

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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

The Honorable Mayor and City Commissioners
City of Winter Springs, Florida

We have audited the basic financial statements of the *City of Winter Springs, Florida*, as of and for the year ended September 30, 2006, and have issued our report thereon dated January 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the *City of Winter Springs, Florida's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether the *City of Winter Springs, Florida's* basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the *City of Winter Springs, Florida*, in a separate letter and dated January 5, 2007.

MCDIRMIT DAVIS & COMPANY, LLC
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This report is intended solely for the information and use of management, the City Commission 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.

McDiernit Davis & Company, LLC

January 5, 2007

MANAGEMENT LETTER

Honorable Mayor and City Commissioners
City of Winter Springs, Florida

We have audited the financial statements of the City of Winter Springs, Florida, as of and for the fiscal year ended September 30, 2006, and have issued our report thereon dated January 5, 2007.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the comptroller General of the United States. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated January 5, 2007 should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554(1)(h)1.) require that we address in the management letter, if not already addressed in the auditor's report on compliance and internal controls whether or not recommendations made in the preceding annual financial audit report have been followed. The City has not spent the remaining proceeds of the Improvement Refunding Revenue Bonds, Series 1999, although they have continued to invest the proceeds at a yield restricted to the bond yield rate.

As required by the Rules of the Auditor General (Section 10.554(1)(h)2.), the scope of our audit included a review of the provisions of Section 218.415., Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Winter Springs, Florida complied with Section 218.415, Florida Statutes.

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

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The Rules of the Auditor General (Section 10.554(1)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal controls and are not clearly inconsequential: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed one matter required to be disclosed by Rules of Auditor General (Section 10. 554(1)(h)4).

Bond Compliance

The City still has not met the requirement to spend 85% of the Improvement Refunding Revenue Bonds, Series 1999. Subsequent to September 30, 2006, the City engaged a firm to perform arbitrage rebate compliance services for these bonds.

The Rules of the Auditor General (Section 10.554(1)(h)5.) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. This information has been disclosed in the notes to the financial statements.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.a.), a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the City of Winter Springs, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.b.), we determined that the annual financial report for the City of Winter Springs, Florida for the fiscal year ended September 30, 2006, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2006.

As required by the Rules of the Auditor General (Sections 10.554(h)6.c. and 10.556(7), we applied financial assessment procedures. It is management's responsibility to monitor the entity's financial conditions, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This management letter is intended solely for the information of the City of Winter Springs, Florida and management, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

McDiernit Davis & Company, LLC

January 5, 2007



CITY OF WINTER SPRINGS, FLORIDA

1126 EAST STATE ROAD 434
WINTER SPRINGS, FLORIDA 32708-2799
Telephone (407) 327-1800

March 19, 2007

McDermitt, Davis & Company, LLC
605 E. Robinson Street, Suite 635
Orlando, Florida 32801

Dear Sir or Madam:

Your management comment related to fiscal year ended September 30, 2006 was well received by both the City Manager and the Finance Department. The comment represents an opportunity for improvement, which will be pursued in fiscal year 2007. Below is our response to your management comment as required by the Rules of the Auditor General of the State of Florida.

Bond Compliance

We concur with the recommendation. Funds have been in essence "yield restricted" due to the low investment rate environment in prior years, but we realize this environment is quickly changing. The City has engaged a consultant to calculate arbitrage and yield restriction liabilities associated with the bond proceeds in question. Unfortunately, construction delays have come into play, such as wetland mitigation issues in Magnolia Park and final completion of the State Road 434 Improvement Project (*Village Walk*) in fiscal year 2006 - a joint project with the Florida Department of Transportation (FDOT), Seminole County and the City; however, the City is committed to spending the remaining bond proceeds as quickly as possible and will continue to make every effort to do so.

Sincerely,

A handwritten signature in black ink that reads "Ronald W. McLemore".

Ronald W. McLemore
City Manager

A handwritten signature in black ink that reads "Michelle Greco".

Michelle Greco
Finance Director



CITY OF WINTER SPRINGS, FLORIDA

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March 19, 2007

AFFIDAVIT OF IMPACT FEE COMPLIANCE

Impact Fees are assessed in accordance with Chapter 9: Land Development, Article VIII Impact Fees, of the City of Winter Springs Code of Ordinances. Impact fee collections, expenditures and accounting are provided for in separate accounting funds and comply with Florida Statute 163.31801.

Michelle Greco

Michelle Greco
Finance Director