	19,000
Miscellaneous	10,207	-	10,207
Property Appraiser	8,244	-	8,244
Insurance	7,730	-	7,730
Auditor	5,700	-	5,700
Tax Collector	3,885	-	3,885
Depreciation	-	26,626	26,626
Capital Improvement Project - Phase I			
Debt service interest	263,431	(2,343)	261,088
Tax Collector	721	-	721
Miscellaneous	1,501		1,501
Capital Improvement Project - Phase II			
Debt service interest	39,471	(279)	39,192
Tax Collector	672	-	672
Debt service principal			
Phase I	400,019	(400,019)	-
Phase II	47,675	(47,675)	-
Total expenditures/expenses	<u>1,233,602</u>	<u>(423,690)</u>	<u>809,912</u>
(carried forward)			

See accompanying notes.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Statement of Activities and Governmental Fund Revenues,
Expenditures, and Changes in Fund Balance (continued)
For the Year Ended September 30, 2011

	General Fund	Adjustments (Note 7)	Statement of Net Assets
Total expenditures/expenses (brought forward)	<u>1,233,602</u>	<u>(423,690)</u>	<u>809,912</u>
Program revenues			
Capital assessments - Phase I	254,951	-	254,951
Capital assessments - Phase II	39,883	-	39,883
Intergovernmental revenue	18,305	-	18,305
Use and connection fees	<u>750</u>	<u>-</u>	<u>750</u>
Total program revenues	<u>313,889</u>	<u>-</u>	<u>313,889</u>
General revenues			
Maintenance assessments	626,067	-	626,067
Interest income	<u>1,901</u>	<u>-</u>	<u>1,901</u>
Total general revenues	<u>627,968</u>	<u>-</u>	<u>627,968</u>
Excess of revenues under expenditures/expenses	(291,745)	291,745	-
Change in net assets	-	131,945	131,945
Fund balance/net assets			
Beginning of year	<u>7,574,112</u>	<u>5,377,476</u>	<u>12,951,588</u>
End of year	<u>\$ 7,282,367</u>	<u>\$ 5,801,166</u>	<u>\$ 13,083,533</u>

See accompanying notes.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Statement of Revenues, Expenditures,
and Changes in Fund Balance -
Budget and Actual - General Fund
For the Year Ended September 30, 2011

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
Expenditures/expenses				
Physical environment				
General maintenance				
Drainage	\$ 72,500	\$ 138,000	\$ 137,767	\$ 233
Swale mowing	100,000	100,000	100,000	-
Administration	64,309	64,309	69,455	(5,146)
Legal	45,000	50,500	50,455	45
Engineer	50,000	46,000	47,339	(1,339)
Roads	15,000	15,700	20,330	(4,630)
Other professional services	21,000	19,000	19,000	-
Miscellaneous	7,500	10,200	10,207	(7)
Property Appraiser	6,000	8,300	8,244	56
Insurance	8,250	7,800	7,730	70
Auditor	6,500	5,700	5,700	-
Tax Collector	3,900	3,900	3,885	15
Contingency	250,000	180,550	-	180,550
Capital Improvement Project - Phase I				
Debt service interest	263,431	263,431	263,431	-
Tax Collector	725	725	721	4
Miscellaneous	1,200	1,200	1,501	(301)
Contingency	27,673	27,673	-	27,673
Capital Improvement Project - Phase II				
Debt service interest	39,471	39,471	39,471	-
Tax Collector	675	675	672	3
Contingency	3,707	3,707	-	3,707
Debt service principal				
Phase I	424,622	424,622	400,019	24,603
Phase II	52,286	52,286	47,675	4,611
Total expenditures/expenses	<u>1,463,749</u>	<u>1,463,749</u>	<u>1,233,602</u>	<u>230,147</u>
(carried forward)				

See accompanying notes.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Statement of Revenues, Expenditures,
and Changes in Fund Balance -
Budget and Actual - General Fund (continued)
For the Year Ended September 30, 2011

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
Total expenditures/expenses (brought forward)	<u>1,463,749</u>	<u>1,463,749</u>	<u>1,233,602</u>	<u>230,147</u>
Program revenues				
Capital assessments - Phase I	607,650	607,650	254,951	(352,699)
Capital assessments - Phase II	82,140	82,140	39,883	(42,257)
Intergovernmental revenue	-	-	18,305	18,305
Use and connection fees	<u>7,500</u>	<u>7,500</u>	<u>750</u>	<u>(6,750)</u>
Total program revenues	<u>697,290</u>	<u>697,290</u>	<u>313,889</u>	<u>(383,401)</u>
General revenues				
Maintenance assessments	641,659	641,659	626,067	(15,592)
Interest income	<u>800</u>	<u>800</u>	<u>1,901</u>	<u>1,101</u>
Total general revenues	<u>642,459</u>	<u>642,459</u>	<u>627,968</u>	<u>(14,491)</u>
Excess of revenues under expenditures	<u>\$ (124,000)</u>	<u>\$ (124,000)</u>	<u>(291,745)</u>	<u>\$ (167,745)</u>
Fund balance, beginning of year			<u>7,574,112</u>	
Fund balance, end of year			<u>\$ 7,282,367</u>	

See accompanying notes.

SAN CARLOS ESTATES WATER CONTROL DISTRICT

Notes to Financial Statements

September 30, 2011

The accounting methods and procedures adopted by San Carlos Estates Water Control District conform to generally accepted accounting principles as applied to governmental entities. The following notes to the financial statements are an integral part of the District's Annual Financial Report.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

San Carlos Estates Water Control 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).

The District is an independent special district created pursuant to the method authorized in Chapter 298 of the Florida Statutes. A three-member Board of Supervisors elected by the landowners of the District governs the District. The Board appoints an Administrator to administer the policies emanating from its statutory powers and authority.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.

- Financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure (roads, bridges, etc.).

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District has elected to implement all of the provisions of the Statement.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Notes to Financial Statements
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Reporting Entity (continued)

Government Accounting Standards Board (GASB) Statement 14 entitled "The Financial Reporting Entity" establishes criteria for determining which organizations should be included in a governmental financial reporting entity. Based upon application of these criteria, the District has determined that there are no additional governmental departments, agencies, institutions, commissions, public authorities or other governmental organizations operating within the jurisdiction of the Supervisors that would be considered component units to be included in the financial statements of the District.

Basic Financial Statements - Government-wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The District's drainage activities and general administrative services are classified as governmental activities.

In the government-wide Statement of Net Assets, the governmental activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of the District's functions and activities. The functions are also supported by general government revenues (special assessments). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the District's functions and activities.

The District is a special-purpose government engaged in a single governmental program. The District is allowed to present their fund financial data and their government-wide financial data combined, using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

SAN CARLOS ESTATES WATER CONTROL DISTRICT

Notes to Financial Statements

September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basic Financial Statements - Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The following fund types are used by the District:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental fund of the District:

General Fund

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

The governmental activities in the governmental-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

SAN CARLOS ESTATES WATER CONTROL DISTRICT

Notes to Financial Statements

September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after the year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Deposits and Investments

Investment of District funds is restricted by state statutes. Florida Statutes authorize investments that include money market accounts, savings accounts, repurchase agreements, the Local Government Surplus Funds Trust Fund administered by the Florida State Board of Administration (SBA), obligations of the U.S. Government, governmental agencies guaranteed by the U.S. Government, and certain bond mutual funds.

The District has not adopted an investment policy but follows the state statutes for allowable investments. However, state statutes do not specifically address the risks disclosed in GASB No. 40.

No policy exists for the following risks: credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. The difference between the bank balances and carrying amounts is due to outstanding checks and/or deposits in transit.

Receivables

All receivables are reported at their gross value and where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

SAN CARLOS ESTATES WATER CONTROL DISTRICT

Notes to Financial Statements

September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following useful lives:

Buildings	15 - 30 years
Machinery and equipment	5 - 10 years
Improvements	10 - 20 years
General infrastructure	10 - 50 years

GASB Statement No. 34 requires the District to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, canals and pumping stations. These infrastructure assets are likely to be the largest asset class of the District. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The District is classified as a Phase 3 Government in accordance with the definitions contained in GASB 34. A Phase 3 Government is not required to report their major general infrastructure assets retroactively. The District elected to report their general infrastructure assets on a prospective basis.

Fund Balance and Net Assets

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Board of Supervisors through approval of resolutions. Committed fund balance can be assigned for other uses only by similar action of the Board of Supervisors. Assigned fund balance is limitation imposed by a designee of the Board of Supervisors. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is policy of the District to generally consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the District that committed amounts would be reduced first, followed by assigned amounts. In both instances, when a proposed expenditure is made with specific balances identified as the source of the funding, that specific fund balance will be used.

In the government-wide financial statements, the difference between the District's total assets and total liabilities represents net assets. Net assets displays three components - invested in capital assets, net of related debt; restricted (distinguished between major categories of restrictions); and unrestricted. Unrestricted net assets represent the net assets available for future operations.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Notes to Financial Statements
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues

Substantially all governmental fund revenues are accrued. Assessments are billed and collected within the same period in which the taxes are levied. Subsidies and grants which finance either capital or current operations are reported as nonoperating revenue based on GASB Statement No. 33. In applying GASB Statement No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

Expenditures

Expenditures are recognized when the related fund liability is incurred. Inventory costs are reported for governmental activities in the period the inventory items are used, rather than in the period purchased.

Capitalization Policy

The capitalization policy of the District is to capitalize all assets with a cost of \$750 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.

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. During July, the Administrator submits to the Board of Supervisors a proposed operating budget for the upcoming fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is held to obtain taxpayer comments.
3. During August, the budget is legally enacted through passage of a resolution.
4. All budget changes must be approved by the Board of Supervisors.
5. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Notes to Financial Statements
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 reported period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

At September 30, 2011, the carrying amount of the District's interest-bearing checking accounts was \$965,175 and the bank's balances were \$969,484. The difference was due to checks that had been written but not yet paid by the bank and deposits in transit.

These deposits are insured by the Federal Deposit Insurance Corporation or by collateral pursuant to the Florida Security for Public Deposits Act (Florida Statutes Chapter 280). Under this Act, financial institutions that qualify as public depositories pledge securities that have a market value equal to 50% - 125% of the average daily balance for each month of all public deposits in excess of applicable deposit insurance. The Public Depository Security Trust Fund has a procedure to allocate and recover losses in the event of default or insolvency. When public deposits are made in accordance with Chapter 280, no public depositor shall be liable for any loss thereof.

Investments

Florida Statutes authorize investments that include money market accounts, savings accounts repurchase agreements, the Local Government Surplus Funds Trust Fund administered by the Florida State Board of Administration (SBA), obligations of the U.S. Government, governmental agencies guaranteed by the U.S. Government, and certain bond mutual funds.

During the year, investments consisted of interest-bearing bank accounts that had a carrying amount and market value of \$965,175 as of September 30, 2011.

Due to the District's use of short-term interest-bearing bank accounts in financial institutions that are covered by federal depository insurance or collateral pledged under Florida Statutes Chapter 280, it is considered that credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk to these assets are nominal or nonexistent.

SAN CARLOS ESTATES WATER CONTROL DISTRICT

Notes to Financial Statements

September 30, 2011

NOTE 3 - ASSESSMENTS

The District has the authority to annually levy a per acre maintenance assessment on the taxable acres contained within the District to maintain and operate the District. On August 17, 2010, the District levied a maintenance assessment of \$595.62 per acre for the fiscal year ended September 30, 2011.

All assessments, which become an enforceable lien on the property as of January 1, are due and payable on November 1 of each year, or as soon thereafter as the tax roll is delivered to the county tax collector. All unpaid assessments become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January, and 1% in the month of February. The assessments paid in March are without discount.

On or prior to June 1 following the assessment year, tax certificates are sold for all delinquent assessments on real property. After sale, tax certificates bear interest of 18% per year or at any lower rate bid by the buyer. Application for a tax deed on an unredeemed tax certificate may be made by the certificate holder after a period of two years. Unsold certificates become the property of the District bearing interest at a rate of 18% per year.

The District has passed two special assessments to cover the costs of capital improvements made within the District. Property owners will be billed in installments over a twenty-year period. The amount of the assessments is based on the property owners' acreage.

NOTE 4 - CAPITAL ASSETS

Schedule of Changes in Capital Assets

	Balance October 1, 2010	Additions	Deletions	Balance September 30, 2011
Land	\$ 7,500	\$ -	\$ -	\$ 7,500
Infrastructure assets	<u>12,254,131</u>	<u>-</u>	<u>-</u>	<u>12,254,131</u>
	12,261,631	-	-	12,261,631
Less accumulated depreciation	<u>53,253</u>	<u>26,626</u>	<u>-</u>	<u>79,879</u>
	<u>\$12,208,378</u>	<u>\$ (26,626)</u>	<u>\$ -</u>	<u>\$12,181,752</u>

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Notes to Financial Statements
September 30, 2011

NOTE 5 - LONG-TERM DEBT

On July 6, 2005, the District entered into a note payable with a bank to fund Phase I of the capital improvement project. Under the terms of the note, payments of \$271,409 are due semi-annually, beginning February 1, 2006, and ending August 1, 2025, based on an interest rate of 4.37% per annum. The note is collateralized by special assessments of the District.

On January 24, 2007, the District entered into a note payable with a bank to fund Phase II of the capital improvement project. Under the terms of the note, payments of \$36,412 are due semi-annually, beginning February 1, 2007, and ending August 1, 2025, based on an interest rate of 5.15% per annum. The note is collateralized by special assessments of the District.

Annual Maturities of Long-Term Debt

The annual requirements to amortize the long-term debt of the District as of September 30, 2011, are as follows.

PHASE I

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2012	\$ 296,526	\$ 246,292	\$ 542,818
2013	310,474	232,344	542,818
2014	324,382	218,436	542,818
2015	338,914	203,904	542,818
2016	353,590	189,228	542,818
2017-2021	2,022,663	691,426	2,714,089
2022-2025	<u>1,969,615</u>	<u>201,656</u>	<u>2,171,271</u>
	<u>\$ 5,616,164</u>	<u>\$ 1,983,286</u>	<u>\$ 7,599,450</u>

PHASE II

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2012	\$ 35,758	\$ 37,067	\$ 72,825
2013	37,750	35,075	72,825
2014	39,747	33,078	72,825
2015	41,849	30,976	72,825
2016	43,985	28,839	72,824
2017-2021	257,766	106,358	364,124
2022-2025	<u>259,812</u>	<u>31,486</u>	<u>291,298</u>
	<u>\$ 716,667</u>	<u>\$ 302,879</u>	<u>\$ 1,019,546</u>

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Notes to Financial Statements
September 30, 2011

NOTE 6 - FUND BALANCE AND NET ASSETS

Classifications of the fund balance and restrictions of the net assets of the District are created to either (1) satisfy legal covenants that require that a portion of the fund balance/net assets be segregated, or (2) identify the portion of the fund balance/net assets that is not appropriable for future expenditures. Specific classifications of the fund balance and a specific restriction of the net assets are as follows:

Nonspendable Fund Balance

This classification represents the portion of the fund balance that cannot be spent because it was in the following form:

Prepaid expenses to be utilized in the next budgetary period	\$ 5,972
Assessments not expected to be collected in the next fiscal year	<u>6,052,000</u>
	<u>\$6,057,972</u>

Restricted Fund Balance

This classification of the fund balance represents the portion of the fund balance which has been levied for the payment of debt service. The District levied a debt service assessment to raise the monies to repay the debt.

Restricted for Debt Service

This restriction of the net assets represents the portion of the net assets which has been levied for the payment of debt service. The District levied a debt service assessment to raise the monies to repay the debt.

NOTE 7 - FINANCIAL STATEMENT RECONCILIATIONS

The reconciliations of the Government-wide Financial Statements with the Governmental Fund Financial Statements are as follows:

Statement of Net Assets and Governmental Fund Balance Sheet

Total fund balance - governmental fund balance	\$ 7,282,367
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Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	12,181,752
---	------------

Long-term liabilities and accrued liabilities are not due and payable in current period and are not reported in the funds.	<u>(6,380,586)</u>
--	--------------------

Net assets of governmental activities	<u>\$13,083,533</u>
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SAN CARLOS ESTATES WATER CONTROL DISTRICT
Notes to Financial Statements
September 30, 2011

NOTE 7 - FINANCIAL STATEMENT RECONCILIATIONS (continued)

Statement of Activities and Governmental Fund Revenues,
Expenditures and Changes in Fund Balance

Net change in fund balance	\$ (291,745)
----------------------------	--------------

Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense in the statement of net assets exceeded capital outlay in the governmental fund in the current period.	(26,626)
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The net effect of various transactions involving loan payments	447,694
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The net effect of various transactions involving available financial resources	<u>2,622</u>
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Change in net assets of governmental activities	<u>\$ 131,945</u>
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NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of a public entity risk pool which is a cooperative group of governmental entities joining together to finance an exposure, liability, or risk. The pool provides coverage for property, liability, public officials' liability, workers' compensation, automobile physical damage, general liability, and automobile liability. The costs of the property and casualty insurance and workers' compensation are accounted for in the General Fund. There were no settled claims which exceeded insurance coverage during the past three fiscal years.

The District financial reporting entity is covered by Florida Statutes under the Doctrine of Sovereign Immunity, which effectively limits the liability of individual claims to \$100,000/\$200,000 for all claims relating to the same incident.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Notes to Financial Statements
September 30, 2011

NOTE 9 - OVER EXPENDITURES

At September 30, 2011, the following items had expenditures exceeding their budgeted amounts:

Expenditure type	Over expenditure
Physical environment	
General maintenance	
Administration	\$5,146
Engineer	1,339
Roads	4,630
Miscellaneous	7
Capital Improvement Project - Phase I	
Miscellaneous	301

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

Board of Supervisors
San Carlos Estates Water Control District
Bonita Springs, Florida

We have audited the financial statements of the governmental activities and the major fund of San Carlos Estates Water Control District, as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 6, 2012. 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

Management of the District is responsible for establishing and maintaining effective 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Carlos Estates Water Control District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of San Carlos Estates Water Control District's internal control over financial reporting.

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 a misstatement of San Carlos Estates Water Control District's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined previously. However, we identified a certain deficiency in internal control over financial reporting, described in the following paragraph, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

PRIOR YEAR COMMENT WHICH CONTINUES TO APPLY

Finding 2011-1

Statement on Accounting Standards Number 115

Statement on Auditing Standards Number 115 requires the auditor to determine if San Carlos Estates Water Control District is capable of preparing the enclosed financial statements and has the skills and competencies necessary to prevent, detect, and correct a material misstatement in its financial statements. We have determined that San Carlos Estates Water Control District does not currently have the professional personnel needed to meet the requirements of Statement on Auditing Standards Number 115.

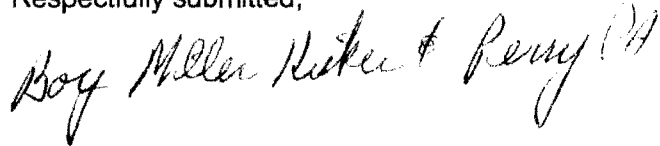
Compliance and Other Matters

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.

San Carlos Estates Water Control District's response to the findings identified in our audit is described in the accompanying auditee's response to auditors' reports and management letter. We did not audit San Carlos Estates Water Control District's response, and accordingly, we express no opinion on it.

This report is intended for the information of San Carlos Estates Water Control District and management, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script, reading "Boy Miller Rucker & Perry PA".

June 6, 2012

BOY, MILLER, KISKER & PERRY, P.A.

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INDEPENDENT AUDITORS' MANAGEMENT LETTER

Board of Supervisors
San Carlos Estates Water Control District
Bonita Springs, Florida

We have audited the financial statements of San Carlos Estates Water Control District, as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated June 6, 2012.

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. We have issued our Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters dated June 6, 2012. Disclosures, if any, in that report, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports:

The Rules of the Auditor General (Section 10.554(1)(i)1.) require that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Finding 2011-1 regarding Statement on Accounting Standards Number 115 continues to apply. This finding was included in the preceding two annual financial audit reports.

As required by the Rules of the Auditor General (Section 10.554(1)(i)2.), our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that San Carlos Estates Water Control District complied with Section 218.415, Florida Statutes.

The Rules of the Auditor General (Section 10.554(1)(i)3.) require that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

The Rules of the Auditor General (Section 10.554(1)(i)4.) require that we address violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material, but more than inconsequential. In connection with our audit, we did not have any such findings.

The Rules of the Auditor General (Sections 10.554(1)(i)5.) provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of the provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

The Rules of the Auditor General (Section 10.554(1)(i)6.) require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. San Carlos Estates Water Control District was created by Circuit Court Decree, 12th Judicial Circuit, dated April 3, 1969. There are no other entities that are considered to be component units requiring disclosure in the financial statements of San Carlos Estates Water Control District.

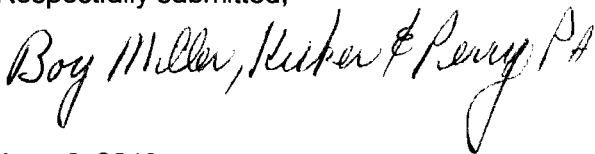
The Rules of the Auditor General (Section 10.554(1)(i)7.a.), require a statement to be included as to whether or not the local government has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that San Carlos Estates Water Control District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(i)7.b.), we determined that the annual financial report for San Carlos Estates Water Control District for the fiscal year ended September 30, 2011, filed with the Florida Department of Financial Services pursuant to Section 218.32, Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2011.

As required by the Rules of the Auditor General (Section 10.554(1)(i)7.c. and 10.556(7), we applied financial condition assessment procedures. It is management's responsibility to monitor San Carlos Estates Water Control District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This management letter is intended solely for the information of San Carlos Estates Water Control District and management, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Boy Miller, Kuba & Perry PA".

June 6, 2012



Water Control District

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Address: P.O. Box 367807 Bonita Springs, FL 34136

June 15, 2012

**AUDITEE'S RESPONSE TO AUDITORS'
REPORTS AND MANAGEMENT LETTER**

David W. Martin, CPA
Auditor General
State of Florida

Re: Fiscal Year 2010-2011

Dear Mr. Martin:

The Rules of the Auditor General (Section 10.558(1)) require the audit report to include a written statement of explanation, including corrective action to be taken, or a rebuttal regarding any deficiencies cited in the auditors' report and management letter.

**AUDITORS' COMMENT CONTAINED IN THE REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

Statement on Auditing Standards Number 115

The District has determined that it is not economically feasible to comply with the requirements of Statement on Auditing Standards Number 115 (Statement). The District is a small governmental entity with limited financial resources. The District does not possess the business and operational acumen to detect any material misstatements in their financial records. If the District employed an individual with the knowledge required by the Statement, the financial cost incurred would exceed the benefit.

Sincerely,

San Carlos Estates Water Control District

Secretary/Treasurer