

TOWN OF SOUTHWEST RANCHES, FLORIDA

FINANCIAL STATEMENTS

FISCAL YEAR ENDED SEPTEMBER 30, 2004

TOWN OF SOUTHWEST RANCHES, FLORIDA

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Vice Mayor, Town Commissioners and Town Manager
Town of Southwest Ranches, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Southwest Ranches, Florida (the Town) as of and for the fiscal year then ended September 30, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these basic financial statements based on our audits.

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 opinions.

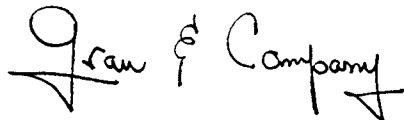
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Southwest Ranches, Florida as of September 30, 2004, and the respective changes in financial position for the fiscal 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 a report dated July 5, 2005 on our consideration of the Town's internal control over financial reporting and our tests of compliance with certain laws, regulations, grants and contracts. 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.

Management's Discussion and Analysis and the Required Supplementary Information identified in the table of contents, respectively, are not a required part of the basic financial statements but are 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor, Vice Mayor, Town Commissioners and Town Manager
Town of Southwest Ranches, Florida
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Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of state financial assistance projects is presented for purposes of additional analysis as required by Chapter 10.550, Rules of the Auditor General, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Handwritten signature of Graub & Company in cursive script.

July 5, 2005

MANAGEMENT DISCUSSION & ANALYSIS
(M D & A)

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Southwest Ranches, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for fiscal year ended September 30, 2004. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, the Town's financial statements and the other required supplemental information.

This discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Town's financial activity, (c) identify changes in the Town's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns. The information contained within this section should be considered only as a part of a greater whole.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Southwest Ranches exceeded its liabilities at the close of the most recent fiscal year by \$16,671,562 (net assets). Of this amount, \$11,367,768 is for capital assets and \$5,303,794 is unrestricted.
- The Town's total net assets increased by \$8,298,784 during the current fiscal year. The Town's net assets increased as a result of this year's operations and capital grants and contributions.
- During the year, the General Fund had expenses that were \$872,235 less than the \$5,712,625 generated in tax and other revenues for governmental programs. This is similar to last year, when revenues exceeded expenses by \$589,809.
- Total cost of all of the Town's programs increased by approximately \$992,617, or 22 percent with no new major programs added this year.
- The General Fund's fund balance increased to \$4,331,961 for the year ended September 30, 2004.
- At the end of the current year, designated for contingency and unreserved fund balance for the General Fund was \$3,216,108, an increase of \$867,002 from 2003.
- The Town's debt was reduced by \$2,080,000 and a line of credit was increased for \$2,602,000 for a total net debt increased by approximately \$522,000 and a total debt of \$7,489,965.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements and the required supplementary information*. The Town did not present *combining statements* for nonmajor governmental funds since the only fund was the Special Revenue Transportation Fund. The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the Town's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Town government, reporting the Town's operations in more detail than the government-wide statements.
- The *governmental funds* statements show how general government services such as public safety were financed in the short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and are related to one another. We have not included a section with combining statements that provides details about our nonmajor governmental funds, since we only have one fund, a Special Revenue Transportation Fund.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Southwest Ranches' finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Southwest Ranches is improving or deteriorating.

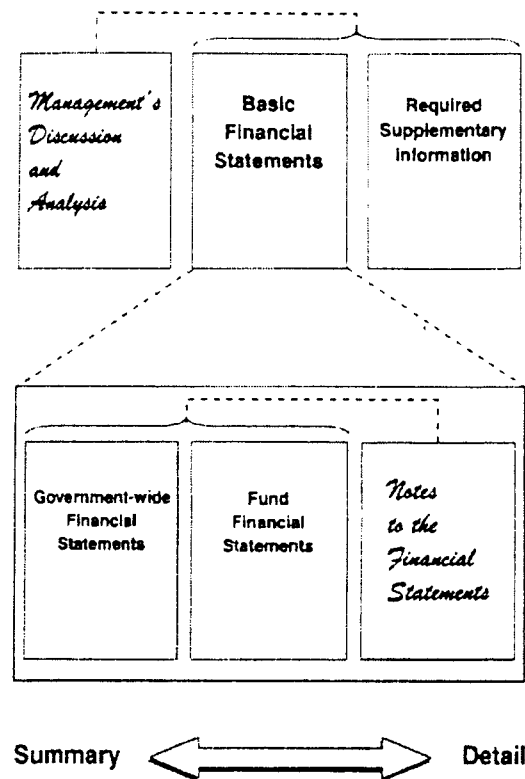
The *statement of activities* presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The government activities of the Town of Southwest Ranches include fire and rescue, police services, public works, parks and recreation, code compliance, planning and zoning, economic development and general administration services. The Town does not have any business-type activities.

The government-wide financial statements can be found on pages 11 to 12 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Southwest Ranches, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Southwest Ranches are governmental funds.

Figure A-1
Required Components of
City's Annual Financial Report



Governmental funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The Town of Southwest Ranches maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Improvement Fund and the Debt Service Fund, which are considered to be major funds. Data from the other governmental funds represent the Special Revenue Transportation Fund which is considered a non-major fund. Budgetary comparison statements have been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 13 to 16 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 to 29 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Summary of Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. There are six basic transactions that will affect the comparability of the Statement of Net Assets summary presentation as reflected below:

- 1) **Net results of activities** will impact (increase/decrease) current assets and unrestricted net assets.
- 2) **Borrowing for capital** will increase current assets and long-term debt.
- 3) **Spending borrowed proceeds on new capital** will reduce current assets and increase capital assets. There is a second impact, an increase in invested in capital assets and an increase in related net debt which will not change the invested in capital assets, net of debt.
- 4) **Spending of non-borrowed current assets on new capital** will reduce current assets, increase capital assets, reduce unrestricted net assets, and increase invested in capital assets, net of debt.
- 5) **Principal payment on debt** will reduce current assets, reduce long-term debt, reduce unrestricted net assets, and increase invested in capital assets, net of debt.
- 6) **Reduction of capital assets through depreciation** will reduce capital assets and invested in capital asset, net of debt.

The Town's net assets were increased to \$16,671,562 between fiscal years 2004 and 2003—(see Table 1). However, a large portion of the net assets (68 percent) is restricted as to the purpose they can be used for or are invested in capital assets (land, buildings, and equipment). The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1
Town of Southwest Ranches' Net Assets

	Governmental Activities		Total Percentage
	2004	2003	Change
			2004-2003
Current and other assets	\$ 5,863,299	\$ 5,236,888	12%
Capital assets	18,857,733	10,486,860	80%
Total assets	24,721,032	15,723,748	57%
Long-term debt outstanding	7,489,965	6,971,583	7%
Other liabilities	559,505	379,387	47%
Total liabilities	8,049,470	7,350,970	10%
Net assets			
Invested in capital assets, Net of related debt	11,367,768	3,515,277	223%
Restricted	-	392,119	(100)%
Unrestricted	5,303,794	4,465,382	19%
Total net assets	\$ 16,671,562	\$ 8,372,778	99%

A portion of the Town's net assets (\$11,367,768 or 68 percent) represents resources that are invested in the Town's capital assets. The remaining balance of *unrestricted net assets* (\$5,303,794) may be used to meet the Town's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Southwest Ranches is able to report positive balances in its two categories of net assets. The same situation held true for the prior fiscal year.

Consequently, invested in capital assets and unrestricted net assets showed increases of approximately \$7,852,491 and \$838,412, respectively, and restricted net assets showed a decrease of \$392,119 at the end of the fiscal year as the funds were used for its intended purpose.

The Town's total revenues increased by 65 percent to \$13,874,768 (see Table 2). Over 55% of the Town's revenues come from capital grants, approximately 15% comes from property taxes, and 10% from fees charged for services.

Summary of Changes in net assets. The following information is presented to assist the reader in understanding the different types of normal impacts that can affect revenues:

- 1) **Economic condition** can reflect a declining, stable or growing environment and has a substantial impact on property, non-ad valorem assessments, sales, gas, or other tax revenues as well as consumer spending habits for building permits, user fees and consumption.
- 2) The Town Commission has significant authority to set **increases or decreases in Town's millage rates** and user fees.
- 3) **Changing patterns in intergovernmental and grant revenues** (both recurring and non-recurring) can significantly change and impact the annual comparisons.
- 4) **Market impacts on investment income** may cause investment revenues to fluctuate from the prior year.

Some other basic impacts on expenses are reflected below:

- 1) **Introduction of new programs** can have a substantial impact on property, non-ad valorem assessments, sales, gas, or other tax revenues as well as consumer spending habits for building permits, user fees and consumption.
- 2) **Changes in service demand levels** can cause the Town to increase or decrease authorized staffing.

The Town's expenses cover a range of services, with 38% related to public safety

Governmental Activities

Revenues for the Town's governmental activities increased 65 percent (from \$8,402,227 to \$13,874,768), while the expenses increased 22 percent (\$4,583,367 to \$5,575,984). The increase in net assets for governmental activities was expanded to \$8,298,784 in 2004. This represents an increase of 117% when compared to 2003.

The total increase in net assets compared to last fiscal year was mainly due to increase in revenue for capital grants of \$4,511,665.

Table 2
Changes in Town of Southwest Ranches' Net Assets

	Governmental Activities		Total Percentage Change
	2004	2003	2004-2003
Revenues			
Program revenues			
Charges for services	\$ 1,453,925	\$ 1,462,312	(1)%
Capital grants and contributions	7,637,359	3,125,694	144%
General revenues			
Property taxes	2,122,694	1,956,415	8%
Other taxes	1,022,016	1,048,970	(3)%
Intergovernmental	956,848	665,240	44%
Investment income	46,755	84,326	(45)%
Other Revenue	635,171	59,270	(971)%
Total revenues	13,874,768	8,402,227	65%
Expenses			
General government	835,810	851,279	(2)%
Public safety	2,111,633	2,024,690	4%
Community development	1,023,169	767,903	33%
Parks and recreation	132,391	-	100%
Public works	938,493	569,450	65%
Non-departmental	140,085	40,699	244%
Interest on long-debt	394,403	329,346	20%
Total expenses	5,575,984	4,583,367	22%
Increase in net assets	\$ 8,298,784	\$ 3,818,860	117%

The Town's management took major actions this year to maintain current revenues and to control expenses:

In fiscal year 2004, the Town again did not have a millage rate increase. The Town's revenue sources were close to or slightly above the final budget estimates, except for the capital improvement fund. Parks and Recreation increased due to the operations of the first Town park and Public Works increased due to design and management cost for the capital program. The Town's total expenditures were less than budgeted mainly due to unused departmental budgets and on going capital projects. The total cost of all programs and services increased by \$992,617 or 22 percent (see Table 2).

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As the Town completed the year, its governmental funds reported combined fund balances of \$5,362,425, or an increase of \$450,224 compared to last year's combined fund balances of \$4,912,201. Included in this year's total change in fund balances is a \$872,235 excess of revenues over expenditures in the Town's General Fund and a \$1,614,417 excess of expenditures over revenues in the Capital Improvement Fund. The primary reasons for the General Fund's excess mirror those highlighted in the analysis of governmental activities above. The primary reason for the Capital Improvement Fund's excess expenditure was the completion of the Equestrian Park project and additional acquisition of land. The excess expenditures were funded with prior year available fund balance.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were not substantial (\$150,000 increase in appropriations) and were due to additional unanticipated expenditures, which were funded with available fund balance.

Capital Assets

As of September 30, 2004, the Town's investment in capital assets amounted to \$18,857,733 (net of accumulated depreciation). The increase in capital assets during the year was due to final construction of the Equestrian Park net of depreciation expenses and land acquisitions.

TOWN OF SOUTHWEST RANCHES' Capital Assets

<u>Governmental activities:</u>	Balance October 1, <u>2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2004</u>
Capital assets, not being depreciated:				
Land	\$ 8,102,286	\$ 8,549,981	\$(1,095,953)	\$ 15,556,314
Construction in progress	<u>2,013,479</u>	<u>14,870</u>	<u>(2,013,479)</u>	<u>14,870</u>
Total capital assets, not being depreciated	<u>10,115,765</u>	<u>8,564,851</u>	<u>(3,109,432)</u>	<u>15,571,184</u>
Capital assets, being depreciated/amortized:				
Furniture and equipment	82,418	10,313	-	92,731
Leasehold improvements	100,408	-	-	100,408
Buildings	-	229,760	-	229,760
Improvements other than building	147,586	2,666,022	-	2,813,608
Infrastructure	99,744	127,588	-	227,332
Intangibles	<u>-</u>	<u>15,000</u>	<u>-</u>	<u>15,000</u>
Total capital assets, being depreciated/amortized	<u>430,156</u>	<u>3,048,683</u>	<u>-</u>	<u>3,478,839</u>
Less accumulated depreciation/amortization for:				
Furniture and equipment	(20,836)	(13,556)	-	(34,392)
Leasehold improvements	(26,667)	(20,082)	-	(46,749)
Buildings	-	(2,298)	-	(2,298)
Improvements other than building	(7,379)	(83,378)	-	(90,757)
Infrastructure	(4,179)	(13,165)	-	(17,344)
Intangibles	<u>-</u>	<u>(750)</u>	<u>-</u>	<u>(750)</u>
Total accumulated depreciation/amortization	<u>(59,061)</u>	<u>(133,229)</u>	<u>-</u>	<u>(192,290)</u>
Total capital assets, being depreciated, Net	<u>\$ 10,486,860</u>	<u>\$ 11,480,305</u>	<u>\$(3,109,432)</u>	<u>\$ 18,857,733</u>

Additional information on the Town's capital assets can be found in note 4 page 23 of this report.

Long-term Debt

At the end of the current fiscal year, the Town had total long-term debt outstanding of \$7,489,965 or \$7,417,000, net of unamortized premium and issuance costs of \$72,965. The debt is secured by pledged revenue sources of the Town.

TOWN OF SOUTHWEST RANCHES' Outstanding Debt

	Balance October 1, <u>2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2004</u>
Notes payable	<u>\$6,971,583</u>	<u>\$7,735,000</u>	<u>\$7,216,618</u>	<u>\$7,489,965</u>

Additional information on the Town's long-term debt can be found in note 8 pages 25-26 of this report.

Economic Factors and Next Years Budgets and Rates

- The unemployment rate for Broward County is currently 4.5 percent, which is a decrease from a rate of 5.9 percent a year ago. This compares favorably to the state's average unemployment rate of 5.4 percent and the national average rate of 5.8 percent.
- The occupancy rate of the government's central business district has remained stable for the past two years.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the Town of Southwest Ranches' budget for the 2005 fiscal year.

During the current fiscal year, unreserved and designated for contingency fund balance in the general fund increased to \$3,216,108. The Town will budget the audited fund balance in the 2005 fiscal year budget. It is intended that the use of available fund balance will be reserved for future needs, financial stability and unanticipated occurrences.

Requests for Information

This financial report is designed to provide a general overview of the Town of Southwest Ranches' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Town Administrator, 6589 S.W. 160 Avenue, Southwest Ranches, Florida 33331.

BASIC FINANCIAL STATEMENTS
(Combined Statements – Overview)

TOWN OF SOUTHWEST RANCHES, FLORIDA

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2004

	Governmental Activities
<u>ASSETS</u>	
Cash and cash equivalents	\$ 3,035,664
Accounts receivable - net	1,645,336
Deposit	19,900
Prepays	22,500
Deferred charges	43,946
Land held for investment	1,095,953
Capital assets not being depreciated	
Land	15,556,314
Construction in progress	14,870
Capital assets (net of accumulated depreciation and amortization):	
Buildings	227,462
Improvements other than buildings	2,722,851
Intangibles	14,250
Leasehold improvements	53,659
Furniture and equipment	58,339
Infrastructure	209,988
Total assets	<u>\$ 24,721,032</u>

<u>LIABILITIES</u>	
Accounts payable	\$ 456,928
Accrued interest payable	102,577
Noncurrent liabilities:	
Due within one year	85,000
Due in more than one year	7,404,965
Total liabilities	<u>8,049,470</u>

<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	11,367,768
Unrestricted	5,303,794
Total net assets	<u>\$ 16,671,562</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF SOUTHWEST RANCHES, FLORIDA

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
General government	\$ 835,810	\$ -	\$ -	\$ (835,810)
Public safety	2,111,633	510,517	-	(1,601,116)
Community development	1,023,169	354,718	-	(668,451)
Parks and recreation	132,391	-	7,637,359	7,504,968
Public works	938,493	588,690	-	(349,803)
Non-departmental	140,085	-	-	(140,085)
Interest on long-term debt	394,403	-	-	(394,403)
Total primary government	<u>\$ 5,575,984</u>	<u>\$ 1,453,925</u>	<u>\$ 7,637,359</u>	<u>3,515,300</u>
General revenues:				
Property taxes				2,122,694
Utility taxes				479,391
Service taxes				133,890
Franchise taxes				408,735
Intergovernmental				956,848
Investment income and miscellaneous				351,386
Contributed Capital - Land				<u>330,540</u>
Total general revenues				<u>4,783,484</u>
Change in net assets				8,298,784
Net assets, beginning				<u>8,372,778</u>
Net assets, ending				<u>\$ 16,671,562</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF SOUTHWEST RANCHES, FLORIDA

BALANCE SHEET -
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2004

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds (Special Revenue - Transportation Fund)</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 3,035,664	\$ -	\$ -	\$ -	\$ 3,035,664
Accounts receivable - net	409,477	1,222,855	-	13,004	1,645,336
Due from other funds	373,211	-	-	167,816	541,027
Land held for investment	1,095,953	-	-	-	1,095,953
Prepays	22,500	-	-	-	22,500
Deposit	19,900	-	-	-	19,900
Total assets	<u>\$ 4,956,705</u>	<u>\$ 1,222,855</u>	<u>\$ -</u>	<u>\$ 180,820</u>	<u>\$ 6,360,380</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 456,928	\$ -	\$ -	\$ -	\$ 456,928
Due to other funds	167,816	373,211	-	-	541,027
Total liabilities	<u>624,744</u>	<u>373,211</u>	<u>-</u>	<u>-</u>	<u>997,955</u>
Fund balance:					
Designated for contingencies	2,049,100	-	-	-	2,049,100
Reserved for capital projects	19,900	849,644	-	-	869,544
Reserved for roadway improvements	-	-	-	97,110	97,110
Reserved for land held for investment	1,095,953	-	-	-	1,095,953
Unreserved and undesignated	1,167,008	-	-	83,710	1,250,718
Total fund balances	<u>4,331,961</u>	<u>849,644</u>	<u>-</u>	<u>180,820</u>	<u>5,362,425</u>
Total liabilities and fund balances	<u>\$ 4,956,705</u>	<u>\$ 1,222,855</u>	<u>\$ -</u>	<u>\$ 180,820</u>	<u>\$ 6,360,380</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF SOUTHWEST RANCHES, FLORIDA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

Fund balances - total government funds (Page 13)	\$	5,362,425
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital and intangible assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>		
Governmental capital and intangible assets		19,050,023
Less accumulated depreciation and amortization		(192,290)
Bond interest payable not reported in the governmental funds		(102,577)
<p>Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds</p>		
		43,946
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.</p>		
Governmental bonds payable		<u>(7,489,965)</u>
Net assets of governmental activities (Page 11)	\$	<u>16,671,562</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF SOUTHWEST RANCHES, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

	General Fund	Capital Improvement Fund	Debt Service Fund	Other Governmental Funds (Special Revenue - Transportation Fund)	Total Governmental Funds
Revenues:					
Ad valorem taxes	\$ 2,122,694	\$ -	\$ -	\$ -	\$ 2,122,694
Special assessments	1,065,050	-	-	-	1,065,050
Utility taxes	479,391	-	-	-	479,391
Service taxes	133,890	-	-	-	133,890
Franchise fees	408,735	-	-	-	408,735
Licenses and permits	354,718	-	-	-	354,718
Intergovernmental	772,558	-	-	184,290	956,848
Fines and forfeitures	34,157	-	-	-	34,157
Grants	-	7,637,359	-	-	7,637,359
Interest	45,620	1,135	-	-	46,755
Other	295,812	8,819	-	-	304,631
Total revenues	<u>5,712,625</u>	<u>7,647,313</u>	<u>-</u>	<u>184,290</u>	<u>13,544,228</u>
Expenditures:					
Current:					
General government:					
Town Council	42,627	-	-	-	42,627
Town administration	497,740	-	-	-	497,740
Town attorney	247,890	-	-	-	247,890
Total general government	<u>788,257</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>788,257</u>
Public Safety:					
Police	1,128,750	-	-	-	1,128,750
Fire	982,883	-	-	-	982,883
Total public safety	<u>2,111,633</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,111,633</u>
Community development	1,023,169	-	-	-	1,023,169
Parks and recreation	46,715	-	-	-	46,715
Public works	823,992	-	-	114,501	938,493
Non-departmental	36,311	70,616	-	-	106,927
Debt service:					
Principal	-	-	7,213,000	-	7,213,000
Interest	-	-	394,090	-	394,090
Other	-	-	33,158	-	33,158
Total debt service	<u>-</u>	<u>-</u>	<u>7,640,248</u>	<u>-</u>	<u>7,640,248</u>
Capital outlay	10,313	9,191,114	-	68,088	9,269,515
Total expenditures	<u>4,840,390</u>	<u>9,261,730</u>	<u>7,640,248</u>	<u>182,589</u>	<u>21,924,957</u>
(Deficiency) excess of revenues over expenditures	<u>872,235</u>	<u>(1,614,417)</u>	<u>(7,640,248)</u>	<u>1,701</u>	<u>(8,380,729)</u>
Other financing sources (uses):					
Proceeds from line of credit	-	7,735,000	-	-	7,735,000
Transfer in	1,095,953	-	7,640,248	-	8,736,201
Transfers out	(478,277)	(7,161,971)	-	-	(7,640,248)
Total other financing sources (uses)	<u>617,676</u>	<u>573,029</u>	<u>7,640,248</u>	<u>-</u>	<u>8,830,953</u>
Net change in fund balance	<u>1,489,911</u>	<u>(1,041,388)</u>	<u>-</u>	<u>1,701</u>	<u>450,224</u>
Fund balances, beginning of year	<u>2,842,050</u>	<u>1,891,032</u>	<u>-</u>	<u>179,119</u>	<u>4,912,201</u>
Fund balances, end of year	<u>\$ 4,331,961</u>	<u>\$ 849,644</u>	<u>\$ -</u>	<u>\$ 180,820</u>	<u>\$ 5,362,425</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF SOUTHWEST RANCHES, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

Amounts reported for governmental activities in the statement of activities (Page 12) are different because:

Net change in fund balances - total government funds (Page 15)	\$	450,224
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital outlays	\$ 9,269,515	.
Less current year depreciation	<u>(133,229)</u>	9,136,286

Net effect of various miscellaneous transactions including capital assets (i.e. transfer-in of land held for investment) is to decrease net assets		(1,095,953)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		330,540
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

LONG TERM DEBT

Principal proceeds	(7,735,000)	
Principal payments	<u>7,213,000</u>	(522,000)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.

Accrued interest on long term debt	(1,752)	
Amortization of re-offering premium	4,989	
Amortization of underwriters discount	(1,371)	
Amortization of bond issuance costs	<u>(2,179)</u>	<u>(313)</u>

Change in net assets of governmental activities (Page 12)	\$	<u>8,298,784</u>
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**NOTES TO BASIC
FINANCIAL STATEMENTS**

TOWN OF SOUTHWEST RANCHES, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of the Town of Southwest Ranches', Florida (the Town), significant accounting policies is presented to assist the reader in interpreting the basic financial statements. The policies are considered essential and should be read in conjunction with the basic financial statements.

The accounting policies of the Town conform to Accounting Principles Generally Accepted in the United States (GAAP) as applicable to governments. The more significant of the Town's accounting policies are described below.

a. *Financial Reporting Entity*

The Town is an instrumentality of the State of Florida, incorporated in accordance with House Bill No. 1777 on June 6, 2000 to carry on a centralized government. The Town Council, which is composed of four Council elected members and the elected Mayor, is responsible for legislative and fiscal control of the Town. The Town is governed under a Council/Administrator form of government. A Town Administrator is appointed by the Council and is responsible for administrative and fiscal control of the resources of the Town maintained in the funds and account groups.

The basic criteria for determining whether another organization should be included in the Town's reporting entity for general-purpose financial statements are financial accountability. Financial accountability includes (1) the appointment of a voting majority of the organization's governing body, (2) the ability of the Town to impose its will on the organization, or (3) if there is a financial benefit/burden relationship. In addition, an organization, which is fiscally dependent on the Town, should be included in its reporting entity. A blended component unit, although a legally separate entity, is, in substance, part of the Town's operations and so data from this unit is combined with data of the Town. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. Based upon the application of these criteria, there was no organization that met the criteria described above.

b. *Government-wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Town has no business-type activities.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

b. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, utility taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The **general fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **capital projects fund** accounts for the acquisition of equipment and construction of major capital projects not being financed by proprietary funds.

The **debt service fund** accounts for the payment of long-term debt, principal and interest on such debt.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

c. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)*

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, whose purpose has not been restricted to a specific program.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then, unrestricted resources as they are needed.

d. *Deposits and Investments*

The Town maintains a pooled cash account for all funds. This enables the Town to invest large amounts of idle cash for short periods of time and to optimize earnings potential. Equity in pooled cash and cash equivalents represents the amount owned by each fund of the Town. Interest earned on pooled cash is allocated monthly based upon equity balances of the respective funds.

In addition, GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools", requires disclosure of investments at fair value and recognition of unrealized gain or losses, if material, for investments with remaining maturities of more than one year at the time of purchase. Investments with remaining maturities of one year or less at the time of purchase are recorded at amortized cost.

e. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to/from other funds. Any residual balances outstanding between the governmental activities and business activities are reported in the government-wide financial statements as "internal balances".

Revenues and the associated receivable balances are accrued for taxes, franchise fees, and other utility services based on collections within 60 days of year-end.

f. *Ad Valorem Taxes*

Property values are assessed as of January 1 of each year, at which time taxes become an enforceable lien on property. Tax bills are mailed for the Town by Broward County on or about October 1 of each year and are payable with discounts of up to 4% offered for early payment. Taxes become delinquent on April 1 of the year following the year of assessment and State law provides for enforcement of collection of property taxes by seizure of the personal property or by the sale of interest-bearing tax certificates to satisfy unpaid property taxes.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

f. *Ad Valorem Taxes (Continued)*

Assessed values are established by the Broward County Property Appraiser. In November 1992, a Florida constitutional amendment was approved by the voters which provides for limiting the increases in homestead property valuations for ad valorem tax purposes to a maximum of 3% annually and also provides for reassessment of market values upon changes in ownership. The County bills and collects all property taxes and remits them to the Town. Procedures for the collection of delinquent taxes by Broward County are provided for in the Laws of Florida. There were no material delinquent property taxes at September 30, 2004.

State statutes permit municipalities to levy property taxes at a rate of up to 10 mills (\$10 per \$1,000 of assessed taxable valuation). The tax levy of the Town is established by the Town Commission and the Broward County Property Appraiser incorporates the Town's millage into the total tax levy, which includes the County and the County School Board tax requirements. The millage rate assessed by the Town for the year ended September 30, 2004 was 3.000 mills (\$3.000 per \$1,000 of taxable assessed valuation).

g. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, culverts, light poles, and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$750 for equipment and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as they are completed.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furniture and equipment	5 – 10
Leasehold improvements	5 – 10
Improvements other than buildings	10 – 20
Infrastructure	35 - 40
Buildings	50

h. *Long-Term Obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Long-term debt is reported net of the applicable premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

i. Grant Revenue

The Town, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts, if any) when all applicable eligibility requirements, including time requirements, are met.

Some grants and contributions consist of capital assets or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the Town. The Town had no grants or contributions that were restricted as of September 30, 2004.

j. Fund Equity/Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The description of each reserve or designation indicates the purpose for which each was intended.

Unreserved undesignated fund balance is the portion of fund equity available for any lawful use.

k. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

2. DEPOSITS AND INVESTMENTS

Deposits

In addition to insurance provided by the Federal Depository Insurance Corporation, all deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, Florida Security for Public Deposits Act, the State Treasurer requires every qualified public depository to deposit with the Treasurer eligible collateral. Statutes provide that if a loss to public depository is not covered by deposit insurance and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment levied against other public depositories of the same type as the depository in default. At year-end, the carrying amount of deposits was \$3,035,664 and the bank balance was \$3,308,717.

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

Town administration follows the requirements of Section 218.415 (17) of Florida Statutes whereby it is authorized to invest in those instruments authorized by the Florida Statutes including the Local Government Surplus Trust Fund administered by the State Board of Administration (the Board). The Local Government Surplus Funds Trust Fund is governed by Chapter 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration. The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission; however, the Board has adopted operating procedures consistent with the requirements for a 2A-7 fund which are similar to money market funds.

Investments are classified as to credit risk, which are summarized below:

Accordingly, all Town deposits are Category 1 credit risk as defined by GASB Statement No. 3, which are insured or collateralized with securities held by the Town or by its agent in the Town's name.

Category 1 Insured or registered, or securities held by the Town or its agent in the Town's name.

Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Town's name.

Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Town's name.

The Town does not participate in any securities lending transactions nor has it used, held or written derivative financial instruments.

3. LAND HELD FOR INVESTMENT

During the year the Town has entered into an agreement with School Board of Broward County for the sale of a tract of land owned by the Town with a book value of approximately \$1,095,953. As part of the agreement, the Town is required to clear and prepare the land for construction.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2004 was as follows:

<u>Governmental activities:</u>	Balance October 1, 2003	<u>Additions</u>	<u>Deletions</u>	Balance September 30, 2004
Capital assets, not being depreciated:				
Land	\$ 8,102,286	\$ 8,549,981	\$(1,095,953)	\$ 15,556,314
Construction in progress	<u>2,013,479</u>	<u>14,870</u>	<u>(2,013,479)</u>	<u>14,870</u>
Total capital assets, not being depreciated	<u>10,115,765</u>	<u>8,564,851</u>	<u>(3,109,432)</u>	<u>15,571,184</u>
Capital assets, being depreciated/amortized:				
Furniture and equipment	82,418	10,313	-	92,731
Leasehold improvements	100,408	-	-	100,408
Buildings	-	229,760	-	229,760
Improvements other than building	147,586	2,666,022	-	2,813,608
Infrastructure	99,744	127,588	-	227,332
Intangibles	-	<u>15,000</u>	-	<u>15,000</u>
Total capital assets, being depreciated/amortized	<u>430,156</u>	<u>3,048,683</u>	<u>-</u>	<u>3,478,839</u>
Less accumulated depreciation/amortization for:				
Furniture and equipment	(20,836)	(13,556)	-	(34,392)
Leasehold improvements	(26,667)	(20,082)	-	(46,749)
Buildings	-	(2,298)	-	(2,298)
Improvements other than building	(7,379)	(83,378)	-	(90,757)
Infrastructure	(4,179)	(13,165)	-	(17,344)
Intangibles	-	<u>(750)</u>	-	<u>(750)</u>
Total accumulated depreciation/amortization	<u>(59,061)</u>	<u>(133,229)</u>	<u>-</u>	<u>(192,290)</u>
Total capital assets, being depreciated, Net	<u>\$ 10,486,860</u>	<u>\$ 11,480,305</u>	<u>\$(3,109,432)</u>	<u>\$ 18,857,733</u>

Depreciation expense was charged to functions/programs of the Town as follows:

General government	\$ 47,553
Parks and recreation	<u>85,676</u>
	<u>\$ 133,229</u>

5. RECEIVABLES AND PAYABLES

Receivables at September 30, 2004, were as follows:

	<u>Grants</u>	<u>Taxes</u>	<u>Other</u>	<u>Total</u>
Governmental Activities				
General	\$ -	\$ 122,031	\$ 287,446	\$ 409,477
Capital Improvement Fund	1,222,855	-	-	1,222,855
Non-major Governmental	-	13,004	-	13,004
Total government activities	<u>\$ 1,222,855</u>	<u>\$ 135,035</u>	<u>\$ 287,446</u>	<u>\$ 1,645,336</u>

Payables at September 30, 2004, were as follows:

	<u>Vendors</u>
Governmental Activities:	
General Fund	<u>\$ 456,928</u>

6. INTERFUND BALANCES

Interfund balances at September 30, 2004 consisted of the following:

<u>Due From</u>	<u>General Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total</u>
General Fund	\$ -	\$ 167,816	\$ 167,816
Capital Improvement Fund	<u>373,211</u>	<u>-</u>	<u>373,211</u>
Total	<u>\$ 373,211</u>	<u>\$ 167,816</u>	<u>\$ 541,027</u>

The balances of \$167,816 due from the General Fund resulted from loans from the Transportation Reserve Fund. The balance of \$373,211 due from the Capital Improvement Fund resulted from expenditures paid by the General fund on behalf of the Capital Improvement Fund. These interfund balances resulted from the time lag between payment of expenditures and when revenues or reimbursements are received.

7. RESERVED FUND BALANCES

The balances in reserved fund balance accounts are reserved as follows:

Designated for contingencies or \$2,049,100 is reserved by Town Council for unforeseen and unbudgeted expenditures. Reserved for capital projects of \$19,900 represent escrow deposits for purchase of land and \$849,644 in the Capital Improvement Fund is to be used for capital projects, such as acquisition and improvement of land for parks and open space.

8. LONG-TERM DEBT

Florida Municipal Loan Council

On November 15, 2001, the Town entered into a loan agreement with the Florida Municipal Loan Council funded from proceeds of the Florida Municipal Loan Council Revenue Bonds, Series 2002 (the Bonds) for a total of \$5,099,752 (\$4,985,000 par amount of the Bonds plus a \$114,752 re-offering premium). The loan requires semi-annual payments of interest at varying rates on May and November of each fiscal year commencing on May 1, 2002 and principal payment of varying amounts on November of each fiscal year commencing on November 1, 2002 through May 1, 2025. The interest rate at September 30, 2004 was 3.25%. Proceeds of the loan were used for the payoff of outstanding obligations, acquisition of certain parks and recreational land and construction of improvements and recreational facilities. As security for loan repayment, the Town covenants and agrees to appropriate in its annual budget amounts of Non-Ad valorem revenues sufficient to satisfy its annual debt service requirements under the loan agreement. During 2004 the Town was in compliance with this covenant. However, the Town was not in compliance with the covenant to deliver audited financial statements to the Bond Insurer within 270 days after the end of the fiscal year.

The annual requirements to pay principal and interest on this obligation as of September 30, 2004 are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	85,000	238,000	323,000
2006	85,000	234,000	319,000
2007	90,000	230,000	320,000
2008	95,000	226,000	321,000
2009	100,000	224,000	324,000
2010-2014	575,000	1,025,000	1,600,000
2015-2019	745,000	856,000	1,601,000
2020-2024	950,000	645,000	1,595,000
2025-2029	1,210,000	378,000	1,588,000
2030-2032	<u>880,000</u>	<u>61,000</u>	<u>941,000</u>
	<u>\$ 4,815,000</u>	<u>\$ 4,117,000</u>	<u>\$ 8,932,000</u>

Notes Payable

On January 6, 2004, the Town entered into pooled commercial paper loan agreements with total available funds of \$13,000,000. The loans are collateralized by the Town's non-ad valorem revenues. Interest of approximately 1.00% is payable monthly on outstanding balance. During the year there was a draw down of \$7,735,000 and the outstanding balance under this agreement for the year ended September 30, 2004 is \$2,602,000.

8. LONG-TERM DEBT (CONTINUED)

Changes in long-term debt during the year were as follows:

	Balance October 1, <u>2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, 2004	Due Within <u>One Year</u>
Notes payable	\$ 6,895,000	\$ 7,735,000	\$ (7,213,000)	\$ 7,417,000	\$ 85,000
Add reoffering premium	105,605	-	(4,989)	100,616	-
Less underwriters discount	<u>(29,022)</u>	-	<u>1,371</u>	<u>(27,651)</u>	-
	<u>\$ 6,971,583</u>	<u>\$ 7,735,000</u>	<u>\$ (7,216,618)</u>	<u>\$ 7,489,965</u>	<u>\$ 85,000</u>

9. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts, theft of, damage and destruction of assets, errors and omissions and natural disasters for which the Town carries commercial insurance. There were no reductions in insurance coverage from coverages in the prior year. Settled claims did not exceed coverages for each of the past three years.

10. COMMITMENTS AND CONTINGENCIES

Agreement with Broward County for Local Police Patrol Services

Effective October 1, 2000, the Town entered into a year to year agreement with the Broward County Sheriff's Office (BSO) for local police patrol services. The Town paid \$1,128,750 for police services under this contract for the fiscal year ended September 30, 2004.

Interlocal Agreement with the Town of Davie for Delivery of Emergency Medical and Fire Protection Services

Effective October 1, 2000, the Town entered into an interlocal agreement with the Town of Davie (Davie) for the delivery of emergency medical and fire protection services to the eastern portion of the Town. The initial term of the agreement was from October 1, 2000 to September 30, 2001, with four additional one-year periods, which renew automatically unless terminated by either party, for a total of five years. Fees will increase by a maximum of two percent (2%) per year not to exceed seven and one-half percent (7.5%) over the five-year term of the contract. The Town paid \$377,883 under this contract for the fiscal year ended September 30, 2004. Subsequent to year-end the agreement was renewed for an additional one-year term at a cost of \$378,852.

Interlocal Agreement with Broward County for Delivery of Emergency Medical and Fire Protection Services

Effective October 1, 2000, the Town entered into an interlocal agreement with the Broward County (the County) for the delivery of emergency medical and fire protection services to the western portion of the Town. The initial term of the agreement was from October 1, 2000 to September 30, 2001, with four additional one-year periods, which renew automatically unless terminated by either party, for a total of five years. Fees increase by an amount not to exceed \$25,000 per year. The Town paid \$575,000 under this contract for the fiscal year ended September 30, 2004. Subsequent to year end the agreement was renewed for an additional one-year term at a cost of \$600,000.

10. **COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Agreement with Southwest Ranches Volunteer Fire-Rescue, Inc. for Fire Rescue Services

Effective July 1, 2001, the Town entered into an agreement with Southwest Ranches Volunteer Fire-Rescue, Inc. (Volunteer Fire Department) for fire rescue services. The initial term of the agreement is from July 1, 2001 through September 30, 2005 and will automatically continue renewing for one-year periods unless terminated by either party. The Town has agreed to provide an annual funding not to exceed \$30,000 to support the Volunteer Fire Department. Subsequent to year end, on November 10, 2004, Town Council approved to increase contributions by \$4,200 per year.

Interlocal Agreements with Broward County for the Development of the Equestrian Park

On December 4, 2001, the Town entered into an interlocal agreement with Broward County for the development of an Equestrian Park. The Equestrian Park is to be developed on land donated by the County during fiscal year 2002 with a value of approximately \$1,994,000. The County has obtained approximately \$1,069,581 in grants from the State of Florida for the development of the Equestrian Park and has agreed to provide the funds from the grants to the Town for the costs incurred in the development of the Equestrian Park.

The Town has reimbursement requests outstanding as of September 30, 2004 totaling \$629,581 under this interlocal agreement.

Agreement Between Broward County and the Town of Southwest Ranches for Broward County Challenge Grant Programs

On January 30, 2002, the Town entered into two agreements with Broward County under the Broward County Challenge Grant Program for the construction of several projects related to the Town's Equestrian Park. The County has agreed to reimburse the Town approximately \$676,548 for costs incurred in the construction of the Equestrian Park with the Town required to provide matching funds of \$125,000.

The Town has reimbursement requests outstanding as of September 30, 2004 of approximately \$499,537 under these agreements.

Grant agreement Between State of Florida Department of Environmental Protection and the Town of Southwest Ranches

On August 16, 2004, the Town entered into an agreement with the Department of Environmental Protection under the Florida Recreation Development Assistance Program for the construction of Phase III project related to the Town's Equestrian Park. The Department has agreed to reimburse the Town approximately \$200,000 for costs incurred in the construction of the Equestrian Park with the Town required to provide matching funds of \$200,000. As of September 30, 2004, there had been no work completed and outstanding reimbursement requests.

Agreement Between Broward County and the Town of Southwest Ranches for Broward County Tree Preservation Grant

On May 17, 2004, the Town entered into an interlocal grant agreement with Broward County for the installation of trees. The County has agreed to reimburse the Town up to \$100,000 for costs incurred for the installation of trees. The Town has incurred cost and recorded grants receivable of approximately \$78,738 as of September 30, 2004.

10. **COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Agreement Between Broward County and the Town of Southwest Ranches for Broward County Rural Identity Entranceway Grant

On June 8, 2004, the Town entered into an interlocal grant agreement with Broward County to create an entry gateway. The County has agreed to reimburse the Town \$15,000 for costs related to this project. The Town has a \$15,000 reimbursement request outstanding as of September 30, 2004.

Agreement for Code Compliance Services

Effective March 1, 2003, the Town entered into a service agreement for the provision of code compliance services. The company will provide code compliance services and act as the Code Compliance Official of the Town. The term of the agreement is for a period of thirty six (36) months, with extensions approved by the Town and the company. The services will be provided for an annual fee of \$70,000 with annual fee increases of five percent (5%).

Grant Consulting Agreements

On February 13, 2003, the Town entered into an agreement with a consultant for grant writing and other grant related consulting services. Total compensation for these services amounted to \$87,500 for 2004 and \$87,500 for 2005.

On May 13, 2004, the Town entered into an agreement with a consultant for grant writing and other grant related consulting services. The term of this agreement is for a period of four years, and the agreement may be extended or renewed by mutual agreement of both parties. Total compensation under this agreement is \$156,000 per year plus reimbursable out of pocket costs. However, when the cumulative value of the various grant awards equals a minimum increment of \$1,000,000, the consultant will be compensated an additional \$15,000 for grant administration.

Town Hall Lease Agreement

On June 28, 2004, the Town entered into a two years lease agreement with South Broward Drainage District. Under the agreement, the Town continues to lease property on which the temporary Town Hall is located for \$30,000 per year. Payment for the first year is due on the execution date of the agreement; therefore, as of September 30, 2004, \$22,500 was recorded as prepaid expenditures.

Town Administration Agreement

On December 13, 2000, the Town entered into an agreement with the Town Administrator for the administration of the Town. The agreement is effective as of January 8, 2001 and has an initial term of five years. After the initial term, the agreement may be extended by mutual agreement. The agreement includes the positions of the Town Administrator and the Town Clerk. Subsequent to year end, the Town exercised its option and amended the agreement. The amendment extended the term of the agreement for an additional three years and also increased the fees by approximately \$277,308 for 2005. The fee for administrative services are as follows:

September 30,

2005	\$ 655,308
2006	688,080
2007	722,484
2008	758,604
Total	<u>\$ 2,824,476</u>

9. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Maintenance Agreement

On September 1, 2004, the Town entered into a five year agreement for the management and maintenance of the Rolling Oaks Passive Open Space Park and the Sunshine Ranches Equestrian Park. Compensation for the maintenance service under this agreement is \$53,483 per year.

Lease Agreement

On October 1, 2003, the lessee exercised its option to rent land with stable and living quarters owned by the Town and entered into a lease agreement for a three year period ending September 30, 2006. Rental for the first year of the agreement is \$31,500 and increases \$1,500 for each of the next three years. The lessee has the option to extend the lease for two additional years, each with incremental increases in rent.

Litigation

The Town is a defendant in various suits and claims incidental to its operations. Although the outcome of the lawsuit is not presently determinable, it is the opinion of the Town attorney that resolution of the matter will not have a material adverse effect on the financial condition of the Town.

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the Town. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

Management Plan Commitment

During the year ended September 30, 2004, the Town entered into three (3) grants agreements with the Florida Communities Trust ("FCT") with the purpose to acquire land to develop natural resources conservation areas, parks, greenways and outdoor recreation facilities under comprehensive plans. As a result, the Town provided the FCT with a budget to spend under the comprehensive ECO – Restoration Program approximately \$4,072,000 for the Southwest Meadows Sanctuary, \$2,954,000 for the Country Estate Fishing Hold Park and \$2,916,000 for the Frontier Trails Conservation Area.

Land Clearing Service

The Town entered into an agreement for site clearing service to clear and prepare for construction the land held for investment (See Note # 3). The agreement requires total payment of approximately \$74,000, including reimbursable cost.

10. SUBSEQUENT EVENTS

Florida Local Government Finance Commission Pooled Commercial Paper Loan Program

On February 10, 2005, the Town executed a loan agreement with the Florida Local Government Finance Commission (FLGFC) under the FLGFC Pooled Commercial Paper Loan Program. The Town may borrow up to \$6,900,000 under the loan agreement in order to finance and reimburse the Town for the acquisition of certain real property within the Town. The loan is secured with a covenant to budget and appropriate legally available non-ad valorem revenues as provided in the loan agreements and proceeds to be received from the sale of certain real property.

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN (M D & A)**

TOWN OF SOUTHWEST RANCHES, FLORIDA
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem taxes	\$ 2,144,448	\$ 2,144,448	\$ 2,122,694	\$ (21,754)
Special assessments	1,038,000	1,038,000	1,065,050	27,050
Utility taxes	460,000	460,000	479,391	19,391
Service taxes	125,000	125,000	133,890	8,890
Franchise fees	320,000	320,000	408,735	88,735
Licenses and permits	305,000	455,000	354,718	(100,282)
Intergovernmental	515,000	515,000	772,558	257,558
Fines and forfeitures	20,000	20,000	34,157	14,157
Interest	16,000	16,000	45,620	29,620
Other	<u>59,000</u>	<u>59,000</u>	<u>295,812</u>	<u>236,812</u>
Total revenues	<u>5,002,448</u>	<u>5,152,448</u>	<u>5,712,625</u>	<u>560,177</u>
Expenditures:				
Current:				
General government:				
Town Council	44,200	79,200	42,627	36,573
Town administration	500,210	555,210	497,740	57,470
Town attorney	<u>200,000</u>	<u>210,000</u>	<u>247,890</u>	<u>(37,890)</u>
Total general government	<u>744,410</u>	<u>844,410</u>	<u>788,257</u>	<u>56,153</u>
Public Safety:				
Police	1,128,750	1,128,750	1,128,750	-
Fire	<u>1,021,640</u>	<u>1,021,640</u>	<u>982,883</u>	<u>38,757</u>
Total public safety	<u>2,150,390</u>	<u>2,150,390</u>	<u>2,111,633</u>	<u>38,757</u>
Community development	620,000	911,500	1,023,169	(111,669)
Parks and recreation	100,000	90,000	46,715	43,285
Public works	610,000	565,000	823,992	(258,992)
Capital outlay	-	-	10,313	(10,313)
Non-departmental	<u>2,427,648</u>	<u>2,940,248</u>	<u>36,311</u>	<u>2,903,937</u>
Total expenditures	<u>6,652,448</u>	<u>7,501,548</u>	<u>4,840,390</u>	<u>2,661,158</u>
(Deficiency) excess of revenues over expenditures	<u>(1,650,000)</u>	<u>(2,349,100)</u>	<u>872,235</u>	<u>3,221,335</u>
Other financing sources (uses):				
Transfers in	-	-	1,095,953	1,095,953
Transfers out	-	-	(478,277)	(478,277)
Prior year's fund balance	<u>1,650,000</u>	<u>2,349,100</u>	<u>-</u>	<u>(2,349,100)</u>
Total other financing sourcer (uses)	<u>1,650,000</u>	<u>2,349,100</u>	<u>617,676</u>	<u>(1,731,424)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>1,489,911</u>	<u>1,489,911</u>
Fund balances, beginning of year	<u>2,842,050</u>	<u>2,842,050</u>	<u>2,842,050</u>	<u>-</u>
Fund balances, end of year	<u>\$ 2,842,050</u>	<u>\$ 2,842,050</u>	<u>\$ 4,331,961</u>	<u>\$ 1,489,911</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF SOUTHWEST RANCHES, FLORIDA
NOTES TO BUDGETARY SCHEDULE
SEPTEMBER 30, 2004

The Town follows the procedures below in establishing the budgetary data reflected in the accompanying financial statements.

a. Budgets and Budgetary Accounting

The following procedures are used to establish the budgetary data reflected in the financial statements:

- a. Prior to September 1, the Town Administrator submits to the Town Council a proposed operating budget for the ensuing fiscal year, commencing October 1. The operating budget includes proposed expenditures and the means of funding them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to October 1, the budget is legally enacted through passage of an ordinance.
- d. Upon request of the Town Administrator, the Town Council may transfer, at any time, any part of an unencumbered balance of an appropriation within a department. Upon request of the Town Administrator the Town Council, in the form of a resolution, may transfer any part of the unencumbered balance of an appropriation between departments. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the fund from which it was appropriated and shall be subject to future appropriations.
- e. Annual appropriated budgets are adopted for the General Fund, the Special Revenue Fund, Capital Project Fund and Debt Service Fund on a basis consistent with accounting principles generally accepted in the United States of America.
- f. The reported budgetary data represents the final approved budget after amendments adopted by the Town Council. Individual type amendments for the General Fund were not material in relation to the original appropriations. Unencumbered appropriations lapse at fiscal year end.

The Town Council may by ordinance make supplemental appropriations during the fiscal year. Supplemental appropriations for the General Fund totaled approximately \$849,100 during fiscal year ended September 30, 2004.

b. Excess of Expenditures over Appropriations

Expenditures exceeded the budget in the General Fund for the fiscal year ended September 30, 2004 at the following department level, which is the legally controlled level of appropriations:

	<u>Final Budget</u>	<u>Actual</u>	<u>Amount in Excess of Final Budget</u>
General Government:			
City Attorney	\$ 210,000	\$ 247,890	\$ 37,890
Community Development	911,500	1,023,169	111,669
Public Works	565,000	823,992	258,992
Capital Outlay	-	10,313	10,313

COMPLIANCE SECTION

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

Honorable Mayor and Town Council
Town Southwest Ranches, Florida

We have audited the basic financial statements of the Town of Southwest Ranches, Florida (the Town) as of and for the fiscal year ended September 30, 2004, and have issued our report dated July 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance 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 instances of non-compliance that are required to be reported under *Government Auditing Standards*, which are described in the schedule of findings and recommendations as items 2004-5, 2004-9, and 2001-3.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and recommendations as items 2004-1, 2004-2, 2004-3, 2004-4 and 2004-6.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR STATE PROJECT AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH CHAPTER 10.550**

Honorable Mayor and Town Council of
Town of Southwest Ranches, Florida

Compliance

We have audited the compliance of Town of Southwest Ranches, Florida ("the Town") with the types of compliance requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major state projects for the year ended September 30, 2004. The Town's major state projects are identified in the schedule of expenditures of state financial assistance. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state projects is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards 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 Chapter 10.550, Rules of the Auditor General. Those standards 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 state project occurred. An audit includes examining, on a test basis, evidence about the Town'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 Town's compliance with those requirements.

In our opinion, Town of Southwest Ranches, Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major state projects for the year ended September 30, 2004.

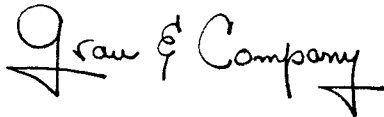
Honorable Mayor and Town Council of
Town of Southwest Ranches, Florida

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state projects. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major state project to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Chapter 10.550, Rules of the Auditor General.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major state project being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, Town Council, Town Manager and others within the organization and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



July 5, 2005

TOWN OF SOUTHWEST RANCHES, FLORIDA
 SCHEDULE OF EXPENDITURES OF STATE PROJECT
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

State Agency Pass-through Entity <u>Project Title</u>	<u>CFSA Number</u>	<u>Contract Grant Number</u>	<u>Expenditures</u>
Department of Community Affairs			
Southwest Meadows Sanctuary FCT	52.002	04-CT-9D-03-F3-A1-025	\$ 1,217,364
Frontier Trails Conservation Area FCT	52.002	04-CT-C5-03-F3-A1-026	<u>2,107,398</u>
			<u>3,324,762</u>
Department of Environmental Protection			
Rolling Oaks Park	37.017	F3630	<u>200,000</u>
TOTAL EXPENDITURES OF STATE PROJECTS			<u>\$ 3,524,762</u>

See Notes to Schedule of Expenditures of State Project

**TOWN OF SOUTHWEST RANCHES, FLORIDA
 NOTES TO SCHEDULE OF EXPENDITURES OF STATE PROJECT
 FOR THE YEAR ENDED SEPTEMBER 30, 2004**

1. GENERAL

The Schedule of Expenditures of State Financial Assistance included herein represents all of the State Financial Assistance of the Town of Southwest Ranches ("the Town") over which the Town exercised direct operating control for the year ended September 30, 2004.

2. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of State Financial Assistance is presented using the accrual basis of accounting and includes expenses incurred by the Town during its fiscal year October 1, 2003 to September 30, 2004.

Substantially all state awards administered by the Town are operated on a reimbursement basis. Advances to grant programs are made from unrestricted cash balances included within the Town's pooled cash and investment account.

3. SCOPE OF AUDIT PURSUANT TO CHAPTER 10.650

All State grant operations of the Town are included in the scope of Chapter 10.550 Rules of the Auditor General (the "Single Audit"). The Single Audit was performed in accordance with the provisions of Chapter 10.550 Rules of the Auditor General. Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the grant program noted below. This program represents all State award projects with 2004 cash and non-cash expenditures in excess of \$500,000 that ensure coverage of at least 50 percent of State granted funds. Actual coverage is approximately 94 percent of total cash and non-cash State award project expenditures.

<u>Major State Project Description</u>	<u>2004 Expenditures</u>
Department of Community Affairs	<u>\$ 3,324,762</u>

4. FINDINGS OF NONCOMPLIANCE

There were no findings of non-compliance identified in connection with the September 30, 2004 Single Audit.

SOUTHWEST RANCHES, FLORIDA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 2004

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Reportable conditions identified not considered to be material weaknesses?	Yes
Non-compliance material to financial statements noted?	Yes

State Financial Assistance Projects

Internal control over major programs and projects:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs and projects:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Chapter 10.550?	No

Identification of major state financial assistance projects:

<u>State Project</u>	<u>CSFA#</u>
Department of Community Affairs	52.002

Dollar threshold used to distinguish between Type A and Type B Programs:	\$500,000
Auditee qualified as low risk auditee?	No

**MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES
OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

Honorable Mayor and Town Council
Town of Southwest Ranches, Florida

We have audited the basic financial statements of the Town of Southwest Ranches, Florida (the "Town") as of and for the fiscal year ended September 30, 2004, and have issued a report thereon dated July 5, 2005.

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 Chapter 10.550 Rules of the Auditor General. We have issued our Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting, Summary Schedule of Prior Audit Findings and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedules which are dated July 5, 2005 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)(h) 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 Town, as described in the first paragraph, we report on the following, which is included on pages 40 through 49.

- 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.**

We previously reported on the Town's compliance and internal control over financial reporting and compliance in our reports dated July 5, 2005.

This report is intended for the information of the Mayor, Town Council, Town Manager and management of the Town of Southwest Ranches, Florida, 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 Town of Southwest Ranches, 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.



July 5, 2005

TOWN OF SOUTHWEST RANCHES, FLORIDA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
SEPTEMBER 30, 2004

SECTION I – CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2004-1: Out of sequence checks

Condition: While performing cut-off procedures for cash we noted that checks issued were out of sequence. Several instances were noted where the numerical sequence of the checks and the dates of the checks were out of order. In addition, we noted that several checks were dated prior to the date of the corresponding invoice.

Cause of Condition: Grau & Company has not been able to determine the cause of this condition. Although it appears that checks are either backdated or processed out of sequence.

Effect of Condition: Possible understatement or overstatement of expenditures.

Recommendation: We recommend that management of the Town contact the software vendor to determine if the problem is caused by the program, and take necessary control measures whereby at certain time intervals check sequences are reviewed.

Management's Response: We have contacted the software vendor to determine what system problems could have caused this situation. We knew that there had to be a system issue because we do not and did not back date or process checks out of sequence. We have identified the problem with the system. We selected a date setting option which modified the default date which in turn had the impact changing the dates actually printed on the checks. We have changed to option in the system and will also be verifying date on all checks prior to printing of checks.

2004-2: Missing supporting documentation for Journal Entries

Condition: During the audit we noted that management of the Town did not have available the documentation supporting the journal entries recorded during the year. The Management of the Town does not maintain a paper copy of the journal entries that were prepared during the year. Journal entries are posted directly to the accounting system without keeping a hard copy of the entry. Therefore, the documentation supporting the journal entry is not attached and the signature of the person authorizing the transaction is not documented. In addition, there are several instances of journal entries with no description of the reason for the journal entry.

Cause of Condition: Support for the journal entries is kept at various locations within the Town hall, and it appears as there is no individual with the responsibility to keep supporting documents for journal entries in one location.

Effect of Condition: Delays in searching for supporting documentation and possible overstatement or understatement of accounts.

Recommendation: We recommend that all journal entries be filed in chronological order with proper documentation supporting the entry attached.

TOWN OF SOUTHWEST RANCHES, FLORIDA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
SEPTEMBER 30, 2004
(CONTINUED)

SECTION I – CURRENT YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)

2004-2: Missing supporting documentation for Journal Entries (Continued)

Management's Response: We agree with the recommendation that all journal entries will have supporting documentation attached. We will maintain a centralized journal entry file in date order within the accounting section.

2004-3: Invoice date per accounting system is different than actual invoice date

Condition: While performing search for unrecorded liabilities, we noted several instances where the invoice dates entered in the accounting system and the actual invoice date did not correspond. The date entered in the accounting system was a date subsequent to the date of the actual invoice.

Cause of Condition: The cause of this condition has not been determined. Although it appears as the Invoice Dates are being entered with the date when invoices are recorded in the accounting system instead the actual Invoice Date, this finding may have a correlation to the Check Sequence problem as noted in the previous finding.

Effect of Condition: Possible understatement or overstatement of liabilities and expenditures for a particular period.

Recommendation: We recommend that management of the Town contact the software vendor to determine if the errors occur as a result of the program not being utilized correctly or the program is not set up properly. We also recommend that control measures be implemented whereby the Invoice Dates are reviewed and corrected in a timely manner before the checks are printed.

Management's Response: We have contacted the software vendor to determine what system problems could have caused this situation. We know that our normal practice is to enter invoices as the date of the invoice in the system. We have identified the problem with the system. We selected a date setting option which modified the default date which in turn had the impact changing the dates actually shown in the system. We have changed this option in the system and will also be verifying all invoices and system dates prior to printing of checks.

2004-4: Individual funds not in balance

Condition: The individual fund balance of the different funds of the Town in the trial balance provided to the auditors at the beginning of the audit was not in balance. In addition the fund balance did not agree to the audited financial statements for the year ended September 30, 2003.

Cause of Condition: When transactions affecting more than one fund are entered into the accounting system, the due to/from accounts from individual funds are not adjusted accordingly. It is also the practice of Grau & Company to provide all clients with a list of adjusting journal entries and past adjusting journal entries at the end of the audit. Upon providing the list of adjustments, it is the client's responsibility to record those transactions in the accounting system. Some of the prior years' audit adjustments were recorded while others were not.

TOWN OF SOUTHWEST RANCHES, FLORIDA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
SEPTEMBER 30, 2004
(CONTINUED)

SECTION I – CURRENT YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)

2004-4: Individual funds not in balance (Continued)

Effect of Condition: By not adjusting the due to/from accounts for transactions affecting more than one fund, the funds affected by the transactions become out of balance. Furthermore, the Town's accounting records do not reflect all the audit adjustments from prior years.

Recommendation: We recommend that the person in charge of recording transactions review the propriety of the transaction and adjust the due to/from accounts for transactions affecting more than one fund. We also recommend that upon receipt of the list of audit adjusting journal entries adjustments be recorded in the Town's accounting system. The accounting year should not be closed unless account balances and fund balance/deficit per the accounting system agree to amounts per the financial statements. Furthermore, once the accounting year is closed, fund balances per the accounting system should be compared to fund balances per the financial statements.

Management's Response: We agree with recommendation that all adjusting entries should be posted and that the individual funds should be in balance. We will review the fund balances on a regular basis to determine that they are in balance.

2004-5: Nepotism

Condition: During the audit it has come to our attention from a newspaper article issued in The Miami Herald on April 26, 2005 that John Canada and Associates, Inc., the management company of the Town has hired for the position of City Clerk a member of the immediate family of the Town Manager. This appears to be a violation of the state anti-nepotism law.

Cause of Condition: John Canada and Associates, Inc. has been arguing the issue by stating that the management company was hired to manage the Town and since it is a separate entity, the State's anti-nepotism laws do not apply.

Effect of Condition: The Town could be in violation of the State's anti-nepotism laws.

Recommendation: We recommend that the Town request the opinion of the state Ethics Commission.

Management's Response: We agree with the recommendation and have requested the opinion of the State Ethics Commission. We also believe that this finding is not relevant to the financial audit of the Town.

2004-6 Capital Assets

Condition: Management of the Town does not maintain a list of capital assets. Although schedule listing capital asset additions/deletions was subsequently prepared and provided, the balances in the schedule did not account for all of the capital assets acquired during the year and in some cases included items that were not capital assets. In addition to the schedule of capital assets several other schedules provided did not reconcile to amounts recorded in the Town's accounting system.

TOWN OF SOUTHWEST RANCHES, FLORIDA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
SEPTEMBER 30, 2004
(CONTINUED)

SECTION I – CURRENT YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)

2004-6 Capital Assets (Continued)

Cause of Condition: The Town's management does not prepare and update a list of fixed assets.

Effect of Condition: The Town might not be able to identify and account for all of the capital assets it either acquired and/or disposed.

Recommendation: We recommend that a list of capital assets by category (i.e. land, buildings, furniture and equipment, etc.) be maintained and periodically (i.e. monthly or quarterly) updated.

Management's Response: We agree with the recommendations that a list of capital assets by category be maintained and the list will be updated monthly to provide an ongoing record of Town assets.

2004-7 Conflict of Interest

Condition: During the audit it has come to our attention from a newspaper article issued in Miami Herald on April 26, 2005 that John Canada and Associates, Inc., the management company of the Town also performs services for the Broward Sheriff's Office. This situation appears to be a conflict of interest since the Broward Sheriff's Office provides police services for the Town under a contract negotiated by the Town's management company.

Cause of Condition: The Town's management company negotiates contract on behalf of the Town with one of the management company's clients.

Effect of Condition: There could be a conflict of interest since the management company has both, the Sheriff's Office and the Town as a client.

Recommendation: We recommend that Town Council address the issue and develop controls whereby the management company does not negotiate contract on behalf of the Town with vendors that also are represented by the management company.

Management's Response: There was never any conflict of interest due to the fact that John Canada & Associates had contracts with both the Sheriff Office and the Town. However, due to the appearance that may be formed in the minds of some individuals the contract with the Sheriff Office has not been renewed. We also believe that this finding is not relevant to the financial audit of the Town. We would recommend that the Town council address the issue whereby the Town management company should disclose any conflict of interest issues on a case by case basis for any contracts with clients that provides services for the Town.

TOWN OF SOUTHWEST RANCHES, FLORIDA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
SEPTEMBER 30, 2004
(CONTINUED)

SECTION I – CURRENT YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)

2004-8 Accounting Records

Condition: While performing our field work, we noted that the accounting records were disorganized. Although management of the Town files invoices by vendor, several instances were noted when documents could not be located, and it took management a significant amount of time to find the missing documents. As a result, audit information was not obtained in a timely manner.

Cause of Condition: There are various individuals that use the same documents while performing their duties. It appears as individuals outside the accounting department obtain the original invoice and not a copy of the invoice, and there is no control over tracking the location of the original invoices.

Effect of Condition: The Towns accounting records are not controlled by the accounting department.

Recommendation: We recommend that only photocopies of the invoices be given to individuals outside the accounting department and controls be in place to ascertain that original invoices are not taken from the accounting department. In instances where original invoices are required to be submitted when grant reimbursements are requested, a photocopy of the original invoice should be kept in the accounting department and properly documented which grant reimbursement request the original invoice was used for.

Management's Response: We do agree that the records are not controlled and maintained within the accounting section and that staff has taken originals out of the accounting section for review or analysis. We also agree that because there was no control of documents that location of information took longer to identify. We will implement centralized controls through a copy sign out list. The originals will be maintained within the accounting section except while copies are being made for use by appropriate individuals.

No. 2004-9 – Audited Financial Statements

Condition: Based on our review of the Florida Municipal Loan Council bond documents, we noted that the Bonds require submission of audited financial statements within 270 days of the fiscal year end. The Town did not comply with this requirement during 2004.

Cause of Condition: Due to unusual circumstances, the audit report had not been issued within 270 days after the end of the fiscal year.

Effect of Condition: The Town is in non-compliance of the Loan Agreement. The underlying agreement considers non-compliance with the required reporting agreements to be an event of default and provide certain remedies that are specified in the underlying bonds. The underlying agreement, however, provides that in the event of non-compliance, that no event of default shall be deemed to have occurred as long as the Town makes a diligent effort to cure such default and keeps the Bond Insurer informed as to the status.

TOWN OF SOUTHWEST RANCHES, FLORIDA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
SEPTEMBER 30, 2004
(CONTINUED)

SECTION I – CURRENT YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)

No. 2004-9 – Audited Financial Statements (Continued)

Recommendation: We recommend that the Town complete the audit during the time allowed by the Loan Agreement.

Management's Response: Due to unusual circumstances noted, the audit report was not available within the 270 days of the fiscal year end. Florida Municipal Loan Council (FMLC) was contacted to advise them of the unusual circumstances. The FMLC requested and has accepted our un-audited statements as compliance with the bond documents with the provision that the audited statements will be provided upon completion of the audit report. This finding is only a technical nature.

TOWN OF SOUTHWEST RANCHES, FLORIDA
 SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 SEPTEMBER 30, 2004
 (CONTINUED)

SECTION II – STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

The following is a summary of the status of prior year findings and recommendations with the details directly below the summary:

<u>Finding</u>	<u>Implemented</u>	<u>Not Implemented</u>
<u>Non- Compliance</u>		
2003-1 Error in 2003 and 2004 Millage Certification Document	X	
2003-2 Non compliance with Purchasing Policies	X	
2003-3 Loan Covenants	X	
2003-4 Missing Authorized Signatures	X	
2001-3 Expenditures Incurred Over Appropriations		X
<u>Reportable Conditions</u>		
2003-5 Budgets	X	
2003-6 Missing Public Depositor Annual Report	X	
<u>Other Matters</u>		
2002-5 Financial Disclosure Forms	X	
2001-8 Investment of Surplus Funds		X
2001-9 Accounting Software		X

2001-3 Expenditures Incurred Over Appropriations

Condition

In accordance with the 2001 Florida Statutes Title XII Chapter 166.241(3) and the Town Charter Section 3.09, a municipality's budget must regulate expenditures and it is unlawful for any officer of a municipal government to expend or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations. The Town's expenditures exceeded appropriations by approximately \$3.6 million in the general fund.

Recommendation

We recommend that the Town comply with the Florida Statutes regarding compliance with budgeted appropriations. If expenditures exceed appropriations then the Town should amend the budget for supplemental appropriations by ordinance or resolution, as appropriate.

Prior Year Management's Response

This finding should not be repeated because the mistake was made in a prior year and cannot be corrected. Other conditions identified in other years are not the same finding.

TOWN OF SOUTHWEST RANCHES, FLORIDA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
SEPTEMBER 30, 2004
(CONTINUED)

SECTION II – STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)

2001-3 Expenditures Incurred Over Appropriations (Continued)

Status

The Town has not implemented this recommendation. We noted that the Town has expenditures over appropriations as shown at Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund at page 30. This comment will be repeated.

Management's Response

99% of the expenditures incurred over appropriations were due to activity or audit adjustments occurring after September 30, 2004. We will make every effort to identify this type of expenditure in the future to bring the Town Council any and all budget amendments that may be necessary to resolve this issue.

2001-8 Investment of Surplus Funds

Condition

During our testing of cash, we noted that the Town currently deposits a large amount of excess cash with a local bank, which currently provides the Town with 0.20% to 0.25% return on those deposits. There are other options permitted under Section 218.45 of the Florida Statutes for the investment of the Town's excess cash which could provide a higher return, with the same level of security and liquidity.

Recommendation

The Town should review its current investment of excess cash and possibly invest in other types of investments permitted under Section 218.45 of the Florida Statutes.

Status

The Town not has implemented this recommendation during 2004. This comment will be repeated.

Management's Response

During the fiscal year 2004 and prior years, it was management's operational decision to retain liquid funds due to the focus of the Town on acquisition of properties. The liquid funds provided a safe guard for the Town to utilize, as necessary, at the closing for the various acquired properties. We will monitor this situation in the future for investment considerations.

TOWN OF SOUTHWEST RANCHES, FLORIDA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
SEPTEMBER 30, 2004
(CONTINUED)

SECTION II – STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)

2001-9 Accounting Software

Condition

The Town is currently using Quickbooks Pro 2001 to record and report the Town's transactions. This software is not designed for fund accounting. The Town currently has one special revenue fund, one capital projects fund, two account groups and the general fund. As the Town grows and the number of funds increase the current software will be inadequate to maintain all the different funds.

The Town segregates the funds in Quickbooks by class, however, we noted that although the trial balance for the Town was in balance, when segregated by individual funds it did not balance. The trial balances did not balance because the due to/from accounts were not adjusted for the transactions that affected each individual fund.

Recommendation

We recommend that the Town research and test different accounting software suitable for fund accounting in order to adequately record and maintain all of the Town's funds. If the Town continues to use Quickbooks, then the fund trial balances should be segregated by class to ensure that all funds balance and the due to/from's are properly adjusted.

Status

The Town did not implement this recommendation during 2004. This comment will be repeated.

Management's Response

During fiscal year 2005, the Town has acquired an accounting software system suitable for fund accounting and it will be fully implemented in October 2005.

TOWN OF SOUTHWEST RANCHES, FLORIDA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
SEPTEMBER 30, 2004
(CONTINUED)

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

1. Recommendations, except for those addressed in the schedule of findings and recommendations, made in the preceding annual financial audit report have been addressed.
2. The Town was in compliance with Section 218.415, Florida Statutes, regarding the investment of public funds.
3. Recommendations to improve the Town's present financial management, accounting procedures and internal controls are accompanying this report in the schedule of findings and recommendations.
4. There were no violations of laws, regulations, and contractual provisions or abuse, that were not clearly inconsequential, that have occurred, or were likely to have occurred, that were discovered within the scope of the audit, except as disclosed in the schedule of findings and recommendations.
5. There were no illegal or improper expenditures that were not clearly inconsequential, discovered within the scope of the audit that may not materially affect the financial statement except as disclosed in the schedule of findings and recommendations.
6. There were no deficiencies in internal control that are not reportable conditions, including, but not limited to improper or inadequate accounting procedures, failure to properly record financial transactions or other inaccuracies, shortages, defalcations, or instances of fraud discovered by, or that came to the attention of the auditor, except as disclosed in the schedule of findings and recommendations.
7. The Town of Southwest Ranches, Florida was incorporated in accordance with House Bill No. 1777 on June 6, 2000.
8. The Town, during fiscal year 2004, was not in a state of financial emergency as defined by Florida Statute, Section 218.503(1).
9. The annual financial report for the fiscal year ended September 30, 2004 has been filed with the Department of Banking and Finance pursuant to Section 218.32(1)(a), Florida Statutes and is in agreement with the annual financial audit report for the fiscal year ended September 30, 2004.
10. During the course of our audit, we applied financial condition assessment procedures pursuant to Rule 10.566(8). It is management's responsibility to monitor the Town's financial condition, and our financial condition assessment, which was performed as of the Town's fiscal year end, was based on representations made by management and the review of financial information provided by the Town. There were no findings of deteriorating financial conditions.