



**INDEPENDENT AUDITORS' 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**

To the Honorable Mayor, City Commissioners
and City Manager
City of Margate, Florida

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Margate, Florida (the "City"), as of and for the year ended September 30, 2008, which collectively comprise the City of Margate's basic financial statements and have issued our report thereon dated March 15, 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 the City of Margate's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Letter to Management as item 2008-01 to be a significant deficiency in internal control over financial reporting.

To the Honorable Mayor, City Commissioners
and City Manager

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

The City's responses to the findings identified in our audit are described in the accompanying Letter to Management. We did not audit the City's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, City Commission, City management and the applicable regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

GLSC & Company, PLLC

March 15, 2009



**MANAGEMENT LETTER PURSUANT TO THE RULES OF
 THE AUDITOR GENERAL FOR THE STATE OF FLORIDA**

To the Honorable Mayor, City Commissioners
 and City Manager
 City of Margate, Florida

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Margate, Florida (the "City"), as of and for the year ended September 30, 2008, which collectively comprise City of Margate's basic financial statements and have issued our report thereon dated March 15, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550 Rules of the Auditor General. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance, Independent Auditor's Report on Compliance and on Internal Control over Compliance Applicable to each Major Federal Program and State Financial Assistance Projects in Accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 15, 2009, should be considered in conjunction with this management letter.

The purpose of this letter is to comment on those matters described in Rule 10.554(1)(i) as required by the Rules of the Auditor General for the State of Florida. Accordingly, in connection with our audit of the basic financial statements of the City of Margate, Florida, as described in the first paragraph, we report the following:

- I. Current year findings and recommendations.**
- II. Status of prior year findings and recommendations.**
- III. Compliance with the Provisions of the Auditor General of the State of Florida.**

This report is intended for the information of the City of Margate, Florida's management and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the City of Margate, Florida and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements and the courtesies extended to us.

GLSC & Company, PLLC

March 15, 2009

LETTER TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2008-1 Significant Adjustment

Condition:	We noted during our audit that the City had not recorded the retainage payables withheld from vendors on each of the construction progress billings.
Criteria:	Criteria provided by GASB Interpretation 6, paragraph 5 to address the accrual of fund liabilities are as follows (a) liabilities that are generally recognized when due; (b) liabilities that are recognized when they are "normally expected to be liquidated with expendable available resources", or (c) liabilities that have no specific accrual modifications. Retainage is part of a completed portion of the projects however are withheld due to statutory and contractual requirements and therefore meets the first accrual criteria.
Cause of Condition:	The City uses strict method of modified accrual basis wherein payables are recorded only when expected to be liquidated within 60-90 days.
Effect of Condition:	Understatement of expenditures and liabilities.
Recommendation:	We recommend that the City record the retainage payable due to significance of the amount involved.

Management Comments

Historically, the City has recorded retainage for its Enterprise Funds at the end of each fiscal year. Purchase order encumbrances are not recognized in Enterprise Funds at the end of the fiscal year, but are recognized in governmental type funds. Accordingly, for governmental-type funds, we have always considered retainage as part of outstanding encumbrances at year end; and consequently, part of fund balance reserve. In fiscal year 2008, all contracts for the Road Bond Construction Fund (a governmental-type fund) were covered by purchase orders; when we were informed by our auditors that we needed to record retainage for these contracts, we immediately did so. And we have taken the necessary steps in this fiscal year, through our automated accounts payable system, to ensure that all retainage be recorded and adjusted with every subsequent contract payment.

LETTER TO MANAGEMENT
(CONTINUED)

II. STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None

III. COMPLIANCE WITH THE PROVISIONS OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

1. Unless otherwise required to be reported in the auditors' report on internal control over financial reporting and on compliance and other matters or schedule of finding and questioned costs, the management letter shall include, but not be limited to a statement as to whether or not corrective actions have been taken to address significant findings and recommendations in the preceding annual financial audit report pursuant to Rule 10.557(3)(b)2. There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2007.
2. The City of Margate complied with Section 218.415, Florida Statutes, regarding the investment of public funds.
3. There was a significant finding and recommendation to improve the City's financial management, accounting procedures, and internal control for the fiscal year ended September 30, 2008, see finding 2008-01.
4. There were no violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or were likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential.
5. Based on our professional judgment, we may report on the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (a) violations of laws, regulations, contracts or grant agreements or abuse that have occurred, or were likely to have occurred, and (b) control deficiencies that are not significant deficiencies, including, but not limited to (1) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (2) failure to properly record financial transactions; and (3) 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.
6. The City of Margate, Florida was established as authorized by Chapter 30962, Laws of Florida, Acts of 1955. The City operates under a Commission / City Manager form of government. The City is financially independent as evidenced by the authority to make and approve its own budget, the power to tax, the authority to buy and sell property, and the authority to incur debt. The City has two component units (one blended and one discretely presented) which are disclosed in the notes to the financial statements.

**LETTER TO MANAGEMENT
(CONTINUED)**

7. The City of Margate has not met one or more of the conditions described in Section 218.503(1), Florida Statutes.
8. The annual financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1) (a), Florida Statutes agrees with the September 30, 2008 financial audit report.
9. We applied financial condition assessment procedures pursuant to Rule 10.556 (7) to assess the financial condition of the City. While the City does not currently meet any of the financial emergency conditions defined by Section 218.503, Florida Statutes, we believe that the results of the financial indicators shows that the City's overall financial condition is showing signs of deterioration which, if not corrected, could result in a future financial emergency. The two most significant factors that contributed to the deteriorating financial condition are the declining operating results of the water and wastewater utilities fund in the past three years and a significant increase in the ratio of debt service to the City's population due to the issuance of general obligation bonds in fiscal year 2007. The declining results of operations in the water and wastewater utilities fund are being mitigated by increases in the water and wastewater rates effective January 1, 2009.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR FEDERAL PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECT
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133 AND CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

To the Honorable Mayor, City Commissioners
and City Manager
City of Margate, Florida

Compliance

We have audited the compliance of the City of Margate, Florida (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, and the requirements described in the Executive Office of the Governor's State Project Compliance Supplement, that are applicable to each of its major federal programs and State financial assistance projects for the year ended September 30, 2008. The City's major federal programs and State financial assistance projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and State financial assistance projects is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.550, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or State financial assistance project occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Margate, Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and State financial assistance projects for the year ended September 30, 2008.