

SAN CARLOS ESTATES WATER CONTROL DISTRICT

Annual Financial Report

September 30, 2008

SAN CARLOS ESTATES WATER CONTROL DISTRICT

September 30, 2008

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BOY, MILLER, KISKER & PERRY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

401 SOUTH W.C. OWEN AVENUE
P. O. BOX 488
CLEWISTON, FLORIDA 33440

(863) 983-5144
(863) 983-9164
FAX (863) 983-3765
bmkpcpas@aol.com

JOHN B. BOY, JR., C.P.A.
DAVID N. MILLER, C.P.A.
WILLIAM C. KISKER, JR., C.P.A.
JOHN C. PERRY, C.P.A.

90 YEOMANS AVENUE
P. O. BOX 490
LABELLE, FLORIDA 33975

(863) 675-3777
FAX (863) 675-0576
bmkpcpas@aol.com

MEMBERS

**AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS**

**FLORIDA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS**

INDEPENDENT AUDITORS' REPORT

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 fund information of San Carlos Estates Water Control District as of and for the year ended September 30, 2008, 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 fund information of San Carlos Estates Water Control District as of September 30, 2008, 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 August 5, 2009, 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.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries 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.

Boyd, Miller, Kuter & Perry, PA

August 5, 2009

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, 2008. 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 entered into an agreement to provide 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, 2008 by \$13,290,646. Of this amount, \$9,179,609 (unrestricted net assets) may be used to meet the District's ongoing operations.
- The District's total net assets increased by \$1,299,900.
- The District's total revenue (on an accrual basis) was \$2,067,578 for the year ended September 30, 2008.
- Total expenses for all of the District's activities were \$767,678 for the year.

District Highlights

- The District made additional principal payments totaling \$1,970,000 during the fiscal year.

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 new 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 \$13,290,646 for the fiscal year ended September 30, 2008. The largest assets include capital assessments, and capital assets (swale drainage and road improvements), approximately (37%) and (57%) 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 unrestricted net assets (\$9,179,609) may be used to meet the District's ongoing operations.

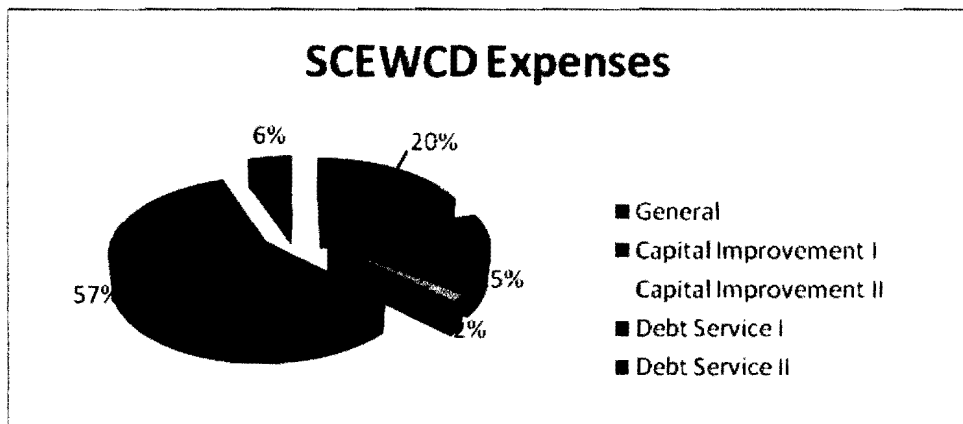
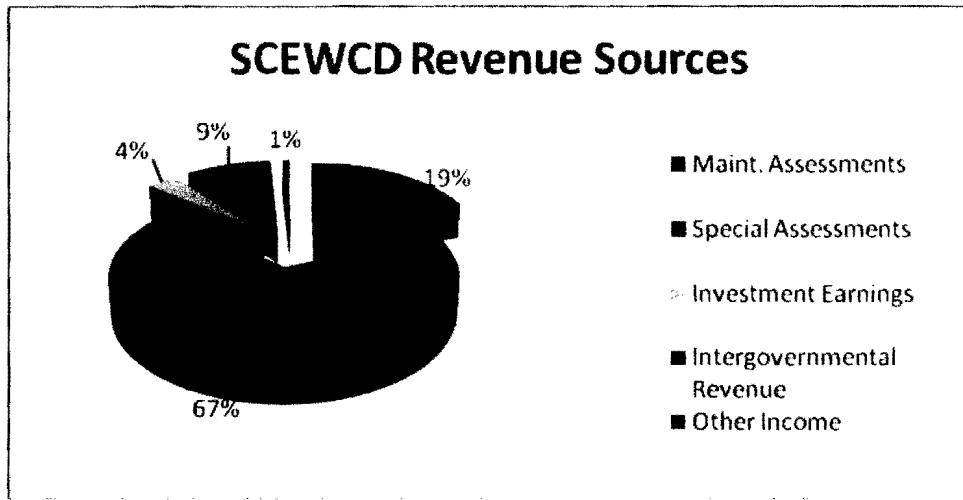
The following table highlights the net assets as of September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Capital assessments	\$ 8,150,594	\$ 13,068,628
Other current assets	10,926	12,061
Investments	1,248,397	2,805,180
Capital assets	<u>12,261,631</u>	<u>11,639,469</u>
Total assets	<u>21,671,548</u>	<u>27,525,338</u>
Current liabilities	557,862	5,413,862
Other noncurrent liabilities	<u>7,823,040</u>	<u>10,120,730</u>
Total liabilities	<u>8,380,902</u>	<u>15,534,592</u>
Net assets:		
Invested in capital assets, net of related debt	4,111,037	1,130,858
Restricted for construction	-0-	2,475,133
Unrestricted	<u>9,179,609</u>	<u>8,384,755</u>
Total net assets	<u>\$ 13,290,646</u>	<u>\$ 11,990,746</u>

The following table highlights the changes in net assets for the years ended September 30:

	<u>2008</u>	<u>2007</u>
Revenues		
Maintenance assessments	\$ 393,146	\$ 396,016
Special assessments	1,391,392	5,515,370
Investment earnings	71,401	151,057
Intergovernmental revenue	192,795	231,207
Other income	<u>18,844</u>	<u>61,002</u>
Total revenues	<u>2,067,578</u>	<u>6,354,652</u>
Program expenses		
Physical environment	<u>767,678</u>	<u>293,026</u>
Total expenses	<u>767,678</u>	<u>293,026</u>
Increase in net assets	1,299,900	6,061,626
Net assets, beginning of year	<u>11,990,746</u>	<u>5,929,120</u>
Net assets, end of year	<u>\$ 13,290,646</u>	<u>\$ 11,990,746</u>

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



BUDGETARY HIGHLIGHTS

The District adopted the fiscal year 2007/2008 budget on June 12, 2007 with an increase of .64% in the assessment rate from FY 2007. Total expenditures budgeted for the fiscal year ended September 30, 2008 was approximately \$4,621,134. Total assessment revenue budgeted was approximately \$1,582,230.

Total actual expenditures were \$857,227 below budgeted expenditures. This was mainly due to the following:

- General maintenance and administration expenditures are \$856,992 more than budgeted appropriations.

Total actual revenues were \$485,348 above the budgeted revenue. This is mainly due to collecting intergovernmental revenue and escrow collections more than budgeted during the fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the beginning of the fiscal year ended September 30, 2008, the District had \$11,639,469 invested in a construction of Phase I and Phase II improvements. A net increase of \$622,162 increased the total to \$12,261,631 by the end of the fiscal year.

The following table summarizes the District's capital assets, net of accumulated depreciation, for the years ended September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Construction in progress	<u>\$12,261,631</u>	<u>\$ 11,639,469</u>

Debt

The following table presents the District's total outstanding debt for the fiscal years ended September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Accounts payable and other liabilities	\$ 230,308	\$ 90,446
Deferred revenues	-0-	4,935,585
Notes payable – bank	<u>8,150,594</u>	<u>10,508,561</u>
Total outstanding debt, September 30,	<u>\$ 8,380,902</u>	<u>\$ 15,534,592</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
San Carlos Estates Water Control District
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, 2008

	<u>General Fund</u>	<u>Adjustments (Note 9)</u>	<u>Statement of Net Assets</u>
Assets			
Investments	\$ 1,248,397	\$ -	\$ 1,248,397
Capital assessments receivable Phase I	7,226,436	-	7,226,436
Capital assessments receivable Phase II	924,158	-	924,158
Accrued interest receivable	971	-	971
Prepaid expenses	5,910	-	5,910
Due from other government	4,045	-	4,045
Land	-	7,500	7,500
Other capital assets	-	12,254,131	12,254,131
Total assets	<u>\$ 9,409,917</u>	<u>\$ 12,261,631</u>	<u>\$ 21,671,548</u>
Liabilities			
Current			
Accounts payable	\$ 168,397	\$ -	\$ 168,397
Accrued liabilities	-	61,911	61,911
Long-term			
Due within one year	-	327,554	327,554
Due in more than one year	-	7,823,040	7,823,040
Total liabilities	<u>168,397</u>	<u>8,212,505</u>	<u>8,380,902</u>
Fund balance/net assets			
Fund balance			
Reserved for prepaid expenses	5,910	(5,910)	-
Unreserved	9,235,610	(9,235,610)	-
Total fund balance	<u>9,241,520</u>	<u>(9,241,520)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 9,409,917</u>		
Net assets			
Invested in capital assets, net of related debt		4,111,037	4,111,037
Unrestricted		9,179,609	9,179,609
Total net assets		<u>\$ 13,290,646</u>	<u>\$ 13,290,646</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, 2008

	<u>General Fund</u>	<u>Adjustments (Note 9)</u>	<u>Statement of Net Assets</u>
Expenditures/expenses			
Physical environment			
General maintenance			
Drainage	\$ 397,208	\$ -	\$ 397,208
Swale mowing	119,167	-	119,167
Engineer	83,743	-	83,743
Administration	62,574	-	62,574
Legal	39,824	-	39,824
Miscellaneous	25,796	-	25,796
Other professional services	16,538	-	16,538
Insurance	8,250	-	8,250
Auditor	5,975	-	5,975
Property appraiser	4,372	-	4,372
Tax collector expenses	1,724	908	2,632
Roads	1,599	-	1,599
Capital Improvement Project - Phase I			
Construction interest	412,742	(412,742)	-
Other services	120,320	(120,320)	-
Engineer	20,479	(20,479)	-
Legal	15,930	(15,930)	-
Miscellaneous	1,296	(1,296)	-
Tax collector expenses	448	(448)	-
Capital Improvement Project - Phase II			
Construction interest	58,838	(58,838)	-
Project management	8,656	(8,656)	-
Tax collector expenses	461	(461)	-
Debt service principal			
Phase I	2,148,858	(2,148,858)	-
Phase II	209,109	(209,109)	-
Total expenditures/expenses	<u>3,763,907</u>	<u>(2,996,229)</u>	<u>767,678</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, 2008

	General Fund	Adjustments (Note 9)	Statement of Net Assets
Total expenditures/expenses (brought forward)	<u>3,763,907</u>	<u>(2,996,229)</u>	<u>767,678</u>
Program revenues			
Capital assessments - Phase I	1,157,710	-	1,157,710
Capital assessments - Phase II	233,682	-	233,682
Intergovernmental revenue	192,795	-	192,795
Escrow collections	16,594	-	16,594
Use and connection fees	<u>2,250</u>	<u>-</u>	<u>2,250</u>
Total program revenues	<u>1,603,031</u>	<u>-</u>	<u>1,603,031</u>
General revenues			
Maintenance assessments	393,146	-	393,146
Interest income	<u>71,401</u>	<u>-</u>	<u>71,401</u>
Total general revenues	<u>464,547</u>	<u>-</u>	<u>464,547</u>
Excess of revenues under expenditures/expenses	(3,299,360)	1,696,329	-
Change in net assets	-	1,299,900	1,299,900
Fund balance/net assets			
Beginning of year	<u>10,937,849</u>	<u>1,052,897</u>	<u>11,990,746</u>
End of year	<u>\$ 7,638,489</u>	<u>\$ 4,049,126</u>	<u>\$ 13,290,646</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, 2008

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
Expenditures/expenses				
Physical enviroment				
General maintenance				
Drainage	\$ 640,000	\$ 416,721	\$ 397,208	\$ 19,513
Swale mowing	96,000	111,000	119,167	(8,167)
Engineer	35,000	75,000	83,743	(8,743)
Administration	68,925	63,000	62,574	426
Legal	30,000	35,500	39,824	(4,324)
Miscellaneous	1,000	26,500	25,796	704
Other professional services	6,500	25,000	16,538	8,462
Insurance	7,500	8,200	8,250	(50)
Auditor	4,000	5,975	5,975	-
Property appraiser	4,000	4,400	4,372	28
Tax collector expenses	1,725	1,725	1,724	1
Roads	20,000	1,600	1,599	1
Contingency	78,453	849,141	-	849,141
Capital Improvement Project - Phase I				
Construction interest	412,742	412,742	412,742	-
Other services	-	120,500	120,320	180
Engineer	-	20,500	20,479	21
Legal	-	16,000	15,930	70
Miscellaneous	-	1,200	1,296	(96)
Tax collector expenses	450	450	448	2
Contingency	49,840	-	-	-
Capital Improvement Project - Phase II				
Construction interest	58,838	58,838	58,838	-
Project management	-	8,700	8,656	44
Tax collector expenses	475	475	461	14
Contingency	6,131	-	-	-
Debt service principal				
Phase I	348,858	2,148,858	2,148,858	-
Phase II	<u>39,109</u>	<u>209,109</u>	<u>209,109</u>	-
Total expenditures/expenses (carried forward)	<u>1,909,546</u>	<u>4,621,134</u>	<u>3,763,907</u>	<u>857,227</u>

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, 2008

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
Total expenditures/expenses (brought forward)	<u>1,909,546</u>	<u>4,621,134</u>	<u>3,763,907</u>	<u>857,227</u>
Program revenues				
Capital assessments - Phase I	811,440	813,120	1,157,710	344,590
Capital assessments - Phase II	104,077	104,292	233,682	129,390
Intergovernmental revenue	255,000	176,150	192,795	16,645
Escrow collections	-	-	16,594	16,594
Use and connection fees	<u>7,500</u>	<u>2,250</u>	<u>2,250</u>	<u>-</u>
Total program revenues	<u>1,178,017</u>	<u>1,095,812</u>	<u>1,603,031</u>	<u>507,219</u>
General revenues				
Maintenance assessments	396,868	396,868	393,146	(3,722)
Interest income	<u>17,700</u>	<u>89,550</u>	<u>71,401</u>	<u>(18,149)</u>
Total general revenues	<u>414,568</u>	<u>486,418</u>	<u>464,547</u>	<u>(21,871)</u>
Excess of revenues under expenditures	<u>\$ (316,961)</u>	<u>\$ (3,038,904)</u>	<u>(1,696,329)</u>	<u>\$ 1,342,575</u>
Fund balance, beginning of year			<u>10,937,849</u>	
Fund balance, end of year			<u>\$ 9,241,520</u>	

See accompanying notes.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Notes to Financial Statements
September 30, 2008

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, 2008

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, 2008

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, 2008

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.

Investments

Investments are stated at cost, which approximates market.

Receivables

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

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

The depreciation of capital assets had not commenced as of September 30, 2008, as the construction projects had not been completed.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Notes to Financial Statements
September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

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.

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.

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.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Notes to Financial Statements
September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting

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

1. During April, 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 May, 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.
6. Total budgeted amounts reflect all amendments approved by the Board of Supervisors. Line item changes made during the year were approved by the Board of Supervisors.

NOTE 2 - INVESTMENTS

During the year, investments consisted of money market accounts, certificates of deposit, and a guaranteed investment contract. These funds were entirely covered by federal depository insurance or by a collateral pool pledged to the State Treasurer by financial institutions which comply with the requirements of Florida Statutes and have been designated as qualified public depositories by the State Treasurer.

The District's investments, as of September 30, 2008, are categorized as either (1) insured or registered for which the securities are held by the District or its agent in the District's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the District's name, or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name.

	1	Categories		Carrying	Market
		2	3	Amount	Value
Money market accounts, certificates of deposit, and guaranteed investment contract	\$1,248,397	\$	\$	\$1,248,397	\$1,248,397

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Notes to Financial Statements
September 30, 2008

NOTE 2 - INVESTMENTS (continued)

Florida Statutes, Chapter 218.345, authorizes the District to invest in the Local Government Surplus Funds Trust Fund administered by the State Treasurer; negotiable direct obligations of or obligations unconditionally guaranteed by the U.S. Government; interest-bearing time deposits or savings accounts in financial institutions located in Florida and organized under Federal or Florida laws; obligations of the Federal Farm Credit Banks, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank or its district banks, or obligations guaranteed by the Government National Mortgage Association; securities of any open-end or closed-end management type investment company or investment trust registered under the Investment Act of 1940 provided the portfolio is limited to United States Government obligations.

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 June 12, 2007, the District levied a maintenance assessment of \$372.7006 per acre for the fiscal year ended September 30, 2008.

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 are based on the property owners' acreage.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Notes to Financial Statements
September 30, 2008

NOTE 4 - CAPITAL ASSETS

Schedule of Changes in Capital Assets

	October 1, 2007 Balance	Additions	Deletions	September 30, 2008 Balance
Land	\$ 7,500	\$	\$	\$ 7,500
Construction in progress	11,631,969	622,162		12,254,131
	<u>11,639,469</u>	<u>622,162</u>	<u></u>	<u>12,261,631</u>
Less accumulated depreciation	-	-	-	-
	<u>\$11,639,469</u>	<u>\$ 622,162</u>	<u>\$</u>	<u>\$12,261,631</u>

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 \$304,850 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 August 1, 2008, the District made an additional principal payment of \$1,800,000.

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 \$41,349 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. On August 1, 2008, the District made an additional principal payment of \$170,000.

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Notes to Financial Statements
September 30, 2008

NOTE 5 - LONG-TERM DEBT (continued)

Annual Maturities of Long-Term Debt

The annual requirements to amortize the long-term debt of the District as of September 30, 2008, are as follows:

Year Ending September 30,	Principal	Interest	Total Payments
Phase I			
2009	\$ 292,670	\$ 317,030	\$ 609,700
2010	305,781	303,919	609,700
2011	319,480	290,220	609,700
2012	333,046	276,654	609,700
2013	348,711	260,989	609,700
2014-2018	1,991,732	1,056,768	3,048,500
2019-2023	2,479,872	568,628	3,048,500
2024-2025	1,155,144	64,916	1,220,060
	<u>\$7,226,436</u>	<u>\$3,139,124</u>	<u>\$10,365,560</u>
Phase II			
2009	\$ 34,884	\$ 47,814	\$ 82,698
2010	36,729	45,969	82,698
2011	38,672	44,026	82,698
2012	40,604	42,094	82,698
2013	42,866	39,832	82,698
2014-2018	250,738	162,752	413,490
2019-2023	324,483	89,007	413,490
2024-2025	155,182	10,297	165,479
	<u>\$ 924,158</u>	<u>\$ 481,791</u>	<u>\$ 1,405,949</u>

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Notes to Financial Statements
September 30, 2008

NOTE 6 - FUND BALANCE/NET ASSETS

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

Reserved for Prepaid Expenses

This reserve was created to represent the portion of the fund balance that is not available for expenditures because the District expects to use these resources within the next budgetary period.

NOTE 7 - 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.

NOTE 8 - OVER EXPENDITURES

At September 30, 2008, the following items had expenditures exceeding their budgeted amounts:

Expenditure type	Over expenditure
Physical environment	
General maintenance	
Swale mowing	\$ 8,167
Engineer	8,743
Legal	4,324
Insurance	50
Capital Improvement Project - Phase I	
Miscellaneous	96

SAN CARLOS ESTATES WATER CONTROL DISTRICT
Notes to Financial Statements
September 30, 2008

NOTE 9 - 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	\$ 9,477,390
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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.	12,261,631
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Long-term liabilities and accrued liabilities are not due and payable in current period and are not reported in the funds.	(8,212,505)
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Net assets of governmental activities	<u>\$13,526,516</u>
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Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance

Net change in fund balance	\$(1,460,459)
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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 capital outlays exceeded depreciation in the current period.	622,162
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The net effect of various transactions involving loan proceeds and loan payments	2,357,967
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The net effect of various transactions involving available financial resources	16,100
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Change in net assets	<u>\$ 1,535,770</u>
----------------------	---------------------

BOY, MILLER, KISKER & PERRY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

401 SOUTH W.C. OWEN AVENUE
P. O. BOX 488
CLEWISTON, FLORIDA 33440

(863) 983-5144
(863) 983-9164
FAX (863) 983-3765
bmkipcpas@aol.com

JOHN B. BOY, JR., C.P.A.
DAVID N. MILLER, C.P.A.
WILLIAM C. KISKER, JR., C.P.A.
JOHN C. PERRY, C.P.A.

90 YEOMANS AVENUE
P. O. BOX 490
LABELLE, FLORIDA 33975

(863) 675-3777
FAX (863) 675-0576
bmkipcpas@aol.com

MEMBERS

**AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS**

**FLORIDA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS**

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 fund information of San Carlos Estates Water Control District, as of and for the year ended September 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 5, 2009. 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 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects San Carlos Estates Water Control District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of San Carlos Estates Water Control District's financial statements that is more than inconsequential will not be prevented or detected by San Carlos Estates Water Control District's internal control. We consider the deficiency described in the following paragraph to be a significant deficiency in internal control over financial reporting.

PRIOR YEAR COMMENT WHICH CONTINUES TO APPLY

Statement on Accounting Standards Number 112

Statement on Auditing Standards Number 112 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 112.

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

Our consideration of the internal control over financial accounting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

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,

Boyd, Miller, Kistner & Perry, PA
August 5, 2009

BOY, MILLER, KISKER & PERRY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

401 SOUTH W.C. OWEN AVENUE
P. O. BOX 488
CLEWISTON, FLORIDA 33440

(863) 983-5144
(863) 983-9164
FAX (863) 983-3765
bmkpcpas@aol.com

JOHN B. BOY, JR., C.P.A.
DAVID N. MILLER, C.P.A.
WILLIAM C. KISKER, JR., C.P.A.
JOHN C. PERRY, C.P.A.

90 YEOMANS AVENUE
P. O. BOX 490
LABELLE, FLORIDA 33975

(863) 675-3777
FAX (863) 675-0576
bmkpcpas@aol.com

MEMBERS

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CERTIFIED PUBLIC ACCOUNTANTS**

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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, whose headquarters is located in Bonita Springs, Florida, as of and for the fiscal year ended September 30, 2008, and have issued our report thereon dated August 5, 2009.

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 August 5, 2009. Disclosures in that report, if any, 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. Those rules (Section 10.554(1)(i)1.) require that we address in the management letter, if not already addressed in the auditors' report on compliance and internal controls, whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected. There were none of these items disclosed in the preceding annual financial audit report.

As required by the Rules of the Auditor General (Section 10.554(1)(i)2.), the scope of 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, if not already addressed in the auditors' report on compliance and internal controls, whether or not recommendations made in the preceding annual financial audit report have been followed. There were no recommendations made in the preceding annual financial audit report.

The Rules of the Auditor General (Section 10.554(1)(i)4.) require that we address in the management letter, if not already addressed in the auditors' report on compliance and internal controls, violations of provisions of contracts and grant agreements or abuse 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.) require disclosure in the management letter, if not already addressed in the auditors' report on compliance and on internal controls, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of the auditor. In connection with our audit we did not have any such findings.

The Rules of the Auditor General (Section 10.554(1)(i)6.) also 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.

As required by the Rules of the Auditor General (Section 10.554(1)(i)7.a.), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, regarding financial emergencies. 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, 2008, 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, 2008.

As required by the Rules of the Auditor General (Section 10.554(1)(i)7.c.) and 10.556), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity'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,

Boyd, Miller, Huston & Perry, PA
August 5, 2009

August 18, 2009

AUDITEE'S RESPONSE TO AUDITORS'
REPORTS AND MANAGEMENT LETTER

David W. Martin, CPA
Auditor General
State of Florida

Re: Fiscal Year 2007-2008

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 112

The District has determined that it is not economically feasible to comply with the requirements of Statement on Auditing Standards Number 112 (Statement). The District is a small governmental entity with limited financial resources. The District possesses 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