



VILLAGE OF KEY BISCAYNE

Office of the Village Manager

MEMORANDUM

Village Council
Franklin H. Caplan, *Mayor*
Michael E. Kelly, *Vice Mayor*
Michael W. Davey
Enrique Garcia
Robert Gusman
Mayra P. Lindsay
James S. Taintor

Village Manager
Genaro "Chip" Iglesias

DATE: August 30, 2011
TO: Honorable Mayor and Members of the Village Council
FROM: Genaro "Chip" Iglesias, Village Manager
RE: Motion to Authorize Village Manager to Renew Contract with Marcum, LLP (a.k.a. Rachlin, LLP.)



RECOMMENDATION

It is recommended that the Village Council authorize the Village Manager to renew the audit service contract with Marcum, LLP. (a.k.a. Rachlin, LLP). Pursuant to the attached engagement letter, the audit services are to be provided to the Village for the years of September 30, 2011, 2012, and 2013. The annual fee for the first year of the contract (\$58,000) will not increase from the 2010 annual rate of the prior agreement, as attached; for 2012 the annual fee will be \$59,700 and \$61,500 for 2013.

BACKGROUND

This engagement would provide an independent audit of the Village's financial statements and produce a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP). On November 18, 2008, Council authorized a motion to allow the Village Manager to renew the contract ending on September 30, 2010. As part of the proposed engagement letter, attached hereto, the firm outlines the auditing standards, objectives, and procedures as per State Law. The auditing process would begin in October.

PROPOSED CONTRACT

July 27, 2011

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

Re: Engagement of Marcum LLP

We are pleased to confirm our understanding of the services we are to provide Village of Key Biscayne for the fiscal years ending September 30, 2011, 2012, and 2013. 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 of Key Biscayne (the Village) as of and for the fiscal year ended September 30, 2011, 2012, and 2013. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the Village's basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the Village's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. 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) Schedule of Funding Progress – Pensions
- 3) Schedule of Funding Progress - OPEB
- 4) Schedule of Employer Contributions - Pensions
- 5) Budgetary Comparison Schedules

Village of Key Biscayne, Florida

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We have also been engaged to report on supplementary information other than RSI that 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the basic financial statements as a whole.

- 1) Schedule of Expenditures of Federal Awards and State Financial Assistance (if the Village is subject to the Federal or Florida Single audit Act during any year of the engagement)
- 2) Combining Financial Statements (if applicable during any year of the engagement)
- 3) Individual Fund Financial Statements and Schedules

The following other 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 auditors' report will not provide an opinion or any assurance.

- 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 supplementary information referred to in the second paragraph when considered in relation to the basic financial statements as a whole. The objective also includes reporting 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 in accordance with *Government Auditing Standards*.

In addition, if during any year of the engagement, the Village is subject to the Federal or Florida Single Audit acts we will report on internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular

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A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General of the State of Florida.

The reports on internal control and compliance will each 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 specific legislative or regulatory bodies, federal, state or local awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General of the State of Florida and will include tests of accounting records of the Village, a determination of major program(s) in accordance with OMB Circular A-133, the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General of the State of Florida and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions 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.

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 Village or to acts by management or employees acting on behalf of the Village. 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 or noncompliance 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 or major programs.

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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. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any 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 the Village's 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*.

As required by OMB Circular A-133, the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General of the State of Florida we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal and state award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133, the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General of the State of Florida.

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

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AICPA professional standards, Government Auditing Standards, and OMB Circular A-133, the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General of the State of Florida.

Audit Procedures - Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Village's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures 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* OMB Circular A-133, the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General of the State of Florida requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* and the State of Florida Compliance Supplement for the types of compliance requirements that could have a direct and material effect on each of the Village's major programs. The purpose of these procedures will be to express an opinion on the Village's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133, the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General of the State of Florida.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal and state awards in accordance with the requirements of OMB Circular A-133, the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General of the State of Florida. As part of the audit, we will assist with preparation of the draft of your financial statements, schedule of expenditures of federal and state awards and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements, schedule of expenditures of federal and state and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and the schedule of expenditures of federal awards and state financial assistance and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards and state financial assistance

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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.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements. You are also responsible for the selection and application of accounting principles; 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, where applicable, cash flows in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for ensuring that management and financial information is reliable and properly recorded. Your responsibilities also include identifying significant vendor relationships in which the vendor has 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 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, if any, 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 or illegal acts 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 Village received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the Village complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General of the State of Florida. It is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any

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document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon.

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 financial audits, attestation engagements, performance audits, or other 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, attestation engagements, performance audits, 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, for the report, and for the timing and format for providing that information.

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.

Communication with Those Charged with Governance

As part of our engagement, we are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process as well as other matters we believe should be communicated to those charged with governance. Generally accepted auditing standards do not require the auditor to design procedures for the purpose of identifying other matters to communicate with those charged with governance. Such matters include, but are not limited to, (1) the initial selection of and changes in significant accounting policies and their application; (2) the process used by management in formulating particularly sensitive accounting estimates and the basis for our conclusions regarding the reasonableness of those estimates; (3) all passed audit adjustments; (4) any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or our report; (5) our views about matters that were the subject of management's consultation with other accountants about auditing and accounting matters; (6) major issues that were discussed with management in connection with the retention of our services, including, among other matters, any discussions regarding the application of accounting principles and auditing standards; (7)

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serious difficulties that we encountered in dealing with management related to the performance of the audit; and (8) matters relating to our independence as your auditors.

Reproduction of Auditors' Report

If you intend to publish or otherwise reproduce the financial statements and make reference to our Firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed. In addition, to avoid unnecessary delay or misunderstanding, it is important that you give us timely notice of your intention to issue any such document.

Assistance By Your Personnel

We will ask that your personnel, to the extent possible, prepare required schedules and analyses, and make selected invoices and other required documents available to our staff. This assistance by your personnel will serve to facilitate the progress of our work and minimize our time requirements.

Background Checks

As a matter of Firm policy, we perform background checks on potential clients and/or on existing clients, on an as-determined basis. The terms and conditions of this engagement are expressly contingent upon the satisfactory completion of our investigatory procedures and we reserve the right to withdraw from any relationship should information which we deem to be adverse come to our attention. The results of all background checks and other investigatory procedures are submitted to, and reviewed by, our Firm's Client Acceptance Committee.

Independence

Professional standards require that a firm and its members maintain independence throughout the duration of the professional relationship with a client. In order to preserve the integrity of our relationship, no offer of employment shall be discussed with any Marcum LLP professionals assigned to the audit, during the one year period prior to the commencement of the year end audit. Should such an offer of employment be made, or employment commences during the indicated time period, we will consider this an indication that our independence has been compromised. As such, we may be required to recall our auditors' report due to our lack of independence. In the event additional work is required to satisfy independence requirements, such work will be billed at our standard hourly rates. Furthermore, we strive to staff your engagement with quality, superbly trained professionals. In recognition of the extensive investment we have made to

Village of Key Biscayne, Florida

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recruit and develop our personnel, we ask that you agree to the following. In the event that any of our employees accepts a position of employment with your Organization, or any of its related parties at any time while we are performing services for you or within one year thereafter, you agree to pay us a placement fee equal to one third of the employee's annual compensation in effect on the date such employment was contracted. Such fee is payable when the employee accepts such a position.

Access to Working Papers

The working papers prepared in conjunction with our engagement are the property of Marcum LLP and constitute confidential information subject to the Florida Statutes Public Records laws. These working papers will be retained by us in accordance with applicable laws and our Firm's policies and procedures. However, we may be required, by law or regulation, to make certain working papers available to regulatory authorities for their review, and upon request, we may be required to provide such authorities with photocopies of selected working papers.

The Firm is required to undergo a "peer review" every three years. During the course of a Peer Review engagement, selected working papers and financial reports, on a sample basis, will be inspected by an outside party on a confidential basis. Consequently, the accounting and/or auditing work we performed for you may be selected. Your signing this letter represents your acknowledgement and permission to allow such access should your engagement be selected for review.

As a result of our prior or future services to you, we may be required or requested to provide information or documents to you or a third-party in connection with a legal or administrative proceeding (including a grand jury investigation) in which we are not a party. If this occurs, our efforts in complying with such requests or demands will be deemed a part of this engagement and we shall be entitled to compensation for our time and reimbursement for our reasonable out-of-pocket expenditures (including legal fees) in complying with such request or demand. This is not intended, however, to relieve us of our duty to observe the confidentiality requirements of our profession.

Third-Party Service Providers

The Firm may, from time to time, and depending on the circumstances, use third-party service providers to assist us with the audit of your financial statements. We may share confidential information about you with the third-party service providers, but remain committed to maintaining the confidentiality of your information. Accordingly, we maintain internal policies, procedures and safeguards to protect the confidentiality of your information. Furthermore, the Firm will remain responsible for the work performed by such third-party service providers.

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Data Collection Form (if a Federal single audit is required)

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

Dispute Resolution Procedure, Waiver of Jury Trial and Jurisdiction and Venue for Any and All Disputes Under This Engagement Letter and Governing Law

AS A MATERIAL INDUCEMENT FOR US TO ACCEPT THIS ENGAGEMENT AND/OR RENDER THE SERVICES TO THE GOVERNMENT UNIT IN ACCORDANCE WITH THE PROVISIONS OF THIS ENGAGEMENT LETTER

This Firm and the Village each hereby knowingly, voluntarily and intentionally waive any right either may have to a trial by jury with respect to any litigation based hereon, or arising out of, under or in connection with this engagement letter and/or the services provided hereunder, or any course of conduct, course of dealing, statements (whether verbal or written) or actions of either party.

This Firm and the Village each expressly agree and acknowledge that the Circuit Court of the Miami-Dade County, shall have exclusive and sole jurisdiction and venue for any respective state or federal actions arising from, relating to or in connection with this engagement letter, or any course of conduct, course of dealing, statement or actions of either party.

The terms and provisions of this engagement letter, any course of conduct, course of dealing and, or action of this Firm and/or the Village and our relationship with you shall be governed by the laws of the State of Florida to the extent said laws are not inconsistent with the Federal Securities Laws and Rules, Regulations and Standards there under. In any litigation brought by either this Firm or the Village, the prevailing party shall be entitled to an award of its reasonable attorneys' fees and costs incurred, including through all appeals.

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

Village of Key Biscayne, Florida

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impaired or we can no longer rely on the integrity of management), subject in either case to our right to payment for all direct and indirect charges incurred through the date of termination or resignation or thereafter as circumstances and this agreement may require, plus applicable interest, costs, fees and attorneys' fees.

The Village hereby indemnifies Marcum LLP and its partners, principals, and employees, and holds them harmless from all claims, liabilities, losses, and costs arising in circumstances where there has been a known misrepresentation by a member of the Village's management, regardless of whether such person was acting in the Village's interest. This indemnification will survive termination of this letter of engagement.

Other Services

We are always available to meet with you and/or other management personnel at various times throughout the year to discuss current business, operational, accounting and auditing matters affecting your Organization. Whenever you feel such meetings are desirable please let us know; we are prepared to provide services to assist you in any of these areas.

Timeline

Our engagement ends on delivery of our audit report. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

Fees

Our fees for these services will be based on the actual time spent at a discount from our standard hourly rates. Our standard hourly rates vary according to the level of the personnel assigned to your audit. You will also be billed for travel and other out-of-pocket costs as incurred. Our invoices for these fees will be rendered as the work progresses, and are due and payable upon presentation. In accordance with our Firm policies, should any invoice remain unpaid for more than thirty days, we reserve the right to defer providing any additional services until all outstanding invoices are paid in full. A late charge of 1½% per month may be added to all unpaid balances after thirty days. You agree that we are not responsible for the impact on your organization of any delay that results from such non-payment by you.

The financial audit professional services can be completed for a fee of \$58,000, \$59,700, and \$61,500 for the years ended September 30, 2011, 2012, and 2013 respectively (excluding any Federal or State single audit requirements; see below). There is no increase from the prior year fee for the fiscal year ended September 30, 2011 audit. The estimate of our fees is based on

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certain assumptions, including the required assistance described above. To the extent that certain circumstances include, but not limited to those listed in Appendix A, arise during the engagement, our fee estimate may be significantly affected and additional fees may be necessary. Additional services provided beyond the described scope of services will be billed separately.

If the 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*, the additional fee will be \$8,000, \$8,300, and \$8,500 for the years ended September 30, 2011, 2012, and 2013, respectively. This fee may be dependent on the number of programs determined to be a major program based on the determination required by OMB Circular A-133.

If the 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, the additional fee will be \$8,000, \$8,300, and \$8,500 for the years ended September 30, 2011, 2012, and 2013, respectively. This fee may be dependent on the number of programs determined to be a major program based on the determination required by the Florida Single Audit Act.

Report Distribution and Other

We will provide copies of our reports to the 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.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any subsequent peer review reports received during the period of the contract. Our latest peer review report was previously provided to the Village.

Agreement

This letter comprises the complete and exclusive statement of the agreement between the parties, superseding all proposals oral or written and all other communications between the parties. If any provision of this letter is determined to be unenforceable, all other provisions shall remain in force.

It is hereby understood and agreed that this engagement is being undertaken solely for the benefit of the Village of Key Biscayne and that no other person or entity shall be authorized to enforce the terms of this engagement.

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If you agree with the terms of our engagement, as described in this letter, please sign the engagement letter and return a copy to us.

This agreement is renewable at the option of the Village. We appreciate the opportunity to be of continued service to the Village of Key Biscayne and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know.

Very truly yours,

Marcum LLP



Michael D. Futterman, CPA
Partner

ACCEPTED

This letter correctly sets forth the agreement of the Village of Key Biscayne

Authorized Signature: _____

Title: _____

Date signed: _____

APPENDIX A

Village of Key Biscayne Circumstances Affecting Timing and Fee Estimate

The estimated fees are based on certain assumptions. Circumstances may arise during the engagement that may significantly affect the targeted completion dates and our fee estimate. As a result, additional fees may be necessary. Such circumstances include but are not limited to the following:

1. Changes to the timing of the engagement at your request. Changes to the timing of the engagement usually require reassignment of personnel used by Marcum LLP (“Marcum”) in the performance of services hereunder. However, because it is often difficult to reassign individuals to other engagements, Marcum may incur significant unanticipated costs.
2. All requested schedules are not (a) provided by the accounting personnel on the date requested, (b) completed in a format acceptable to Marcum (c) mathematically correct, or (d) in agreement with the appropriate underlying records (e.g., general ledger accounts). Marcum will provide the accounting personnel with a separate listing of required schedules and deadlines.
3. Weaknesses in the internal control structure.
4. Significant new issues or unforeseen circumstances as follows:
 - a. New accounting issues that require an unusual amount of time to resolve.
 - b. Changes or transactions that occur prior to the issuance of our report.
 - c. Changes in the Entity’s accounting personnel, their responsibilities, or their availability.
 - d. Changes in auditing requirements set by regulators.
5. Significant delays in the accounting personnel’s assistance in the engagement or delays by them in reconciling variances as requested by Marcum. All invoices, contracts and other documents which we will identify for the Entity, are not located by the accounting personnel or made ready for our easy access.
6. A significant level of proposed audit adjustments are identified during our audit.
7. Changes in audit scope caused by events that are beyond our control.
8. Untimely payment of our invoices as they are rendered.

EXISTING CONTRACT

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



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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.

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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.

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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.

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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

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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.

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: _____