

October 6, 2008

Honorable Mayor, Village Council, and Village Manager  
Village of Key Biscayne, Florida  
88 West McIntyre Street  
Key Biscayne, Florida 33149

We are pleased to renew our long-term standing engagement, and to confirm our understanding of the services we are to provide to the Village of Key Biscayne, Florida (the Village) for the years ended September 30, 2008, 2009, and 2010. We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of Village as of and for the years ended September 30, 2008, 2009, and 2010. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to accompany Village's basic financial statements. As part of our engagement, we will apply certain limited procedures to the Village's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis
- 2) Budgetary Comparison Schedules

Supplementary information other than RSI also accompanies the Village's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements:

- 1) Combining Fund Financial Statements and Schedules

The following additional information accompanying the basic financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and for which our auditor's report will disclaim an opinion.

- 1) Introductory Section
- 2) Statistical Section



### **Audit Objectives**

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. Our audit will be conducted in accordance with generally accepted auditing standards established by the Auditing Standards Board (United States) and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of Village and other procedures we consider necessary to enable us to express such opinions. If our opinions on the financial statements are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and compliance will include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties. If during our audit we become aware that Village is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

### **Management Responsibilities**

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, we will assist you with the preparation of the draft of your financial statements and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Honorable Mayor, Village Council, and Village Manager  
Village of Key Biscayne, Florida  
October 6, 2008  
Page 3

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us, including any significant vendor relationships in which the vendor has the responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions.

With regard to using the auditor's report, you understand that you must obtain our prior consent to reproduce or use our report in bond offering official statements or other documents.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

### **Audit Procedures—General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. . However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

### **Audit Procedures—Internal Controls**

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

#### **Audit Procedures—Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Village's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

#### **Audit Administration, Fees, and Other**

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all cash or other confirmations we request and will locate any documents selected by us for testing.

We will provide copies of our reports to Village; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Rachlin LLP and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a regulatory agency or its designee, a federal or state agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Rachlin LLP personnel. Upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies. Furthermore, provided the Village is in full compliance with its contract with Rachlin LLP, Rachlin LLP will only allow a successor auditor to view, and not copy, Rachlin LLP's working papers, subject to other reasonable restrictions as otherwise determined by Rachlin LLP.

Honorable Mayor, Village Council, and Village Manager  
Village of Key Biscayne, Florida  
October 6, 2008  
Page 6

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the Village or any oversight agency. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

We expect to begin our audit on October 6, 2008 (planning and risk assessment), begin our audit fieldwork on January 19, 2009 and issue our reports no later than March 31, 2009. Michael Futterman is the engagement partner and is responsible for supervising the engagement and signing the report.

We estimate that our fees for this engagement will be \$52,000, \$55,000, and \$58,000 for the years ended September 30, 2008, 2009, and 2010 respectively. Our hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to the audit. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If additional time is required because of unexpected circumstances or for changes in the requirements of the Governmental Accounting Standards Board or our professional auditing standards or changes in the funds structure of the Village, we will discuss these circumstances with you and arrive at a new fee estimate before we incur the additional costs.

If Village is required to undergo a single audit in accordance with the Federal Single Audit Act and OMB Circular A-133, *Audits of States, Local Governments, and Not-for-Profit Organizations*, during any year of this contract, we will discuss with you the additional fees which will be dependent on the number of programs determined to be a major program based on the determination required by OMB Circular A-133. Also, a new engagement letter will have to be provided that meets the requirements of the Federal Single Audit Act and OMB Circular A-133.

In addition, if Village is required to undergo a single audit in accordance with the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General of the State of Florida, during any year of this contract, we will discuss with you the additional fees which will be dependent on the number of programs determined to be a major program based on the determination required by the Florida Single Audit Act. Also, a new engagement letter will have to be provided that meets the requirements of the Florida Single Audit Act.

Our invoices for these fees will be rendered as the work progresses, and are payable on presentation. Invoices shall be submitted in sufficient detail to demonstrate compliance with this engagement letter. In accordance with our firm policies, should any invoices remain unpaid for more than thirty days, we reserve the right to defer providing any additional services until all outstanding invoices are paid. A late payment charge of 1% per month will be added to all unpaid balances after thirty days. You agree that we are not responsible for the impact on Village of any delay that results from such non-payment by you.

We acknowledge your right to terminate our services at any time, and you acknowledge our right to resign at any time (including instances where in our judgment, our independence has been impaired or we

Honorable Mayor, Village Council, and Village Manager  
Village of Key Biscayne, Florida  
October 6, 2008  
Page 7

can no longer rely on the integrity of management), subject in either case to our right to payment for charges incurred to the date of termination or resignation.

It is our goal to maintain a constructive and positive relationship with you. If for any reason you are dissatisfied with the quality or costs of our services, please let us know so we can discuss and, hopefully, rectify the problem.

In accordance with our firm's policy, the terms of this engagement letter are subject to approval by our internal Client Acceptance Committee.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our most recent peer review report is made publicly available on our website, [www.rachlin.com](http://www.rachlin.com).

This contract is renewable at the option of the Village. We appreciate the opportunity to be of service to Village and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,



Michael D. Futterman, CPA  
Partner

RESPONSE:

This letter correctly sets forth the understanding of Village

Signed: \_\_\_\_\_

By: \_\_\_\_\_  
(Print Name)

Title: \_\_\_\_\_

Date: \_\_\_\_\_