

**Single Audit /
Grants Compliance**

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

Honorable Mayor, City Councilmembers,
City Manager and City Management
City of Clearwater, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate fund information of the City of Clearwater, Florida (the "City") as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 26, 2007. We have also audited the financial statements of each of the City's non-major governmental and non-major enterprise, internal service, and fiduciary funds presented as supplemental information in the accompanying combining and individual fund financial statements. 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's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud 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'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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Mayor, City Councilmembers, City Manager, management, the State of Florida Office of the Auditor General and applicable federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Betant + Holland, L.L.P.

St. Petersburg, Florida
March 26, 2007



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

Honorable Mayor, City Councilmembers,
City Manager and City Management
City of Clearwater, Florida

Compliance

We have audited the compliance of the City of Clearwater, Florida (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major federal programs and state financial assistance projects for the year ended September 30, 2006. The City's major federal programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs and state financial assistance projects is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs and state financial assistance projects for the year ended September 30, 2006.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs and state financial assistance projects. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state financial assistance project in order 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 OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General.

Our consideration of the internal control over compliance would not necessarily disclose all of the matters in 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 caused by error or fraud that would be material in relation to a major federal program 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 City Mayor, City Councilmembers, City Manager, management, the State of Florida Office of the Auditor General and applicable federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Beaufort & Holland, L.L.P.

St. Petersburg, Florida
March 26, 2007

City of Clearwater, Florida
Schedule of Expenditures of Federal Awards
and State Financial Assistance
For the year ended September 30, 2006

Federal Grantor / Pass-through Grantor / Program Title	CFDA Number	Grant I.D. Number	Federal Share of Expenditures
FEDERAL AWARDS			
U.S. Department of Housing and Urban Development:			
Community Development Block Grant - Entitlement	14.218	B-01-MC-12-0002	\$ 896,450
Home Investment Partnerships Program	14.239	M-01-MC-12-0230	1,393,456
Beach by Design Initiative	14.246	B-03-SP-FL-0141	201,184
Beach by Design Initiative	14.246	B-04-SP-FL-0172	447,345
	<u>14.246</u>		<u>648,529</u>
Total U.S. Department of Housing and Urban Development			<u>2,938,435</u>
U.S. Department of the Interior:			
Passed thru Florida Department of Environmental Protection			
Fish and Wildlife Service			
Clean Vessel Act - Pumpout Vessel	15.616	LE591	29,625
National Park Service			
Myron Smith Bayview Park	15.916	LW 12-00515	163,135
Total U.S. Department of the Interior			<u>192,760</u>
U.S. Department of Justice:			
Federal Forfeiture Sharing	16.000		29,807
Bureau of Justice Assistance			
Operacion Apoyo Hispano	16.738	2005-DJ-BX-0950	36,585
Total U.S. Department of Justice			<u>66,392</u>
U.S. Department of Transportation:			
Federal Highway Administration			
Passed thru Florida Department of Transportation:			
Clearwater Beach West Bridge Connector	20.205	Fed No. 9045-019C, Contract #AI 915	340,460
McMullen Booth Road Overpass - Construction	20.205	FPN 40625915801, Contract #ANJ75	15,744
Druid Trail Design & Construction	20.205	FPN 415277-1-38-01	200,416
Beach Walk	20.205	FPN 416652-1-28-01	126,300
	<u>20.205</u>		<u>682,920</u>
National Highway Traffic Safety Administration			
National Strategies for Advancing Bicycle Safety	20.614	DTNH22-04-H-05090	50,000
Total U.S. Department of Transportation			<u>732,920</u>

City of Clearwater, Florida
Schedule of Expenditures of Federal Awards
and State Financial Assistance - Continued
For the year ended September 30, 2006

Federal Grantor / Pass-through Grantor / Program Title	CFDA/CSFA Number	Grant I.D. Number	Federal Share of Expenditures
FEDERAL AWARDS (continued)			
U.S. Environmental Protection Agency:			
Seville/Sunset Point & Del Oro Reclaimed water expansion	66.202	XP-97495304	498,995
Brownfield - Federal	66.811	BF-9840503096-0	101,717
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-97493703-0	113,033
Passed through FL Department of Environmental Protection: Kapok Wetland & Floodplain Restoration Project	66.460	C9-9945-1503-0; FDEP G0087	450,000
Total U.S. Environmental Protection Agency			1,163,745
Corporation For National and Community Services:			
Passed through FL Commission on Community Services			
Americorps Clearwater Program	94.006	Contract 04AC045391	21,509
Americorps Clearwater 2006	94.006	Contract 05AC051059	95,473
Total Corporation for National and Community Services			116,982
U.S. Department of Homeland Security:			
Urban Areas Security Initiative Passed thru City of Tampa, Florida			
Planning & Preparedness Coordinator	97.008	UASI	77,000
Assistance to Firefighters Grant			
Operations and Firefighter Safety	97.044	2004-57-0364RE-63000000-4101-R	53,105
Total U.S. Department of Homeland Security			130,105
Total Federal Financial Assistance			\$ 5,341,339

City of Clearwater, Florida
Schedule of Expenditures of Federal Awards
and State Financial Assistance - Continued
For the year ended September 30, 2006

State Grantor / Pass-through Grantor / Program Title	CSFA Number	Grant I.D. Number	State Share of Expenditures (a)	Transfers to Subrecipients (b)
STATE FINANCIAL ASSISTANCE				
Florida Executive Office of the Governor				
Office of Tourism, Trade, and Economic Development:				
Brownfield Grant	31.011	V 984053-96-0	\$ 22,830	\$ -
Total Florida Executive Office of the Governor			22,830	-
Florida Department of Environmental Protection:				
Florida Recreation Development Assistance Program				
Long Center Limitless Playground	37.017	DEP Agreement #F6115	200,000	
Ross Norton Complex	37.017	DEP 5046	200,000	
	<u>37.017</u>		<u>400,000</u>	
Glen Oaks Stormwater Improvements	37.039	WAP050	1,175,007	
Passed thru Southwest Florida Water Management District				
Surface Water Improvement & Management (SWIM) Plan	37.039	02CON00065 W250	98,056	
Kapok Wetland & Floodplain	<u>37.039</u>		<u>1,273,063</u>	<u>-</u>
Total Florida Department of Environmental Protection			1,673,063	-
Florida Department of Community Affairs:				
Florida Housing Finance Corporation				
State Housing Initiative Partnership Program (SHIP)	52.901	n/a	1,219,040	45,980
Total Florida Department of Community Affairs			1,219,040	45,980
Florida Department of Transportation:				
Airpark FBO Building	55.004	41243119401 ANW13	202,800	
Airpark FBO Building	55.004	41230819401 AOC90	11,750	
	<u>55.004</u>		<u>214,550</u>	
Drew Street & US19 Overpass Landscaping	55.008	FO#256957-1-54-01	110,072	
Memorial Causeway Landscape Beautification	55.023	FP#257093-1-54-01	235,214	
SR595/Alt US19 Drew to Monroe Street Resurfacing	55.023	FPN 257103-1-58-01	26,094	
	<u>55.023</u>		<u>261,308</u>	
Total Florida Department of Transportation			585,930	-
Florida Department of Law Enforcement:				
Violent Crime Investigative Emergencies	71.005	Appr. Category 109701	4,996	
Total Florida Department of Law Enforcement			4,996	-
Florida Department of Revenue:				
Phillies Stadium	73.016		1,077,993	
Total Florida Department of Revenue			1,077,993	-
Florida Fish and Wildlife Conservation Commission:				
Clearwater Municipal Marina	77.006	FWC 04139	48,750	
High & Dry Marina Multi-Site Feasibility Study	77.006	FWC 05101	27,402	
Total Florida Fish and Wildlife Conservation Commission			76,152	-
Total State Financial Assistance			\$ 4,660,004	\$ 45,980
Total Expenditures of Federal Awards and State Financial Assistance			\$ 10,001,343	

- (a) Funded with State grants and aids appropriations.
(b) State projects only.

City of Clearwater, Florida
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
Year ended September 30, 2006

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance presents the activity of all federal financial and state grant activity of the City of Clearwater, Florida (the "City"). Federal and state financial assistance received directly from federal and state agencies, and federal financial assistance passed through other governmental agencies are included on the schedules. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and Chapter 10.550, *Rules of the Auditor General*.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance is presented using the modified accrual or accrual basis of accounting, which is described in Note 1 to the City's basic financial statements.

NOTE 3 – CFDA/CSFA NUMBER

CFDA numbers represent Catalog of Federal Domestic Assistance and apply only to federal awards. CSFA numbers represent Catalog of State Financial Assistance and apply only to state financial assistance.

CITY OF CLEARWATER, FLORIDA
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

SECTION I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified Yes X No
- Reportable conditions(s) identified
that are not considered to be
material weaknesses Yes X None reported
- Noncompliance material to financial
statements noted Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified Yes X No
- Reportable conditions(s) identified
that are not considered to be
material weaknesses Yes X None reported
- Noncompliance material to federal
awards Yes X No

Type of auditor's report issued on compliance for major federal programs: Unqualified

- Any audit findings disclosed that are
required to be reported in accordance
with Section 510(a) of Circular A-133 Yes X No

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant - Entitlement
14.239	Home Investment Partnerships Program
14.246	Beach by Design Initiative
66.460	Kapok Wetland & Floodplain Restoration Project

Dollar threshold used to distinguish between Type A and Type B Programs \$ 300,000

Auditee qualified as low-risk auditee? X Yes No

CITY OF CLEARWATER, FLORIDA
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

State Projects

Internal control over major State projects:

- Material weakness(es) identified Yes X No
- Reportable conditions(s) identified
that are not considered to be
material weaknesses Yes X None reported

Noncompliance material to State awards Yes X No

Type of auditor's report issued on compliance for major State projects: Unqualified

Any audit findings disclosed that are
required to be reported in accordance
with Chapter 10.550, Rules of the
Auditor General Yes X No

Identification of major State projects:

<u>CSFA Number(s)</u>	<u>Name of State Project</u>
37.017	Florida Recreation Development Assistance Program
73.016	Phillies Stadium

Dollar threshold used to distinguish between Type A and Type B Programs \$ 300,000

SECTION II. Financial Statement Findings

None reported.

SECTION III. Federal Award Findings and Questioned Costs

None reported.

SECTION IV. State Award Findings and Questioned Costs

None reported.



INDEPENDENT AUDITORS' MANAGEMENT LETTER

Honorable Mayor, City Councilmembers,
City Manager and City Management
City of Clearwater, Florida

We have audited the financial statements of the City of Clearwater (the "City"), as of and for the year ended September 30, 2006, and have issued our report thereon dated March 26, 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. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditors' Report on Compliance with Requirements Applicable to each Major Federal Awards Program and State Financial Assistance Projects and Internal Control over Compliance in accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 26, 2007, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General. Those rules (Section 10.554(1)(h)1) require that we address in the management letter, if not already addressed in the auditors' reports on internal controls over financial reporting and on compliance and other matters or on the schedule of findings and questioned costs, whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no significant findings or recommendations made in the preceding annual financial audit report.

The Rules of the Auditor General (Section 10.554(1)(h)2) state that a management letter shall have a statement as to whether or not the City complied with Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit of the financial statements of the City, the results of our tests did not indicate that the City was in noncompliance with Section 218.415 regarding the investment of public funds.

The Rules of the Auditor General (Section 10.554(1)(h)3) require disclosure in the management letter of any recommendations to improve the City's management, accounting procedures, and internal controls. There were no such matters reported.

The Rules of the Auditor General (Section 10.554(1)(h)4) require disclosure in the management letter of the following matters if not clearly inconsequential, considering both quantitative and qualitative factors: (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. There were no such matters found.

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. The City of Clearwater, located in Pinellas County, Florida was incorporated in June 1923. The legal authority by which the City was created and is governed is its charter, which was derived from Chapter 9710 Special Laws of Florida, as amended. The Clearwater Redevelopment Agency (CRA), a blended component unit of the City of Clearwater, Florida, was created by authority of Florida Statute Chapter 163, Part III, and the City of Clearwater Resolution 81.68.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.a.), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, regarding financial emergencies. In connection with our audit of the financial statements of the City, the results of our tests did not indicate that the City met any of the specified conditions of a financial emergency contained in Section 218.503(1), Florida Statutes. However, our audit does not provide a legal determination on the City's compliance with this requirement.

The Rules of the Auditor General (Section 10.554(1)(h)6.b.) state that a management letter shall include a statement as to whether or not the financial report 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 current audit period and, if not, explanations of any significant differences. In connection with our audit of the City, the results of our tests indicate that the financial report, filed with the Department of Financial Services, is in agreement with the annual audited financial statements for the year ended September 30, 2006.

As required by the Rules of the Auditor General (Sections 10.554(1)(h)6.c. and 10.556), the scope of our audit included financial condition assessment procedures as of September 30, 2006. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management. The results of our financial condition assessment procedures disclosed no deteriorating financial conditions.

This report is intended solely for the information and use of the City Mayor, City Councilmembers, City Manager, management, the State of Florida Office of the Auditor General and applicable federal and state agencies, and is not intended to be and should not be used by anyone other than those specified parties.

We would like to thank the City for the courtesy and assistance extended to us by the staff during our engagement. Should you have any questions concerning the matters discussed herein, we shall be pleased to discuss them with you at your convenience.

Cherry, Berkant + Holland, L.L.P.

St. Petersburg, Florida
March 26, 2007